

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

POLICY SUMMARY, EXECUTIVE SUMMARY AND
SUMMARY REPORT

9 March 2018

National Evaluation Plan Report



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GLOSSARY

AIDC	Automotive Industry Development Centre
AIU	Agribusiness Investment Unit
APP	Annual Performance Plan
BATC	Business Advisory Technical Committee
BDS	Business Development Services
BSM	Business Sophistication Measure
CASIDRA	Cape Agency for Sustainable Integrated Development in Rural Areas
CCDI	Cape Craft and Design Institute
CHTP	Cape Health Technology Park
CIC	Cape Investor Centre
CIDB	Construction Industry Development Board
CSD	Central Supplier Database
CTAA	Cape Town Air Access
DAFF	Department of Agriculture Forestry and Fisheries
DED	Department of Economic Development
DEDAT	Department of Economic Development and Tourism
DESTEA	Department of Economic, Small Business Development, Tourism & Environmental Affairs
DMO	Destination Marketing Organisation
DPME	Department of Performance Monitoring and Evaluation
DSBD	Department of Small Business Development
DSD	Department of Social Development
DST	National Department of Science & Technology
DTI	Department of Trade and Industry
EAP	Export Advancement Programme
ECIC	Export Credit Insurance Corporation
FDC	Free State Development Corporation
FET	Further Education & Training
FMP	Film and Media Promotion
GDARD	Gauteng Department of Agriculture and Rural Development
GDED	Gauteng Department of Economic Development
GDP	Gross Domestic Product
GDPR	Gross Domestic Product per Region
GEP	Gauteng Enterprise Propeller

GGDA	Gauteng Growth and Development Agency
GPG	Gauteng Provincial Government
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
ILO	International Labour Organisation
IPU	Investment Promotion Unit
ISPESE	The Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises
LADC	Limpopo Agricultural Development Corporation
LED	Local economic development
LEDET	Limpopo's Department of Economic Development, Environment & Tourism
LIMDEV	Limpopo Economic Development Enterprise
MEC	Member of the Executive Committee
MFI	Micro Finance Institution
MOU	Memorandum of Understanding
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NEF	National Empowerment Fund
NHBRC	National Home Builders Registration Council
NYDA	National Youth Development Agency
OFDI	Outward Foreign Direct Investment
PFMA	Public Finance Management Act
PGDS	Provincial Growth and Development Strategy
PSG	Provincial Strategic Goals
PSP	Provincial Strategic Plan
R & D	Research & Development
RU	Research Unit
SARS	South African Revenue Services
SDBIP	Service Delivery and Budget Implementation Plan
SEDA	Small Enterprise and Development Agency
SEFA	Small Enterprise Finance Agency
SETA	Sector Education and Training Authority
SMME	Small, Medium and Micro Enterprises
SPV	Special Purpose Vehicle
SWOT	Strengths, Weaknesses, Opportunities & Threats
TEP	Tourism Enterprise Partnership

TIH	The Innovation Hub
TIL	Trade and Investment Limpopo
TMR	Transformation, Modernisation and Re-Industrialisation
TPU	Trade and Promotion Unit

POLICY SUMMARY

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

The main findings from this evaluation are as follows:

- The ISPESE was an appropriate response to the underlying problems confronted by SMMEs in South Africa.
- Because of the decentralised approach of the ISPESE, the Strategy lacked clear implementation guidelines, formal coordination structures, and rigorous monitoring and evaluation mechanisms.
- Government has been most effective in its efforts to provide non-financial services to SMMEs; and less effective in other areas of the Strategy.
- The strategy has not achieved its intended outcomes (capital formation and investment by SMMEs has declined, there has been a contraction in SMME creation and employment over this period, and the available indicators on the business environment and national entrepreneurship have deteriorated).

The Strategy concluded in 2014. Looking forward, the development of entrepreneurship and the sustainability of SMMEs in South Africa depends on innovative and decisive policy change and a more supportive and enabling environment for existing small firms and start-ups. The main recommendations from this evaluation are therefore as follows:

- A high-level SMME policy and programme coordination mechanism should be established and the DSBD should work more closely with the National Treasury to track all government policies, programmes and expenditure related to SMME's.
- The DSBD should not be involved in the implementation of SMME support programmes or activities. Rather, its primary role should be to guide, coordinate and where necessary consolidate SMME interventions across existing implementing agencies. This should include strengthened research and M&E capabilities.
- The DSBD should review the links and possible overlaps between the product offerings of SEDA and SEFA, and improve coordination across these agencies.
- The DSBD should develop and issue regulations and best-practice notes that provide guidelines and standards for the implementation, monitoring and reporting of all government-led SMME programmes, and ensure that red tape reduction measures and legislative reviews are implemented across all spheres of government.

EXECUTIVE SUMMARY

1 INTRODUCTION

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

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

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

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

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

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

2 THE PROGRAMME

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

2.2 Noting that the Strategy did not have a theory of change (ToC), one was developed around the activities and outputs that are outlined in the ISPESE (see Figure 2). The evaluation indicates that the theory of change constructed around the Strategy is sound. Specifically, the ToC articulates the critical point that all of the strategic outputs need to be

delivered in order for any meaningful change to be effected in the SMME ecosystem in general, and at the enterprise level in particular. The evidence suggests that in many areas there are key gaps which have undermined the effectiveness of the ISPESE. Additionally, a number of critical assumptions with respect to the policy context, effective inter-governmental coordination as well as broader economic environment have not held and impeded the Strategy's achievement of its outcomes.

3 POLICY AND DATA REVIEW

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

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

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

4 LESSONS FROM THE BENCHMARKING STUDY

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

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

5 PROVINCIAL CASE STUDIES

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

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

6 KEY EVALUATION FINDINGS

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

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

Because of the decentralised approach of the ISPESE, the Strategy lacked clear implementation guidelines, formal coordination structures, and rigorous monitoring and evaluation mechanisms. The Strategy was designed and presented as a framework; and explicitly excluded any form of implementation plan¹. Given the ambitious goals of the Strategy, the number of different parties (public and private) involved in its delivery, and the complex inter-governmental structure in place in South Africa, it would seem that the Strategy lacked detail in two important ways: Firstly, as an integrated strategy which aims to coordinate various actors - public and private - the Strategy failed to present a clear *problem statement* and the recommendations contained in the Strategy are therefore generic and in cases unclear; Secondly, too much reliance was placed on the willingness of different parties to participate in the delivery of the

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

Strategy, with insufficient attention given to how the Strategy would be implemented and coordinated across all of these entities in practice.

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

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

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

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

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

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

The strategy has not achieved its intended outcomes

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

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

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

Whereas government has invested heavily in BDS and financial services, insufficient resources have been put to other areas of the Strategy, and the efficiency of this expenditure is uncertain. There is no consolidated information available on the total value of support and the outputs across all public and private entities involved in SMME support. It is therefore difficult for the evaluation to come to a definitive conclusion on the efficiency of government spending on all or any one of the main pillars of support, and to attribute outcomes directly to government expenditure.

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

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

7 CONCLUSIONS

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

7.1 Relevance

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

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

7.2 Coherence

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

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

7.3 Effectiveness

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

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

7.4 Efficiency

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

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

7.5 Sustainability

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

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

7 RECOMMENDATIONS

- R1** The DSBD should promote the establishment of a high-level SMME policy and programme coordination mechanism (potentially as a sub-structure of the President's Coordinating Council). This would serve to signal the importance of the SMME community in achieving government's wider economic objectives, and improve coordination and information-sharing across all relevant departments and spheres of government.
- R2** The DSBD should engage with the Treasury in the allocation and evaluation of funding to SMME programmes across government. More specifically, DSBD should develop a mechanism with the National Treasury that consolidates and tracks all government expenditure and performance information on SMME's through the public finance management system².
- R3** The DSBD should work with the DTI and the National Treasury to ensure that there is alignment in definitions, indicators and outcomes across the government's SMME, B-BBEE and government procurement policy interventions.
- R4** The DSBD should assume a primary role in guiding, coordinating and where necessary consolidating SMME interventions across existing implementing agencies (i.e. it should not be involved in the direct implementation of SMME support programmes). In doing so, the DSBD should strengthen its capacity to undertake research, collect and disseminate data and monitor and evaluate the impact of national and provincial SMME programmes and interventions.

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

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

1 INTRODUCTION

1.1 Introduction

The SMME sector in South Africa has historically been constrained by the legal and regulatory environment, access to markets, access to finance, the acquisition of skills and managerial expertise, access to appropriate technology, the tax burden, and access to quality business infrastructure in poor areas (DTI, 2005). To address these challenges, and to coordinate the activities of all public and private sector institutions working to support SMMEs, the *Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises* (“the Strategy” or the “ISPESE”) was developed by the DTI and approved by Cabinet in 2005.

The Strategy has now been in place for more than ten years. To assess the government’s efforts to promote and support SMMEs, and to make necessary additions and amendments, an independent evaluation of the implementation of this Strategy has been undertaken on behalf of the Department of Planning, Monitoring and Evaluation and the Department of Small Business Development. This report summarises the main findings and recommendations from this evaluation.

1.2 Background to the intervention

The Strategy sets out government’s strategic framework for the promotion of entrepreneurship and small business development. It is based on three strategic actions or pillars:

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

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

1.3 Background to the evaluation

The purpose of the evaluation was to assess (1) the design and coherence of the Strategy, and the extent to which it was likely to contribute to its stated outcomes, and (2) whether the Strategy was implemented as planned, reached its intended beneficiaries, and achieved its intended outcomes. Whereas the terms of reference set out multiple questions to be addressed, these can be grouped into 5 key evaluation questions:

- EQ1 To what extent is the ISPESE an appropriate response to the underlying problems?
- EQ2 How well do the various aspects of the ISPESE work together and with other interventions?
- EQ3 To what extent has the ISPESE been an effective strategy?

- EQ4 Have the resources of the ISPESE been converted into results in an optimal manner?
- EQ5 What is the likelihood that the ISPESE will obtain sustainable, long-term benefits?

1.4 Methodology

The project was carried out in nine stages over a 13-month period.

Following a review of the available literature and data, an initial theory of change was developed. The evaluation framework and all associated research instruments were derived from this theory of change. The final theory of change is shown in Figure 10.

Two sets of consultations were undertaken over the study period. Firstly, at the national level, interviews were conducted with 62 officials, business people and academics. Secondly, four provincial case studies were completed. The total number of individuals consulted in each province by stakeholder group is summarised in the table below

Table 1: Sample size (provincial case studies)

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

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

Throughout the evaluation, the following evaluation criteria have been used:

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

The main challenges experienced in the design and implementation of this study, was that it involved the evaluation of a broad, 10-year Strategy, not a specific programme or intervention, and that this Strategy ended in 2014. The evaluation does not consider the interventions that took place or the institutions that were established after 2014.

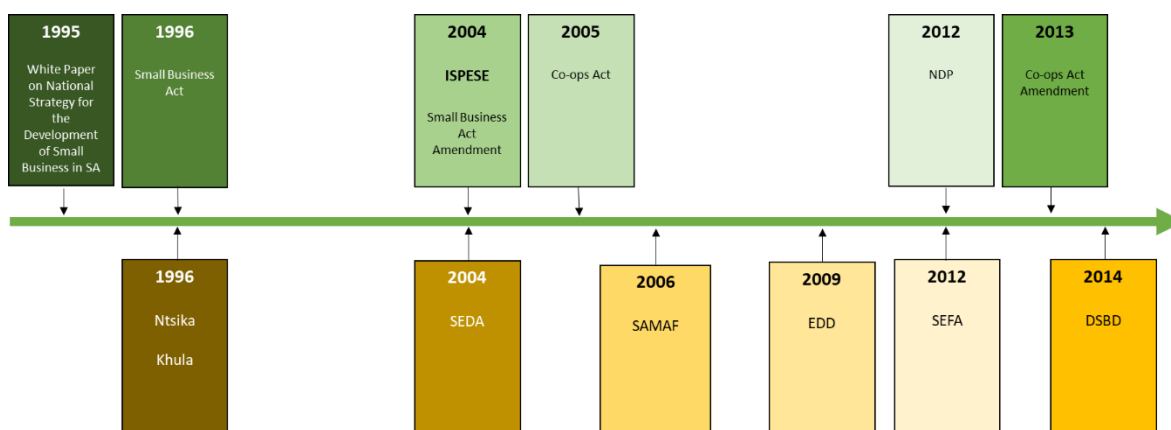
2 THE PROGRAMME

2.1 Programme history

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

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

Figure 30: SMME policy and institutional timeline

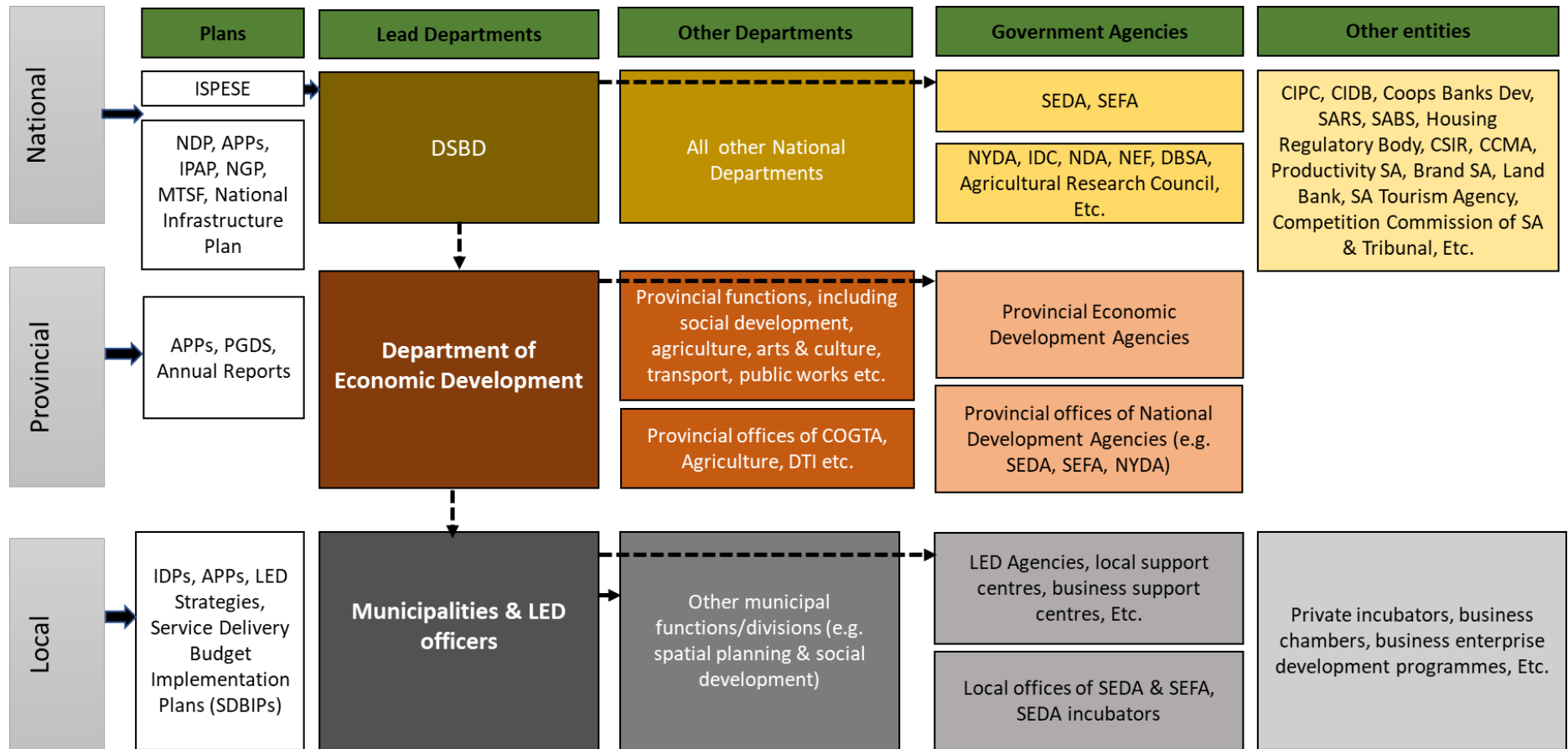


However, according to the DTI’s Review of Ten Years of Small Business Support in South Africa 1994 to 2004, constraints and institutional shortcomings continued to hamper the development and growth of SMMEs. It was recognised that a new, comprehensive and cohesive approach was required to address these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

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

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

Figure 1: Institutional structure for SMME support



2.2 Programme theory of change

The Strategy did not have a theory of change (ToC), one was developed around the activities and outputs that are outlined in the ISPESE (see Figure 2). These outputs are mapped to the higher level objectives or outcomes of the Strategy, as well as the NDP growth and development targets (i.e. the impact). A number of high-level assumptions are also described.

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

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

In order to achieve this potential there is a need to encourage and support the continued creation, survival and growth of start-up firms. Critical is also integration – of different socio-economic policy areas; programmes within the public sector and between public and private sectors and of different entrepreneurship and small enterprise promotion institutions.

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

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

The ISPESE aims to address this in the following manner.

Inputs

At the level of inputs the Strategy aims to mobilise and deploy funding, human resources, infrastructure and equipment as well as partnerships in a range of activities across government. Additionally, key inputs that need to be in place include national planning and policy frameworks as well as public and private sector support institutions.

Activities

The generic activities that are indicated in the theory of change include research, information and communication; legislative and regulatory interventions; business development services and training; the provision of financing; infrastructure development and inter-governmental coordination. These activities occur across a number of government programmes and institutions.

Outputs and outcomes

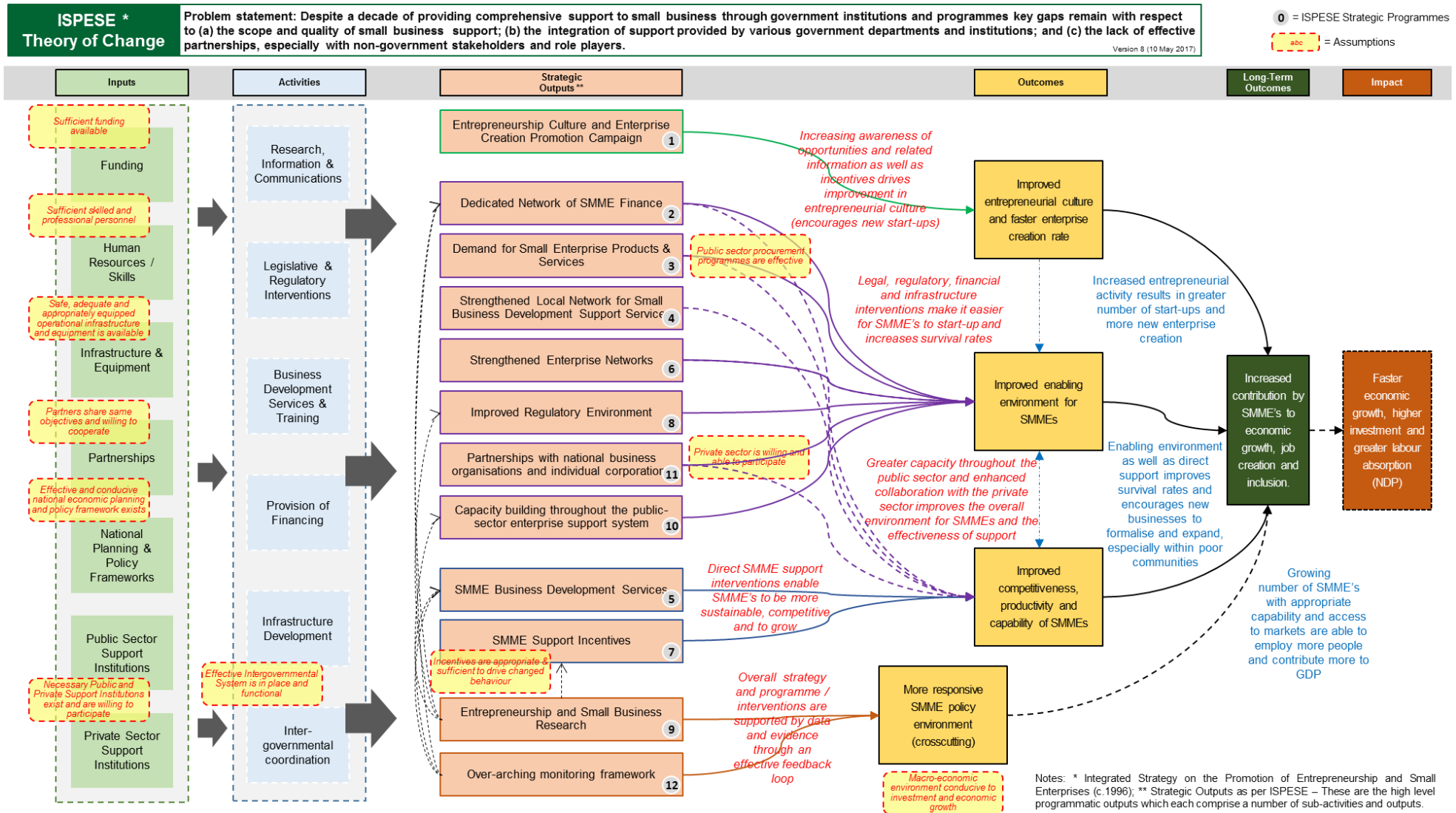
The Strategic Outputs can be broadly grouped into four clusters of Outputs that support four key Outcomes under the ISPESE. If achieved, the outcomes will result in faster SMME creation, higher survival rates and growth and expansion of such SMME's in respect of

markets, employment and contribution to GDP as their competitiveness, productivity and capability is enhanced through business development, technical and financial support within a regulatory and broader enterprise system that is enabling and supportive of SMME's.

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

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

Figure 2: ISPESE Theory of change



3 THE POLICY AND DATA REVIEW

3.1 Policy review

The strategic approach undertaken in the 2005 strategy was based on an investigatory study compiled by the DTI and published in 2004, titled; *Review of Ten Years of Small Business Support in South Africa 1994 – 2004 (the study)*. According to the study, two key developments stood out;

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

Importantly, the DTI highlighted that standardised or generic support strategies and programmes were insufficient. Rather, sector-focused or adapted programmes needed to be developed and implemented. The study acknowledged that supporting small enterprises is a significant undertaking, and an understanding of their operations in differing sector structures, at different stages in their life cycle, and different operational sizes, was required (then and now). Therefore, the study advocated that an integrated and co-operative approach was essential, inclusive of the private and the NGO sectors.

Drawing on the findings of the 1994-2004 review, the ISPESE therefore sought to re-focus support on designated target groups and priority geographical areas and sectors. Central to the strategic actions and institutional arrangements was a shift to a more coordinated approach to service delivery. This was the fundamental guiding principle of the new “integrated” Strategy. The ISPESE was therefore premised on a decentralised approach, in which the department (the DTI) would play a pivotal role in ensuring that this integrated strategy was implemented across government as well as coordinated amongst other actors in society.

3.2 Data review

There is a remarkable degree of consensus in South Africa on the desirability and importance of SMMEs to the country’s economic growth and employment prospects. The actual trajectory is, however, distinctly discouraging, revealing that the very firms that are expected to drive employment growth in South Africa are precisely the ones that have lost the greatest traction over recent years. In contradiction to the international experience, smaller firms in South Africa employing less than 50 people are becoming less important as job creators, not more. Moreover, the decline in the workforce employed by SMMEs suggests that there has been a corresponding decline, of some magnitude, in the number of firms. This in turn implies a smaller potential SMME base on which employment can be expected to grow, and a declining entrepreneurial stock.

Likewise, the contribution of SMMEs to investment and economic growth has been stagnant at best for the period 2004-2015. However, without appropriate baseline data, the measurement of SMME activity in terms of numbers and contribution are at best estimations and cannot be regarded as a true reflection of the overall health and growth of the sector. Likewise, data gaps on the activity of SMMEs in townships and the rural economy, do not allow for a comprehensive and textured picture of the SMMEs in the country. With regard to

cooperative activity, the sector seems to have experienced rapid growth over the period. However, this has not translated into financially viable and autonomous entities, with most (90%) registered cooperatives reportedly inactive (Godfrey, L., Muswema, A. P., Strydom, W., Mamafa, T., & Mapako, M., 2015).

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

In addition, the environment in which SMMEs operate has become increasingly challenging and there is an ongoing need for reforms of the business environment. The regulatory problems that were highlighted in 2004 seem to remain, and more worryingly, the available international indicators suggest that the business environment in South Africa has deteriorated over the implementation period. Evidence from the Small Business Project's (SBP's) SME Growth Index and the Davis Tax Committee confirm that SMMEs in South Africa are more burdened by regulation than their larger counterparts.

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

4 LESSONS FROM THE BENCHMARKING STUDY

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

Many of the institutions and initiatives pursued in these three countries are mirrored in some form in South Africa. There are however a number of common lessons and principles that emerge from these country case studies, which should be further considered in the review of South Africa's past SMME strategies, and in the design of new interventions. There are also some possible gaps or shortcomings in the South African SMME framework, when compared to what countries elsewhere are doing. The table (best-practice scan) in Annex 2 highlights the main lessons and some of the potential gaps, based on the benchmarking analysis.

4.1 Brazil

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

South Africa is facing similar challenges, but it would seem that it could draw on Brazil's experience to enrich its ability to address these. For example, Brazil's achievements tend to be the result of an integrated set of policies that combine enterprise development promotion with access to credit and a more favourable regulatory environment. The effectiveness of efforts to formalize the informal economy in recent years cannot be attributed to any single policy initiative, but rather to their interconnectedness and to synergies created with other policy areas. The economic context within which these policies are implemented is also an important consideration. In Brazil, the economic context was characterized by economic growth and greater income distribution that enabled formalization policies to flourish during the period 2000-2010. This required public policy formulation and coordination in multiple spheres, including macroeconomic development, trade, credit, education, science and technology.³

4.2 Malaysia

The support that the SME sector receives in Malaysia comes from the highest levels. The Prime Minister is the chair of the National SME Development Council – the highest policy-making body in the country related to SMEs. He notes in his foreword to the Annual Report of SME Corp. that “SMEs create jobs, uplift incomes, change the lives of communities and form essential building blocks for larger corporations”. Malaysia is on track to realising its target of becoming a high income country by 2020. SMEs are considered to be the key catalyst for achieving this, and to ensure this, the government commits approximately R15bn annually to fund SME development programmes. The government's focus has been on creating

³ http://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/documents/publication/wcms_318209.pdf (p18-19) Accessed 15 Feb 2017

innovative, resilient and export-oriented SMEs. SMEs are currently growing at a rate faster than the overall national economic growth rate. SMEs are also considered a key tool for fostering inclusive growth and reducing income inequality, with specific programmes focused on the 'B40' (the bottom 40% of households), in rural areas and underdeveloped states, and in support of the Bumiputra⁴.

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

4.3 Turkey

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

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

⁴ Indigenous and Muslim Malays are collectively referred to as the 'Bumiputra', and have been the targeted beneficiaries of prolonged affirmative action policies by the Malay Government.

4.4 African countries

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

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

5 PROVINCIAL CASE STUDIES

Four provincial case studies were completed in the Free State, Gauteng, Limpopo and the Western Cape. The case studies included desktop analysis of economic trends and policies, consultations with national, provincial and local government officials in each province, and a focus group discussion with small businesses in one district per province.

5.1 General lessons

The four provinces visited present different features, challenges and institutional structures. Nevertheless, there are a number of common issue that emerge across all of these Provinces.

Intergovernmental coordination (including M&E)

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

Research, information and communications

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

Legislative and regulatory interventions

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

Business development services and training

While there are a large number of BDS providers and programmes for SMMEs across all four provinces, respondents claim that these are generic, and not designed to meet the real-time and specific needs of SMME owners. Moreover, there is a low level of coordination between

these different providers, and in general, they are not well linked with specialists and other government programmes. There is a need to distinguish between “real entrepreneurs” (i.e. individuals with entrepreneurial instinct and high potential ideas), and individuals who simply have no other work opportunities, and provide more targeted support to those that are most ready and deserving.

Provision of finance

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

Infrastructure development

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

6 KEY EVALUATION FINDINGS

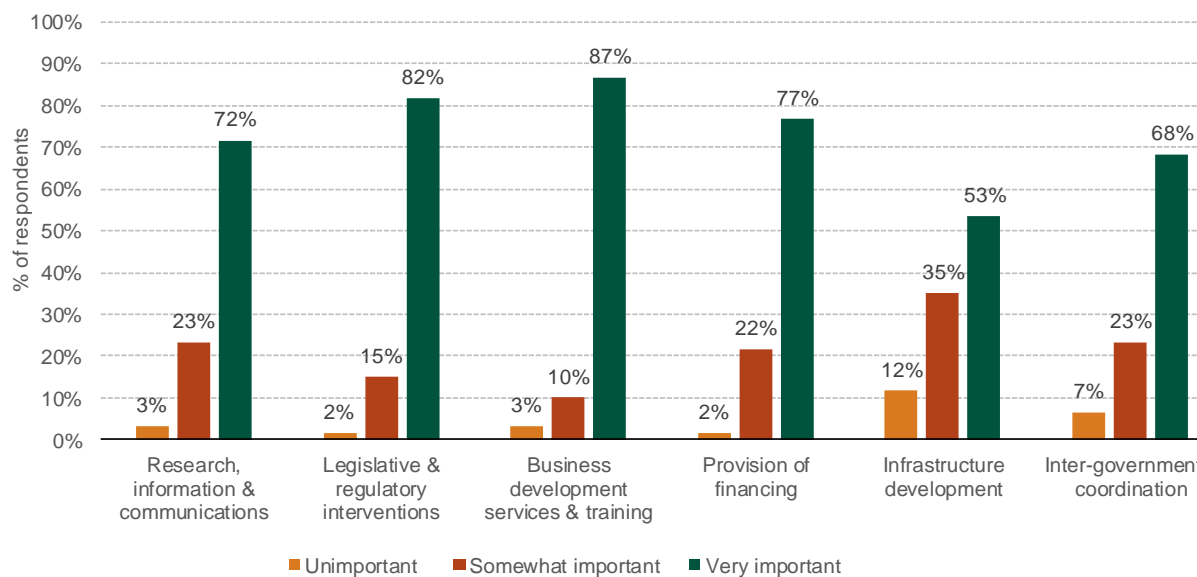
6.1 The ISPESE was an appropriate response to the underlying problems confronted by SMMEs in South Africa

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

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

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

In response to these concerns, the Strategy focused on three key pillars. The overall importance of these interventions, for the respondents, is outlined in Figure 3. Whereas all pillars and areas of intervention are identified as very important, Business Development Services (BDS) and training is rated as most important. Conversely, infrastructure development was rated as the least important, with more than 10% of respondents indicating that it was not important.

Figure 3: Overall importance of key programmatic areas in supporting SMME growth and development

Source: Key informant interviews

Where n=60 responses

While noting the need for the “reduction of business regulatory constraints” (business environment reform), the Strategy is silent on the question of the structure of the South African economy – specifically, the dominance of large integrated firms in many key sectors. The World Bank for instance has long argued that market share and firm-level efficiency are not well correlated in South Africa – less efficient firms often have larger market share than they should have (World Bank, 2011). This sclerotic environment does not reward innovation or encourage smaller firms to expand their operations. Furthermore, SMMEs face numerous demands for compliance, equivalent to larger firms, and grapple with increasing administrative inefficiencies. Numerous examples of these administrative costs were highlighted in the provincial case studies and the focus groups.

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

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

- Firstly, as an integrated strategy which aims to coordinate various actors - public and private - the Strategy failed to present a clear *problem statement* for the intended areas of intervention, that would inform appropriate actions to effect change among all relevant stakeholders involved in SMME development. The recommendations contained in the Strategy are therefore generic and in cases unclear. As a result,

beneficiaries complain that government's interventions are not able to address their specific needs.

- Secondly, insufficient attention was given to how the Strategy would be implemented and coordinated in practice. This limitation represents the greatest shortcoming in the conceptualisation of the Strategy. Without coherent implementation guidelines, a well-structured coordination mechanism and clear measurement criteria, SMME support executed by government at national, provincial and local levels suffers from overlaps and inconsistencies. This was highlighted in all consultations.

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

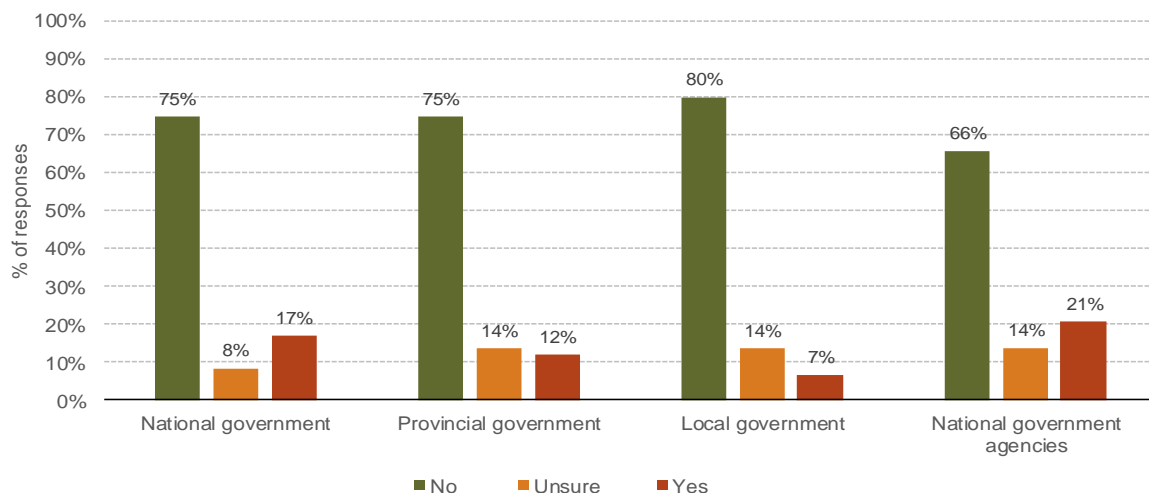
6.3 Interventions were biased towards some of the pillars in the Strategy and were not applied consistently across the three levels of government

A key strategic shift introduced in the White Paper, was the *integration* of the resources available across the diverse groups and institutions involved in the development of small enterprises in South Africa. This change was echoed in the Strategy, where cooperation amongst organisations – both inside and outside government - was integral to the Strategy's approach.

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

As depicted in Figure 4, most respondents indicated that government's programmes and policies to support SMMEs were not applied and/or implemented consistently across the three spheres of government. Coordination with local government was ranked most poorly across all respondents as well as across government and business responses separately.

Figure 4: Consistency of implementation across the three spheres of government over last 10 years



Source: Key informant interviews

Where n=59

In addition, the results from the document and data review, suggest that implementation was skewed towards the establishment of business development and small business finance agencies and services at both the national and provincial level (although the outputs of these agencies are relatively modest). There was much less focus on stimulating entrepreneurship, improving the regulatory environment and undertaking research or monitoring and evaluative activities. These shortcomings are reflected in the revised theory of change.

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

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

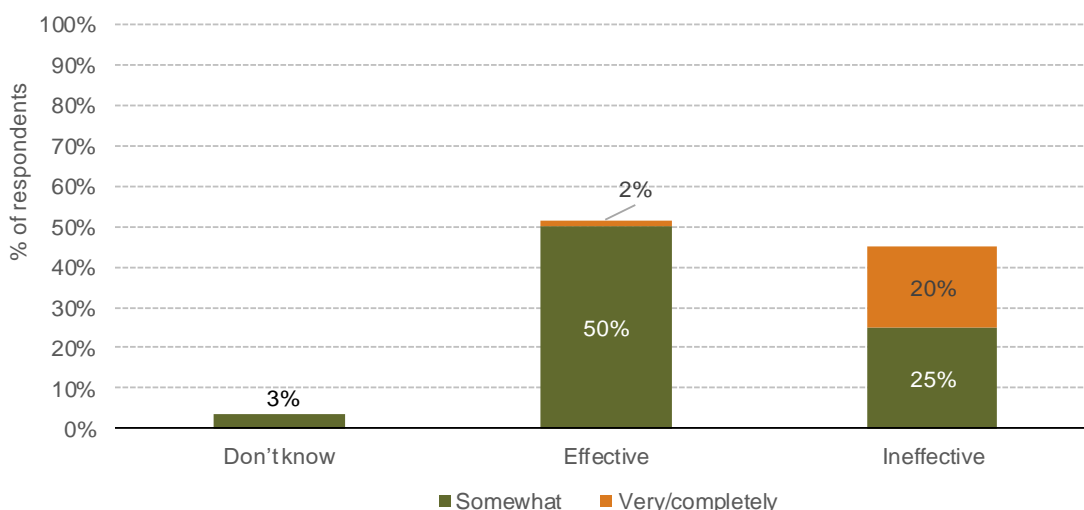
SMME issues received priority policy attention throughout the implementation period. The New Growth Path, the National Development Plan, the Integrated Youth Development Strategy (IYDS) and the National Informal Business Upliftment Strategy (NIBUS), all of which were developed before 2014, include SMME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

NDP and the White Paper propose a more coordinated and consolidated approach to SMME development ⁵.

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

The overall aim of the ISPESE was to increase the contribution of small enterprises to growth and development in South Africa. It is evident from Figure 5 that a slim majority of respondents indicated that government’s activities, policies and programmes have been effective, and just 2% indicated that they were very/completely effective. On the other hand, 25% of respondents indicated that these programmes were, on the whole, very ineffective. These negative perceptions differ markedly between government and business, with around 70% of business respondents seeing government policies as ineffective (and 50% very ineffective). Still, more than a third of government respondents also see these policies and programmes as ineffective.

Figure 5: Effectiveness of government’s overall activities, policies and programmes in developing and growing SMMEs between 2004 – 2014



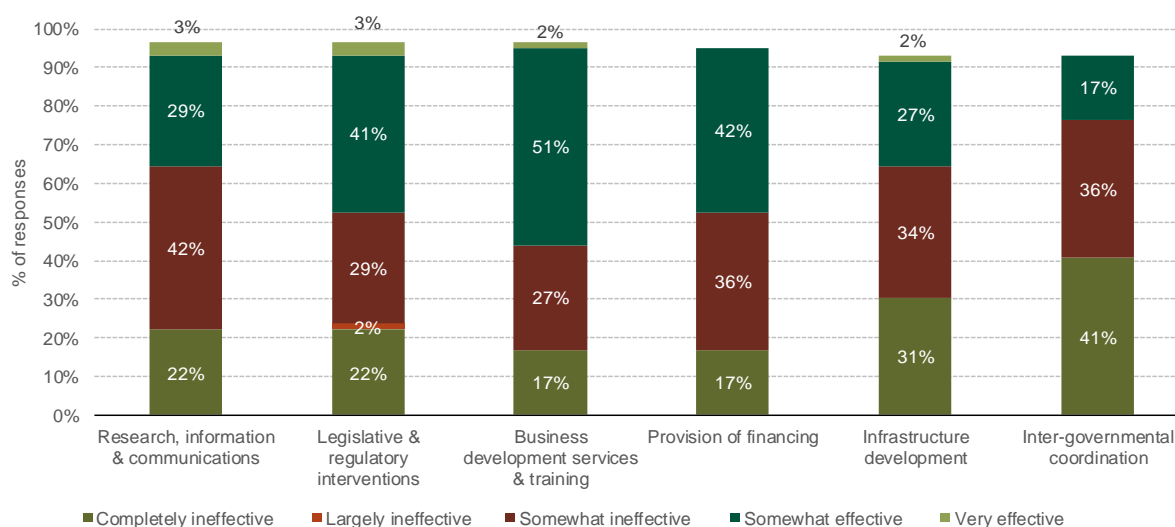
Source: Key informant interviews
Where n=60

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

⁵ NDP, (pg 119). “Small business support services will be consolidated and strengthened. Action has already been taken to create a unified small business service delivery agency. Public-private partnership can be considered, where the private sector is incentivised to provide small business with support, with increased payment contingent on success.”

Turning to the specific programmatic activities, BDS and training was rated as the most effective (53% of responses) government intervention in supporting the growth and development of SMMEs over the implementation period (see Figure 6 **Error! Reference source not found.**). On the other hand, 41% of respondents identified inter-governmental coordination as completely ineffective over the implementation of the ISPESE, making it the least effective programmatic area. Whereas government respondents also saw legislative and regulatory interventions and the provision of financing as effective, business respondents did not rate any areas of intervention as effective overall.

Figure 6: Overall effectiveness of key programmatic interventions and programmes



Source: Key informant interviews

Where n=59

With reference to the broader SMME policy environment, a consistent picture emerges from the consultations. Three key areas were identified as having worsened over the implementation period, namely (i) the availability of research and information, (ii) the legislative and regulatory environment for SMMEs and (iii) government coordination, by 53%, 44% and 42% of respondents respectively. The provision of BDS and training as well as access to finance were identified by 34% of respondents as having improved over the 2004-2014 period. Even though the legislative and regulatory environment for SMMEs was identified as having worsened over time by 44% of respondents, 41% of respondents indicated that there had been some improvement in this policy area.

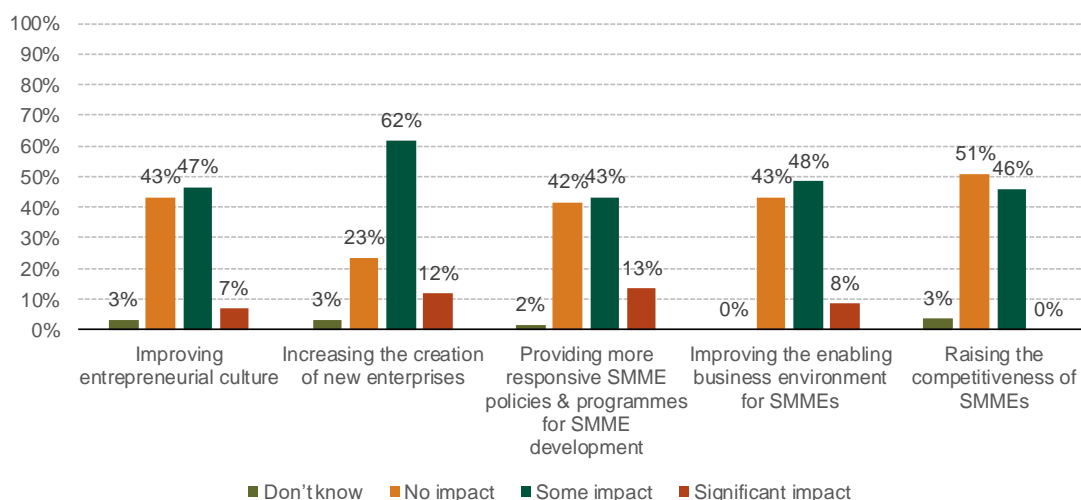
6.6 The Strategy has not achieved its intended outcomes

Ultimately, the Strategy aimed to raise the contribution of SMMEs to the South African economy. Data from Statistics South Africa show declining investment in growth orientated SMMEs; it is estimated that SMMEs accounted for only 8.5% of the total investment by non-financial corporations in 2012 compared with 12.9% in 2010 (Davis Tax Committee, 2014, p. 10). Evidence presented by the World Bank highlighted that South African SMMEs, relative to their peer group are less likely to obtain or utilise credit products than their larger counterparts (World Bank, 2011). Likewise, the available literature and data shows that there has been a

decline in SMME creation and employment over this period. Business environment indicators tracked by international organisations have likewise shown a fall in South Africa’s rankings, and the available indicators of national entrepreneurship have deteriorated.

Despite these apparent shortcomings, 72% of respondents believe that government’s policies had an impact on increasing the creation of new enterprises (see Figure 7). Across all other outcomes of the Strategy, almost half of all respondents believe that government has had no impact.

Figure 7: Perceptions of the impact of government’s SMME policies, programmes and interventions



Source: Key informant interviews

Where n=60

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

- Firstly, it appears that many of the activities set out in the Strategy were not implemented as planned (or what was implemented was not sufficient given the nature and scale of the problem). As a result, a large proportion of the outputs identified in the evaluation log-frame were not achieved over the life of the Strategy. Specifically, based on the available evidence from government reports and the consultations, very few of the outputs in the second and third pillars of the Strategy were delivered. Where progress was made – such as in the areas of business development and the provision of finance – the volume of outputs is relatively small. For example, in 2014, 3 000 firms received business performance assistance from SEDA and 294 SMMEs qualified for direct loan finance from SEFA. It follows, that many of the challenges identified in the Strategy have not been effectively confronted and addressed.
- Secondly, many of the economic assumptions underlying the Strategy changed dramatically during the period of implementation. The Strategy was formulated during a period of relatively strong economic growth and policy stability. In the wake of the global financial crisis, and the collapse of the commodity super-cycle, South Africa’s GDP growth slowed dramatically: between 2004 and 2008, South Africa’s GDP growth

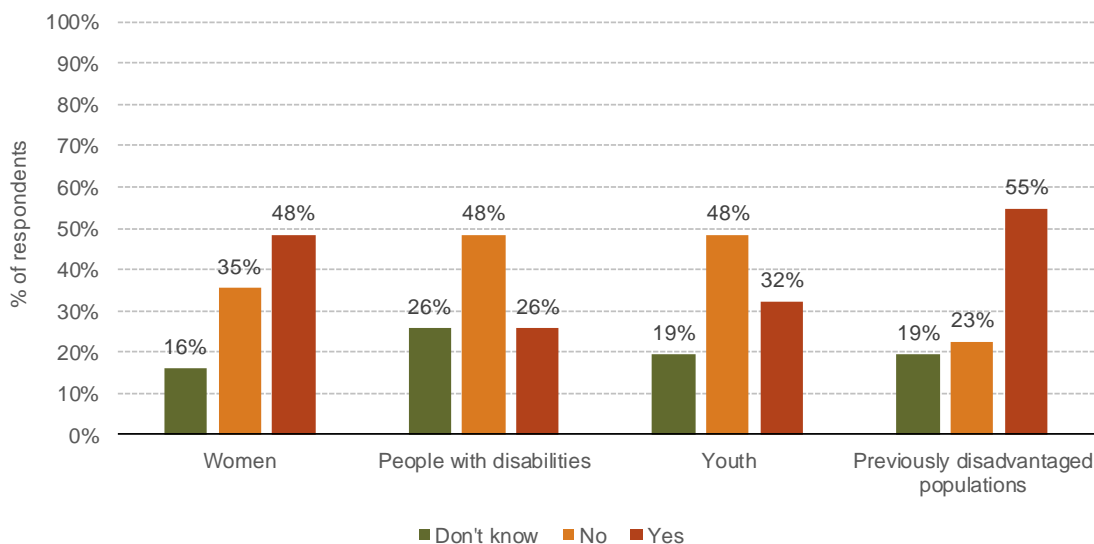
averaged 4.8%; for the next five years, it fell to an annual average of 1.9%⁶. The net impact on job creation has been equally dramatic – South Africa’s official unemployment rate has risen from 23.2% in 2008 to 27.7% in 2017⁷. Yet despite these extraordinary economic circumstances, the Strategy was not revised or strengthened to address the resulting impact on small and therefore more vulnerable businesses. Numerous stakeholders therefore commented on the inability of the Strategy to counteract the adverse effects of the “global financial crisis”.

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

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

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

Figure 8: SMME programmes and interventions targeting at specified groups



Source: Key informant interviews

Where n=31

These perceptions are consistent with the available data from SEDA and SEFA Annual Reports. In 2010/11, SEDA reported that more than 90% of its clients were black-owned and

⁶ SARB, <https://www.resbank.co.za/Research/Statistics>

⁷ StatsSA, Quarterly Labour Force Survey (QLFS), 3rd Quarter 2017

around 50% women- or youth-owned; these shares remained relatively stable over the following few years. In 2011/12, just 2% of SEDA's clients were reportedly disabled⁸. Similarly, in 2012/13, 76% of the loans disbursed SEFA went to black-owned businesses; 40% to women-owned businesses; and 16% to youth-owned businesses (SEFA, 2013).

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

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

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

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

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

These observations were confirmed by the consultations. Overall, respondents indicated that government does not put sufficient resources to SMME policies and programmes, with the research space and monitoring activities highlighted as especially under-resourced. Moreover,

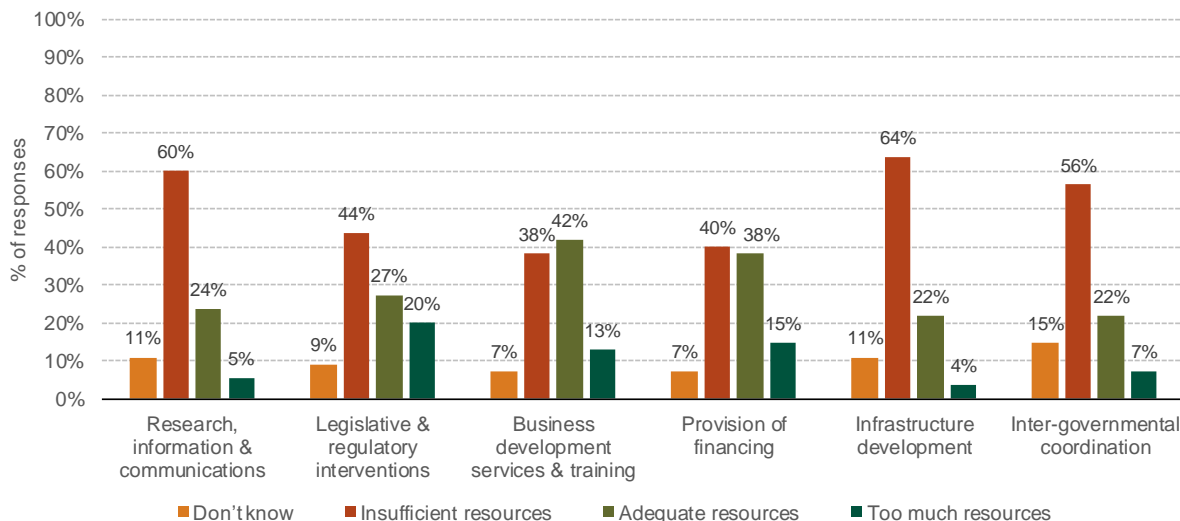
⁸ <http://www.seda.org.za/Publications/Pages/AnnualReports.aspx>

many respondents indicated that there is a need to expand the reach of government interventions, with remote areas and local government in most need of support and additional resources.

When asked whether the private sector has provided enough resources, most of the respondents suggested that this could be improved. This largely related to access to market opportunities and the inclusion of SMMEs in corporate value chains. Many respondents, both business and government, shared the perception, that larger businesses were generally ticking boxes and following a necessary compliance approach to BBB-EE, whereas SMMEs, the intended beneficiaries, were saddled with additional and complicated compliance requirements for BBB-EE certification.

Figure 9 illustrates that overall, respondents believed that government contributed insufficient financial and human resources to the implementation of the key programmatic activities of the Strategy. Specifically, respondents indicated that insufficient resources were allocated to infrastructure development (64%), research, information and communications (60%), and inter-governmental coordination (56%). On the other hand, 42% of respondents indicated that adequate resources were allocated to BDS and training; again confirming that this is the one programmatic area that has received significant attention. This perspective was shared by both government and business respondents: SMMEs consulted in the various provinces were largely satisfied with the services and support they had received having been accepted by SEDA

Figure 9: Human/financial resource allocation by government



Source: Key informant interviews

Where n=55

Given the lack of information on expenditure and other inputs, it is difficult for the evaluation to come to a definitive conclusion on the cost-effectiveness and efficiency of government spending on all or any one of the main pillars of support. It is also important to reiterate that the ISPESE is not a programme, but a strategy, that outlines the roles and responsibilities of many different actors involved in the development and support of SMMEs. To this end, the Strategy confirms that there are many actors and providers of support for SMMEs, which are

meant to be coordinated through the various structures of government. In reality, many of the intended programmes identified in the Strategy have not been implemented, or where they have, implementation has been partial or patchy. It is therefore impossible to derive clear results from the Strategy, or attribute these directly to government expenditure.

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

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

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

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

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

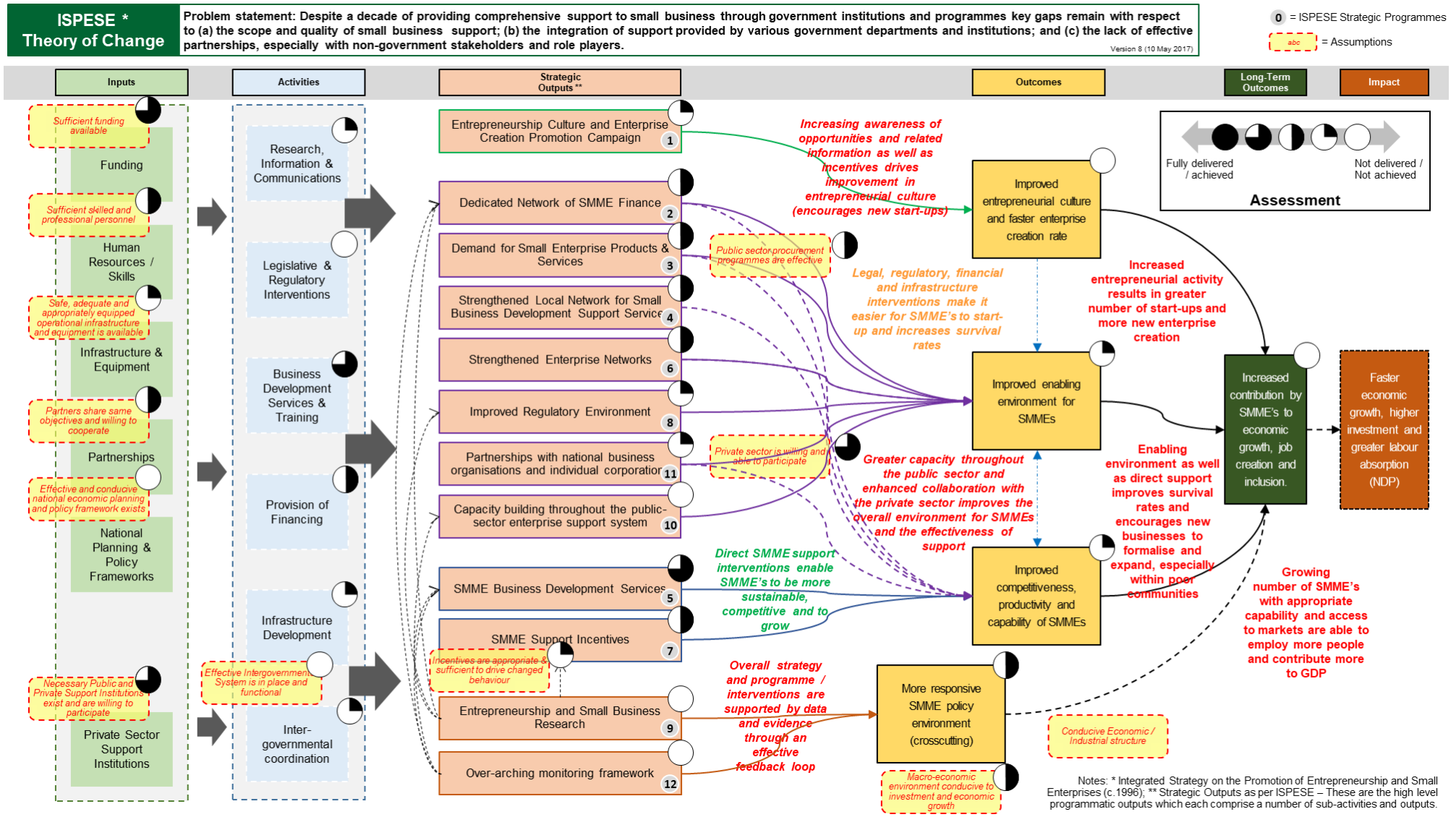
6.10 The ISPESE theory of change is sound and appropriate

Broadly the evaluation indicates that the overall theory of change in its original formulation is working. Specifically the ToC articulates the critical point that all of the strategic outputs need to be delivered in order for any meaningful change to be effected in the SMME ecosystem.

However, the evidence suggests that in many areas there are key gaps which have undermined the effectiveness of the ISPESE. Moreover, a number of critical assumptions with respect to the policy context, effective inter-governmental coordination as well as broader economic environment have not held and undermined the Strategy's achievement of its outcomes.

Figure 10 describes the extent to which the ISPESE's inputs, activities, outputs and outcomes have been delivered or achieved, against the Strategy ToC. A more detailed assessment is provided in Annex 4.

Figure 10: Assessment of the theory of change



7 CONCLUSIONS

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

7.1 Relevance

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

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

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

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

7.2 Coherence

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

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

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

business development services, in an environment that remained generally unfavourable to SMMEs and entrepreneurship. Moreover, according to most respondents, government's SMME policies and interventions were not applied consistently across the three levels of government.

7.3 Effectiveness

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

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

At the output level the results on the provision of business development services and, to a lesser extent, improving access to finance are somewhat positive, but other outputs were not, or only to a very limited extent, achieved (such as an improved entrepreneurial culture, research and those related to government capacity and coordination). The table below sets out a summary perspective of the achievement of the Strategy outputs. Further detail is provided in Table 3 in Annex 3.

Table 2: Overall achievement of outputs

Outputs	Not achieved	Partially achieved	Achieved
1. Entrepreneurship Culture and Enterprise Creation Promotion Campaign	Not achieved		
2. Dedicated network of SMME Finance		Partially achieved	
3. Demand for Small Enterprise Products & Services		Partially achieved	
4. Strengthened Local Network for Small Business Development Support Services		Partially achieved	
5. SMME Business Development Services		Partially achieved	
6. Strengthened Enterprise Networks			Achieved
7. SMME Support Incentives		Partially achieved	
8. Improved Regulatory Environment		Partially achieved	
9. Entrepreneurship and Small Business Research	Not achieved		

Outputs	Not achieved	Partially achieved	Achieved
10. Capacity building throughout the public-sector enterprise support system			
11. Partnerships with national business organisations and individual corporations			
12. Over-arching monitoring Framework			

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

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

7.4 Efficiency

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

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

7.5 Sustainability

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

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

SMME interventions to be sustainable, it is important that the overall business environment is supportive for new and emerging enterprises. The evidence indicates that the Strategy was largely ineffective in improving the regulatory environment for SMMEs.

On the other hand, it is important to recognise some of the significant institutional changes that have taken place over recent year, which are likely to improve coordination and contribute towards the sustainability of future policy initiatives. This includes, for example, the establishment of the Department of Small Business Development in 2014, dedicated SMME capacity and services at SARS, and more stream-lined services for business registration at the Companies and Intellectual Property Commission (CIPC), and the revised B-BBEE codes of good practice. There are also some indications that more small businesses are becoming formalised – for example, SMMEs contribution to domestic VAT has risen from R127.5 billion in 2012/13 to R187.4 billion in 2016/17; while SMME provisional corporate income tax payments have increased from R48.9 billion to R73.5 billion over this same period⁹.

⁹ Speech by SARS Commissioner to the 2017 SMME Colloquium

8 RECOMMENDATIONS

- R1** The DSBD should promote the establishment of a high-level SMME policy and programme coordination mechanism (potentially as a sub-structure of the President's Coordinating Council). This would serve to signal the importance of the SMME community in achieving government's wider economic objectives, and improve coordination and information-sharing across all relevant departments and spheres of government.
- R2** The DSBD should engage with the Treasury in the allocation and evaluation of funding to SMME programmes across government. More specifically, DSBD should develop a mechanism with the National Treasury that consolidates and tracks all government expenditure and performance information on SMME's through the public finance management system¹⁰.
- R3** The DSBD should work with the DTI and the National Treasury to ensure that there is alignment in definitions, indicators and outcomes across the government's SMME, B-BBEE and government procurement policy interventions.
- R4** The DSBD should assume a primary role in guiding, coordinating and where necessary consolidating SMME interventions across existing implementing agencies (i.e. it should not be involved in the direct implementation of SMME support programmes). In doing so, the DSBD should strengthen its capacity to undertake research, collect and disseminate data and monitor and evaluate the impact of national and provincial SMME programmes and interventions.
- R5** The DSBD should review the links and possible overlaps between the product offerings of SEDA and SEFA, and improve coordination across these agencies. This may involve some consolidation or rationalisation of specific business support and financing services, and should serve to reduce the turnaround time and transaction cost for end-beneficiaries.
- R6** The DSBD should develop and issue regulations and best-practice notes that provide guidelines and standards for the implementation, monitoring and reporting of all government-led SMME programmes.
- R7** The Minister should give effect to all provisions contained in Section 18 of the National Small Business Act. Specifically, the issuance of guidelines to government on the promotion of small business, including: the publication of an updated Small Business Support Strategy; procedures for the review of the effect of existing legislation and their effect on small business and the application of the Small Business Support Strategy; and procedures for the consultation with stakeholders (government, business and labour) on new or proposed legislation affecting small business.
- R8** The DPME should review the Socio-Economic Impact Assessment System (SEIAS) methodology to consider the inclusion of assessment criteria that reflect the impact of policies, laws and regulations on SMMEs (including cooperatives). The DSBD should be provided with a seat on the SEIAS oversight committee.

¹⁰ For instance, in the same way that Treasury tracks governments Infrastructure Programme in the Budget and Estimates of National Expenditure.

- R9** The DSBD should engage with BDS providers and associations in order to support the organisation, accreditation and professionalization of the industry.
- R10** The DSBD should consider further research on support programmes by the private sector, with the aim of strengthening public/private sector partnerships and ultimately, the achievement of national objectives in the SMME and corporative development sectors.

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Annex 2: Benchmarking study best-practice scan**Table 3: Best practice scan (B = Brazil; M = Malaysia; T = Turkey)**

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

Country	Lessons	RSA practice (2004 to 2014)	Performance	
	networks and the development of a “national consensus”.	their outcomes not widely published or circulated.	dissemination of results	
3b.	B	Small business agencies should make use of private sector consultants, with direct business experience, rather than in-house advisors.	Parallel development for SMME support in private sector and Government programmes. Not necessarily coordinated.	Average, but required coordination.
4a.	B, M, T	Dedicated and substantive entrepreneurship campaigns (e.g. entrepreneurship week) should be implemented.	Uncoordinated, but many initiatives conducted by both Government and Private Sector. Yearly entrepreneurship week in line with global timetable.	Good, but needed specific improvement
4b..	B	Multiple channels must be used to access entrepreneurs. This includes television, radio, blogs and events and seminars.	Uncoordinated, but many initiatives conducted by both Government and Private Sector.	Good, coordination could have been better
5a.	M, T	The use of technology, and ensuring that small businesses are able to use and access ICT/e-commerce, is increasingly important.	The strategy did not emphasise ICT given its period. But subsequent growth in ICT from private sector has led to greater access to e-commerce and other ICT information and support for SMMEs.	Good, largely market driven.
5b.	B, M, T	Grant funding to incubators and accelerators should be used to support early stage growth and innovation amongst small businesses.	Incubation and grant funding services expensive with mixed outcomes. Government policies through B-BBEE encouraged private sector incubators and enterprise development services.	Good, but specific improvement required.
5c.	B, M, T	Government should work closely with universities and tertiary institutions, and the research arms of large companies, especially in supporting incubation.	Different departments at national level supporting divergent incubation services are encouraged and well researched. These initiatives are focused more to the technically skilled industrial development support programmes.	Good, but required better coordination and dissemination of outcomes.
6a.	B, M, T	Government departments and agencies should be required to establish supplier development programmes.	Government at National, Provincial and Local level have established supplier development programmes.	Average, mixed results.
6b.	M	Interventions that make use of government procurement should include a graduation and exit policy to reduce dependence on government	No sunset clause provided to include graduation and exit policy for Government procurement.	Average, but specific graduation targets required.
6c.	B	Training and advice should be provided to municipalities to enable them to provide	Regular/annual advisory support conducted by multiple agencies (international and national) do exist to	Average, needed

Country	Lessons	RSA practice (2004 to 2014)	Performance
	appropriate support to small business, including through regulatory reforms and procurement.	provide support to local authorities. Mixed implementation of procurement targets and regulatory reform at local Government level.	specific improvement
7a.	M, T The curricula of schools, universities and technical colleges should be reviewed and revised to generate the 'right' skills and to encourage a culture of entrepreneurship.	South Africa rates very poorly in terms of Maths and Science skills. While curricular includes entrepreneurship, comparatively South Africa again ranks poorly in terms of entrepreneurship culture.	Poor, required specific improvements on technical skills development
8a.	M, T The "internationalisation" of SMMEs is increasingly important and attention should be given to ensuring that SMMEs achieve the standards and competitiveness necessary to access global value chains.	Low base of export ready SMMEs, however a number of support initiatives created. Prioritisation of high growth SMMEs is low.	Average, but with mixed results
8b.	M, T Priority should be given to creating 'home grown champions' - selected SMMEs that can demonstrate high potential growth and can compete in regional and international markets.	Many entrepreneur competitions.	Good, largely private sector led
8c.	B, M Cluster support should be used to target groups of companies in specific geographical location that are linked by a common specialised form of production.	At national level Government did put emphasis on cluster support development but with mixed results. B-BBEE policy individualises company support for supply chain development, but not interlinkages between companies to boost cluster development.	Average, policy implementation produced mixed results
8d.	M, T Initiatives are needed to provide failed but honest entrepreneurs with a 'second chance' – including appropriate insolvency processes.	Business rescue clause in the companies act provides for second chance/ assistance. However, not well communicated to the SMME sector which has resulted in a low uptake. Practitioners of business rescue are in the early stage of development with capacity shortages.	Good, but in early stage of development.

Annex 3: Achievement of outputs and outcomes

Table 4: Achievement of Outputs

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

Outputs	Indicator(s)	Assessment	
	support (also data on utilisation rates pre and post “one-stop shop”)		
	Data in respect of survival, growth rates of supported SMMEs	●	No Data or baseline information to make assessment
	Availability of business facilities in municipalities	●	Limited (each municipality has an LED officer assigned however facilities are not universal)
	Increased Investment in business facilities reducing operating costs of SMMEs	●	Limited
	Utilisation rates of facilities	●	No data
	Survival / growth rates of SMME's in facilities	●	No data
5. SMME Business Development Services	Increased total number of SMMEs that have received managerial, business or technical skills training from through government-funded programmes	●	Achieved (10 697 SMMEs reportedly reached by SEDA in 2014, and 3 016 assisted with 'business performance')
	Increased number of SMME's supported by Enterprise Development Programmes	●	Limited data available and no aggregated statistics available
	Survival and growth rates of SMME's undergoing Enterprise Support	●	No data (no impact measurements undertaken to measure this criteria)
	New business start-up support available	●	Achieved
	Number of participants in government new business start-up support	●	Limited (no available consolidated data)
	Increased Level of funding available for new business start-ups	●	Limited (no available data disaggregating start-up funding)
	Number of incubators, participation and survival / success rates	●	Limited (assessment limited to GTAC SEDA Tech Incubators)
6. Strengthened Enterprise Networks	Cooperatives development policy and strategy	●	Achieved (Act promulgated 2005 and amended in 2013)

Outputs	Indicator(s)	Assessment	
	Increased value of funding directed towards Cooperatives strategy	●	Achieved
	Number of cooperatives established	●	Limited (See literature review) establishment high number, however low survivability
	Number of business associations supported	●	Limited (Hap hazard support of chambers and associations through SOE's) no direct government support
	Total SMME membership of business associations supported	●	Limited data (registrar of SMMEs in Associations not reported on)
	Number of business networks supported	●	No data (definition challenge – what constitutes a network)
	Total SMME membership of networks supported	●	No data (definition challenge)
	Increase No. of corporations introducing SMME support initiatives	●	Achieved (BBB-EE codes and compliance)
	Increase No. of SMMEs supported by Corporates	●	Achieved (BBB-EE codes and compliance)
	Increase number of SMMEs participating in cooperatives	●	No data
	Increase Survival / growth rates of cooperatives	●	Not achieved (see literature review)

Outputs	Indicator(s)	Assessment	
7. SMME Support Incentives	Increase the number of existing incentive schemes reviewed.	●	Incentives are generally reviewed, but not specifically for SMME involvement
	Increased number of new incentive schemes developed.	●	Limited (a wide range of incentives are available for business, but until recently, surprisingly few explicitly targeted SMMEs)
	Increased number of enterprises benefiting from incentive schemes (in priority sectors)	●	Limited (evaluation on some incentives show high degree of SMME participation)
8. Improved Regulatory Environment	DPLG (DCoG) Recommendations on improving regulatory environment in municipalities	●	Not achieved
	No. of municipalities introducing regulatory review / red tape reduction initiatives	●	Limited (Guidelines published in 2013/14) local municipal training on Red Tape reduction pilots on 12 municipalities.)
	Number and outcome of Regulatory Impact Assessments	●	Limited
	Ranking on doing business (National & Regional)	●	Declining
9. Entrepreneurship and Small Business Research	Annual small business reviews completed and disseminated	●	Not achieved
	Increased amount of funding mobilised for SMME research	●	No data
	Growth in SMME research outputs	●	Limited (research not directed by a clear national research agenda)
	Baseline database on structure and performance of the SMME sector completed	●	Not achieved (no base-line data for SMMEs)
	Number of research papers (journal articles) in which Government data is used and cited	●	No data (not consolidated or tracked)

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

Table 5: Achievement of Outcomes

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

	Innovation Index	Limited (no baseline, SA ranked 53 out of 127 in 2014)
More responsive SMME policy environment (crosscutting) (IO)	No of government departments/SETAs with dedicated SMME programmes	Limited (sporadic reporting, difficult to monitor)
	Total government-wide budget for SMME programmes	No data (not reported on and aggregated until very recently)

Annex 4: Assessment of the theory of change

Set out below and in **Error! Reference source not found.** is an assessment of the theory of change based on the evidence gathered during this evaluation. The purpose of this assessment is threefold:

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

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

Overall findings on the ToC

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

Broadly the evaluation indicates that the overall theory of change in its original formulation is sound. Specifically the ToC articulates the critical point that all of the strategic outputs need to be delivered in order for any meaningful change to be effected in the SMME ecosystem.

The evidence suggests that in many areas there are key gaps which have undermined the effectiveness of the ISPESE. Additional a number of critical assumptions with respect to the policy context, effective inter-governmental coordination as well as broader economic environment have not held and undermined the Strategy's achievement of its outcomes.

Findings in respect of key assumptions

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

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

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

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

Findings in respect of inputs

At the level of inputs the evaluation reveals that broadly there is sufficient funding for the implementation of the Strategy and that that sufficient support institutions (both public and

private) exist and are willing to support SMMEs. However the evidence suggests that there are insufficient skilled and professional personnel (especially in the public sector system).

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

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

Findings in respect of activities

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

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

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

Findings in respect of strategic outputs

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

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

Summarised below is the extent to which these strategic outputs have been delivered.

- **Entrepreneurship Culture and Enterprise Creation Promotion Campaign:** Key components of this output have not been delivered. While there have been limited outputs in respect of the DTI and State-Owned Entities as well as within some provincial and local governments the overall level of entrepreneurship and enterprise creation campaigns remains limited.
- **Dedicated network of SMME Finance:** During the tenure of the Strategy the Small Enterprise Agency (SEFA) was established through the merger of Khula, SAMAF and IDC Small Business. By 2015 SEFA had increased lending (loans and advancements) from R479 million to R652 million, with impairments increasing (SEFA Annual Report 2015). In addition, there is significant private

sector (both banks and other financial institution) involvement. However, the overall SMME finance network remains limited, and more recently bank and MFI involvement appears to have declined. The leverage achieved on public resources is also limited. Consultations with the banking association indicated that there was limited uptake on the guarantee schemes implemented by government and the private sector.

- **Demand for Small Enterprise Products & Services:** While there has been some traction on Preferential Procurement, core elements of the National Procurement Programme have only become effective post the ISPESE. With respect to the B-BBEE Codes, wide scale reports of ineffectual implementation within private sector have been reported, resulting in revised codes
- **Strengthened Local Network for Small Business Development Support Services:** SEDA and SEFA have established a broad network across the country through a network of co-locations and offices. SEFA does not report how much funding was applied for, only that which was approved. While there are a large number of facilitates and access points (e.g. SEDA and most municipalities), participation / utilisation rates appear to be low. It is also noted that some municipalities and development institutions leverage property portfolios for SMME support (not universal)
- **SMME Business Development Services:** There has been significant achievement in this regard – notably via SEDA however more is required. In respect of private agencies there is no data while for provincial agencies there is limited data, and uneven reporting. In addition, there has been support provided through Corporate ED programmes (under the BEE Codes). SEDA Tech Incubators have reported a 60-70% success on participants in incubators, however sustainability is not measured.
- **Strengthened Enterprise Networks:** There is little evidence of strengthened networks, as well as little data in the Strategy on what constitutes a network i.e. the criteria for a network. Most networks are through local chambers of commerce which are weak and private sector led. Furthermore, private sector participation – which has filled some gaps – is primarily driven by the need for Enterprise Development points in terms of the B-BEE scorecards. These scorecards have increased corporates activities aligned to SMMEs however, evidence of increased participation of the target groups identified in the Strategy remain elusive in their reporting.
- **SMME Support Incentives:** A significant number of incentives have been developed but most target specific sectors, not SMMEs.
- **Improved Regulatory Environment:** The impact of the Company's Act is noted, but beyond this there has been very little achieved. Red-Tape is generally accepted as increasing in the provincial setting. Several Regulatory Impact Assessments have been concluded, but not aware of any that focus specifically on the interests of SMMEs, and the RIA process has largely been discontinued.
- **Entrepreneurship and Small Business Research:** One DTI commissioned review of SMMEs was published at the outset of the ISPESE's development, in 2008. An annual review was conducted in 2014 but never published. Moreover, there has been very little comprehensive entrepreneurship and small business research conducted or commissioned by government.
- **Capacity building throughout the public-sector enterprise support system:** Based on the evidence there has been no systematic capacity building programme undertaken within government

- **Partnerships with national business organisations and individual corporations:** There has been limited progress in establishing partnerships. Consultations highlighted that some had been undertaken such as the TEP programme, but these were hap hazard. Some key partnerships include President's Business Forum, the Business Trust and initiatives of the AHI.
- **Over-arching monitoring Framework:** No systematic monitoring framework or programme was established.

Findings in respect of outcomes

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

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



planning, monitoring
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