



SMALL BUSINESS SUPPORT ECOSYSTEM REPORT - SA

THE ROLE AND IMPACT OF BUSINESS
DEVELOPMENT SUPPORT SERVICES

ACRONYMS

ANDE	Aspen Network of Development Entrepreneurs	M&E	Monitoring and Evaluation
B2B	Business to Business	MEL	Monitoring Evaluation and Learning
B2C	Business to Customers	MERL	Monitoring Evaluation Research and Learning
BDS	Business Development Support	NDP	National Development Plan
BDSPs	Business Development Service Programmes /Providers	NPC	Non-Profit Company
BBBEE	Broad Based Black Economic Empowerment	SADC	Southern African Development Community
BEE	Black Economic Empowerment	SAIS	Southern African Innovation Support
C4G	Catalyst for Growth	SBI	Small Business Institute
DGDA	Dalberg Global Development Advisors	SEDA	Small Enterprise Development Agency
ESD	Enterprise and Supplier Development	SME	Small and Medium Enterprises
4IR	Fourth Industrial Revolution	SMMEs	Small, Medium and Micro Enterprises
GDP	Gross Domestic Product	STATS SA	Statistics South Africa
GEM	Global Entrepreneur Monitor	USAID	United States Agency for International Development
IOA	In On Africa	WC ESDP	Western Cape Enterprise Supplier Development Partnership
JSE	Johannesburg Stock Exchange		

TABLE OF CONTENTS

	FOREWORD	5
	ABOUT C4G	7
1.	EXECUTIVE SUMMARY	9
2.	INTRODUCTION	11
	2.1. Research Purpose	11
	2.2. The BDS Landscape	11
	2.3. Research Sample	12
3.	MOTIVATIONS FOR ENTREPRENEURSHIP	29
	3.1. Introduction	29
	3.2. Job Creation	33
	3.3. Opportunity-driven Entrepreneurship	34
4.	THE IMPACT OF BDS PROGRAMMES	36
	4.1. Introduction	36
	4.2. Business Impact	36
	4.3. Personal Impact	50
5.	BUSINESS DISCONTINUATION	52
	5.1. Introduction	52
	5.2. Reasons for Discontinuation	55
	5.3. BDS Assistance	60
	5.4. Starting New Businesses	62
6.	FINANCING ENTREPRENEURSHIP	68
	6.1. Introduction	68
	6.2. Applying for Funding	68
	6.3. BDS Assistance with Funding	82
7.	ASSESSING KEY BDS PRINCIPLES	86
	7.1. SME Performance	86
	7.2. Mentorship and Feedback	89
	7.3. Market Access	91
	7.4. Education, Technology and Skills Development	93
8.	RECOMMENDATIONS	95
	8.1. Introduction	95
	8.2. BDS Providers	96
	8.3. SMMEs and Entrepreneurs	98
	8.4. Government and Public Stakeholders	99
	8.5. The Private Sector	99
9.	METHODOLOGY	101
	9.1. Research Development	101
	9.2. Primary Research	101
	9.3. Secondary Research	102
	9.4. Data Analysis	102
	9.5. Limitations	103
10.	CONCLUSION	105
	LISTS OF FIGURES AND TABLES	107
	Figures	107
	Tables	108



The publication of the 2019 Catalyst for Growth (C4G) Report, our third annual report since C4G was established in 2014, coincides with the conclusion of a programme evaluation exercise with the JP Morgan Chase Foundation.

Concurrently, there are some big shifts in thinking in the policy-making environment on the role of impact evaluation in the provision of Business Development Support (BDS) Services. In this context, the mission of C4G has been affirmed as a generator of knowledge with practical application in supporting decision-making. We are taking a step forward, beyond the services provided by our Analytics Platform, towards meaningfully contributing to Monitoring, Evaluation and Learning (MEL) for more impactful BDS provision by our partners.

The 2019 Report retains the character of previous reports, in the main focus, but it seeks to be more accessible and practitioner-oriented in style.

We trust that the findings and insights shared in this report shine a light on the important and necessary work that practitioners do in contributing to the development of the economy through the development and support of SMMEs.

We continue to be grateful to all the partners who make this work possible. These partners use the C4G platform to monitor the performance of their SMME cohorts. There are over 40 BDS providers who see value in working with us. Of these, 20 have shared SMME performance data with us. There are some corporates, albeit not enough, who understand the contribution SMME data-sharing has on the shared quest to optimise various types of BDS on the performance of SMMEs.

We still have some distance to cover before evidence-based decision making is common practice within the sector.

This period also marks a critical phase in the growth and development of the C4G footprint as we cross the borders of South Africa, in partnership with Southern African Innovation Support (SAIS), to test the C4G Analytics Platform in two SADC countries – Tanzania and Zambia. This new project affords us the opportunity to test the customisation and implementation of the platform in partnership with 20 BDS providers in these two national ecosystems.

The expansion beyond South Africa bodes well for exciting three-country insights for our next report in 2020.

We value the growing partnerships of various stakeholders to support and collaborate with C4G – exemplifying C4G’s ecosystem approach in supporting a thriving SMME sector in the economy. A great example of this partnership is the Western Cape Enterprise Supplier Development Partnership (WC ESDP), which was formed by C4G, the Western Cape Department of Economic Development and Tourism, the City of Cape Town, and Accelerate Cape Town. The WC ESD Partnership drives regular ESD dialogue events with corporates in the Western Cape Province. Other partnerships, in the development stages, include similar engagements with eThekwin Municipality, as well as with various Seda branches in the North West and Limpopo provinces.

These partnerships contribute to the development and strengthening of local ecosystems that support stakeholders to become more effective in their support of local SMMEs. This could not be more important and urgent at this point in the economic history of South Africa and indeed the region.

We need to double our understanding of what combinations of specific conditions and interventions drive the growth and sustainability of small businesses in our local economies. This report, therefore, continues on a path of discovery and learning, along with our partners and stakeholders.

The dedication and passion of the C4G team and the support and guidance of the C4G board cannot be taken for granted. Without the substantial financial support of JP Morgan Chase Foundation and USAID, and the technical support of Dalberg, C4G would not have been here today. The SAB Foundation has supported a critical part of our work – enabling us to go beyond Gauteng and reach out to more stakeholders in more provinces and thereby increase our partnerships and data pool. In 2020 we should have a more diversified data set as a basis of our reports.

Looking ahead, we see the next two years as an opportunity for C4G, while remaining within its mandate, to drive a more focused engagement in strengthening local ecosystems and supporting MEL practices, both in South Africa and other parts of the continent. At the same time, our service offering will be refined and focused to derive better results for our partners towards a more sustainable C4G.

We have you find some useful insights in the report and remember that your feedback will help us shape our future work and publications.

“WE VALUE THE GROWING PARTNERSHIPS OF VARIOUS STAKEHOLDERS TO SUPPORT AND COLLABORATE WITH C4G”

SIFISO NDWANDWE

Catalyst for Growth NPC is a technology-based platform research company, founded in 2014 by JP Morgan’s Chase Foundation and Dalberg Global Development Advisors, to provide programme quality assurance, SMME support research and Monitoring and Evaluation tools and services to the African Business Development Support (BDS) industry. C4G aims to increase evidence-based decision-making and programme impact through the provision of quality Monitoring, Evaluation, Research and Learning (MERL) services to actors and stakeholders within the SMME support ecosystem.

In 2016, C4G launched its cloud based SMME Support Analytics Platform for incubators, accelerators, corporate and government agencies who implement and fund ESD and other business support programmes to monitor, analyse, report on and benchmark SMME performance and programme performance.

Relevance, timeliness and accuracy of the research and data provided by C4G through the analytics platform and research services have been the focus of C4G’s team over the last year, with the aim of supporting ecosystem stakeholders in their quest for quality BDS and evidence-based decision making and programme design. C4G has, for the last 5 years, positioned itself as a quality assurance partner for forward-thinking BDS providers and buyers of BDS in South Africa, and now also in Tanzania and Zambia.

OUR VISION

To be the quality assurance and impact enhancing partner to BDS buyers and providers on the African continent, and to promote SMME support ecosystem engagement, collaborative learning and evidence-based decision making.

OUR MISSION

To define and standardise quality BDS; to provide technological tools and services that ensure and assure the quality of BDS programmes; and to provide MERL services towards growing and sustainable SMMEs in various BDS programmes in South Africa and across the continent.



C4G’S INNOVATIVE SERVICE OFFERINGS INCLUDE:

1. THE SMME SUPPORT ANALYTICS PLATFORM

A Cloud-based SMME support programme monitoring, analytics and reporting software coupled with independent programme evaluation that demonstrates programme impact on the SMMEs supported.

2. PROGRAMME MONITORING AND EVALUATION SERVICES

The monitoring of programmes, throughout the programme’s life cycle, that enables continuous performance improvement and resource management coupled with periodic and purposeful evaluation of impact. C4G specialises in:

- Technical Monitoring and Evaluation
- Benchmarking
- Longitudinal Impact Monitoring and Evaluation
- Programme Cost vs. Impact Assessment

3. SMME SUPPORT ECOSYSTEM RESEARCH

Catalyst for Growth has, since 2017, published an annual ecosystem report detailing findings on the business performance and sustainability of SMMEs receiving different types of business support in South Africa. The organisation also publishes occasional report-bytes and partners with ecosystem players in academia, corporate and government, to research and deepen understanding of the real impact of quality BDS on the survival and growth of SMMEs in South Africa and the continent. These reports will be further extended from 2020 with a Tanzania and Zambia report as well as the piloting of provincial reports in South Africa.

4. BDSP CAPACITY DEVELOPMENT

Online and Workshop based training of BDSPs in Monitoring and Evaluation, Impact-Driven Programme Design and Management, and Reporting to improve the quality and efficiency with which BDSPs implement SMME support programmes across Africa.

The importance of small, medium and micro enterprises (SMMEs) in South Africa keeps increasing against the backdrop of high unemployment levels and political flux. In South Africa alone, there are in excess of 2.5 million SMMEs contributing approximately one-fifth of GDP to the country's economy. As these figures continue to rise, public and private institutions must ensure that these business owners are provided with the requisite knowledge and experiences for effective business management, sustainability, access to markets and success. There is also a dire need for more information surrounding business development support (BDS) programmes and how their performance can impact entrepreneurs enrolled in these programmes.

To address this, Catalyst For Growth (C4G) monitors, evaluates, analyses and reports on the performance of SMMEs that have received the necessary knowledge and mentorship (coaching and experiences) from BDS providers who elected to join their digital platform. Having been established by the joint efforts of the J.P. Morgan Chase Foundation and Dalberg Global Development Advisors in 2012, C4G has further expanded its SMME base and has shown tangible benefits for entrepreneurs enrolled in their associated BDS programmes. Their digital platform is now home to over 3,700 entrepreneurs and 47 BDS providers in South Africa and other African countries. Additionally, their 2019 annual report on their performance, The Role and Impact of Business Development Support on South African SMMEs, has been guided by the input of 1,101 entrepreneurs from more than 24 BDS programmes.

With a view of constantly improving their performance metrics, C4G conducted a community of practice session in early May 2019 and developed a stronger and more precise framework of evaluation. A solid focus was also placed on developing the 'right' questions for SMMEs to respond to, with the feedback

helping to develop the SMME ecosystem. Specific themes, relevant to the successes and challenges of the SMME environment, emerged and guided the development of this report. The sections of this report – namely Motivations for Becoming an Entrepreneur, Impact of BDS Programmes, Financing Entrepreneurship and Business Discontinuation – speak directly to these and are complemented by an assessment of BDS principles, which include longitudinal SMME performance, skills development, access to markets and the increasing use of technology. Finally, this report closes with a set of recommendations for stakeholders at all levels, which aim to assist in directing efforts and applying resources for those involved in BDS development.

A key improvement in this edition has been the expansion of data analysis methods. Both qualitative and quantitative data analysis has been used and intertwined to gain a more complete picture. The impacts of social diversity like the differentials inherent among racial profiles, gender identities and educational achievements are examples of new comparative analyses implemented in C4G's 2019 annual report. As a result of the implementation of C4G's post-programme surveys, certain findings have been extracted as key insights for SMME stakeholders.

In terms of motivations for becoming entrepreneurs, the sample pool has indicated that these are overwhelmingly personal and that they have less to do with external factors and profitability. As a perceived continuation of the nation's political journey, respondents show that personal and financial independence is the highest priority. Businesses are not only perceived as a vehicle for achieving wealth but also as a means for channelling individual passions and fulfilling community-based purposes, such as providing jobs for fellow South Africans. Furthermore, the impact of BDS programmes is tangible. In both personal- and business-related

contexts, C4G's platform entrepreneurs consider the BDS programmes to have significantly positive impacts, allowing them to develop entrepreneurial strategies that increase their access to markets and cash-flow security. A chief focus of these BDS programmes is not necessarily to provide theoretical knowledge of financial processes but rather to instil the confidence and self-assuredness that is required to learn and succeed. This is highlighted best by the predominantly thriving businesses, constantly improving entrepreneurial skills and perpetually positive perceptions of interpersonal skills.

The bottom line of being financially productive and funding ready is not forgotten in BDS programmes. Significant emphasis is given to the different types of funding mechanisms and how to prepare a business for applications. Although only 40% of entrepreneurs in the sample cited applying for finance, their preparedness meant that almost half of them were able to secure the financial assistance they needed. Most of these applications were directed towards government, especially in the form of grants. The structure of these grants remains a hot topic for debate: some entrepreneurs believe that, for this funding vehicle to be truly effective, the government needs to repackage their grants system, thereby offering fewer entrepreneurs more money, while others believe that micro-financing small business ventures does more to kickstart the SMME environment. Regardless, considering the low proportion of financing coming from banks, angel investors and private equity, there stands a promising opportunity for the private sector to be relied upon for funding and to be more involved in SMME financial development.

Naturally, some entrepreneurs indicated that they were unable to keep their businesses operational, although they constituted less than 20% of the sample pool. Despite profitability being a prominent

reason for business failure, most entrepreneurs indicated that they either have personal issues that needed their attention or that their businesses were only considered temporary measures before finding permanent employment – a fact that has become more and more prevalent with the climbing unemployment rates among the youth.

Perhaps most importantly, the records of former years' programmes have helped shed light on the actual impact that BDS services have had on business factors, such as generated revenues, number jobs and profit margins. In most cases, the figures provided by entrepreneurs show a moderate increase (approximately 20%) across the board.

In closing, the entrepreneurs have voiced an overwhelmingly positive response to these implementations, with more than 70% of the surveyed programme participants rating the likelihood of them recommending the programme to their peers with a 7 (out of 10) or higher. Entrepreneurs also highlighted areas they believed could be improved as a priority, which focused primarily on enhancing the feedback mechanisms available to participants and the customisation of support for different types of businesses.

These annual reports on SMMEs' performance have become invaluable, particularly to investors who now have proof of the effectiveness of business guidance and can, therefore, directly challenge, correct or enhance any aspect of BDS that is needed. The investments by international partners and foreign governments can be validated and used as motivation for further development and assistance in South Africa's SMMEs.

2 INTRODUCTION

2.1 RESEARCH PURPOSE

In 2015, C4G initiated a study with over 700 SMMEs, supported by seven BDS providers, and monitored their performance over seven months. The results from this exercise were published in the 2017 report titled *An ongoing learning agenda on the impact of BDS on SMME performance*. The survival of these initial SMMEs was continuously monitored and was further assessed in the 2018 report *The role of Business Development Support (BDS) on South African SMME performance* released in 2018. Ultimately, the purpose of this series of annual reports is to address the shortage of information on the effectiveness and impact of BDS programmes.

The 2019 report presents C4G's unremitting efforts to deepen the understanding of the impact of BDS programmes in the overall entrepreneur ecosystem in South Africa based on data generated from 1,101 SMMEs across more than 24 BDS providers. The initial focus of this report is to provide an understanding of the reasons why SMME owners turned to entrepreneurship in order to investigate if there is a link between motivations for entrepreneurship and the success of SMMEs. This report then proceeds to assess the impact of BDS providers on nurturing SMMEs and what areas of BDS interventions have been most beneficial for entrepreneurs. The discussion further examines the survival of SMMEs and the reasons for business discontinuation, before homing in on the financing landscape for entrepreneurs and how financial assistance, or lack thereof, contributes to the sustainability of SMMEs in the country. A discussion of the key assessment principles then ensues to inform the action points for all stakeholders involved in the support and development of entrepreneurship in South Africa.

2.2 THE BDS LANDSCAPE

The development of the SMME sector is globally considered to be a key strategy for economic growth. Likewise, it is widely believed that the success and sustainability of the South African economy are largely dependent on the success of entrepreneurs and SMMEs operating in the country. This is because SMMEs are perceived as playing an important role in creating employment and alleviating poverty¹. Recent estimates from the Small Enterprise Development Agency (SEDA) indicated that the SMME industry accounts for close to two-thirds of all employment (SMMEs accounted for 66% of economy-wide employment in 2019 – Q1) and contributes more than 20% to the country's GDP.

According to SEDTA, there were approximately 2.5 million SMMEs in South Africa in the first quarter of 2019 (a 15% increase from 2.4 million in 2018), about 70% of which operate in the informal sector. While these numbers suggest a positive tendency in the growth of the SMME sector from previous years, the survival rates of new businesses have been reported to be increasingly low. Studies have shown that small businesses operating in South Africa are often faced with a high failure rate due to, among other reasons, a lack of capital, inexperience with the support and funding systems available to them, a lack of technical skills and inefficient business and management expertise ².

To mitigate these issues and sustain the SMME landscape, entrepreneurs hope to rely on BDS programmes, which are geared towards formalising SMMEs and speeding up the growth and success of startups and existing businesses. The South African government, through its transformation priorities, has recognised the need to focus on the development of accelerator and fellowship programmes. Government is also constantly contributing to the growth of BDS programmes in order to nurture the growth potential of new enterprises³. However, little is documented about the impact or the effectiveness of these programmes.



¹ Sicetsha, A., "The three critical reasons why South Africa's SMMEs are struggling", *The South African*, 2018. <https://www.thesouthafrican.com/business-finance/the-three-critical-reasons-why-south-africas-smmes-are-struggling/>

² "A knowledge brief of South Africa's incubator and accelerator landscape", Aspen Network of Development Entrepreneurs, 2018. https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/research_library/ANDE_SA_Incubator_Accelera.pdf

³⁴ The number of formal micro, small & medium businesses in South Africa: Preliminary findings of state 1 of the baseline Study of Small Businesses in South Africa", The Small Business Institute (SBI), 2018. <https://www.smallbusinessinstitute.co.za/wp-content/uploads/2018/10/SBIbaselineAlert1final.pdf>

The Role and Impact of Business Development Support Services on South African SMMEs | September 2019

While South Africa's Global Entrepreneur Monitor (GEM) reported a drop in entrepreneurial interventions in the country between 2015 and 2016 from 15.4% to 10.9%, a mapping exercise undertaken by the Aspen Network of Development Entrepreneurs (ANDE) estimated that there were around 150 BDS providers in South Africa in 2017 for a population of more than 2 million SMMEs.⁴ However, ANDE's study noted that there is a lack of clarity in the definitions and classifications of BDS providers, which further complicates efforts to effectively categorise and account for all programmes that provide support and assistance to SMME entrepreneurs.

BDS programmes are often categorised according to certain characteristics, such as impact objectives, programme structure and sector focus. They are further classified as either incubators, accelerators, hybrid programmes, corporate programmes, enterprise and supplier development (ESD) programmes or business

advisory services, among others. These BDS providers seem to offer a variety of services, financial and otherwise, for different durations, usually depending on the focus and stage of development of the particular SMME. There also seems to be a mix of sector-specific (specialised) and sector-agnostic (unspecialised) BDS programmes in South Africa. Sector-specific BDS programmes are mostly run by public entities and SEDA, while the majority of sector-agnostic BDS programmes are offered by private entities.

In the absence of a universal classification of BDS programmes, in the context of this report, BDS is defined as non-financial products or support offered to entrepreneurs at various stages of their business development, primarily consisting of skills development and transfer or business advice. The term BDS providers in this context includes business hubs, incubators and accelerators that provide enterprise development mentorship and business coaching.



⁴“A knowledge brief of South Africa’s incubator and accelerator landscape”, Aspen Network of Development Entrepreneurs, 2018. https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/research_library/ANDE_SA_Incubator_Accelerator.pdf

2.3 RESEARCH SAMPLE

This section provides an overview of the demographics of the survey pool, which included individual profiles and characteristics of 1,101 SMMEs from more than 24 BDS programmes that were sampled through the C4G platform.

2.3.1. PARTICIPANTS

2.3.1.1. AGE DISTRIBUTION

SMME owners in this survey were between 18 and 79 years old, with 35 years being the most frequent age. While 35 years old may seem slightly younger than the ideal age where an entrepreneur would have accumulated sufficient experience, networks and personal savings to successfully sustain a business, it could be argued that it is the ideal age for risk-taking, particularly in an economy where opportunities for optimal employment are limited.

Just over half of the sample (50.5%) were between the ages of 26 and 35, while 29.1% were between 36 and 45 years, and 8% were between 46 and 55. There were a few entrepreneurs who were younger than 25 years old (8.1%), and around 4% were older than 56 years.

AGE DISTRIBUTION

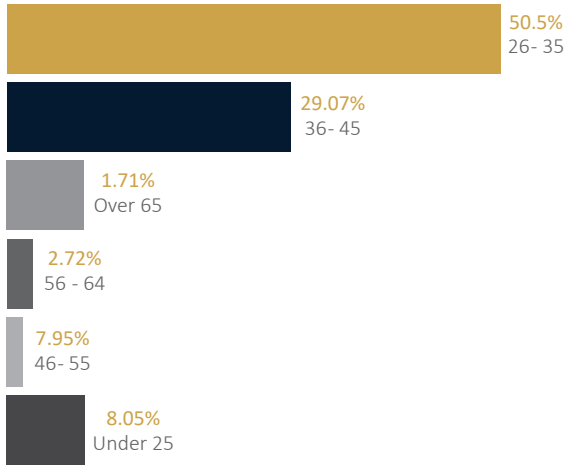


Figure 1: Distribution of age ranges among respondents

These results are in line with the trends observed in the GEM 2016-2017 sample, which showed a high prevalence of entrepreneurial activities among individuals between 25 and 44 years of age. The GEM report also noted the sharpest decrease in entrepreneurial participation among participants aged 54 years and older, which is also in line with this survey's observation that SMME owners aged 56 and above constituted only 4% of the total sample pool. However, it was interesting to note that there were a few entrepreneurs who were older than 65 years and still participated in BDS programmes.

Participants were further categorised between youth (18-35) and non-youth (36-65+). The proportions showed a higher share of youth (59%) than non-youth (41%) who participated, particularly among male entrepreneurs (60.5%). Just over half of non-youth participants were female.

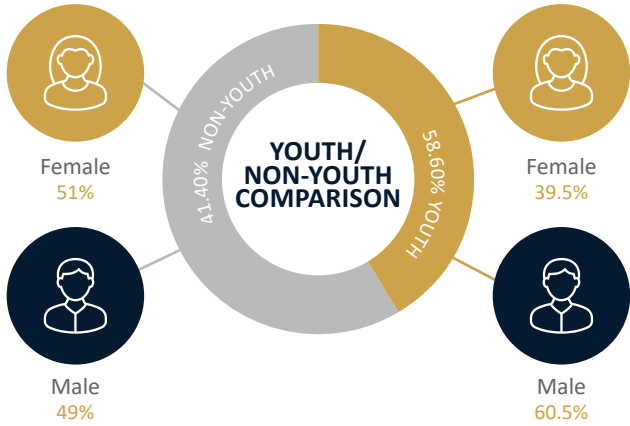


Figure 2: Comparison of youth and non-youth respondents

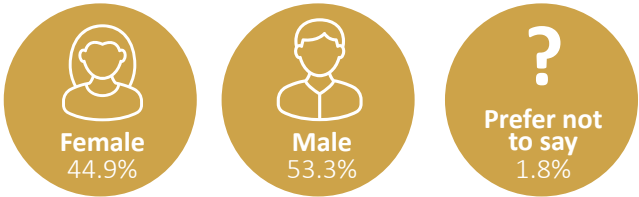


Figure 3: Distribution of gender among respondents

2.3.1.2. GENDER DISTRIBUTION

There were more male (53.3%) than female SMME owners (44.9%) in the sample pool, illustrating the persistent inequality of male to female participation ratios in entrepreneurial activities in South Africa. This is also in line with other global studies that have reported higher numbers of male participants in entrepreneurial ventures than females.

COMPARISON OF GENDER-BASED PARTICIPATION RATES:

Although promoting gender equality in entrepreneurship is a growing priority for the South African government, there has been no discernible improvements in closing the gap between male and female participation ratios in early-stage entrepreneurial activities over the years.⁵

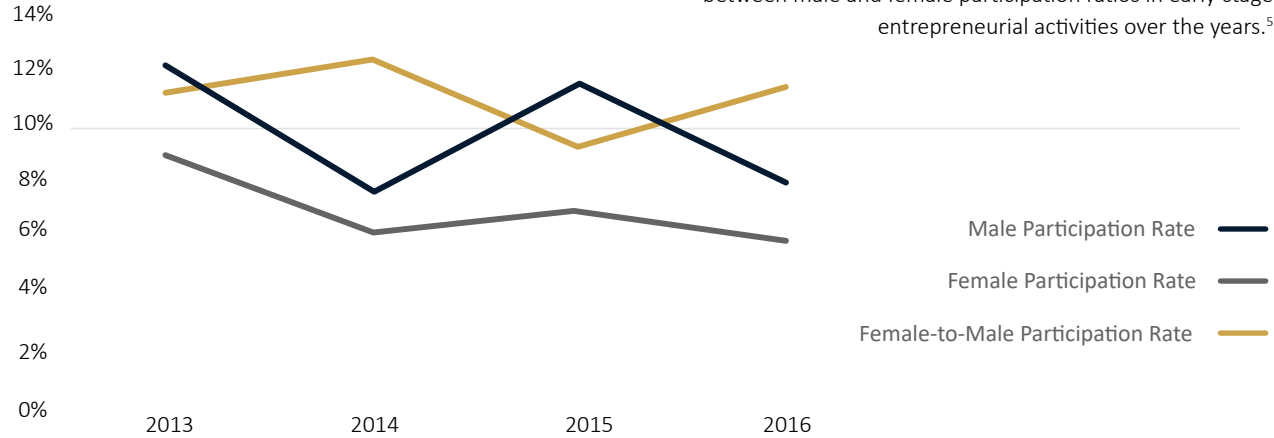


Figure 4: Entrepreneurship participation rates in South Africa (2013-2016 - % of adult population)

2.3.1.3. RACE DISTRIBUTION

The great majority of the surveyed SMME entrepreneurs in this study were Black Africans who made up more than four-fifths (88.2%) of the sample. Only 5.1% of SMMEs were owned by Coloureds, 4.1% by Whites and 1.8% by Indian entrepreneurs. There were only a few entrepreneurs of Asian ethnicity (0.7%) in this sample.

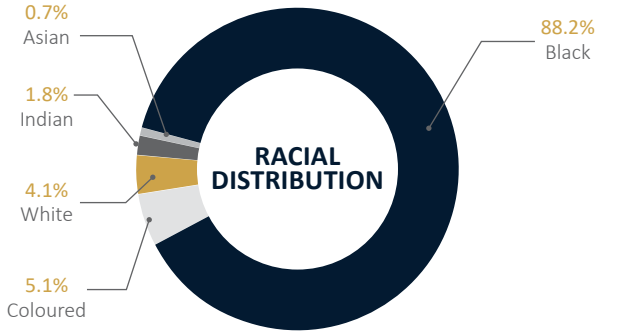


Figure 5: Distribution of race among respondents

Of all Black-owned SMMEs, 45.3% were owned by Black women, also accounting for 87.2% of all female-owned SMMEs in the sample pool. It was interesting to note that there were more Coloured and Indian female entrepreneurs

than males, and an equal distribution of Asian male and female entrepreneurs, compared to the Black and White ethnic groups, where male entrepreneurs dominated.

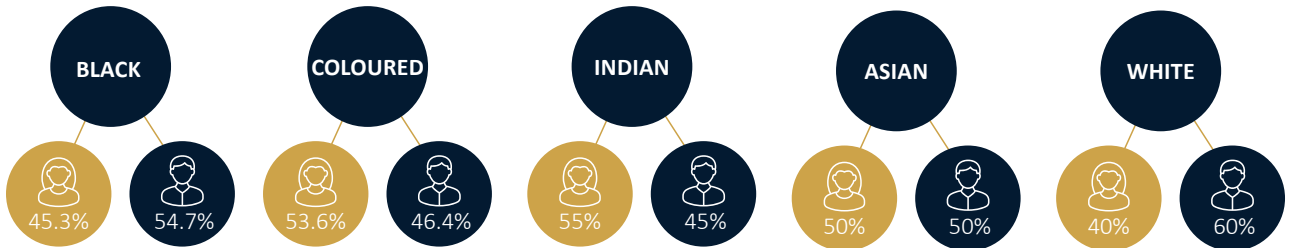


Figure 6: Race distribution by gender

2.3.1.4. LEVEL OF EDUCATION

The education levels attained by the survey pool indicated that the majority of SMME respondents were fairly educated, with over two-thirds having some form of post-high school education compared to about a quarter who only completed primary and high school. Around 45% of respondents had either a diploma, a certificate or a technical/vocational degree, 19% had completed their bachelor's degree and 10% held a post-graduate qualification, such as an honour's, a master's or a PhD.

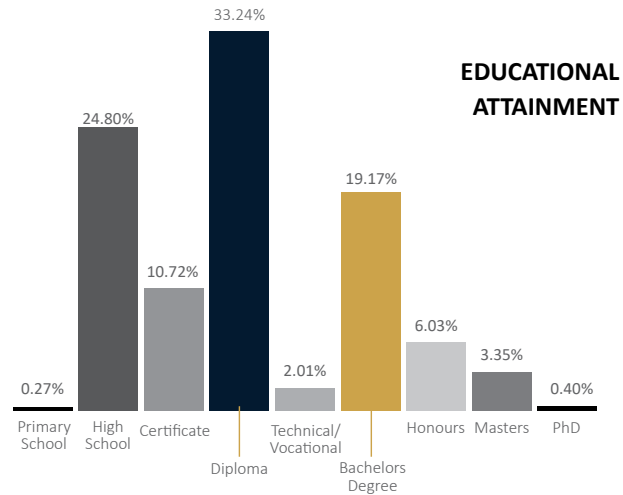


Figure 7: Education levels attained by respondents

⁵ Ramklass, D., "Enterprise support and finance", GTAC, 2018. <http://www.mile.org.za/QuickLinks/News/Shape%20Urban%20Presentations%20and%20Documents/DBN%20SMME%20presentation.pdf>



There were also great disparities between female and male entrepreneurs with regard to educational qualifications. While the proportion of male entrepreneurs was higher in almost all educational achievements – as would be expected, considering that the sample pool was male-dominated – the results showed that female entrepreneurs tended to have more post-graduate qualifications. In particular, a significantly higher proportion of female entrepreneurs held honour's degrees (64.4%) than males (35.6%). This reflects the broader national trend, indicated by statistics, that shows that generally more females enrol into post-graduate studies at local tertiary education institutions than males. In 2016, more than half of enrolments in honour's (51.8%) and doctorate degrees (58.2%) consisted of female candidates.⁶

Figure 8: Educational achievement by gender

SMME PROVINCIAL DISTRIBUTION:

N = 1058

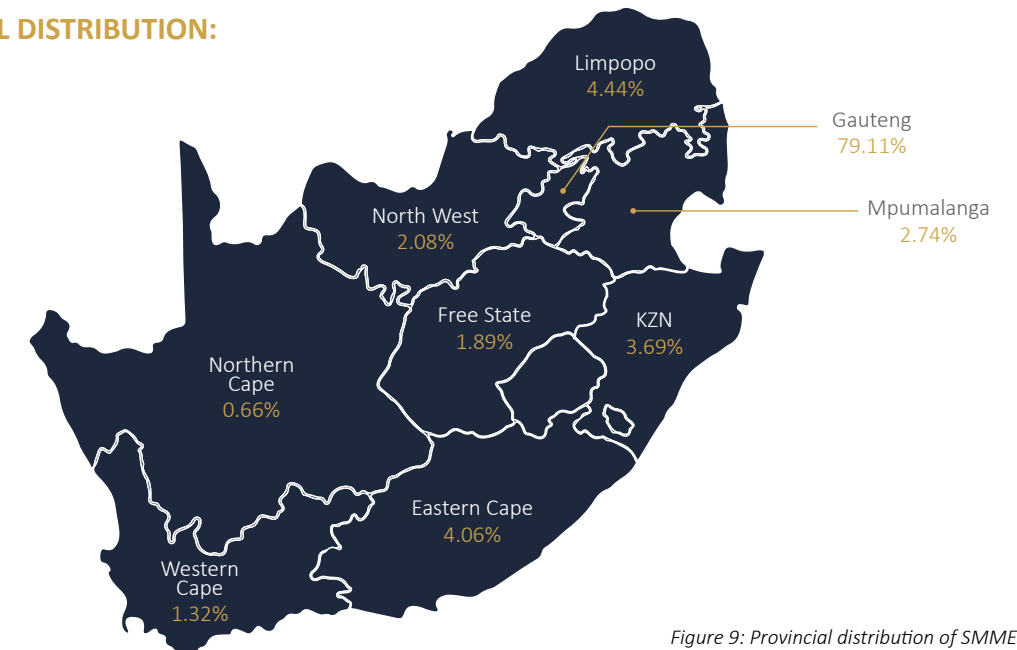


Figure 9: Provincial distribution of SMMEs



2.3.2. BUSINESS CHARACTERISTICS

2.3.2.1. PROVINCE

The distribution of SMMEs between the nine provinces was considerably skewed toward Gauteng, where over two-third (79%) operate. A combined 12,2% of the SMMEs were almost equally distributed between Limpopo, the Eastern Cape, and KwaZulu Natal, and about 3% operate in Mpumalanga. The least represented provinces were the Northern Cape, Western Cape, Free State, and North West.

2.3.2.2. SECTOR

The SMME landscape in this study was relatively balanced when analysing sector participation, although general service activities (12.5%), manufacturing (11.6%) and professional/scientific/technical activities (11.4%) had the most entrepreneurial activities. The construction sector had the least frequency of SMME activity. Over a fourth of SMMEs (26.4%) operate in other industries, including administrative and support, electricity, financial and insurance activities, household services, healthcare, mining, public defence, real

estate, water supply, waste management and remediation. SEDA and GEM found that the majority of SMMEs in South Africa operate in domestic trade (wholesale and retail) and accommodation. Contrary to this, the surveyed pool of entrepreneurs in this study exhibited much lower activities in these sectors, with each holding only about 10% of the sample pool.



Figure 10: Sectors of activities among respondents

While it was expected that more SMMEs would be active in industries that require low capital layouts such as accommodation, retail or recreational services – it was quite surprising to note a lower presence of SMMEs in these sectors. The manufacturing industry, which is one of the most capital-intensive and complex sectors for new entrants, had comparatively more SMMEs present.

Further analysis of industry participation among male and female respondents revealed significant differences between sectors that were male or female-dominated. For instance, it was observed that there were significantly more female entrepreneurs running activities in accommodation and food services (64.2%) and in administrative and support services (61.8%), while male entrepreneurs significantly led financial and insurance activities (83.3%), information and communication (73.3%), transport and storage (70.7%) and construction (69.2%), which are, for the most part, knowledge and labour-intensive. Despite these striking differences, it was encouraging to see a narrow gap between female and male SMME owners in sectors like mining and manufacturing, which were previously male-dominated.

Sector	Female	Male
Accommodation & food services	64.2%	35.8%
Administrative and support	61.8%	38.2%
Financial & insurance activities	16.7%	83.3%
Information & communication	26.7%	73.3%
Transport & storage	29.3%	70.7%
Construction	30.8%	69.2%
Mining & quarrying	50%	50%
Manufacturing	48%	52%

Table 1: Sector of activities by gender

⁶ Education series volume V: Higher education and skills in South Africa, 2017", STATSSA, 2017. <http://www.statssa.gov.za/publications/Report-92-01-05/Report-92-01-052017.pdf>

2.3.2.3. SMME AGE

The SMME landscape in this survey was relatively young, with around 47% of entrepreneurs indicating market presence for less than three years. Though the average age of the sampled SMMEs was 4.6 years, only about a third (35.3%) of SMMEs have been operating for four to six years. Close to 10% of the SMMEs had been in the market for seven to nine years, and only around 8% have been operating for more than 10 years.

SMME AGE:
N = 1063

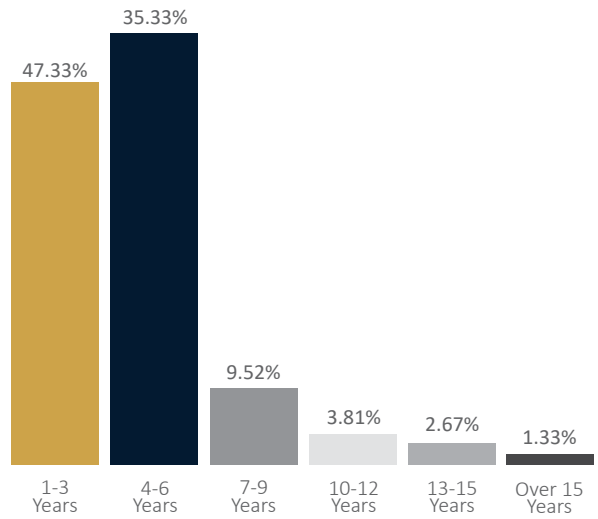


Figure 11: Age of existing SMMEs

2.3.2.4. SMME SIZE BY ANNUAL REVENUE

Figure 12 indicates that most of the SMMEs in the sample pool are still at the micro enterprise level (below revenues of R200,000), with approximately 70% in this revenue bracket. Just over 10% of SMMEs in this sample make between R200,000 and R500,000, and another 10% earn between R1 million and R10 million.

SMME SIZE BY ANNUAL REVENUE:
N = 1081

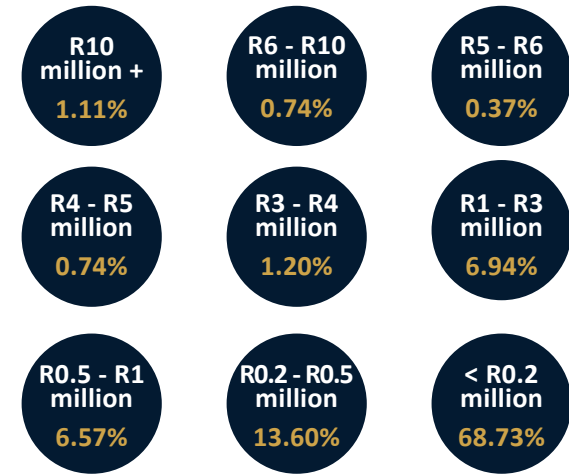


Figure 12: SMME annual revenue brackets

The turnover of SMMEs in the various sectors differs largely. SMMEs in the administrative and support activities, healthcare and social work and construction sectors make the highest revenues (more than R5 million) compared to the other sectors. The professional/scientific/technical activities

and manufacturing sectors were the next most-profitable industries in the sample, as well as wholesale and retail trade. These high turnovers, particularly in the manufacturing and trade sectors, may be due to inflation more than to an overall improved economic atmosphere in the country.

SMME REVENUE BY SECTOR

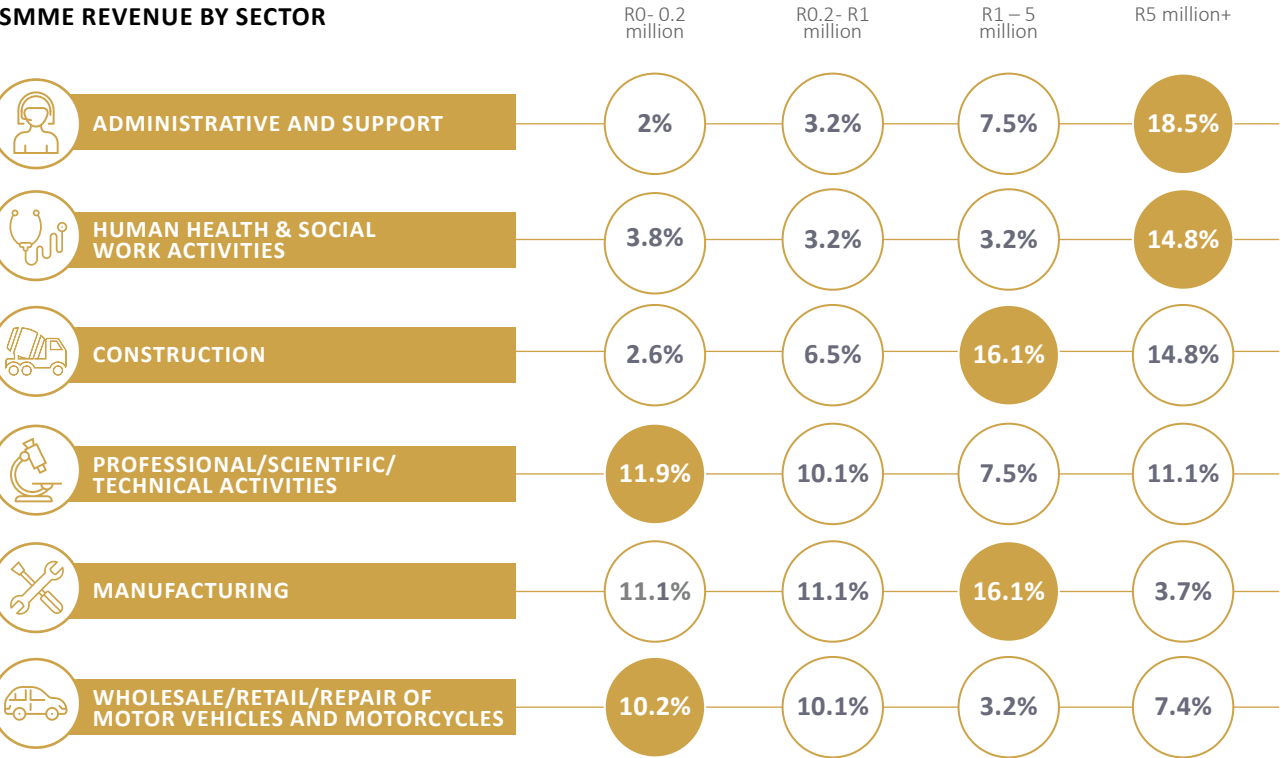


Figure 13: Most profitable sectors by revenue

Moreover, while older companies are generally expected to generate more revenue than younger SMMEs, the tendency in this survey was the opposite. About a third (34.6%) of companies that had a turnover of over R5 million had been operating for one to three years, compared to SMMEs that had been operating for 10-15 years or those that were over 15 years old, which only accounted for about 19% of all businesses that made more than R5 million in revenue. This trend contradicts findings from other studies that observed considerably lower income generation among younger SMMEs compared to more established ones.⁷

SMME Age Group	R0 - 0.2 million	R0.2 - 1 million	R1 - 5 million	R5 million+
1 – 3 years	50.1%	48%	26.4%	34.6%
4 – 6 years	37.4%	30.9%	33.3%	11.5%
7 – 9 years	7.5%	11.3%	18.4%	26.9%
10 – 12 years	2.9%	3.9%	10.3%	7.7%
13 – 15 years	1.1%	3.9%	10.3%	11.5%
Over 15 years	1%	2%	1.1%	7.7%

Table 2: SMME annual revenue versus SMME age

Though there was no statistically significant difference between gender and SMME revenue, it was worth noting that there were slightly more female-owned SMMEs that reported making annual turnovers of over R5 million. This is

a positive finding to note, particularly in the context of the gender divide in entrepreneurship, where the number of high-growth female-owned SMMEs, although on the rise, is still in the minority.⁸



2.3.3. DETAILS OF PARTICIPATION

2.3.3.1. ATTENDANCE

Most entrepreneurs (89%) completed their BDS programmes between 2016 and 2018. Conducting this survey with a sample pool that had completed BDS programmes in the last three years presents an ideal scenario to measure the impact of these programmes and to gauge the sustainability of SMMEs after their participation in these programmes.

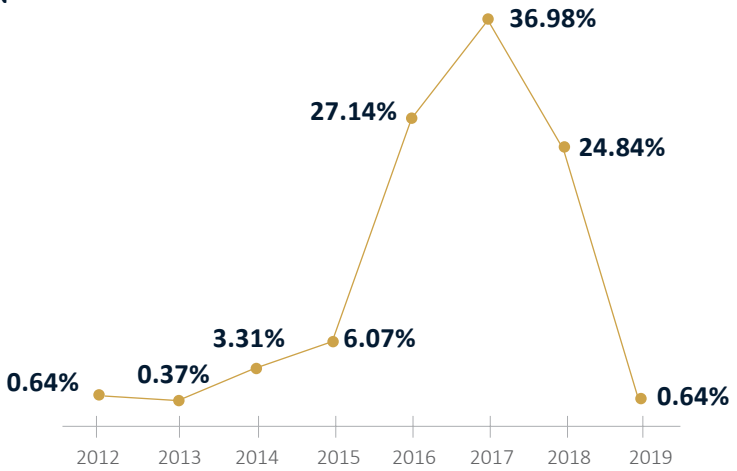


Figure 14: Years in which BDS programmes were completed

⁷ "An Assessment of South Africa's SME Landscape: Challenges, Opportunities, Risks & Next Steps", SME South Africa, 2019. https://smesouthafrica.co.za/wp-content/uploads/2019/07/SME_Landscape_Challenges.pdf
⁸ "Funding for South African women entrepreneurs", BizCommunity, 2019. <https://www.bizcommunity.com/Article/196/839/194807.html>

When asked if they had attended any other BDS programmes after completing the first, 45% of entrepreneurs indicated that they had not. About 38% had attended one other programme, and 16% attended between two and four other BDS programmes. However, this survey did not investigate the factors that motivate entrepreneurs to attend multiple BDS programmes.

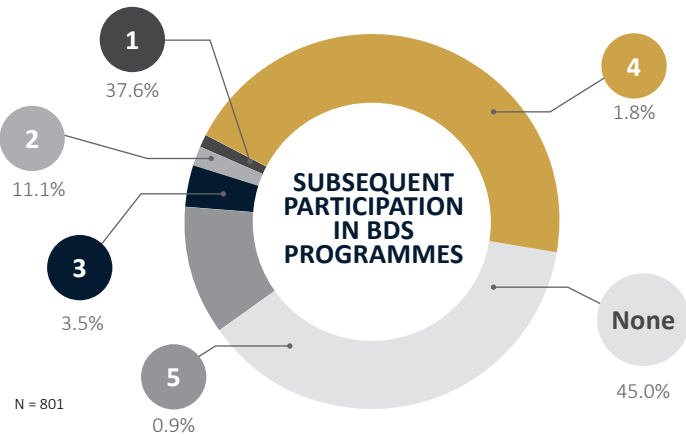


Figure 15: Participation in subsequent BDS programmes

Entrepreneurs who attended BDS programmes for between three months and a year were more likely to recommend the programme than those who had attended for less than three months. Entrepreneurs who stayed in the programme for an extended duration, for 13 to 18 months or more, were almost equally divided in their willingness to recommend the programme.

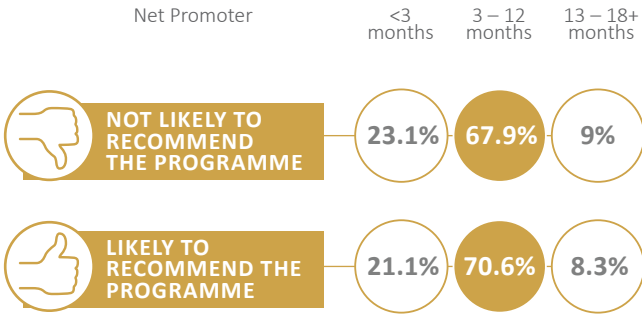
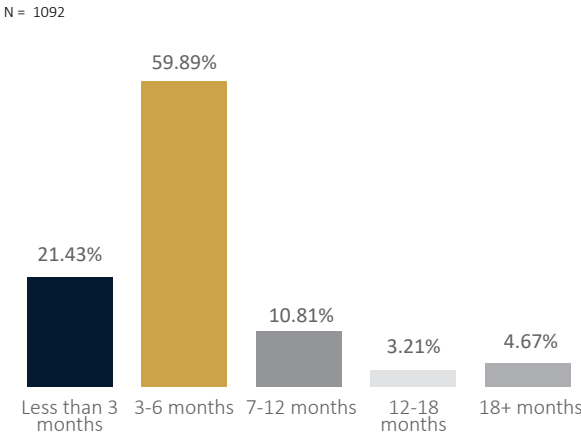


Figure 18: Net promoter by duration in the BDS programme

TIME SPENT IN BDS PROGRAMMES:



2.3.3.2. DURATION

Most entrepreneurs attended the BDS programmes for less than a year (92%), with the majority (59.9%) having participated for three to six months. About 21% attended for less than three months, and a little over 10% stayed in the programme for seven to 12 months. Only 8% of SMME owners attended a BDS programme for longer than a year.

Figure 16: Duration of time spent in BDS programme

2.3.4.2. GENERAL COMMENTS

In addition to the above, the respondents who participated in BDS programmes were asked to provide their general impressions of the programmes that they had attended. As illustrated in Figure 15, around 62% of the 799 open-ended responses assessed were positive. On the other hand, about 24% expressed a negative stance towards the programme, while 14% were neither positive nor negative.

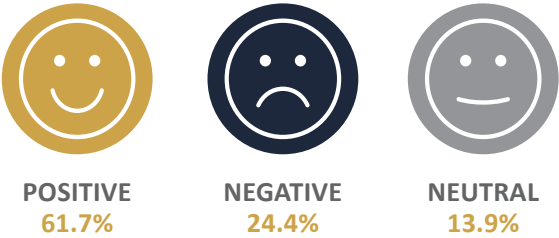


Figure 19: Established sentiment from general comments about BDS programmes



2.3.4. ESTABLISHING SENTIMENT

2.3.4.1. RECOMMENDATIONS

Entrepreneurs were asked to indicate the likelihood that they would recommend the BDS programme that they had attended on a scale of 0 (not at all likely) to 10 (extremely likely).

Of the 1,075 SMME owners who responded to this question, 80% said that they were likely to suggest the programme to a friend or fellow entrepreneur, with a mean core of 7.48.

RECOMMENDATION RATINGS BY BDS PARTICIPANTS

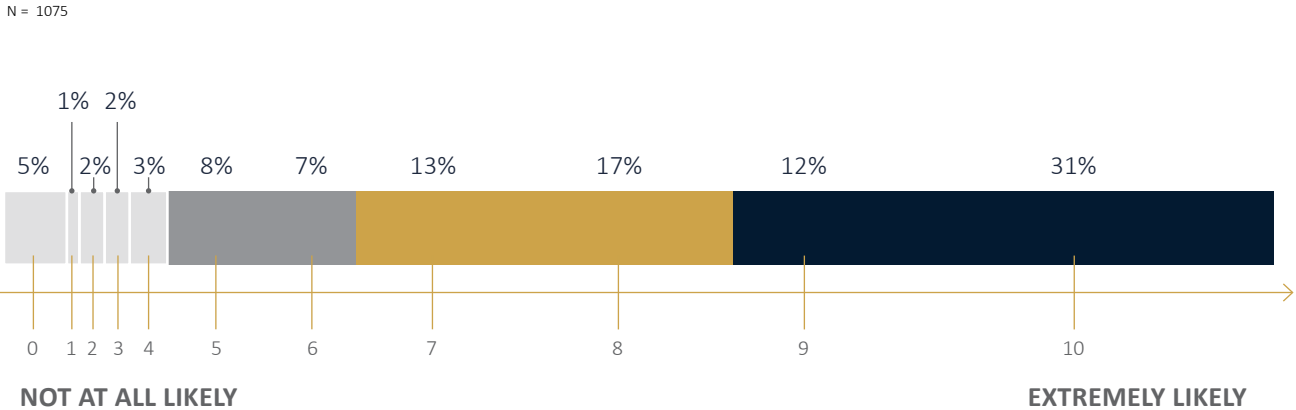


Figure 17: Recommendation ratings of BDS programme participants

“A lot of BDS programmes aren’t geared towards personal attention. I find them quite useless. A lot of the mentors have theory knowledge but can’t walk the walk. They should help us get contracts because nothing else matters in importance compared to that.”

Construction entrepreneur, Johannesburg

Most comments revolved around the theme of programme achievement (77.4%), where respondents emphasised the relevance of the programme, or lack thereof, the effectiveness of the entrepreneurial and financial education provided, as well as the BDS providers’ ability to deliver on their promises.

About 20% of comments represented entrepreneurs’ views on the characteristics of the programmes and mentoring structures, as well as matters related to funding (9.6%), feedback (7.5%), general accessibility of BDS programmes (5.5%) and technologies (1.4%).

Themes and Subthemes	No. of Touchpoints	% of Total
NO COMMENTS	66	8.26%
ACCESSIBILITY	44 (46)	5.51%
Distance/location	16	34.78%
Price/cost	3	6.52%
Hours	27	58.70%
FEEDBACK	60 (75)	7.51%
Type of feedback	43	57.33%
Regularity of feedback	32	42.67%
FUNDING	77 (92)	9.64%
Need funding	47	51.09%
Promised funding	33	35.87%
Funding transparency	12	13.04%
MENTORING	81 (119)	10.14%
Mentor experience	48	40.34%
No. of mentors	7	5.88%
Mentor performance	64	53.78%
PROGRAMME CHARACTERISTICS	82 (104)	10.26%
Length of time	16	15.38%
Theory vs. practicality	47	45.19%
General vs. sector-specific	41	39.42%
PROGRAMME ACHIEVEMENT	618 (706)	77.35%
Informative and relevant	549	77.76%
Financial education	25	3.54%
Entrepreneurial education	57	8.07%
Skills development	19	2.69%
Delivered promises	31	4.39%
Recommendations	12	1.70%
Networking	13	1.84%
TECHNOLOGY	11 (15)	1.38%
Tools used	10	66.67%
Ease-of-use	5	33.33%

GENERAL PROGRAMME COMMENTARY - THEMES

N = 811

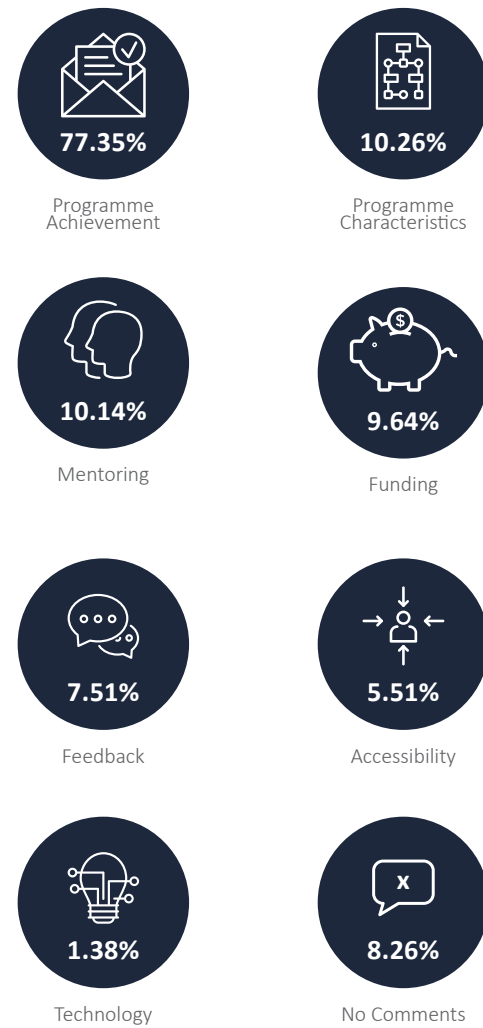


Table 3: Theme and subtheme count from BDS programme general commentary

Figure 20: Established themes from general comments about BDS programmes

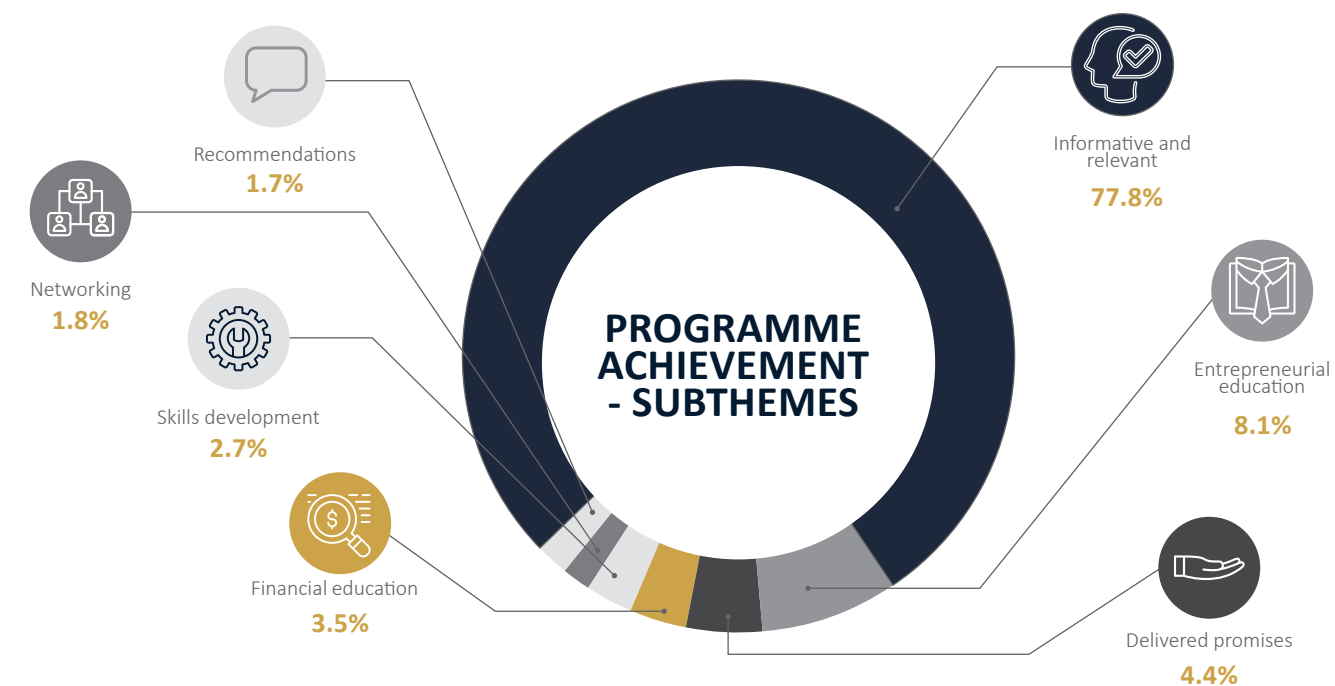


Figure 21: Subthemes established in the "Programme Achievement" theme

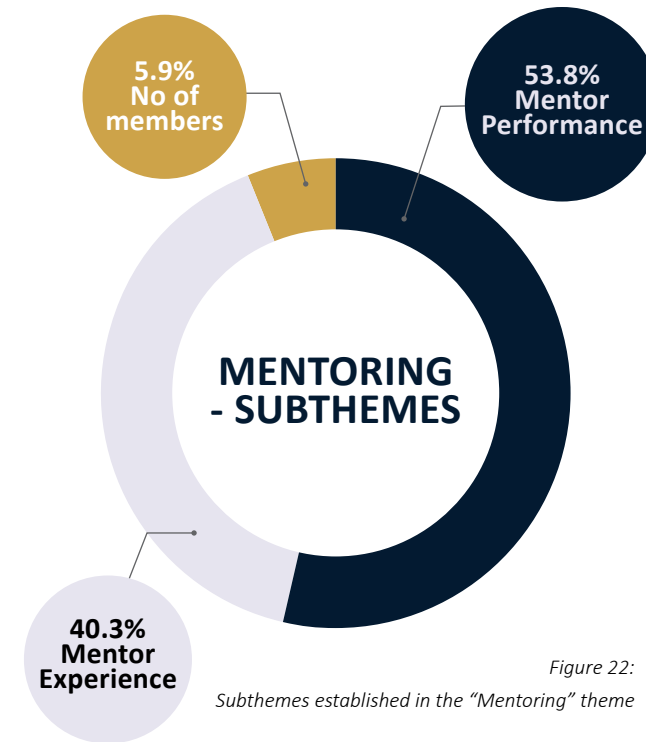
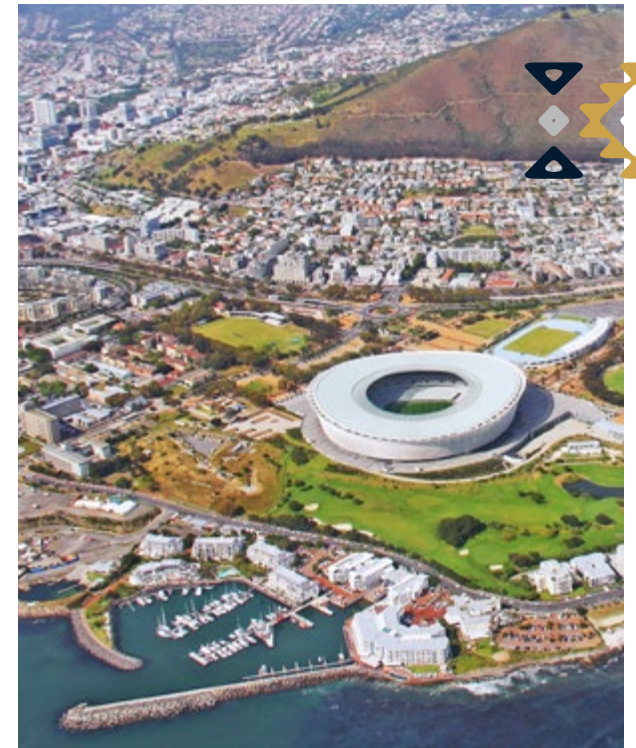


Figure 22: Subthemes established in the "Mentoring" theme

While the majority of positive responses suggested that the programmes were informative and relevant and that they provided optimal financial and entrepreneurial education, most negative statements denounced the BDS providers for their inability to deliver on their promises. They were also criticised for the imbalance between the theoretical and practical focuses of the programmes, as well as the sector-agonistic nature of the initiatives. Moreover, a good proportion of respondents noted disappointments with unmet funding promises, as well as the quality of mentors, with the majority, particularly non-youth participants, criticising that most mentors did not have cross-sectoral expertise and were not always able to provide required assistance.



General Commentary - Subthemes	Positive	Negative
Informative & relevant	76.1%	19.3%
Financial education	92%	8%
Entrepreneurial education	87.7%	7%
Deliver on promises	41.9%	58.1%
Theory vs practical	34%	53.2%
General vs sector-specific	26.8%	56.1%
Funding promised	30.3%	69.7%
Mentor experience	31.3%	58.3%

Table 4 General Commentary subthemes overly rated positive vs negative

The length of time that respondents spent in the programmes was observed to have a direct impact on their overall impression of the BDS interventions. Those who spent between three and 12 months reported more positive experiences compared to those who were in the programme for less than three months or longer than a year.

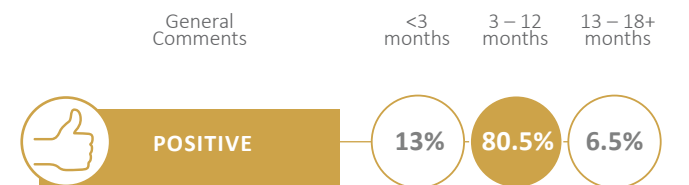


Figure 23: Net promoter score by duration in the BDS programme

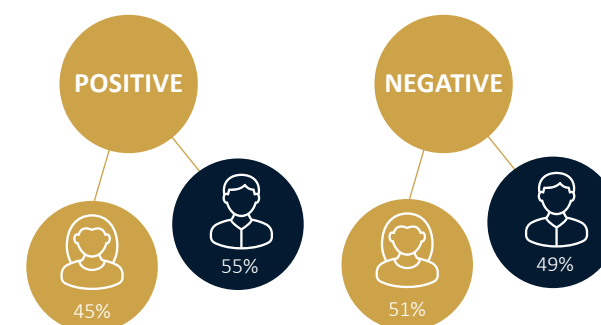


Figure 24: General comment sentiment by gender

Moreover, female respondents reported slightly more negative experiences (51%) than their male counterparts (49%). This is in particular regard to the quantity and quality of mentors – such as the number of mentors, mentors' experience and their performance – where female entrepreneurs felt the programmes were lacking.

Regarding programme achievements, however, male entrepreneurs reported that the programmes were not always informative and relevant and did not provide the

Negative – Mentoring Subcategories



Figure 25: Negative perceptions of mentoring by gender

required financial education. Female SMME owners, on the other hand, were more critical of the BDS providers’ inability to deliver on promises.

Negative – Programme Achievement Subcategories



Figure 26: Negative perceptions of BDS programme achievement by gender



3 MOTIVATIONS FOR ENTREPRENEURSHIP

3.1 INTRODUCTION

Income inequality, chronically high unemployment and under-employment, particularly among the youth, remain the main social issues affecting the overall well-being of South African citizens. Added to this is a struggling economic atmosphere, which has been on a downward trend for years on end, dwindling at rates beyond the country’s population growth, and not creating enough jobs to accommodate the unemployed and new market entrants. The unemployment rate has been at its highest in the last few years and stood at 27.6% in the first quarter of 2019 according to STATS SA, particularly among the youth who account for over 60% of all unemployed persons in the country.⁹ With a large percentage of the population competing in an almost unresponsive market, it would not be surprising if many South Africans opted to venture out into self-employment.

To gauge the reasons why our sample of SMME owners turned to entrepreneurship, our survey asked them two questions. First – to rank three out of six factors that could have motivated them to start a business and second – to provide any additional drivers in an open-ended response. On a scale of one to six, where one was the least important and six the most important factor, respondents ranked the desire for independence and financial freedom, need for achievement and success, and persistent love for doing something great as the highest motivations for entrepreneurship – with mean scores of 4.36, 4.19 and 3.92 respectively.

However, when looking at the number of times each factor was selected, it was interesting to note that opportunity, which ranked fourth in terms of mean scores ($\bar{x}$ = 3.73), was the second most frequently selected motivation (n = 474) after desire for independence and financial freedom (n = 653) which, like with mean scores, was the most important motive. The third most chosen factor was persistent love for doing something great (n = 427) which also ranked third in terms of mean scores. The need for achievement and success was selected less frequently (n = 363) although its mean value ranked second on the list. This indicates that personal motivations, rather than societal factors, scored higher as the key drivers for entrepreneurship among our sample of entrepreneurs.

Furthermore, unemployment and the desire to live better in a competitive society scored the lowest, both in terms of mean scores and frequencies, stressing that most entrepreneurs in our sample were less pushed into entrepreneurship by necessity, but rather by a drive to achieve something that is perceived as personally and financially fulfilling or to pursue an opportunity. This is also in line with the GEM study which found that three-quarters of South African entrepreneurs in their sample were opportunity-motivated rather than necessity-driven.¹⁰

RANK	MEAN	$\bar{x}$	FREQUENCIES	n
1	The desire for independence and financial freedom	4.36	The desire for independence and financial freedom	653
2	Need for achievement and success	4.19	Opportunity- I took advantage of a new business opportunity	474
3	Persistent love for doing something great	3.93	Persistent love for doing something great	427

Table 5: Top three reasons (frequency and mean) why individuals became entrepreneurs

⁹ “Youth graduate unemployment rate increases in Q1: 2019”, STATS SA, 2019. <http://www.statssa.gov.za/?p=12121>
¹⁰ Herrington Mike., Kew Penny., & Mwanga Alesimo, “South Africa Report 2016/2017: Can small businesses survive in South Africa?”, 2017. <https://www.gemconsortium.org/economy-profiles/south-africa>

REASONS FOR BECOMING AN ENTREPRENEUR

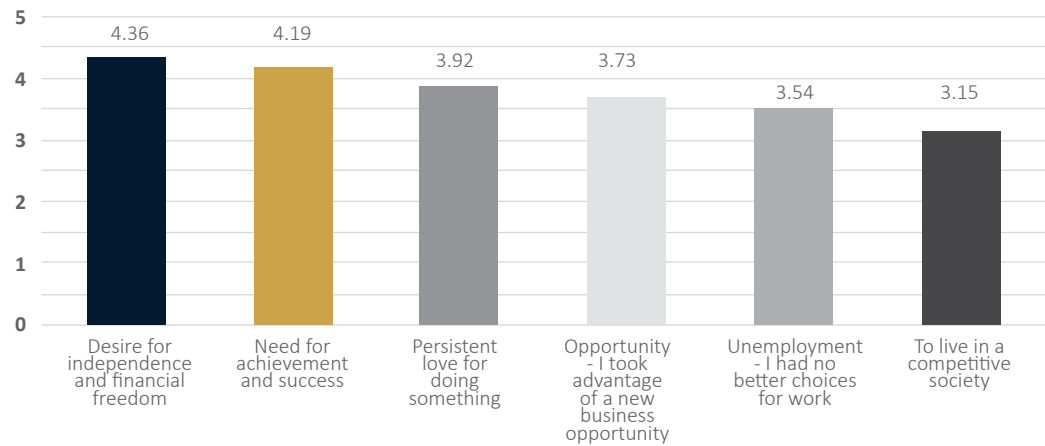


Figure 27: Reasons why individuals become entrepreneurs

To assess if the motivation for entrepreneurship impacted the performance of SMMEs in our sample, comparative analyses were conducted on the top four motivations identified above. The results revealed that entrepreneurs who had opportunity and improvement-driven motives (i.e. achievement/success and independence/financial freedom) had better performance indicators than those motivated by the mere love of doing something great and were shown to have better survival rates in comparison. On the other hand, respondents who became entrepreneurs for persistent love to do something great were more inclined to start another business when their first venture failed, in contrast to opportunity-driven entrepreneurs. These results thus suggest that although an entrepreneur’s knowledge and skills play a key role in the

success or failure of a business, motivation and willingness to take action are two of the most important factors that contribute to the establishment of a successful business.

The same top two motivational factors for youth and non-youth are the desire for independence and financial freedom and need for achievement and success. However, their third-place motivators differed, with youth choosing a persistent love for doing something great and non-youth choosing business opportunities to be taken advantage of. Therefore, older entrepreneurs ranked opportunity as one of their top three motivational factors while youth did not. Youth motivational factors are similar with the overall (entire sample) top three motivational factors.

MOTIVATIONAL FACTOR	YOUTH	YOUTH RANK	NON YOUTH	NON YOUTH RANK
The desire for independence and financial freedom	2.79	1	2.45	1
Need for achievement and success	2.89	2	2.72	2
Persistent love for doing something great	3.12	3	3.12	
Opportunity- I took advantage of a new business opportunity	3.47		3.04	3

Table 6: Motivations for entrepreneurship by youth and non-youth

The results for motivation by education are similar to the youth results, where the top three factors remained unchanged. However, for entrepreneurs with degrees and higher qualifications, opportunity emerged higher than persistent love.

It is evident that older and more educated entrepreneurs seem to be motivated by taking advantage of opportunities.



RANK	MOTIVATIONAL FACTORS	HIGH SCHOOL	NON DEGREE	DEGREE AND POST
1	The desire for independence and financial freedom	2.74	2.65	2.56
2	Need for achievement and success	3.00	2.73	2.96
3	Persistent love for doing something great	3.00	3.07	3.03
3 (Degree and higher)	Opportunity- I took advantage of a new business opportunity	3.59	3.37	3.00

Table 7: Motivations for entrepreneurship by educational achievement

When asked to indicate in an open-ended manner any other factors that may have motivated them to become entrepreneurs, respondents mentioned a mix of personal (48.81%), social (40.87%) and business factors (18.71%), with the majority noting passion and purpose as the key personal motivators, and creating jobs and opportunities as the main social reason.

Interestingly, as with the ranked responses described above, our survey respondents did not note necessity or survivalist motivations for turning to entrepreneurship.

Most reasons for starting a business were still opportunity and improvement-driven, such as improving their own financial situations, addressing key challenges in the society and to make a difference by contributing to community development. This focus on intrinsic personal and social development is particularly encouraging in the context of South Africa where entrepreneurship may appear to be a forced destiny and an escape from the unemployment and poverty burdens.

OTHER ENTREPRENEURIAL MOTIVATIONS - THEMES

N = 671

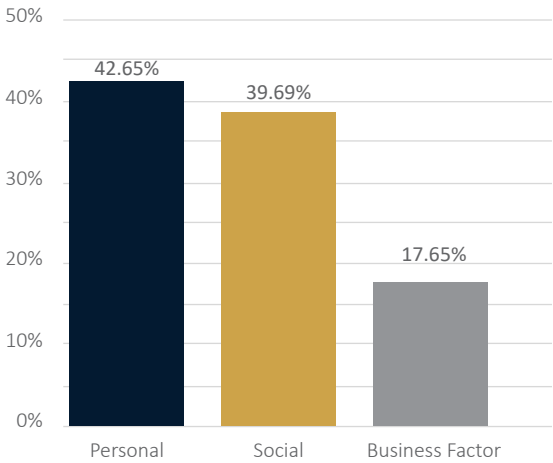


Figure 28: Established themes from “Other” entrepreneurial motivations

THEMES AND SUBTHEMES	NO. OF TOUCHPOINTS	% OF TOTAL
BUSINESS FACTORS	125 (137)	17.65%
Economic freedom	48	35.04%
Flexibility	22	16.06%
Identified gaps	18	13.14%
Own boss	27	19.71%
Work hours	22	16.06%
PERSONAL	306 (331)	42.65%
Career change	13	3.93%
Creating legacies	34	10.27%
Expectations	35	10.57%
Passion and purpose	143	43.20%
Problem solving	40	12.08%
Self-development	37	11.18%
Using skills	29	8.76%
SOCIAL	273 (308)	39.69%
Address poverty	5	1.62%
Community development	39	12.66%
Creating jobs and opportunities	177	57.47%
Make a difference	59	19.16%
Sustainable development	28	9.09%

Table 8: Theme and subtheme count from “Other” entrepreneurial motivations

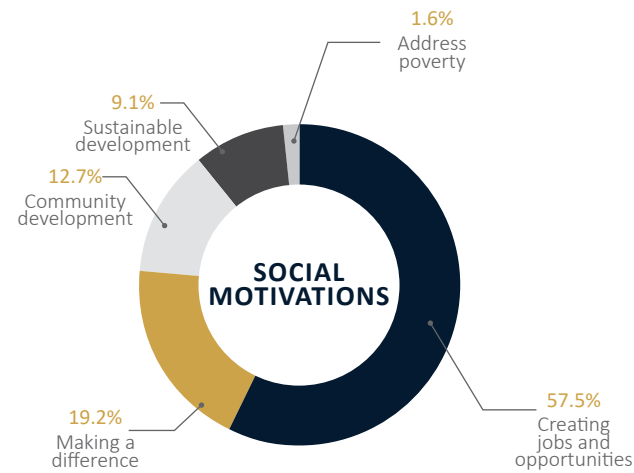


Figure 29: Subthemes established in the “Social” theme

Further assessment of these additional motivations across entrepreneurs characteristics, i.e. gender, race, and age, did not reveal any notable differences, except between youth and non-youth entrepreneurs where the later (aged between 36 and 65+ years) reported more personal and social reasons for turning to entrepreneurship and

3.2 JOB CREATION

Developing entrepreneurship as a vehicle for job creation is a key emphasis in South Africa’s National Development Plan. Whether entrepreneurship does indeed respond to the need for job creation or not, and to what extent self-employment contributes to overall unemployment reduction and economic growth is still to be proven. It is certain that it does contribute to poverty alleviation for entrepreneurs. To investigate if entrepreneurs who started a business to create job opportunities achieved this better than passion and purpose-driven business owners, a comparative analysis was conducted on their

EMPLOYMENT FLUX: 2017-2018	MOTIVE	
	PASSION AND PURPOSE	CREATING JOBS AND OPPORTUNITIES
Declined substantially	23.8%	28%
Stayed the same	38.1%	56%
Grew substantially	38.1%	16%

Table 9: Employment flux by motives for entrepreneurship (2017–2018)

While these findings are not conclusive in suggesting whether passion and purpose-driven entrepreneurship is a better job-creator than employment-driven, it could be deduced that the motivation that drives a business is

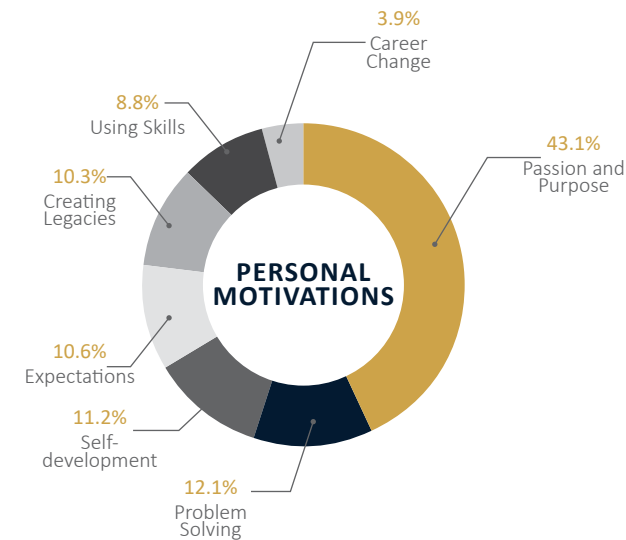


Figure 30: Subthemes established in the “Personal” theme

claimed to be driven either by passion and purpose (76%), compared to youth participants (24%), or by a desire to create job opportunities for the unemployed in their community (62,5%) compared to 37.5% of responses from younger respondents.

performance on the employment creation indicator. The performance was measured on a Likert scale from “declined substantially” to “grew substantially” between 2017 and 2018. While the relationship between the motives (job-creation versus passion and purpose) and the jobs created were not statistically significant, the results showed a substantial decline in the number of jobs created by employment-driven SMMEs, compared to passion and purpose-driven businesses which showed a rather substantial growth.

not necessarily the sole determining factor of its social impact. Job creation may thus be a by-product of business performance rather than the main force that drives the success of a business.

3.3 OPPORTUNITY-DRIVEN ENTREPRENEURSHIP

According to GEM, environmental factors such as economic growth, culture and education may influence entrepreneurs’ perception of opportunities that exist around them. Similarly, further investigation into the motivations for entrepreneurship and entrepreneurs’ level of education revealed a significant positive relationship, where higher educated entrepreneurs were the most opportunity-driven, with participants who had post-graduate education (Honours, Masters or PhD) being the most prone to starting a business after they perceived

EDUCATION	OPPORTUNITY-DRIVEN MEAN SCORE
Post-graduate	4
Undergraduate/Vocational/Certificate	3.6
High school and lower	3.4

Table 10: Motivation for entrepreneurship (opportunity) by educational achievement

opportunities around them. However, there were no significant relationships between educational achievement and the other motivations for entrepreneurship. Literature has shown that the level of education improves opportunity recognition ability – individuals who have been exposed to certain industries and business environments tend to be more alert of opportunities in their surroundings, and are triggered by their experience, information and level of knowledge.¹¹

Contrary to other studies that have shown that males are more likely to be involved in opportunity-driven entrepreneurship than women (who are said to often start a business out of necessity), our findings did not reveal significant differences between opportunity versus necessity-driven motives for entrepreneurship among male and female SMME owners. Both genders ranked all six motivations almost equally, although there were slightly more female entrepreneurs who rated the desire for independence and financial freedom as an important reason why they started a business ($\bar{x} = 4.43$ compared to $\bar{x} = 4.32$ for males).

MOTIVATIONS FOR ENTREPRENEURSHIP	FEMALE $\bar{x}$	MALE $\bar{x}$
The desire for independence and financial freedom	4.43	4.32
Opportunity – I took advantage of a new business opportunity	3.73	3.77
Persistent love for doing something great	3.81	3.99
Need for achievement and success	4.12	4.20
Unemployment – I had no better choices for work	3.51	3.63
To live better in a competitive society	3.11	3.27

Table 11: Motivations for entrepreneurship by gender

Moreover, opportunity-driven entrepreneurs have been shown to have better chances of succeeding and creating wealth than necessity-driven businesses.¹² In line with this, our results found that SMME owners who make high turnovers started their businesses either because they desired to achieve personal and financial independence ($\bar{x} = 5.60$) and success ($\bar{x} = 4.67$), or to seize an opportunity they perceived ($\bar{x} = 4.25$), and less so because they wanted to address issues of unemployment in their community ($\bar{x} = 1$).

¹¹ “Rwigema, H., et al, “Entrepreneurship: Theory in Practice”, Oxford University Press, Chapter 5, 2015.

¹² Ibid.

4 THE IMPACT OF BDS PROGRAMMES

4.1 INTRODUCTION

As mentioned earlier in this report, it is widely cited that a healthy SMME sector is a critical engine for South Africa’s economic and social growth, and an effective tool to tackle the rising unemployment challenge. This has called for increased focus on the development of BDS and business incubator initiatives which support SMMEs and promote best practices. However, the 2017/2018 GEM report found that South Africa is one of the least supportive countries in terms of providing the much-needed assistance to entrepreneurs.¹³

The increased ESD investment and focus on supporting SMMEs is expected to result in a burgeoning entrepreneurship support industry which will see growing numbers of state-run and private programmes/organisations that concentrate on enterprise development

and entrepreneurship incubation. These programmes will offer a diversity of services – from once-off training workshops to years-long integrated business support. Though the imperative of entrepreneurship support programmes is to assist SMMEs to overcome internal and external limitations and to ensure sustainable growth of the businesses, their impact has thus far been uncertain and poorly assessed, and the mechanisms which enhance the success of these programmes are largely unknown or not shared. This section assesses respondents’ evaluation of the BDS programmes they attended with an aim to pinpoint the programmes’ helpfulness and identify areas of improvement.

4.2 BUSINESS IMPACT

4.2.1 OVERALL IMPACT

Participation in BDS or other entrepreneurship training programmes is generally believed to be life changing for a business, particularly in promoting better business practices.¹⁴ To test the relevance of this impact, entrepreneurs were asked to rank, on a scale of 1 (very unhelpful) to 7 (very helpful), a list of BDS interventions that they think contributed the most to their business progression. Entrepreneurs in our sample rated mentorship/coaching from business experts as the most helpful intervention, followed by financial management, business strategy support, operations and marketing. Though developing networks and linkages, sales

strategies, and the provision of facilities and resources were rated lower, their average scores were higher than 4.5, suggesting that they were also considered relatively helpful. When comparing these findings with the 2018 Catalyst for growth findings, it is evident that the mentorship or coaching from business experts has the highest average rating from entrepreneurs for both 2018 and 2019 results. This highlights that entrepreneurs find bespoke-type BDS is essential for their growth and their business growth as the support is tailored to the entrepreneur and the business.

RATED	2018 RESULTS (SERVICE RATING)	CURRENT RESULTS (2019)
1	Mentorship from business experts	Mentorship or coaching from business experts
2	Admin Support	Financial Management
3	Business Strategy support Business training and development	Business strategy support

Table 12: Most Impactful/Helpful BDS Services 2018 and 2019 C4G results

WHICH BDS INTERVENTIONS WERE HELPFUL?

N = 1094

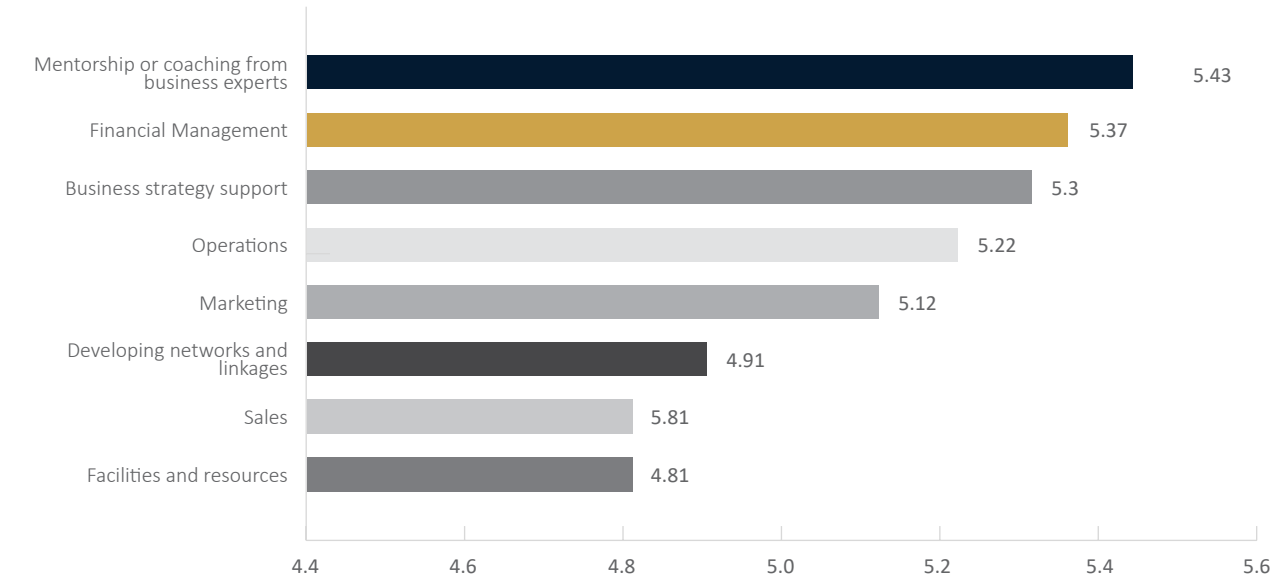


Figure 31: Effectiveness of BDS interventions

Both female and male participants, youth and non-youth, ranked the interventions similarly, with mentorship/coaching from business experts, financial management and business strategy support being the top three interventions that they believe contributed the most to the progression of their businesses after their participation in

BDS programmes. These top three interventions remained the same across the different educational groups as well, though entrepreneurs with less education (matric and less) rated business strategy support more helpful than networks and partnerships.

BDS INTERVENTION	FEMALE x̄	MALE x̄	YOUTH x̄	NON YOUTH x̄
Mentorship or coaching from business experts	5.37	5.45	5.43	5.38
Financial Management	5.33	5.38	5.43	5.29
Business strategy support	5.23	5.32	5.28	5.27

Table 13: BDS intervention helpfulness by gender and age

BDS INTERVENTION	HIGH SCHOOL AND LOWER	UNDERGRADUATE/ VOCATIONAL/ CERTIFICATE	POSTGRADUATE
Mentorship or coaching from business experts	5.62	5.52	5.24
Financial Management	5.45	5.47	5.20
Business strategy support	5.51	5.29	5.06

Table 14: BDS intervention helpfulness by educational achievement

¹³ Herrington, M., Kew, P., and Mwanga, A., "South Africa Report 2016/2017: Can small businesses survive in South Africa?", 2017. <https://www.gemconsortium.org/economy-profiles/south-africa>
¹⁴ Ismail, Z., "The impact of entrepreneurship training programmes", K4D, 2018. https://assets.publishing.service.gov.uk/media/5bae3b8040f0b62dbb6c7eef/Impact_of_Entrepreneurship_training_programmes.pdf

Interestingly, businesses which make high revenues (>R5 million) found financial management interventions to have contributed the most to their business progression, compared to SMMEs with lower income. This is a particularly important finding as it suggests that there are practical implications in prioritising financial coaching in BDS programmes – in order to assist entrepreneurs in maintaining a steady, financially-healthy and progressive portfolio.

<R1 MILLION	$\bar{x}$	R1 – 5 MILLION	$\bar{x}$	>R5 MILLION	$\bar{x}$
Mentorship or coaching from business experts	5.44	Mentorship or coaching from business experts	5.29	Financial Management	5.5
Financial Management	5.4	Business strategy support	5.19	Business strategy support	5.27
Business strategy support	5.29	Financial Management	4.96	Mentorship or coaching from business experts	4.86

Table 15: Top three most helpful BDS interventions by business size (revenue)

It is evident from Table 16 that Mentorship and Coaching, Financial Management and Business strategy support are the most helpful BDS intervention for all entrepreneurs for all BDS programmes. Although the ranking order differs depending on the length of the programme.

BDS MOST HELPFUL INTERVENTIONS	LESS THAN 3 MONTHS	RANK	3 - 6 MONTHS	RANK	7 - 12 MONTHS	RANK	12 - 18 MONTHS	RANK	MORE THAN 18 MONTHS	RANK
Business strategy support	5.21	1	5.24	3	5.52	2	4.79	3	6.08	3
Mentorship or coaching from business experts	5.21	1	5.42	2	5.68	1	4.53		6.24	1
Financial Management	5.08	2	5.45	1	5.31	3	4.63		6.12	2
Marketing	5.07	3	5.08		5.22		4.61		5.90	
Operations	5.02		5.24	3	5.21		4.95	1	6.00	
Developing networks and linkages	4.98		4.79		5.22		4.25		5.49	
Facilities and resources	4.80		4.65		5.04		4.82	2	6.24	1
Sales	4.67		4.78		4.92		4.17		5.71	

Table 16: BDS intervention helpfulness by programme duration

After ranking interventions they thought were effective in advancing their businesses, entrepreneurs were asked to comment on the overall impact that the BDS programme has had on their business lives. Only 183 respondents provided their views and about three quarters of them indicated that the impact of the BDS programme was positive. A few respondents (14.1%) suggested that the programme had no good impact on their business, while about the same proportion (12.8) had a neutral opinion.

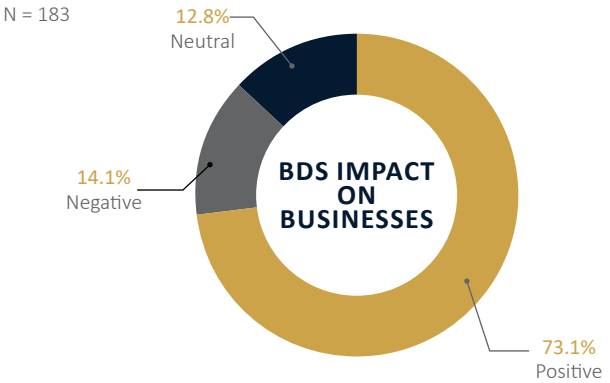
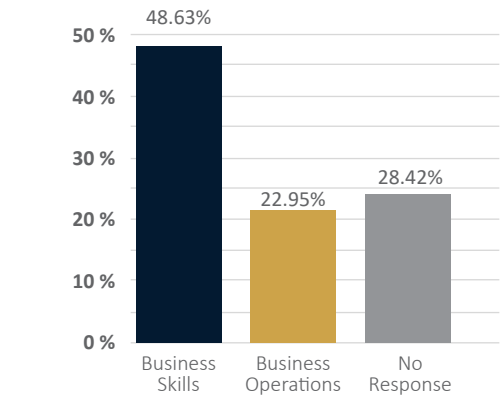


Figure 32: Effectiveness of BDS interventions

BDS IMPACTS ON BUSINESSES - THEMES



A thematic analysis of these views revealed that the most positive impact the BDS programmes have had was in equipping entrepreneurs with business skills, including business acumen, management skills, marketing and business strategy.

Figure 33: Established themes from BDS impact on businesses

THEMES AND SUBTHEMES	NO. OF TOUCHPOINTS	% OF TOTAL
NO RESPONSE	52	28.42%
BUSINESS OPERATIONS	42 (45)	22.95%
Compliance	4	8.89%
Efficiency	5	11.11%
Market access	6	13.33%
Resources	13	28.89%
Systems	12	26.67%
Value propositions	5	11.11%
BUSINESS SKILLS	89 (122)	48.63%
Acumen	31	25.41%
Management	22	18.03%
Marketing	20	16.39%
Networking	14	11.48%
Planning	15	12.29%
Strategy	20	16.39%

Table 17: Theme and subtheme count from BDS impacts on businesses

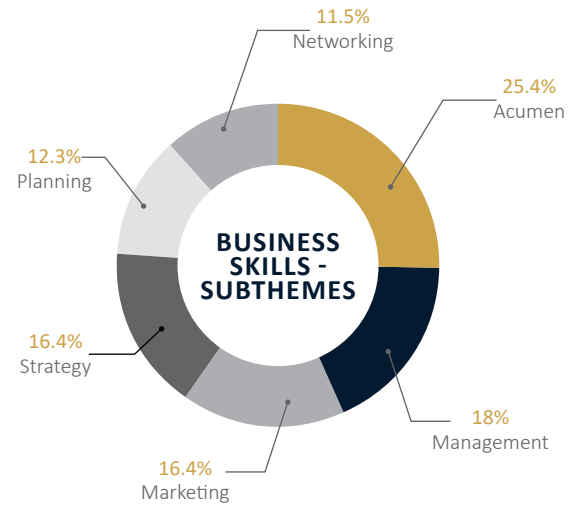


Figure 34: Subthemes established in the “Business Skills” theme

Just over a quarter of respondents noted that BDS programmes contributed to their business operations, more specifically in the acquisition of physical resources and development of business systems. However, there were slightly more respondents who suggested that BDS assistance was not always sufficient in providing them with the physical resources they required to get their business to a good point. This is also in line the low score our respondents attributed to facilities and resources as the least impactful BDS intervention that contributed to their

business progression, suggesting that this is not an area that BDS providers have particularly excelled in or focused on. Participants also mentioned shortcomings in the BDS provider’s ability to provide sufficient assistance with market access, value propositions, compliance and overall business efficiencies. This calls for an improvement in BDS interventions in these particular areas of business operations.

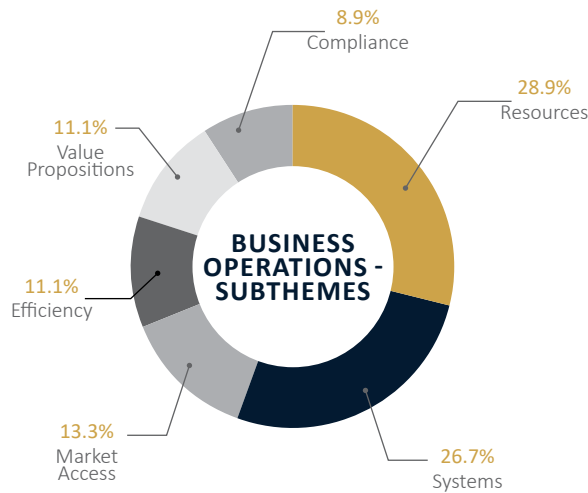


Figure 35: Subthemes established in the "Business Operations" theme

To further assess the overall impact that BDS programmes have had on the health of businesses, entrepreneurs were asked to indicate, on a scale of 1 to 7 (where 1 is strongly disagree and 7 strongly agree), whether their businesses were thriving. Respondents' views were quite divided on this, with 56% of entrepreneurs confirming that their businesses are doing well, while 44% were either on the fence about the impact or were experiencing operational difficulties, despite their programme participation.

These rankings of BDS impact on business health were further analysed with respect to a number of SMME characteristics, and the results showed that younger businesses (less than 2 years old) have a slightly better perception of BDS impact on their success than older businesses, although both groups did not strongly attribute their success to BDS impact.

BUSINESS HEALTH	<2 YEARS	>3 YEARS
My business is thriving ($\bar{x}$)	2.50	1.33

Table 18: Extent to which businesses are thriving by SMME age

BUSINESS HEALTH	< R1 MILLION	R1 - R5 MILLION	>R5 MILLION
My business is thriving ($\bar{x}$)	4.49	4.86	4.91

Table 19: Extent to which businesses are thriving by SMME revenue

The positive perception of BDS impact on business success increases parallel to business turnover, with entrepreneurs who are running highly profitable SMMEs being more appreciative of the contribution of BDS to their success than those with lower revenues.

Moreover, the more BDS programmes an entrepreneur attended and the longer they attended for seems to maximise the programme's impact on the success of the business, with entrepreneurs who attended three or more programmes ranking the BDS contribution higher than those who only attended one programme.

IS YOUR BUSINESS STILL THRIVING

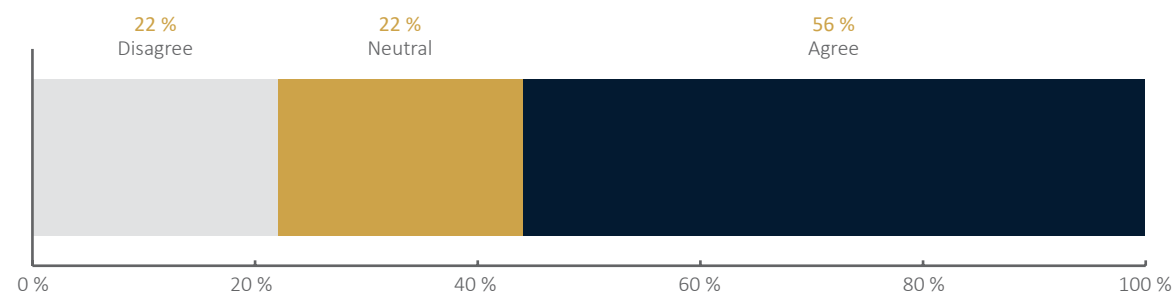


Figure 36: Extent to which businesses are thriving

BUSINESS HEALTH	NO OTHER BDS	1 OTHER BDS	2 OTHER BDS	3+ OTHER BDS
My business is thriving ($\bar{x}$)	4.42	4.50	4.75	5.00

Table 20: Extent to which businesses are thriving by number of BDS programmes attended

BUSINESS HEALTH	>3 MONTHS	3 – 6 MONTHS	7 – 12 MONTHS	12 – 18 MONTHS	>18 MONTHS
My business is thriving ($\bar{x}$)	4.56	4.37	4.97	4.83	5.37

Table 21: Business health mean scores by duration in BDS programme.

Entrepreneurs who stayed in the programme for more than 18 months rated BDS impact extremely positively in contributing to their success, followed by those who attended for about 7 to 18 months. Surprisingly, business owners who were in BDS programmes for 3 to 6 months rated the contribution of the programme the lowest, even lower than those who only attended for less than 3 months. This indicates that there needs to be a balance in

the length of time entrepreneurs stay in BDS programmes in order to maximise their exposure to all interventions that the programmes offer. Depending on the structure and nature of the BDS provider, it would be commendable for programmes to be structured into modules, which are completed within a certain period of time, allowing participants to transition between subjects which relate to their skills needs.

4.2.2 MANAGEMENT IMPACT

One of the key business skills that entrepreneurs reported having effectively been equipped with during the BDS programme was management. It is often suggested that no matter which business and industry an entrepreneur operates in, management skills or lack thereof can mean the difference between success and failure. This is because entrepreneurs need to have the skills necessary to connect to and influence others, while managing and controlling themselves and the people working for them. Management skills are believed to be the interpersonal component that allow an entrepreneur to get ahead and thrive.¹⁵

To test this, entrepreneurs in our sample were asked to indicate how much they agreed with the statement that BDS has made them better entrepreneurs, by rating BDS impact on a scale of 1 to 7 (where 1 is strongly disagree and 7 strongly agree). It was very encouraging to note that over 75% of 1081 respondents believe that BDS programmes have indeed made them better entrepreneurs. This was particularly true among participants who noted management as a key impact that BDS has had on their business.

ENTREPRENEURIAL IMPROVEMENTS FROM BDS PROGRAMMES

N = 1081

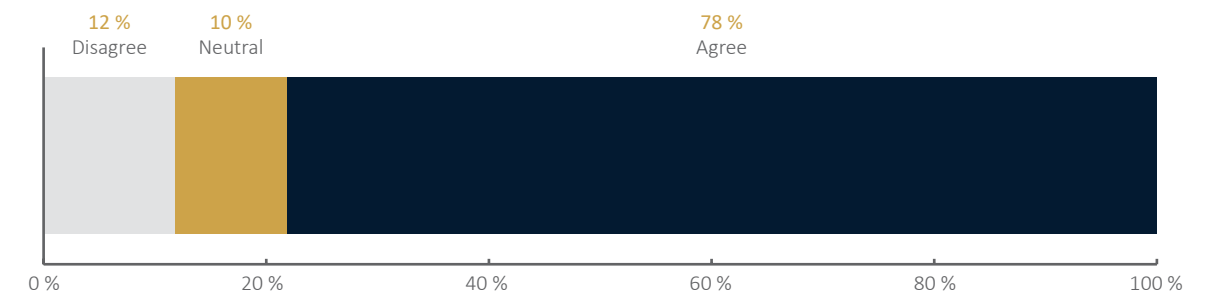


Figure 37: Extent to which BDS participation has improved entrepreneurial ability

¹⁵ Holmberg-Wright, K., and Hribar, T., "Soft Skills – The missing piece for entrepreneurs to grow a business", American Journal of Management Vol. 16(1), 2016. http://digitalcommons.www.na-businesspress.com/AJM/Holmberg-WrightK_Web16_1_.pdf

4.2.3 STRATEGIC IMPACT

4.2.3.1. MARKET ACCESS STRATEGIES

Although some respondents mentioned shortcomings in the BDS provider’s ability to provide sufficient tangible assistance with market access, there were quite a few strategies that entrepreneurs learned in the programme which they believe have been effective in increasing their market access, the most important being marketing, as noted by 32.14% of responses. This could be because, in addition to having a business idea and goals, the business has to be effectively marketed to ensure its visibility and secure a share of the market. Marketing is aided by refining the business model, developing new products and most importantly by accessing competitive intelligence. Hence, entrepreneurs in our sample noted consumer intelligence (14.93%), networking (13.02%) and market research (10.16%), as other strategies that have been effective in increasing their market access.

MARKET ACCESS STRATEGIES - THEMES

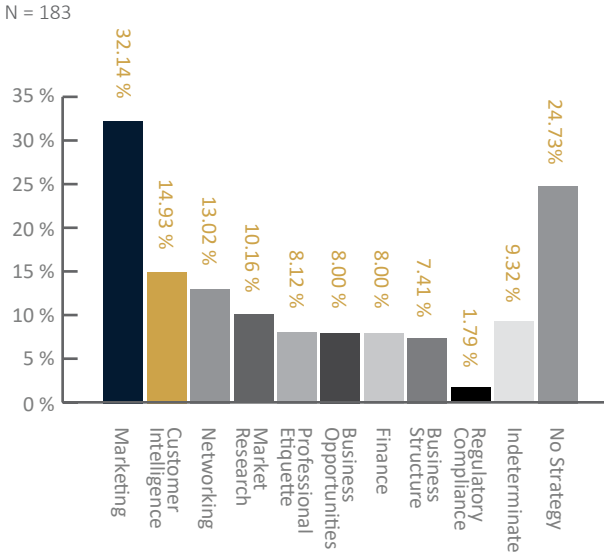


Figure 38: Established themes from market access strategies

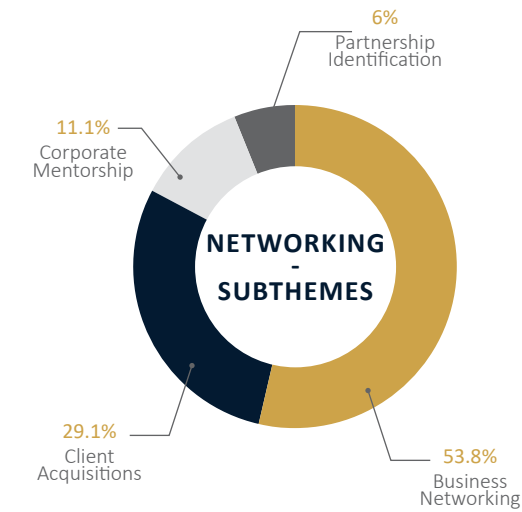


Figure 39: Subthemes established in the “Networking” theme

THEMES AND SUBTHEMES	NO. OF TOUCHPOINTS	% OF TOTAL
NEUTRAL	78	9.32%
NO STRATEGY	207	24.73%
BUSINESS OPERATIONS	67 (75)	8%
Business management	47	62.67%
Digitisation	8	10.67%
HR development	10	13.33%
Lean business	10	13.33%
BUSINESS STRUCTURE	62 (69)	7.41%
Enterprise development	27	39.13%
M&A	1	1.45%
Pivoting	12	17.39%
Planning	29	42.03%
CONSUMER INTELLIGENCE	125 (143)	14.93%
Customer relations	32	22.38%
Market targeting	51	35.66%
Pricing and sales	60	41.96%
FINANCE	67 (69)	8%
Capital reinvestment	1	1.45%
Financial literacy	19	27.54%
Financial management	47	68.12%
Funding	2	2.90%
MARKET RESEARCH	85 (107)	10.16%
Competitor intelligence	9	8.41%
Feasibility studies	14	13.08%
General	44	41.12%
Opportunity assessment	31	28.97%
Risk assessments	9	8.41%
MARKETING	269 (304)	32.14%
Advertising	19	6.25%
Brand positioning	84	27.63%
Digital marketing	13	4.28%
General	166	54.61%
Social media	22	7.24%
NETWORKING	109 (117)	13.02%
Business networking	63	53.85%
Client acquisition	34	29.06%
Corporate mentorship	13	11.11%
Partnership identification	7	5.98%
PROFESSIONAL ETIQUETTE	68 (72)	8.12%
Negotiations	15	20.83%
Presentation	28	38.89%
Professionalism	29	40.28%
REGULATORY COMPLIANCE	15 (15)	1.79%
BEE management	2	13.33%
Business licensing	7	46.67%
Taxes	5	33.33%
Trade	1	6.67%

Table 22: Theme and subtheme count from market access strategies

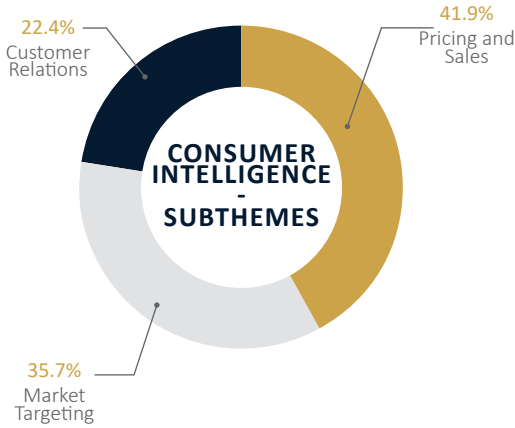


Figure 40: Subthemes established in the “Consumer Intelligence” theme

Moreover, when asked to rate BDS’s overall contribution to their business growth in terms of market access, 62% of business owners attributed their competitive advantage to BDS market access interventions and 65% agreed that market access interventions positively contributed to the growth and visibility of their firm, compared to only about a quarter of entrepreneurs who suggested that the intervention did not contribute a great deal in any cases (competitive advantage and/or growth).

Business growth as a result of market access interventions was specially noted in the number of products and services sold, and in the increased number of customers and contracts secured across businesses, irrespective of size or entrepreneur characteristics (age, gender, education). On the other hand, entrepreneurs indicated that the interventions were not very effective in helping them secure big tenders and in accessing big corporate organisations or international markets for business collaboration.

BDS INTERVENTIONS CONTRIBUTED TO:

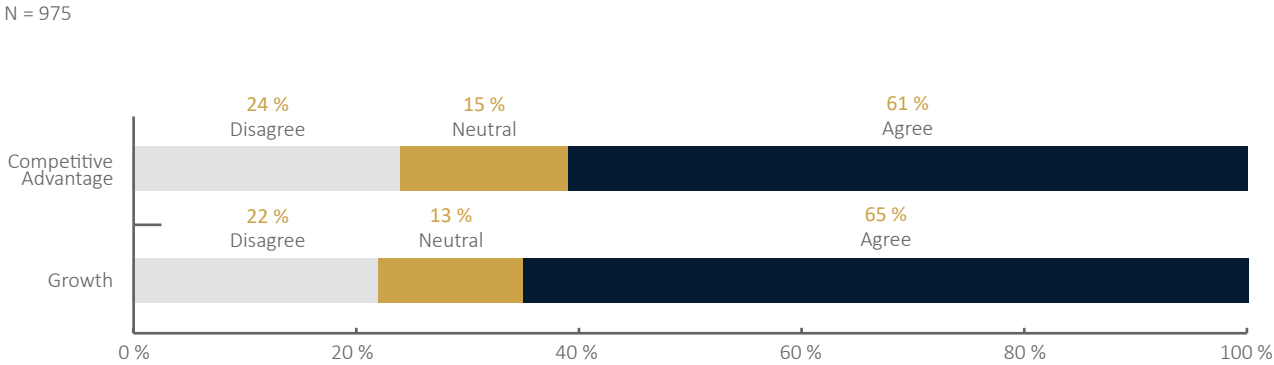


Figure 41: Extent to which BDS participation has improved business growth

“I was taught to stick to a specific target market. It is important to have a target market.”
Human health entrepreneur, Midrand

“I learnt about how to manage taxes, how to handle business operations, marketing, financial management and how to conduct market research.”
Entrepreneur, South Africa

“I learnt about the importance of being in your brand and making sure that advertising is a priority to increase market access. I also learnt about saving money to market the brand and have a budget.”
Art entrepreneur, Tokozo

This could be a result of a misalignment between BDS participants’ expectations of the programmes and the scope of assistance that BDS providers can provide. For example, while entrepreneurs expect BDS providers to assist them in accessing markets and in securing business partnerships with established corporates, the main objective of BDS programmes is to equip entrepreneurs with the required skills and knowledge they need to secure a share of the market. This therefore implies that, although BDS programmes may provide business networking opportunities with established corporates and potential clients, it is incumbent upon the entrepreneur to pro-actively utilise the skills learnt during the programme to access these networks.

Assistance with tendering processes, international trade principles and corporate business collaboration could therefore be the areas of improvement that BDS providers hone on in their market access interventions.

A few respondents indicated that they are still struggling to access markets (24.73%) and attributed this to the fact that none of the strategies they learnt during the BDS programme have been helpful in increasing their market access. This was mostly observed among SMMEs with low turnovers (less than R1 million) and those

SMME REVENUE CATEGORIES	>R1 MILLION	R1 – R5 MILLION	R5.1 – 10+ MILLION
No market access strategies learnt	86.9%	9.7%	3.4%

Table 23: No market access strategies learnt versus SMME performance

that discontinued their operations. While we could not determine the direction of the relationship between business discontinuation and lack of market access, it could be argued that a business without any form of clientele or market is like an idea without life, since every business needs customers to buy its products or a market to service.

SMME REVENUE CATEGORIES	BUSINESS DISCONTINUED	BUSINESS IS STILL OPERATIONAL
No market access strategies learnt	83.8%	16.2%

Table 24: No market access strategies learnt versus business survival

4.2.3.2. FINANCIAL MANAGEMENT STRATEGIES

Financial management is an important element of a business life. While businesses experience different financial constraints at different stages of their life, enhancing financial performance and having emergency finance backup may be life saving for a business. While most businesses rely on credit, sale advances and similar customer retention techniques to enhance cash flow,

N = 975

STRATEGY	MEAN SCORE	RANK
Increased sales through effective advertising	3.46	1
Eliminating costs	3.79	2
Negotiating longer payment terms with suppliers	3.96	3
Adding new outside cash (e.g. loan, issuing of shares, etc.)	4.22	
Offering discounts for cash payments/ Accelerated payments from credit customers	4.28	
Taking advantage of early payment incentives	4.28	
Leasing instead of buying	4.48	
No strategies	5.34	
Selling off assets/inventory	5.59	

Table 25: Extent to which BDS participation has improved business growth

entrepreneurs in our sample opt to eliminate costs or boost the visibility of their product offerings through advertising to attract new customers as their first strategies for getting cash for emergencies. Respondents also resort to offering discounts for cash payments or negotiating longer payment terms with their suppliers when they need immediate cash flow.

The findings on Table 25 show different strategies learned in the BDS programme that have been helpful in getting cash for emergencies by different entrepreneur characteristics. It is encouraging BDS has taught most entrepreneurs to either eliminate business expenses or increase their sales. Both these strategies are essential for the improving the business’s efficiency and profit margin. It is also interesting to note that none of entrepreneur groups (except entrepreneurs with a degree) would look for outside cash to getting emergencies. This also highlights that there are very few financial instruments with quick turn-around times in the ecosystem that entrepreneurs can use in times of emergencies.

Rank 1Rank 2Rank 3

Entrepreneur Characteristics	Gender		Age		Education		
STRATEGIES	FEMALE	MALE	YOUTH	NOT YOUTH	HIGH SCHOOL	NON DEGREE	DEGREE & POST
Offering discounts for cash payments/ Accelerated payments from credit customers	4.01	4.48	4.51	3.96	4.25	4.38	4.71
Eliminating costs	4.19	3.40	3.99	3.10	3.64	4.08	3.80
Increased sales through effective advertising	3.46	3.49	3.27	3.99	3.33	3.72	3.33
Selling off assets/inventory	5.58	5.41	5.76	4.96	5.80	5.05	5.10
Negotiating longer payment terms with suppliers	3.80	4.01	3.95	3.67	3.90	3.55	4.58
Leasing instead of buying	4.41	4.48	4.58	4.27	4.46	4.26	3.53
Taking advantage of early payment incentives	3.92	4.73	4.69	3.66	4.29	4.28	4.81
Adding new outside cash (e.g. loan, issuing of shares, etc.)	4.28	4.08	4.11	4.33	4.40	4.36	2.71
No strategies	5.20	5.42	5.52	5.25	4.91	5.37	5.00

Table 26: Strategies by gender and education

Entrepreneurs were further asked to list any other strategies that they have used to get cash for emergencies, and a thematic analysis of their responses revealed that general savings and good cash management, promotions, re-investment, brand-repositioning, cash advances and loans, are some of the additional strategies they have used. Some entrepreneurs (about 47%), however, indicated that they have not found a single strategy that has proven particularly helpful in accessing cash for emergencies.

OTHER EMERGENCY CASH STRATEGIES - THEMES

N = 108

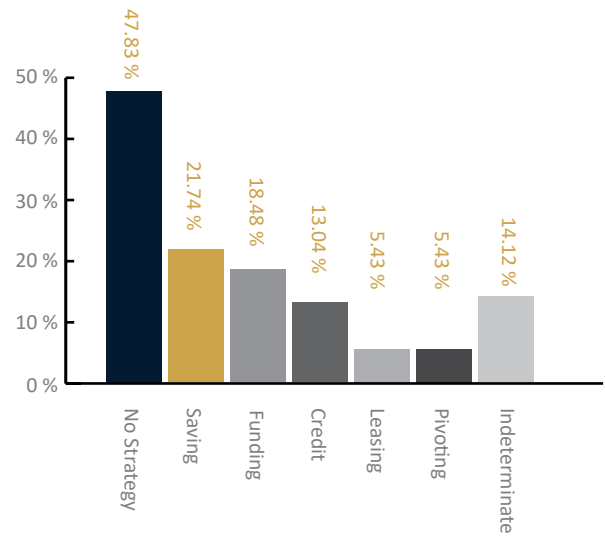


Figure 42: Established themes from “Other” emergency cash strategies

THEMES AND SUBTHEMES	NO. OF TOUCHPOINTS	% OF TOTAL
NEUTRAL	13	14.13%
NO STRATEGY	44	47.83%
CREDIT	12	13.04%
Cash advances	8	8.7%
Loans	5	5.43%
FUNDING	17	18.48%
Fundraising	1	1.09%
General	2	2.17%
Grants	2	2.17%
Promotions	6	6.52%
Re-investment	6	6.52%
LEASING	5	5.43%
Company equipment	1	1.09%
General	1	1.09%
Purchase orders	3	3.26%
PIVOTING	5	5.43%
Brand positioning	4	4.35%
Pricing	1	1.09%
SAVINGS	20	21.74%
Financial management	13	14.13%
General	13	14.13%
Outsourcing	2	2.17%

Table 27: Theme and subtheme count from emergency cash strategies

4.3 PERSONAL IMPACT

In addition to business skills, respondents noted that another discernible impact that BDS programmes have had on their lives has been to promote their personal skills. When asked to explain the impact that BDS has had on their personal lives, respondents once more highlighted overwhelmingly positive business-like skills, including business acumen, management, strategy, networking,

N = 162

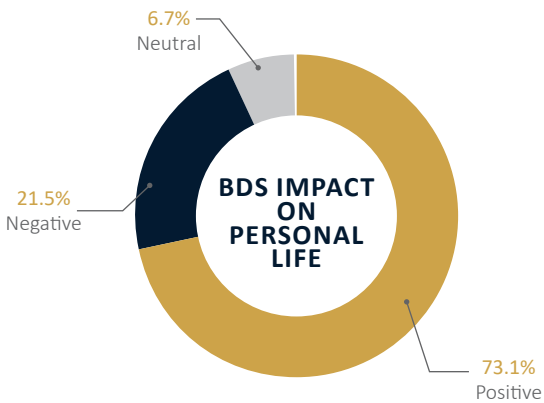


Figure 43: Established sentiment from BDS impact on personal lives

marketing and business planning. In addition to these, a third of the 162 respondents who explained the personal impact of BDS programmes noted benefiting from improved soft skills, while about 10% noted having learnt general personal skills such as how to carry themselves in the business environment

THEMES AND SUBTHEMES	NO. OF TOUCHPOINTS	% OF TOTAL
GENERAL	15	11.11%
BUSINESS SKILLS	67 (83)	49.63%
Acumen	17	20.48%
Budgeting	5	6.02%
Management	17	20.48%
Marketing	8	9.64%
Networking	12	14.46%
Planning	7	8.43%
Strategy	15	18.07%
Technology	2	2.41%
SOFT SKILLS	40 (49)	29.63%
Confidence	17	34.69%
Goal-setting	3	6.12%
Negotiating skills	1	2.04%
Passion	4	8.16%
Perseverance and patience	4	8.16%
Professionalism	7	14.29%
Responsibility	13	26.53%

Table 28: Theme and subtheme count from BDS impact on personal lives

Added to this, in terms of soft skills, respondents reported that participating in the BDS programme has boosted their confidence a great deal, as well as their sense of responsibility and professionalism. Entrepreneurs also cited having learnt to be more patient, persistent, and being able to set goals and see them through.

Research has shown that the development of soft skills including agile thinking, communication, confidence,

emotional intelligence, leadership, problem solving and teamwork among others, is vital for the success of an entrepreneur.¹⁶ BDS providers should therefore aim to actively emphasise the development of these soft-skills, even when their tangible effects may not be immediately apparent and quantifiable, in order for entrepreneurs to be better equipped to deal with the hurdles of running a business.

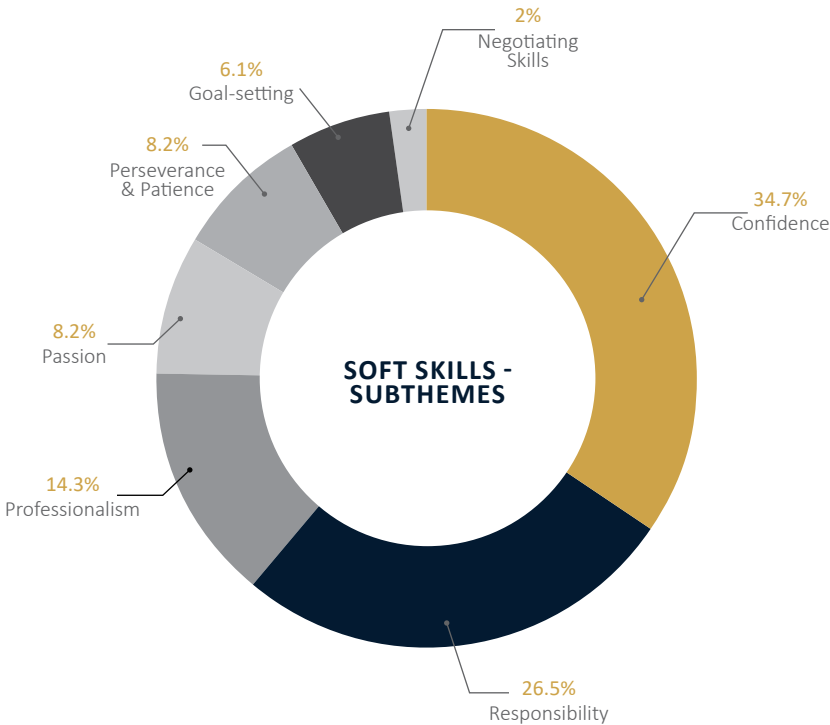


Figure 45: Subthemes established in the “Soft Skills” theme

BDS IMPACT ON PERSONAL LIFE - THEMES

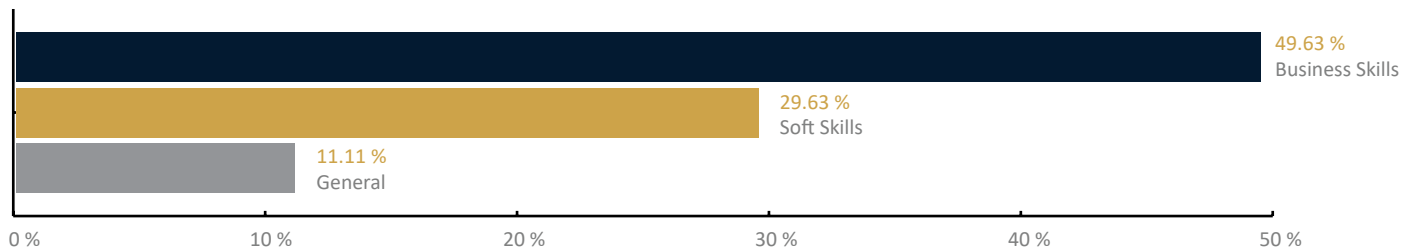


Figure 44: Established themes from BDS impact on personal lives



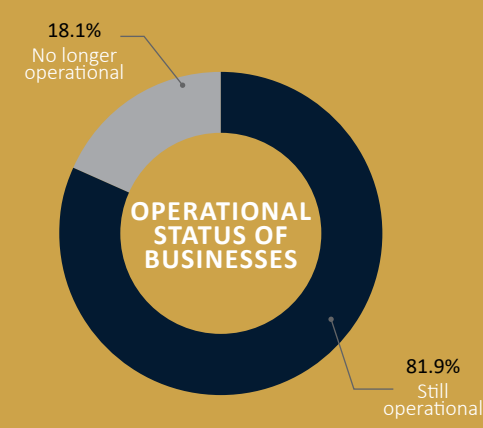
¹⁶Holmberg-Wright, K., & Hribar, T., “Soft Skills – The missing piece for entrepreneurs to grow a business”, American Journal of Management Vol. 16(1), 2016, http://digitalcommons.www.na-businesspress.com/AJM/Holmberg-WrightK_Web16_1_.pdf

5 BUSINESS DISCONTINUATION

5.1 INTRODUCTION

Multiple studies have shown that the survival rate of SMMEs in South Africa is considerably low. According to GEM, the discontinuance rate of SMMEs in South Africa is markedly higher than the established business rate. Some studies estimate that 40% of new businesses in the country fail within their first year, 60% in their second year and 90% within the first 10 years.¹⁷ Other studies have shown failure rates higher than 75% among SMMEs in their first two to five years, suggesting a level of stagnation in early entrepreneurial activities in the country.¹⁸

Contrary to these findings, the survival rate of SMMEs in the current survey pool was significantly high, with over four-fifth (81.9%) of the sampled 1,091 SMMEs still in operation compared to about 18% (n=198) that discontinued. This section explores the reasons behind business failure post BDS intervention by analysing the 198 SMMEs that failed and their attributes, while also looking at the properties of those SMMEs that remained operational. An assessment of entrepreneurs’ resilience after business discontinuation is also provided, as well as SMMEs’ evaluations of interventions that they believe BDS providers could implement to support those on the verge of collapse.



N = 1091

Figure 46: Proportion of businesses still in operation

5.1.1. SURVIVAL BY ENTREPRENEUR CHARACTERISTICS

The entrepreneurs’ characteristics that were focused on were gender, race, age (youth status) and level of education. The results below show that both youth and non-youth have a survival rate greater than 80%, with youth entrepreneurs surviving approximately 2% more than non-youths. We further broken down the different age groups to get greater detail in the analysis of age and SMME survival rates. From this analysis, as seen below, it was evident

that entrepreneurs who are older than 56 years of age had lower survival rates (about 69%) than the rest of the age groups (around 80%). It is encouraging to see youth businesses surviving at a higher rate. Across gender, although male-owned business had better survival rates, there was no significant difference between the gender groups. This is still concerning though, as female entrepreneurs are the interest group that government is trying to promote.

YOUTH	YES	NO	TOTAL	SURVIVAL RATE
Youth	481	98	579	83.07%
Non-Youth	332	77	409	81.17%
Total	813	175	988	82.29%

Table 29: Survival rates by youth

ENTREPRENEUR AGE	YES	NO	TOTAL	SURVIVAL RATE
Under 25	65	15	80	81.25%
26-35	416	83	499	83.37%
36-45	238	49	287	82.93%
46-55	65	14	79	82.28%
56-65	18	8	26	69.23%
Over 65	11	6	17	64.71%
Total	813	175	988	82.29%

Table 30: Survival rates by age group

GENDER	YES	NO	TOTAL	SURVIVAL RATE
Female	399	90	489	81.60%
Male	481	103	584	82.36%
Total	880	193	1073	82.01%

Table 31: Survival rates by gender

5.1.2. SURVIVAL BY SMME CHARACTERISTICS

The same question – Is the business still operational? – was also applied to the SMMEs themselves. The investigated characteristics of the SMMEs included age, size by annual revenue, duration in the BDS programme and the year in which the programme was completed. It is evident from Table 32 that, the bigger the business size, the higher the survival rate. Businesses who received revenues of less than R1 million had the smallest survival rate of the sample pool. This is distressing as this is where most of the SMMEs in the sample are. However, SMMEs with an annual revenue of R5 million and more had the highest survival rates at 96%, therefore, SMMEs with higher revenues showed better survival prospects than those that had less.

To test if participation in BDS programmes helps buffer the risks of business failure, correlational diagnostics were conducted between SMME survival and entrepreneurs’ participation in BDS programmes. The results showed that the survival of an SMME is positively and significantly correlated with the duration of the BDS programme, such that the longer (12 – 18 months) entrepreneurs stayed in the programme, the higher their survival rates (100%). In the absence of studies that have quantified the impact of BDS attendance on SMME survival, it could be inferred from these results that BDS programmes provide transformative improvements in the business performance of participating SMMEs and that entrepreneurs who go through support programmes like these stand better chances of surviving.

¹⁷ Bushe, B., "The causes and impact of business failure among small to micro and medium enterprises in South Africa", Africa's Public Service Delivery and Performance Review, 2019. https://www.researchgate.net/publication/330621803_The_causes_and_impact_of_business_failure_among_small_to_micro_and_medium_enterprises_in_South_Africa
¹⁸ "SMME Quarterly Update: 1st Quarter 2019", The Small Enterprise Development Agency, 2019. <http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%202019-Q1.pdf>

SMME SIZE BY ANNUAL TURN-OVER	YES	NO	TOTAL	SUR-VIVAL RATES
< R1 million	768	187	955	80.42%
R1- R5 million	90	5	95	94.74%
>R5 million	22	1	23	95.65%
Total	33	1	23	95.65%

Table 32: SMME survival by annual revenue (broad)

SMME SIZE BY ANNUAL TURN-OVER	YES	NO	TOTAL	SURVIV-AL RATES
R <0.2m	573	166	739	77.54%
R 0.2m-0.5m	131	14	145	90.34%
R 0.5m-01m	64	7	71	90.14%
R 01m-03m	69	5	74	93.24%
R 03m-04m	13	0	13	100.00%
R 04m-05m	8	0	8	100.00%
R 05m-06m	4	0	4	100.00%
R 06m-10m	7	0	7	100.00%
R 10m+	11	1	12	91.67%
Total	880	193	1073	82.01%

Table 33: BDS survival by annual revenue (narrow)

The sample pool was divided according to the number of years in operation. These divisions were based on the critical years of an SMME's life cycle. The first three years is critical as this is where most businesses start failing, evident from those between the ages of one and three years in our sample survive. The survival rate seems to decrease as the SMME's age increases up until nine years.

Further comparative analysis was conducted to assess if there were significant differences between the attributes of SMMEs that discontinued and those that survived, and the findings revealed interesting trends regarding the SMMEs' ages. Although the relationship between SMME age and survival was not statistically significant, it was interesting to note that the lowest survival rates were for SMMEs that have been operating for between four and nine years. While this seems to be out of ordinary, considering that established companies theoretically have better established networks and markets to sustain their operations, there is literature that suggests that failure rates are highest in the first 10 years of a business's life and that only one in three SMMEs reach the 10 year mark in.¹⁹

DURATION IN BDS	YES	NO	TOTAL	SUR-VIVAL RATES
Less than 3 months	215	23	238	90%
3- 6 months	497	154	651	76%
7- 12 months	114	16	130	88%
12- 18 months	20	0	20	100%
more than 18 months	47	4	51	92%
Total	893	197	1090	82%

Table 34: Business duration by time spent in BDS programmes

SMME AGE	YES	NO	TOTAL	SUR-VIVAL RATES
1-3 years	428	71	499	85.77%
4-6 years	289	85	374	77.27%
7-9 years	76	24	100	76.00%
10-12 years	34	6	40	85.00%
13-15 years	23	5	28	82.14%
Over 15 years	13	1	14	92.86%
Total	863	192	1055	81.80%

Table 35: BDS survival by years in operation

5.2. REASONS FOR DISCONTINUATION

There are a variety of reasons why businesses fail: while some are more nebulous, others are much more fundamental to what makes a business survive. SMME entrepreneurs in our sample pool were asked to select and rank three reasons out of 10 that they believed contributed the most to the discontinuation of their SMME. While all the factors were relatively highly ranked above the mean value of 5.2, the top three reasons given for SMME failure by the survey pool were:

1. for entrepreneurs' personal reasons ($\bar{x}$ = 8.4),
2. because they found employment ($\bar{x}$ = 7.8), and
3. because the SMME was not profitable ($\bar{x}$ = 7.3).

¹⁹ Otar, C., "What percentage of Small Businesses fail – And how can you avoid being one of them", Forbes, 2018. <https://www.forbes.com/sites/forbesfinancecouncil/2018/10/25/what-percentage-of-small-businesses-fail-and-how-can-you-avoid-being-one-of-them/#36b093c443b5>

REASONS FOR BUSINESS DISCONTINUATION

N = 190

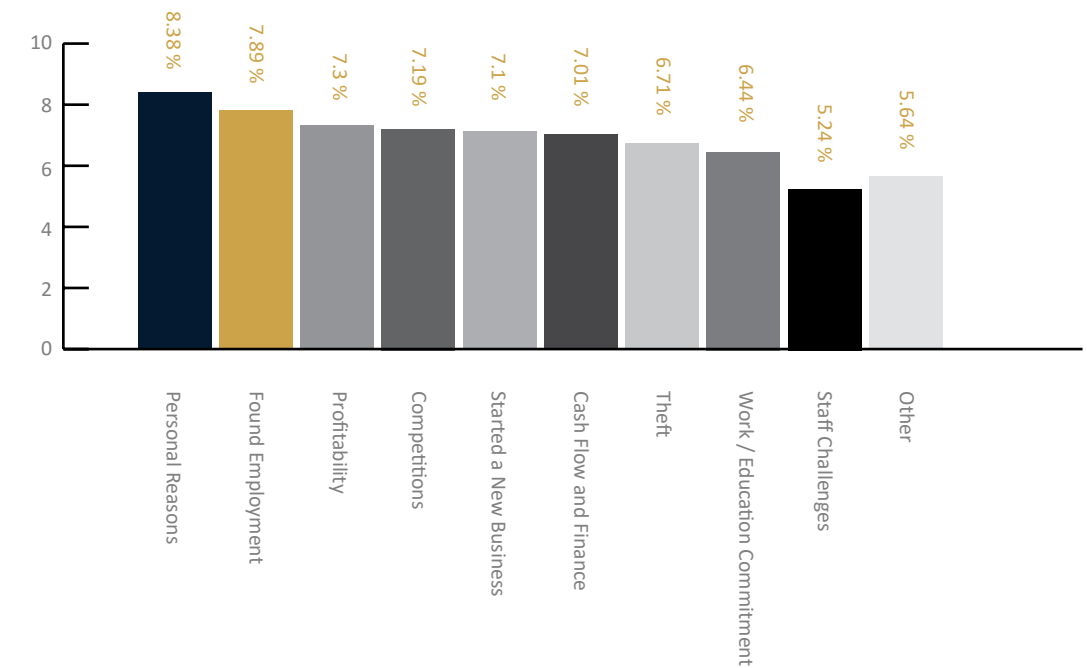


Figure 47: Reasons for business discontinuation

When looking at the number of respondents who selected a particular factor, however, it was observed that over two-thirds of SMMEs that dissolved did so for financial reasons – either because of cashflow and financial strains (n = 83) or because the business was not profitable (n = 61). This is also in line with the GEM study that found that 67% of entrepreneurs in their sample exited business due to lack of profitability or difficulties in accessing finance. This, the GEM report adds, means that entrepreneurs in

South Africa are three times more prone to failure because of issues of access to finance compared to the average of entrepreneurs in efficiency-driven economies.²⁰ The issue of funding – both access to finance and its impact on SMME survival – thus warrants a closer assessment, which is done in Section Error! Reference source not found.. Error! Reference source not found. by taking a closer look at the impact of finance or the lack thereof on SMME performance.

RANK	MEAN	$\bar{x}$	FREQUENCIES	n
1	Personal reasons	8.38	Cashflow and finance	83
2	Found employment	7.79	Profitability	61
3	Profitability	7.30	Personal reasons	60

Table 36: The top three reasons for SMME discontinuation by mean scores and frequencies

Besides the above mentioned major reasons, some SMMEs discontinued either because they could not keep up with their competitors ($\bar{x}$ = 7.2), because the owner started another business ($\bar{x}$ = 7.1), due to suboptimal cashflow ($\bar{x}$ = 7.0), because the SMME did not recover after being a victim of theft ($\bar{x}$ = 6.71) or because the entrepreneur could not juggle education and other work commitments with running the business ($\bar{x}$ = 6.44).

Though ranked the lowest ($\bar{x}$ = 5.6), staff challenges was cited as one of the reasons why some businesses failed. A good proportion of respondents (29.5%) indicated that "Other" reasons also contributed to the discontinuation of their first venture, which are delved into later on in this report.

²⁰ Herrington, M., Kew, P., and Mwanga, A., "South Africa Report 2016/2017: Can small businesses survive in South Africa?", 2017. <https://www.gemconsortium.org/economy-profiles/south-africa>

5.2.1. DISCONTINUANCE REASONS BY ENTREPRENEUR CHARACTERISTICS

Comparing the top three reasons given for SMME failure to the genders of the entire sample pool showed differences between the rankings of the reasons. However, the reason ranked highest, personal reasons, is the same for all three groups. It is interesting to note that theft features as

the third-highest reason for males closing their SMMEs and not for female nor the entire sample. This might be attributed to the kind of industries or businesses operated by males compared to those run by females.

RANK	DISCONTINUATION	FEMALE	MALE	SAMPLE
1	Personal reasons	2.93	1.94	2.62
2	Found employment	4.15	2.00	3.21
3	Competition	3.64	3.60	3.70
	Profitability	3.29	4.33	3.70
	Theft	5.11	3.00	4.29

Table 37: Discontinuation reasons by gender



5.2.2. DISCONTINUATION REASONS BY SMME CHARACTERISTICS

When viewing the table below, it is evident that the main reasons for SMME failure differ according their age. Personal reasons seems to be ranked first for all businesses that have been operating for less than 10 years, and business profitability is cited for those older than 10 years. The third-highest ranked reason differs across all business ages. It is interesting to note that SMMEs younger

than three years give cash flow and employment opportunities as their second and third reasons respectively.

Personal reasons, profitability and cash flow and financial reasons emerge as the main reasons given for SMME failure with turnovers of R1 million and between R1 and R5 million.

#	FIELD	1-3 YEARS	4 - 6 YEARS	7 - 9 YEARS	10-12 YEARS	13-15 YEARS
1	Personal reasons	2.73	2.13	1.00	6.00	4.00
2	Cash flow and finance	3.18	4.93	2.63	6.67	4.33
3	Found employment	3.21	3.17	1.50	2.00	
4	Competition	3.27	4.40	1.00	7.50	
5	Profitability	3.45	4.19	3.75	1.00	1.00
6	Started a new business	4.42	2.50	9.00		
7	Theft	4.70	2.75	1.00	7.00	
8	Work or education commitment	5.33	4.33	5.00		
9	Other	5.73	6.05	1.33	10.00	7.00
10	Staff challenges	6.00	5.11			

Table 38: Discontinuation reasons by duration of business

Respondents were given a chance to list, in an open-ended manner, the “Other” factors that they believed played a role in the discontinuation of their business . A thematic analysis of these additional reasons revealed that market access (as indicated by 41.2% of respondents) was one of the other key reasons for their business’s failure. Within the market access theme, reasons such as difficulties accessing markets

(51.9%), a lack of direction in terms of which markets to target (25.0%), a lack of funding (21.2%) and an inability to keep up with technological advances and integrate these into their product offerings (which was noted by one SMME owner) were cited. Poor market access has been noted in multiple other studies as one of the main contributors to business failure.



#	FIELD	<R 1 MILLION	R 1 - R 5 MILLION
1	Personal reasons	2.62	4.00
2	Found employment	3.28	2.00
3	Competition	3.58	6.00
4	Started a new business	3.64	9.00
5	Profitability	3.86	1.00
6	Cash flow and finance	4.18	1.00
7	Theft	4.33	7.00
8	Work or education commitment	4.67	5.00
9	Other	5.19	10.00
10	Staff challenges	5.95	

Table 39: Discontinuation reasons by revenue

Because many SMMEs are concentrated in overtraded sectors that are saturated by low-profit businesses and high levels of competition, the market share available for each operating business shrinks. This threatens market accessibility for businesses, particularly newly formed SMMEs, which may result in the inevitable unsustainability and failure of a business. Consequently, increasing market access interventions warrants particular focus in BDS programmes to assist struggling businesses.

Other themes noted by respondents related to the status of the business (21.6%), where issues of profitability and competition were emphasised, and personal reasons (19.6), where over two-thirds of entrepreneurs noted a change of interest from entrepreneurship to another vocation. SMME

OTHER REASONS FOR BUSINESS DISCONTINUATION - THEMES

N = 106

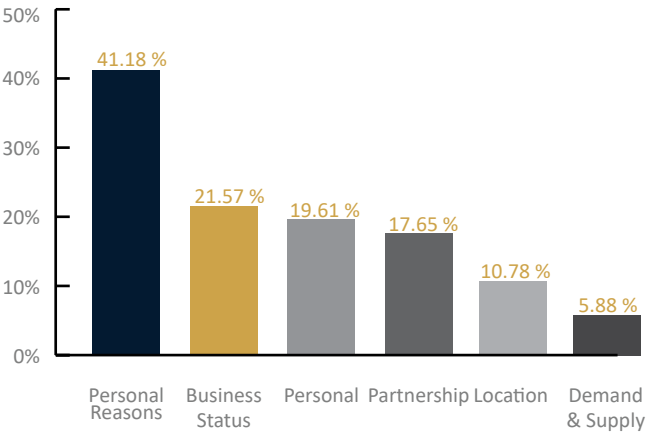


Figure 48: Established themes from “Other” reasons for business discontinuation

THEMES AND SUBTHEMES	NO. OF TOUCHPOINTS	% OF TOTAL
BUSINESS STATUS	22 (22)	21.57%
Competition	3	13.64%
On hold	9	40.91%
Profitability	10	45.45%
DEMAND AND SUPPLY	6 (8)	5.88%
Production costs	2	25.00%
Supplier costs	4	50.00%
Unmanageable demand	2	25.00%
LOCATION	11 (11)	10.78%
Business attraction	9	81.82%
Security	1	9.09%
Unsafe environment	1	9.09%
MARKET ACCESS	42 (52)	41.18%
Difficulty	27	51.92%
Funding	11	21.15%
Lack of direction	13	25.00%
Technological advances	1	1.92%
PARTNERSHIP DISPUTE	18 (20)	17.65%
Disagreement	12	60.00%
Vision change	8	40.00%
PERSONAL	20 (21)	19.61%
Change of interest	13	61.90%
Further education	2	9.52%
Health issues	3	14.29%
Lack of support	3	14.29%

Table 40: Theme and subtheme count from “Other” business discontinuation reasons

Figure 49: Subthemes established in the “Market Access” theme



MARKET ACCESS - SUBTHEMES

MOTIVATIONAL FACTORS	DISCONTINUATION REASONS	PEARSON’ R VALUE
Unemployment- I had no better choices for work	Theft	0.69*
	Personal reasons	0.57**
	Found employment	0.56*
Opportunity- I took advantage of a new business opportunity	Work or education commitment	0.64**
The desire for independence and financial freedom	Cash flow and finance	0.63**
	Work or education commitment	0.59**
Need for achievement and success	Work or education commitment	0.62*
	Started a new business	0.60*
	Cash flow and finance	0.55**

*. Correlation is significant at the 0.05 level (2-tailed)

**. Correlation is significant at the 0.01 level (1-tailed)

Table 41: SMME discontinuation reasons by entrepreneurship motivational factors

Further correlational and regression analyses were conducted to test if there was a predictive factor between the key motivations for entrepreneurship and the reasons for business discontinuation. Several interesting relationships were observed but only significant (p<0.05 and p<0.01) and strong relationships (Pearson’s r≥0.5) have been reported. As illustrated in Table 41, those entrepreneurs who desired independence and financial freedom or achievement and success were more likely to close their businesses due to financial strains or work or education commitment. SMME owners who turned to entrepreneurship because they wanted to persistently do something great failed when they encountered challenges finding and maintaining a skilled labour force.

As would be expected, opportunity-driven entrepreneurs were ready to discontinue their businesses and seize other opportunities, such as work or education, if they were presented with a better alternative, while necessity-driven

business owners, who started businesses because they were unemployed, readily shut their businesses when a job opportunity presented itself. These necessity-driven SMMEs were also not able to recover after they were victims of theft, possibly due to limited availability of resources and capital to start over.

It was interesting to note that, as a motivation for entrepreneurship, there was no significant correlation between the desire to live better in a competitive society and any of the reasons for business discontinuation, suggesting that although these entrepreneurs may close their businesses, it would not necessarily be for any of the factors cited in this report. While this suggests a great level of resilience among this category of entrepreneurs (those who desire to live better in a competitive society)), there is need for further research that looks at this motivation and its impact on business survival or overall business sustainability.

In summary, the main reasons for business discontinuation that SMME owners in our survey pool noted included a combination of internal and external factors, which are grouped into:

1.

poor strategic planning, in terms of increasing the visibility of their products and securing a share of the market,
2.

enterprise incompetence or the SMME’s reduced ability to survive in a competitive and rapidly changing business environment, and

3.

unconducive environmental and economic factors, such as population dynamics, the poor economic situation of the country and an unfavourable funding system.

These reasons, also noted in other similar studies,²¹ are some of the principle factors that directly or indirectly contribute to the collapse of most businesses in South Africa and that need to be emphasised in service offerings by BDS providers.

²¹ Bushe, B., ‘The causes and impact of business failure among small to micro and medium enterprises in South Africa’, Africa’s Public Service Delivery and Performance Review 7(1), a210, 2019. <https://doi.org/10.4102/apsdpr.v7i1.210>

5.3. BDS ASSISTANCE

SMME owners whose businesses discontinued were asked to reflect on what the BDS providers could have done or done better to save their SMME from failure. Although a good proportion (42.4%) maintained that there was not much the BDS provider could have done to prevent their business’s demise, about 62% believed that, if BDS providers offered enough support or mediation (32.1%) and funding (29.9%), their enterprise would not have failed. In terms of the support or mediation that entrepreneurs believed BDS providers could have given, customised and advanced mentorship was the most requested service (34.7%), followed by market access (20.8%), practical training regarding business operations (19.4%), constant feedback and follow-ups (13.9), as well as partnership facilitation (11.1%).

On the funding side, entrepreneurs indicated that it would have been lifesaving for their businesses if the BDS providers had assisted with funding (71.7%), both in terms of providing them with monetary assistance and in helping them access funding from third-party

DESIRED DISCONTINUATION ASSISTANCE FROM BDS PROVIDER - THEMES

N = 186

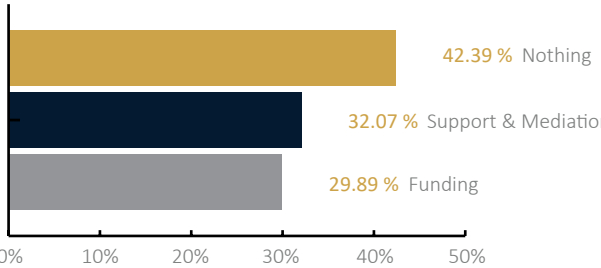


Figure 50: Established themes from needed BDS assistance

Further analysis into the different characteristics of the survey pool revealed no significant differences between what entrepreneurs of different ages, races and education levels believed BDS providers should have done to save their businesses. However, more non-youth entrepreneurs cited funding, and more female entrepreneurs than male ones indicated that BDS providers could have provided more

BDS INTERVENTION	FEMALE	MALE	YOUTH	NON-YOUTH
Practical training	64.30%	35.70%	58.60%	41.40%
Feedback and follow-ups	50.00%	50.00%	75.00%	25.00%
Equipment and infrastructure	52.90%	47.10%	43.80%	56.30%
Customised/Advanced mentorship	48.00%	52.00%	58.60%	41.40%
General funding	44.20%	55.80%	46.30%	53.70%
Nothing	43.40%	56.60%	63.40%	36.60%
Market access	33.30%	66.70%	58.60%	41.40%
Partnership facilitation	16.70%	83.30%	66.70%	33.30%

Table 43: Potential BDS interventions by gender and age

organisations. Additionally, 28.3% of respondents stated that their businesses would have been saved if the BDS providers had helped them acquire the infrastructure and equipment that they needed to expend and sustain their SMMEs. These also relate to the service needs that entrepreneurs indicated should be enhanced in BDS providers offerings, as discussed in Section Error! Reference source not found.. Error! Reference source not found. above.

Although there is literature that suggests that a lack of finance is not a detrimental²² factor to business survival, if one has a solid business foundation coupled with drive and determination, there is a plethora of research that indicates that the scarcity of funding is a key factor that affects business survival in South Africa. The results discussed in this report, as well as those outlined in the GEM report, provide further evidence of the barrier that a lack of access to finance constitutes to the sustainability of entrepreneurs in the country.

THEMES AND SUBTHEMES	NO. OF TOUCHPOINTS	% OF TOTAL
NOTHING	78	42.39%
FUNDING	55 (60)	29.89%
Equipment and infrastructure	17	28.33%
General	43	71.67%
SUPPORT AND MEDIATION	59 (72)	32.07%
Customised/advanced mentorship	25	34.72%
Feedback and follow-ups	10	13.89%
Market access	15	20.83%
Partnership facilitation	8	11.11%
Practical training	14	19.44%

Table 42: Theme and subtheme count from needed discontinuation BDS assistance

practical business training and access to funding for equipment or infrastructure to save their businesses. This further emphasises our recommendation that BDS programmes should not be structured in a one-size-fits-all manner but rather in a way to accommodate the specific needs of different groups of entrepreneurs and for specific types and sizes of business.

5.4. STARTING NEW BUSINESSES

When asked about their intentions to start a new business after the discontinuation of their previous venture, about a third of entrepreneurs (n = 64 out of 198) were still undecided about whether to start another business, while about 40% (n = 79) indicated that they had either started another business already or were planning to do so in the

following six months. Other SMME entrepreneurs plan to get back into business within the next year (n = 29) or two (n = 19). Seven entrepreneurs (five of whom were female) expressed no intentions of venturing into entrepreneurship ever again.

WHEN ENTREPRENEURS INTEND TO START NEW BUSINESSES

N = 198

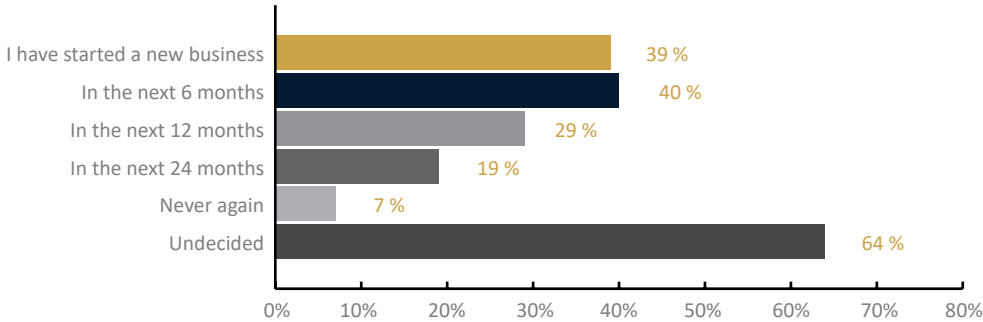


Figure 51: Timelines for starting a new business after discontinuation

Although a larger proportion of male SMME owners were undecided about starting another business post-discontinuation, when they were certain, they either had already started another business or were planning to start another in six months. Female entrepreneurs, on the other hand, seemed to have delayed their return to business more: 51.9% and 55.6% of female business owners were planning to start a new business in the next year or two respectively, compared to 48.1% and 44.4% of males in

each case. This could be explained by the fact that female entrepreneurs continue to face greater challenges in accessing funding and capital to get their start-ups off the ground and tend to rely more on personal financing before seeking financial assistance, which is still not as accessible to them compared to their male counterparts.²³ Starting another business after discontinuation may thus take more financial planning and saving for female entrepreneurs in that sense.

N = 184

I INTEND TO START ANOTHER BUSINESS	FEMALE	MALE
I have started another business	41.00%	59.00%
In the next 6 months	43.60%	56.40%
In the next 12 months	51.9%	48.1%
In the next 24 months	55.60%	44.40%
Never again	71.40%	28.60%
Undecided	41.90%	58.10%
Total	88	104

Table 44: Intentions to start another business by SMME entrepreneurs' gender

For the most part, the motivations for venturing back into entrepreneurship were personal (43.7%) or financial (21.6%). These were also similar to the initial top reasons why our surveyed entrepreneurs turned to entrepreneurship in the first place: passion, purpose and to attain financial independence. Some post-discontinuation entrepreneurs were motivated by their new ideas, in using new approaches to turn those ideas into successful businesses or by the drive to become their own bosses, among other things.

It was interesting to note that entrepreneurs who were unsure about venturing back into entrepreneurship initially started a business in response to an opportunity that they had identified in their surroundings. This suggests that the indecisiveness in starting over may stem from the absence of other opportunities at the time of the survey and that they could be sure to return to business if they identified other opportunities.

²³ "Funding for South African women entrepreneurs", BizCommunity, 2019. <https://www.bizcommunity.com/Article/196/839/194807.html>

REASONS FOR STARTING ANOTHER BUSINESS - THEMES

N = 126

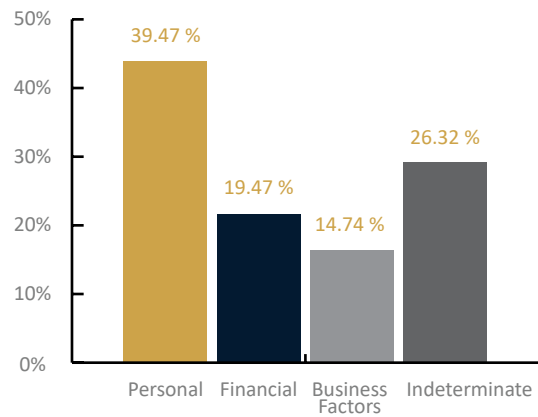


Figure 52: Established themes from reasons for starting another business

The majority of the 39 businesses that were started after previous ones had been closed were still relatively small, with less than five employees and revenues of R200,000 or less. More than three-quarters (87.5%) of these businesses have been operating for less than two years, while only four were in operation for three to five years. Only one of

The sectors that new SMME entrepreneurs have expanded into were very well spread and reflected the overall sector focus of the entire sample pool, with general services (22.9%), arts, entertainment and recreational services

NO. OF EMPLOYEES - NEW BUSINESSES

N = 43

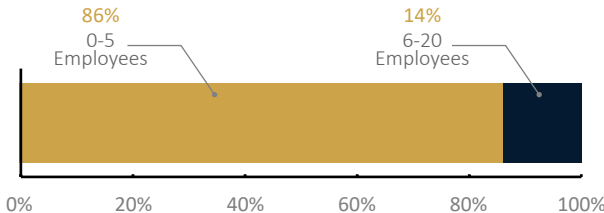


Figure 53: Number of employees in new businesses

DURATION OF OPERATIONS - NEW BUSINESSES

N = 40

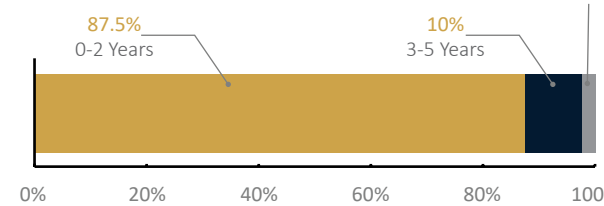


Figure 54: Length of time that new businesses have been operational

²⁴ "SMME Quarterly Update: 1st Quarter 2019", The Small Enterprise Development Agency, 2019. <http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%202019-Q1.pdf>

THEMES AND SUBTHEMES	NO. OF TOUCHPOINTS	% OF TOTAL
IRRELEVANT	50	29.24%
BUSINESS FACTORS	28 (28)	16.37%
Change of focus	10	35.71%
Own boss	18	64.29%
FINANCIAL	37 (41)	21.64%
Financial independence	32	78.05%
Funding	8	19.51%
Providing for family	1	2.44%
PERSONAL	75 (82)	43.86%
New ideas and approaches	37	45.12%
Passion and purpose	44	53.66%

Table 45: Theme and subtheme count from reasons for starting new businesses

these SMMEs had survived for more for six years. With the first three years being a critical threshold for an SMME's long-term survival, it is too early to infer the survival²⁴ prospects of the new SMMEs in our survey pool since the majority were still within the fragile, early two year old phase.

(12.5%) and construction (12.5%) being the industries in which post-discontinuation SMME owners were drawn to the most.

ANNUAL REVENUE - NEW BUSINESSES

N = 37

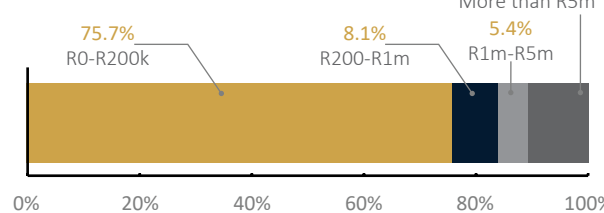


Figure 55: Annual revenue in new businesses

SECTOR DISTRIBUTION - NEW BUSINESSES

N = 48

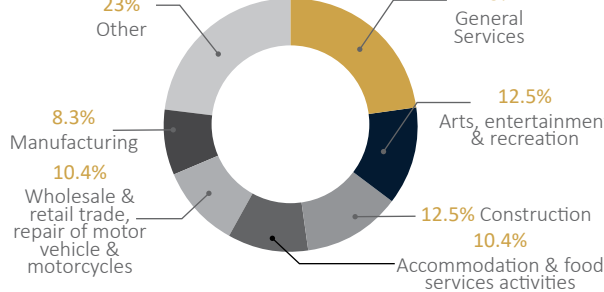


Figure 56: Sectors of activity for new businesses

The profile of the post-discontinuation SMME owners was a young Black male graduate, who only attended one BDS programme for a duration of three to six months. This

N = 39

INTENT TO START ANOTHER BUSINESS	FEMALE	MALE	YOUTH	NON-YOUTH
I have started another business	41.00%	59.00%	54.10%	45.90%

Table 46: New business by SMME entrepreneurs’ gender and age

N = 39

INTENT TO START ANOTHER BUSINESS	BLACK	ASIAN	WHITE
I have started another business	89.7%	2.60%	7.70%

Table 47: New business by SMME entrepreneurs’ race

On a scale of 1 (“Strongly disagree”) to 7 (“Strongly agree”), respondents were asked to rate their use of BDS programmes post-discontinuation, and the role that BDS providers played in assisting them with a new venture. While over half of post-discontinuation SMME owners (59.0%) still use BDS interventions, their perceived value

EFFICACY OF BDS INTERVENTIONS - NEW BUSINESSES

N = 47

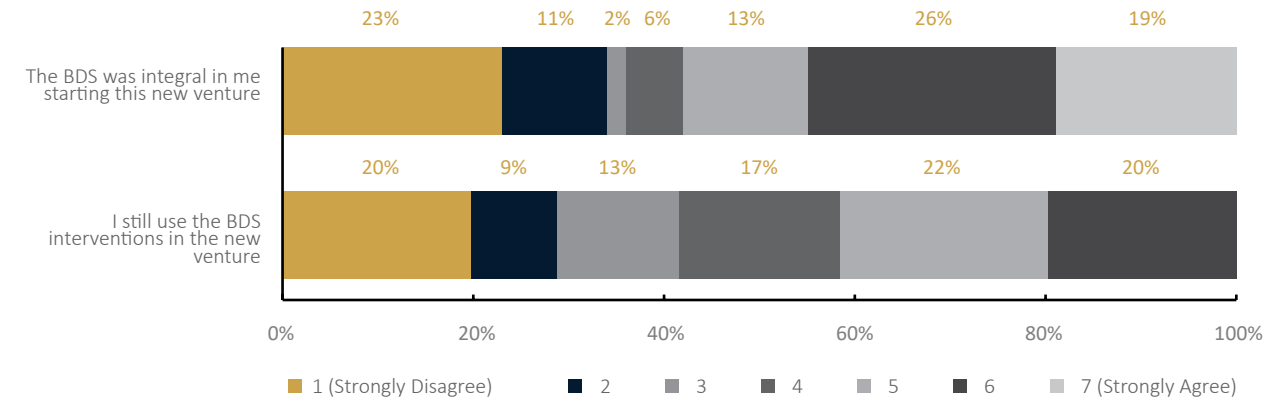


Figure 57: Extent to which BDS participation has contributed to new ventures

Interestingly, there was a strong positive correlation between the numbers of BDS programmes an entrepreneur participated in with their perceived role of BDS interventions in starting a new venture. SMME owners who have been in more than three BDS programmes reported more value of the interventions in their new venture. Although the assessment of these newly started businesses could not predict their success or survival, it should be remembered that SMME performances cannot

profile is also reflective of the dominant demographics of respondents in our survey pool.

N = 39

INTENT TO START ANOTHER BUSINESS	HIGH SCHOOL & LOWER	UNDER-GRADUATE/ VOCATIONAL/ CERTIFICATE	POSTGRAD-UATE
I have started another business	26.90%	50.00%	23.10%

Table 48: New business by SMME entrepreneurs’ educational achievement

N = 39

INTENT TO START ANOTHER BUSINESS	< 3 MONTHS	3-6 MONTHS	7-12 MONTHS
I have started another business	10.30%	79.50%	10.30%

Table 48 New business by duration in BDS

of the programme in assisting with the new business was mixed. Over half (57%) of these entrepreneurs agreed that the BDS provider played an integral role in them starting a new venture, while about a third (29.0%) indicated that the provider did not assist at all.

be attributed to one factor at one time alone but rather to various factors acting at different times. Therefore, it is through a deeper understanding of what contributes to the success of an SMME that a ‘best practice’ approach to BDS interventions can be developed to provide the required developmental assistance to these entrepreneurs. An extended analysis of the many important factors that contribute to entrepreneurs’ resilience thus needs to be further explored in order to help SMMEs’ survival and entrepreneurs to return to business after a failed attempt.

6 FINANCING ENTREPRENEURSHIP

6.1 INTRODUCTION

As noted earlier in this report, suboptimal cashflow and a lack of funding are among the main challenges that SMMEs face in securing access to markets and sustaining their businesses. In particular, a lack of funding is one of the main reasons why many SMMEs in the survey pool closed. Access to funding has been reported in various other studies – including GEM reports, Finscope and a recent study by the Seed Academy – to be one of the main reasons why SMMEs flourish or flounder.²⁵ Although starting a business is a challenging and risky endeavour in itself, limited access to funding remains one of the largest obstacles to the sustainability of the entrepreneurship ecosystem in South Africa. This is despite the variety of funding entities and funding options available for SMMEs and entrepreneurs operating in the country.

Each stage of the SMME business cycle requires different financial commitments, which result in the inevitable

failure of the venture if not met. SMME owners may rely on other forms of funding during the developmental phase, usually in the form of personal savings or financial support from family members and friends. However, widespread poverty and low excess income make large financial support from often impoverished peers and family members almost unlikely for entrepreneurs in South Africa. This results in a heavy reliance on external, traditional funding mechanisms, such as government sources and banks.

This section explores the financing ecosystem for SMMEs in South Africa by looking at some key indicators on funding demands, successes, failures and BDS assistance needs that the survey pool reported.

6.2 APPLYING FOR FUNDING

When asked if they had applied for finance after completing the BDS programme, more than half of respondents (60%) indicated that they had not due to a variety of reasons, such as a lack of interest (56%),

difficulties with meeting funding requirements (26.2%), issues with business formalisation (18.3%) and negative past financial experience (13.3%).

APPLICATIONS FOR FUNDING

N = 1060

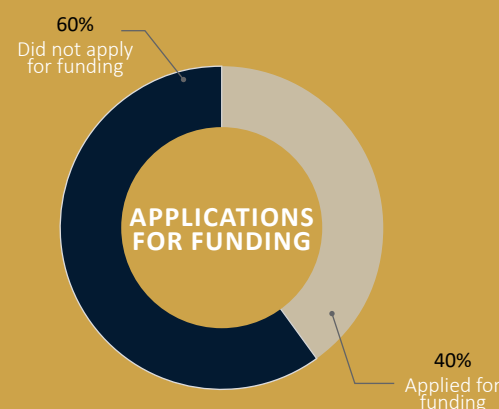


Figure 58: Proportion of entrepreneurs that applied for funding

²⁵ Mattus, B., "3 financing options for small businesses", BizCommunity, 2018. <https://www.bizcommunity.com/Article/196/517/185704.html>

THEMES AND SUBTHEMES	NO. OF TOUCHPOINTS	% OF TOTAL
NO REASON	44	5.95%
FORMALISATION	112 (127)	15.16%
General	66	51.97%
Business size	42	33.07%
Business registration	19	14.96%
FUNDING REQUIREMENTS	160 (186)	21.65%
Compliance bottlenecks	85	45.70%
Paperwork	30	16.13%
Debt and high interest rates	45	24.19%
Negative credit balance	9	4.84%
Securities and collateral	17	9.14%
NO INTEREST	342 (385)	46.28%
Alternative funding	67	17.40%
Self-sustainable	197	51.17%
Raising capital	43	11.17%
Type of business	39	10.13%
Lack of confidence	39	10.13%
PAST FINANCIAL EXPERIENCE	81 (87)	10.96%
No guidance	47	54.02%
Red tape	18	20.69%
Unmet expectations	22	25.29%

Table 50: Theme and subtheme counts for no finance applications

Within each education demographic group, there were slight variations in the number who have applied for funding against those who have not. SMME owners who had post graduate qualifications applied for financial assistance (31.4%) more often than not (27.5%). Graduates and high school or primary school educated groups had higher proportions of those who have applied than those who have not. This could be explained by the fact that education may play a role in enhancing an entrepreneur's ability to confidently structure and complete a funding application and approach funders with minimal assistance needed compared to candidates with less education, skills or knowledge. Furthermore, our findings revealed a significant, positive relationship between business turnover and entrepreneurs' propensity to apply for funding. SMMEs that made higher revenues applied

EDUCATION	HAVE NOT APPLIED FOR FUNDING	HAVE APPLIED FOR FUNDING
High school and lower	26.1%	23.1%
Undergraduate/Vocational/Certificate	46.4%	40.8%
Post-graduate	27.5%	31.4%

Table 51: Funding application by educational achievement

To test if there were any significant differences between respondents who applied for funding and those who did not, some correlational diagnostics across entrepreneur and SMME characteristics (gender, race, age, education level, and SMME size) were conducted, which showed a wealth of insightful trends.

The results revealed that, within the female category, the gap between those who applied for funding and those who did not was relatively large, with only 38% having applied compared to 62% who chose not to. This large gap was observed across all racial groups. Moreover, there were higher proportions of male applicants than female ones across all races, the largest group of these males being Black entrepreneurs, which could reflect a skewed distribution of male to female entrepreneurs and Black to other ethnic groups in our sample pool.

HAVE YOU APPLIED FOR FUNDING?

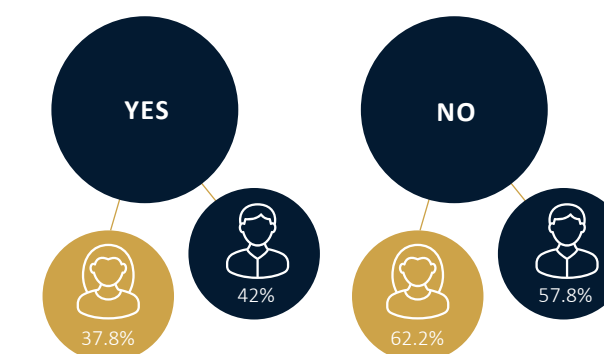


Table 59: Funding applications by gender

for funding more often than those that were below the R1-million margin, demonstrating considerably less inclination to apply for financial assistance. This could be explained by the fact that an SMME's financial history is a key factor that funders consider in the risk-assessment process before awarding funding. As will be discussed later in this section, having a negative financial history was one of the most important factors that limited entrepreneurs' chances of receiving funding.

Based on this and the analysis of the sample pool's revenue, it could be inferred that the profile of the most likely funding applicant in our sample is a Black male entrepreneur with a post-graduate degree who is running a medium-to-large-sized business with a turnover of more than R5 million.

SMME REVENUE CATEGORIES	HAVE NOT APPLIED FOR FUNDING	HAVE APPLIED FOR FUNDING
>R1 million	61.3%	38.7%
R1 – R5 million	50.5%	49.5%
R5.1 – 10+ million	45.8%	54.2%

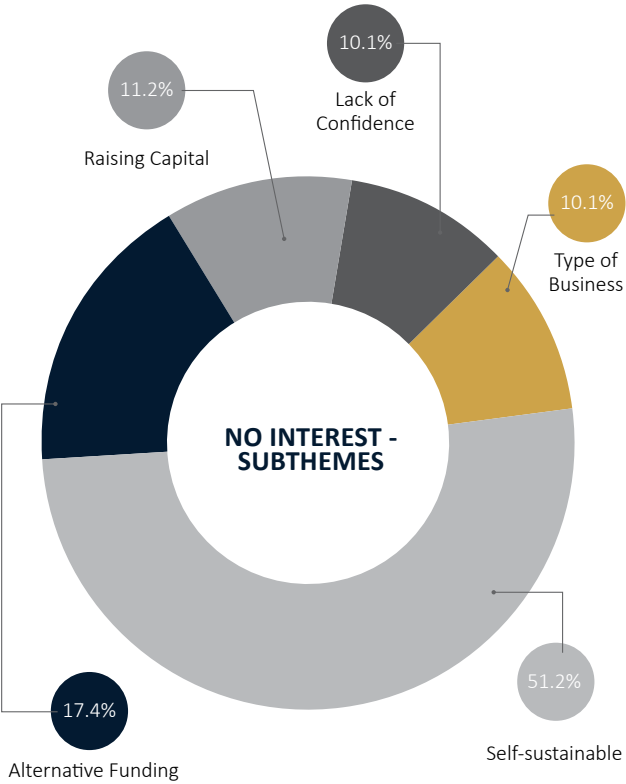
Table 52: Funding application by SMME revenue

Over half of respondents (51.2%) who were not interested in applying for funding highlighted self-sustainability as the main reason for not doing so. However, it was alarming to note that those who cited challenges with meeting the funding requirements alluded more to compliance bottlenecks (45.7%), with many referring to difficulties in the procedural aspects of applications.

Moreover, the fear of debt and high interest rates, as well as an overall lack of confidence in their eligibility to receive funding, especially for SMMEs with revenues below R1 million, were also frequently mentioned as key factors that held entrepreneurs back from considering the option of seeking external funding.

“... in South Africa, there’s only certain people who get funding. The funding requirements for small businesses make it almost impossible to get ... For example, some funders will require three years bank statements from SMMEs. If you’ve just started out, how are you going to provide that?”

Consultancy entrepreneur, Tshwane



These findings confirm assertions from other literature that tedious and complex application processes, countless documentation requirements, long feedback waiting periods, as well as high fees and interest rates discourage SMME entrepreneurs from considering financial assistance, particularly from traditional financial service providers.²⁶

“There’s a lot of bureaucracy, and I don’t like paperwork. You’ll hand something in, and there’s always something else that they want from you.”

Construction entrepreneur, South Africa

6.2.1 FUNDING NEEDS

A study conducted by Finfind on SMME funders and finance seekers found that about 62% of funding requests in South Africa are for working capital, purchase of equipment and new assets to enable business expansion and to get the business off the ground.²⁷ Similarly, when asked to select the reasons why they needed financial assistance, the most

common reasons in the study were to buy equipment (20.6%), to expand the SMME (16.5%) and to have working capital (14.7%). Other SMME owners needed funding to fulfil their growth ambitions (10.8%) and to have enough cashflow (10.6%) to cover expenses or to renovate their SMME and develop new products and services.

FINANCE NEEDS:

N = 553

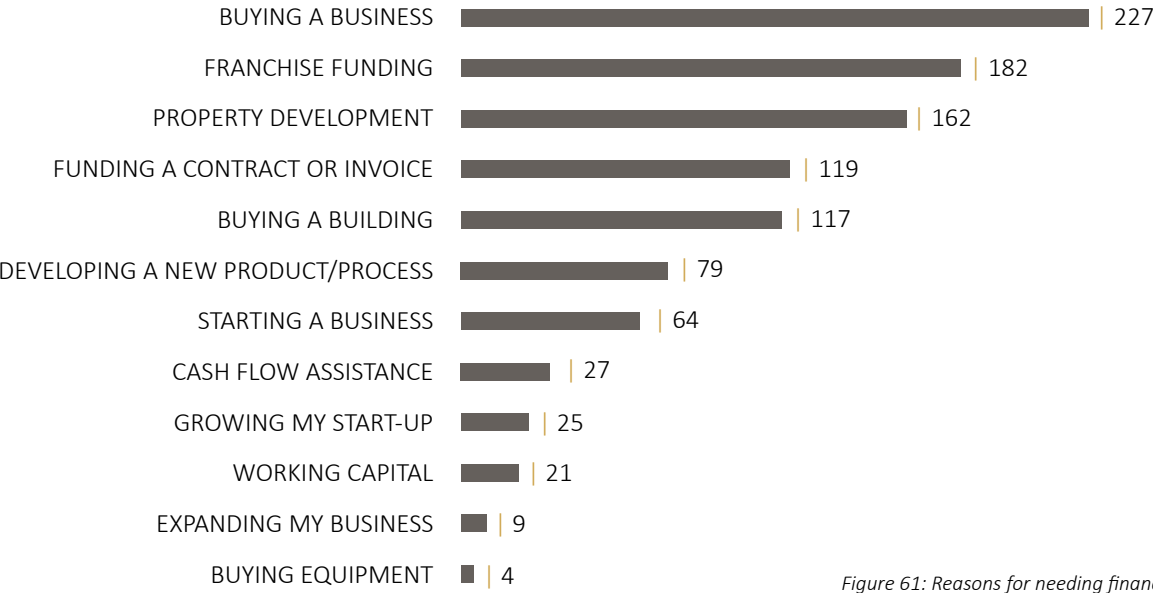


Figure 61: Reasons for needing financial assistance

The funding needs for entrepreneurs were the same across SMMEs owned by males and females, youth and non-youth, although female entrepreneurs needed funding to expand their businesses and to have a working capital slightly more often than males, whose highest financing needs were for equipment.

WHY DID YOU NEED FINANCE?	%	FEMALE	MALE
Buying equipment	22%	21.2%	22%
Expanding my business	17.62%	18.36%	17.33%
Working capital	15.68%	17.48%	14.44%

Table 53: Funding needs by gender

Conversely, these needs were observed to be significantly different across the different ages of SMMEs and in their varying sizes. While over a quarter of younger SMMEs (less than two years old) needed funding for working capital, businesses that have been in operation for three to five years cited needing financing to either start another business or to buy equipment. Older SMMEs (more than five years old), on the other hand, had two priorities in addition to buying new equipment, which were to fund contracts and invoices and to maintain their cashflow.

SMMEs with lower turnovers (less than R1 million) had equipment as their priority need, while those with revenues of R1 to R5 million needed funding primarily to expand their operations. Those with the highest turnover (those that were more than 5 years old) also needed funding for expansion capital. These trends are particularly interesting because, as mentioned earlier, every stage of an SMME’s life has different financial requirements, which may contribute to the inevitable if not met.

²⁶ Mattus, B., “3 financing options for small businesses”, BizCommunity, 2018. <https://www.bizcommunity.com/Article/196/517/185704.html>

²⁷ “Inaugural South Africa SMME access to finance report”, Finfind, 2018. <https://www.accesstofinancereport.co.za/pdf/INAUGURAL-REPORT.pdf>

0-2 YEARS OLD SMMES	%	3-5 YEARS OLD SMMES	%	6-8 YEARS OLD SMMES	%
Working capital	28.57%	Buying equipment	50%	Buying equipment	33.33%
Buying equipment	17.14%	Starting a business	50%	Cashflow	33.33%
Growing my start-up	17.14%	Funding a contract or invoice	2.86%	Funding a contract or invoice	33.33%

Table 54: The top three funding needs for SMMEs by business age

6.2.2 SUCCESS AND SOURCES

Overall, many financing sources are available to SMME entrepreneurs, with the most common ones being debt finance, banks, angel investors, private equity, venture capital and government grants. However, research has shown that entrepreneurs are not always aware of all the funding options available to them, and when they are, they don't always know which options best match their particular business and financial needs or which ones offer the best terms and rates.²⁸ Government and, to an extent, banks continue to be the main funding contributors in the South African SMME landscape. Likewise, when asked to select all the financial institutions they have sent applications to, government

institutions appeared to be the primary source that SMME entrepreneurs in our sample pool considered (n = 205). Accelerators or fellowship programmes (n = 140) and banks (n = 103) were also commonly considered. Private companies, family and friends, angel investors and foundations or non-profit organisations were only contemplated by relatively smaller numbers of the pool's funding applicants. There is growing evidence that crowdfunding campaigns are emerging as a popular source of funding for startups.²⁹ However, only 11 entrepreneurs in the survey utilised this source, making it the least contemplated source of financial assistance in this sample pool.

TYPES OF FUNDING INSTITUTIONS

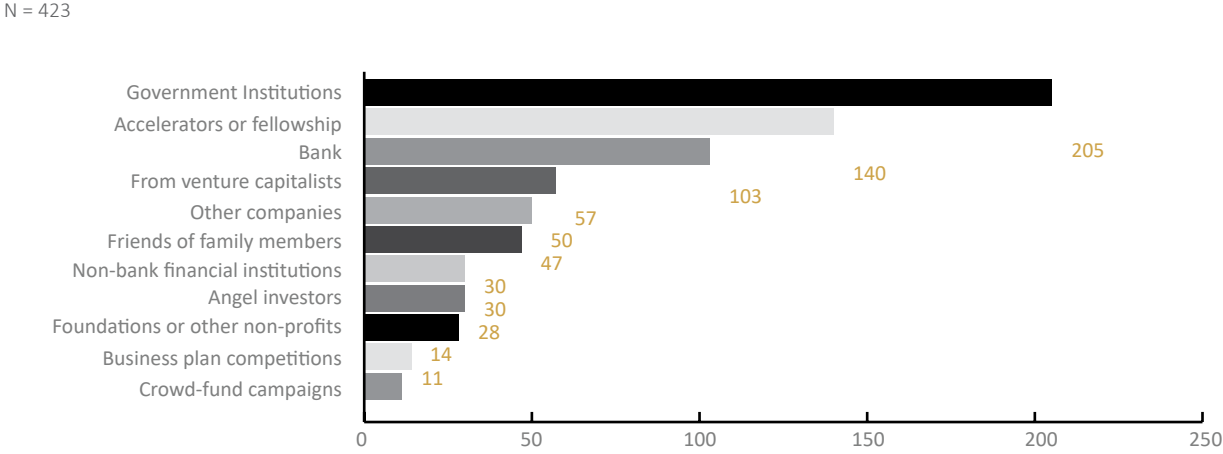


Figure 62: Types of funding institutions that SMMEs applied to

While there were no significant differences between the characteristics of respondents who applied for funding to the different institutions, it was interesting to note that SMME owners whose businesses are in the lower revenue category (up to R3 million) sought funding from government more than any other institutions, while those with higher turnover showed more flexibility

in terms of the funding institutions they applied to. This is because traditional finance providers like banks choose to fund established businesses more often than startups as they present a lower risk for them. This highlights the need for funding models that are able to accommodate SMMEs who have the largest need for financial assistance.

The success of these funding applications, however, was not always guaranteed. When asked if they received the funding assistance that they applied for, over half of respondents said that they did not (56%) compared to the 44% who did.

SUCCESSFUL FUNDING APPLICATIONS

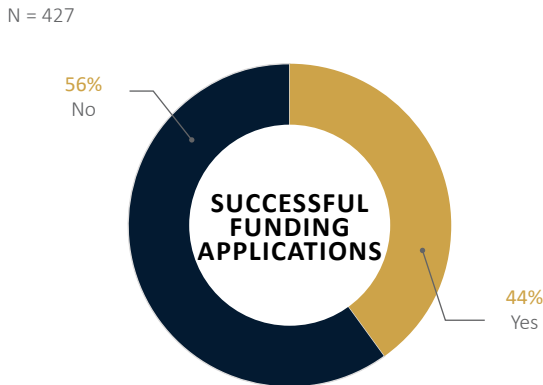


Figure 63: Proportion of entrepreneurs that received funding

Some respondents indicated sending more than one funding application at a time and to different funders, bringing the total number of applications to 548 with a success rate of 35%. Most entrepreneurs applied for government grants, with a 43% success rate, followed by loans at 28% success. Equity finance and overdrafts were also common options, being successfully applied for 33% and 32% of the time respectively.

Table 55: Financial application success by funding type

Interestingly, SMME entrepreneurs who requested financial assistance from venture capitalists had the highest success rate (60%), while more than three-quarters of those who applied for funding assistance from government institutions, non-bank financial institutions and crowdfunding campaigns did not successfully receive the funding that they applied for.

Further analysis of funding recipients was conducted to see if there was a difference between males and females who acquired funding. Remarkably, there was no significant difference in this regard. This is encouraging as it reflects the efforts that the South African government and other stakeholders are investing in, ensuring gender equality in entrepreneurship activities in the country. Reports have shown that more financiers have begun to make provisions for female SMME owners by creating funding opportunities that are gender specific. This is a great step in empowering female entrepreneurs and in closing the gender divide in entrepreneurship.

N = 409

WHAT TYPE OF FUNDING	APPLIED	RECEIVED	SUCCESS RATE
Factoring	0	1	100%
Grant	267	114	43%
Equity	43	14	33%
Overdraft	31	10	32%
Loan	199	55	28%
Invoice finance	8	1	13%
TOTAL	548	195	36%

WHAT TYPE OF FUNDING	APPLIED
Venture capitalists	60%
Friends and family members	49%
Accelerators or fellowship programmes	46%
Other companies	46%
Foundations or other non-profits	43%
Business plan competitions	43%
Banks	40%
Angel investors	40%
Crowd-fund campaigns	36%
Non-bank financial institutions	34%
Government institutions	32%
Total	35%

Table 56: Success rates of funding applications by financial institution applied to

²⁷ Padiaychee, T., "Access to finance: the disconnect between entrepreneurs and financiers", Gordon institute of business science; University of Pretoria, 2016. https://repository.up.ac.za/bitstream/handle/2263/52286/Padiaychee_Access_2016.pdf?sequence=1&isAllowed=y

²⁸ "Scaling small businesses with alternative finance", Economic Times, 2019. <https://economictimes.indiatimes.com/small-biz/sme-sector/scaling-small-businesses-with-alternative-finance/articleshow/68298159.cms?from=mdr>

Comprehensive examinations of these results revealed a significant link between funding and SMME survival. Over 90% of businesses that received funding were still operational, while the 7.5% that received funding discontinued. On the other hand, 75% of SMMEs that

did not receive funding discontinued compared to only a quarter that survived. This further emphasises the importance of funding in the sustainability and survival of an SMME.

IS THE BUSINESS STILL OPERATIONAL?	DID YOU RECEIVE FUNDING?	
	YES	NO
Yes	92.47%	25%
No	7.53%	75%

Table 57: Relationship between funding and business survival

Looking at the correlation between the duration that SMME owners spent in the BDS programme and their success in receiving funding, there appeared to be a relationship between these two variables. Respondents who were in the programme for longer than six months had higher chances of receiving funding, where those who attended the programme for less than six months had a reduced chance. This was particularly true for respondents who stayed in BDS programmes for seven to 12 months, who showed the highest proportions of successful funding applications (64.8%).

While these success rates seem to be higher than those reported in other similar studies (a LulaLend study reported a 76% rejection rate for funding applications),³¹ there is currently a shortage of literature and statistics on the national proportion of SMMEs that apply for funding and those that successfully receive it. However, based on the results of this survey, it can be observed that attending a BDS programme may increase an applicant’s chances of accessing funding, particularly if attendance is for a period longer than six months.

DOES SPENDING MORE TIME IN PROGRAMMES INCREASE FUNDING CHANCES?

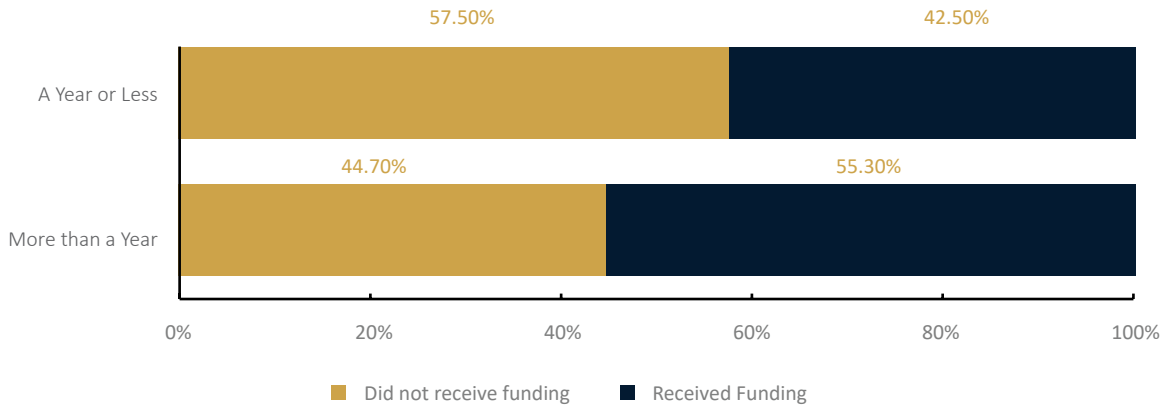


Figure 64: Comparison of funding receipts with time spent in programmes

More than half of those SMMEs who successfully received funding (56.3%) acquired a maximum value of R100,000. Around a fourth of surveyed applicants (25.7%) received funding between R100,000 and R250,000, and about 10% received between R250,000 and R1 million. Only 8.7% obtained more than R1 million. Interestingly, SMME entrepreneurs who were awarded funding of more than R1 million received the funds through accelerators or fellowship programmes, followed closely by government grants, venture capitalists, business plan competitions and other companies and less often from banks.

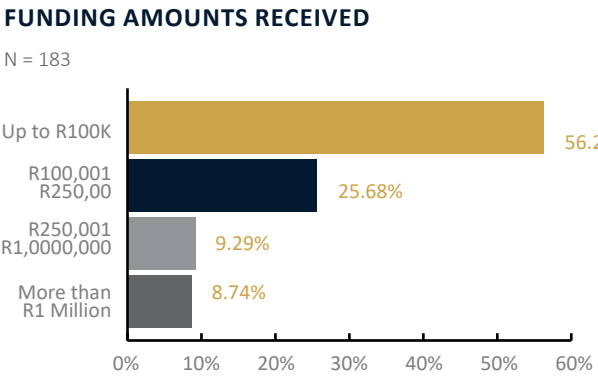


Figure 65: Ranges of funding received from successful applications

FINANCIAL INSTITUTION APPLIED TO	AMOUNT RECEIVED			
	<R100,000	R100,001 – R250,000	250,001 – R1 MILLION	>R1 MILLION
Banks	14	17	4	2
Non-Bank financial institutions	4	2	3	1
Venture capitalists	25	3	2	3
Angel investors	3	6	1	1
Other companies	11	7	2	3
Government institutions	30	19	11	4
Foundations or other non-profits	3	3	4	2
Accelerators or fellowship programmes	33	17	7	5
Friends and family members	10	10	2	1
Business plan competitions	3	1	0	3
Crowdfunding campaigns	2	2	0	0

Table 58: Amount of funding received by financial institution

Scrutiny into funding allocated to male and female entrepreneurs revealed a significant difference between the amounts that were awarded to the two groups in our sample pool. The largest differences were observed in the allocation of funding valued at R250,000 and

higher. More male entrepreneurs were beneficiaries of funds higher than R250,000 where there was less of a difference between the two groups when amounts of less than R250,000 were awarded.

FUNDING AMOUNT RECEIVED	FEMALE	MALE
>R1 million	12.5%	87.5%
R250,000 – R1 million	17.6%	82.4%
R100,001- R250,000	40.4%	59.6%
Up to R100,000	46.6%	53.4%

Table 59: Funding amount received by gender

Further analysis was conducted to test if there was a relationship between funding and the time an entrepreneur spent in a BDS programme. First, we analysed the trend between the two variables. The graphs below suggest that entrepreneurs who spend between seven and 18 months were more likely to receive funding. The funding success rates were the lowest for entrepreneurs who spend less than three

months in BDS, so seven to 12 months seems to be a critical duration as after that the graph takes a deep dive. We further investigated if this trend was of significance by conducting a chi square test, and the results showed that there was a significant relationship between funding and time spent in BDS programme at p-value less than 0.05.

TIME SPENT IN BDS PROGRAM	FUNDED	NOT FUNDED	TOTAL
Less than 3 months	26.09%	73.91%	92
3- 6 months	42.29%	57.71%	227
7- 12 months	64.20%	35.80%	81
12- 18 months	60.00%	40.00%	10
More than 18 months	47.06%	52.94%	17

Table 60: Funding by time spent in programme

TIME SPENT IN BDS PROGRAMS

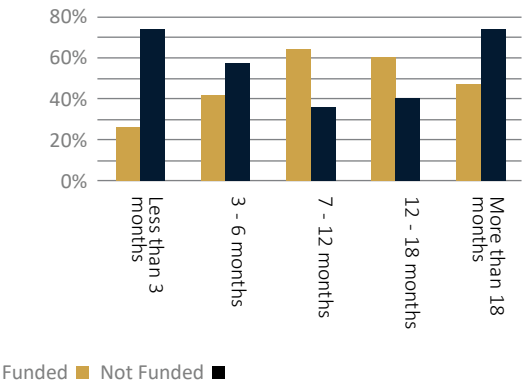


Figure 66: Funding received by time spent in programme

³¹ “SME failure rate set to spike unless funding is addressed – LulaLend survey”, Ventureburn, 2017. <https://ventureburn.com/2017/11/sme-failure-rate-set-spike-unless-funding-issue-addressed-lulalend-survey/>

6.2.3. APPLICATION FAILURE

In order to gauge the reasons for unsuccessful funding applications, entrepreneurs in our sample pool were asked to select and rank five factors, out of nine options provided, that they believed were the main reasons that impacted their chances of receiving funding. When looking at the number of respondents who selected a particular factor, the below internal and external factors were the most chosen by order of frequency:

- insufficient collateral or surety (47%),
- limited availability of finances from the funder (37%),
- bad or no financial records and statements (28%),
- not having good business skills and a convincing business plan (27%), and
- little or no expert guidance (26%)

However, when they were asked to rank the nine factors on a scale of one to 10 (where one represented the least limiting factor and 10 was the most limiting), bad business or personal credit score was rated the most limiting factor, with a mean score of 9.02 out of 10. This was followed by limited availability of finances from the funder, high interest rates, bad or no financial records and statements and insufficient collateral or surety, with mean scores between 7.9 and 7.4.

Although the absence of expert guidance and bad business skills or lack of a convincing business plan were among the most selected limiting factors in getting finance, they were ranked the lowest out of 10, suggesting that they were not as important.

Regardless of the discrepancies between what participants identified as the limiting factors and how they rated these factors, research has shown that most SMME entrepreneurs are denied funding due to

Respondents were further probed to provide other reasons for not receiving financial assistance. The majority (46.5%) indicated that they did not receive feedback from the funder. Others said that they did not meet the funding requirements (22.5%), particularly with regard to required documentation. These documentary requirements are not standardised across institutions and vary greatly depending on the funder, the assistance or amount required, as well as the structure or type of funding being applied for.

About 22% of respondents did not receive funding because of the size, the structure and the poor financial history of their SMME, particularly with businesses that have small turnovers,

N = 198

LIMITING FACTORS	FREQUENCY	MEAN
Insufficient collateral or surety	94	4.57
Financing not available at all	74	4.18
Bad or no financial records and statements	56	4.48
Good business skills and plan	54	7.50
Little or no expert knowledge	53	7.53
Sales pitch	45	5.67
Bad business/ personal credit score	43	2.98
Interest rates or price too high	42	4.45
There are no obstacles	36	4.03
Reduced control over the firm	30	5.57

Table 61: Limiting factors when applying for finance

most, if not all, of the factors listed above, with limited operating and financial history, insufficient cashflow, inadequate collateral or a negative credit history being the most common factors.³² In addition, unstructured business plans and unsustainable ideas greatly thwart funding opportunities for SMMEs and limit their bargaining power with potential funders.³³

which often present high risks for funders. Other respondents (19.7%) emphasised difficulties with the overall application process, more specifically issues of red tape and absence of sufficient guidance both from their BDS providers and the funding institutions themselves. Difficulties with funding applications have commonly been reported in other studies as key barriers to funding access. A survey conducted by LulaLend found that cumbersome regulatory requirements, extensive paperwork and long application processing times are among the greatest challenges faced by SMME funding applicants in South Africa.

“I didn’t know anyone in governance then, so they couldn’t give me funds’

Telecommunications entrepreneur, Tshwane

“I think politics play a role in funding access”

Agricultural entrepreneur, Polokwane

³² “An Assessment of South Africa’s SME Landscape: Challenges, Opportunities, Risks & Next Steps”, SME South Africa, 2019. https://smesouthafrica.co.za/wp-content/uploads/2019/07/SME_Landscape_Challenges.pdf

³³ “The small, medium and micro enterprise sector of South Africa”, SEDA, 2016. <http://www.seda.org.za/Publications/Publications/The%20Small,%20Medium%20and%20Micro%20Enterprise%20Sector%20of%20South%20Africa%20Commissioned%20by%20Seda.pdf>

OTHER REASONS FOR NOT RECEIVING FINANCE - THEMES

N = 142

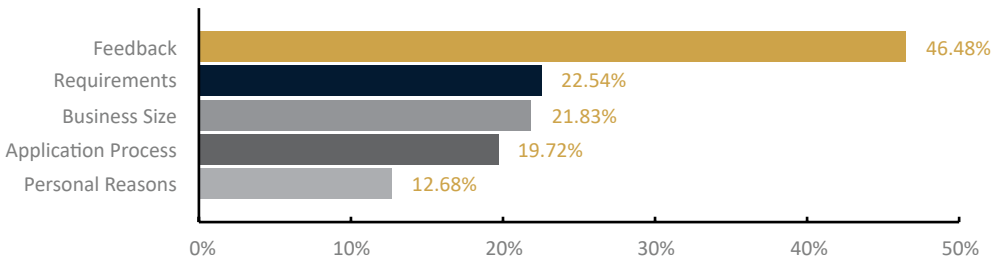


Figure 67: Established themes from “Other” hindrances to receiving financial assistance

THEMES AND SUBTHEMES	NO. OF TOUCH-POINTS	% OF TOTAL
APPLICATION PROCESS	28 (28)	19.72%
Tedious	4	14.29%
Red tape	16	57.14%
Guidance	8	28.57%
BUSINESS SIZE	31 (37)	21.83%
Start-up	10	27.03%
Structure	14	37.84%
Business financials	13	35.14%
FEEDBACK	66 (70)	46.48%
No response	30	42.86%
In process	19	27.14%
Rejection	10	14.29%
Insufficient funds	11	15.71%
PERSONAL REASONS	18 (19)	12.68%
General	12	63.16%
Self-sufficient	7	36.84%
REQUIREMENTS	32 (34)	22.54%
Age restrictions	3	8.82%
Contract	6	17.65%
Identification	8	23.53%
Paperwork	17	50%

FEEDBACK - SUBTHEMES

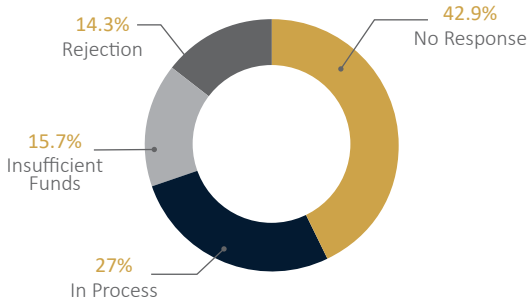


Figure 68: Subthemes established in the “Feedback” theme

Table 62: Theme and subtheme counts from hindrances to receiving financial assistance



6.3. BDS ASSISTANCE WITH FUNDING

Respondents were asked to rate the assistance that they received from BDS providers in accessing funding. It was troubling to note that there were more negative responses (n = 730) than positive ones (n = 565) regarding BDS providers’ assistance with funding. Those who disagreed the most lamented about the BDS providers’ inability to offer enough assistance with completing funding applications and preparing the supporting documents to meet funding requirements.

On the other hand, those who agreed that the interventions were helpful emphasised that BDS providers assisted greatly with the preparation of financial records and statements, the identification of the different funding vehicles and the preparation of business plans. This is encouraging considering that, as mentioned earlier, SMME entrepreneurs’ inability to present good financial records and a convincing business plan were among the top five reasons for unsuccessful funding applications.

FINANCING ASSISTANCE FROM BDS PROVIDER

N = 627

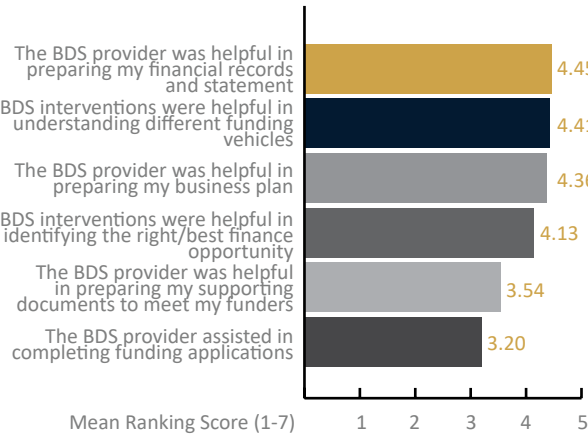


Figure 69: Assistance received from BDS provider in securing funding

After rating the financing assistance that the SMME entrepreneurs received from their respective BDS providers, they were asked in an open-ended question to specify what the BDS providers could have done better to assist with their access to finance. A thematic analysis of their responses revealed that there is a general need for improvement in the assistance that BDS programmes provide, both monetary and educational, as indicated by a third of respondents (30.3%). About a quarter of SMME owners (25.9%) contended that BDS providers could have assisted them with direct access to funds, particularly government funds and other investors and supplier databases, while another quarter (25.3%) pointed to resources, indicating that BDS providers could have offered some cash to get their SMMEs off the ground and to buy equipment.

In addition, over a fifth (23.4%) of respondents noted the need for more guidance, particularly practical and tailored mentorship regarding their eligibility to receive funding or guidance with the overall application process.

DESIRED BDS PROVIDER ASSISTANCE - THEMES

N = 370

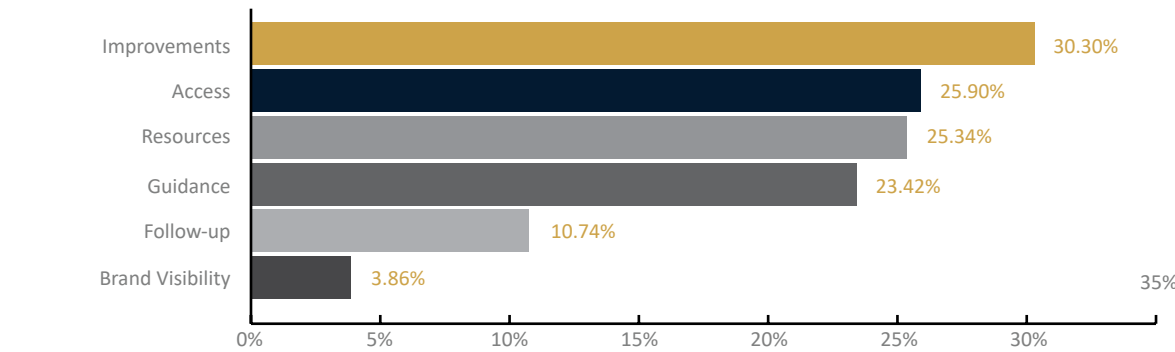


Figure 70: Established themes from types of BDS assistance needed

THEMES AND SUBTHEMES	NO. OF TOUCH-POINTS	% OF TOTAL
ACCESS	94 (113)	25.9%
Government funds	36	31.86%
Investors/suppliers database	34	30.09%
Business partnerships	15	13.27%
Remote mentorship	11	9.73%
Market	17	15.04%
BRAND VISIBILITY	14 (16)	3.86%
Products/service endorsement	11	68.75%
Marketing	5	31.25%
FOLLOW-UP	39 (52)	10.74%
Post-programme mentorship	15	28.85%
Continuous mentorship	19	36.54%
Progress monitoring	18	34.62%
GUIDANCE	85 (123)	23.42%
Clear communication	19	15.45%
Practical and specialised mentorship	27	21.95%
Documentation	17	13.82%
Application process	22	17.89%
Business plan	20	16.26%
Product development	12	9.76%
Financial management	6	4.88%
IMPROVEMENTS REQUIRED	110 (116)	30.3%
General	59	50.86%
Sufficient assistance	45	38.79%
All attempts failed	12	10.34%
RESOURCES	92 (107)	25.34%
Finances/cash	81	75.70%
Equipment	23	21.50%
Collateral	3	2.80%

Table 63: Theme and subtheme count from financial BDS assistance needed

While South Africa has the available funding to invest into SMMEs, aspiring entrepreneurs perceive access to funding as a challenge. Therefore, it is incumbent upon BDS providers to bridge the disconnect between financiers and entrepreneurs in terms of access to finance, enhancing support with application completion, guidance throughout the application process, coaching in SMME record keeping and the arrangement of financial statements, as requested by our survey pool.

RESOURCES - SUBTHEMES

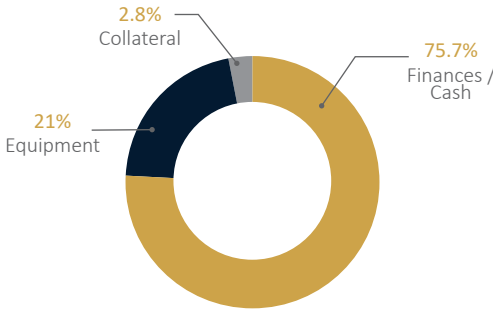


Figure 71: Subthemes established in the “Resources” theme

“They could have assisted in getting a hold of some funding models, understanding different finance opportunities, furthermore, gaining access to different funders and investors.”

Food and beverages entrepreneur, Tshwane

“The BDS provider could have given in-depth education and practical mentorship on access to markets and financial assistance.”

Scientific and technical entrepreneur, Gauteng

7 ASSESSING KEY BDS PRINCIPLES

7.1 SME PERFORMANCE

In order to measure the impact of BDS programmes on SMME performance, entrepreneurs in our sample pool were asked to indicate how well their businesses grew between 2017 and 2018 on a number of performance indicators, including revenue, profit made and the number of jobs created. Their responses were noted on a Likert scale ranging from one to five, where one represented a substantial decline (of more than 20%); two, a moderate decline (of less than 20%); three, no change; four, moderate growth (of less than 20%); and five, substantial growth (of more than 20%).

The results, as summarised in Table 64 below, show that, out of 732 SMMEs surveyed, close to two-thirds grew either moderately (as indicated by 35.3% of the sample) or substantially (as noted by 29.4% of respondents) in

revenue between 2017 and 2018 compared to the almost third who registered either a decline or no change in their annual turnover over in the same period. Furthermore, over half of the SMMEs in this sample (58.3%) experienced some growth in their annual profits, while the other almost half indicated that their profit margin either stayed the same or declined in the one-year period, indicating a slow growth in SMME gross profitability.

In terms of their contribution to employment, it was discouraging to note that almost half of the businesses (48.0%) did not create any new jobs in the one-year period and about 20% had to cut out some of the job opportunities that they had initially created. Only about a third (33.5%) of SMMEs entrepreneurs reported improvements in their contribution to job creation.

There is no difference in the average performance of male and female entrepreneurs when it comes to annual revenues. However, female-owned businesses performed better than their male counterparts on profit margins

and annual profit while male SMME owners created jobs better than females. This suggests that there is a trade-off between jobs created and increased profit margins.

N = 732

PERFORMANCE INDICATORS	ESTIMATE ANNUAL REVENUE 2017 TO 2018	ESTIMATED ANNUAL PROFIT 2017 TO 2018	PROFIT MARGIN 2017 TO 2018	JOBS (FULL & PART-TIME) 2017 TO 2018
Declined substantially (over 20%)	11.66%	12.00%	12.18%	8.06%
Declined moderately (less than 20%)	8.09%	9.52%	12.36%	10.52%
Stayed the same	15.64%	20.14%	27.27%	47.95%
Grew moderately (less than 20%)	35.25%	34.34%	32.36%	21.58%
Grew substantially (over 20%)	29.36%	24.00%	15.82%	11.89%

Table 64: Performance indicators for 2017 to 2018

The performance of SMMEs differs by size of the businesses measured in turnover. Businesses with between R1 and R5 million turnover created jobs better than those in the other categories. It is evident that the bigger the business in terms of turnover, the higher the performance in profits.

#	FIELD	FEMALE	MALE
1	Jobs (full & Part-time)	3.12	3.26
2	Profit margin	3.30	3.26
3	Estimated annual profit	3.51	3.49
4	Estimate annual revenue	3.64	3.64

Table 65: Performance indicators by gender

While the poor performance in job creation of our sample of SMMEs may not be representative of the broader context of the South African SMME landscape, there are studies that have found that, contrary to popular belief, SMMEs do not contribute significantly to employment. A study by the Small Business Institute, for instance, revealed that formal SMMEs, which comprise 98.5% of all formal businesses, employ only 28% of the formal workforce, with the large majority

DID YOU RECEIVE FUNDING	DECREASED MORE THAN 20%		DECREASED LESS THAN 20%		STAYED THE SAME		INCREASED LESS THAN 20%		INCREASED MORE THAN 20%	
	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO
ANNUAL REVENUE	20.7%	79.3%	35.3%	64.7%	31.9%	68.1%	50.5%	49.5%	61.7%	38.3%
JOBS	12.5%	87.5%	33.3%	66.7%	44.6%	55.4%	60.3%	39.7%	53.1%	46.9%
ANNUAL PROFIT	22.7%	77.3%	29.2%	70.8%	40.3%	59.7%	52%	48%	57.6%	42.4%

Table 67: Comparison of performance for funding application success

Further analysis was conducted to test the relationship between access to funding and SMME performance. As suggested earlier in this report, access to funding was registered as a key component of business growth and success and was observed to have a positive impact on all the performance indicators assessed in this survey. As illustrated in Table 67 above, SMMEs that successfully received funding performed significantly

FIELD	<R1 MILLION	R 1 - R 5 MILLION	> R 5 MILLION
Jobs (full & art-time)	3.17	3.36	3.27
Profit margin	3.25	3.42	3.70
Estimated annual profit	3.47	3.57	4.00
Estimate annual revenue	3.61	3.81	3.93

Table 66: Performance indicators by turnover

of survivalist and unestablished SMMEs not creating additional employment opportunities.³⁴ This paints a dismal picture of SMMEs' contribution to job creation and suggests that the SMME sector needs to be revitalised through impactful BDS programmes and conducive policies, if they are to ease the burden of unemployment and generate 90% of the 11 million new jobs aimed for in the National Development Plan by 2030.

better in terms of annual revenues and profits and in the number of jobs created compared to those that were refused funding. This further emphasises the importance of access to funding for the sustainability and growth of an SMME, particularly in the early stages of business life, without which the probability of business growth and creation of jobs was highly unlikely.

When looking at the performance of SMMEs according to different business factors, it was evident that over three-quarters registered moderate to substantial growth in the number of products and services sold, in the expansion of their customer base and in the number of contracts secured. This is a positive trend to note given that these factors are among the key foundations of a business's sustainability and ability to maintain optimal cashflow.

However, little growth was noted in exportation of products, in entrepreneurs' ability to secure tenders and in accessing corporations listed on the JSE for potential collaboration. It is important that SMMEs are provided with the opportunity to access large companies' assets and delve into established

companies' export channels to allow them to expand their market reach. Therefore, assisting SMMEs with expansion into other international markets, facilitating tendering processes and co-operative partnerships with JSE-listed corporate organisations should be given particular emphasis in BDS programmes. Furthermore, while a variety of factors – including the sector of operation, SMME size, tax obligations and the country's overall economic performance – greatly impact the profitability and success of a business, there is a need for joint efforts from all role-players involved to devise effective solutions to the blockages that are hindering the growth and expansion of SMMEs into local and international markets.

³⁴ "The number of formal micro, small & medium businesses in South Africa: Preliminary findings of state 1 of the baseline Study of Small Businesses in South Africa", The Small Business Institute (SBI), 2018. <https://www.smallbusinessinstitute.co.za/wp-content/uploads/2018/10/SBIbaselineAlert1final.pdf>

N = 912

GROWTH LEVEL DESCRIPTION	CUSTOMERS	PRODUCTS AND SERVICES SOLD	CONTRACTS SECURED	ACCESS TO CORPORATES LISTED ON JSE	TENDERS	EXPORTS
Decreased substantially	4.15%	4.10%	6.63%	14.57%	16.10%	19.11%
Became smaller	6.11%	4.80%	5.20%	6.69%	6.74%	5.10%
Stayed the same	21.43%	21.19%	32.08%	46.85%	38.20%	42.68%
Grew moderately (less than 20%)	35.25%	36.77%	34.77%	21.65%	24.34%	19.75%
Grew substantially (over 20% or more)	33.06%	33.14%	21.33%	10.24%	14.61%	13.38%
Total Responses	910	907	902	908	905	895

Table 68: SMME growth according to business factors

In order to establish if motivational factors for entrepreneurship have a spill-over effect on the performance of a business, a few correlation and regression diagnostics were conducted on the top three motivations that pushed SMME owners in our survey pool to entrepreneurship and how their businesses performed over the one-year period between 2017 and 2018. The results revealed a positive and significant

association between the desire for independence or financial freedom and all the performance indicators assessed, although this relationship was not very strong ($r = 0.2\text{--}0.3$). Opportunity-driven entrepreneurs and those who were driven by the need for achievement and success did not contribute significantly to job creation, although their SMMEs appeared to be quite profitable.

PERFORMANCE INDICATORS	NEED FOR ACHIEVEMENT AND SUCCESS	THE DESIRE FOR INDEPENDENCE AND FINANCIAL FREEDOM	OPPORTUNITY - I TOOK ADVANTAGE OF A NEW BUSINESS OPPORTUNITY
Annual revenue	0.10	0.23**	0.10
Jobs	0.05	0.13**	0.07
Annual Profit	0.17**	0.28**	0.13*
Profit Margin	0.18*	0.27**	0.10
*. Correlation is significant at the 0.05 level (2-tailed) **. Correlation is significant at the 0.01 level (1-tailed)			

Table 69: SMME performance by top three motivations for entrepreneurship

Apart from the motivations for entrepreneurship and determination, certain characteristics of entrepreneurs seem to also be relatable to business performance. For example, female or non youth entrepreneurs reported slightly more growth in revenue and profitability than male or youth run SMMEs, although the differences were not statistically significant. Male SMME owners, however, reported significantly more growth in terms of job creation compared to female ones. Pertaining to education, highly educated SMME owners (those with post graduate qualifications) showed better performances across all four performance indicators, although the difference with SMMEs owned by less qualified entrepreneurs was statistically significant only in terms of annual revenue growth.

This focus on individual-level demographics and characteristics of entrepreneurs in relation to their performance should assist BDS providers in their efforts to develop effective targeted interventions aimed at increasing the productivity of the various groups of entrepreneurs according to their attributes. SEDA argues that the broader South African economy is in too serious a predicament to give any SMME support that would not be overshadowed by adverse business conditions.³⁵ While this is true, promoting SMME support interventions that differentiate between the needs of SMMEs by certain characteristics and which are aligned with entrepreneurs' particular needs and abilities are imperative.

³⁵ "SMME Quarterly Update: 1st Quarter 2019", The Small Enterprise Development Agency, 2019. <http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%202019-Q1.pdf>

N = 370

PERFORMANCE MEASURES	GENDER		AGE		EDUCATION		
	MALE	FEMALE	YOUTH	NON YOUTH	HIGH SCHOOL	DEGREE/ CERTIFICATE	POSTGRADUATE
Estimated annual revenue	3.64	3.64	3.68	3.59	3.53	3.72	3.72
Jobs (full & Part-time)	3.26	3.12	3.22	3.16	3.11	3.11	3.33
Estimated annual profit	3.49	3.51	3.51	3.48	3.38	3.47	3.63
Profit margin	3.26	3.30	3.27	3.31	3.24	3.36	3.53

Table 70: SMME performance (mean scores) by entrepreneurs' characteristics

7.2 MENTORSHIP AND FEEDBACK

Looking into the factors that would create a conducive environment for successful entrepreneurship, a number of studies have highlighted that training, mentoring and coaching, in addition to financial support, do contribute significantly to the success of SMMEs.³⁶ To ascertain the relevance of mentorship in the success of a business, we conducted correlational analyses between how entrepreneurs in our sample pool rated the contribution of BDS mentorship to the growth and competitive advantages of their businesses versus how they performed on revenue indicators. Interestingly, the results showed that mentorship from BDS providers contributed significantly to the performance of an SMME, where over 70% of SMME entrepreneurs who registered substantial revenue and profit increases attributed their business growth and competitive advantage to BDS providers' mentorship.

While there is need for more research to look further into the specifics of what it takes to create a mentoring environment in which entrepreneurs' potential for success is maximised, requests for more targeted and specialised mentorship and feedback were highly voiced by our survey pool. The need for customised mentorship was noted in multiple instances, including when participants reflected on the reasons for their business success or failure or when they ranked the assistance, or lack therefore, that they received from their respective BDS providers.

For instance, when asked to indicate the reasons why they did not receive funding assistance, it was clear that few entrepreneurs had the skills and experience needed to properly package and present their funding request to ensure funding success. In this regard, SMME owners indicated requiring assistance with the completion of their funding application, particularly with the preparation of their business plan and supporting documentation to meet a specific funder's requirements. The need to make entrepreneurs funding-ready was also noted, which could be done through customised mentorship in BDS programmes. It is also important that financiers, both public and private, make structures that aid entrepreneurs with application processes freely available in order to maximise their chances of meeting the eligibility requirements for funding. Moreover, entrepreneurs suggested that BDS providers could introduce continuous mentorship, progress monitoring and post-programme mentorship as types of follow-up services to provide them with further support with their funding applications. The private and public sectors also need to join hands with BDS providers to create an enabling environment that encourages effective uses of finances once they have been awarded to entrepreneurs to improve the success of businesses.



³⁶ Kunaka, C., and Moos M.N., "Evaluating mentoring outcomes from the perspective of entrepreneurs and small business owners", South African Journal of Entrepreneurship and Small Business Management, 11(1), 2019. <https://sajesbm.co.za/index.php/sajesbm/article/view/214/240>

THEMES AND SUBTHEMES	NO. OF TOUCH-POINTS	% OF TOTAL
ACCESS	94 (113)	25.9%
Government funds	36	31.86%
Investors/suppliers database	34	30.09%
Business partnerships	15	13.27%
Remote mentorship	11	9.73%
Market	17	15.04%
BRAND VISIBILITY	14 (16)	3.86%
Products/service endorsement	11	68.75%
Marketing	5	31.25%
FOLLOW-UP	39 (52)	10.74%
Post-programme mentorship	15	28.85%
Continuous mentorship	19	36.54%
Progress monitoring	18	34.62%
GUIDANCE	85 (123)	23.42%
Clear communication	19	15.45%
Practical and specialised mentorship	27	21.95%
Documentation	17	13.82%
Application process	22	17.89%
Business plan	20	16.26%
Product development	12	9.76%
Financial management	6	4.88%
IMPROVEMENTS REQUIRED	110 (116)	30.3%
General	59	50.86%
Sufficient assistance	45	38.79%
All attempts failed	12	10.34%
RESOURCES	92 (107)	25.34%
Finances/cash	81	75.70%
Equipment	23	21.50%
Collateral	3	2.80%

Table 71: Funding assistance from BDS providers

“They weren’t realistic with regards to the kind of issues I had in the company. A lot of it was a blanket approach and far too general to work for all businesses.”

Entrepreneur, Free State

Furthermore, when asked to specify what BDS providers could have done to save their business from closing, over a third of entrepreneurs whose SMMEs failed cited customised or advanced mentorship, practical business training and feedback and follow-ups as some of the main BDS interventions that could have been life-saving for their business. This further supports the argument that SMME survival in a competitive and rapidly changing environment is as much dependent on the quality of mentorship and support that entrepreneurs are provided with as it is on access to funding.

Added to this is the need for more skilled mentors and coaches who have a record of lived business and entrepreneurial experience, which entrepreneurs in our sample believed was lacking in the BDS programmes that they attended. Our survey pool was unhappy about the fact that that most mentors in the BDS programmes that they attended had more theoretical knowledge than practical experience and were thus not always able to provide the sector-specific guidance that they required. It is, therefore, essential that entrepreneurial trainers and BDS mentors have personal, first-hand experience of running a business in the specific areas of support that they offer.

“It’s not functional, the mentors are old and outdated like the program.”

Agricultural entrepreneur, KwaZulu Natal

“It’s a good programme but it could be more practical. The facilitators in the space are not geared into helping businesses get into new markets. They focus on other things outside of business sustainability. A lot of BDS programmes aren’t geared towards personal attention. I find them quite useless. A lot of the mentors have theory knowledge but can’t walk the walk. They should help us get contracts because nothing else matters in importance compared to that.”

Construction entrepreneur, Gauteng

N = 186

THEMES AND SUBTHEMES	NO. OF TOUCH-POINTS	% OF TOTAL
NOTHING	78	42.39%
FUNDING	55 (60)	29.89%
Equipment and infrastructure	17	28.33%
General	43	71.67%
SUPPORT AND MEDIATION	59 (72)	32.07%
Customised/advanced mentorship	25	34.72%
Feedback and follow-ups	10	13.89%
Market access	15	20.83%
Partnership facilitation	8	11.11%
Practical training	14	19.44%

Table 72: BDS assistance options

7.3 MARKET ACCESS

Although access to finance is a necessary factor in the growth and sustainability of entrepreneurial activities, it is not the only fundamental factor. Providing finance in the absence of adequate infrastructure, market opportunities and business and management skills are unlikely to lead to an increase in the number of successful businesses.³⁷ There was strong consensus among the entrepreneurs in our survey pool with respect to a lack of market access being a key challenge to the sustainability of their business operations. For instance, SMME owners who indicated that they were still struggling to access markets reported less growth across all four performance indicated, and the majority had closed their operations. Those who indicated an increase in their market access, on the other hand, were less likely to shut their operations down and reported moderate to significant growth in their annual turnover.

Additionally, close to a quarter (24.73%) of entrepreneurs in our sample pool noted that none of the strategies learnt

BDS programmes commonly offer generic mentorships, which end once participants leave the programmes. Rather, entrepreneurs indicated that they need more targeted and specialised mentorship programmes that focus on equipping them with the personal and management skills that are particularly relevant to the type of business that they are running and the type of industries that they operate in.

in the BDS programme have been particularly effective in increasing their access to markets, while only 10.2% of entrepreneurs believed that market research strategies were effective in increasing their access to markets. This is concerning because market access, or the lack thereof, and the ability to match service offerings with market demands have been reported in this study and other similar studies to be key contributors to the survival or failure of an SMME.³⁸ Moreover, the 2016/2017 GEM study reported that entrepreneurs often lack the knowledge of ways to access markets and do not always research their potential markets during their initial start-up stage, which results in a mismatch between the services and products that they offer and the market’s demands. Therefore, BDS programmes should emphasise interventions that encourage their attending entrepreneurs to carry out market diagnostics during their start-up phase, such as general market research, feasibility studies and risk and opportunity assessments.

³⁷ Herrington, M., Kew, P., and Mwangi, A., “South Africa Report 2016/2017: Can small businesses survive in South Africa?”, 2017. <https://www.gemconsortium.org/economy-profiles/south-africa>
³⁸ “The real state of entrepreneurship survey 2017”, SeedAcademy, 2018. https://www.seedengine.co.za/wp-content/uploads/2018/03/Seed-Academy_Real-State-of-Entrepreneurship-Survey-Results-2017.pdf

THEMES AND SUBTHEMES	NO. OF TOUCH-POINTS	% OF TOTAL
NEUTRAL	78	9.32%
NO STRATEGY	207	24.73%
BUSINESS OPERATIONS	67 (75)	8%
Business management	47	62.67%
Digitisation	8	10.67%
HR development	10	13.33%
Lean business	10	13.33%
BUSINESS STRUCTURE	62 (69)	7.41%
Enterprise development	27	39.13%
M&A	1	1.45%
Pivoting	12	17.39%
Planning	29	42.03%
CONSUMER INTELLIGENCE	125 (143)	14.93%
Customer relations	32	22.38%
Market targeting	51	35.66%
Pricing and sales	60	41.96%
FINANCE	67 (69)	8%
Capital reinvestment	1	1.45%
Financial literacy	19	27.54%
Financial management	47	68.12%
Funding	2	2.90%
MARKET RESEARCH	85 (107)	10.16%
Competitor intelligence	9	8.41%
Feasibility studies	14	13.08%
General	44	41.12%
Opportunity assessment	31	28.97%
Risk assessments	9	8.41%
MARKETING	269 (304)	32.14%
Advertising	19	6.25%
Brand positioning	84	27.63%
Digital marketing	13	4.28%
General	166	54.61%
Social media	22	7.24%
NETWORKING	109 (117)	13.02%
Business networking	63	53.85%
Client acquisition	34	29.06%
Corporate mentorship	13	11.11%
Partnership identification	7	5.98%
PROFESSIONAL ETIQUETTE	68 (72)	8.12%
Negotiations	15	20.83%
Presentation	28	38.89%
Professionalism	29	40.28%

REGULATORY COMPLIANCE	15 (15)	1.79%
BEE management	2	13.33%
Business licensing	7	46.67%
Taxes	5	33.33%
Trade	1	6.67%

N = 855

7.4 EDUCATION, TECHNOLOGY AND SKILLS DEVELOPMENT

Now, more than ever, South Africa is embracing the emerging forms of technological innovations. The increasing digitisation of South Africa is unlocking new opportunities for entrepreneurs to participate in the economy, while facilitating greater market reach through virtual means. With the advent of the 4IR, access to technology and the capacity to engage with new technological trends are increasingly becoming key to ensuring business competitiveness. GEM suggests that it is important that business owners have access to technology and that they have the capacity to use technological tools effectively for their businesses to become competitive, for them to develop relationships with customers and suppliers and for them to have easier access to business-related information.³⁹ Therefore, there is increasing demand for enhanced tech-intensive education and training geared towards equipping entrepreneurs with relevant tech-knowledge to boost their market reach and visibility.

Whereas SMMEs are slowly adopting digital technologies, only a few entrepreneur support service providers are investing in digital infrastructure development, digital service delivery and digital skills training agendas. Although the technological orientation of entrepreneurs in our survey pool was not directly assessed, some entrepreneurs indicated in their general comments about their BDS programmes that there was minimal emphasis on technology in the programmes, specifically with regard to the tools that they were exposed to during the programme, which they argued were either irrelevant to their sectors or were too outdated to be of any assistance. Moreover, entrepreneurs cited challenges accessing adequate industry information through BDS websites or accessing virtually facilitated business networks through their BDS providers' portals.

Table 73: Effective access to market strategies

³⁹ Herrington, M., Kew, P., and Mwanga, A., "South Africa Report 2016/2017: Can small businesses survive in South Africa?", 2017. <https://www.gemconsortium.org/economy-profiles/south-africa>

THEMES AND SUBTHEMES	NO. OF TOUCH-POINTS	% OF TOTAL
NO COMMENTS	66	8.26%
ACCESSIBILITY	44 (46)	5.51%
Distance/location	16	34.78%
Hours	27	58.70%
Price/cost	3	6.52%
FEEDBACK	60 (75)	7.51%
Regularity of feedback	32	42.67%
Type of feedback	43	57.33%
FUNDING	77 (92)	9.64%
Funding transparency	12	13.04%
Need funding	47	51.09%
Promised funding	33	35.87%
MENTORING	81 (119)	10.14%
Mentor experience	48	40.34%
Mentor performance	64	53.78%
No. of mentors	7	5.88%
PROGRAMME ACHIEVEMENT	618 (706)	77.35%
Delivered promises	31	4.39%
Entrepreneurial education	57	8.07%
Financial education	25	3.54%
Informative and relevant	549	77.76%
Networking	13	1.84%
Recommendations	12	1.70%
Skills development	19	2.69%
PROGRAMME CHARACTERISTICS	82 (104)	10.26%
General vs. sector-specific	41	39.42%
Length of time	16	15.38%
Theory vs. practicality	47	45.19%
TECHNOLOGY	11 (15)	1.38%
Ease-of-use	5	33.33%
Tools used	10	66.67%

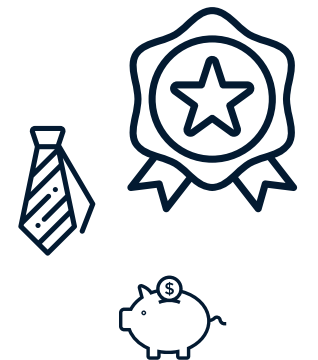
N = 855

Table 74: General comments about BDS programmes

⁴⁰ Ibid

While this could be explained by the fact that the integration of new and sector-adapted technological tools in BDS programmes may be costly and probably beyond the means of BDS providers, it highlights the need to promote the digitisation of BDS programmes and the transfer of digital skills during these programmes. There needs to be a centralised source of information that is easily accessible to entrepreneurs that provides additional online support services and all other relevant information concerning financial assistance and business formalisation.

Although BDS programmes specialise in offering entrepreneurial skills and knowledge transfer, entrepreneurial education, suggested by GEM, should be implemented from an early age, say in preschool and primary school, particularly in rural and peri-urban areas.⁴⁰



“[I learnt about] digitisation of my business, how to operate a lean business while still offering a high standard of service.”

Education entrepreneur, Gauteng

“They did nothing to me. I went there for digital migration purposes but they never really delivered, I just hope they can keep their promises.”

Media entrepreneur, Gauteng

8 RECOMMENDATIONS

8.1 INTRODUCTION

To effectively challenge and shape the implementation of BDS programmes and how they are measured, the methods and approaches need to be constantly redefined and retuned. This section discusses the recommended actions and changes needed of BDS providers, C4G and external stakeholders, some of which have been obtained directly from participant feedback. When BDS programme participants in our survey were asked what the BDS provider could have done to improve the learning experience, most of the responses focused on the characteristics of the

programme (48.97%) – these included whether the programme imparted valuable knowledge and if the programme was practical, among others. The second-most cited category was provider assistance (22.16%), where the majority of respondents inferred that BDS providers could significantly improve their credibility by adhering more closely to what they promise from the onset. This comes from respondents’ views that BDS providers made promises that they did not deliver on, particularly with regards to the provision of financial assistance and general business coaching.

“The programme could be better in a sense that they could be more transparent with what they’re offering. We were told that once you reach the top 50, if you need a loan, you’ll be entitled to that. But once you got to the top 50 that was no longer true. Now, they only gave the funds to the top 20. They needed to keep the process more transparent. The focus should still be on the entrepreneur. They need to understand that they should take you from a point of being blank to a point of running a business”.

Service entrepreneur, Gauteng

Within the Markets (12.89%) and Funding (10.31%) themes, the main improvements were very much in line with the research questions posed in this report. Those talking about markets particularly wanted

improvements in their access to markets through the programme, while those who mentioned funding indicated that the BDS services should provide more financing opportunities to their participants.

SUGGESTED IMPROVEMENTS - THEMES
N = 201

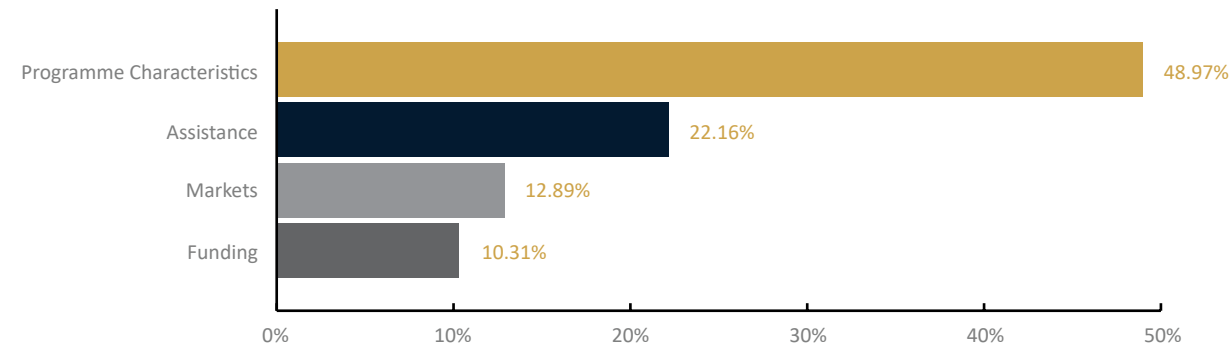


Figure 72: Established themes from suggested BDS programme improvements

THEMES AND SUBTHEMES	NO. OF TOUCH-POINTS	% OF TOTAL
ASSISTANCE	43 (44)	22.16%
Business formalisation	15	34.09%
Fulfil promises	29	65.91%
FUNDING	20 (20)	10.31%
Funding options	2	10.00%
Provide funding	18	90.00%
MARKETS	25 (27)	12.89%
Market access	22	81.48%
Strategic marketing	5	18.52%
PROGRAMME CHARACTERISTICS	95 (118)	48.97%
Duration	10	8.47%
Feedback and follow-ups	21	17.80%
Logistics	11	9.32%
Mentors expertise	11	9.32%
Overall improvement	23	19.49%
Practical focus	9	7.63%
Programme outreach	7	5.93%
Tailored mentorship	20	16.95%
Training	6	5.08%

Table 75: Suggested BDS programme improvements

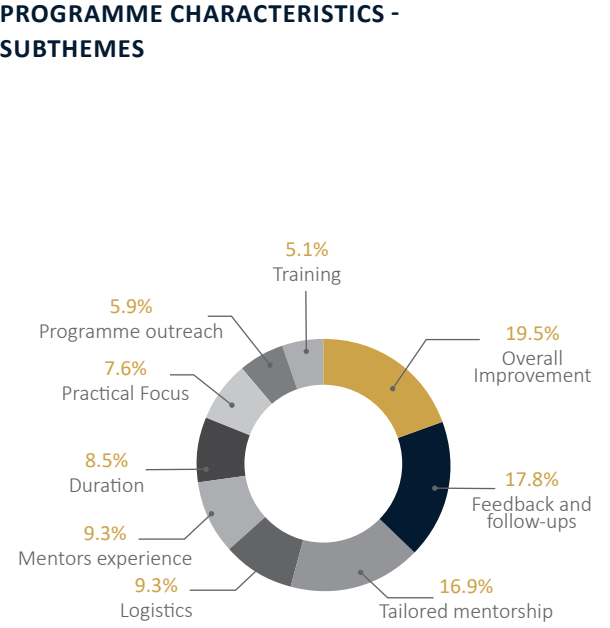


Figure 73: Subthemes established in the “Programme Characteristics” theme

Being the most cited theme for this question, Programme Characteristics necessitates further analysis. Although almost one-fifth of the respondents for this question did not specify the nature of the improvements to the programme, a significant proportion believed that the programmes could be improved by providing more feedback and follow-ups (17.8%) and customised or tailored mentorship (16.9%). These sentiments are mirrored in the general commentary established in Sections 2 and 7, whereby programmes are hindered by their inability to adapt to specific types of businesses or sectors and participants are underwhelmed by the abilities of those providing mentoring services.

The insights gained in this question and throughout the report are not confined to BDS providers, but rather address the whole SMME development environment. There are noteworthy recommendations for the South African government, the private sector and SMMEs too, and so each of these stakeholders is provided with their own recommendations below.

8.2.1 CONTENT IMPROVEMENTS

The following recommendations relate to the content being used and implemented in BDS programmes:

RECOMMENDATION: Providing content that is customised for types of businesses and sectors

Many survey respondents indicated the misalignment between the nature of their businesses and the content being delivered in BDS programmes. Although a significant proportion of business knowledge is universally applicable, it would improve the beneficial nature of programmes if there are multiple avenues of knowledge that can be offered.

RECOMMENDATION: Differentiating offerings based on the experience, skills and success of the entrepreneur

Further to customising BDS offerings by sector, providers can also differentiate between participants based on their existing knowledge, experience, success and skill levels. Much like institutional learning, participants can be operating with different capabilities, and more effort should be given to providing learning environments that challenge specific difficulties.

8.2.2 STRUCTURAL IMPROVEMENTS

The following recommendations relate to the structure of the BDS programmes:

RECOMMENDATION: Improve quality of mentors, ensuring that expertise is paired with needs

Mentors are some of the most important learning mechanics available to BDS participants. While a significant proportion of the survey respondents commented positively on the impact of their mentors, there were many who believed their mentors to be inexperienced, disinterested and not engaging – if the standard of mentors can be improved, the hands-on learning element will benefit. BDS providers will also benefit if they can develop a matching system that optimises the available mentors with the types of businesses being incubated. If these systems are already in place, a more detailed approach to the criteria needs to be applied.

RECOMMENDATION: Provide more BDS facilities in rural areas

Although the rural and urban divide will always remain a challenge to any economic and community-based project, some feedback indicated that the distances travelled to reach the BDS learning centres were excessive. There is a chance to diversify the locations of these services by allowing smaller classes to be conducted in similarly smaller urban centres.

RECOMMENDATION: Improve the quality and extent of feedback, especially for entrepreneurs that implement strategies learned during the programme

A major trend throughout the research has been a negative view on the degree and quality of feedback received by participants. Although it remains a challenge for BDS providers to cater for everyone’s needs constantly, the development of feedback structures will help increase the regularity of feedback and the consistency borne of this structure will ensure that programme participants know what to expect. Many recommendations highlighted that entrepreneurs should also remain in contact with the BDS provider after the programme, as that is when they are implementing what they have learned, and therefore, have the most questions. However, the ever-expanding capabilities of C4G’s online platform aims to address this and can, over time, provide a contact platform for beneficiaries to report in on their progress.

RECOMMENDATION: Create more links for entrepreneurs with funding institutions

While BDS providers are not solely used as mechanisms for obtaining funding, many participants believed that any improvements to the programmes should involve the array of funding available. This is either due to a misunderstanding by the participants, i.e. they believe that participating in a programme is a funding guarantee, or that the BDS providers were not transparent enough in their allocation of funds. In either of these scenarios, an increase in the communication and networking between entrepreneurs and organisations willing to fund them would benefit the SMME environment.

8.2.3 FUTURE RESEARCH

The following recommendations relate to the improvements that can be made to the data gathering process and topics for future investigation:

RECOMMENDATION: BDS landscape data coverage

Without the appropriate degree of data coverage, governments, BDS providers and the private sector cannot understand and interpret the needs of SMMEs. Therefore it is imperative that further research is conducted on the extent and nature of the small business environment in South Africa. Much like a national census, it is encouraged to create a national SMME database that is effective at capturing and monitoring small business activity, exemplified by this study geographic limitation, where almost 80% of respondents were based in Gauteng.

RECOMMENDATION: Limit expectations of participants to the bounds of the programme

In some instances, BDS providers have been known to over promise and raise the expectations of the participants in a bid to ensure enrolment. Therefore, a recommendation to the BDS providers would be the firm commitment to their value proposition and a common understanding with the entrepreneur as to what they should expect from the programme.

RECOMMENDATION: Online information

In a similar fashion to the C4G platform, future research can focus on the technological requirements of entrepreneurs, e.g. making information available online for topics such as which documents are needed for certain applications. A central portal for the national SMME environment ensures that all are given equal access and that regulatory requirements are communicated nationwide, instantaneously. Bearing in mind the ubiquity of the mobile phone, the research can also investigate the type of platform being used to access this information

8.3 SMMES AND ENTREPRENEURS

The following recommendations relate to the improvements that can be made by programme participants:

RECOMMENDATION: Investigate funding options

With funding being such an integral component of business success, it is incumbent upon the entrepreneur to investigate the financial mechanisms available to them. Many entrepreneurs focus on the common loans and grants, but other angel investors show promise and intent and therefore finding them should be a main goal of the SMME.

RECOMMENDATION: Connect with other entrepreneurs

Entrepreneurs are able to strengthen their businesses by creating relationships with other SMMEs that are either upstream or downstream from their processes. Developing a network of trusted business partners is important. C4G’s online platform and exposure to other businesses is a perfect tool for this and so programme participants should be encouraged to use it as such.

8.4 GOVERNMENT AND PUBLIC STAKEHOLDERS

The following recommendations relate to the improvements that can be made by the government of South Africa:

RECOMMENDATION: Refine funding packages

With government being the funding institution that provides the highest number of finance allocations, it is important that the structure of their grants and loans is effective. Seeing a large quantity of grants is a welcomed sight, however, some entrepreneurs have vented frustration at the amounts, believing that funds would be better spent by providing fewer SMMEs with larger amounts. There is value in this, as it may avoid spending tax money on less-established and failure-prone ventures in the name of economic and social diversity.

RECOMMENDATION: Tax reforms for SMMEs

The current tax environment for SMMEs is not only costly, but also a time-intensive process. Although the government has implemented the combined taxation mechanism of “Turnover Tax”, the complications inherent in registering and maintaining tax understanding by SMMEs negates any advances – many SMMEs are forced to hire tax practitioners and accountants, which severely impacts their payroll and expenses. Given that an SMME could be taxed up to 30% of their annual revenue, any grants provided by government are nullified by this charge. It seems more practical to provide SMMEs a period of tax exemption based on the time they have been active or by increasing the maximum limit of the 0% tax bracket (currently at R79,000 income per annum).

8.5 THE PRIVATE SECTOR

The following recommendations relate to the improvements that can be made by the private sector of South Africa:

RECOMMENDATION: Invest more in SMME development

Given the self-perpetuating nature of successful businesses and communities, private investors and equity owners can stand to gain from further investment into sound entrepreneurial ventures. Not only could it provide a return on investment usually associated with business expansion, but also provides a micro-economic platform for new businesses to grow around the original, especially in under-developed regions. If the private sector is unsure of the mechanisms required to find the correct type of entrepreneurs, the relationship established in this report may assist. Those entrepreneurs that were motivated by the idea of being personally and financially independent recorded financial indicators that were significantly better than other motivational categories. Therefore, to improve the odds of investment return, the private sector can analyse entrepreneurial motivations.

RECOMMENDATION: Make knowledge of funding vehicles accessible

Many entrepreneurs remain unaware of the funding institutions that are willing to finance their operations. The private sector and BDS providers can therefore expose entrepreneurs to different funding institutions by inviting them to attend information sessions. Likewise, these information sessions can also shed light on the type of funding mechanisms there are, as most entrepreneurs focus on loans, overdrafts and grants.

RECOMMENDATION: Spend time mentoring SMMEs and their owners

Financial restraints, competition and cash flow may be some of the major factors that affect the lifespan of SMMEs, but without effective guidance these challenges are amplified. Successful senior employees of large firms have been exposed to these challenges regularly and can provide valuable insight to blossoming businesses, especially in the form of soft skills and mentality. It remains an opportunity for the private sector to partner with BDS providers and involve themselves in the learning experience.

9 METHODOLOGY

C4G, as a third party to business development, provides a platform for BDS providers to monitor, evaluate, benchmark and improve the performance of SMMEs in their BDS programmes. This past year’s progress and achievements, built upon principles established in the

2018 annual report, have been recorded and analysed in 2020’s The Role and Impact of Business Development Support Services on South African SMMEs report. This report has been compiled and analysed by In On Africa and JoyG Business Services from September 2019 to March 2020.

9.1 RESEARCH DEVELOPMENT

The 2018 edition of this annual report formed the basis for 2019’s critical analysis. The aspects and factors presented in 2018 were reviewed and improved upon as a result of consultation with BDS providers and a community of practice session held on 6 May 2019. The purpose of this session was to establish key questions that needed to be answered and addressed through the 2020’s annual report. The questions posed included:

1. How do we create and adhere to a common language in the BDS development space?

2. How do we measure success and develop metrics that take into account differing sectors and complexities inherent in applying value to businesses?

3. What are the differences between financial needs and provisions for entrepreneurs, and does business management knowledge development hold sway?

4. How do we address skills development in the BDS environment, especially in terms of recognising the importance of soft skills and funding opportunities to complete tertiary business management qualifications?

5. How do BDS services facilitate access to markets for participants?
6. What are the social impacts of BDS services, and how do we create and interpret causality and correlations between successful and failed businesses?

7. Are there significant differences in results across gender- and support-based paradigms?

8. How do we match businesses with the right type of BDS interventions, and what are the benefits of effective programmes?

9. What are the unique benefits that C4G brings to the BDS environment, and how can these be improved?
- With these and other questions in mind, the focus and scope of this report were fine-tuned, based on the preferences of key stakeholders. Through this, four overarching themes were developed.



Access to markets



Funding



Performance



Skills Development

9.2 PRIMARY RESEARCH

The primary research obtained for this report was conducted by C4G through online and telephonic surveys, implemented after the completion of BDS programmes. The platform upon which C4G bases its operations has 3,787 registered SMMEs, of which 1,101 SMMEs (approximately 30% of the pool) participated in the survey through the Survey Monkey service. Given industry standards, a pool of this size would require at least 305 respondents, with a confidence interval of 95% and a 5% margin of error.

Each SMME or entrepreneurial member on the C4G platform was allowed a fair chance to respond to the survey request, which was initially sent out by e-mail. The sampling strategy used was a simple random sampling, and the data ranged from nominal to interval types. Further reminders were issued by e-mail over a number of weeks, and to improve the response rate, C4G implemented a process whereby consultants telephoned previous BDS programme attendees to ask the survey questions and record the answers.

Once the responses exceeded 100, C4G conducted an error and accuracy test to ensure the reliability of the survey. This was done in order to check whether the survey was indeed recording the correct information and whether the questions were addressing the highlighted themes. No changes were necessary as a result of this process.

As the survey reached closure, C4G downloaded the corresponding data in a format compatible with Excel and convertible for the SPSS statistical programme. The final database was analysed for errors, which included missing values, and these were remediated. Because of these missing values, each qualitative and quantitative data set was initially analysed independently to cater for differing sample sizes. Furthermore, the coding of the data and the analysis of the trends was conducted by different individuals to ensure accuracy and transparency.

9.3 SECONDARY RESEARCH

Extensive desktop research was conducted from 16 September 2019 to 18 October 2019 to augment, challenge and compare to the findings of the qualitative and quantitative data derived from the primary research. This investigation also determined the current trends being seen in the BDS environment in South Africa and, therefore, placed C4G’s findings in context.

The following table describes and allocates the 81 relevant resources included in each of the focus areas of the report. Information gained from a literary investigation augmented the findings derived from primary research.

Financing Entrepreneurship	BDS Landscape	Impact of BDS Programmes	Motivations for Entrepreneurship
		Business Discontinuation	Key Considerations and Relationships

FOCUS AREA	RESOURCE COUNT
BDS Landscape	15
Motivations for Entrepreneurship	9
Impact of BDS Programmes	14
Business Discontinuation	11
Financing Entrepreneurship	29
Key Considerations and Relationships	3

Table 76: Number of relevant resources included in each of the focus areas of the report

9.4 DATA ANALYSIS

IOA and JoyG Business Services used the data generated from the survey responses to divide the information into qualitative and quantitative data, the former being

questions asked for more detailed opinions and the latter being multiple choice or ranking questions.

9.4.1 QUALITATIVE DATA

In terms of techniques used to analyse the qualitative data, the process required the implementation of deductive and inductive methods. The deductive methods were applied to questions that related to the quantitative data, whereby the responses were analysed according to themes already established in the ranking and Likert scale questions. The inductive methods were applied to questions that had no pre-existing relationship to the quantitative data (and therefore no pre-existing themes) as the responses were perused for unique groupings, trends and themes.

The following questions, derived from the survey, were analysed for participant sentiment and trends by IOA:

- Do you have any general comments about the BDS programme?
- What could they have improved on or done better?
- Explain how much impact BDS has had on your business.
- Explain how much impact BDS has had on your personal life.
- Rank the top 3 reasons that motivated you to become an entrepreneur (“Other” option selected)?

- Other reasons for business discontinuation.
- What could the BDS provider have done better to assist you and your business regarding business discontinuation?
- I intend to start another business – please state two reasons why?
- What strategies learned in the BDS programme have been effective in increasing your access to markets?
- Rank the top 3 strategies learned in the BDS programme that have been helpful in getting cash for emergencies (“Other” option selected)?
- Since the BDS programme, have you applied for finance? (“No” option selected – Why not?)
- What more could the BDS provider have done to assist you and your business regarding getting finance?
- Did you receive funding? If not, rank the 3 most limiting factors in getting this financing (“Other” option selected).

9.4.2 QUANTITATIVE DATA

To effectively represent the findings of the survey, descriptive statistics and correlation analysis techniques were used. This means that quantitative questions, particularly those posed on Likert and ranking scales, could be reliably exhibited. Many of these questions were presented as frequency distribution tables and graphs, which suited the majority quantitative responses.

Through the analysis of the quantitative data, interesting relationships emerged between the responses provided by entrepreneurs, and as such, multiple cross-tabulations were run on these answers. To confirm their authenticity, accuracy and relevance, Spearman’s rank correlation co efficient was used to appropriately test the cross-tabulations.

9.5 LIMITATIONS

The following limitations are present in this report:

- SMMEs from Gauteng dominated the data, and therefore, some of the findings may not apply to all regions.
- The sample of entrepreneurs surveyed in this study opted to join the C4G platforms and could not be used to generalise about the entire BDS environment. Their responses could, however,

- be used to generalise the sentiment of the C4G platform pool.
- Certain BDS providers accounted for a larger share of the sample than others. Consequently, they could create a bias towards a specific type of guidance programme.
- Some participants were contacted for telephonic interviews, which increases the potential of human error when transcribing responses.

At the culmination of the findings gathered through 2018 and 2019, this C4G report closes having analysed the sentiment of those participating in the BDS programmes under C4G supervision. The change in structure and the inclusion of probing investigations into market access, funding, skills development and mentoring, among others, has provided a new perspective and understanding of the SMME environment in South Africa. Summarily, what is important is the positive impact that BDS programmes are having on entrepreneurs, at both the business and personal levels. This has encouraging implications for the SMME ecosystem as a whole, which has become a chief focus of governmental strategy- one which shows significant promise.

The combination of the quantitative and qualitative data analysis methods, as described in the Methodology, has provided a unique viewpoint, where statistical inferences and open-ended opinion-based questions are combined to segment information according to demographic. As such, the report is able to better describe the social discrepancies of SMME development, such as the funding amount differentials between men and women. Bringing to light these nuances between the subdivisions of entrepreneurs is vital to improving the overall system.

The report has also made clear the motivations behind the participants' shared entrepreneurial drive. Although an individual's passion and purpose is a clear motivator for starting a business, it is also worth noting the clear need expressed by respondents to benefit their community, especially in terms of providing employment for their fellow South Africans. Notably, however, those participants that cited creating employment as their reasons for starting a business were less effective at addressing this economic deficit than those who started businesses because of a specific passion. It has been suggested that participants citing job creation as their main motivation are doing so to seem congruent and compliant with the main governmental goals of the current period.

Mentorship showed vastly polarising outcomes. In terms of its impact on the programme participants, it was ranked as the most effective form of BDS intervention. However, this was contrasted with mentorship being one of the most negatively perceived aspects of the programmes in the general commentary. This plays testament to its importance – when it is successful, entrepreneurs feel the positive effects of its implementation, but when it is faulty its underperformance is stark. Mentorship is only one of many interventions that had an impact on entrepreneurs though. A positive contribution to growth, competitive advantage and entrepreneurial ability was achieved through financial management principles and strategic learning, among others. Notably, BDS providers were not as able to influence the success of the business through network and connections development, which highlights an area where impacts can be enhanced.

As cited throughout this report, finance and funding mechanisms remain a major focus for entrepreneurs. The main purpose of the funding they require is to have working capital for day-to-day operations, although more and more equipment is needed (and financed) in later stages of a SMMEs development. However, almost one third of those programme participants that rejected the opportunity to apply for funding did so because they thought themselves self-sufficient – an extremely positive perspective on looking for outside help that is often connected with the burden of debt.

For those who did choose to terminate the operations of their businesses, many cited personal reasons. However, a large proportion of the entrepreneurs who elected to give more feedback believed that it was their access to markets that brought their ventures to a halt. Considering the focus of this report, the sentiment expressed by these programme participants solidifies C4G belief that market access is one of the most important factors in BDS services. Although the market-access-induced failure rate is small in comparison to the overall sample, it remains an issue that needs addressing.

However, this report highlights the need for improvement too. Although most respondents were positive about the outcomes of the programmes they participated in, there was a significantly negative trend concerning funding that was not delivered (in varying capacities) and the ability of the programmes to fulfil on their promises. The purpose of these programmes is to empower and therefore future programmes must look to strike a balance between being a panacea to all business-related issues and fostering self-starter attitudes by being more transparent about the type and extent of the support programme participants are given.

Furthermore, the onus for improvements does not lie solely with BDS providers. The recommendations highlighted in Section 7 explain the responsibilities of other parties too, like government, the programme participants and the private sector. Ultimately, all stakeholders need to heighten their involvement. Participants can be more responsible with the knowledge they receive; government can take on more feedback regarding funding structures and taxation laws, and the private sector can provide more mentorship and funding opportunities to businesses that show promise.

Finally, the data and insights presented in The Role and Impact of Business Development Support Services on South African SMMEs closes an information gap that has been standing between BDS programme participants and those that implement changes. With this analysis, C4G and its partners are able to isolate areas that need the most improvement; functions that are excelling beyond expectation, and the sentiment, opinions and feelings of those whose perspectives are the most important in enhancing the SMME environment in South Africa.



LISTS OF FIGURES AND TABLES

FIGURES

Figure 1:	Distribution of age ranges among respondents	12	Figure 37:	Extent to which BDS participation has improved entrepreneurial ability	33
Figure 2:	Comparison of youth and non-youth respondents	12	Figure 38:	Established themes from market access strategies	34
Figure 3:	Distribution of gender among respondents	12	Figure 39:	Subthemes established in the “Networking” theme	34
Figure 4:	Entrepreneurship participation rates in South Africa (2013-2016- % of adult population)	13	Figure 40:	Subthemes established in the “Consumer Intelligence” theme	35
Figure 5:	Distribution of race among respondents	13	Figure 41:	Extent to which BDS participation has improved business growth	35
Figure 6:	Race distribution by gender	13	Figure 42:	Established themes from “Other” emergency cash strategies	37
Figure 7:	Education levels attained by respondents	13	Figure 43:	Established sentiment from BDS impact on personal lives	38
Figure 8:	Educational achievement by gender	14	Figure 44:	Established themes from BDS impact on personal lives	38
Figure 9:	Provincial distribution of SMMEs	15	Figure 45:	Subthemes established in the “Soft Skills” theme	39
Figure 10:	Sectors of activities among respondents	15	Figure 46:	Proportion of businesses still in operation	41
Figure 11:	Age of existing SMMEs	16	Figure 47:	Reasons for business discontinuation	43
Figure 12:	SMME annual revenue brackets	16	Figure 48:	Established themes from “Other” reasons for business discontinuation	45
Figure 13:	Most profitable sectors by revenue	16	Figure 49:	Subthemes established in the “Market Access” theme	46
Figure 14:	Years in which BDS programmes were completed	17	Figure 50:	Established themes from needed BDS assistance	47
Figure 15:	Participation in subsequent BDS programmes	18	Figure 51:	Timelines for starting a new business after discontinuation	48
Figure 16:	Duration of time spent in BDS programme	18	Figure 52:	Established themes from reasons for starting another business	49
Figure 17:	Recommendation ratings of BDS programme participants	18	Figure 53:	Sectors of activity for new businesses	49
Figure 18:	Net promoter by duration in the BDS programme	19	Figure 54:	Number of employees in new businesses	49
Figure 19:	Established sentiment from general comments about BDS programmes	19	Figure 55:	Annual revenue in new businesses	49
Figure 20:	Established themes from general comments about BDS programmes	20	Figure 56:	Length of time that new businesses have been operational	49
Figure 21:	Subthemes established in the “Programme Achievement” theme	20	Figure 57:	Extent to which BDS participation has contributed to new ventures	50
Figure 22:	Subthemes established in the “Mentoring” theme	21	Figure 58:	Proportion of entrepreneurs that applied for funding	52
Figure 23:	Net promoter score by duration in the BDS programme	21	Figure 59:	Proportion of entrepreneurs that received funding	75
Figure 24:	General comment sentiment by gender	21	Figure 60:	Subthemes established in the “No Interest” theme	54
Figure 25:	Negative perceptions of mentoring by gender	22	Figure 61:	Reasons for needing financial assistance	55
Figure 26:	Negative perceptions of BDS programme achievement by gender	22	Figure 62:	Types of funding institutions that SMMEs applied to	56
Figure 27:	Reasons why individuals become entrepreneurs	24	Figure 63:	Proportion of entrepreneurs that received funding	57
Figure 28:	Established themes from “Other” entrepreneurial motivations	25	Figure 64:	Comparison of funding receipts with time spent in programmes	58
Figure 29:	Subthemes established in the “Social” theme	26	Figure 65:	Ranges of funding received from successful applications	58
Figure 30:	Subthemes established in the “Personal” theme	26	Figure 66:	Funding received by time spent in programme	59
Figure 31:	Effectiveness of BDS interventions	29	Figure 67:	Established themes from “Other” hindrances to receiving financial assistance	61
Figure 32:	Effectiveness of BDS interventions	30	Figure 68:	Subthemes established in the “Feedback” theme	61
Figure 33:	Established themes from BDS impact on businesses	31	Figure 69:	Assistance received from BDS provider in securing funding	62
Figure 34:	Subthemes established in the “Business Skills” theme	31	Figure 70:	Established themes from types of BDS assistance needed	62
Figure 35:	Subthemes established in the “Business Operations” theme	32	Figure 71:	Subthemes established in the “Resources” theme	63
Figure 36:	Extent to which businesses are thriving	32	Figure 72:	Established themes from suggested BDS programme improvements	74
			Figure 73:	Subthemes established in the “Programme Characteristics” theme	75

LISTS OF FIGURES AND TABLES

TABLES

Table 1:	Sector of activities by gender	15	Table 39:	Discontinuation reasons by revenue	45
Table 2:	SMME annual revenue versus SMME age	17	Table 40:	Theme and subtheme count from “Other” business discontinuation reasons	45
Table 3:	Theme and subtheme count from BDS programme general commentary	20	Table 41:	SMME discontinuation reasons by entrepreneurship motivational factors	46
Table 4:	General Commentary subthemes overly rated positive vs negative	21	Table 42:	Theme and subtheme count from needed discontinuation BDS assistance	47
Table 5:	Top three reasons (frequency and mean) why individuals became entrepreneurs	23	Table 43:	Potential BDS interventions by gender and age	47
Table 6:	Motivations for entrepreneurship by youth and non-youth	24	Table 44:	Intentions to start another business by SMME entrepreneurs’ gender	48
Table 7:	Motivations for entrepreneurship by educational achievement	25	Table 45:	Theme and subtheme count from reasons for starting new businesses	49
Table 8:	Theme and subtheme count from “Other” entrepreneurial motivations	25	Table 46:	New business by SMME entrepreneurs’ gender and age	50
Table 9:	Employment flux by motives for entrepreneurship (2017–2018)	26	Table 47:	New business by SMME entrepreneurs’ race	50
Table 10:	Motivation for entrepreneurship (opportunity) by educational achievement	27	Table 48:	New business by duration in BDS	50
Table 11:	Motivations for entrepreneurship by gender	27	Table 49:	Theme and subtheme count from reasons for starting new businesses	52
Table 12:	Most Impactful/Helpful BDS Services 2018 and 2019 C4G results	28	Table 50:	Theme and subtheme counts for no finance applications	53
Table 13:	BDS intervention helpfulness by gender and age	29	Table 51:	Funding application by educational achievement	53
Table 14:	BDS intervention helpfulness by educational achievement	29	Table 52:	Funding application by SMME revenue	54
Table 15:	Top three most helpful BDS interventions by business size (revenue)	30	Table 53:	Funding needs by gender	55
Table 16:	BDS intervention helpfulness by programme duration	30	Table 54:	The top three funding needs for SMMEs by business age	56
Table 17:	Theme and subtheme count from BDS impacts on businesses	31	Table 55:	Financial application success by funding type	57
Table 18:	Extent to which businesses are thriving by SMME age	32	Table 56:	Success rates of funding applications by financial institution applied to	57
Table 19:	Extent to which businesses are thriving by SMME revenue	32	Table 57:	Relationship between funding and business survival	58
Table 20:	Extent to which businesses are thriving by number of BDS programmes attended	33	Table 58:	Amount of funding received by financial institution	59
Table 21:	Business health mean scores by duration in BDS programme.	33	Table 59:	Funding amount received by gender	59
Table 22:	Theme and subtheme count from market access strategies	34	Table 60:	Funding by time spent in programme	59
Table 23:	No market access strategies learnt versus SMME performance	36	Table 61:	Limiting factors when applying for finance	60
Table 24:	No market access strategies learnt versus business survival	36	Table 62:	Theme and subtheme counts from hindrances to receiving financial assistance	61
Table 25:	Extent to which BDS participation has improved business growth	36	Table 63:	Theme and subtheme count from financial BDS assistance needed	63
Table 26:	Strategies by gender and education	37	Table 64:	Performance indicators for 2017 to 2018	64
Table 27:	Theme and subtheme count from emergency cash strategies	37	Table 65:	Performance indicators by gender	65
Table 28:	Theme and subtheme count from BDS impact on personal lives	38	Table 66:	Performance indicators by turnover	65
Table 29:	Survival rates by youth	41	Table 67:	Comparison of performance for funding application success	65
Table 30:	Survival rates by age group	41	Table 68:	SMME growth according to business factors	66
Table 31:	Survival rates by gender	41	Table 69:	SMME performance by top three motivations for entrepreneurship	66
Table 32:	SMME survival by annual revenue (broad)	42	Table 70:	SMME performance (mean scores) by entrepreneurs’ characteristics	67
Table 33:	BDS survival by annual revenue (narrow)	42	Table 71:	Funding assistance from BDS providers	68
Table 34:	Business duration by time spent in BDS programmes	42	Table 72:	BDS assistance options	69
Table 35:	BDS survival by years in operation	42	Table 73:	Effective access to market strategies	70
Table 36:	The top three reasons for SMME discontinuation by mean scores and frequencies	43	Table 74:	General comments about BDS programmes	71
Table 37:	Discontinuation reasons by gender	44	Table 75:	SMME performance (mean scores) by entrepreneurs’ characteristics	77
Table 38:	Discontinuation reasons by duration of business	44	Table 76:	Number of relevant resources included in each of the focus areas of the report	80



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