

SMMEs

UNDERSTANDING THE LANDSCAPE



JUNE 2020

CONTENTS

Executive summary.....3

Introduction5

Top five challenges SMMEs face in South Africa7

Access to finance7

Business skills and knowledge9

Access to education11

Access to markets12

Regulations and policies12

SAICA survey results 15

Conclusion 19

References 20

Abbreviations/Acronym 22



COPYRIGHT© 2020
THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS
ISBN 978-0-86983-439-8

Copyright in all publications originated by The South African Institute of Chartered Accountants (“the Institute”) rests with the Institute. Apart from the extent reasonably necessary for the purpose of research, private study, personal or private use, criticism, review or the reporting of current events, as permitted in terms of the Copyright Act (No 98 of 1978), no portion of this guide may be reproduced by any process without prior written permission from an authorised representative of the Institute.

EXECUTIVE SUMMARY

Success in the small, micro and medium enterprise (SMME) sector is crucial, particularly given that the National Development Plan (NDP)¹ forecasts that 90% of new jobs will come from the SMME sector by 2030. From the results of previous years’ surveys and other research conducted by the South African Institute of Chartered Accountants’ (SAICA) Practice Division, it is clear what the challenges and bottlenecks that the SMMEs face are.

This report addresses the top five challenges identified through a desktop review undertaken on various externally produced reports² and supplemented by the results of a survey performed by SAICA in 2019.

The five challenges identified are:



This report further highlights what SAICA, its members³, associates⁴ and strategic partners are doing to address the challenges identified through the desktop review conducted by SAICA.

The question that arises is: Why are these challenges not being fully addressed?

It comes down to three possible reasons:



¹<https://www.gov.za/issues/national-development-plan-2030>

²Refer to the *References* section for the list of externally produced reports.

³Chartered Accountants, CAs(SA).

⁴Associate General Accountants (AGA(SA) and Accounting Technicians (AT(SA)).



With this report SAICA hopes to create awareness of some of the solutions available to SMMEs and how they can access it. Similar to this report, SAICA conducted surveys⁵ (2014/2016) to ascertain the views of SMMEs to identify and assess which factors materially affect their current business environment, including factors affecting sustainability and future prospects. These surveys also provided small and medium practices (SMPs) with insights into how to improve and expand their service offerings to the SMMEs, being their clients, and thereby contributing to the success of the SMME sector.

The world now looks a bit different than at the beginning of our research, and this should be mentioned.

In 2020 the world was confronted with the COVID-19 pandemic⁶ caused by the novel coronavirus. In response, South Africa went into lockdown on 27 March 2020, drastically slowing down the already vulnerable economy. On the same day the lockdown was announced, Moody's⁷ downgraded South Africa's credit rating to junk status.⁸ It is however too soon to predict the impact of the downgrade in light of COVID-19.

From 1 May 2020 South Africa began a gradual and phased recovery of economic activity, which meant an ease in lockdown restrictions as announced by President Cyril Ramaphosa. As the country moved from Alert Level 5⁹ to Alert Level 4¹⁰ the South African government and various private sector players implemented interim measures to curb the immediate and longer-term effects of COVID-19 on businesses. Some of these measures include the Small Business Development Department's COVID-19 SMMEs Relief Fund¹¹ and the Solidary Relief Fund.¹² The President subsequently announced that the country would move to Alert Level 3¹³ on 1 June 2020, opening up the economy further.

This report does not cover the impact of COVID-19 and the interim measures implemented by the government and private sector in response to COVID-19 but rather focuses on the longer-term solutions available beyond the pandemic.



⁵Refer to the [References](#) section for SAICA 2014 SME Insights Report, SAICA 2015 SME Insights Report, and SAICA 2016 SMME Insight Report.

⁶The World Health Organisation declared COVID-19 a pandemic on 11 March 2020.

⁷Moody's Investor Service.

⁸Credit ratings are barometers for investors regarding how well a country is doing financially.

⁹Alert Level 5: Hard lockdown with drastic measures required to contain the spread of COVID-19 in order to save lives.

¹⁰Alert Level 4: Some activity is allowed to resume subject to extreme precautions required to limit community transmission and outbreaks.

¹¹<http://www.dsbd.gov.za/?p=3399>

¹²<https://www.solidarityfund.co.za/>

¹³Alert Level 3: Involves the easing of some restrictions, including regarding work and social activities, but with the same aim of preventing transmissions.

INTRODUCTION

South Africa's economic growth was expected to strengthen in 2018/2019, driven by the increase in business and consumer confidence.¹⁴ However, in September 2018 we saw South Africa's economy experience its first technical recession since 2009. In 2019, the cumulative GDP growth rate, until quarter 3, was -0,7%.¹⁵ In addition to this, South Africa has one of the highest unemployment rates in the world, with an unemployment rate of 29,1%.¹⁶

How do we bridge the gap between economic growth and the high unemployment rate?

According to President Cyril Ramaphosa, in his 2018 State of the Nation Address (SONA): "The growth of our economy will be sustained by small businesses, as is the case in many countries." He noted further: "It is our shared responsibility to grow this vital sector of the economy. We will work with our social partners to build a small business support ecosystem that assists, nourishes and promotes entrepreneurs."

SMMEs are widely regarded as an important mechanism to generate new jobs in society. Globally, over 95% of enterprises are SMMEs and they employ 60% to 70% of the working population. "In South Africa, it is estimated that small- and medium-sized enterprises make up 91% of formalised businesses, provide employment to about 60% of the labour force and total economic output accounts for roughly 34% of GDP," says the Banking Association of South Africa (BASA). The NDP envisions that by 2030, SMMEs will contribute 60% to 80% of the GDP and generate 90% of the required 11 million new jobs.¹⁷ President Cyril Ramaphosa, in his SONA of 2018, said that government would honour its undertaking by committing to set aside at least 30% of public procurement to SMMEs, co-operatives and township and rural enterprises and would continue to invest in small business incubation. He encouraged business to do the same.

In the Global Entrepreneur and Development Institute (GEDI) report,¹⁸ an in-depth examination of the ecosystem data was done and two measures were analysed:

- 1 The Total Entrepreneurial Activity (TEA) rate,¹⁹ which focuses on the **quantity** of entrepreneurship in an economy, is inversely proportional to GDP. **As GDP increases, there will be less entrepreneurial activity in a country.**
- 2 The Global Entrepreneurship Index²⁰ (GEI) measures the national entrepreneurial ecosystem as a **quality** rather than quantity phenomenon. GEI is directly proportional to GDP. Thus, **as GDP increases, a country has more economic freedom, more competition and has an environment in which it is easier to start a business.**

¹⁴As per the Organisation for Economic Co-operation and Development (OECD).

¹⁵<https://tradingeconomics.com/south-africa/gdp-growth>

¹⁶<https://tradingeconomics.com/south-africa/unemployment-rate>

¹⁷State of the Nation Address by the President of the Republic of Africa, Mr Cyril Ramaphosa, on 16 February 2018.

¹⁸Global Entrepreneur and Development Institute (GEDI), The entrepreneurial ecosystem of South Africa: a strategy for global leadership report, 2017.

¹⁹Percentage of the adult population between the ages of 18 and 64 who are in the process of starting a business or have a business that is less than 42 months old.

²⁰A multifaceted index that reflects the complexity of country level entrepreneurial ecosystems. It measures 14 different aspects of entrepreneurship ecosystems organised into attitude, ability and aspiration. The methodology is included in an appendix to the GEDI report.

Putting the numbers into practice

The South African economy is currently producing many entrepreneurs, however they experience a number of bottlenecks that hinder performance. In order to overcome this, the focus needs to be on reducing the number of bottlenecks and challenges by creating an environment for healthier competition that is conducive to the conducting of a profitable business.

In both the 2017 and 2018 Global Entrepreneur Monitor (GEM) global reports²¹ the entrepreneurial activity and profiles of entrepreneurs in South Africa were analysed and compared to other countries in Africa. In summary:

- There has been a substantial drop in both opportunity and capability perceptions of entrepreneurial activity relative to 2015 in South Africa.
- The established business rate²² is disturbingly low and has declined further by 26% since 2015. In 2017, there was a further decline with South Africa rating 50th out of 54 countries in a survey conducted by the GEM included in the 2017/2018 report.
- South Africans aged between 25 and 34 years were the least entrepreneurially active of the total South African population in 2016.
- In 2016, more than seven women were engaged in early-stage entrepreneurship for every ten male entrepreneurs, which is in line with the average for both the Africa region and efficiency-driven economies.
- In 2016, Black Africans made up 75% (68% in 2015) of the entrepreneurial population of early-stage entrepreneurial activity. This increase in entrepreneurial participation is driven by an increase in opportunity-motivated entrepreneurship (as opposed to necessity-based motivation).

With the GDP decrease, the South African economy is shrinking, which in turn supports the GEI indicating that the environment is not in an ideal state for starting a new business.

It is no secret that SMMEs face a various challenges and bottlenecks. If all role-players work together to resolve and focus on these challenges and bottlenecks experienced by entrepreneurs, this may result in an economy that produces better-quality entrepreneurs, thereby ensuring the survival of already established SMMEs. This will then result in growth and development in the SMME sector, which in turn will foster growth of the South African economy.



IN SUMMARY,
there has been a decrease in the rate at which businesses are being established in South Africa but an increase in number of entrepreneurs wanting to start a new business. Both black and female entrepreneurial activity have increased.

²¹Global Entrepreneur Monitor 2018/2019 Global Report and Global Entrepreneur Monitor 2017/2018 Global Report.

²²Percentage of the adult population aged between 18 and 64 years who are currently an owner manager of an established business

TOP FIVE CHALLENGES SMMEs FACE IN SOUTH AFRICA

From the desktop review performed on various external reports²³ the following top five²⁴ challenges and bottlenecks experienced by SMMEs were identified:



**ACCESS TO
FINANCE**



**BUSINESS SKILLS
AND KNOWLEDGE**



**ACCESS TO
EDUCATION**



**ACCESS TO
MARKETS**



**REGULATIONS
AND POLICIES**



ACCESS TO FINANCE

One of the biggest challenges SMMEs face is the difficulty to obtain finance. Based on the research conducted by Aspen Network Development Entrepreneurs (ANDE), SMMEs are however progressively less likely to list access to finance as an obstacle as they grow.²⁵

Due to a low-risk appetite within the traditional banking system and significant red tape in obtaining funding, South African entrepreneurs are almost three times²⁶ more likely to exit their businesses because of challenges in accessing finance.

Over and above this, even if SMMEs do find prospective funders, there are other difficulties relating to obtaining finance, which include:

- **Costs are high for both funders and SMMEs:** This is due to a lack of awareness by SMMEs of the type of financing and qualifying requirements to successfully raise funding. Funders also report high transactional costs in finding and screening entrepreneurs.²⁷
- **Bad credit history or lack of credit history:** Start-ups generally do not have any credit history. Funders are less likely to assist SMMEs with finance until the SMMEs develop a credit record.
- **Inadequate collateral:** Start-ups and SMMEs generally do not have any or minimal collateral to offer. Since these entities have a high-risk profile, most funders request some form of collateral as security for capital borrowed.
- **Poor expertise and knowledge in terms of producing financial statements, business plans or business models:** This is key as funders will not be willing to provide any capital to entrepreneurs that don't have a clear focus on what they intend to achieve in the form of a business plan or business model. Funders require financial statements to ensure financial results are in line with the funder's expectations and proposal.

²³Refer to the [References](#) section for a list of reports that were analysed.

²⁴The challenges are not presented in order of importance.

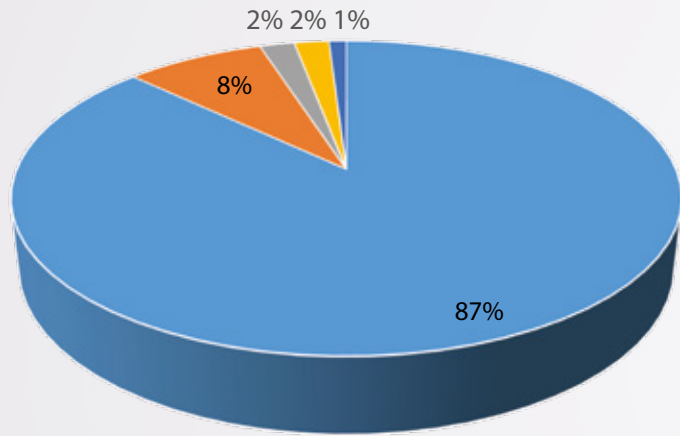
²⁵Aspen Network of Development Entrepreneurs (ANDE), State of the small and growing business (SOTS) sector reports in 2016 and 2017.

²⁶Global Entrepreneur Monitor (GEM) Global Reports (refer to [References](#) section for the detail).

²⁷South African Access to Finance Report (SAFR), 2017.

The significant credit gap, being the difference between credit required and credit provided, in the SMME sector is not only a local issue but has been identified as a global issue.²⁸ SMMEs are seen as high risk and thus are underserved in the market in terms of being recipients of credit. A study²⁹ on SMME start-ups reports that SMMEs' funding is obtained as follows:

SMME FUNDING



■ Self-funded ■ Family ■ Angel funding ■ Bank loans ■ Development finance institutions

Detailed below is how the South African government has allocated resources to combat the 'Access to finance' challenge faced by SMMEs. In the 2020 Budget Speech, Minister Tito Mboweni highlighted that R6,4 billion is allocated for small business incentive programmes of which R2,2 billion will be transferred to the Small Enterprise Development Agency.³⁰

In addressing the 'Access to finance' challenge, the following potential solutions collated from various reports analysed include:

- **Implementation of crowdfunding:**³¹ Banks, being the main funders of SMMEs, are reluctant to serve SMMEs because of their risk profiles being too high. Through crowdfunding, funders will be exposed to higher risks but they will be exposed to higher returns in turn. This would reduce the current credit gap by providing an alternate form of funding for SMMEs.
- **Access to financial technology (Fintech) solutions that automate SMME funding matches and connect SMMEs with funders:** Digital technologies and Fintechs play an important role in connecting funders and SMMEs.
- **Government initiatives such as government subsidies to all SMMEs and government guarantee schemes:** This would essentially be dictated by government policy. One of the root causes of the challenges that SMMEs face is lack of knowledge of government assistance that is available. SMMEs therefore need to be educated on government initiatives that are available, including SEFA and SEDA.³²
- **Database of tax breaks and practical funding guides available to SMMEs:** This solution further feeds into the challenge around SMMEs' lack of knowledge. SMMEs need to educate themselves on how best to obtain and utilise resources.
- **The use of credit scores to reduce lending friction for SMMEs:** Traditional credit models need to be adapted to accommodate SMMEs. These models need to be reworked by possibly using a combination of traditional credit risk models and the development of accurate new predictive models of credit assessment using new sources of data / alternative data.

National Treasury introduced the **Venture Capital Company (VCC) tax incentive**³³ regime in 2008 as a measure to encourage equity funding to a portfolio of SMMEs. The VCC regime grants an upfront tax deduction to an investor, equal to the actual expenses incurred by that investor in acquiring shares in an approved VCC or qualifying company. The impact can be seen by the size of the venture capital industry in South Africa, which compares favourably with many economies with a 139% growth in venture capital deals in 2017.³⁴

However, government and National Treasury have raised concerns about the alleged abusive tax structures using the VCC regime, i.e. trading between an investor that invested in a VCC company and a qualifying company in which that VCC takes up shares. The Taxation Laws Amendment Bill was therefore amended with the definition of qualifying company and the approval requirements for VCCs to close such abusive schemes. The monetary amount (R5 million for a company and R2,5 million for an individual) of the deduction was therefore limited effective from 21 July 2019.

SAICA acknowledged the validity of the abuse and concerns raised by National Treasury in relation to the VCC incentive during its submission to National Treasury and the South African Revenue Service (SARS) and therefore supported National Treasury's policy rationale in addressing such abuse.

SAICA noted that the manner in which the abuse is addressed should be undertaken in a very specific way and, most importantly, should not undermine the whole incentive. It was noted for example that the proposed retrospective amendment would be problematic, especially in its current form where it extends beyond just the abusive practices.



BUSINESS SKILLS AND KNOWLEDGE

In addition to much-needed financial support, there is also a need for non-financial support for SMMEs, specifically in the form of business skills and knowledge. Few SMMEs have the skills, knowledge and experience needed to properly package and present their funding requests to ensure funding success.³⁵ SMMEs do not only struggle to access finance but also struggle to choose the right funding products when they do find potential funders. This is mainly due to a lack of knowledge and the fact that they struggle to prepare management accounts, financial statements, budgets, proposals and other related information which are required for applying for finance.

The ranking of the most important financial documents³⁶ required by funders are:

- Management accounts
- Annual financial statements, and
- Bank statements

The lack of 'Business skills and knowledge' challenge directly relates to the 'Access to finance' challenge. Addressing this challenge will allow the SMMEs' business owners to plan and manage their businesses effectively. The most important non-financial support services requested by entrepreneurs were identified as business planning assistance and skills training.³⁷ There is a significant need to provide entrepreneurs with initial business skills like preparing business models and business plans.

To address the 'Business skills and knowledge' challenge, the solutions collated from various reports³⁸ that could be beneficial to SMMEs include the following:

- **Increased investment in entrepreneurship training programmes, business hubs and support centres:** Government has identified young entrepreneur programmes as a priority for the 2018/2019 year.³⁹ A portion of R1,48 billion will be allocated to such programmes through the SEFA.
- **Internships and learnerships should be provided for young adults interested in entrepreneurship:** Many large corporations already have internships programmes, however there is potential for fellow SMMEs to adopt such programmes. This would benefit SMMEs since employing interns is an effective, low-cost alternative to established professionals and the best performing interns can be selected for employment at the end of their internship.
- **Training programmes** for entrepreneurs on how to prepare management accounts, financial statements, business models, budget plans, forecasts, assistance with funding applications, basic bookkeeping services, setting up accounting systems and capturing paperwork.
- **Training programmes** for entrepreneurs to understand and interpret financial information relating to their business, and how this information can assist them in making informed business decisions.

²⁸Global Entrepreneur Monitor (GEM) Global Reports.

²⁹South African Access to Finance Report (SAFR), 2017.

³⁰2020 Budget Speech, <http://www.treasury.gov.za/documents/National%20Budget/2020/speech/speech.pdf>

³¹The practice of funding a project or venture by raising money from a large number of people who each contribute a relatively small amount.

³²Only 25% of the adult population are aware of SEDA, as per the Global Entrepreneur Monitor 2016/2017 Global Reports.

³³Section 12J of the Income Tax Act.

³⁴South African Access to Finance Report (SAFR), 2017.

³⁵South African Access to Finance Report (SAFR), 2017.

³⁶South African Access to Finance Report (SAFR), 2017.

³⁷Global Entrepreneur Monitor 2016/2017 Global Report.

³⁸Both the Global Entrepreneur Monitor Global Reports and the South African Access to Finance Report (SAFR).

³⁹Extracts from the address by the Minister of Small Business Development: Budget vote on Small Business Development on 17 May 2018.



At SAICA, we assist SMMEs by enhancing their business skills and knowledge through the following programmes/initiatives:

The Hope Factory delivers socio-economic development (SED) programmes that result in mobilising economic activity for Black South African citizens⁴⁰ as part of SAICA's nation-building transformation objectives. The Hope Factory aims to provide solutions for unemployment by equipping individuals with the skills and abilities needed to generate income through new business opportunities. In addition to creating bespoke SED programmes for both the private and public sectors, The Hope Factory offers a flagship training and mentorship programme to help individuals effectively start and operate their own businesses.

SAICA Enterprise Development (Pty) Ltd runs Enterprise and Supplier Development (ESD) profit-generating programmes and activities in partnership with SAICA-associated small and medium accounting practices. SAICA Enterprise Development offers flagship and customised ESD programmes and accounting support initiatives. The main purpose of this entity is to grow the South African entrepreneurial ecosystem through advancing the sustainable growth of small Black-Owned businesses, which in turn will create employment opportunities.

Together with SMPs, SAICA Enterprise Development aims to achieve financial excellence in both SMMEs and incubators⁴¹ nationwide. SAICA Enterprise Development also aims to influence corporate and government policies to support and facilitate the creation of impactful ESD programmes aligned with the B-BBEE Codes and the Chartered Accountancy Profession Sector Codes.⁴²

The strength of all the SMME support programmes that The Hope Factory and SAICA Enterprise Development run is achieved through the support of powerful partnerships with SMMEs. As a result, 89% of SMMEs that received coaching and mentorship through these support programmes say it has improved their effectiveness and ability to achieve their business objectives.⁴³

SAICA SMP Tax Training equips SAICA members, advisors and taxpayers with the necessary tax knowledge to advise their clients (including SMMEs) or apply knowledge obtained within their businesses. In particular, SAICA provides annual tax update training designed for members, advisors and taxpayers to create awareness of and an understanding of the latest primary tax legislation (i.e. Acts) and secondary tax law (i.e. regulations, case law, rulings, etc) proposed, enacted or issued during the course of the year. Furthermore, SAICA also provided a Tax Dispute workshop in 2018 to members, advisors and taxpayers to enable them to understand the overall tax dispute landscape, and more specifically formulate their own request for reasons, objections and appeals to ensure compliance with the relevant legislation and enable SARS to better address the dispute.

Resources related to financial statements: For SMMEs that have elected to apply International Financial Reporting Standards for Small- and Medium-sized Entities (IFRS for SMEs), SAICA provides various offerings with the intention to assist and support with the application of IFRS for SMEs. These include:

- Template financial statements for close corporations
- Workshops on the application of IFRS for SMEs, and
- Online technical support service for members

In addition, SAICA contributes to the development or enhancements made to IFRS for SMEs by commenting on exposure drafts issued by the International Accounting Standards Board (IASB).



ACCESS TO EDUCATION

In the Catalyst for Growth report,⁴⁴ it was found that bespoke⁴⁵ Business Development Services (BDS)⁴⁶ appeared to produce better results than programmes with a set curriculum and time frames for later-stage businesses, while the reverse for start-ups was found. From this it is clear that for optimal results, start-up SMMEs require a bespoke curriculum which needs to be adapted to bespoke BDS as the business grows.

Further findings from the report revealed that:

- BDS is more effective for entrepreneurs that have lower levels of education, such as those who *do not* have a university education, while those with university-level education require less support.
- Older entrepreneurs (over 46 years) showed the highest return, with improved margins and high revenue growth.

In order to produce quality entrepreneurs, government needs to ensure a quality tertiary education sector. Tertiary degrees alone do not necessarily prepare students to be entrepreneurs thus it is important to reassess the role tertiary education plays.

Youth in primary and secondary schools need to be assisted and properly educated to ensure there is a larger pool of students in the tertiary education sector. There should be a significant focus on improving secondary education, especially around business studies, accounting and mathematics.

The GEM report⁴⁷ noted that entrepreneurship education at school/post-school stage and job creation expectations averages for small-employer entrepreneurs had improved from 2016 to 2017.



At SAICA, we have established the following initiatives to assist SMMEs in this regard:

The Ikusasa Student Financial Aid Programme (ISFAP): ISFAP launched its pilot in January 2017 as part of the national effort to solve the funding challenge faced by missing middle class students, which culminated in the country's #FeesMustFall protests. The programme funds the full cost of study and provides wrap-around support for students from households that earn R0 – R600 000 per annum. ISFAP's strategic intent is that the programme “seeks to secure the future of South Africa's youth by providing needs-based assistance to students from poor and working classes to acquire a broad set of knowledge, skills and character traits that will significantly improve their meaningful participation in the growth of the economy, thereby advancing equal opportunity and equitable income distribution for all South Africans”.⁴⁸

The Thuthuka Education Upliftment Fund (TEUF):⁴⁹ SAICA has undertaken the responsibility of ensuring that there is a consistent flow into the economy of adequately and suitably qualified accounting professionals who are representative of the country's demographics. This is done via various skills development initiatives at primary school, high school and tertiary education level.⁵⁰ Notably from an entrepreneurial perspective, TEUF also runs specific entrepreneurial-focused projects such as its annual Business Development Games which teaches entrepreneurial skills to Grade 10, 11 and 12 learners.

In addition to this, Thuthuka supports financially needy African and Coloured aspiring CA(SA) students at university through bursaries from the **Thuthuka Bursary Fund (TBF)** (funded by the National Student Financial Aid Scheme (NSFAS) and the accounting profession) and funding secured for SAICA's Historically Disadvantaged Institution (HDI) Capacitation projects at Walter Sisulu University, the University of Zululand and the University of Venda (funded by various SETAs).

AT(SA)-funded skills initiatives: The AT(SA) designation offered by SAICA aims to underpin the accounting profession with professional and ethical skills from a foundational level upwards. AT(SA) provides access into the profession at this foundational level and has created learning and career pathways for Technical and Vocational Education and Training College (TVETC) students and for accounting-related National Diploma students. AT(SA) has historically sourced funds to facilitate access into the accounting profession from these targets via qualifications, recognition of prior learning and Tests of Professional Competence.

⁴⁰ As defined in the B-BBEE Codes.

⁴¹ A business incubator is a company that helps new and start-up companies to develop by providing services such as management training or office space.

⁴² CA Charter.

⁴³ SAICA Transformation Blueprint, which is a summary of the discussion points from the CA Charter indabas held on 9 March and 18 May 2017.

⁴⁴ Catalyst for Growth Report, April 2017.

⁴⁵ Specific services provided to SMMEs based on their demands.

⁴⁶ These services are defined as those non-financial services and products offered to entrepreneurs at various stages of their business needs and are primarily aimed at skills transfer or business advice.

⁴⁷ Global Entrepreneur Monitor 2017/2018 Global Report.

⁴⁸ SAICA's 2017 Nation Building Impact Report.

⁴⁹ SAICA Transformation Blueprint, which is a summary of the discussion points from the CA Charter indabas held on 9 March and 18 May 2019.

⁵⁰ SAICA's 2017 and 2019 Nation Building Impact Report

4 ACCESS TO MARKETS

According to the ANDE report,⁵¹ 61% of small and growing businesses identified ‘Access to markets’ as one of their Top 3 challenges. South Africa needs to find ways to help SMMEs gain access into various markets and form part of the broader supply chain. SMMEs indicated that the ‘Access to markets’ challenge is as a result of two key bottlenecks in the ecosystem:⁵²

- Large business dominance, and
- Structural inequality

If we unpack these two issues, large business dominance impacts the establishment and growth of new business, whereas structural inequality impacts the market access potential of black-owned businesses.

The barrier of ‘Access to markets’ has also resulted in South Africa’s established business rate⁵³ showing a decline of 26% since 2015.⁵⁴ It is, however, not all bad news since the challenges around structural inequality are slowly being addressed. The GEM report⁵⁵ showed that in 2016, Africans made up 75% of the early-stage entrepreneurial population (2015: 68%). The increase in African entrepreneurial participation was driven by an increase in opportunity-motivated entrepreneurship, as opposed to necessity-based motivation. Furthermore, the GEM report indicated that the TEA rate increased significantly from 6,9% in 2016 to 11% in 2017. South Africa ranked 27th out of 54 countries (2017) compared to 52nd of 65 countries (2016).

Solutions to the ‘Access to market’ challenge include a combination of both South African government intervention and assistance, and entrepreneur ‘Access to education’ / ‘Business knowledge and skills’ (initiatives detailed in their respective sections).

In future, SMMEs would also need to be innovative and embrace technology to adapt to the ever-changing environment. Only 27% of SMMEs use Excel spreadsheets for financial data capturing and reporting.⁵⁶ This, despite the fact that there are various technologically advanced accounting packages available specifically designed for SMMEs, simplifies the usually complex financial aspects of business. In the current digital age, SMMEs are being rewarded for innovation and they will need to invest in technology in order to tap into the digital market.

5 REGULATIONS AND POLICIES

The creation of the Ministry of Small Business Development⁵⁷ has not translated into any reforms of government policy for SMME development.⁵⁸ Thus, government policies on taxes and regulation and on support and relevance in relation to SMMEs need to be adapted and reworked to foster growth in the SMME sector.

SMMEs noted the top challenges in this area as:

- Regulatory burdens
- Legislative requirements, and
- Lack of government incentives

There is a need to review regulatory frameworks, simplify legislative requirements and for government to provide incentives to promote partnerships for small business.

Government intends to address this challenge. In an address by the Minister of Small Business Development,⁵⁹ the Minister vowed that government would commit R1,48 billion to small business, of which 15,24% or R226,8 million would be allocated to the work on implementing and enabling improved regulation and policies.

⁵¹ Aspen Network of Development Entrepreneurs (ANDE), State of the Small and Growing Business Sector Report, 2016.

⁵² Global Entrepreneur and Development Institute (GEDI), The entrepreneurial ecosystem of South Africa: a strategy for global leadership, 2017.

⁵³ Percentage of the adult population aged between 18 and 64 years who are currently an owner manager of an established business

⁵⁴ Global Entrepreneur Monitor 2016/2017 Global Report.

⁵⁵ Global Entrepreneur Monitor 2016/2017 Global Report.

⁵⁶ SME Survey 2018.

⁵⁷ The mission of the Department of Small Business Development is to focus on enhanced support to small business and cooperatives, with an emphasis on programmes to advance entrepreneurship amongst women, the youth, and people with disabilities to contribute to job creation and economic growth.

⁵⁸ Global Entrepreneur Monitor 2016/2017 Global Report.

The Minister detailed numerous legislative and policy priorities for the 2018/2019 year, a few of which are highlighted below:

- To conclude the **National Small Business Amendment Bill**, which will include a new schedule supporting the definitions of SMMEs.
- Development of a **National Incubation Policy for South Africa**. The South African business incubation conference was held in November 2018 and will facilitate this as well as other developments in the SMME sector.
- Implementation of the **National Informal Business Upliftment Strategy (NIBUS)**, which will seek to create an enabling legal and regulatory environment; provide financial and non-financial support; promote intergovernmental relations to deliver to the sector; and encourage the role of the private sector and support of informal trader organisations.
- **Entrepreneurship development** is high on the agenda. The Department of Small Business Development (DSBD) plans to accelerate a culture of entrepreneurship in the country by influencing the education system so that those who graduate would be taught to see entrepreneurship as a career option and not be stuck in the mentality of seeking employment. In addition to this, the DSBD will be introducing more young entrepreneurs’ type of programmes.

It is however important to note that there have already been various changes in regulations and policies that are beneficial to SMMEs. These include but are not limited to:

- **Section 12E of the Income Tax Act:** Although this section is not new, the entire section 12E of the Income Tax Act was introduced to provide tax relief for qualifying small businesses. The main tax incentive in terms of section 12E is favourable tax rates to qualifying entities and accelerated depreciation allowances on certain capital assets.
- **Registered micro-businesses:** Tax rates for qualifying micro-businesses are between 0% and 3%.
- **Tax Incentive for Learnership Agreements:** Skills development is an integral part of the country’s overall objectives to reduce poverty and the decline in employment, increase job skills and improve the economic growth of the country. Tax relief is granted to employers that enter into registered learnership agreements with persons that were not employed by them when the learnership agreements were entered into, as well as their existing employees.
- **Amended B-BBEE scorecard** that came into effect in 2015 includes corporate and state-owned entities being required to spend 2% of their annual net profit after tax on supplier development and another 1% on enterprise development.
- **Youth Employment Service (YES) initiative and ring-fenced point indicator on the skills development scorecard, in terms of the B-BBEE Amendment Codes of Good Practice⁶⁰, for 2,5% spend target on bursaries for black students attending higher education institutions:** The YES initiative aims to improve the grim employment outlook for young work seekers by offering work opportunities and therefore inclusion in the economy. The Department of Trade and Industry (DTI) has agreed to delink the YES and bursary target of 2,5% which means that the bursary condition will not be a precondition to obtain B-BBEE recognition as a YES participating entity.
- **E-tender portal:** The portal has made it easier, more affordable and transparent for SMMEs to do work for government.
- **Central Supplier Database:** The Central Supplier Database (CSD) maintains a database of organisations, institutions and individuals who can provide goods and services to government. The CSD serves as the single source of key supplier information for organs of state from 1 April 2016, providing consolidated, accurate, up-to-date, complete and verified-supplier information to procuring organs of state. SMMEs interested in pursuing opportunities within the South African government are encouraged to self-register on the Central Supplier Database.
- **Revised Preferential Procurement Regulations 2017:** These were issued in terms of the Preferential Procurement Policy Framework Act 2000 and came into effect on 1 April 2017. This framework uses procurement to promote local industrial development, socio-economic transformation and the empowerment of small business enterprises, cooperatives, and rural and township enterprises.
- **Employee Tax Incentives (ETI):** ETI is an incentive encouraging employers to hire young work seekers. It was first implemented with effect from 1 January 2014 and has been extended for the second time until 28 February 2029. It intends to reduce the employers’ cost of hiring young people through a cost-sharing mechanism with government, by allowing a reduced amount of Pay-As-You-Earn (PAYE), leaving the wage received by the employee unaffected. ETI is beneficial for SMMEs that provide internships (refer to ‘Business skills and knowledge’ section of this report) and employment to young employees.
- **The Department of Planning, Monitoring and Evaluation (DPME) and SARS Improvement Plan Research Project:** A research project has been launched to assess the impact of tax reforms on the gross tax compliance costs incurred by small business, which forms part of the SARS initiatives to reduce the cost of tax compliance faced by small businesses. To date, no research report or implementation plan has been released.⁶¹
- **Small Enterprises Ombud Service Bill:** The current environment in which SMMEs operates is not conducive to the speedy resolution of disputes. SMMEs may not have the necessary financial and human resources infrastructure to sustain the protracted resolution of a dispute. It is to this end that it is proposed that an Ombud Service be established that will have jurisdiction over those matters pertaining to agreements to which SMMEs are a party. Such an Ombud Service will provide an alternative dispute resolution mechanism to SMMEs, thus freeing these enterprises from delays and extensive costs occasioned by formal legal processes. Furthermore, this service will allow the Minister responsible for SMMEs to provide targeted interventions to assist SMMEs through the Ombud Service. The Bill was tabled in May 2020.

⁵⁹ Extracts from the Budget Vote on Small Business Development, 17 May 2018.

⁶⁰ https://www.ccmg.org.za/page/employers_bbbbe

⁶¹ At the time this report was published.

- **New shorter time limit for local government officials to get necessary qualifications:** These regulations⁶² that took effect on 3 August 2018 aim to address the sluggish pace at which officials in finance and supply chain management units attain qualifications and minimum competency requirements for their positions. This area of regulation falls under the Municipal Finance Management Act (MFMA), which ensures local government has the skills and capacity to operate and deliver services efficiently.



At SAICA we have influenced regulations and policies through:

The SAICA Cost of Tax Compliance Research Project: SAICA, in a joint initiative with the Financial Intelligence Department of the University of South Africa (Unisa), is researching an alternative model to the standard cost model to determine the extent of actual costs expended by taxpayers, whether for salaries, consulting fees and capital expenditure in respect of tax administration from registration or the finalisation of disputes for a given year. This model seeks to provide a more accurate reflection of the status quo and attempts to quantify, as a percentage of total tax collections, what the fiscal system is actually costing South Africa, in addition to the 1% of tax collections expended by SARS. One of the focus areas are SMMEs, with an annual turnover of R0 to R325 million.

The DPME and SARS Improvement Plan: SAICA formed part of the focus group workshop that took place in June 2018 to address the simplification of the Cost of Tax Compliance for Small Business in South Africa (CTCSBSA). During the workshop we provided input to assist the DPME and SARS in developing an improvement plan taking into consideration the recommendations of research performed in 2013/14 on the tax compliance costs for small businesses in South Africa. This workshop has not resulted in any changes to legislation to date.⁶³

SAICA VAT Refund Delays follow-up survey: In 2016, SAICA surveyed the delayed VAT refunds and SARS subsequently agreed to address three areas of concern arising from the survey results. In addition, SAICA did a follow-up survey in order to determine whether any progress has been made in resolving these specific concerns. SMMEs were also represented in these surveys, given that members participating in the survey either provided input on behalf of their client base which include SMMEs or, alternatively members who are directly employed by SMMEs provided input. As a result, there has been a decrease in the time taken by SARS to pay out refunds.

SAICA Office of the Tax Ombud (OTO) survey: SAICA, in a joint initiative with the OTO and other stakeholders, rolled out a survey to identify the systemic tax issues being experienced by members and taxpayers. In addition, SAICA also questioned through the survey the effectiveness of both the OTO and the SARS Complaints Management Office. The survey assisted the OTO to identify and refine the list of systemic issues. It also contributed towards the OTO's recent investigation against SARS relating to PAYE Statement of Accounts and non-adherence to dispute resolution timeframes.

Advocacy, lobbying and influence for fit-for-purpose legislation, standards, policies, processes and systems through:

- **Public Schools' Financial Reporting Guideline:** SAICA has identified the need for a Public Schools' Financial Reporting Guideline as currently not all provinces have an approved financial reporting framework for public schools. This has created a risk for SMMEs auditing schools as there is no financial reporting framework to audit against. SAICA, in partnership with the Department of Basic Education, is currently developing a Public Schools Financial Reporting Framework.
- **Financial statements:** SAICA continues to support SMMEs in the preparation of financial statements through publishing template financial statements for various types of entities including close corporations, trusts and body corporates. The International Accounting Standards Board (IASB) is conducting a review of the IFRS for SMEs Standard through a Request for Information (RFI). SAICA will be contributing to this consultation process due to the impact that the outcomes from this process may have on SMMEs.
- **Public Education Institutions:** As part of the national footprint objective, SAICA is in the process of accrediting technical and vocational education and training colleges (TVETCs), universities and universities of technology (UoTs). SAICA's objective, through the AT(SA) programmes, is to provide access from the TVETC and UoT space (i.e. TVETC N6 Financial Management Diploma and UoT National Diplomas in Accounting, Internal Auditing and Cost and Management) into the accounting profession at the foundational level. It is important for public institutions to be accredited for the programmes, as this means that we are widening the target market for access into the AT(SA) programmes and increasing the opportunity of there being funding available. The students complete a national qualification at the public institutions, but they can exit with a professional accounting designation at the financial support level or gain entry into the professional designation pipeline.

In general, SAICA assists SMMEs through:

- **Thought leadership** – SMMEs receive regular thought leadership articles on emerging issues on accounting, assurance, governance, technology and other developments that may affect them.
- **Technical updates** – SMMEs receive regular updates on recent developments in standards and legislation.
- **Technical resources and support** – SMMEs have access to tools, templates and other resources to support them.
- **Online Technical Query System** – SMMEs⁶⁴ are able to log technical queries on the SAICA Technical Query System and receive guidance from SAICA.
- **Seminars and Events** – SMMEs have access to complimentary and discounted SAICA seminars and events.
- **Advocacy** – Advocate on behalf of SMMEs to influence decisions made by stakeholders.

⁶²Officials in municipal financial and supply chain management units have 18 months to be qualified for their positions if they were not qualified upon appointment. Further action must be taken if this has not been done, the amended regulations say.

⁶³At the time this report was published.

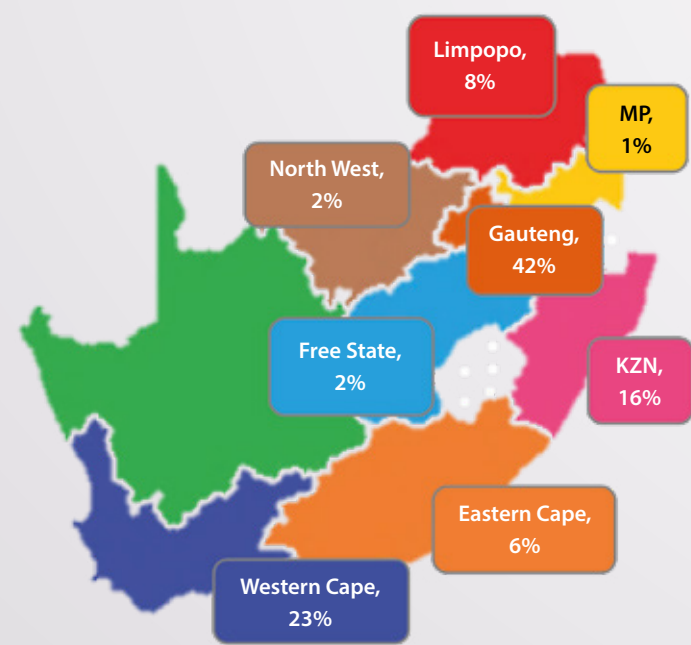
SAICA SURVEY RESULTS

Further to the desktop review conducted by SAICA on the SMME business environment assessment⁶⁵ in August 2019, SAICA conducted a survey to determine:

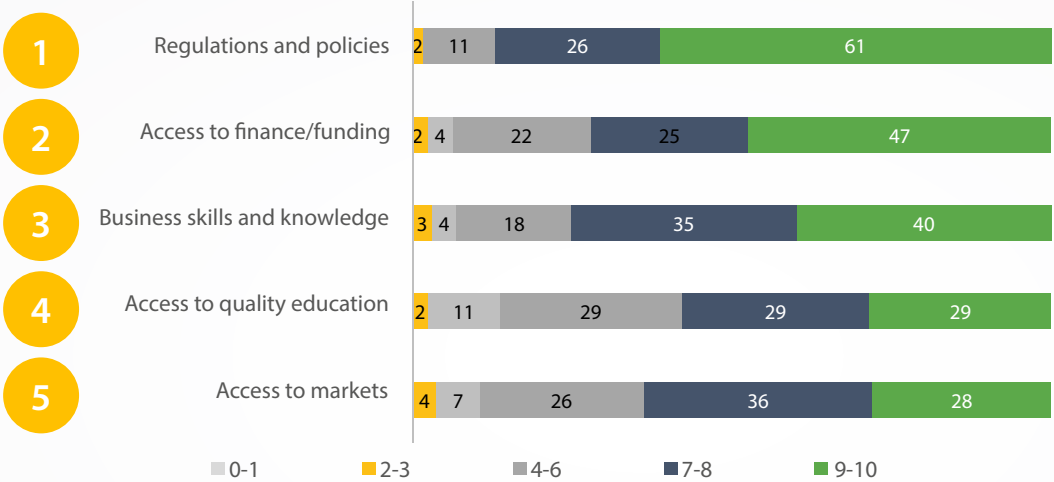
- If the five challenges identified through the desktop review were indeed those experienced by SMMEs, and
- If there were any other challenges experienced by SMMEs and how these relate to the top five challenges identified

The study design included a quantitative online questionnaire⁶⁶ and 12 qualitative in-depth telephonic interviews. The total sample comprised 133 quantitative and 12 qualitative responses. The qualifying criteria for the respondents were that they had to be a member or associate of SAICA either in practice, business or academia.

Below are the results of both the qualitative and quantitative research performed.



The graph below shows the five challenges⁶⁷ SMMEs face rated as percentages in order of relevance by the respondents (0 being not relevant and 10 being very relevant):

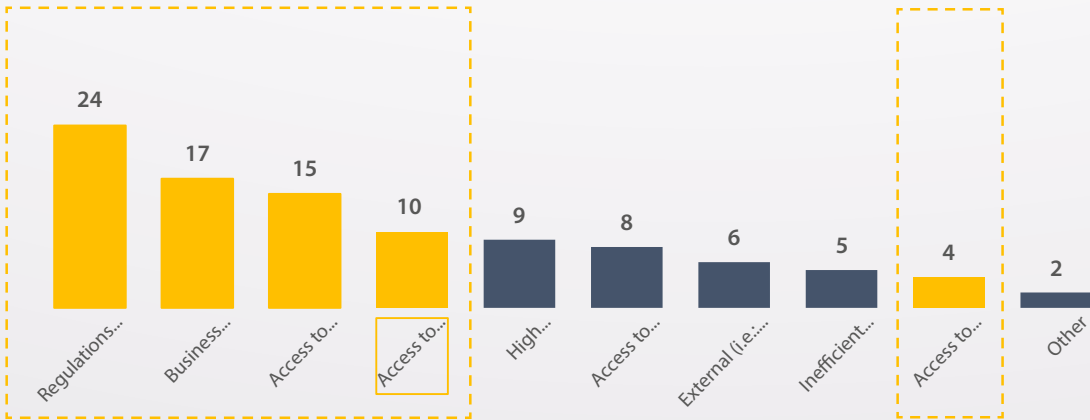


Further, the survey respondents were asked to identify other challenges and also rate them in order of relevance. The graph below shows that four of the five challenges identified through the desktop review still rank as the top challenges, however 'Access to markets' was ranked much lower by the respondents.

From the graph it is clear that the top challenge SMMEs face is regulations and policies. Upon enquiry the respondents listed the following as the contributing factors:

- Demanding requirements (too much red tape and the process being too tedious and complicated)
- Stringent requirements (restrictive regulations, with specific reference to labour laws)

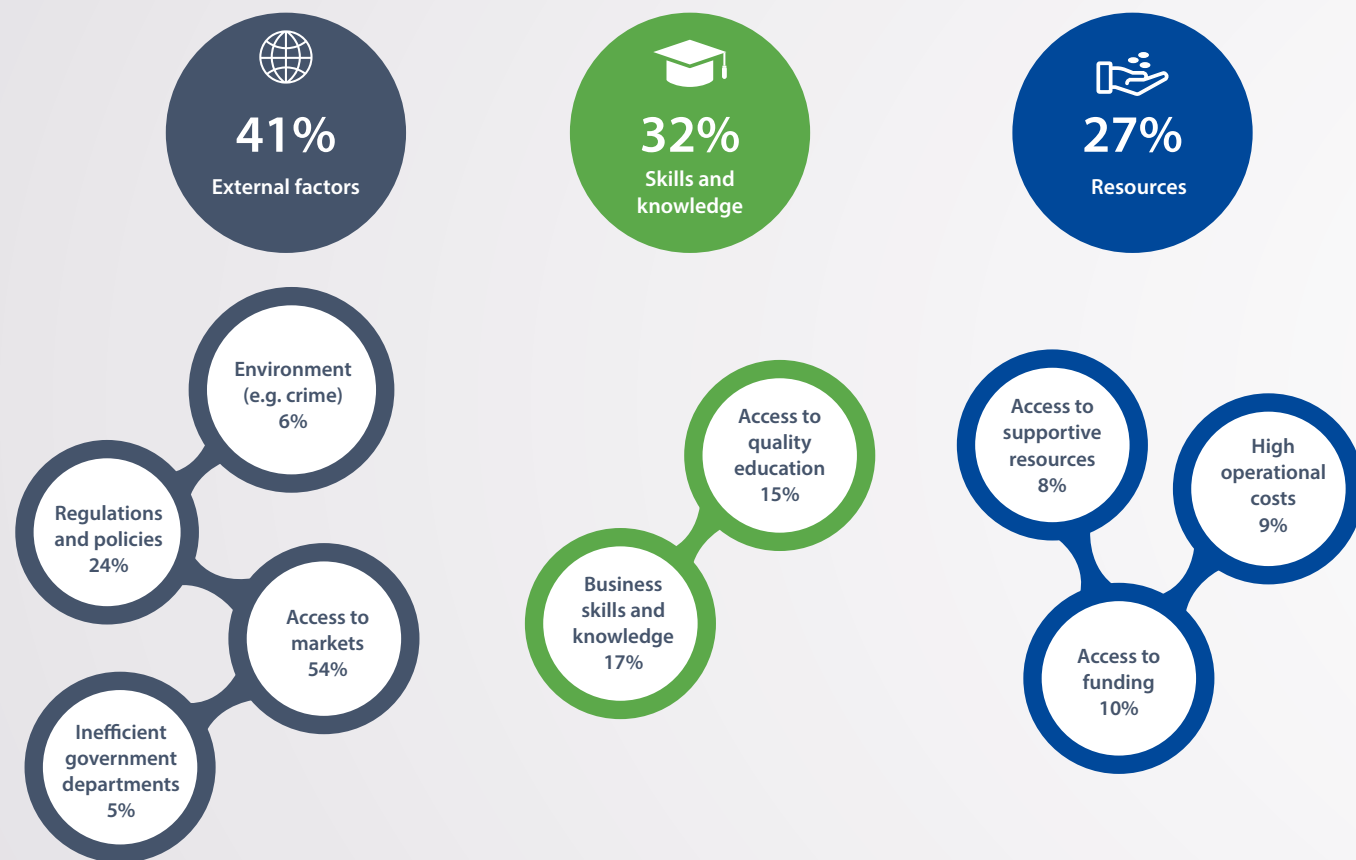
CHALLENGES RATED IN ORDER OF RELEVANCE AS A PERCENTAGE OF POPULATION



⁶⁵Where an individual employed by a SMME is a SAICA member or associate or registered on the SAICA portal.
⁶⁶SAICA Nkululu Project.
⁶⁷Duration of about 15 minutes.

⁶⁷Identified through the desktop review.

The challenges identified can be grouped into three themes as shown below in order to provide further clarity:



It is clear that the challenges cannot be seen in isolation and are interlinked. Regulations and policies are complicated and demanding. The implication of non-compliance includes not gaining access to markets which hinders growth. There is also a direct link to high operational costs and complying with regulations and policies. Solutions to these challenges suggested by respondents included systemic simplifications; advocacy regarding eradication of corruption and increasing change; and creating and enabling networking opportunities.

Cash flow management and accessing the skilled labour market are SMMEs' greatest shortcomings under skills and knowledge. This leads to inefficiencies and low labour productivity. Improvements can be made through knowledge transfer to both business owners and staff.

The last theme identified is resources. SMMEs are viewed as being a bigger risk than larger companies when it comes to obtaining funding, as SMMEs are normally not as profitable initially. SMMEs' profitability is further threatened by high compliance costs (which links to regulations and policies) which in turns leads to hindering the sustainability and growth of SMMEs. Innovation and out-of-the-box thinking will enable SMMEs to gain access to much-needed resources.

SAICA plays a significant role in supporting both SAICA members and SAICA members who assist SMMEs to overcome the challenges identified. This report showcased some of the areas where SAICA plays a role. In general, SAICA:

- Lobbies government
- Increases awareness of challenges SMMEs face and the support provided
- Hosts and facilitates networking events
- Run mentorship programmes for SMMEs
- SAICA Enterprise Development runs financial excellence programmes that provide accounting support, mentoring, business coaching and training workshops through SAICA-associated accounting practices

CONCLUSION



SMMEs face a large number of significant challenges, but solutions are available. As in many countries, SMMEs are the core of the economy. The South African government plays a critical role in establishing methods to improve and enhance the starting up and sustaining of businesses and finding ways to stimulate the economy.

With the vast number of interested parties vested in improving the environment that SMMEs operate in, coupled with a number of solutions available in the market, SMMEs are encouraged to be proactive in understanding what is available in the market and to actively seek solutions to overcome the challenges faced. The solutions do not only lie at the feet of government and corporates, but with each and every SMME.



REFERENCES

REPORTS

Aspen Network of Development Entrepreneurs (ANDE), State of the Small and Growing Business Sector Report, 2015
<https://www.andeglobal.org/blogpost/737893/249581/State-of-the-Small--Growing-Business-Sector-2015-Impact-Report>

Aspen Network of Development Entrepreneurs (ANDE),State of the Small and Growing Business Sector Report, 2016
<https://www.andeglobal.org/blogpost/737893/278888/State-of-the-Small--Growing-Business-Sector-2016>

Aspen Network of Development Entrepreneurs (ANDE), State of the Small and Growing Business Sector Report, 2017
<https://2017.andeglobal.org/about/>

CA Charter
<http://www.cacharter.co.za/>

Catalyst for Growth Report, April 2017
<http://catalystforgrowth.org/about-us/>

Central Supplier Database
<https://secure.csd.gov.za>

Finfind, South African SMME Access to Finance Report, 2017
<https://accesstofinancereport.co.za/>

Lucilla Maria Bruni, Iamele P Rigolini and Sara Troiano, Forever young? Social policies for a changing population in Southern Africa (English), Washington, DC: World Bank Group, 2016
<http://documents.worldbank.org/curated/en/808151531980981231/Forever-young-Social-policies-for-a-changing-population-in-Southern-Africa>

Global Entrepreneur and Development Institute (GEDI), The entrepreneurial ecosystem of South Africa: A strategy for global leadership report, 2017
<https://sabcms.blob.core.windows.net/wp-content/2017/03/GEDI-South-Africa-Analysis2.pdf>

Global Entrepreneur Monitor, 2016/2017 Global Report
<https://www.gemconsortium.org/report/gem-2016-2017-global-report>

Global Entrepreneur Monitor, 2017/2018 Global Report
<https://www.gemconsortium.org/report/gem-2017-2018-global-report>

SAICA, 2017 Nation Building Impact Report
https://www.saica.co.za/portals/0/documents/2017_SAICA_Nation_Building_Report.pdf

SAICA, 2019 Nation Building Impact Report
https://www.saica.co.za/portals/0/documents/SAICA_Nation%20Building%20Impact%20Report%202020_web%20file%20resized.pdf

SAICA SME Insight Report 2014
<http://www.saica.co.za/Portals/0/documents/2014%20SME%20Survey.pdf>

SAICA SME insight Report 2015
<http://www.saica.co.za/Portals/0/documents/2015%20SME%20Insights%20report.pdf>

SAICA SMME Insight Report 2016
http://www.saica.co.za/Portals/0/documents/SAICA%20SME%20Report%202016_Final.pdf

SAICA's Transformation Blueprint which is a summary of the discussion points from the CA Charter Indabas held on 9 March and 18 May 2017

SME Survey 2018
<http://www.smesurvey.co.za/press.html>

OTHER

Banking Association of South Africa, Small and Medium Enterprise
<http://www.banking.org.za/what-we-do/sme>

State of the Nation Address by the President of the Republic of South Africa, Mr Cyril Ramaphosa, on 16 February 2018
<https://www.gov.za/speeches/president-cyril-ramaphosa-2018-state-nation-address-16-feb-2018-0000>

Budget Speech 2018 by Malusi Gigaba, Minister of Finance, on 21 February 2018
<http://www.treasury.gov.za/documents/national%20budget/2018/speech/speech.pdf>

Address by the Minister of Small Business Development, Ms Lindiwe Zulu, Budget Vote 31 on Small Business Development, 17 May 2018
<https://www.gov.za/speeches/minister-lindiwe-zulu-small-business-development-dept-budget-vote-201819-17-may-2018-0000>

Abbreviation/Acronym	Description
ANDE	Aspen Network Development Entrepreneurs
APB	Accounting Practices Board
BASA	Banking Association of South Africa
BDS	Business Development Services
CA(SA)	Chartered Accountant of South Africa
CTCSBSA	Cost Of Tax Compliance For Small Business In South Africa
DPME	Department of Planning, Monitoring and Evaluation
DSBD	Department of Small Business Development
ESD	Enterprise and Supplier Development
ETI	Employee Tax Incentives
FINTECHS	Financial technologies
GDP	Gross Domestic Product
GEDI	Global Entrepreneur and Development Institute
GEI	Global Entrepreneurship Index
GEM	Global Entrepreneur Monitor
HDI	Historically Disadvantaged Institution
INSTITUTE	For the purpose of this document refers to the South African Institute of Chartered Accountants (SAICA)
ISFAP	Ikusasa Student Financial Aid Programme
MFMA	Municipal Finance Management Act
MOU	Memorandum of understanding
NDP	National Development Plan
NIBUS	National Informal Business Upliftment Strategy
NSFAS	National Student Financial Aid Scheme
OECD	Organisation for Economic Co-operation and Development
OTO	Office of the Tax Ombud
PAYE	Pay-As-You-Earn
SA	South Africa
SAICA	South African Institute of Chartered Accountants
SEDA	Small Enterprise Development Agency
SED	Socio-economic development
SEFA	Small Enterprise Finance Agency
SAFR	South African SMME Access to Finance Report
SME	Small and medium-sized entities
SMME	Small, micro and medium enterprises
SMP	Small and medium practice
SONA	State of the Nation Address
TBF	Thuthuka Bursary Fund
TEA	Total Entrepreneurial Activity
ToPC	Tests of Professional Competence
TVETC	Technical and Vocational Education and Training College
TEUF	Thuthuka Education Upliftment Fund
Unisa	University of South Africa
UoT	Universities of technology
VCC	Venture Capital Company
YES	Youth Employment Service