DEPARTMENT OF SMALL BUSINESS DEVELOPMENT

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Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF SMALL BUSINESS DEVELOPMENT

No. 2023

REQUEST FOR PUBLIC COMMENTS ON THE DRAFT SOUTH AFRICAN SMMES AND CO-OPERATIVES FUNDING POLICY

I, **Ms. STELLA NDABENI-ABRAHAMS, MP**, Minister of Small Business Development, hereby publish the SMMEs and Co-operatives Funding Policy for public comments in accordance with the approval granted by the Cabinet.

The members of the public and interested parties are invited to submit their written comments or inputs on this draft SMMEs and Co-operatives Funding Policy within thirty (30) days from the date of publication of this notice. Late written submissions will not be considered.

All written comments and enquiries should be emailed to the following email addresses: PPhaahla@dsbd.gov.za or VNetsianda@dsbd.gov.za. Alternatively, the written comments can be hand delivered to Mr Phillip Phaahla, Department of Small Business Development, 77 Meintjies Street, Sunnyside, PRETORIA.

MS. STELLA NDABENI-ABRAHAMS, MP
Minister of Small Business Development
Date: 14/04/2023

SMMEs AND CO-OPERATIVES FUNDING POLICY FOR SOUTH AFRICA

small business development

Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

Contents

List of acronyms

ABBREVIATION	DEFINITION
BASA	Banking Association of South Africa
BDS	Business development services
CBI	Co-operative Banking Institution
CBDA	Co-operative Banks Development Agency
DFI	Development finance institution
DSBD	Department of Small Business Development
dtic	Department of Trade, Industry and Competition
DMA	Development Microfinance Association
ESD	Enterprise and supplier development
EU	European Union
FSP	Financial service provider
GEM	Global Entrepreneurship Monitor
GDP	Gross domestic product
ISPESE	Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises
MFSA	Microfinance South Africa
MSME	Micro, Medium and Small enterprises
MTSF	Medium Term Strategic Framework
NCR	National Credit Regulator
NDP	National Development Plan
NISED	National Integrated Small Enterprise Development
NT	National Treasury
RDP	Reconstruction and Development Programme
SABTIA	Southern African Business Technology Incubation Association
SAMAF	South African Micro Finance Apex Fund
SARS	South African Revenue Services
SAVCA	Southern African Venture Capital and Private Equity Association
SAIA	South African Insurance Association
SASRIA	South African Risk Insurance Association
SACRRA	South African Credit and Risk Reporting Association
Seda	Small Enterprise Development Agency
sefa	Small Enterprise Finance Agency
SMME	Small, micro, and medium enterprises
UIF	Unemployment Insurance Fund

FOREWORD

The Department of Small Business Development is mandated to lead and coordinate an integrated approach to the promotion and development of entrepreneurship, Small, Micro and Medium Enterprises (SMMEs) and Co-operatives and to ensure an enabling legislative and policy environment to support their growth and sustainability. The DSBD in line with its mandate is embarking on the process of developing the inaugural South African SMMEs and Co-operatives Funding Policy in order to create an enabling environment to support formation, expansion and maintenance of existing small businesses.

The aim of the SMMEs and Co-operatives Funding Policy is to deepen access to finance and in the process increase the number of small enterprises that are established, reduce level of concentration or monopolies in certain sectors of the economy, transform the ownership patterns of the economy, address the financial literacy challenges amongst small businesses in both formal and informal sectors by promoting financial education focusing on unserved and underserved areas such as townships and rural areas and advocate for a compliance light environment for small enterprises.

The application of the SMMEs and Co-operatives Funding Policy is expected to eliminate issues related to lack of co-ordination on SMMEs funding support programmes, double dipping and ecosystem fragmentation. As part of the SMMEs and Co-operatives Funding Policy development process, an implementation plan was generated to guide the operationalisation of the SMMEs and Co-operatives Funding Policy by outlining practical steps on how to implement the Policy, outline the role players to be involved in various initiatives, anticipated risks and mitigating factors as well as the intended outcomes of the SMMEs and Co-operatives Funding Policy.

It is anticipated that the SMMEs and Co-operatives Funding Policy will be adopted and implemented by both the private and public sector financiers. This Funding Policy, once implemented, has the potential of assisting in defragmenting the sector, improving coordination, increasing developmental impact on SMMEs and Co-operatives funding support programmes with a view to contribute meaningfully to a vibrant and productive SMME and Co-operative sector.

MS. STELLA NDABENI-ABRAHAMS, MP

Minister of Small Business Development

Date: 14/04/2023

EXECUTIVE SUMMARY

The Small, Medium and Micro enterprises (SMMEs) have formed an integral part of South Africa's economic development policy since democratisation. As it is the case in many other developing countries, SMMEs are seen as the engines of growth and the sector that will provide the most job opportunities. The National Development Plan (NDP) envisages that 90% of the 11 million jobs will be generated by small enterprises in 2030. In the South African context, support for SMMEs also constitute a major lever in the inclusive transformation of the economy.

The community involvement and structure of Co-operative enterprises are also key elements in bringing rural and under-developed regions in the country closer to full economic participation. Co-operative enterprises hold significant promise in enabling and empowering ordinary community members to improve local economic conditions, thus creating a pathway to greater prosperity for such communities.

The Department of Small Business Development (DSBD) has done significant work in formulating an overarching Framework for the development of the SMME sector, published as the National Integrated Small Enterprise Development (NISED) Strategic Framework. The NISED Strategic Framework aims to provide a pragmatic strategic Framework for all actors engaged in SMME development including clear direction, measurable outcomes, and specific programme of interventions. Pillar 3 of the NISED Strategic Framework aims to deliver effective support and service delivery (financial and non-financial) to SMMEs.

The National Treasury has also prioritised improving the access to finance ecosystem for SMMEs through one of the three pillars namely, Pillar Two: Extending access to financial services for SMMEs which forms part of the National Financial Inclusion Policy "An Inclusive Financial Sector for All". The SMMEs and Co-operatives Funding Policy has been developed to provide Policy guidelines in support of the NISED Strategic Framework and the National Treasury's Financial Inclusion Policy.

Based on an analysis of the current access to finance landscape, the funding constraints faced by SMMEs and Co-operatives and lessons from other developing countries, Policy interventions have been identified that will improve the situation and enable the estimated 3.2 million SMMEs and 43,062 Co-operatives in the country to achieve their full potential in terms of contributing to inclusive economic growth.

These interventions are:

1. **Improve coordination in the SMMEs and Co-operatives access to finance ecosystem**

   Given the number of actors involved in this ecosystem it is important to improve the coordination of efforts to increase the impact of interventions. The Policy provides guidelines to improve the coordination efforts.

2. **Database of small businesses**

   The DSBD should coordinate the aggregation of data on the small business sector across various publicly available datasets to enable a fully informed assessment of the state of the finance ecosystem as a way of gathering much needed information on businesses in the SMME and Co-operative sector.

3. **Improve the provision of start-up capital**

   The DSBD should develop centralised fund structures in partnership with the private sector similar to the model used by the SA SME fund in order to direct market-based start-up capital towards small businesses.

4. **Targeted funding instruments for SMMEs and Co-operatives**

   The DSBD in partnership with other role players should assist in determining what funding instruments are required during the life cycle of small enterprises and enable an environment in which these services can be provided to all SMMEs and Co-operatives.

5. **Improve Business Development Support**

   Some of the issues relating to financial management of SMMEs and Co-operatives such as the use of appropriate financial products and the informed interaction with FSPs should be addressed through improved coordination of the BDS services prevalent in the sector.

6. **De-risking SMMEs finance through credit guarantee**

   The DSBD should support continued implementation of the recommendations to reform the Khula Credit Guarantee (KCG) scheme. Furthermore, the capital position of the scheme need to be strengthened.

7. **Implementation of a Movable Asset Collateral Registry**

The DSBD should conduct comprehensive stakeholder engagement aimed at establishing alignment around the requirements for and implementation of a movable asset collateral registry.

8. **Establish a simplified business registration and legal processes for winding up SMMEs**

It is recommended that South Africa, as it is the case in some other jurisdictions, consider the establishment of simplified and more affordable legal processes to deal with business registration and winding up of SMME business operations.

9. **Credit information systems for small businesses**

The DSBD to support initiatives currently underway to promote a holistic and comprehensive solution to the credit information infrastructure problem for SMMEs and Co-operatives, extending the information to also include alternative information to that currently being used.

10. **Easing small businesses cash flow constraints through timely payments and invoice factoring**

The regulations enforcing timeous payment of invoices to small businesses must be codified into law. Furthermore, a liquid, transparent and accessible invoice factoring market is required and will be enabled as part of financial sector development.

11. **Affordable and appropriate insurance for small businesses including Co-operatives**

A comprehensive demand side survey should be conducted by the role players to inform both industry and policymakers with in-depth insights into the insurance needs of small businesses.

12. **Improve and monitor the SMMEs and Co-operatives access to finance market**

The DSBD should lead in ensuring that the finance ecosystem which is better aligned to the needs of SMMEs and Co-operatives is established and monitored. DSBD should constantly examine the structure of the market to identify shortcomings in the current structures, monitor the range of financial products and services to assess to what extent the whole life cycle of the sector is covered, cooperating with financial regulators to ensure that problem areas are addressed.

13. **Improve informal SMMEs access to the finance ecosystem**

Recognising the importance of and the disadvantages faced by informal enterprises, DSBD should work with other actors to improve the informal sector's use of financial services and their contribution to economic growth, without requiring full formalisation and without increasing the risk to the ecosystem.

14. **Create accessible funding environment for targeted groups**

The role players should ensure that there is a meaningful participation of enterprises owned by targeted groups (Youth, Women, Persons with disabilities) by constantly engaging with organisation representing them to ensure that there is alignment of demand and supply of support programmes.

15. **Incorporate digital financial services in SMMEs and Co-operatives access to finance**

It is recommended that the SMME sector should appreciate and recognise the importance of using digital financial services in business transactions and to protect SMMEs, regulators should take reasonable steps to ensure that there is responsible market conduct by financial service providers.

16. **Improve Microfinance Institutions capacity to deliver sustainable financial solutions**

In order to deepen access to finance to unserved and underserved microenterprises, a partnership model need to be adopted by the role players in both public and private sectors for the purposes of building the capacity of a range of MFIs with a view to reach all microenterprise market segments in the country including townships and rural areas.

17. **Improve Co-operatives Access to Finance**

Dedicated funding instruments should be developed focusing on the entire Co-operatives lifecycle. The minimum capital requirements imposed by the Prudential Authority constraints CBIs' use of funds for growth purposes. While these requirements have been instituted to ensure greater stability it is crucial that the requirements are reviewed in the light of the realities being faced by CBI.

1. THE POLICY CONTEXT

South Africa's development policy framework has long recognised Small, Medium, and Micro enterprises (SMMEs [1]) as a core engine of inclusive economic growth and employment creation. As such, development of SMMEs has been a key anchor of successive policy documents beginning with the Reconstruction and Development Programme (RDP) in 1994, to the New Growth Path in 2010 and the current National Development Plan (NDP) Vision 2030.

The 1995 National Strategy for the Development and Promotion of Small Business: White Paper placed a strategic focus on SMMEs and identified several constraints facing small enterprises[2]. These included the legal and regulatory environment, access to markets, access to finance, the acquisition of skills and managerial expertise, access to appropriate technology, the tax burden, access to information and advice and access to quality business infrastructure in poor areas or poverty nodes, all of which remain relevant today.

The enactment of the National Small Business Act of 1996 provided for the implementation of the White Paper by providing guidelines to organs of state on the promotion of small businesses in South Africa and giving effect to the establishment of several implementation structures. This included the National Small Business Advisory Body and the Ntsika Enterprise Promotion Agency - which were subsequently reorganised into three entities, namely, the Small Enterprise Development Agency (**seda**)[3] , the South African Micro Finance Apex Fund (SAMAF) and the Khula Enterprise Finance Limited. In 2012, the SAMAF and the Khula Enterprise Finance Limited were then merged into the Small Enterprise Finance Agency (**sefa**)[4].

In an effort to promote a diversified pool of economic enterprises, in 1997, the South African Government established a Co-operative Policy Task Team (Task Team). This Task Team was mandated to draw learnings from the Co-operatives sector in the country and other jurisdictions and discuss main policy issues relating to the development, promotion, and support of Co-operative[5] enterprises. The work of the Task Team led to the establishment of a task force spearheaded by the Co-operative Development Unit of the Department for Trade, Industry and Competition (dtic).

In 2004, through the dtic established task force, governments vision to develop and promote Co-operative enterprises was outlined in the National Co-operative Development Policy and adopted by the Minister of Trade and Industry. This was followed by the enactment of the Co-operatives Act in 2005. To develop an implementation strategy that would enable government to realise the objectives of the Co-operatives Act, a baseline study on Co-operatives was in conducted 2009. The study identified best practices that could be adopted in the development of a Co-operative strategy for South Africa and this subsequently led to the publication of the Integrated Strategy on the Development and Promotion of Co-operatives in 2011.

In recognition of the importance of small businesses in the South African economy and considering the fragmented approach taken by Government in developing the sector, in 2014 a new dedicated Ministry of small businesses, the Department of Small Business Development, was established with the mandate to lead and coordinate an integrated approach to the promotion and development of entrepreneurship, SMMEs and Co-operatives, and to ensure an enabling legislative and policy environment to support their growth and sustainability.

The establishment of the DSBD was lauded by the SMME and Co-operative sector as a step in the right direction towards more coordinated SMMEs and Co-operatives support and led to an increased number of entrepreneurs, SMMEs and Co-operatives seeking support from government through the range of support programmes developed by the DSBD. This increase in demand for support has put significant pressure on the limited public sector resources available to the sector and has led to Cabinet through the Medium-Term Strategic Framework (MTSF 2019-2024) approving the development and implementation of specific interventions by the DSBD to unlock further funding support interventions for the SMME and Co-operative sector in the form of SMMEs and Co-operatives Funding Policy.

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[1] Micro enterprises are defined as enterprises with less than 10 employees and an industry dependent turnover of between R5m to R20m; small enterprises are defined as enterprises with more 10 to 50 employees and an industry dependent turnover of R15m to R80m and medium enterprises are defined as enterprises with 50 to 250 employees and an industry dependent annual turnover of R35m to R220m, Schedule 1 of the National Small Enterprises Act of 2019.

[2] In this policy document the use of the term "small enterprises/businesses" as a collective noun refers to all SMMEs and co-operative enterprises

[3] Seda is an agency of the South African government responsible for the provision of non-financial business development and support to SA SMMEs, www.gov.za.

[4] Sefa is an agency of the South African government responsible for the provision of development finance to SMMEs and Co-operatives that are not able to attract commercial credit, www.sefa.org.za.

[5] A co-operative is defined as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise, International Co-operative Alliance's Statement of Co-operative Identity, 1995.

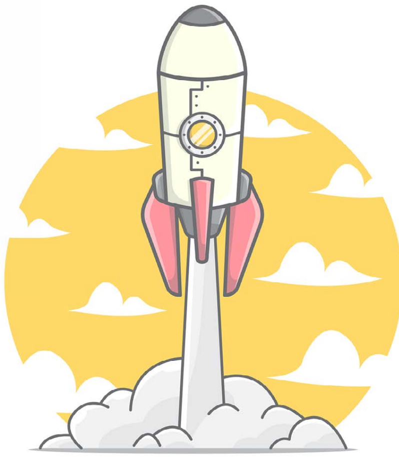
Previously the DSBD commisioned an evaluation of the Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises (ISPESE) to assess Government's efforts towards SMME promotion and support, and to recommend additions and amendments to the strategy. The evaluation identified challenges in the implementation of the ISPESE and provided a theory of change for the SMME ecosystem in South Africa. The findings of the evaluation and recommendations were translated into the Draft Incubation and Business Development Services Policy (IBDS), which is aimed at fostering a BDS market in South Africa that is coherent and delivers equitable, accessible and quality services to small enterprises and Co-operatives, and the National Integrated Small Enterprise Development (NISED) Strategic Framework published by the DSBD in 2022. The NISED Strategic Framework aims to provide a pragmatic strategic framework for all actors engaged in SMME development including clear direction, measurable outcomes and specific programme of interventions. Specifically, Pillar 3 of the NISED Strategic Framework aims to deliver effective support and service delivery (financial and non-financial) to SMMEs.

Concurrently, National Treasury has through its draft Policy document "An Inclusive Financial Sector for All" prioritised the financial inclusion of SMMEs thereby supporting the responsible extension of credit to SMMEs by building on the recommendations outlined in the 2020 SMME Access to Finance Action Plan. This is outlined in one of the three pillars underpinning the National Financial Inclusion policy.

As such, this SMMEs and Co-operatives Funding Policy has been crafted to address the joint objectives of Pillar 3 of the NISED Strategic Framework and Pillar 2 of the National Treasury's draft Financial inclusion Policy whilst taking into consideration work previously done in the promotion and support of small businesses. Specifically, the SMMEs and Co-operatives Funding Policy seeks to provide a holistic, coordinated and pragmatic framework for strengthening the provision of development finance towards the SMME and Co-operative sector with a view to improve access to finance for SMMEs and Co-operatives.

Table 1: Policy objective, Impact statement, Outcome and Outputs

Policy Objective	To provide a holistic, coordinated and pragmatic framework for strengthening the provision of development finance towards the SMME and Co-operative sector with a view to improve access to finance for SMMEs and Co-operatives.		
Impact	Transformed and sustainable SMME and Co-operative sector contributing meaningfully to economic growth, job creation, poverty alleviation and reduction of inequality.		
Outcome	Effective support and services delivered for SMME growth both financial and non-financial.		
Outputs	Improve coordination in the SMMEs and Co-operatives access to finance ecosystem	Database of small businesses	Improve the provision of start-up capital
	Targeted funding instruments for SMMEs and Co-operatives	Improve Business Development Support	De-risking SMMEs and Co-operatives finance through credit guarantee
	Implementation of a movable asset collateral registry	Establish a simplified legal processes for business registration and winding up of SMMEs and Co-operatives	Credit information systems for small businesses
	Easing small businesses cash flow constraints through timely payments and invoice factoring	Affordable and appropriate insurance for small businesses including Co-operatives	Improve and monitor the SMMEs and Co-operatives access to finance market
	Improve informal SMMEs access to the finance ecosystem	Create accessible funding environment for targeted groups	Incorporate digital financial services in SMMEs and Co-operatives access to finance
	Improve Microfinance Institutions capacity to deliver sustainable financial solutions	Improve Co-operatives Access to Finance	



1.1 DEFINITION OF SMALL, MEDIUM AND MICRO ENTERPRISES

1.1.1 Definition of an SMME: An international perspective

The terms MSME and SMME are used interchangeably worldwide due to the absence of a universally accepted definition of these terms. The geographic situation of SMMEs, along with legislation, influences the various definitions of these types of enterprises. In addition, definitions differ across countries and industries. Due to the diversity of small businesses, every simple definition is subject to criticism (Orobia & Byabashaija, 2013; Islam, Keawchana & Yusuf, 2011; Leopoulos, Kirytopoulos & Malandrakis, 2006).

The European definition includes both qualitative and quantitative characteristics as criteria for defining small businesses. The Ministry of Small and Medium Enterprise Development defines small businesses as enterprises that are registered under the Companies Act or Cooperative Act with the employment level of not more than 100 people (Loecher, 2000; Chimona, 2013).

As indicated above, the definition of what constitutes a small or medium-sized enterprise is still an issue. The most common measures used in defining small businesses include the number of employees, annual turnover, industry, ownership and value of fixed assets, production methods and legal status (Agyei-Mensah, 2011; Abor & Quartey, 2010).

1.1.2 Definition of an SMME: A South African perspective

The South African definition, as per the National Small Enterprise Act, 1996 (Act No. 102 of 1996) as amended, considers the total full time equivalent of paid employees and annual turnover categories. The Act defines small enterprise as a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the table below.

The National Small Enterprise Act was amended in 2019 to incorporate the new turnover threshold values to account for inflation and define small enterprise using two proxies as opposed to three that were used previously used. The amended definition is as follows:

Table 2: The South African definition of SMMEs

Column 1	Column 2	Column 3	Column 4
Sectors	**Size or class of enterprise**	**Total full-time equivalent of paid employees**	**Total annual turnover**
Agriculture	Medium	51-250	< 35.0 million
	Small	11-50	<17.0 million
	Micro	0-10	<7.0 million
Mining and Quarrying	Medium	51-250	<210.0 million
	Small	11-50	<50.0 million
	Micro	0-10	<15.0 million
Manufacturing	Medium	51-250	<170.0 million
	Small	11-50	<50.0 million
	Micro	0-10	<10.0 million
Electricity, Gas and Water	Medium	51-250	<180.0 million
	Small	11-50	<60.0 million
	Micro	0-10	<10.0 million
Construction	Medium	51-250	<170.0 million
	Small	11-50	<75.0 million
	Micro	0-10	<10.0 million
Retail, motor trade and repair services	Medium	51-250	<80.0 million
	Small	11-50	<25.0 million
	Micro	0-10	<7.5 million
Wholesale	Medium	51-250	<220.0 million
	Small	11-50	<80.0 million
	Micro	0-10	<20.0 million
Catering, Accommodation and other Trade	Medium	51-250	<40.0 million
	Small	11-50	<15.0 million
	Micro	0-10	<5.0 million
Transport, Storage and Communications	Medium	51-250	<140.0 million
	Small	11-50	<45.0 million
	Micro	0-10	<7.5 million
Finance and Business Services	Medium	51-250	<85.0 million
	Small	11-50	<35.0 million
	Micro	0-10	<7.5 million
Community, Social and Personal Services	Medium	51-250	<70.0 million
	Small	11-50	<22.0 million
	Micro	0-10	<5.0 million

2. THE SOUTH AFRICAN SMMEs AND CO-OPERATIVES LANDSCAPE

2.1 Small, Medium and Micro Enterprises

a) Market Landscape

The FinScope Micro, Small and Medium Enterprises (MSME) Survey South Africa conducted in 2020 found that South Africa has an estimated 2.6 million entrepreneurs, 46 per cent are female, running 3.2 million SMMEs[6]. Of these entrepreneurs 37 per cent are young business owners. The estimated number of SMMEs aligns with previous studies such as the FinScope MSME Survey South Africa 2010 which found 2.8 million SMMEs[7], the 2019 StatsSA QLFS report which found 2.5 million SMMEs and the 2016 Global Entrepreneurship Monitor (GEM) report which found 2.9 million SMMEs in South Africa[8]. In fact, according to these estimates the level of entrepreneurship and the number of SMMEs in South Africa has remained fairly flat over the last decade.

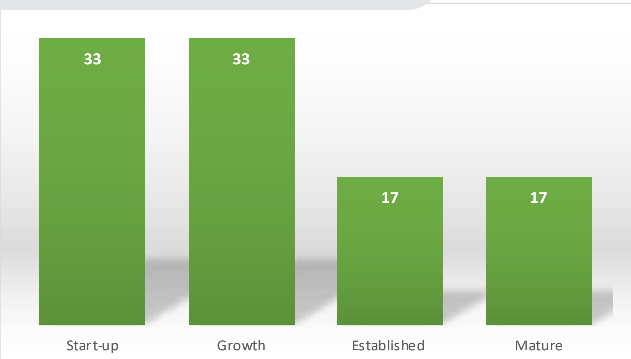
As per the NDP, SMMEs are at the forefront of addressing poverty and creating much-needed employment. Currently South Africa's SMMEs contribute 40 per cent towards the Gross Domestic Product (GDP). The majority (84 per cent) operate in either the personal services (e.g. hairdressing, landscaping, auto repair) or wholesale/retail trade sectors where there are limited opportunity for value addition and by extension limited impact on GDP.

The SMMEs in South Africa are largely micro enterprises (54 per cent) and operate on an informal basis. Only 37 per cent of South African SMMEs are formally registered with the Companies and Intellectual Property Commission (CIPC) and/or other government registration channels such as the local municipalities and only 30 per cent of are registered for tax. However, those SMMEs that are formally registered are a significant driver of the economy, contributing over R2.9 trillion to GDP.

The South African SMMEs provide 87 per cent of employment opportunities in the country, with owners comprising 20 per cent of this employment figure . Research conducted by FinFind found that while SMMEs contribute between 2 to 3 million formal full-time jobs in South Africa, a significant portion of these can be attributed to the entrepreneur themselves identifying as being employed by the enterprise. This phenomenon is even more prevalent in the micro and informally run businesses. This is confirmed in the MSME Voice, a research report commissioned by the IFC in 2020 which found that the rising level of unemployment is the key driver to most people pursuing informal self-employment opportunities.

The majority of the South Africa SMMEs, as depicted in figure 1, are either in the start-up or growth phase of the business development life cycle and many do not make it past these two phases as 70 per cent of businesses in South Africa fail within five years[12]. The high rate of business mortality is of concern given the sector's envisioned contribution towards the country's inclusive economic growth goal. The Global Entrepreneurship Monitor (GEM) South Africa Report 2016/2017[13] indicated that for every person exiting a business in 2016, there were 1.5 people engaged in entrepreneurial activity. This compares poorly to the regional average of 2.4.

Figure 1: Business lifecycle



Source: FinScope MSME South Africa 2020

While the SMME sector has grown over the years, a number of hurdles have been identified that are impeding the sector from having greater impact on GDP growth and employment creation. Entrepreneurs surveyed in the FinScope MSME Survey South Africa 2020 highlighted hurdles encountered in access to finance (73 per cent), access to markets (32 per cent) and regulatory red tape (28 per cent)[14] as the biggest impediments to starting and running a business.

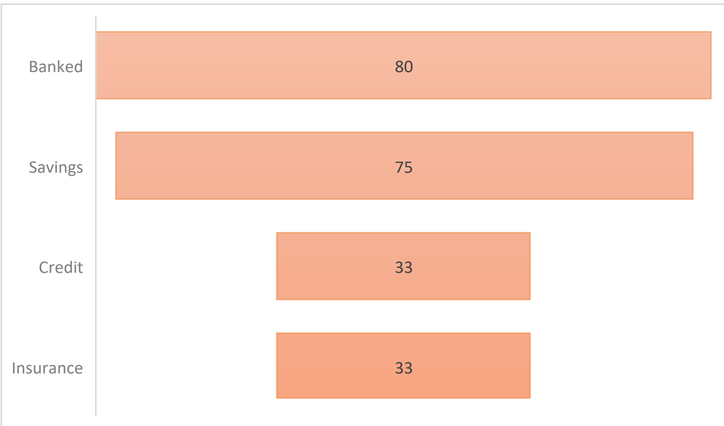
[6] FinScope MSME Survey South Africa 2020, FinMark Trust [7] FinScope MSME Survey South Africa 2010, FinMark Trust [8] Global Entrepreneurship Monitor, 2016/2017 [9] FinScope MSME Survey South Africa 2020, FinMark Trust [10] FinScope MSME Survey South Africa 2020, FinMark Trust [11] SMME Access to Finance Report, FinFind, 2019 [12] Small Business: How to Survive and Thrive, TGS South Africa, 2020 [13] GEM South Africa Report 2016/2017, Herrington et al, 2017 [14] FinScope MSME Survey South Africa 2020, FinMark Trust

b) Financial Inclusion Landscape

The SMMEs in South Africa are not financially served to the same extent as the individuals. The 2020 FinScope MSME Survey South Africa found that 84 per cent of SA SMMEs were financially included[15] with 81 per cent of them being formally served[16]. However the level of formal financial inclusion is largely attributable to the use of financial products and services by business owners in their personal capacity instead of that of the business.

The South African business owners make use of the full spectrum of financial products (figure 2), but the usage level varies between different financial products. The use of transactional accounts is the highest (80 per cent) among SMMEs relative to the other product categories. Of the 80 per cent of business owners using transactional accounts, 70 per cent indicated that they use their own personal account for business purposes. This can be expected given the high prevalence of sole proprietorships and informally run businesses. The use of personal transactional accounts for business purposes by SMMEs in South Africa is concerning, as transactional accounts are deemed the anchor product for participating fully in the financial system thus SMMEs ability to acquire other financial products and services may be limited their personal ability instead of that of the business. It is critical that BDS sevices make SMME owners aware of the advantages of separating the two aspects.

Figure 2: SMMEs financial inclusion landscape in percentages (%)



Source: FinScope MSME South Africa 2020

The ability to make and receive payments is deemed as a gateway to the beneficial use of financial services. Although South African SMMEs have access to and make use of a transactional account this usage does not translate to the use of the digital payment functions of such accounts. Most SMMEs, in fact over 60 per cent, make and receive their payments in cash. This erodes the benefits which can be derived from the use of digital payments, which according to a study conducted by IZA World of Labour includes an increase in business profitability as digital payments allow for more efficient and cost-effective financial transactions[17].

Adopting a saving culture is important for SMMEs as it creates a cashflow buffer during lull periods and allows for asset accumulation for further investment in the business in other periods. According to the 2020 FinScope MSME South Africa, three quarters of the business owners surveyed reported that they were saving for their business, with most of these savings held with banks and only four per cent occurring through the informal savings market. Savings in the SMME sector[18] is more prevalent among formal enterprises, small and medium businesses and in the industrial sector with the informal and micro businesses lagging behind.

Insurance provides a cushion against costly and unforeseen events and is therefore important for SMMEs, but only 33 per cent of South African SMMEs report having some form of insurance cover for their business. The majority of such coverage is the statutorily required workman's compensation or coverage required by financiers over financed assets with other business insurable risks not covered by SMMEs. Respondents to the FinScope 2020 MSME Survey indicated that the biggest reason for not covering insurable risks is the high cost of premiums and lack of knowledge about risks and insurance products. It is also likely that the low insurance penetration can also be attributed to the high rates of informality within the SMME sector. The development of appropriate, easy-to-understand and conveniently delivered insurance products for the SMME sector requires a concerted effort to improve the situation and reduce operational risk for the sector.

[15] Financially included refers to business owners who have/use both formal and informal financial products and/or services for business purposes [16] Formally served refers to business owners who have/use formal financial products and/or services provided by a formal financial institution (bank and/or non-bank) [17] How digital payments can benefit entrepreneurs, IZA World of Labour, 2017 [18] FinScope MSME Survey South Africa 2020, FinMark Trust [19] Enterprise Survey, World Bank, 2007

Lack of funding has been identified as one of the contributing factors to the lack of growth in the SMME sector. According to the FinScope MSME survey, only 33 per cent of businesses reported having accessed credit. This aligns with estimates from the World Bank[19], which primarily focused on established formally run businesses and indicated that only a third of formal SMEs accessed credit.

This is compounded by the fact that, as noted above, a significant number of entrepreneurs conduct their business affairs through personal bank accounts. Applying for financing in their personal capacity further limits access to financing for entrepreneurs as many will not meet financier underwriting requirements. Many of these entrepreneurs will also have not accumulated sufficient fixed assets to pledge as surety. This constrains SMMEs in accessing the necessary credit to invest in and grow their businesses.

Micro-finance often plays a major role in consumer and SMME financing in developing countries. Such institutions typically have the advantage of local knowledge and community involvement, allowing more beneficial market engagement. However, in South Africa micro-finance plays a relatively minor role in SMME financing. This situation requires further analyses and possible policy interventions to address the challenges in a sustainable manner.

The provision and use of digital financial services (DFS) have increased significantly over the last decade. This is also evident in the SMME market, where digital payment services, on-line lending and investment services are available from many new and existing financial service providers. In addition, new types of services are being offered, for example peer-to-peer and crowd-funding access to capital services, as well as digital cross-border remittances and payments.

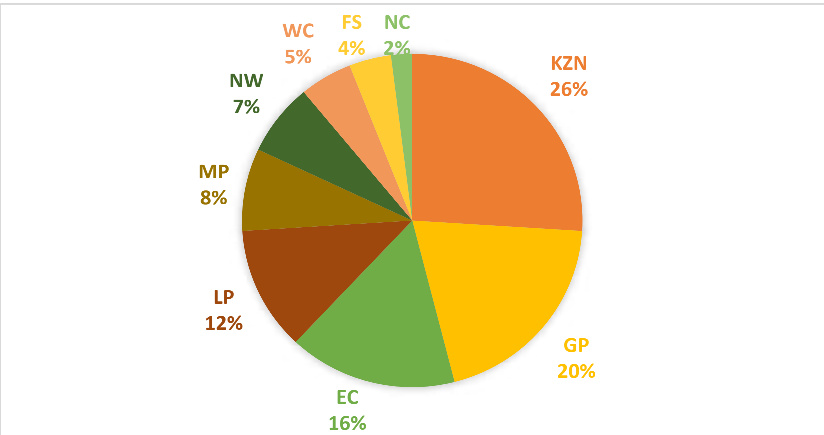
In addition, existing service providers like banks have converted existing services to a digital service and have added new services to extend their digital offering. DFS services in general hold the promise of an expanding range of easily available services, often available at less cost than the traditional services. However, the lack of or the reduced instance of human interaction during the acquiring process leaves consumers, including SMMEs, vulnerable to unfair business practices and often result in a lack of understanding of the risks and true costs of the digital services. This has to be countered by greater and more effective oversight by financial service regulators, particularly market conduct regulators.

In order to derive maximum benefits offered by the digital financial services, financiers should implement simplified lending processes by introducing common application and business plan templates as well as automated loan origination system to eliminate human errors, bring transparency to the process, fastrack funding decisions and increase the volume of funding to SMME and Co-operative sector.

2.2 Co-operatives

a) Market Landscape

In a 2017 study conducted by Ravinder Rena (NWU School of Business and Governance), "Co-operatives in South Africa: A Review", it was estimated that South Africa had 43,062 Co-operatives located mainly in Kwa-Zulu Natal, Gauteng, Eastern Cape and Limpopo (figure 3).[20] A relatively small number in comparison to the 2.6 million Co-operatives in the world reported in the 2014 global census on Co-operatives.[21]

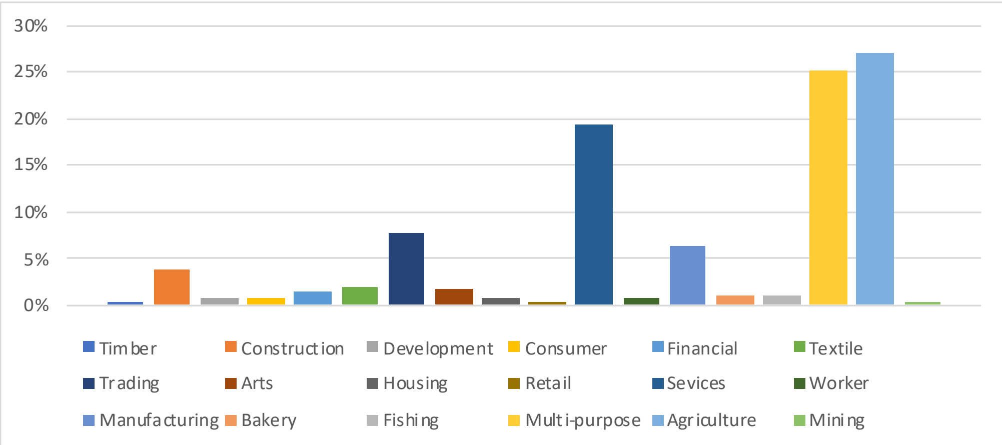


Source: CIPC Register 1922 – 2011

[20] Co-operatives in South Africa: A Review, Indian Journal of Science and Technology, Vol 10(45), DOI: 10.17485/ijst/2017/v10i45/117678, 2017 [21]Measuring the Size and Scope of the Co-operative Economy: Results of the 2014 Global Census on Co-operatives, United Nations, 2014

From a membership perspective, according to the 2009 dti baseline study on Co-operatives, very few of the South African Co-operatives had more than 100 members (less than 12 per cent) with the majority (65 per cent) estimated to have fewer than ten members (65 per cent) while 23 per cent had between 11 and 20 members. Of those affiliated to Co-operatives 40 per cent were youth, aged between 16 and 34 and there were 20 per cent more female Co-operatives members than male members.[22] Of the Co-operatives surveyed in **the dti** study, 93 per cent were primary Co-operatives[23], 6 per cent secondary Co-operatives[24] and one per cent tertiary Co-operatives with most of them operating in the agriculture sector or as multi-purpose Co-operatives (27 per cent and 25 per cent respectively) while the textile and mining Co-operatives had the least numbers as shown in figure 4.[26]

Figure 4: The dti baseline study



Source: The dti baseline study of co-operatives in South Africa, 2009

More than 80 per cent of South African Co-operatives are less than 3 years old[27] and approximately 12,252 have been liquidated during the period 1965 to 2020[28], indicating a high failure rate among these entities. The main reason for this failure has been found to be state contracts that had been promised (or expected) but did not materialise, followed by poor business management, conflict between Co-operative members, the economic recession and resultant decrease in financial support, skills development and capacity building, all of which when coupled with competition from larger companies culminated into increased vulnerability in the sector.

Although supported as a means to address the unemployment crisis and stimulate the much-needed growth in the country only 13 per cent of Co-operatives had employees and of those with employees 84 per cent employed less than 15 individuals, while 48 per cent of them employed between 1 and 5 individuals. A significantly low employment contribution in relation to global trends where Co-operatives provide jobs or work opportunities to 10 per cent of the employed population.[29]

According to the dti baseline study, 70 per cent of Co-operatives have an annual turnover of less than R50,000. While the study could not quantify the sectors total contribution to the country's GDP it was found that larger Co-operatives contribute 0.33 per cent to GDP while the smaller Co-operatives contribution to GDP could not be quantified.[30]

The study further found that South African Co-operatives have dual characteristics consisting of two extremes, namely relatively young and emerging Co-operatives, and the older more established ones. The emerging Co-operatives present higher vulnerabilities due to their level of business maturity as a result these Co-operatives require support to foster their growth and enable them to achieve their full potential in contributing to the economy. The older more established Co-operatives on the other hand have been in operation for a longer period and have shown potential for success as they have been able to achieve positive economic gains. These Co-operatives were found to require slightly different type of support which should focus on developing more markets for them.

[22] The dti baseline study of co-operatives in South Africa, dti, 2009. [23] Primary co-operative refers to the first level of co-operative formed by individuals whose main purpose is the provision of quality products and services to satisfy the economic needs of the members and their communities. [24] Secondary co-operative refers to a co-operative whose members are co-operatives. [25] Tertiary co-operative refers to a sectoral or multi-sectoral co-operative whose members are secondary co-operatives and whose objectives are to advocate and engage organs of state, the private sector and stakeholders on behalf of its members, in line with its sectoral or geographical mandate. [26] The dti baseline study of co-operatives in South Africa, dti, 2009. [27] The dti baseline study of co-operatives in South Africa, dti, 2009. [28] Co-operatives in South Africa: Towards Addressing the Skills Gap, University of Pretoria, 2021. [29] Facts and figures, International co-operative alliance. [30] The dti baseline study of co-operatives in South Africa, dti, 2009.

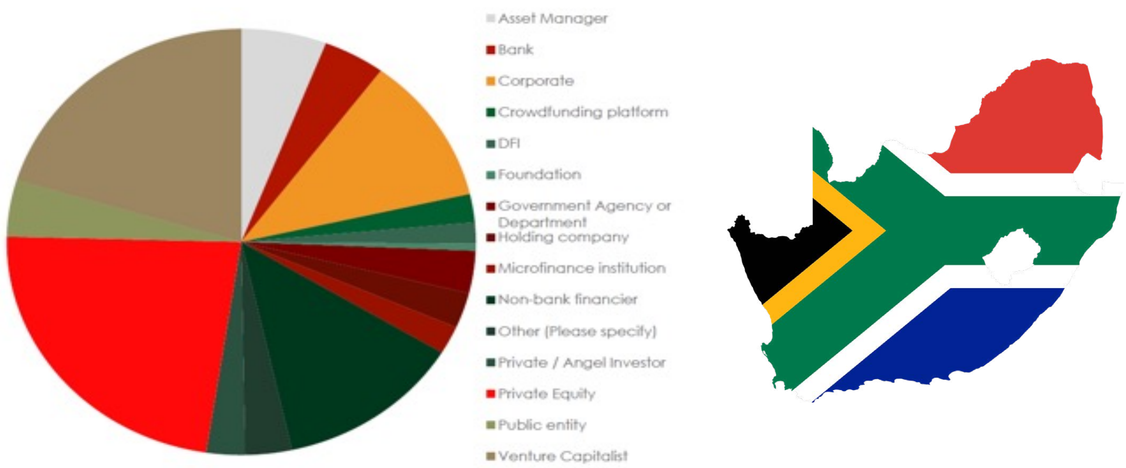
b) Financial Inclusion Landscape

There is no publicly available data in South Africa which focuses on the level of financial inclusion among Co-operatives. While datasets such as the FinScope MSME survey indicate the level of financial inclusion for SMMEs in South Africa this data is insufficient for drawing information on the Co-operatives sector. This lack of data limits the insights that can be drawn on the Co-operatives sector from an access to financial services and products perspective and therefore limits evidence driven interventions which government and the private sector can put in place to increase the level of financial inclusion for the sector.

2.3 Credit Infrastructure[31] for SMMEs and Co-operatives

SMMEs and Co-operatives require funding in various forms depending on the stage of development and business needs. These include grant funding to support ideation[32] and development of proof of concept, seed capital to fund pre revenue start-ups[33], working and growth capital for established enterprises and risk capital to provide exits for entrepreneurs in matured businesses. Research by the IFC estimates the need for capital in the South African SMME sector at R590b[34]. According to the report on the South African small enterprise ecosystem published by the Department of Small Business Development in 2017, the financial providers are as follow:

Figure 5: Financiers for the SMME sector in South Africa

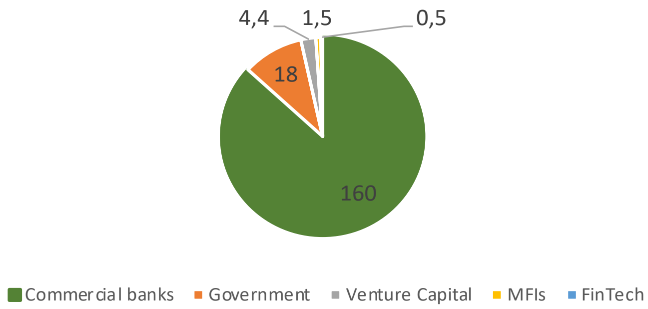


Funding for SMMEs is dominated by banks which provide R160bn in credit to the sector while funding for Co-operatives is mainly provided through government and its development financing institutions. While a significant source of funding for the SMME sector, the risk appetite of and the regulatory demands on banks lead to strict underwriting criteria for the extension of credit to SMMEs, thereby reducing the ability of entrepreneurs to access credit. As such, the majority of bank lending is directed at larger and more established businesses rather than the small and micro segment which struggles to meet bank lending requirements.

[31] The World Bank defines the credit infrastructure as the set of laws and institutions that enables efficient and effective access to finance, financial stability, and socially responsible economic growth through credit reporting, secured transactions & collateral registries; and insolvency & debt resolution. [32] Ideation is the stage of developing an idea that solves the problem in the process of creating a business opportunity. [33] The stage where the opportunity has been proven that it is real and the product solves the problem. [34] Unseen sector, IFC, 2018

According to the OECD, only 26 per cent of business credit extended by banks is directed towards SMMEs[35], with the lion's share of this going towards established medium sized businesses.

Figure 6: SMME funding



The direct government support in the form of grants and loans amounts to R17bn. In its report "Financing Small Business in South Africa"[36], the World Bank notes that there are a number of opportunities to improve support to this sector provided by Development Financial Institutions (DFIs) in order to align funding with the needs of SMMEs. These include improved collection of data on SMMEs requiring financing and consolidation of the various funding programs available in order to lower costs and simplify the funding landscape.

The risk capital from private financiers other than banks amounts to R55bn. As such, the South African market provides R230bn in funding to the SMME sector. This represents a shortfall of $30bn[37] or approximately 8 per cent of GDP.

The government is providing support for SMMEs through various initiatives to ensure that the sector grows and is sustainable. However, the World Bank's Doing Business 2020 shows South Africa's overall ranking dropped to 84 from 82 in 2018[38]. While South Africa's Doing Business, score has not changed appreciably, the lower ranking suggests that other countries are improving their business environments faster than South Africa. South Africa thus needs to do much more with respect to policies and regulations for meaningful change in support of SMMEs.

While notarial bonds on immovable property of significant value may serve as surety, the complex and expensive processes for registering notarial bonds makes it uneconomical and unattractive for most financiers. Furthermore, many entrepreneurs will not be able to show proof of regular income at levels required by financiers for personal lending. As such, sole proprietors and informal entrepreneurs will struggle to raise financing. The lack of information on SMMEs creditworthiness leads to financiers demanding collateral that cannot be offered by most SMMEs, leading to higher interest rates based on the assumed credit risk.

[35] OECD Economics Surveys: South Africa 2017, OECD, 2017. [36] Financing Small Business In South Africa: A Snapshot Of Government Support Programs, World Bank, 2019
[37] Unseen sector, IFC, 2018 https://www.doingbusiness.org/content/dam/doingBusiness/country/s/south-africa/ZAF.pdf

3. CHALLENGES TO SMMEs AND CO-OPERATIVES ACCESS TO FINANCE IN SOUTH AFRICA

3.1 SMMEs Access to Finance Challenges

a) Early-Stage Financing

The SMMEs at the beginning of their lifecycle typically cannot access bank financing because they do not yet have tangible assets or a revenue track record, and so they rely on personal savings or funding from friends and family. However, given South Africa's historic context, it is not likely that the majority of the population will have personal assets nor the extended networks which could facilitate funding of an early-stage business. Private equity (PE), venture capital (VC) and angel investors would traditionally provide early-stage financing in mature markets.

Although South Africa has a well-developed PE/VC market, the vast majority of funds are channelled into late-stage investments – less than 4 percent of PE funds under management go towards early-stage investments, and VC funds earmarked for start-ups equate to less than 2 percent of funds committed to later stage investments. An alternative to risk-based start-up funding such as PE/VC and angel investment is the extension of grants. Grants are funds made available to entrepreneurs with no requirement for the ventures to repay the funds. As they are not meant to be repaid, the quantum of grant funding available is often small, available to a very specific subset of entrepreneurs and limited to very specific uses. Grants are made by the various arms of government as well as some non-profit private organisations.

As grants do not require repayment, they form a very attractive funding mechanism for ventures which have not established their commercial viability. Specifically, businesses in the development and start-up phases will find it difficult to secure funding on commercial terms as the viability of the business has not been established. However, the lack of repayment means that grants represent a significant drain on the fiscus. This in addition to the very specific and tailored nature of grants implies that grant funding is not a sustainable model for stimulating entrepreneurship on a large scale. Hence, there is a start-up capital financing gap in South Africa that constitutes a barrier to entrepreneurship.

b) Working Capital

Among many access to finance challenges faced by South African SMMEs, cash flow constraints are often cited as a significant hurdle to the survival and growth of small businesses. SMMEs struggle to obtain the required capital to purchase equipment, machinery, business vehicle, invest in day to day operations and service contracts due to their weak financial position. One source of cash flow challenges faced by SMMEs is the late payment of invoices submitted to large clients, particularly government. National Treasury reports that national departments alone owed SMMEs R415 million in invoices not paid after 30 days in the 2021 financial year. Similarly, large corporate clients often impose 60 to 90 day payment terms on smaller suppliers, creating a significant lag between when entrepreneurs must lay out cash in order to provide goods or services and when they receive payment.

c) Enterprise and Supplier Development (ESD) financing

Enterprise and supplier development programmes, with financing as a component of the programme, can play a major role in SMME financing. A number of corporates and industries have set up such programes and have achieved some success, albeit it on a limited scale. The involvement of corporates in terms of the skills development of SMMEs is a major contributing factor to the success achieved. It is important that these programmes are assessed and that learnings are extracted to enable larger scale deployment of the programmes.

d) The South African SMME credit information landscape

A credit information system primarily serves the purpose of providing credit risk information about potential lenders. This allows credit providers to objectively assess the credit risk associated with a loan applicant and to base the credit decision and the interest rate payable on such information. Without a credit risk system each application would require individual data gathering and analyses, which will add to the cost of the application and which may result in inaccurate risk assessments. This is equally true for consumers and SMMEs.

Currently, consumer credit information is collected from all credit providers who extend consumer credit. The data infrastructure for this is provided by the South African Credit and Risk Reporting Association (SACRRA). SACRRA is a not-for-profit, voluntary association, which was established in 1989. Members share credit and risk performance data of consumers (i.e. payment profiles).

Credit information data thus currently exists primarily at consumer level. The National Credit Act defines SMMEs with assets or turnover below R1 million as consumers, leading to consumer-type information being gathered for these enterprises. The credit risk of the SMME itself is often not measured. Instead, creditors assume that the creditworthiness of the owner(s) is an indicator of the credit risk of the business. For start-ups and small businesses, this is not necessarily the case. Due to lack of access to finance, many SMMEs are self-funded by the owner(s) and business cash flow is often supplemented by the owner(s) in their personal capacity. This can have a negative impact on consumer credit ratings for SMME owner(s).

According to the World Bank, even where one or more credit reporting systems are in place, these rarely include reliable and complete information on SMMEs, thus exacerbating the SMME "credit gap" in many markets. Access to accurate, meaningful, and sufficient information on SMMEs for lenders, enhances their ability to assess SMME creditworthiness, and to make well-founded, fact-based credit risk assessments. Conversely, the absence of Credit Reporting Service Providers (CRSP) focused on SMMEs becomes a significant inhibitor to the provision of credit to small businesses. [39]

e) De-risking of SMME financing

I. Patrial credit guarantee schemes

A key impediment to the extension of credit to the SMME sector is that commercial lenders consider these businesses to be high risk borrowers, particularly because many entrepreneurs have little or no assets to pledge as collateral to back the loans, few small businesses keep financial records to indicate the financial performance of the business and the sector is dominated by underdeveloped financial management controls.

One mechanism for reducing the risk faced by lenders, and thus making SMME lending more attractive, is to mitigate the credit risk in part by providing a guarantee in the case of loan defaults to the lender for loans extended to SMMEs provided that certain guidelines for the assessing and monitoring of the loan process are met.

In South Africa, The Khula Credit Guarantee Scheme seeks to achieve this goal. The Scheme is run by Khula Credit Guarantee (SOC) Limited (KCG) a wholly owned subsidiary of **sefa**. KCG is a licensed non-life insurer authorised by the Prudential Authority under the South African Reserve Bank (SARB) and is open to all commercial banks and qualifying financial intermediaries. While the Khula Credit Guarantee Scheme has been operational for 26 years, it has been under-utilised by lenders due to several weaknesses that undermined the incentives for using it. Subsequent to a diagnostic review of the Scheme by the World Bank, a number of recommendations have been adopted which have seen the Scheme redesigned to address identified shortcomings with a view of increasing the guarantee utilisation rate.

[39] World Bank ICCR Facilitating SME Financing Through Improved Credit Reporting (2014)

II. Movable asset collateral registry

The issue of a lack of assets to pledge as collateral for loans is cited as a major impediment to the extension of credit to the SMME sector. While most small businesses lack the fixed property that lenders prefer to hold as collateral, they may have movable assets of some value at their disposal, such as the business's inventory, cash and cash equivalents, equipment, account receivable or the entrepreneur's personal assets such as furniture. A movable asset register[40] with a supporting legal framework would provide a legal and institutional framework that will record the ownership and use of movable assets as collateral for small enterprise finance and will make it possible for credit providers to make a legal claim on such collateral, should the lender default. This then ultimately lowers the risk for lenders and enables increased lending to this market. Currently South Africa does not have a movable asset registry although the legal framework for registration of notarial bonds on specific movable assets is in place.

3.2 Co-operatives Access to Finance Challenges

There is a need for a differentiated financial support products for various types of Co-operatives as a way of responding to the specialised needs of the Co-operatives that will set Co-operatives apart from other types of enterprises. A Co-operatives Development Fund should be established jointly with the Co-operative sector and other role players including potential funders. The Fund must provide funding to different types of Co-operatives such as worker-owned Co-operatives and user-owned Co-operatives. The Funding interventions within the Co-operative sector must advance the principle of equity and support collaborative marketplaces for Co-operatives buyers and service providers.

The funding instruments for Co-operatives should be administered using the following criteria as a benchmark:

- **Labour Intensity:** This is an important technical requirement for an economy that is confronted with high levels of unemployment.
- **Skill intensity:** The focus must be on low skill intensivity in order to combat the scourge of structural unemployment. Through "learning-by-doing" and integration of education and training to economic and social activity.
- **Value Addition:** This is important for the production of social surplus, which is the basis of long-run economic growth.
- **Redistribution:** The Co-operatives activities that must be prioritised are those which encourage Industrial development, are pro-poor and not reproduce income inequality and plight of the historically disadvantaged communities.
- **Export Orientation:** Prioritise funding to Co-operatives that operate in sectors that exhibiting high export-orientation because that stand to benefit the economy through foreign exchange earnings and thus ease balance of payments problems.
- **Import Orientation and Penetration:** The Co-operatives that operate in sectors that suffer from high import-penetration, and yet have a major role to play in meeting the goals of the country's growth and development trajectory must be supported through strategic trade policy intervention, technological capacity building, infrastructure and access to critical inputs.
- **Water Intensity:** Proceeding from the fact that South Africa is a water scarce country, Co-operatives funding must seek to direct them towards sustainable development activities in order to encourage environmentally and socially sustainable business activities. This will lead to a decline in water intensity of production over time. It will also significantly add to sustainable development, and release water to be used for social needs and food production in agriculture.
- **Legislative burden and cost of compliance:** The South African legislative environment requires that businesses comply to certain pieces of laws in order to operate effectively and enable free trade in the value chains within which they operate. One of the challenging legislative requirements are linked to the aspects of environmental protection and management through instruments such as the need to trade and operate through a licence or permit for instance fishing rights permit, waste licence, animal trading permit, and others.

[40] A movable asset registry is a register of non-fixed assets used as collateral for commercial loans. It is supported by a legal and regulatory framework to be effective.

a) Enterprising Co-operatives

Although the capital needs of Co-ops are normally financed through internal sources such as member share capital, membership fees and loans, this is not always feasible thus emerging Co-operatives still find it difficult to attract and retain adequate capitalisation. The member-based operation of Co-operatives and their surplus sharing method based on use makes them less attractive to venture capital and Angel investors. Government entities, DFIs and private sector financial institutions often do not understand the structures of Co-operatives, which result in limited support provided to Co-operatives. Consequently, Co-operatives experience difficulties in retaining earnings, increasing capital requirements because existing incentives and support structures developed for SMMEs do not address the need of Co-operatives across their life cycle and sector.

According to the dti Baseline Study, only a limited number of Co-operatives have accessed finance in the past two years, whether as a loan or a grant. For example, of the 159 Co-operatives that have applied for loans, only 39 (24.5 per cent) have succeeded. Similarly, of the 181 Co-operatives that have applied for grants, only 61 (34 per cent) have succeeded.

Despite various government institutions providing support to Co-operatives, support rendered to the sector has been negligible, unfocused, unco-ordinated and lack systematic and sustained targeting resulting in inadequate and in some instances non-existent budget allocations dedicated to the Co-operative sector.

b) Financial Co-operative Institutions

Financial Co-operative Institutions, also known as Co-operative Banking Institutions (CBIs) and registered with the Prudential Authority, rely on member share capital, return on investments, interest on loans and service fees to enable them to provide financial services and related products to their members. For emerging CBIs, the reliance on available sources of income/revenue during the initial stage has proven to be a constraint on their growth. This is primarily due to limited interest income from loans being available at start-up, which is the main source of revenue for CBIs. The minimum capital requirements imposed by the Prudential Authority further constrains CBIs' use of funds for growth purposes.

To overcome the capacity constraint that CBIs face in employing suitably qualified staff during the crucial start-up phase government, and private entities, such as the Banking Sector Education and Training Authority (BANKSETA) and tertiary educational institutions, are approached to cover the cost of providing relevant training to staff members.

To enable the sector to grow, it needs to access sources of external funding which it can use for on-lending to its members in a responsible manner. The Prudential Authority limits external borrowings to 15 per cent of total assets. There is a further prudential requirement that fixed assets may not exceed 5 per cent of total assets. While these requirements have been instituted to ensure greater stability it is crucial that the requirements are reviewed in the light of the realities being faced by CBI.

Some of the CBIs that are performing well are supported, especially at start-up phase, by financially stable entities that have a common bond relationship with the CBI, particularly if those entities have a large member base that can act as a source for deposits and funding for the CBI. A common bond is a prerequisite for registration with the Prudential Authority and non-members may not use the services of a CBI. There are only a few registered CBIs who have such relations, such as Union membership-based CBIs. A CBI is allowed to service both individuals and enterprising members (juristic members), depending on its business plan and objectives of the CBI. They can therefore provide products that respond to their members' needs which would include business related financial products.

The CBIs are key in extending access to finance for SMMEs and other members as they are a self-help member-driven entity, operating within a community with a common bond. The Co-operative Banking Sector Strategic Options Paper developed by the World Bank highlights that members of CBIs perceive their financial Co-operative (CBI) as the preferred institution to obtain financial assistance for personal and business loans. However, without proper funding and sufficient deposits from members, these institutions are unable to provide quality services to their members, including SMME members. Part of the power of CBIs in South Africa is the ability to support businesses and to bring financial skills to local communities through the involvement of their members. CBIs can provide the building blocks for economic development in underserved communities and rural areas.

3.3 Microfinance sector

The first microenterprise credit organisation in South Africa was the Get Ahead Foundation (GAF), which disbursed its first loans in 1987 in the township of Atteridgeville, West of Pretoria. In the early 90s, three more group-based lending organisations were launched namely the Small Enterprise Foundation (SEF), Women's Development Banking (WDB), and the Rural Finance Facility. All of these new DMFIs targeted the rural areas of South Africa and employed an adapted model of the Grameen bank group lending. Despite the high level of interest and investment in the microfinance sector in other parts of the world, only five DMFIs are operational in South Africa namely Small Enterprise Foundation, Phakamani Foundation, Siyakhula Microfinance Institutions, Get Ready Investment Holdings and Akanani Finance Company while another 45 organisations have started operating but had to close due to capacity issues and a longer period of time that is required before an organisation can reach self-sufficiency. The sponsors and investors do not have appetite for these challenges.

In South Africa the Microfinance sector can be divided into two namely, the mainstream commercial microfinance institutions (MFIs) that focus on the provision of consumption loans to employed individuals and these MFIs require an applicant to present a payslip or other proof of employment and Development Microfinance Institutions (DMFIs), on the other hand, lend to self-employed individuals who are operating micro and small enterprises which are too small or informal to access loans from formal financial institutions. The DMFIs are the main focus of the SMMEs and Co-operatives Funding Policy.

The microfinance sector in South Africa has advanced a total of 254 971 loans as at 30 September 2021, representing a loan book of R754 million. Loans advanced to women (99 per cent), youth (20 per cent) and persons with disabilities (1 per cent). The average loan size is R2,957. The total number and value of loans disbursed by the current DMFIs since inception stands at 3.5 million loans valued at R8.4 billion, with an average loan size of R2,400. MFIs are serving businesses that include tuckshops or spazas, fruit and vegetable vending, catering and baking, beverages, traders in nuts and meat, traders in new and used clothing, dressmakers, hairsalons and room rentals. Despite the good progress reported by the microfinance sector, the sector is experiencing a number of challenges that can be grouped into the following categories:

(a) Client market challenges

The density of microenterprises in South Africa is less than in other developing countries, both in urban and rural locations, which means that it is more expensive to reach them, microenterprises in South Africa have a lower level of business and technical skills in relative terms. There is an increasing competition between microenterprises and formal businesses, with new malls and retail chains expanding in townships and smaller towns. The arrival of foreign nationals, with entrepreneurial experience and access to financing networks, has also created competition for local microenterprises.

(b) Institutional challenges

South Africa is experiencing a serious shortage of skilled individuals who are experienced in microenterprise lending methodologies and global best practices. This is exarcebated by the fact that most Micro Finance Institutions (MFIs) have not had access to technical assistance from global experts in the field, consequently they have had to learn the lessons from scratch.

The operating cost ratios for MFIs in South Africa are high in relation to other African countries and the country's MFIs have the highest salary burden ratios in the world. Donors and investors are not investing sufficient funds in the microfinance sector and this has led to the closure of various microenterprise finance initiatives due to a lack of sufficient funding or patient capital.

(c) Environmental challenge

In light of the perceived high level of crime in South Africa, MFIs cannot collect loan repayments in cash. This means that all transactions must be channelled through the banking system, which results in high transaction costs for both the MFI and its clients. The judicial system in South Africa effectively prohibits microenterprise lenders from taking movable assets as collateral, either through a pledge or through an asset finance agreement, due to the cost and time frames involved in obtaining a judgement through the Magistrates courts.

This has created a challenge wherein almost no lending is extended to micro or small enterprises requiring loan sizes between R25,000 and R100,000[41].

Box 1: Supporting SMMEs through Microfinance

In Bangladesh, the Grameen Bank was started by Professor Muhammed Yunus in 1979 after successfully lending his own money to about 500 women across a selection of villages after observing the impact and good repayment rates.

- In 1983, Grameen Bank had pioneered the centre group lending methodology serving 58,000 borrowers. Government then passed an ordinance transforming the project into an independent specialised bank for the poor, owned 40 per cent by borrowers and 60 per cent by government.
- In 2006, Grameen had serviced 6.2 million borrowers (97 per cent female) with an average loan balance of USD77, and 6.9 million savers with an average savings balance of USD31. Grameen has continued to grow since then and government ownership has declined over time.
- In 2017, Grameen had 2,568 branches serving 81,400 villages, 93 per cent of all villages in Bangladesh.
- By the end of 2019, 16 million microenterprises were serviced by the Grameen bank with loans worth USD 7 billion[42].

4. POLICY PROPOSALS

Given the above background, the SMMEs and Co-operatives Funding Policy seeks to amplify Pillar two (2) of the National Treasury Financial Inclusion Policy by implementing the following interventions that are aimed at improving the access to finance ecosystem for SMMEs and Co-operatives. In particular, improving the manner in which the various actors in the ecosystem relate to each other, broadening the range of financing instruments available to SMMEs and Co-operatives, improving access to credit by building an appropriate credit infrastructure for SMMEs and Co-operatives, promoting the use of transaction account and payments services for SMMEs and Co-operatives, encourage the design and uptake of suitable insurance for SMMEs and Co-operatives:

4.1 Improving coordination in the SMME and Co-operative access to finance ecosystem

As with all ecosystems with a number of different actors involved, coordination to achieve maximum impact is a perpetual challenge. Where some of these actors are independent organisations with specific statuory mandates coordination can become complex. It is therefore proposed that coordination for the SMME and Co-operatives access to finance ecosystem is formailised and that this effort is led and operationalised by DSBD, in close conjunction with National Treasury.

This coordination should recognise that actions are required at different levels, be it a national, a particulat industry segment or a particular element of a value chain level. Appropriate platforms should be established, with clear and approved mandates and with all relevant stakeholders involved. Agreement on objective and appropriate measures of success should form part of the operations of these platforms.

At a national level it will not always be possible to formulate a single programme to which all actors can contribute, although in some cases that might be the case. However, it is crucial that all actions contemplated by the different actors are brought to the platforms and considered by all participants to ensure that, as far as possible, such actions support the overall objective of improving the ecosystem and that unintended consequences can be avoided.

The members of the national coordination forum should at least include:

- DSBD (and its agencies)
- National Treasury
- the dtic
- Department of Social Development
- Department of Agriculture, Land Reform and Rural Development
- SARB, FSCA, NCR, CBDA and ICASA
- BASA, ASISA, SAIA and MFSA
- Reprentative organisations of SMME and Co-operative enterprises
- Representatives of the general business sector

The structure of coordination platforms for specific segments or value chains should be determined by the nature and objectives of the desired cooperation. In these instances the feasibility of aggregating the demand of goods and services as well as aggregating the supply of SMME goods and services ahould be investigated and operationalised where possible.

[41] Development Microfinance Association: Financial Inclusion Policy Position Paper (2019). [42] Grameen Bank: Annual Report (2020)

4.2 Database of small businesses

In South Africa, there is a lack of reliable data on small business. Obtaining an accurate count of the number of SMMEs and Co-operatives covering both informal and formal sector is a challenge. It is essential that a reliable estimate of the number of SMMEs and Co-operatives is established to inform resource allocation and programme design. The National Department of Small Business Development has develop a dedicated portal (www.smmesa.gov.za) to obtain information about SMMEs operating in the country.

To incrementally build a reliable database of SMMEs and Co-operatives, DSBD will coordinate the aggregation of all publicly accessible small business data sets under the www.smmesa.gov.za database. This will include small business data gathered via the CIPC's BizPortal site and tax data gathered by SARS and information provided by local actors such as Municipalities including Local Economic Development Offices, Ward Councillors, Industry Associations (South African Informal Traders Alliance, Business Chambers etc), membership-based organisations, Business Development Providers including Professional Bodies and any other relevant stakeholders.

More importantly, DSBD will leverage the extension of financing to the SMME sector as a mechanism for gathering data on the sector. Data on businesses receiving financial support through the various publicly supported financing facilities will be added to the small business database. DSBD will also engage BASA, other representative bodies and regulators on the provision of similar data for businesses receiving private sector financing. The database will thus provide a view on SMMEs activities in the country. In addition, the DSBD in partnership with other role players should constantly conduct national surveys of the SMME sector that will, among other benefits give a reasonably accurate account of the informal and formal SMMEs.

It is critical that in all these data gathering exercises sufficient data is gathered to enable gender-disaggregated analysis. Without such specific insights the development of policy interventions to address gender issues and the design of specific initiatives will be insufficiently informed. It has been shown in a number of other jurisdictions that addressing gender imbalances require gender-specific actions.

4.3 Improving the provision of start-up capital

The South African entrepreneurs cite lack of start-up capital as a significant hurdle to establishing new ventures. While direct monetary support from government will be required to assist entrepreneurs with start-up capital, grant funding and other direct means of support are not sustainable at scale. As such it is imperative that policy makers establish risk-based vehicles that crowd in private sector institutional support for funding start-up ventures.

One such vehicle is the SA SME Fund, a R1.4 billion fund that has invested in 5 VC firms and 5 growth equity firms, as well as two initiatives to support transformation in the fund management industry. These investee managers then identify eligible SMMEs in which to invest on both an equity and debt basis. The fund, which is a partnership between the government and the private sector, has been a critical emerging player in the fundraising environment. Of the total investment, approximately 56 percent is in VC / early-stage with the remaining in growth capital.

Most notably, the SA SME Fund is a public-private partnership developed by the CEO Initiative, a partnership between the government and CEOs to stimulate the economy and create jobs. The fund is capitalised by more than fifty publicly listed firms and the Public Investment Corporation (PIC). This thus provides a model for stimulating private sector institutional support for directing risk-based capital towards SMMEs.

As such, to address the dearth of early-stage capital flowing to SMMEs, there is opportunity for DSBD to leverage the model followed by the SA SME Fund in creating a central fund in partnership with private sector players. The benefit of such a model is that it would allow highly tailored interventions in the start-up ecosystem. For example, this fund could issue a request for proposals (RFP) for funds that invest in early-stage ventures in strategic industries (i.e., health tech) and then partner with established local and/or international fund managers with the requisite expertise to direct capital to deserving ventures. This central fund could also be utilised, if necessary, to provide funding other than start-up funding should that become a necessity.

The second option that must be considered is to establish a Fund of Funds. The Code series 400 of the BBBEE Act, stipulates that measured entities must spend two (2) per cent of Net Profit after Tax (NPAT) towards Supplier Development and one (1) per cent of NPAT on Enterprise Development for black owned or at least 51% black owned EMEs and QSEs. However, these allocations are not necessarily deployed in full in a particular year. The Fund of Funds can be capitalised using underspending from the one (1) per cent allocated to Enterprise Development component. Care must be taken to ensure that this is only implemented in case of access to finance market failures and not as an alternative to finance markets.

4.4 Targeted Funding Instruments for SMMEs and Co-operatives

The SMME sector should not be treated as a single homogenous market as it consists of SMMEs with different financial needs. For instance, entry level enterprises consist of informal enterprises where there is no distinction between business and individual personal financial needs. In most cases the personal account is combined with business account and this is attracting risks to the business owner from budget management and cash flow perspectives. In light of the fact that most of the informal SMMEs blur the line between business and individual, alternative lending models should be developed to support personal lending for business purposes.

This means that a suitable funding mix is required to address funding needs of various SMMEs including those operating in the informal sector. The design and features of the funding product need to be matched with the exact funding needs for SMMEs. **Seda** and **sefa** as well as other agencies, should develop support mechanisms for SMMEs at different stages of development in order to improve programme targeting, quality and relevance of support programmes[43].

The Department of Small Business Development is currently providing funding to small enterprises through a variety of funding instruments such as the Township and Rural Entrepreneurship Programme, Business Viability Programme, Small Enterprise Manufacturing Programme, Co-operatives Development Support Programme, Informal Micro Enterprise Development Programme and Shared Economic Infrastructure Fund. The financiers must implement a combination of loans and grants funding (Blended Finance) to lower the cost of borrowing and improve affordability on the part of the SMMEs and Co-operatives. The return on investment on the grant component can be measured through developmental impact (i.e jobs facilitated, contribution of small enterprises to tax revenue, inclusion of targeted groups, contribution to economic transformation and growth). With regards to small enterprises with predictable cash flows patterns, pure loans can be advanced to them.

The World Bank has published a comprehensive analysis of the various funding mechanisms available to SMMEs . DSBD will build upon this by developing a single government-wide portal which will direct SMMEs to the most appropriate funding programs.

4.5 Business Develop Support (BDS) [45]

Although the development of the BDS sector is strictly speaking not part of the access to finance policy and requires a policy and implementation plan dedicated to BDS, it is mentioned here because aspects of BDS are critical to the access and beneficial use of financial services, particularly access to finance. The section is not intended to be a complete description of BDS development, but rather of those elements of BDS most pertinent to access to finance.

It is generally recognised that the first three to five years of a new business are its most difficult and risky. While, for various reasons, many start-ups typically go it alone during this early phase of their existence, evidence shows that small and medium-sized enterprises that receive Business Development Support (BDS) which includes quality guidance and support from practitioners or advisors with specific expertise, knowledge, and skills early on in their lives reap significant benefits in terms of their early survival, later growth and development.

The BDS ecosystem in South Africa comprises of various role players such as Development Finance Institutions, incubators, government institutions, corporates, Centre for Entrepreneurships, Business Advisors and others. In light of the growing unemployment rate, the small business sector should onboard unemployed Accounting and Business Management graduates to render BDS services under close supervision to small enterprises more especially those operating in underserved and unserved areas (Townships and Rural) in order to increase reach and impact.

[43] Annual Review of Small Business and Co-operatives in South Africa, 2016/17. [44] Mapping of Access to Capital for Early Stage SMMES in South Africa, 2019. [45] BDS is defined as services that improve the performance of the enterprise, its access to markets, and its ability to compete. Included in the scope of BDS is a range of business services

This has the potential of creating a good quality pipeline of investible small enterprises as is the case with the BDS provided by Nilepreneurs (Box1).

Box 2: Supporting SMMEs Through Appropriate BDS (Nilepreneurs)
NilePreneurs is an Egypt national initiative funded by the Central Bank of Egypt and the Egyptian Banking Sector. NilePreneurs has been supporting Egypt startups and SMEs in the domains of manufacturing, agriculture, and digital transformation since 2019 through applying different innovation instruments. The initiative was first piloted at Nile University and has expanded to 4 other universities and continues to grow.

The initiative provides advisory support services, and implementable financial and non-financial solutions to improve the entrepreneurial environment and help SMEs. NilePreneurs has 5 pillars that target business needs, tackle existing business problems and give them innovative solutions. These are:

- **NP Learn** which offers a learning journey for entrepreneurs through mentorships, idea hackathons and digital platform providing best practices from industry experts under 3 main programs.
- **NP Innovate** which supports startups and SMEs in pushing new innovations to the market by providing them with the right expertise in engineering to create new products or re-engineer others.
- **NP Incubate** which incubates innovative startups in strategic sectors in Egypt, in collaboration with a wide network in the entrepreneurial ecosystem. It supports these start-ups from ideation phase until commercialisation.
- **NP Compete** enables start-ups and SMMES to improve their market performance and achieve their growth goals through providing technical support and enabling innovation management and technology transfer.
- **Khalik Digital** allows SMEs to transform their current business models into advanced ones using digital technologies for creating new products and services as well as help them appear on various new channels.

Currently, small enterprises financial readiness is hampered by various factors such as gaps relating to entrepreneurship support structures, lack of coordination among business support programmes, limited tailoring of entrepreneurship support and other challenges relating to the development of entrepreneurship skills.

Access to finance is not useful if the SMMEs and Co-operatives cannot manage their finances or a business is not able to use borrowed funds productively. As such, access to finance should be intertwined with skills and access to markets, which jointly make up broader support environment . In other words, all businesses need to understand how to draw and live within a budget, to borrow responsibly, to avoid over-indebted and to make informed choices between different financial products[47].

A number of SMMEs and Co-operatives lack the requisite financial skills and struggle with financial planning and management. Poor bookkeeping or documentation is a major contributor to most SMMEs and Co-operatives not receiving funding from lenders. The absence of proper bookkeeping and documentation create serious problems to both SMMEs and lenders.

Good quality financial record keeping among SMMEs in South Africa is reported to be low[48]. This is partly attributable to the fact that SMMEs do not have the requisite accounting system to generate records, or they prefer to remain unknown to evade paying tax. The FinScope Survey revealed that about 46% of the small businesses keep financial records, and the balance is attributable to micro and informal businesses that do not keep records of their business transactions. This is a source of concern as it has the potential of depriving SMMEs an opportunity to access funding from financiers.

The majority of SMMEs and Co-operatives who are eligible for funding are still unable to secure finance they need due to the lack of financial readiness. This also means that they are unable to produce the documents that funders required to assess bankability and affordability for the purposes of approving funding applications. The documents typically include but are not limited to bank account detail, up to date management accounts, current financial statements, budgets and business plans.

In some instances, SMMEs and Co-operatives do not know who the funders are, what type of funding are available, or which of these fit their needs and the qualifying criteria are. Consequently, they applying for products that they do not match their needs. DSBD could play a role by making information available on what type of products (and classes of providers) are appropriate for which situation.

[46] The unseen sector: A report on the MSME opportunity in South Africa, 2018. [47] Strategy for Financial Literacy in Uganda, 2013. [48] Makina et al., 2015, Financial Access and SME Size in South Africa, 2015

There is a need to deepen financial literacy by improving synergies between business support institutions such as **Seda** and other Business Development Service providers with a view to promote financial education to SMMEs and Co-operatives. **Seda** and other Business Development Service providers should institutionalise the practice of assisting SMMEs and Co-operatives with pre-funding support (compliance, directing small businesses to the relevant financiers, matching funding to business needs etc).

The pre-funding support will assist in ensuring that the potential funding applicants are made aware of the information requirement of various financiers throughout the entire application process up to the approval stage.

Prohibitive requirements where these are found should be addressed with the relevant regulators and financial institutions[49] should assist by encouraging SMMEs to open business accounts by creating more seamless account opening process. Financial literacy should be offered by financial institutions as a value-added service linked to a business account package. A South Africa Financial Literacy Strategy should be developed to curb or reduce financial illiteracy. The DSBD and Department of Basic Education should work together to ensure that business management is integrated into the school curriculum.

BDS services are particularly important in addressing some of the issues faced by youth entrepreneurs. As the youth is hardest hit by unemployment, with 64 per cent of those aged 15–24, and 42 per cent of those aged 25–34 unemployed, youth entrepreneurs should be equipped to start and run their enterprises. Some of the issues that the youth face more than other groups is a lack of knowledge about business in general and how to go about structuring a business plan. Enhancing the school curriculum would be a good start, but BDS providers should be encouraged to focus on youth outreach programs through basic business literacy programs. Mentorship programs, especially during the initial few years, would be welcome additions to the support for youth entrepreneurs.

4.6 De-risking SMMEs and Co-operatives finance

(a). Partial credit gurantee scheme

Partial credit guarantee schemes (CGS) are aimed at providing credit providers with some cover in the case of loan defaults for those transactions covered under such a scheme.

In South Africa the Khula Credit Guarantee (KCG) Scheme was established in 1987 to provide indemnity to enable SMMEs and Co-operatives to establish, expand or acquire new or existing businesses in circumstances where they would not, without the support of an indemnity cover, qualify for such financing in terms of the participating financial institution's SMME lending criteria. KCG assists SMMEs and Co-operatives to obtain financing from financial institutions namely commercial banks, non-bank financial institutions, corporates with Enterprise and Supplier Development (ESD) programmes and other lenders of incidental credit. KCG addresses the market failure emanating from lack of funding by commercial banks by providing commercial lenders a guarantee in the case of loan defaults for loans made to qualifying SMMEs in the process making lending to small businesses less risky for creditors. KCG increase access and provision of finance to SMMEs and Co-operatives which are perceived to be high risk and not ordinarily qualify for finance from commercial banks.

A diagnostic review of the scheme was conducted by the World Bank. To date, **sefa** and KCG management team have been working towards implementing some of the recommendations from the diagnostic to improve the operations of the scheme.

The DSBD will continue to support the implementation of the KCG diagnostic recommendations which include but not limited to stop loss mechanism, risk based pricing structure, clearly defined claim payout process, diversification of the product range and industries. Following the implementation of some of the recommendations of the diagnostic review, the KCG portfolio performance since inception in terms of taken ups has increased to R1.9 billion. It is recommended that these efforts continue and that consideration is given to the implementation of the remaining World Bank recommendations. The DSBD and **sefa** will continue to solicit funding to re-capitalise the scheme from both the national government as well as international DFI partners in order to ramp up utilisation of the KCG.

(b). Movable asset registry

As mentioned above, SMMEs often lack sufficient fixed assets to offer as collateral to lenders, but may well have movable assets that could be offered and that will increase SMMEs availability to access finance. Some developing countries have adopted such an arrangement and have achieved significant success, for example Ghana, Zambia, Malawi and Nigeria .

In 2015, the World Bank in an effort to assist the SA government in developing a credit infrastructure that supports SMMEs conducted a diagnostic study to analyse how the use of a modern centralised collateral registry would be effected in South Africa and what legal framework would be required should such a reform be introduced. The diagnostic found that there is merit for a secured transaction reform as this had a potential to increase funding to SMMEs.

It is recommended that this effort is prioritised and that DSBD will drive efforts towards establishing a movable asset collateral registry in South Africa. To push this agenda item forward, DSBD will hold extensive stakeholder consultation with all credit providers in order to establish alignment between industry and policy makers and identify an roadmap for the introduction of this mechanism. This will feed to the development of a law to support implementation of the movable casset registry as well as the establishment of the operational infrastructure for such a scheme.

4.7 Establishing a simplified business registration and legal processes for winding up SMMEs

As part of the natural life-cycle of business, some enterprises will be in a position where business processes have to be legally terminated. Legal processes for winding up businesses are quite costly, complex and can result in some SMMEs and their creditors being disadvantaged. It is therefore recommended that South Africa, as it is the case in some other jurisdictions, consider the establishment of a simplified and more affordable legal processes to deal with the winding up of SMME business operations. This will be to the benefit of both the business owners and creditors, as an expedited and less costly process will result in reduced resource wastage.

As part of this review, the readmission of owners (directors) of wound-up SMMEs should be considered as well. The nature of SMMEs is such that the incidence of business failure is higher than for corporates, so this factor should be taken into consideration so that genuine entrepreneurs are not unnecessarily excluded from pursuing business opportunities.

4.8 Credit Information systems for small businesses

There is a need for the development of dedicated SMMEs and Co-operatives credit information systems, models and risk assessment tools in order to make finance accessible to SMMEs and Co-operatives. Development Finance Institutions should align SMMEs and Co-operatives risk assessment and credit models with their developmental mandate.

The industry, through the business credit information project spearheaded by SACRRA have started an initiative aimed at collecting business data to bridge the gap which currently exists in the sector. This project though has not received much traction since its implementation due to lack of funding. The sector through closed loop initiatives has started to explore initiatives of sharing SMME data including alternative types of information for risk assessment purposes. This indicates a need from the credit providers to use other types of data particularly when assessing SMMEs. Initiatives in this regard will need to be synthesised and coordinated to ensure that one common solution with support from all stakeholders is adopted and implemented.

The National Credit Regulator (NCR), with the support of the World Bank, is implementing an alternative data project as it was done in Chile (Box 3), which explores ways in which alternative data can be used to advance lending to unbanked segments. This is a particularly important project for SMMEs, who as noted earlier in the document, predominately use personal accounts to lend for business purposes.

Box 3: Using Alternative Data for Credit Scoring (MSME scores in Chile)

Equifax Chile launched the Predictor Inclusion Score, a risk score derived from encrypted mobile usage data, in February 2017. When Equifax receives a credit inquiry from an unbanked person who may work for a microenterprise or small business, it checks its traditional credit database and if no record is found, it then (with consumer consent) queries the telecommunications database using the mobile number for matching. Equifax returns a score on exact cell phone number matches, calibrated to a credit score. The score allows retailers and financial institutions to evaluate financial services requests from microenterprise and small business owners, many of whom lack traditional credit and financial data.

In addition to telecommunications data, Equifax is developing analytical tools based on socio-economic relationships, retail and agricultural data to supplement traditional credit data, providing new insights on this segment that allow financial institutions to make differentiated credit offers to microenterprise and small business owners whom they were previously unable to evaluate for credit purposes.

DSBD will partner with and support SACRRA, NCR and other bodies exploring SMME credit reporting with a view to develop a well coordinated holistic solution, serving the whole industry and where adequate provision has been made for the inclusion of alternative data to inform credit decisions, e.g. digital payments data made and received by SMMEs.

BDS services should assist SMMEs to accurately record and use sufficient data on their business transactions to enable the enterprises to be accurately informed about their financial status. This in turn will assist credit providers to accurately assess the risk profiles of the enterprises.

4.9 Easing small businesses cash flow constraints through timely payments and invoice factoring

The late payments of invoices submitted by SMMEs to larger clients, be they government Departments or private sector, is a significant drag on the working capital of small businesses which may already be in precarious financial circumstances.

National Treasury has issued Treasury Regulation 8.2.3 which provides that "Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement". However, this currently does not carry the force of law and it is an unfortunate reality that many government Departments routinely exceed the prescribed 30 day payment period. To encourage further compliance, National Treasury has issued Treasury Instruction Note Number 34 which requires all government Departments to submit exception reports detailing the number of invoices remaining unpaid after 30 days and the reasons thereof. Similarly, in the private sector large clients will often force smaller suppliers to discount their invoices in return for shorter payment terms. From a policy perspective, DSBD, should work towards codifying regulations aimed at ensuring timely payment of invoices to small businesses into law.

DSBD will seek to promote a liquid and transparent market for discounted invoices. South Africa currently has an active invoice factoring market serviced mostly by commercial banks and non-bank private lenders. This however remains out of reach for most SMMEs due to limitations on the type of invoices and invoiced businesses that are eligible for factoring. DSBD will work with the industry to enable widely-available invoice-backed liquidity to SMMEs at scale.

4.10 Affordable and appropriate insurance for SMMEs including Co-operatives

South African SMMEs have significant insurable risks that represent a preventable cause for the demise of many businesses. This is particularly true for agri-based SMMEs in light of climate change and its effect on weather patterns.

Entrepreneurs consistently cite high cost of premiums and lack of knowledge about risks and insurance products as reasons for low insurance penetration. It is thus clear that there is a misalignment between the demands of the SMME market and the products and services provided by the insurance industry. It is proposed that DSBD facilitate a comprehensive demand side study in order to inform both the insurance industry as well as policy makers with in-depth insights into the insurance needs of the SMME market. DSBD should then partner with ASISA, SAIA and SASRIA to assist the industry in developing SMME focused products, distribution channels and consumer education strategies.

4.11 Structure of the SMME Access to Finance Market

In conjunction with National Treasury and the financial regulators, DSBD should monitor the effectiveness of the financial service structures in addressing the SMME access to finance needs. In particular, the following will be investigated:

- Ensuring that the classes of access to finance credit providers are sufficient to cover the entire SMME sector. The factors that will be taken into account are the capital adequacy requirements of the Basel models and whether a new class of bank with limited functionality (and hence risk) with lower Basel compliance (eg Basel II) can assist in improving access to finance at reasonable cost without unnecessarily increasing systemic risk.
- Ensuring a full DFI for the SMME sector, ideally by repositioning **sefa** to play the role of market maker, infrastructure provider and specialist financial support functions more explicitly, thereby enabling other FSPs to deal directly with SMMEs in a more efficient and beneficial manner. This will include the management of the partial credit guarantee scheme, the management of the start-up SME Fund mentioned earlier, coordinating the enrichment of the SMME credit information systems, actively participating in the movable asset registry and providing funding in a coordinated and structured manner to FSPs in the SMME access to finance sector.
- Considering the incorporation of the Co-operative Banking Development Agency (CBDA) into **sefa**. If feasible, this could improve support for the development of Co-operative financial institutions, including the funding of such institutions.
- **Sefa, seda** and CBDA will enable support for financial intermediaries in the SMME acces to finance space.

4.12 Informal SMMEs and Access to Finance

As mentioned, the majority of SMMEs in South Africa operate in the informal space. Such SMMEs are limited in terms of their ability to grow and contribute more meaningfully to GDP. It is also not realistic to expect all such SMMEs to move to full formality. Rather, a pathway to increased formality through financial and economic inclusion will be pursued. DSBD will play a key coordinating role in this, following the below mentioned broad policy interventions:

- Increase access to finance for informal businesses by working with National Treasury and the Financial Intelligence Centre to provide enabling guidelines to recognise informal SMMEs as enterprises in the financial system, without the burden of full formalisation. In effect, a tiered approach to recognising SMMES will be pursued.
- Improve the ability to uniquely identify informal SMMEs on a voluntary basis, working with CIPC and other authorities to establish a simple yet verifiable identification system. Such a system could be a prerequisite for all governmental support but should not enable SARS to levy taxes simply because of a basic registration. This will improve access and also render government assistance more efficient.
- Include SMMEs run by identifiable migrants in this approach. In other words, if the business owner can be legally identified, such enterprise should be included in the efforts mentioned above.
- Include identifiable SMMEs in the alternative data system for credit assessment, specifically by including digital payments data from such enterprises.

4.13 Create accessible funding environment for targeted groups

Access to finance for targeted groups (Youth, Women, Persons with disabilities) is very low. The targeted groups should be provided with the necessary funding support to equip them to start and run businesses, this will assist the targeted groups to meaningfully participate in all economic activities, own productive assets and create opportunities for self employment and employment of others. The Department of Small Business Development has designed and implemented funding instruments for persons with disabilities and youth (Amavulandlela, Youth Challenge Fund). There is no dedicated funding instrument(s) for women owned small enterprises. It is proposed that a Women Enterprise Fund be established to cater for small enterprises owned by women.

The role players should ensure that there is a meaningful participation of enterprises owned by targeted groups (Youth, Women, Persons with disabilities) by constantly engaging with organisation representing them to ensure that there is alignment of demand and supply of support programmes.

4.14 Monitoring of the SMME Access to Finance Market

The MEL mechanisms for the program as a whole are described in section 5. A complementary function is to monitor the scope of service provisioning by all FSPs, including Fintechs. This will allow DSBD to assess what needs in the small business sector are not being met or are being met inadequately, enabling DSBD to inform small businesse as to what is available an can be used for what purpose. This monitoring will also enable DSBD to interact with policymakers and financial regulators to address issues of concern in the market. The use of a regularly conducted demand-side survey will be one of the tools for this monitoring function.

4.15 Incorporating Digital Financial Service Provisioning in SMME and Co-operative Access to Finance

Digital financial services (DFS) are playing an increasing role in financial service provisioning in South Africa, as it is elsewhere in the world. While such financial services, either in the form of Fintech services or digital services offered by established FSPs, can play a major role in increasing access to financial services including finance, there are also significant risks involved in DFS.

DSBD will play a key role in monitoring such services and ensure that the financial regulatory authorities are aware of the services, that adequate data is available to assess the market presence and penetration of the services and that any concerns regarding the market conduct of such providers are identified and referred to the FSCA. Where necessary, DSBD in conjunction with regulatory authorities, should initiate steps to ensure that DFS are provided in a fair and transparent manner and that such services meet identified needs in the SMME sector.

4.16 Improve Microfinance Institutions capacity to deliver sustainable financial solutions

The Microfinance Institutions are operating in a difficult environment that impact negatively on the institutions ability to provide viable financial services to their clients. The issues that are hampering the performance of the microfinance sector include but are not limited to a serious shortage of skilled individuals who are experienced in microenterprise lending methodologies and global best practices for the sector, lack of patient capital from donors or financiers causing sustainability issues, managerial and operational capacity issues of the DMFIs, high business discontinuance rate, limited reach and impact due to their small number (currently less than five: Small Enterprise Foundation, Phakamani Foundation, Siyakhula Microfinance Institutions, Get Ready Investment Holdings and Akanani Finance Company).

4.17 Implementation of a Movable Asset Collateral Registry

The immovable collateral required by various financiers is not aligned with the asset composition of small enterprises. To address this matter and unlock funding to the SMME sector, a movable asset collateral registry is required. DSBD should conduct comprehensive stakeholder engagement aimed at establishing alignment around the requirements for and implementation of a movable asset collateral registry.

5. POLICY TO IMPLEMENTATION

To realise the policy objectives, DSBD will collaborate with relevant sector role players across the private and public sectors to coordinate public and private sectors support with a view to gain consensus on key access to finance issues to be addressed. This coordination forum will take form through envisaged SMME working group which will be established through the National Treasury's Financial Inclusion Sub-Working Group and will at a minimum, comprise of SMMEs and co-operatives representatives, development finance institutions, academia, FSP representatives, industry bodies such as SABTIA, Business Chambers, BASA, DMA, MFSA and SAVCA as well as business accelerators, incubators and business development service providers. Chaired by the DSBD the Forum will oversee the implementation of the policy, use the M&L information to make adjustments to the program.

5.1 Monitoring, Evaluation and Learning (MEL)

Funding interventions should constantly be evaluated for their effectiveness with a view to scale up those programmes that are performing well and change/ terminate those that do not perform well. Currently, there is no uniform and consistent approach to Monitoring, Evaluation and Learning on funding support interventions to SMMEs and Co-operatives in the country. There should be clear set of uniform indicators or measures to assess the performance of the funding initiatives as well as their impact on SMMEs and Co-operatives.

DSBD should reduce the extent of data fragmentation by determining data needs, and then work with the regulatory authorities (SARB, FSCA and NCR) to ensure that such data points are collected and are available to DSBD. Developing a common reporting framework for adoption by both the private and public sector financiers to measure the supply of SMMEs and Co-operatives finance and to identify areas that require special attention and development.

A continuously monitoring and assessment mechanism of the funding programmes is needed in order to inform and strengthen programme design and delivery of funding support programmes. To effectively implement the Funding Policy, the Monitoring and Evaluation system as well as an implementation plan will be developed.

6. THE WAY FORWARD

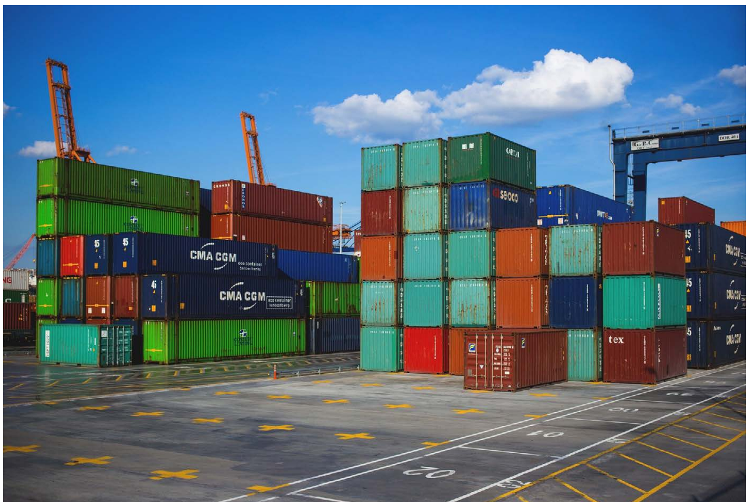
This document is a revision of the first Draft SMMEs and Co-operatives Funding Policy which was drafted by the DSBD in the 2021/22 financial year and released for public comments through a series of consultation sessions held in April 2022. The document incorporates comments from the consultation sessions, outlines governments objectives towards strengthening the provision of finance towards the SMME and Co-operative sector and proposes an approach to the implementation of the policy objectives.

The revised SMMEs and Co-operatives Funding Policy will be presented to the the internal DSBD governance structures, Economic Sectors, Investment, Employment and Infrastructure Development (ESIEID) Cluster and Cabinet for noting and approval and gazetted for public comments for a minimum duration of 30 days. It is envisioned that this process will be completed by 31 March 2022.

To effectively implement the SMMEs and Co-operatives Funding Policy, the proposals to be enclosed in the final Policy will be translated into an implementation plan which will outline the steps that need to be taken to achieve the Policy objectives and provide tools to track progress and measure the impact of the Policy. It is expected that all role players will come on board and actively participate in the process of setting high level outcomes, outputs and associated impact indicators to be used in tracking the implementation of the SMMEs and Co-operatives Funding Policy. DSBD will in collaboration with other government Departments, regulators and industry representative bodies establish the coordination forum in 2024, which will include

- A SMME Access to Finance Working Group;
- A Co-operatives Access to Finance Working Group.

A SMME and Co-operatives Access to Finance Monitoring and Evaluation framework will also be developed in 2024. The realisation of this policies objectives will also be supported by additional research papers that focus on the identified priority areas.



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ANNEXURE A: DRAFT IMPLEMENTATION PLAN

Outcome	Outputs	Activities	Priority High: 1 to 2 years Medium: 2.1 to 5 years Low: 5.1 to 10 years	Identified risks and mitigating measures	Responsible Institutions	Timeline	Link to National Priorities
	Improve coordination in the SMME and Co-operative access to finance ecosystem	• Establish a National Coordination Forum. • Conduct educational workshops on the implementation of the SMMEs and Co-operatives Funding Policy. • Create appropriate coordination platforms (crowd funding platforms, shared information portals, workstreams etc) for SMME access to finance ecosystem. • Establish Project Team made up of DTIC and DSBD officials to fast-track changes to the ESD codes. • Establish SMME Access to Finance workstream • Establish Small Business Advisory Body to serve as a voice of the SMME and Co-operative sector.	High	**Risk:** In adequate buy in from role players. **Mitigation measure:** Involve all role players in the conceptualisation and execution phases.	**Lead:** DSBD **Support:** National Treasury, BASA, BBBEE Commission, DTIC, IFWG, NCR, FSCA, FIC, DSD, SARS, FSCA, CBDA	1 to 2 years	ISPESE, NISED Strategic Framework
	Database of small businesses	• Incrementally build a comprehensive database of SMMEs including but not limited to business owner, company profile, compliance status and financial data and information on payment behaviour. • Role players agree on a common definition of an SMME. • Municipalities to collect and share information about SMMEs and Co-operatives falling within their jurisdiction. • DFIs, Banks and other financiers to share information about the SMMEs and Co-operatives supported for inclusion into the consolidated database.	High	**Risk:** Absence of reliable database of SMMEs and Co-operatives making planning difficult. **Mitigation measure:** DSBD and role players to incrementally build a database of SMMEs and Co-operatives.	**Lead:** DSBD **Support:** DTIC, CIPC, SAITA, DFIs, Municipalities, BASA, DFIs	1 to 2 years	NISED Master Strategic Framework

Outcome	Outputs	Activities	Priority High: 1 to 2 years Medium: 2.1 to 5 years Low: 5.1 to 10 years	Identified risks and mitigating measures	Responsible Institutions	Timeline	Link to National Priorities
	Improve the provision of start-up capital	• Advocate for the reduction in corporate tax for tech start-ups to incentivise venture capital flows to the SMME sector. • Design a central fund to be capitalised through underspending on Enterprise Development component of the ESD allocation (3% NOPAT). • Design other funding structures to be funded through public and private sector partnerships for the benefit of the SMME sector.	High	**Risk:** Limited availability of start-up capital in the SMME sector. **Mitigation measure:** Public Private sector Partnerships	**Lead:** DSBD **Support:** DTIC, DT, DSI, DFFE, DALRRD, DFIs, Banks, Venture Capitalists, Philanthropists.	1 to 2 years	NDP and ERRP
	Targeted funding instruments for SMMEs and Co-operatives	• Partner with credible institutions through formal partnerships to share risks and rewards and stretch the rand. • Conduct research on innovative funding solutions to implement evidence-based programme design. • Intensify Pitch for Funding initiatives in Townships and Rural areas. • Popularise common application and business plan templates. • Institutionalise purchase order finance and cession agreements. • Popularise debt restructuring options. • Advocate for the simplification of the application processes and adoption of cash flow-based lending by financiers. • Develop a referral framework for misdirected applications in partnership with other financiers. • Establish Sovereign Wealth Fund for the SMME sector and Fund of Funds using underspending on ESD allocation for the Enterprise Development component.	High	**Risk:** Funding support programmes not aligned to the needs of the SMMEs and Co-operatives. **Mitigation measure:** Continuous engagement with role players such as SMMEs and Co-operatives as well as organisations representing them with a view to establish their funding needs.	**Lead:** DSBD **Support:** DTIC, DFIs, BASA, DMA, SAITA, Business Chambers, Academia, FASA, Municipalities, SMMEs, Co-operatives	1 to 2 years	ERRP, National Development Plan, White Paper on National Strategy for the Development and Promotion the promotion of small business in South Africa.

Outcome	Outputs	Activities	Priority High: 1 to 2 years Medium: 2.1 to 5 years Low: 5.1 to 10 years	Identified risks and mitigating measures	Responsible Institutions	Timeline	Link to National Priorities
	Improve Business Development Support	• Implement the Incubation and Business Development Services Policy. • Increase the number of Incubators and digital hubs to cover underserved and unserved areas such as townships and rural areas. • Advocate for the inclusion of Financial Literacy in the school curriculum. • Use unemployed commercial stream graduates to render BDS to SMMEs and Co-operatives under supervision.	Medium	**Risk:** Limited access to Business Development Support (Compliance, Prefunding support, Financial readiness etc). **Mitigation Measure:** Implement the Incubation and Business Development Services Policy.	**Lead: Seda** **Support:** SABTIA, BDS Providers, Department of Higher Education and Training. Academia, Accounting Professional Bodies	1 to 2 years	IBDS Policy
	De-risking SMMEs finance through credit guarantee	• Review Khula Credit Guarantee to make it more effective and responsive. • Recapitalise Khula Credit Guarantee. • Diversify into other sectors such as Green Economy and Essential oils.	High	**Risk:** • Negative perception of financiers about small businesses. • Low utilisation of the Guarantee Scheme by commercial banks • Exclusion of KCG from the Bounce Back Scheme. **Mitigation measure:** • Reconfigure Khula Credit Guarantee to make it more responsive. • Build strategic partnerships with BASA to promote the Scheme. • Find alignment with National Treasury regarding the participation of KCG in the Bounce Back Scheme.	**Lead: sefa** **Support:** DFFE, National Treasury, World Bank, DSBD, BASA.	1 to 2 years	South African Financial Inclusion Policy, NISED Strategic Framework, NDP and ERRP

Outcome	Outputs	Activities	Priority High: 1 to 2 years Medium: 2.1 to 5 years Low: 5.1 to 10 years	Identified risks and mitigating measures	Responsible Institutions	Timeline	Link to National Priorities
	Implementation of a movable asset collateral registry	• Constitute inter-Ministerial steering Committee. • Conduct sensitisation and knowledge promotion activities for key stakeholders to secure buy in • Revise and Update 2015 Diagnostic report on secured transactions in movable asset in South Africa. • Develop and adopt a road map for reforming the legal and institutional frameworks for modernising the movable asset financing regime in South Africa including the establishment of a collateral registry. • Develop and implement an action plan for the design and deployment of a modern, electronic movable asset collateral registry. • Deploy a modern electronic movable asset collateral registry (timeline for this will be 2025).	High	**Risk:** Lack of immovable assets preferred by lenders as collateral limits SMME's access to finance. **Mitigation measure:** Develop enabling legal and institutional frameworks for movable asset financing. Implement the South African movable assets collateral registry.	**Lead:** DSBD **Support:** NT, World Bank(International Finance Corporation), BASA, IFC, DoJ & CD, NCR, DTIC, SECO.	1 to 2 years	South Africa Financial Inclusion Policy, NISED, NDP and ERRP
	Establish a simplified business registration and legal processes for winding up SMMEs	• Review of the Companies Act. • Establishment of a separate winding up processes for SMMEs in different stages of the business life cycle.	Medium	**Risk:** No buy-in from industry and the legal fraternity. **Mitigating Measures:** Extensive consultation with relevant stakeholders in the development of a concept paper and agreeing on standard definitions.	**Lead:** CIPC, SARS, High Court of South Africa, Law Society **Support:** DSBD, NT, DFI's, BASA	3 to 5 Years	National Business Act

Outcome	Outputs	Activities	Priority High: 1 to 2 years Medium: 2.1 to 5 years Low: 5.1 to 10 years	Identified risks and mitigating measures	Responsible Institutions	Timeline	Link to National Priorities
	Credit information systems for small businesses	• Expand credit information sharing through onboarding of small credit providers (including Co-operatives). • Promote the adoption and usage of alternative data. • Support business credit reporting.	High	**Risk:** Absence of credit information on SMMEs especially Small and Micro enterprises limits access to finance their growth and development. **Mitigation measure:** Enhance the credit reporting system to enable small credit providers (including Co-operatives) to report information to credit bureaus and pilot data-based lending products. Promote digitization and reporting of information by small credit providers (including cooperatives).	**Lead:** NCR **Support:** NT, DSBD, World Bank, SARB, SECO, BASA, SACRRA	1 to 2 years	South African Financial Inclusion Policy, NISED Master Plan, NDP and ERRP
	Easing small businesses cash flow constraints through timely payments and invoice factoring	• Develop the South African National Late Payment Strategy and Implementation Plan. • Lobby AGSA to audit and raise findings on compliance to Treasury Regulation 8.2.3.	High	**Risk:** Lack of access to finance to sustain SMME and Co-operatives growth. **Mitigation measure:** Promotion of innovative asset-based (cashflow) lending including supply chain financing.	**Lead:** PSC **Support:** DSBD, DPSA, DPME, NT, World Bank, AGSA, PSC, Municipalities, Private sector institutions.	1 to 2 years	NDP and ERRP, NISED
	Affordable and appropriate insurance for small businesses	• Promote insurance policies as safeguards to protect businesses against unforeseen circumstances. • Together with the insurance sector develop affordable and appropriate insurance products for small businesses. • Conduct periodic insurance needs analysis for SMMEs and Co-operatives. • Conduct educational workshops about small businesses insurance. • Heighten awareness on how to use the insurance policies as security for loans.	High	**Risk:** Business closure and loss of capital invested in small businesses in the event of disasters, theft or fire. **Mitigation measure:** Insurers to perform demand and supply-side research and implement evidence-based insurance products	**Lead:** South African Insurance Association **Support:** DSBD, NT, Business Chambers, SASRIA, SMMEs and Co-operatives, SAITA	1 to 2 years	Financial Inclusion Policy

Outcome	Outputs	Activities	Priority High: 1 to 2 years Medium: 2.1 to 5 years Low: 5.1 to 10 years	Identified risks and mitigating measures	Responsible Institutions	Timeline	Link to National Priorities
	Improve and monitor the SMME and Co-operatives access to finance market	• Strengthen monitoring and evaluation by requesting financiers to report on granular details about their funding interventions. • Track the supply and demand for SMME and Co-operatives Funding. • Raise awareness about SMMEs and Co-operatives goods and services that are in demand.	High	**Risk:** Fragmented reporting on funding activities for SMMEs and Co-operatives on the side of financiers. **Mitigation:** All funding interventions must annually be reported to a central place preferably DSBD and be evaluated for quality, relevance and impact every three years.	**Lead:** DSBD **Support:** DPME, Private sector, SARB, DFIs, BASA	1 to 2 years	High
	Improve informal SMMEs access to the finance ecosystem	• In partnership with the banking sector roll out workshops outlining the benefits of separating personal bank account from business account. • Develop evidence based financial and non-financial support programmes for the informal sector. • Advocate with relevant financial institutions for relaxation of the stringent requirements for accessing financial support. • Create strategic partnerships with municipalities in alignment with the revised DDM Ecosystem Facilitation Model. • Engage micro-finance institutions to conduct a comprehensive review of micro-lending practices. • Provision of incentives that will increase formalised savings and investments within the informal business sector (e.g stokvels and burial societies). • Formalising banking services to the informal business sector through cell phones and other related technology. • Review of the National Informal Business Upliftment Strategy (NIBUS)	Medium	**Risk:** Lack of proper coordination pertaining to funding activities at local government level. **Mitigation measure:** Implement funding support interventions through the District Development Model.	**Lead:** SAITA, other organisation representing the informal sector **Support:** DSBD, Seda DFIs, BASA, FSCA, NT.	2 to 5 years	NIBUS, South African Financial Inclusion Policy

Outcome	Outputs	Activities	Priority High: 1 to 2 years Medium: 2.1 to 5 years Low: 5.1 to 10 years	Identified risks and mitigating measures	Responsible Institutions	Timeline	Link to National Priorities
	Incorporate digital financial services in SMME access to finance	• Digitise funding application processes to improve turnaround times. • Conduct educational workshops on innovative digital payments services.	High	**Risks:** Low adoption of technology by SMMEs and Co-operatives. **Mitigating Measures:** Promote fintech solutions to the SMME and Co-operative sector in partnership with IFWG.	**Lead:** IFWG **Support:** SARB, NCR, Competition Commission, National Treasury, FSCA, SARS, FIC	1 to 2 years	Financial Inclusion Policy
	Create accessible funding environment for targeted groups (Youth, Women, Persons with disabilities).	• Ensure meaningful participation of enterprises owned by targeted groups in all funding interventions by constantly engaging with organisation representing them to align demand and supply of support programmes. • Raise awareness about available funding instruments through educational workshops with organisations representing designated groups and their members. • Prioritise the provision of pre and post investment support to designated groups. • Increase outreach initiatives.	Medium	**Risks:** Low uptake on SMMEs and Co-operatives funding support programmes by designated groups. **Mitigating Measures:** Establish partnership with organisations representing designated groups.	**Lead:** DWYPD **Support:** NYDA, DSBD, Blind SA, Deaf SA, Albinism Society of SA, NCPD	1 to 2 years	Women Financial Inclusion Framework, ERRP, 2019-24 MTSF
	Improve Development Microfinance Institutions capacity to deliver sustainable financial solutions	• Develop a network of micro-finance intermediaries to service microenterprises. • Build an IT platform that provides the operating framework for MFI's which micro entrepreneurs can access funding opportunities. • Prioritise allocation of patient capital to microfinance intermediaries for on-lending to microenterprises. • Advocate for the recognition and classification microfinance as a critical and scarce skill. • Develop funding support interventions focusing on stokvels and burial societies.	High	**Risks:** Unsustainable Microfinance Institutions resulting in funding gaps in the informal and microenterprises more especially small enterprises operating in townships and rural areas. **Mitigating Measures:** Establish, capacitate and capitalise a new network of retail intermediaries to service the unserved and underserved market segment that is served by the Microfinance Institutions.	**Lead:** DSBD **Support:** DMA, SEF, PF, SMI, GIH, AFC, sefa, NASASA, DTIC, National Treasury	1 to 2 years	

Outcome	Outputs	Activities	Priority High: 1 to 2 years Medium: 2.1 to 5 years Low: 5.1 to 10 years	Identified risks and mitigating measures	Responsible Institutions	Timeline	Link to National Priorities
	Improve Co-operatives Access to Finance	• Conduct demand side research to establish Co-operatives funding needs. • Develop strategies for the promotion and positioning Co-operative Banks as alternative sources of funding for Co-operatives. • Implement financing models focusing on preformation up to the exit stage of the Co-operatives.	High	**Risks:** Mismatch between demand and supply of funding products to Co-operative sector. **Mitigating Measures:** Constant engagements with role players in the Co-operative sector to inform evidence-based programme design.	**Lead:** DSBD **Support:** NT, CIPC, CBDA, DFI's	1 to 2 years	Co-operatives Banking Sector Strategy.