

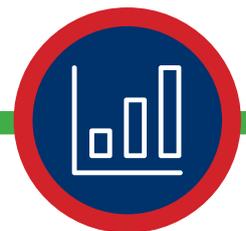


2016 SMME INSIGHT REPORT

**90%** of **NEW JOBS** will be created by **SMEs** by **2030** NATIONAL DEVELOPMENT PLAN

*"My first priorities are my business and my family – if you want me to create jobs, you need to make it worth my while."*

SMMEs believe that much needs to be done before this can become a reality



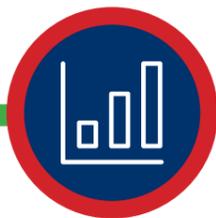
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## Introduction

This is SAICA's third annual Small, Medium and Micro Enterprises (SMME) survey. The survey is conducted with the objective of ascertaining the views of SMMEs regarding various issues that affect their current business environment, sustainability and future prospects, including challenges and opportunities. Furthermore, it provides SAICA-affiliated Small and Medium Practitioners (SMPs) with insights to improve and expand their service offerings to SMMEs, and thereby contribute to the success of this sector.

For purposes of this report SMMEs are defined as:

- Micro enterprises, having turnover of less than R100k per annum
- Very small enterprises, having turnover between R100k and R5 million per annum
- Small enterprises, having turnover between R5 million and R20 million per annum
- Medium enterprises, having turnover of above R20 million per annum

The 2014 and 2015 surveys were aimed at Small and Medium Enterprises (SMEs) primarily because the survey was only available through digital distribution channels. In 2016 we managed to extend the scope of the sample to include, for the first time, Micro Enterprises. The findings presented are for the full sample. In the final finding, however, variations that are evident from micro enterprises are recorded.

Given that the National Development Plan (NDP) forecasts that 90% of new jobs will come from the SMME sector by 2030, this research takes on more strategic and macro importance. SMMEs have very firm views on how they can be enabled by both government and by big business to help them achieve this goal.

The findings that emanate from the 2016 survey are presented under separate headings in the sections that follow, and provide a summary of responses gathered from 1 051 SMMEs. The findings are not presented in order of importance.

## Respondents



<sup>1</sup> Based on taking the middle point of each of the age sections

<sup>2</sup> Based on taking the middle point of each of the employee number sections

<sup>3</sup> Based on taking the middle point of each of the turnover sections



# Summary of 2016 Findings

## Finding 1

The older an SMME is (i.e. the longer it is in business), the bigger it will be and the more people it will employ. Government and big business need to recognise the roles they need to play in using this fact to achieve the growth and employment objectives of the NDP.

## Finding 2

The Department of Small Business Development (DSBD) and the objectives of the NDP with respect to SMMEs' role as the catalysts for growth and employment need to be front and centre for government and cabinet.

## Finding 3

SMMEs have an inherent optimism. On average they believe that they can grow turnover, profits and employment over the next 12 months.

## Finding 4

The concept of government – or big business-generated business for SMMEs as the engine of growth, transformation and employment – will not be effective until both sectors pay their SMME suppliers within 30 days.

## Finding 5

Challenges for SMMEs could be materially mitigated by industry-led enterprise development programmes.

## Finding 6

SMMEs fail largely because of cash flow-related problems and an inability to manage administrative and business processes.

## Finding 7

Access to finance is one of the top barriers to starting a new business.

## Finding 8

Government incentives are a necessity for SMME growth.

## Finding 9

A great opportunity exists for SMMEs to add value to their business by working more closely with their local accounting practices.

## Finding 10

Micro enterprises reflect similar results to the total SMME respondents. Some individual differences are highlighted in this section.

## Finding One – The older an SMME is (i.e. the longer it is in business), the bigger it will be and the more people it will employ. Government and big business need to recognise the roles they need to play in using this fact to achieve the growth and employment objectives of the NDP.

This finding may seem self-evident, but it has massive implications for both government and large private sector entities. Government has the responsibility to create conditions in which SMMEs can thrive and have the engine of government procurement which could be used to drive SMME growth and employment. Large private sector entities who wield massive potential procurement also have the power to stimulate the SMME sector.

The NDP has as two important targets:

- Unemployment to be reduced to 6% by 2030, largely driven by SMME employment levels; and
- The economy will grow at a rate that increases GDP per capita – primarily because of growth in the SMME sector.

This correlation between the age or longevity of a business and its ability to grow and employ, corroborates one of the major findings and policy suggestions from last year's survey.

Government needs a three pronged strategy if it is to succeed in using the SMME sector to drive growth and employment, namely:

- Stimulate the establishment of new SMMEs.
- Nurture SMMEs through the critical first two years. Access to finance, cash flow management and mentorship are key support areas.
- Incentivise SMMEs who wish to grow and increase employment in ways that go beyond the current measures.

Generally SMMEs are optimistic and plan, on average, to grow turnover and employment in the next 12 months. What is needed to make the objectives of the NDP a reality is for government and big business to engage with policies that will stimulate growth and employment in this sector by using the levers at their disposal.

**This correlation between the age or longevity of a business and its ability to grow and employ, corroborates one of the major findings and policy suggestions from last year's survey.**

## Finding Two – The Department of Small Business Development (DSBD) and the objectives of the NDP with respect to SMMEs’ role as the catalysts for growth and employment need to be front and central for government and cabinet.

16% of SMMEs’ respondents only employ the owner. Most of these businesses are micro<sup>4</sup> and very small businesses<sup>5</sup>. 47% of SMMEs employ between two and five people with 33% employing between six and 49 people. The balance, of 4%, employ over 50 people. These figures are important as the NDP target states that 90% of new jobs will be generated by SMMEs by 2030.

It is estimated that the country will need no less than 8.2 million small and micro-enterprises to create 11 million jobs by 2030 to meet the target of the NDP. This was revealed through the Endeavor Jobs Calculator, a global tool developed by the International Labour Organisation (ILO), National Statistics Agencies and Endeavor Insights in 2015 which takes into account the different factors that are essential for job creation. This is as per article issued on Fin24, 4 May 2015\*.

In spite of some positive policy statements pertaining to SMMEs announced by the Finance Minister in the 2015 and 2016 budget speeches, the results from this survey indicate

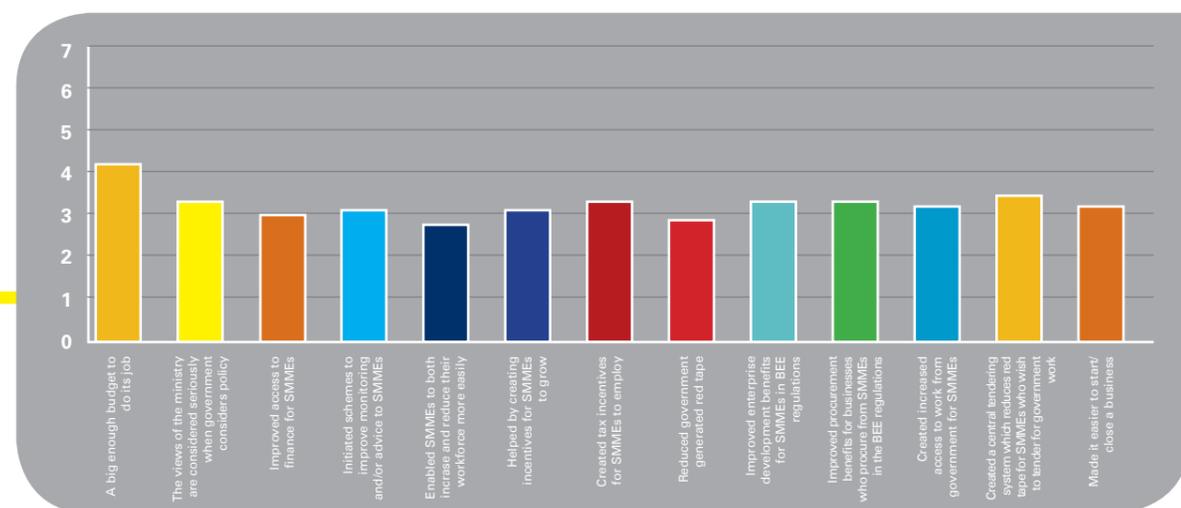
SMMEs’ perception that government has not yet taken the most important enabling steps to stimulate the SMME sector or the achievement of this target.

This could be because different sectors of government may have competing agendas or that stimulating the SMME sector is not treated as a central priority. The SMMEs’ views are that government, through the DSBD, has not yet created the enabling environment that is required to address the growth and employment targets in accordance with the NDP.

SMMEs were asked to associate various phrases with the DSBD (see Figure 1 below). The only phrase which achieved a score over 4, which is considered to be an agree score, is that the DSBD has a big enough budget to do the job. In reality, the responsibility for the enabling of conditions to help the development of SMMEs is shared between various departments, including the Department of Trade and Industry (DTI), the DSBD, Treasury, the Department of Labour and the South African Revenue Service (SARS). Comments about the DSBD by SMMEs may reflect on the total effort by government rather than just the DSBD. Nevertheless the views that have been expressed are not satisfactory.

The DSBD’s actual budget may not fully reflect the views of these SMMEs. There could be a concern that the DSBD’s budget and resources may be lower than what it needs to be; adversely affecting their ability to influence other departments and overall government policy with respect to SMMEs and to give effect to the relevant NDP objectives in a ‘game changing’ way.

Figure 1: Rate<sup>6</sup> the following phrases applicable to the DSBD.



<sup>4</sup> Turnover of less than R100k per annum.

<sup>5</sup> Turnover of R100k to R5 million per annum.

<sup>6</sup> 1 is completely disagree and 7 is completely agree

\* <http://www.fin24.com/Entrepreneurs/Resources/CALCULATOR-See-how-many-SMEs-SA-needs-to-create-11m-jobs-20150504>

## Finding Three – SMMEs have an inherent optimism. On average they believe that they can grow turnover, profits and employment over the next 12 months.

Refer to Figure 2, 3 and 4. This inherent optimism exists in spite of the challenging economic conditions that currently prevail. This type of optimism is necessary if SMMEs are to fulfil the expectation of the NDP that SMMEs are the providers of much of the growth and 90% of new jobs by 2030. SMMEs believe that there are many levers that government and big business could use to turn this optimistic attitude into a successful reality. Some of these levers are examined in Finding 4.

Figure 2: Do you expect your turnover to increase or decrease in the next 12 months?

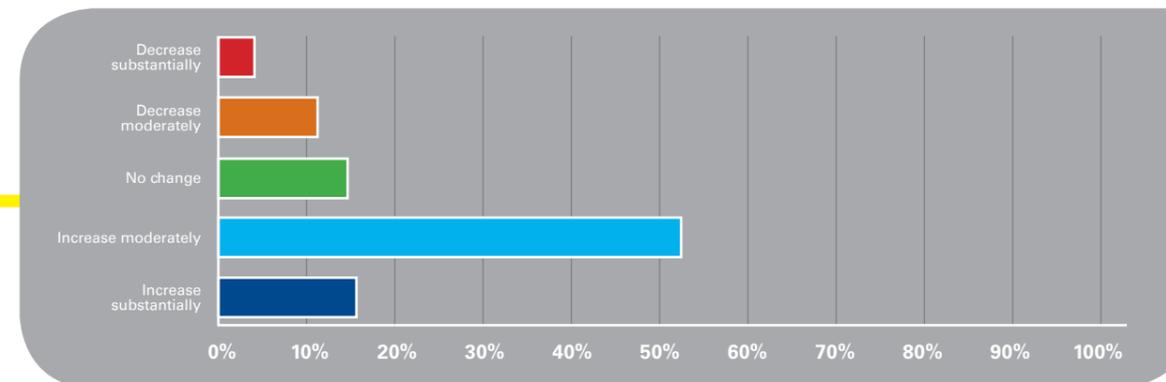


Figure 3: Do you expect your profits to increase or decrease in the next 12 months?

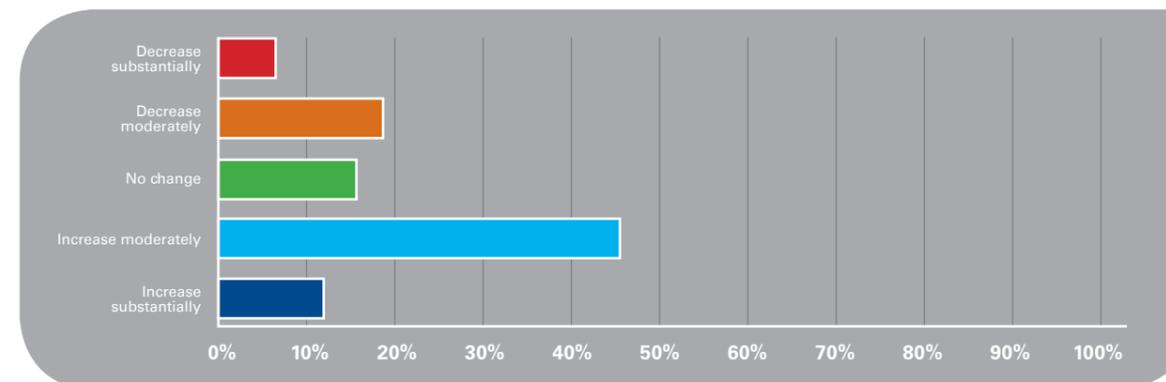
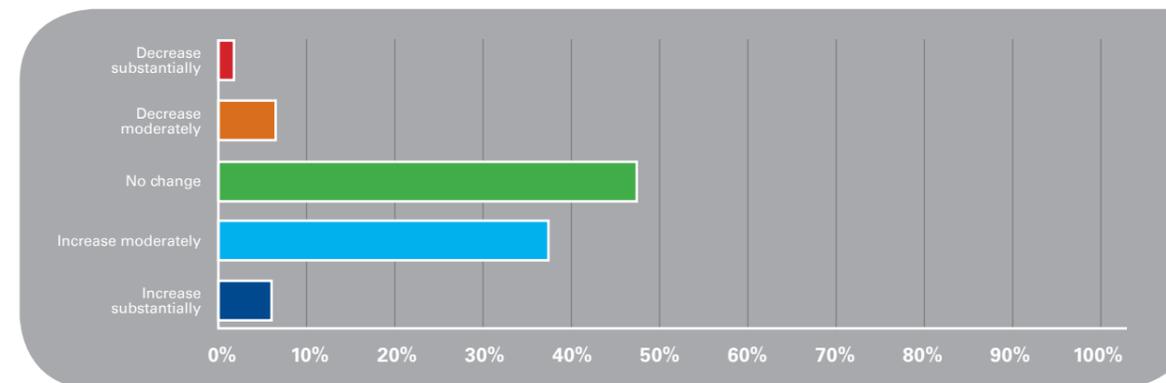


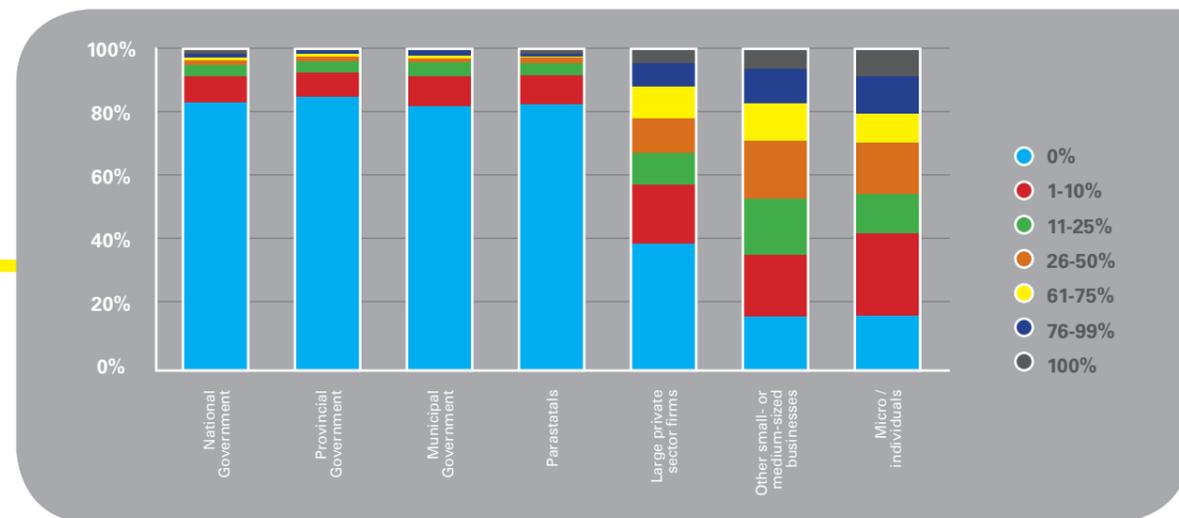
Figure 4: Do you expect your staff complement to increase or decrease in the next 12 months?



## Finding Four – The concept of government- or big business-generated business for SMMEs as the engine of growth, transformation and employment will not be effective until both sectors pay their SMME suppliers within 30 days.

Figure 5 indicates that over 80% of SMMEs do not do business with government at any level, and just under 40% do not do business with large private sector entities. Other SMMEs are their most important clients. The next most important sector for SMMEs is the Micro Enterprise / Individual sector. These two sectors are also the easiest to do business with, from a red tape point of view, and they pay their bills the fastest of all sectors.

Figure 5: Approximately what percentage of your business turnover is derived from the following sectors?



The results from the different groups of respondents exhibit the same basic pattern. The majority of SMMEs don't do business with government but rather with other SMMEs or individuals. This was explored further by examining SMMEs' reasons and perceptions with respect to doing business with government and collecting money from their customers in different sectors.

**The majority of SMMEs don't do business with government but rather with other SMMEs or individuals.**

Major reasons why SMMEs don't do business with government are:

- Onerous tender process,
- Lack of transparency in the tender process,
- The slow pace of decision making processes,
- The slow rate at which SMMEs get paid by this sector, and
- B-BBEE process is too onerous.

(Refer to Figure 6 on the next page)

Figure 6: If you don't do business with government, what are the major reasons why not? Rate the below statements between 1 and 7.

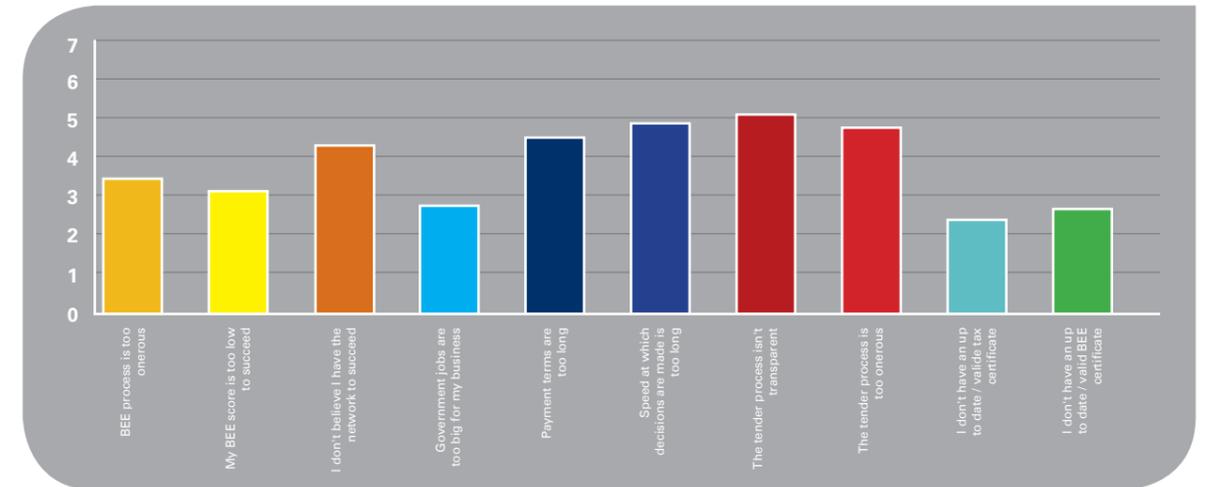
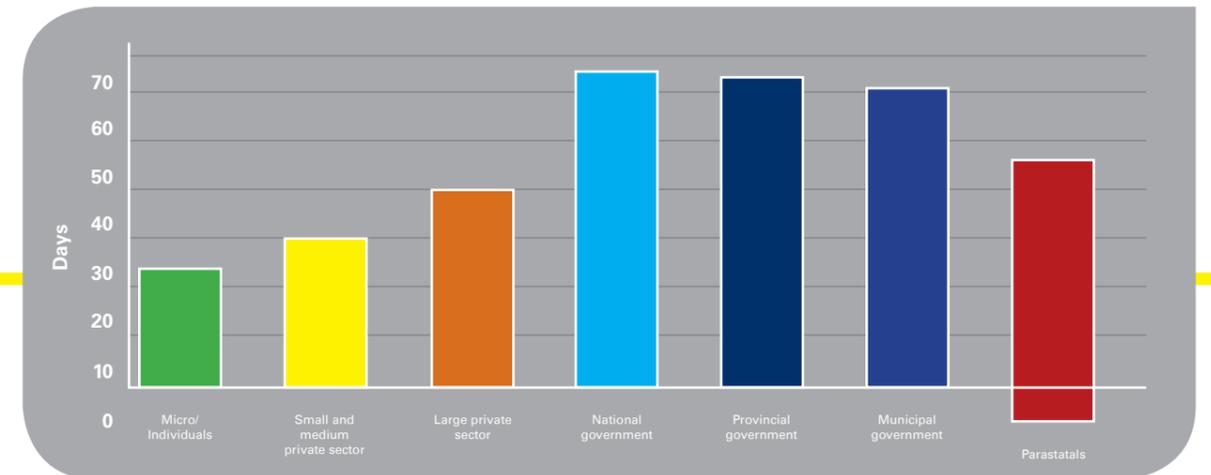


Figure 7: How long does it take you to collect money, on average, from the following sectors (in days)?



From Figure 7 it is clear that government takes the longest to pay, with other SMMEs and micro enterprises/individuals being the sector that pay the fastest.

We know from other parts of the research that slow payment by government and big business is a significant disincentive to doing business with either sector for SMMEs. On average, big business pays faster than government, and thus attracts more SMMEs as suppliers. This is despite the fact that the survey results show that they also don't pay within 30 days.

Faster payment from government and big business in general will address one of the major concerns for SMMEs, namely cash flow, which would improve the likelihood of a sustainable business, which in turn will stimulate growth and employment.

Entrepreneurs are optimistic and are ready to grow. 30 day payment terms would see government and private sector procurement engines stimulating the economy, creating jobs, and speeding up transformation.

A policy for government departments to pay SMMEs within 30 days has already been implemented and is measured monthly as a Key Performance Indicator (KPI). SMMEs are, however, not experiencing the effect of this policy change yet. Faster payment is the one lever government could use without too much disruption. It may also be the most powerful one. Other more difficult levers such as tax incentives, a relaxation of labour laws and the perceived onerous nature of the B-BBEE codes will take more time and interdepartmental effort to utilise.

<sup>1</sup> 1 is completely disagree and 7 is completely agree

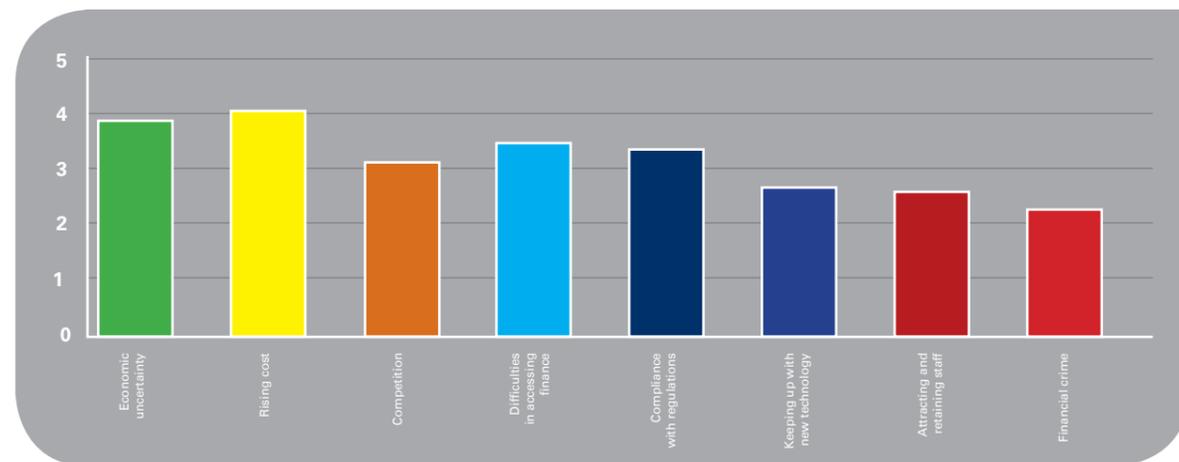
## Finding Five – Challenges for SMMEs could be materially mitigated by industry-led enterprise development programmes.

Economic uncertainty / volatility and rising costs are seen as the biggest challenges facing SMMEs (refer to Figure 8 below). These are followed by the other traditionally strong challenges for SMMEs, namely:

- Difficulty accessing finance, and
- Compliance with laws and regulations.

The combination of poor economic growth and an unstable exchange rate have hurt SMMEs. They are also feeling the pinch of rising costs (which may also include the effects of administered prices, labour cost increases above inflation and the cost of imported goods), and a seeming inability to pass these costs on.

**Figure 8: To what extent are you faced with the following challenges? Rate between 1-5<sup>a</sup>**



But there may at least be one solution to their woes. When asked whether they would be interested in taking part in an industry-driven enterprise development programme, they almost unreservedly said "YES." Refer to Figure 9.

73% of SMMEs expressed interest in being part of an enterprise or supplier development programme driven by industry. This indicates an opportunity for industry-led initiatives to drive value-creating enterprise and supplier development.

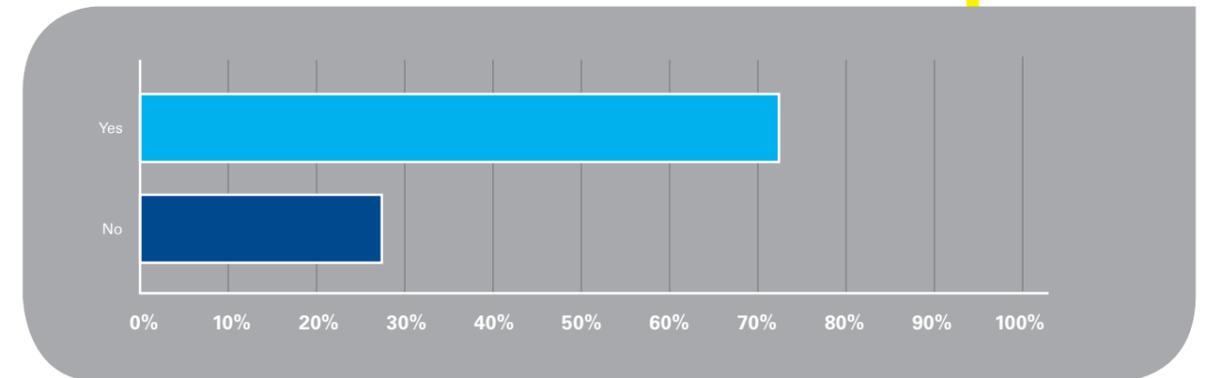
<sup>a</sup> 1 = not a challenge; 2 = low challenge; 3 = moderate challenge; 4 = high challenge; 5 very high challenge



**Economic uncertainty / volatility and rising costs are seen as the biggest challenges facing SMMEs.**

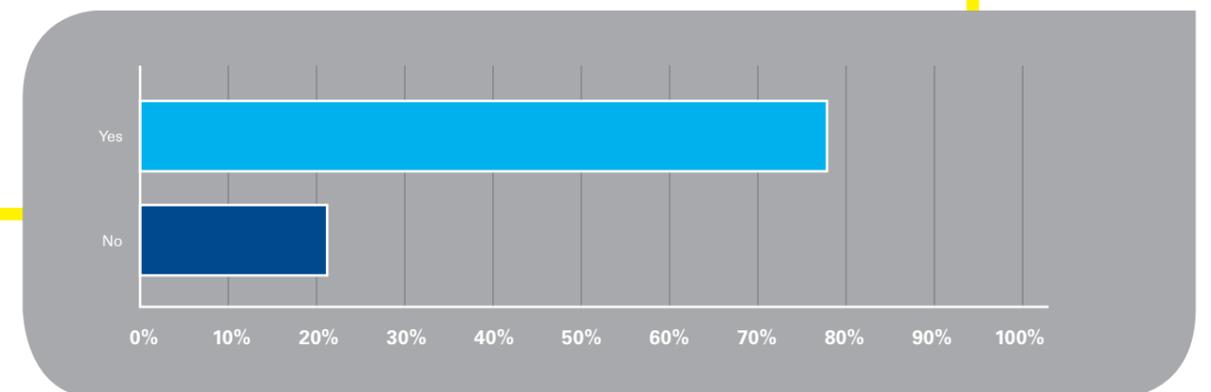
The younger a business is, the more likely it is to be attracted by enterprise and supplier development programmes emanating from industry. The range is from over 88% support for such initiatives in companies under one year old, to just under 70% for older companies. It's important to note that although younger companies are more in need, older companies still support such initiatives by an overwhelming majority.

**Figure 9: Would you be interested in being a part of an enterprise/supplier development programme<sup>a</sup>?**



Enterprise Development on its own is not rated highly as a B-BBEE tool to encourage growth or employment by entrepreneurs. One can deduce that this sample of SMMEs could easily be encouraged to grow and develop their businesses by taking part in industry-driven Enterprise and Supplier development programmes, in addition to Enterprise Development as envisaged in the new B-BBEE Codes. They expressed a strong view that industry-driven programmes might be as or more successful at driving development than the related B-BBEE channels. Refer to Figure 10 below.

**Figure 10: Do you think industry-based bodies could give better assistance to SMMEs compared to current channels?**



<sup>a</sup> A directive for bigger businesses to assist (both monetary and non-monetary) in the development of SMMEs.



It is possible that the thought of taking part in supplier / enterprise development (SED) initiatives driven by the government procurement engine will not work until other issues in the minds of these SMMEs around doing business with government are addressed (also refer to the results for Finding 4, above). Or it could be that SMMEs just believe that the industry bodies to which they are closest will have more success than a generalised programme.

What cannot be denied is that the existence of:

- a generally optimistic outlook, and
- a strong interest in industry-led SED programmes, together with the expressed government incentives of:
  - faster payment,
  - tax breaks for SMMEs beyond the current measures,
  - more flexible labour laws,
  - access to business tools, and
  - active mentorship programmes;

could result in faster SMME growth and the achievement of the NDP's employment goal.

According to the results of this survey, the mixture of the new B-BBEE Codes and SED programmes (according to the B-BBEE Codes) will not achieve the ends of faster growth and more employment unless they are actively marketed to SMMEs in an environment of faster payment, a more transparent and efficient tender process, faster decision-making, and more flexible labour laws. Add industry coordinated ED programmes to the mix, which could add crucial value through mentorship programmes and the provision of business tools and cost reducing measures, and the view of SMMEs is that their businesses would be more successful. And from their indications, that would mean more employment.

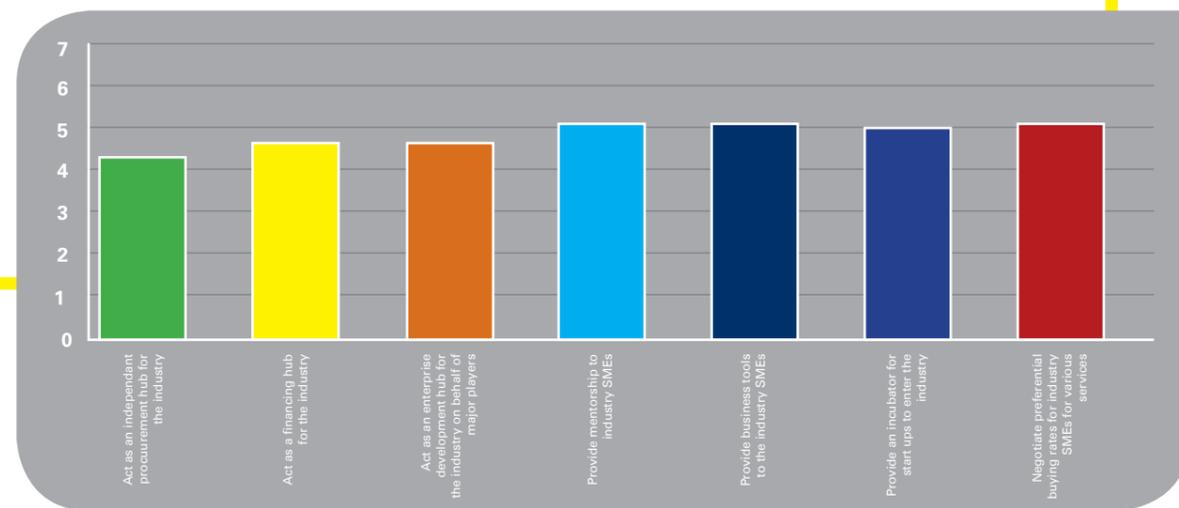
Big business may have a better chance of more rapidly stimulating ED-incentivised growth, as evidenced by the overwhelming majority of respondents who expressed interest in these programmes from industry-based bodies. Big businesses are seen to be a potentially valuable source of mentorship and business management tools.

The following industry-based enterprise and supplier development services were identified by respondents as most beneficial (refer to Figure 11):

- Provide mentorship,
- Business tools,
- Incubators for industry-focused start-ups and SMMEs, and
- Act as buying hubs to reduce the costs of inputs for industry-based SMME suppliers.

Importantly, SMMEs have indicated that their most significant challenges are economic uncertainty and rising costs (as discussed earlier; refer to Figure 8). These challenges partially explain the type of assistance SMMEs believe industry bodies could do well to provide.

**Figure 11: Which services, listed below, could industry associations provide better than a general provider due to their industry knowledge, influence and insight? (Rate between 1 and 7<sup>10</sup>)**



<sup>10</sup> 1 is poor and 7 is excellent



# The 3 reasons why SA business is driven by the cloud

By **Steven Cohen**, Head of Sage One International (Africa, Australia, Middle East and Asia)

While South Africa has traditionally been seen as being behind the curve on cloud adoption, I disagree. Over the past 20 years, we've seen the business software market evolve at a substantial speed and incidentally, despite the challenges that the country faces in adopting cloud, it's the mobile-centric nature of growth opportunities in the economy that is driving the use of this technology.

As Wi-Fi, fibre and mobile access becomes more pervasive, small and medium businesses in particular are grabbing the opportunity that technology presents.

Cloud computing is essentially about moving away from buying a software suite that you install on your computer towards accessing the software you need over the Internet and on a web browser. Accounting data and applications are both reached through your browser – it makes business productivity as simple as using Facebook.

This trend – the shift towards computing in the cloud and software as a service – is revolutionising the way that small and medium businesses and bigger businesses alike use and pay for their software. So what's behind the rise of the cloud as a deployment option for accounting software and other business solutions?

## 1. Technology can offer more

Maturing technology is one major factor behind the growing adoption of the cloud. Though the idea of 'hosted' applications is nothing new, it's only now that the bandwidth is fast, cheap and reliable enough to deliver a stable, affordable and responsive user experience for applications that are hosted in a service provider's data center and accessed across the internet.

Devices such as smartphones and tablets are also playing a role in cloud adoption by giving people convenient and easy ways to access cloud services. And with cloud technology having been widely adopted by consumers, the business world is following in its footsteps.

## 2. Faster, cheaper, better

Having established that the technology to support the cloud is mature, why should a small business consider buying online accounting or payroll solutions rather than sticking with buying licensed desktop software products? Simply put, cloud solutions enable small and medium businesses to simplify their IT environments, save money, and achieve the flexibility to get more done, faster.

Though cost-savings – and the flexibility to pay for the software per user, per month – are often mentioned as key benefits of the cloud, there is far more to it than reducing costs. Implementing cloud-based solutions also help the business to become more agile, to enable employees to work anywhere they have an Internet connection, and to access better quality systems than they could afford to pay for upfront.

## 3. Leading instead of following

For those that are more comfortable with desktop accounting software, 'connected services' provide a bridge from the old world of desktop software to the new world of mobile and cloud computing.

These services can allow small and medium businesses to automate more of the drudge work involved in business accounting, for example, making it simple to make online payments to suppliers straight out of the software's interface. Another worthwhile feature is an automatic bank feeds function that automates the process of importing bank statements into the accounting system.

The future is mobile and South Africa's small and medium businesses sector is driving the trend of being able control their business from the palm of their hand.

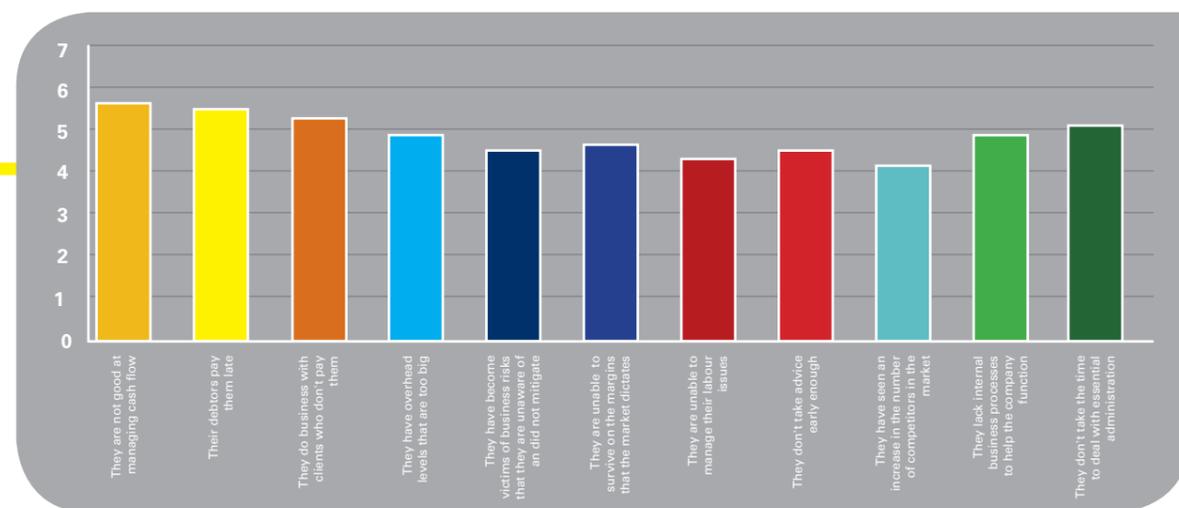
For more information about Sage's online accounting and payroll products, go to [www.sageone.co.za](http://www.sageone.co.za).

## Finding Six – SMMEs fail largely because of cash flow-related problems and an inability to manage administrative and business processes.

As far as SMMEs are concerned, the main reasons why they fail are centred on (Refer to Figure 12 below):

- An inability to manage cash flow and debtors, and
- An inability to manage administrative and business processes.

Figure 12: Small businesses have a high failure rate; what do you think are the most important reasons why they fail? (Rate each attribute between 1 and 7<sup>11</sup>)



## Barriers to starting SMMEs

Without doubt the most difficult barriers to starting a business, according to SMMEs, is the difficulty accessing finance, and the level of red tape required by government and large private sector businesses. Refer to Figure 13, on the next page.

The two main barriers are followed closely by the following challenges:

- Compliance with laws and regulations (which links to keeping up to date with the requirements, as well as elements of process and red-tape);
- Growing too quickly without available capital to finance growth;
- Engaging with the Department of Labour;

<sup>11</sup> 1 is not a major reason and 7 is a major reason

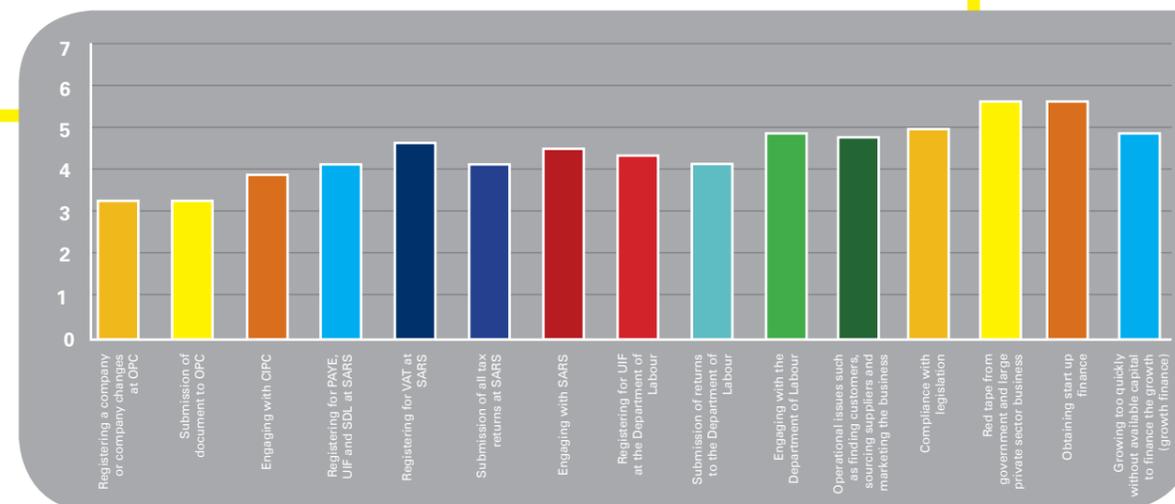
These results are consistent with those discussed with respect to Finding 4, above. SMMEs are sensitive to cash flow problems and will therefore choose to do business with clients that pay them promptly. We have earlier observed SMMEs' experience that government takes the longest to pay, followed by large private sector businesses.

- Operational issues such as finding customers, sourcing suppliers and marketing the business; and
- Registering for VAT at SARS.

The ability to deal with the Companies and Intellectual Property Commission (CIPC) on most issues seems to attract lower scores, indicating that their new and improved processes may be starting to have the desired effect.

Engaging with SARS seems to be more difficult the older a business gets. This may coincide with the requirement for registering for VAT when reaching the registration turnover threshold. VAT registration is seen as a significant obstacle by all respondents. Generally there is agreement between SMMEs of all sizes and maturity regarding the balance of obstacles to starting a business.

Figure 13: Figure 13: What are the most difficult barriers when starting a new business? (Rate each attribute between 1 and 7<sup>12</sup>)



<sup>12</sup> 1 is not a major barrier and 7 is a major barrier

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Reminder emails, pre-tests and uploaded training materials will help prepare attendees for training sessions. In addition to seeing the presenter's screen, attendees can download documents, images, media files and web links that have been made available. They can also participate by chatting and raising hands. A timer helps everyone keep track of time during tests and breaks.

### Some of the incredible benefits of Virtual Training include:

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## Finding Seven – Access to finance is one of the top barriers to starting a new business.

As has been observed in relation to Finding 6 above, access to finance is one of the top two barriers to starting a new business. In rating the ease of the application for finance, banks and Business Partners Limited (Business Partners) are rated the highest (refer to Figure 14, below). Generally, SMMEs viewed the application processes and associated red tape of government-funding agencies and of the Small Enterprise Finance Agency (SEFA) the most challenging.

When it comes to providing support beyond finance, the perception is that Business Partners and venture capital providers provide the best levels of support. It is interesting that both these types of funders take equity and partnership positions with their clients. They have clearly learned the lessons that assisting their partners beyond finance is in both their and the SMMEs' interest.

As SMMEs grow older and more experienced they find the application process for funding easier with both large and smaller banks. Until SMMEs are established, Business Partners are seen as easier to deal with. This is possibly because as the SMME gets older, the banks have more data on the business, and more trust in their sustainability, whereas Business Partners are the country's most extensive and experienced risk finance providers.

*Changes government could make to stimulate growth and employment include tax incentives and improved payment periods.*

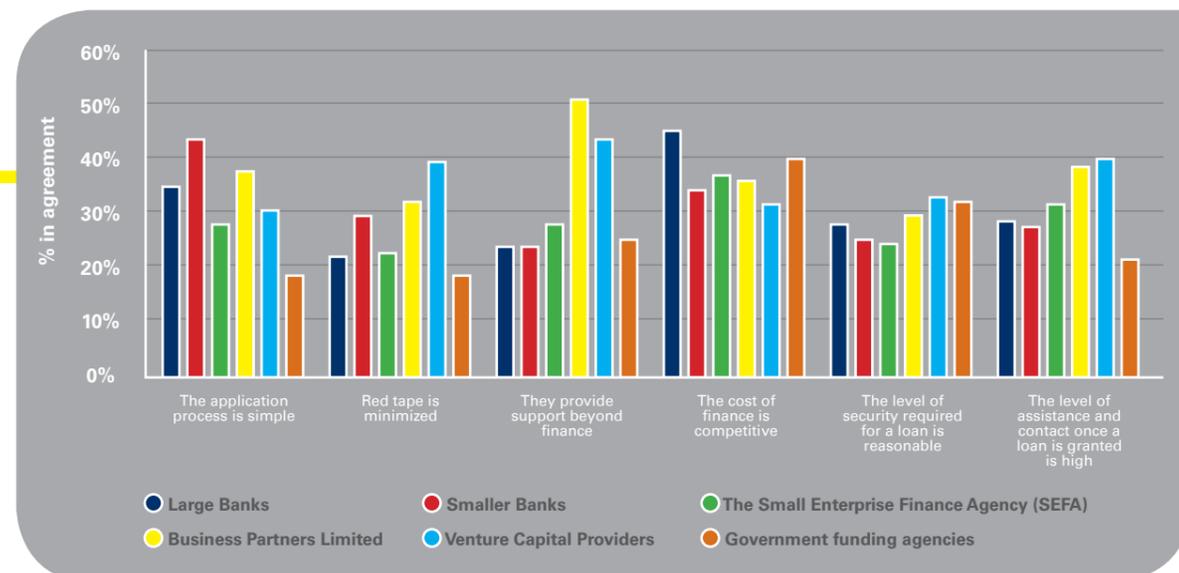
There may exist an opportunity for government to use the existing banking distribution network and capability and/or that of Business Partners to issue and manage loans where they are prepared to take more risk.

In terms of the cost of finance and the level of security required by lenders, SEFA and Business Partners are seen as attractive to younger businesses, with government funding agencies and banks seen as the better options by older and more established businesses.

Finally, when it comes to support and assistance after finance has been granted, large banks, Business Partners and venture capital providers received the highest ratings.



Figure 14: Please tell us what your engagement was like with the following institutions.



## Finding Eight – Government incentives are a necessity for SMME growth.

As can be observed in Figure 15, below, the following ranks the highest in terms of the possible changes that government could make to stimulate growth and employment:

- Tax incentives to stimulate SMME growth and employment, and
- Improving on payment periods, i.e. payment of suppliers within 30 days.

More flexible labour laws and free access to business advice and tools for SMMEs also ranked relatively high, followed by possible improvements to the tendering process, including a more transparent process and simplifying the process (but obviously still providing sufficient control and oversight).

Surprisingly, the incentives driven by the changing of the emphasis in B-BBEE scoring to strengthen procurement and enterprise development are rated the least likely to stimulate growth in this sector (also refer to the discussion of the results for Finding 5, above).

**Tax incentives to stimulate SMME growth and employment that are available to SMMEs include:**



Employment Tax Incentive (ETI) (refer to the SARS website for more details) [http://www.sars.gov.za/TaxTypes/PAYE/ETI/Pages/How-does-the-Employment-Tax-Incentive-\(ETI\)-work.aspx](http://www.sars.gov.za/TaxTypes/PAYE/ETI/Pages/How-does-the-Employment-Tax-Incentive-(ETI)-work.aspx)



Micro Businesses (i.e. businesses with a qualifying turnover of less than R1 million): Turnover Tax Rates : <http://www.sars.gov.za/TaxTypes/TT/Pages/default.aspx>



Tax Guide for Micro Business 2011/12 (to be read in conjunction with the relevant tax legislation) : <http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-TT-G01%20-%20Tax%20Guide%20for%20Micro%20Businesses%20-%20External%20Guide.pdf>

Small Business Corporations (SBC)

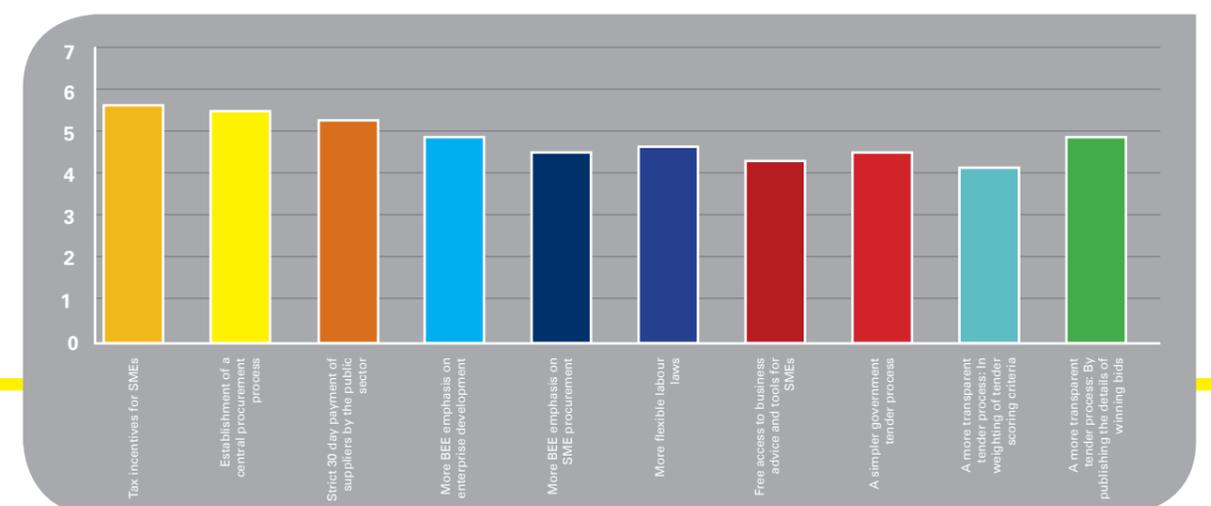


SBC Tax Rates: <http://www.sars.gov.za/ClientSegments/Businesses/SmallBusinesses/Pages/default.aspx>



SARS Interpretation Note No.9 (Issue 6): <http://www.sars.gov.za/AllDocs/LegalDoclib/Notes/LAPD-IntR-IN-2012-09%20-%20Small%20Business%20Corporations.pdf>

Figure 15: Rate<sup>13</sup> the effectiveness of the following government initiatives that are available, or could be used, to stimulate small business growth and employment.

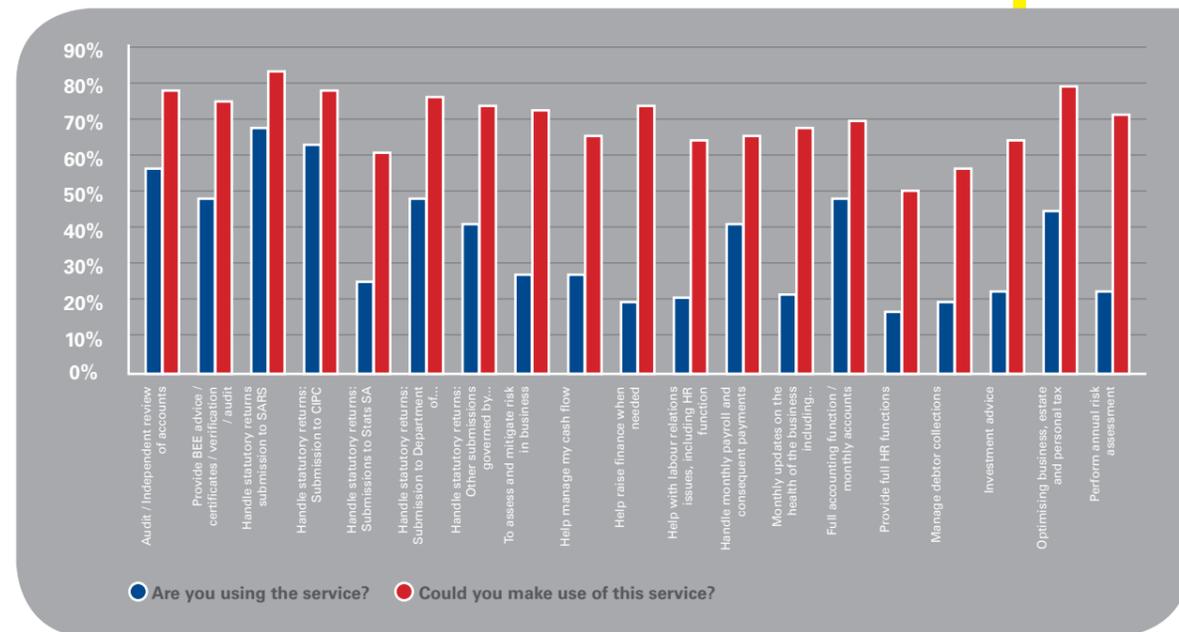


<sup>13</sup> 1 is ineffective and 7 is extremely effective

## Finding Nine – A great opportunity exists for SMMEs to add value to their businesses by working more closely with their local accounting practice.

The respondents to the survey were given a number of potential services that could be supplied by their local small/medium accounting practice (SMP). SMMEs were asked to indicate whether they used any of the services, and whether they believe that they could use the services to add value to their businesses (refer to Figure 16).

Figure 16: Which of the services listed below do you use/could you use your local small/medium accounting practice provider to add value to your business?



The large gap between the scores on these two questions indicates that SMPs have an opportunity to broaden their offerings to their clients and to become a more useful supplier by focusing on specific needs of SMMEs.

Figure 17: Rate<sup>14</sup> the use of these services.

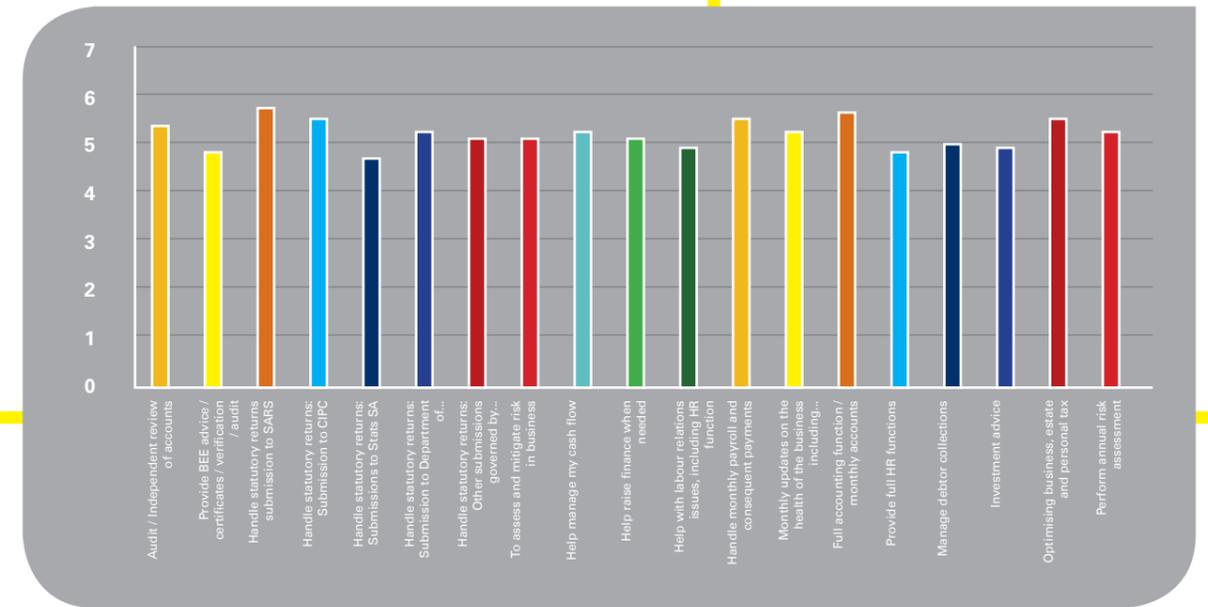


Figure 17 above examines the extent to which SMMEs would see value in each of the potential services explored in Figure 16. A score of above 4 is considered positive and indicates the extent to which there is potential for SMPs (who are SMMEs in their own right) to provide services which would be considered as extremely valuable to SMME clients.

Opportunities include:

- Differentiating themselves from their competitors,
- Creating stronger bonds with their SMME clients as SMPs take decisions as to whether their business models will continue to include the provision of audit, review and other assurance services,
- Creating revenue and profit opportunities for themselves,
- Strengthening the sustainability of their underlying SMME client base.

It is interesting to note that the older a business gets (and by deduction, the bigger it gets), the more likely it is to see the potential value-add from their local accounting practice in a broad variety of services. This is good news for SMPs, as directly proportional to the perceived value of these services would be the ability to pay for them, and a perception that this purchase would create value for the SMME.

**It is interesting to note that the older a business gets, the more likely it is to see the potential value-add from their local accounting practice in a broad variety of services.**

<sup>14</sup> 1 is absolutely no value and 7 is massive value

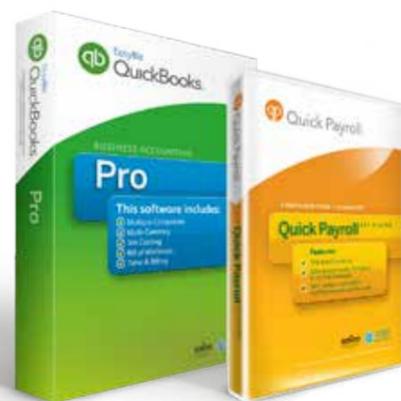


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## Finding Ten – Micro enterprises reflect similar results to the total SMME respondents, with some variations relating to the following findings:

Generally:

1. They have a more balanced racial representation.
2. Micro enterprises are even more optimistic than the total SMME sample regarding turnover and profitability growth.
3. As in the case of other categories of SMMEs, the length of time it takes to get paid is a deterrent for micro enterprises to do business with government. When asked how long different sectors take to pay them, the results show that the government takes roughly 50% more time to pay them than their other sources of business. However, government still pays this sector faster than it does the other SMMEs.
4. There is strong evidence that many micro enterprises are not aware of the benefits government has created to assist them such as:
  - 4.1 Tax incentives for businesses turning over less than R1m per annum,
  - 4.2 Central database for suppliers: <https://secure.csd.gov.za/>,



- 4.3 Strict 30 day payment policy for SMMEs,
- 4.4 New B-BBEE Codes which promote small business and enterprise development

Most are not users of these benefits even if they are aware of them. Therefore, if communication with these SMMEs can be improved, they could realise more of the benefits from the initiatives concerned and improve the sustainability of their businesses. This would also empower micro enterprises to engage when certain measures or policies are not delivering as intended.

5. When asked to rate existing and potential initiatives which government could use to stimulate business growth and employment, micro enterprises rated the following the highest (in order of importance):
  - 5.1 Free access to business advice and business tools for SMMEs,
  - 5.2 Strict 30 day payment of suppliers, and
  - 5.3 Tax incentives for SMMEs.
6. Most micro enterprises are unaware of the fact they can source finance from other institutions and not only banks. Government could promote the availability of alternative sources of government funding to this sector more actively, which would contribute to stimulating growth and job creation in the sector.



## Acknowledgement of government policy changes, and suggestions for further change.

### Existing government strategies which have been established to achieve the objective of stimulating the SMME sector so that it can play its part in growth, employment creation and poverty reduction:

- The establishment of the Department of Small Business Development (DSBD) as a specialist organisation.
- The establishment of a central government supplier database and tender database.
- Micro Business Turnover Tax Rates (i.e. businesses with a qualifying turnover of less than R1 million).
- Small Business Corporation Tax Rates.
- Employment Tax Incentive (ETI) aimed at encouraging employers to hire young work seekers. It was implemented with effect from 1 January 2014 and extended in October 2016.
- The intention to centralise government financing agencies aimed at SMMEs into the Small Enterprise Finance Agency (SEFA) under the management of the Industrial Development Corporation (IDC).
- The establishment of a R3 billion fund to provide mentorship and support to micro enterprises in the 2016 budget.
- The establishment of a KPI for government entities to pay SMMEs within 30 days.
- Government has instituted reports and notifications to make the tender process more transparent. SMMEs should be made aware of this and should be encouraged to engage.
- The Small Business Act is under review (government has called for consultation between SMMEs and DSBD).



See the following link for tenders expansions and deviations. [http://ocpo.treasury.gov.za/Suppliers\\_Area/Pages/Deviations-and-Exspansions.aspx](http://ocpo.treasury.gov.za/Suppliers_Area/Pages/Deviations-and-Exspansions.aspx)



See the following link for bid opportunities. [http://ocpo.treasury.gov.za/Suppliers\\_Area/Pages/Scheduled-Bids.aspx](http://ocpo.treasury.gov.za/Suppliers_Area/Pages/Scheduled-Bids.aspx)



Government has established a central tender portal. <http://www.etenders.gov.za/>



## Suggestions of strategies or actions for consideration of government and big business which may help SMMEs to engage in more aggressive growth and employment plans:

- Develop and communicate plans to convert the intention to pay SMMEs within 30 days into reality. The Auditor General of South Africa (AGSA) also now reports on this KPI for public sector entities, but the results from this survey show that performance in this regard hasn't improved yet in the experience of SMMEs. Government could engage with big business to create a social compact to achieve the same result in the private sector.
- A comprehensive plan is needed to help established SMMEs to grow and employ. Much of the effort currently is aimed at micro enterprises, which will not achieve the growth and employment goals of the NDP alone. Great potential also lies with bigger and established SMMEs; therefore a broader focus on all SMMEs is required.
- Improved communication. Many SMMEs are unaware of existing incentives for SMME growth.
- SMMEs in this survey have expressed a view that the current set of plans may not be sufficient, or have not been adequately implemented yet; that government activity to grow SMMEs is either not sufficient or integrated enough. If the DSBD is to be one of the guiding strategic forces for the achievement of the NDP objectives, then all government departments' strategies and practices need to be aligned to this; alternatively it should be clear that they are aligned in execution.
- Government and big business need to respond constructively to the inherent optimism of SMMEs, and to the clear signals SMMEs are giving as preconditions for SMME led growth and employment (as highlighted by the findings presented in this report).
- There may be an opportunity for government to use the existing banking distribution network and capability and/or that of Business Partners to issue and manage loans where they are prepared to take more risk and thereby improve SMMEs' access to financing.
- A 30 day payment pact between government and big business would conceivably be the easiest and most effective way to enable SMMEs to access the procurement engines of both sectors, and relieve the SMME sector of its access to growth finance restrictions. The short term business-school-based thinking that pushing creditor days is a good thing should be balanced in the interest of the greater good. It yields short term cash flow at the expense of SMMEs' keenness to do business, and at the expense of a healthier economy long term.

### SMMEs could flourish:

- If the tender process was simplified and made more transparent,
- If government and big business paid their accounts to SMMEs on time,
- If SMMEs access to finance could be facilitated and improved,
- If we incentivised SMMEs through tax breaks to grow and to employ, and
- If SMMEs were provided with management tools and mentorship – preferably via industry bodies.

## In closing

The survey results provide valuable insights into SMMEs' perceptions of the environment in which they do business and the challenges they face. The results show that SMMEs could flourish:

- If the tender process was simplified and made more transparent,
- If government and big business paid their accounts to SMMEs on time,
- If SMMEs access to finance could be facilitated and improved,
- If we incentivised SMMEs through tax breaks to grow and to employ, and
- If SMMEs were provided with management tools and mentorship – preferably via industry bodies.

In turn, this improves the chance of reducing unemployment to the 6% target set by the NDP by 2030, and we would have a real opportunity of significantly reducing poverty in the country.

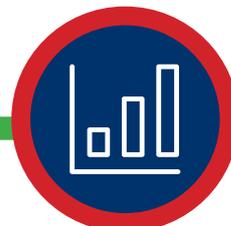
SAICA, through its SMP members, could also play a significant role in increasing governance levels in SMMEs, reducing their risk, improving their access to finance, and helping them to improve their business and financial planning, and their cash flow management.



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