

## SME support institutions: the South African case

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### ABSTRACT

The aim of the research is to provide an overview and analysis of prominent institutions supporting SME growth in South Africa. This is a qualitative study using a targeted internet and literature search by comprehensively reviewing SME support institutions. Data were analyzed by means of a documentary and thematic analysis. 15 Prominent SME support institutions were discovered - split equally between public and private institutions. Services offered took the form of financial and non-financial support. Financial support included grants, loans, equity investment and guarantees. Non-financial support predominantly includes items such as networking opportunities, incubation, mentorship and advisory services.

### INTRODUCTION

Small and Medium-sized Enterprises (SMEs) plays a significant role in the South African economy. SMEs are drivers of innovation and growth; as well as provide opportunities for business and survival for individuals in the mainstream economy [15]. Yet South Africa has a very low level of Total early-stage entrepreneurial activity (TEA), with levels far below those of other economies in Sub-Saharan Africa [8]. This finding is particularly concerning as South Africa is faced with an economic reality of slow economic growth, high rates of joblessness and slow rates of social transformation [18]. The South African government is cognizant of this reality and in the National Development Plan (NDP), the creation of 11 million small businesses by 2030 is envisaged. This however can only be made possible when an annual growth rate of 20% is achieved and 49,000 high-growth SMEs are created annually [12]. To achieve these rates of growth and new venture creation, SMEs will require targeted support interventions from both public and private sources. A large proportion of South African SMEs fail in their first few years of operation [13]. SMEs therefore are in need of tailored support programmes [9] [14]. Both public and private institutions play a vital role in furthering "SMEs programs, incentives, policies and instruments which nurtures and support small firms" [12, p 17].

### PROBLEM STATEMENT

South Africa is currently experiencing significant socio-economic problems - form of high levels of joblessness, weak economic growth rates to stubbornly high levels of poverty. While the creation of Small and

Medium-sized enterprises (SMEs) has been widely touted as one solution to the economic problems South Africa faces, only a small number of SMEs are created on an annual basis. Compounding this problem is that many SMEs do not survive initial years of operation. A number of studies have attempted to identify reasons for this observation and have found that reasons can be of an economic, administrative, operational or supportive nature. Support for SMEs has been widely acknowledged as a key factor in driving the creation and survival of SMEs. While economic and administrative (red-tape) reasons are receiving the attention of the South African government, a number of public and private-sector institutions have taken it onto themselves to support the creation and growth of SMEs. It is therefore important to determine who these support institutions are, what services are provide, if any overlap between service provisions exists and to determine from which sector (public/private) these support institutions tend to originate from.

### LITERATURE REVIEW

Several key indices show that the environment that SMEs compete and operate in is not supportive of a growing SME sector. In 2016, households have come under increased pressure due to rising living costs, high levels of indebtedness, rising levels of unemployment and a deteriorating credit profile. This has had an adverse impact on household spending and indirectly negatively impacted economic growth [7]. Compounding this problem is a slow economic growth rate, with GDP growth rates slowing to 0.9% in 2016, down from 1.3% in 2015 and 1.5% in 2014 [7][16]. The negative effects of slow economic growth rates can be witnessed in prevailing levels of joblessness - the unemployment rate has deteriorated from 25.5% in 2015 to 27.1% in 2016. When the expanded definition of unemployment is taken into consideration (including disgruntled job seekers), unemployment levels have deteriorated from 34.4% in 2015 to 36.3% in 2016 [17]. While an improved inflation rate of 4.6% in 2015 provided some relief to South African households, this was upset by increasing repo and prime overdraft rates, as well as a sharp deterioration of the value of the Rand, which dropped 34.3% in value in 2015/16.

The 2015/16 Global Entrepreneurship Monitor (GEM) report showed that South Africa had the lowest level of Entrepreneurial Employee Activity (EEA) on the

African continent, at a level of 0.3%. Also, while the Total Early Stage Entrepreneurial Activity (TEA) in South Africa improved from 7.0% to 9.2% in 2014 and 2015 respectively, this TEA level is amongst the lowest level found in Sub-Saharan African countries [8]. It is estimated that SMEs contribute between 52-60% towards South Africa's Gross Domestic Product, aggregate 61% of all employment and comprise of 91% of all formal business enterprises [1][4]. It is estimated that 36% of all corporate taxes are paid by SMEs in South Africa, approximately R1.3billion in the 2013 tax year [5]. These statistics indicate that SMEs hold a pivotal position in South Africa's economy. It is therefore especially concerning that South Africa is still experiencing high rates of SME failure [5]. In particular, SMEs experience high failure rates in the first three years of operation, estimates indicating a 70-90% failure rate within the first 42 months of operation [2][6][24, p13].

While the economic challenges affect all SMEs, some internal challenges also present themselves - lack of entrepreneurial skills, inaccurate forecasting and a lack of managerial skills [13]. A lack of skills in the internal human resource domain is compounded by a strong need for managerial and entrepreneurial skills training, in particular with reference to "financial management skills, marketing skills, strategic planning skills, human resource management skills, networking skills and organising skills" [3, p12]. In particular, a lack of financial literacy and poor business planning has adversely affected the ability of SMEs and SME owners to operate in an efficient and effective manner [10]. SMEs are also further prejudiced by lack of accessibility to formal sources of finance, such as bank loans, grants, bridging finance and other credit facilities [11]. Lenders and financial institutions tend to focus on market segments other than SMEs, mainly due to inherent risk levels in the SME sector and lower levels of profitability [19]. A lack of supporting government policies and frameworks are also highlighted by other authors [8]. The study focused on prominent SME support institutions in the South African context. While a wide range of business support institutions exist, only a limited number specialize in the support of Small-to Medium-sized enterprises. For inclusion in the study, the relevant institutions need to have made specific reference to support of SMEs. The support can take any form, such as financial support, advisory, mentoring services or provision of facilities. For relevance purposes the institutions would need to be based and operate in South Africa, with specific reference to support of South African (local) SMEs.

#### **RESEARCH METHODOLOGY**

The study followed a qualitative research approach. Data were gathered by means of a targeted desk search of prominent SME support institutions. Prominent academic literature and internet sources were consulted for purposes of data collection. Data analysis was conducted by means of a thematic and

documentary analysis.

#### **FINDINGS**

15 Prominent support institutions were discovered that provided services ranging from advisory services, to mentorship, to pure financial support such as start-up and growth funding. While some institutions provide purely financial support, others provide only-non financial support, while the remainder provides a combination of both financial and non-financial support. It is noteworthy that in recent years a consolidation effort has taken place in terms of public institutions supporting SMEs, for example where agencies such as the Small Enterprise Finance Agency were formed out of several other institutions, such as Khula Enterprise Finance, the South African Micro Apex Fund and the small business division of the Industrial Development Corporation (IDC). From the analysis it was found that 53% of prominent SME support institutions come from the public sector. The remainder are privately owned. Thus there is a fairly equal numerical split between public and private support institutions. It is however important to note that public institutions tend to service a far greater number of SMEs than their privately-owned counterparts.

From a support point of view, only 27% of discovered SME support institutions provide pure financial support. This tends to take one of four forms, namely grants, traditional loans, equity investments and financial guarantees. 33% of discovered institutions provide purely non-financial support. This support most commonly comes in the form of mentorship and advisory services. Other forms of non-financial support come in the form of incubation services, provision of access to technology and knowledge, as well as networking services, most commonly with other entrepreneurs, potential funders or subject-matter experts.

It is noteworthy that while the majority of SME support institutions provide services to all SMEs, a number of these have a more clearly defined target. Four institutions aim to provide support to previously disadvantaged and African SMEs, with the aim of redressing inequalities brought on by Apartheid. The National Youth Development Agency is aimed at supporting South Africa's youth by providing finance, as well as advisory services. One particular support institution, Tembeka, is solely focused on investing in SMEs with a social focus. Other support institution such as the Technology Innovation Agency is purely focused on SMEs in technology-related fields.

#### **CONCLUSION**

South Africa's precarious economic and social status quo provides a challenging environment for new and existing SMEs. Low levels of economic growth, high levels of joblessness and poverty provide a

climate in which SMEs need to exist, grow and thrive. It is thus vital that existing and new SMEs receive the support they require in order to grow and become the innovators and job creators they are meant to be. This study therefore had the aim of discovering prominent South African SME support institutions, and analysing the scope of services offered.

#### VALUE OF RESEARCH

The findings of this study allow South African SMEs to easily identify the organisation that offers the type of required support. The findings further raise awareness of support institutions that South African SMEs might not have been aware of, as most institutions do not publicly advertise. Due to the merger, acquisition or closure of many governmental support institutions, the research lastly provides an up-to-date snapshot of available support for South African SMEs.

#### LIMITATIONS OF THE RESEARCH

While a large number of private support institutions exist, many are small in size and do not publicly advertise their services. As a result, while the list of identified support institutions is comprehensive and focuses on prominent support institutions, the list cannot be deemed as all-encompassing. Furthermore, many sectors of the economy have smaller specialized support institutions which appeal to a smaller audience of SMEs for sectoral reasons. These institutions could not be included due to lack of available data and advertising.

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