

# Glass Ceiling

## Challenges Confronting South Africa's SMME Community

Discussion Paper 02/2023

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Cover image: A customer leaves a supermarket in Soweto / Richard Morrow

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## Introduction

Small, Micro, and Medium Enterprises (SMMEs) in South Africa are responsible for employing 50-60% of the country's labour force and contribute towards 34% of GDP.<sup>1</sup> With rising economic challenges in South Africa including decreased economic growth, a neglectful government, and rising unemployment – especially amongst young people, it is evident that there needs to be strong interventions to facilitate the growth of the SMME ecosystem to jumpstart South Africa's economy.

A crucial step in determining these interventions involves understanding the daily challenges that SMMEs in South Africa endure. To understand these challenges, The Brenthurst Foundation conducted face-to-face interviews with 65 small business owners across South Africa's major economic hubs – Johannesburg, Durban, and Cape Town.

These small businesses spanned a variety of sectors, including – but not limited to – retail, agriculture, services, and tourism. Examples include cafés in Durban's Glenwood suburb and Woodstock in Cape Town; a décor company in Soweto; an apparel company in Midrand; and a private chef business in Cape Town's Central Business District (CBD).

Each business owner was asked about the broad set of challenges they face daily from the moment they open their business until they close. Questions then became more refined, where business owners were asked to identify a single key challenge, the length of time this has affected them, and what – if any – measures they have taken to mitigate said challenge. A subsequent series of questions were asked as they pertain to the challenge identified. For example, if loadshedding was the key challenge then business owners would be asked how many hours each day they are affected and the impact on gross revenue earnings. Finally, business owners were asked for their suggestions on how to resolve these issues with a particular focus on stakeholders.

The interviews and data collected highlight numerous challenges which vary according to industry, location, size, and level of formality. For example, small businesses lamented the time and energy required to register a business, while those operating in the informal space explained how they remained informal because the registration process simply overwhelmed them. In cases of foreign-owned informal SMMEs, it was highlighted that the online platform does not make provision for passport numbers and permit numbers – thus increasing the number of steps it takes to formalise a business.

Other businesses raised concerns about their lack of knowledge when it came to key areas of operating a business, such as marketing, inventory, and stocktaking, as well as legal matters. For many who lack any formal education in this regard, they are navigating a space without expertise. A similar challenge relates to cash flow and accessing financial support. A healthy balance sheet will either make or break a small business, yet many have complained about slow or late payments from clients, while others have lamented the lack of rapport with banks, with some describing their inability to engage with banks for financial support.

While SMMEs are championed as key drivers of economic growth, one cannot ignore that they are beholden to the economic environment within which they operate. To this end, a challenge

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<sup>1</sup> 'The MSME Voice: Growing South Africa's Small Business Sector', (2020), IFC, Available at <https://www.ifc.org/content/dam/ifc/doc/mgrt/20200213-south-africa-msme-voice.pdf> (Accessed 27 July 2023).

for many small businesses – especially those operating within the retail sector – is the general malaise within the economy and the impact this has on consumer confidence and spending.

Another challenge raised in almost all interviews is the impact of loadshedding. The scarcity and unreliability of electricity ultimately force many into a corner where their options are limited. They can either invest in systems to offset the effects of loadshedding, such as purchasing a generator; they can look for new premises where such alternative systems exist; they can continue with a business-as-usual mindset and adjust their operations around loadshedding; or they can choose to close their businesses. Many of the businesses interviewed have chosen to divert funds towards offsetting loadshedding, thereby impacting their bottom line.

Then there are regulatory and bureaucratic challenges. For instance, bottlenecks at Durban harbour, together with inefficiencies surrounding the accreditation of products with government departments, cost small businesses time and money; high taxes, including Value Added Tax (VAT), limit the amount businesses can reinvest towards expansion, while exhaustive inspection processes frustrate business owners and cost them valuable time.

The final challenge, as described by those interviewed, pertains to security. In areas characterised as having a low living standards measure (LSM), such as the Langa township in Cape Town, business owners are confronted with petty thievery, intimidation, and gangsterism.

Based on these findings and input from small business owners, a series of recommendations involving both government and non-government stakeholders have been formulated. For the national government, this includes streamlining the business registration process and actively marketing it to small businesses – particularly those operating in the informal sector. It should also look to expand the outreach of those government agencies intended to support small businesses while simultaneously improving their respective application processes. As for the private sector, its partiality towards efficiency and effectiveness can be useful in (and perhaps incentivised to) identifying commercial opportunities in improving the landscape for SMMEs. Examples include leveraging point-of-sale systems, cash advancements, and post-purchase payment facilities (buy now, pay later). Finally, there exist opportunities for both government and private stakeholders to collaborate. Central to this would be for government to prioritise the Energy Action Plan and maximise private sector input towards ending loadshedding, while the creation of more innovation solutions, such as receivables financing systems, to address cash flow constraints using large SMME funds and schemes would address a key challenge faced by small businesses.

### ***Method***

The purpose of this study is to provide an improved and nuanced understanding of the challenges confronting South Africa's SMME community by highlighting their lived experiences. The Brenthurst Foundation's team of researchers conducted 65 semi-structured face-to-face interviews with formal and informal SMME owners in the main economic hubs of Johannesburg, Durban, and Cape Town. These small businesses spanned a variety of sectors, including – but not limited to – retail, agriculture, services, and tourism.

A desktop review of SMME performance, size, and economic significance in both South Africa and abroad was conducted, as well as a review of both previous and existing national government policy as it relates to South Africa's small business ecosystem.

This publication does not claim to be a representative nor exhaustive study of the SMME community in South Africa. The authors believe that highlighting the challenges outlined in this publication can provide a pathway towards targeted and improved efforts to ultimately create a more enabling environment for South Africa's SMMEs.

All the respondents in this study have been anonymised, including the names of their organisations, unless explicitly mentioned in case study inserts.

### ***Definitions***

There is no single and uniform definition for an SMME. The term itself takes on numerous forms, be it SMME, SME, or MSME (micro, small, and medium enterprises). For the purposes of this paper, all terms are understood to be interchangeable, meaning that they refer to the same type of business, which is either micro, small, or medium, based on the number of people it employs. To avoid continual use of these acronyms, this paper will use the term 'small business' as a catch-all. The following definitions have also been adopted:

- SMME: Businesses with between 1 and 10 employees (including the owner) are referred to as 'Micro'; businesses with between 11 and 50 employees are referred to as 'Small'; businesses with between 51 and 250 employees are referred to as 'Medium'.
- Formal: A business registered with the Companies and Intellectual Properties Commission (CIPC), thus presumed to pay tax.
- Informal: A business which operates primarily using cash, is not registered with the Companies and Intellectual Properties Commission (CIPC) and does not pay tax (this excludes VAT paid when procuring goods and services for work).
- Entrepreneur: An individual who establishes and operates an SMME.

### **The Role of SMMEs in the Developing World and South Africa**

Across the world, Small, Micro, and Medium Enterprises (SMMEs) are the unsung heroes who drive economic growth and sustain millions of livelihoods, as they account for 90% of businesses, 60 to 70% of employment, and 50% of GDP.<sup>2</sup> They are at the forefront of economic transformation in the developing world, creating jobs, reducing poverty, and redefining the path to prosperity. In India, for example, there exist an estimated 63 million small businesses,<sup>3</sup> which employ some 110 million people and contribute as much as 30% of the country's GDP.<sup>4</sup>

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<sup>2</sup> 'Micro-, Small and Medium-sized Enterprises Day', (2022), *United Nations*, Available at <https://www.un.org/en/observances/micro-small-medium-businesses-day> (Accessed 20 July 2023).

<sup>3</sup> 'MSME', (2023), *India Brand Equity Foundation*.

<sup>4</sup> Amit Manohar, (2021), 'Growth Imperative for the MSME Sector', *Invest in India*, Available at <https://www.investindia.gov.in/team-india-blogs/growth-imperative-msme-sector> (Accessed 28 September 2023).

The world's second-largest concentration of SMMEs, after Asia, can be found in sub-Saharan Africa, where an estimated 105 million exist.<sup>5</sup> South Africa is the continent's second-largest and most sophisticated economy. The *2020 FinScope MSME Survey* identified 2.6 million small businesses in South Africa, accounting for 87% of employment and contributing more than 40% of total GDP.<sup>6</sup> By contrast, the International Finance Corporation (IFC) estimates South Africa is home to 5.75 million SMMEs, employing 50-60% of the country's labour force and contributing 34% of its GDP. Having interviewed SMME-facing organisations and experts within the field, the authors have found the IFC's set of figures to be more representative of the SMME ecosystem in South Africa.

Despite the importance of SMMEs in developing economies, they confront significant obstacles that impede their development. In South Africa, small businesses suffer from a lack of financial assets; owners typically have lower levels of education when compared to their larger counterparts; limited and deteriorating infrastructure affects business operations; crime and corruption are pervasive; the supply of labour is skewed towards the low-skilled; and restrictive policy, regulation, and bureaucracy all curtail growth.<sup>7</sup>

According to research published by Africa's Public Service Delivery & Performance Review, over 70% of SMMEs in South Africa fold within the first 5–7 years from inception.<sup>8</sup> Key failure factors include inadequate capitalization, insufficient market research, poor financial management, excessive and burdensome regulation, and a lack of comprehensive knowledge about setting up and running a business. These statistics highlight the vulnerability of SMMEs in an environment characterised by limited resources and fierce competition.

## Efforts by Government to Support SMMEs

The national government of South Africa has sought to create an enabling environment for the country's small businesses as early as 1995 but has largely struggled to translate policy into practice.

In 1995 the Parliament of South Africa adopted the White Paper on the *National Strategy for the Development and Promotion of Small Business in South Africa*. It was an important first step in reversing the racially biased policies of the apartheid government and was successful in creating a solid foundation of support institutions which included the Ntsika Enterprise Promotion Agency and Khula Enterprise Finance. At the time of its publication, the White Paper estimated that there

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<sup>5</sup> 'Bridging the credit gap for Micro and Small Enterprises through digitally enabled financing models', (2019), *Dalberg*, Available at [https://www.findevgateway.org/sites/default/files/publications/files/external\\_190131\\_final\\_report\\_msms\\_cgap\\_external\\_final\\_updated-bisvb.pdf](https://www.findevgateway.org/sites/default/files/publications/files/external_190131_final_report_msms_cgap_external_final_updated-bisvb.pdf) (Accessed 20 July 2023).

<sup>6</sup> 'FinScope MSME Survey South Africa 2020', (2020), *FinMark Trust*.

<sup>7</sup> Haroon Borhat, Zaakhir Asmal, Kezia Lilenstein, and Kirsten van der Zee, (2018), 'SMMEs in South Africa: Understanding the Constraints on Growth and Performance', *Development Policy Research Unit*, University of Cape Town: Cape Town.

<sup>8</sup> Bernard Bushe, (2019), 'The causes and impact of business failure among small to micro and medium enterprises in South Africa', *Africa's Public Service Delivery and Performance Review*, Vol. 7(1).

were more than 800,000 small, micro, and medium enterprises in South Africa responsible for employing 25% of the country's labour force.<sup>9</sup>

In 2005 the national government sought to adopt a more targeted approach towards issues affecting SMMEs. This saw the introduction of the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprise (ISPESE)*, which outlined a new 10-year strategic framework for the national government's efforts to foster entrepreneurship and promote small enterprises across South Africa. By 2014, the Department of Small Business Development (DSBD) was established.

However, a review of the ISPESE, published in 2018, found that, among other things, the contribution of small enterprises to investment and economic growth in South Africa remained stagnant for the period of 2004 to 2015. Meanwhile, skills shortages in the labour market had limited the ability of small enterprises to raise competitiveness, productivity, and employment, and SMMEs continued to carry a higher regulatory compliance cost burden than their larger counterparts.<sup>10</sup>

It was also noted that “[i]f 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.”<sup>11</sup> The review further notes that “[t]he 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.”<sup>12</sup>

In May 2022, the DSBD unveiled the *National Integrated Small Enterprise Development (NISED) Masterplan*. The plan acknowledges the shortcomings of previous frameworks and strategies, noting that “Despite considerable resources & policy intervention to support micro, small, & medium enterprises (SMMEs), support for SMMEs remains uncoordinated & fragmented with duplication of initiatives based on symptoms.”<sup>13</sup>

It is still too early to comment on the efficacy of the NISED Masterplan, but what is evident is that the inefficiencies surrounding government policy vis-à-vis the country's SMME community have less to do with the actual frameworks and strategies and have more to do with their interpretation and implementation. As previous reports have explained, issues affecting efficacy are largely concerned with coordination among stakeholders. External reviews have painted a

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<sup>9</sup> Parliament of the Republic of South Africa, 1995, p. 7.

<sup>10</sup> ‘Report on the Evaluation of the Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises (ISPESE)’, (2018), *Department for Planning, Monitoring, and Evaluation; Department for Small Business Development*.

<sup>11</sup> *Ibid.* p. 103.

<sup>12</sup> *Ibid.*

<sup>13</sup> ‘National Integrated Small Enterprise Development (NISED) Masterplan’, (2022), *Department of Small Business Development*, Available at

[http://www.dsbd.gov.za/sites/default/files/legislation/NISED%20Masterplan\\_%20Fact%20Sheet\\_Edit%20%282%29%20%282022%20May%29.pdf](http://www.dsbd.gov.za/sites/default/files/legislation/NISED%20Masterplan_%20Fact%20Sheet_Edit%20%282%29%20%282022%20May%29.pdf) (Accessed 26 August 2023).

similar picture: the Small Business Institute has argued that there exist divergent and siloed approaches across government, both in terms of identifying and supporting SMMEs.<sup>14</sup>

## **Lived Experiences of South Africa's SMMEs**

Operating a small business is not for the faint-hearted, as owners must contend with a variety of challenges which can curtail growth. In South Africa, small business owners must weather an additional set of exogenous challenges due to the environment in which they operate. These challenges have been explored through interviews with SMME owners in Johannesburg, Durban, and Cape Town, with the findings discussed below.

### ***Business Registration and Formalisation***

Taking a business from a fledgling idea to an operational success is a daunting task. Getting started – that is, registering one's business – should be an easy first step. However, in South Africa, it proves to be an arduous process, especially for those operating in the informal economy.

Wade owns a small coffee shop in Durban which he started in 2021. What began as a two-person outfit serving coffee and pastries, has grown into a coffee shop which boasts a kitchen, a chef, and three additional waiting staff. While Wade is pleased with the growth of his business, he bemoans the early days of getting it off the ground. "Registering the business required more homework than was necessary",<sup>15</sup> he explains, adding that there was no central source of information for starting a business, specifically for someone wanting to enter the food and beverages space.

He relied on news sources, online how-to guides, and advice from local businesses. But even once he knew what was required of him, it didn't get any easier. Wade would then need to travel into the Durban CBD to collect and deliver the relevant documents and certificates, only to be sent from pillar to post. This placed a strain on his young business as he would sacrifice valuable time and oversight to pursue administrative tasks.

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<sup>14</sup> 'The number of formal micro, small & medium businesses in South Africa – Preliminary findings of stage 1 of the Baseline Study of Small Businesses in South Africa', (2019), *Small Business Institute*, Available at <https://www.smallbusinessinstitute.co.za/wp-content/uploads/2019/01/SBIbaselineStudyAlertfinal.pdf> (Accessed 27 August 2023).

<sup>15</sup> Authors' interview, Durban, 29 August 2023.

### Box 1: Aspirations Within the Informal Sector

Ibrahim is a Cape Town based private chef who dreams to open a private chef business that would allow him to cook food for private clients and to also provide trendy and tasty street food for Cape Town's partygoers. Having spent over ten years working in top quality restaurants, Ibrahim understood what it took to manage a food business, as well as which clientele he could easily target.

The problem for Ibrahim has been the process of formalising his business. The paperwork required for starting a food-related business is expensive and protracted. It requires a health inspector, who he has been waiting for more than four months. When he goes to the municipality to check, he is advised to contact them online. But when he contacts the municipality by phone or online, he must deal with different agents and ultimately restart the process.

His status, too, as a foreigner adds a layer of complexity. He cannot access the digital platform as it requires a South African ID number. As such, Ibrahim must make frequent trips to the municipality for administrative tasks.

The costs associated with starting and formalising his business means that Ibrahim must continue working at his full-time job. Although he enjoys his current job, he would prefer to put his full attention on establishing his business.

For him, a small business is about survival, and you don't have as many resources – time or money – to wait around and chase your tail. These inefficiencies and bureaucratic hurdles, he shares, “are major challenges for starting and growing a business, no matter the vision one has.”<sup>16</sup>

The business registration process is particularly daunting for those businesses operating informally who wish to formalise. City Fashion Wear is in Durban's Umbilo suburb and provides tailoring services. “We want to formalise, but we simply don't know how or what we need to do”,<sup>17</sup> says the owner. “CIP-this [referencing the Companies and Intellectual Properties Commission] and the next thing – I don't know where to start”. He explains how ‘consultants’ offer to help businesses such as his register for a small fee; however, they quickly disappear once the payment has been made. This experience has left many informal businesses with their hands burned and disenfranchised with the process of formalising, according to the owner of City Fashion Wear.

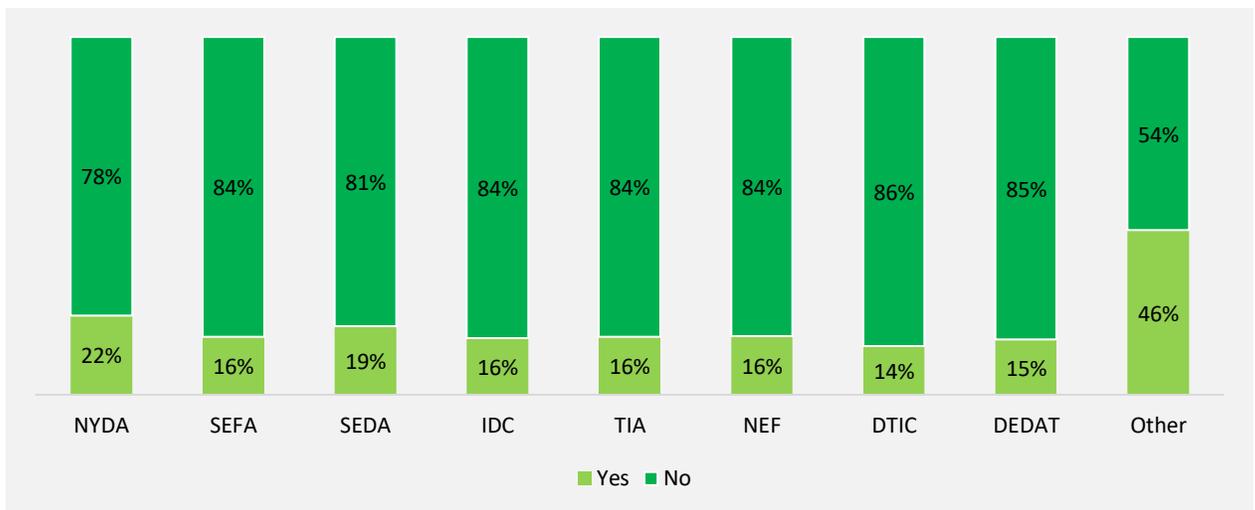
<sup>16</sup> Authors' interview, Cape Town, 19 September 2023.

<sup>17</sup> Authors' interview, Durban, 28 August 2023.

### Business Support and Training

Many small business owners establish their businesses without formal education or training in key business areas, be it marketing, inventory and stocktaking, or legal matters. “To run a business, you need to know what you are doing and how to do it. The confidence to raise money to grow is not just what you present, but it is based on trust. Trust that you know how to use it well and that you can repay it. Those are not things anyone just knows.” According to Tony, the owner of a fast-food outlet in Cape Town, this is chief among the challenges that microbusinesses like his face. Tony did not receive formal training at school to manage the business. As a result, he struggles with adequately pricing products, managing inventory and stock, as well as how to tap into government support institutions. Currently, the business was started through savings and the help of friends and family, he shares, but for it to grow and be adequately sustained, “it needs much stronger management and better financial assistance,” he shares.

For businesses like Tony’s, the inability to access key support services limits their ability to expand their business. For others, they can leverage support from friends and family, but they, too, wish there were more resources which they could access to strengthen their capacity.



**Figure 1: The use of government agencies intended to support entrepreneurs remains very low**

% of respondents (adult population)

*Note: National Youth Development Agency (NYDA), Small Enterprise Finance Agency (SEFA), Small Enterprise Development Agency (SEDA), Industrial Development Corporation (IDC), Technology and Innovation Agency (TIA), National Empowerment Fund (NEF), Department of Trade Industry and Competition (DTIC), Department of Economic Development and Tourism (DEDAT).*

*Source: Bowmaker-Falconer and Natanya Meyer*

Titilayo successfully leveraged her family’s support to establish an online presence through Google Maps and social media, enhancing client engagement and visibility. For her, “You don’t know what you don’t know, and unless somebody helps you, you will struggle.” She currently attracts 3-4 clients weekly through Google searches but must manually manage appointments,

hindering her ability to track clientele and income fluctuations efficiently. While there is more she can improve, she recognises the significance of this upgrade to her operations and the impact on growing her reach. For her, and many others, facilitating digital tools for tracking clients and income would empower businesses to enhance their online presence and operations, thereby strengthening their overall viability and longevity.

### ***Cash Flow and Access to Finance***

For many business owners interviewed, “cash flow is king” and is what will either make or break their business. Yet they struggle with late payments and bullying from clients, many of whom are larger and more established businesses. For others, they have criticised the lack of rapport between banks and small businesses, questioning whether they are committed to the SMME ecosystem. Whereas some have gone further, arguing that the formal financial system fails to accommodate the needs of small fledgling businesses entirely.

Lihle owns a small catering business in Johannesburg that provides a meal prep and delivery service. Her biggest challenge is the staggered pace at which she receives payments from her corporate clients, be it within 30 days or more. It is, therefore, difficult to purchase the necessary ingredients to fulfil other orders if she is reliant on funds from previous clients.

For Honesty, an architect based in Midrand, the issue of cash flow is more existential due to the fact that large clients bully him by simply dictating terms and choosing when they want to pay for his services. When asked about legal recourse, Honesty explains that he does not have the necessary capital to challenge these clients. A leather merchandise business in Cape Town shares a similar struggle. They struggle to fulfil large orders, grappling with cashflow issues due to the extended period between order placement and payment receipt (especially for export markets), exacerbated by fluctuating interest rates.

But beyond cash flow constraints, businesses also speak about the challenges they face securing financial support from credible sources such as banks. While as many as 80% of South African SMMEs are banked and have access to formal banking systems, only 36% and 33% of small businesses have access to credit and insurance services, respectively.<sup>18</sup> However, a worrying trend is that 70% utilise personal accounts as opposed to business accounts, while 35% leverage personal loans when borrowing money.<sup>19</sup>

### **Box 2: The Struggles to Access Finance**

“All I ever wanted to do is feed my family, feed my business and feed myself.” This statement resonated deeply with the Prince, co-founder of Setana Capital, a pioneering financial platform that is redefining access to capital for the often-overlooked informal traders and small and medium-sized enterprises. His business started when he and his partner met a store owner in the

<sup>18</sup> Ibid.

<sup>19</sup> FinMark Trust, 2020.

township of Phillipi who, despite running a viable business, struggled to access working capital due to the limitations of the existing financial infrastructure.

"The gentleman needed financing," he shared. "But the nature of the existing financial infrastructure in the country didn't enable businesses like these to access working capital. The gentleman needed only R10,000. And because he was informal and most likely a foreign national at the time, there was no way to be able to deliver financing to service the specific environment."

In sharing the originating story of his organisation, Prince puts in plain language a challenge that plagues many small businesses in South Africa – a problem he rightly attributes to a lack of understanding and, thus, general fear around the businesses that operate in the informal sector.

For Prince, several key recommendations emerge to address the challenges small businesses face in South Africa. He believes the government should consider providing first-loss capital to both corporate and financial institutions. This support would facilitate the release of capital more flexibly, enabling increased investment in domestic markets. Additionally, he believes it crucial to discourage corporate cash hoarding and offshoring, emphasising the importance of reinvesting in the local market where substantial growth opportunities exist. He shared, lastly, that business models should also adapt and innovate, focusing on recognising that "innovation extends beyond technology to encompass innovative business models.

An Excel spreadsheet alone, like the one his business uses, has demonstrated the potential for capital preservation. Therefore, a comprehensive understanding of business models, the exploration of innovative approaches, and the willingness of corporates to engage with credible partners like Setana are essential steps in promoting the resilience and growth of small businesses in South Africa."

Even formalised businesses who've endured tough financial situations have difficulty accessing financial support. Colin operates a business in Durban which provides turnkey installation services for restaurants. Business was experiencing exponential growth until the COVID-19 pandemic, which saw "the bottom fall out from under the food industry,"<sup>20</sup> a reality which brought his business to a standstill. Colin initially kept his staff on a full salaried package, thinking the lockdown would not last long. However, he quickly had to start reducing salaries and cutting staff, reducing his team from 166 to 66 and then eventually 10. It was a truly difficult time for the business as it accrued a worsening credit score. As a result, his business is unable to secure any loans from banks. "[There] is no more rapport with small businesses and banks," says Colin, adding that "when you need the banks the most, they're not there." While he has been successful in rebuilding his business, he has chosen to keep his employee numbers small while sub-contracting work where necessary.

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<sup>20</sup> Authors' interview, Durban, 31 August 2023.

### ***Economic Malaise and Consumer Confidence***

The prevailing narrative in South Africa is that small businesses can act as drivers of economic change and are the solution to the country's economic malaise. While it is certainly true, they are, however, beholden to the broader economy and cannot achieve their desired goals if they are operating within an environment which curtails growth. The performance of SMMEs is, therefore, inextricably linked to the wellbeing and performance of the national economy.

South Africa's economy has been characterised by slow growth for the past decade: GDP growth has averaged 1.39% since 2010, while real GDP per capita – the wealth of ordinary South Africans – has fallen to its lowest level since 2012. Unemployment levels have reached record levels, particularly among the country's youth (15-24 years of age), where 62% of the demographic are without work. The total unemployment rate in South Africa stands at 42.1%.

Consider, for example, the wholesale and retail sectors, where an estimated 30% of all South African SMMEs operate.<sup>21</sup> In June 2023, retail trade sales experienced a seventh consecutive decrease due to the increase in growing borrowing costs, compounded by weak economic activity and high unemployment.<sup>22</sup> In short: consumer confidence is low, and this negatively affects retail sales.



**Figure 2: Consumer confidence in South Africa has remained negative since September 2019.**

Consumer Confidence Index

Note: The index is measured between -100 (extreme lack of confidence) and 100 (extreme confidence)

Source: Bureau for Economic Research, Stellenbosch University

<sup>21</sup> Haroon Bhorat et al, 2018.

<sup>22</sup> Thuletho Zwane, (2023), 'Retail sales decline for seventh consecutive month', *BusinessLive*, Available at <https://www.businesslive.co.za/bd/economy/2023-08-16-retail-sales-decline-for-seventh-consecutive-month/>, (Accessed 26 August 2023).

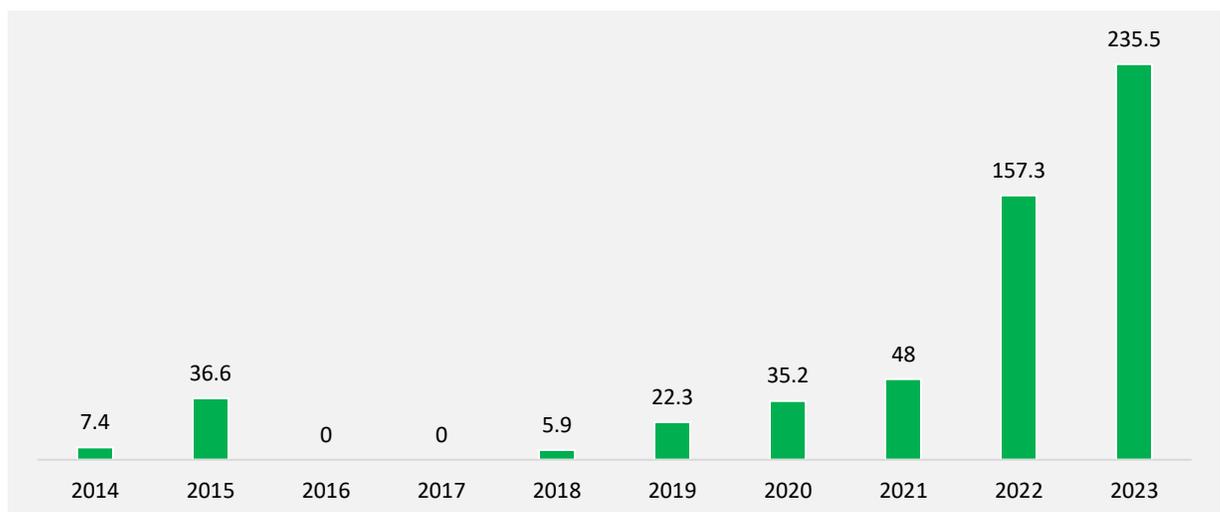
The owner of one such retailer, a décor company situated at the 44 Stanley mixed-use development site in Johannesburg, explained how “consumer confidence is key ... when the mood is negative, spending suffers.”<sup>23</sup>

In Cape Town, the owner of a butchery in the heart of Woodstock shares how people now make much smaller purchases as “money is not going very far anymore.”<sup>24</sup> This pain point mentioned by almost every interviewee is a reflection of the state of affairs and the need for a renewed wave of growth in South Africa. Businesses are feeling the weight of fewer and lesser purchases, which leaves them with little to survive, much less expand their business.

### ***Loadshedding***

Loadshedding has been a constant thorn in the side of South Africa’s economy since 2007, as both planned and unplanned bouts of loadshedding have caused businesses to operate at limited capacity, divert funds away from growth-oriented initiatives towards contingency measures, or simply cease operating entirely.

When considering the effects that loadshedding has on small businesses, one cannot ignore its operational impact. The scarcity and unreliability of electricity ultimately forces businesses into a corner where their options are limited. They can either invest in systems to offset the effects of loadshedding, such as purchasing a generator; they can look for new premises where such alternative systems exist; they can continue with a business-as-usual mindset and adjust their operations around loadshedding; or they can choose to close their businesses. Of the businesses engaged as part of this study, scenarios one and three were the most favourable.



**Figure 2: 2023 has witnessed more loadshedding than the entire period of 2014 to 2021 combined.**

Cumulative number of days of loadshedding

Source: Eskom se Push; The Outlier

<sup>23</sup> Authors’ interview, 28 July 2023, Johannesburg.

<sup>24</sup> Authors’ interview, 21 September 2023, Cape Town.

This was certainly the case for Tsolo who owns a kitchen installation business in Soweto. While adopting a business-as-usual mindset is possible for Tsolo and his team during lower stages of loadshedding, Stage 6 would limit his operating hours to a meagre four hours each day, which as he describes, is pointless.<sup>25</sup> To mitigate this, he has invested R102,000 in a second-hand diesel generator which can cost him up to R16,000 each month depending on the severity of the loadshedding schedule. This same amount of money could have been invested in other parts of the business, Tsolo notes, such as additional machinery or the renovation of his premises. In his words, the buck stops with the government in fixing loadshedding. Although in the same breath he concedes that the government has forgotten about small businesses, insisting that “it’s every man for himself.”

In Cape Town, Patricia and her three employees open the doors of their spa to numerous clients as early as 8 in the morning. To be able to do this, she has had to spend an estimated R54,000 so that the business can have backup power as well as some equipment that allows her to work during shorter stints of loadshedding.<sup>26</sup> The impact of this is that the business is now behind on its rent as she had to repurpose finances to make provisions for loadshedding. Elsewhere in Cape Town is a butchery owned and operated by Andrew. To address the threat of loadshedding, he spent over R80,00 to install a backup supply that can power his refrigerators and slicers.<sup>27</sup> The cost of installing backup power impacted his profits to the extent that he had to pay for workers’ bonuses out of his own pocket.

### ***Regulations, Bureaucracy, and Inefficiencies***

No business wants to operate in an environment without regulation. What businesses abhor are stringent, and often ineffective, measures and procedures which ultimately hinder operations and lead to financial losses.

The VAT threshold has proven burdensome for many small business owners interviewed. Paul, the owner of Laced Café in Cape Town, argues his case: “Every two months, the business has to fork out nearly R60,000, and with the COVID-19 recovery, it is tougher than usual to keep up with these costs.”<sup>28</sup> The impact, Paul shares, is limiting the number of people to employ as it just cannot keep up. From 13 people at the start of 2020, they are now at five staff members, and the future doesn’t look promising in this regard.

For other businesses, the mere existence of laws and regulations is not a problem; the frequency with which they interfere with daily operations is. Consider, for example, a leatherworking company in Cape Town. Adam, who acquired a Cape Town-based leatherworking company in 2018, has grown with a staff of over 30 and operates across three outfits in South Africa. In Adam’s experience, a major constraint is the inspections from the Department of Employment and Labour (DEL), currently at 4 per year, for which he must pull all stops for excessive stacks of records and data and fielding of questions, all of which were answered only a few months before

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<sup>25</sup> Authors’ interview, 7 July 2023, Soweto.

<sup>26</sup> Authors’ interview, 18 September 2023, Cape Town.

<sup>27</sup> Authors’ interview, 21 September 2023, Cape Town.

<sup>28</sup> Authors’ interview, 19 September 2023, Cape Town.

in a previous inspection. The worst part for Adam is that the DEL's inspections are a duplicate of the inspections carried out by the Bargaining Council.

Philip and Storm own a design company in the Victoria Yards precinct in the Johannesburg suburb of Lorentzville. Their business, which employs seven people, conceptualises and manufactures bespoke lights using repurposed materials. Philip shares Adam's sentiment regarding regulatory oversight, complaining that he only interacts with government entities when officials from the Department of Employment and Labour visit his workshop to enquire about workman's compensation. "It means taking time away from work to collect the relevant documents to show them ... it's not a quick process."<sup>29</sup> Philip also adds that when you do wish to engage with a government entity, such as the Department of Trade Industry and Competition (DTIC), it is almost impossible to make any headway.

### **Box 3: Lost Sales as the Result of Port Inefficiencies and Bureaucracy**

Gavin is a Durban-based businessman who previously operated a wholesale business which imported pet supplies. Before selling the business in February of 2023, it employed 40 people. A key challenge for him was the unreliable nature of the port in Durban which was the primary point of entry for all his imported goods. The 2022 World Bank Container Port Performance Index, which measures the operational performance of 348 global container ports, ranked Durban 341st.<sup>30</sup> The inefficiencies at the port range from the availability and reliability of the equipment to the port infrastructure itself.

These inefficiencies had a tremendous impact on Gavin's business. A shipment of pet products from China to Durban would historically take 90 days, including placing the order, the shipment itself, and its arrival and clearance. However, Gavin notes that this has worsened over time, with the process taking as much as 150-170 days before he can access his imported goods. "This severely affects cashflow",<sup>31</sup> he says. As a R70 million turnover business, with R12 million stock, these delays would cost around R730,000 per annum.

But the issues at Durban's port were only part of the broader set of challenges which Gavin faced. As per Act 36 of 1947, all new pet food brands introduced to the South African market must be assessed and registered at the Department of Agriculture, and should they be successful, they will be awarded with a V-number. While a relatively mundane process, one which many would argue serves an important purpose, the difficulty, as he outlines, comes down to bureaucracy and an inability to process applications in a timely manner – a phenomenon which can see V-numbers awarded after 12-16 months.

"How can I go to a tradeshow or exhibition abroad and tell someone 'I like your product and wish to sell it in South Africa, but I can only do so after 12 months?'" , bemoans Gavin. The delays in registering products, as well as other regulatory costs and delays, eventually led to lost sales,

<sup>29</sup> Authors' interview, Johannesburg, 27 July 2023.

<sup>30</sup> 'The Container Port Performance Index 2022: A Comparable Assessment of Performance based on Vessel Time in Port', (2023), *World Bank*, World Bank: Washington, DC.

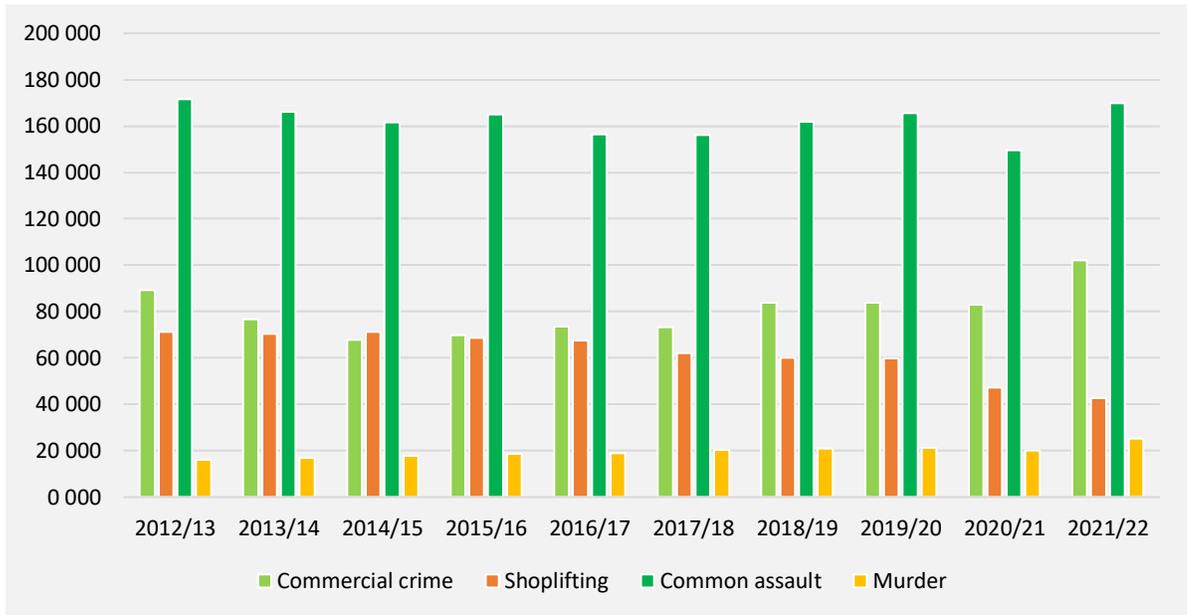
<sup>31</sup> Authors' interview, Durban, 5 September 2023.

which cost Gavin’s business between R250-400,000 a year, depending on what they were trying to register or import at the time.

**Security**

Issues of security present a challenge to many small businesses in South Africa, particularly those operating in environments characterised as having a low living standards measure (LSM). Chief among the security challenges affecting these business communities are gangsterism, intimidation, and shoplifting.

Cloudy Delivery operates a door-to-door delivery service in Cape Town’s Langa township. Borne out of the COVID-19 lockdown in 2020 when residents were unable to leave their homes, the business has become a community favourite with customers who range from Gogos (elderly) to the young. Despite meeting a local need, providing an opportunity for members of the community to earn money, and, according to the business manager for one such delivery business, “keeping a lot of its young off the streets and away from dangerous activities”, they are saddled with challenges that threaten their vision of providing quality and efficient services to the community.



**Figure 2: Commercial crimes and murders have increased in South Africa while common assaults remain high.**

Number of offences

Source: SAPS

The City of Cape Town ranked eighth on the 'Top 50 Bucket List Destinations 2019' by Big 7 Travel.<sup>32</sup> Yet the city's murder rate is 63 per 100,000 (13% above the national average), the 12<sup>th</sup> in the world. The police-to-citizen ratio is 1:509, against the national average of 1:375. Studies show that poor and unprofessional policing coupled with grave disparities in allocating police resources does little to mitigate criminality in Cape Town. Until the wider socio-economic environment, including the overall economic conditions, education, and healthcare, are addressed, safety and security will continue to threaten Capetonians and their businesses.<sup>33</sup> As such, drivers at delivery companies like this face a high liability for their drivers, the groceries that they carry for clients, and the money they collect for services rendered.

At a spaza shop in Langa, the owner has many fears about his day-to-day operations. Gangsterism and informal taxes levied on the micro and small businesses in the community by its perpetrators over the past two and half years are major stumbling blocks to his bottom line and immediate survival. Apart from the marginal gains from selling to a low-income neighbourhood, depending on the time of day and who stops by, he must fork out an unexpected fee known as a 'protection fee' to ensure he can continue to open his shops.

In Soweto, Caroline runs her parent's supermarket, which has operated since the 1990s. She notes that because of the low LSM customers who frequent her supermarket, and that many are struggling financially, shoplifting is a daily reality for her business. And while data from the South African Police Service (SAPS) indicates a decrease in shoplifting cases nationally since 2012, Caroline's reality forces her to spend more time at the store to keep a watchful eye. This ultimately reduces her ability to focus on other aspects of the business, she adds.

## Conclusion

Small businesses in South Africa fight multiple battles on various fronts: the arduous journey of registering their business, the realities of loadshedding, costly inefficiencies and bureaucratic heavy-handedness, cash flow constraints, or crime. This paper has sought to highlight some of these challenges by sharing the stories of ordinary business owners across South Africa. While these challenges may paint a demoralising picture about owning and operating a small business in South Africa, it is important to consider how they may help inform and galvanise the actions necessary for change.

In many respects, the lived experiences of small businesses in South Africa are not too dissimilar from those witnessed elsewhere in the world. The difference in South Africa is that many of these challenges are the result of an inefficient and neglectful state whose lack of attention and action has created an environment where loadshedding, crime, and bureaucracy compound the inherent challenges associated with operating a small business.

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<sup>32</sup> Laura Begley Bloom, (2019), 'Bucket List Travel: The Top 50 Places in the World', *Forbes*, Available at <https://www.forbes.com/sites/laurabegleybloom/2019/09/04/bucket-list-travel-the-top-50-places-in-the-world/?sh=2f39d13220cf> (Accessed 20 October 2023).

<sup>33</sup> Greg Mills et al., (2019), 'Where the Rubber Hits the Road - The Future of African Cities', *The Brenthurst Foundation*, Available at <https://www.thebrenthurstfoundation.org/publications/where-the-rubber-hits-the-road-the-future-of-african-cities/> (Accessed 22 September 2023).

Yet, business owners have shown tremendous resilience in the face of a difficult and demoralising environment. For some, it meant rebuilding their business after the riots in KwaZulu-Natal in July 2021; for others, it meant pivoting their service or product offering. Complementing this resilience is a commitment towards their staff and communities. “If I close this business, what will happen to my employees?” was a rhetorical question asked by many business owners when questioned about the longevity of their business. The significant role which small businesses play—both economically and socially—cannot be overstated.

It has become evident in South Africa that the government alone cannot fix the problems plaguing small businesses. And while every effort must be made by the government to deliver on its mandate to improve the business environment for SMMEs, it is important to understand where and how external stakeholders can intervene. As such, this part of the paper outlines a set of recommendations for both government and non-government stakeholders. This list is by no means exhaustive but nonetheless seeks to outline a series of recommendations which will support the growth of South Africa’s SMME ecosystem.

**Streamline business registration process with a central and authoritative source with all sector-specific material. Actively market it to small businesses, specifically those in the informal sector.** Our interviews highlight the educational gap businesses – formal and informal – face when attempting to establish themselves. The business registration process is lengthy and cumbersome for some, whereas it can appear too complicated and overwhelming for others. While the *CIPC* and *BizPortal* aim to simplify the registration process, they evidently fall short. An overhaul of these systems is therefore required, where there is a particular focus on reducing the amount of time and resources it costs business owners and is inclusive of non-South African business operators. Actively marketing the reformed process will require hands-on support and demonstration, particularly in the informal sector where registration lacks.

**Expand outreach of government agencies intended to support entrepreneurs and SMMEs while also improving the application process.** The myriad of government agencies designed to support small businesses in South Africa have largely failed to deliver on their mandate, interviews show. The first and obvious action to rectify this is a targeted and expansive campaign for these entities to engage with business across the formal and informal sectors. Interviews also indicate that application processes with government agencies are cumbersome, confusing, and not comprehensive. These need to be improved such that they reduce complications for applications and improve the rate at which applications are given feedback.

**Leverage commercial opportunities for increased private sector engagement.** Interviews reveal that certain products and services offered by private sector companies have the potential to improve small business performance, education, and growth dramatically. Examples include leveraging point-of-sale systems, cash advancements, and post-purchase payment facilities (buy now, pay later). The private sector and its partiality towards efficiency and effectiveness can therefore be useful in (and perhaps incentivised to) identifying commercial opportunities in improving the landscape for SMMEs, in both the formal and informal sectors.

**Create a receivables financing system to address cash flow constraints using large SMME funds and schemes.** Cash flow presents a serious issue for small businesses, particularly around the areas of late payments and bullying from larger clients. Interviews also revealed that access to funds is a challenge because funding schemes are built with large businesses in mind. To remedy this, a specialised system and accompanying fund can be created by pooling money from, for example, the SME Fund, to act as a guarantor of payments to SMMEs, thereby matching the amounts owed to them by their customers in outstanding invoices and facilitating regular cash flows. The fund can then interface with the clients of small businesses to recoup the money.

**Prioritise the Energy Action Plan and maximise private sector input towards ending loadshedding.** The overwhelming majority of businesses interviewed as part of this study identified ending loadshedding as being the single most important factor for improving either their performance or that of the broader economy. While those businesses with the requisite financial resources continue to look for alternative energy systems, many are at the mercy of Eskom and require a functional grid if they are to operate at maximum capacity. The National Energy Crisis Committee's (NECOM) *Energy Action Plan* provides a detailed way forward towards ending loadshedding and leverages both resources and expertise from the private sector. This partnership will be the most effective means of ending loadshedding by the end of 2024.