The Impact of Section 12J Venture Capital Companies' Regime on Small and Medium Enterprises in South Africa

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by

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To my wife and children, thank you for your love, encouragement and support. Thinking of you kept me going. I love you to bits.

The Lord God Almighty, I give you all the glory and honour. Thank you for the strength of mind and opportunity to get this postgraduate degree done. I cannot wait to see what you have in store for my life through this qualification and its learnings.

DEDICATION

I dedicate this mini-dissertation to my late daughter,

Mothusi Makhalemele:

“Although your smile I never got to see, neither did I get to hear your cries and laughs... the privilege of having held you in my arms - peaceful and still as you were - healed and assured me that you are both real and no more.”

ABSTRACT

This study sought to examine whether the use of tax incentives to boost investment into the SME sector is an effective policy for economic development. More specifically, the study focused on the Section 12J tax incentive of the Income Tax Act of South Africa, which underpins the current venture capital companies' (VCC) regime for this country. This VCC regime is aimed at addressing the challenge of lack of access to finance by SMEs, and it does so by incentivising venture capital investors to provide equity capital to qualifying SMEs. These SMEs are, in turn, expected to grow and help reduce the economic challenges of poverty and unemployment in South Africa.

A mixed methods research approach was adopted for this study. It was also inductive in nature, based on primary data collected from a survey of various stakeholders of the VCC regime using a convenience sampling method. The data variables of the study were based on factors relating to the impact that the VCC regime has had on SMEs in terms of financial performance and creation of decent employment.

The study concludes that the VCC regime has had a positive impact on the South African SME sector in terms of financial performance and creation of decent employment. As a result, the VCC regime has shown to be an effective tool for addressing various economic challenges, such as: lack of access to finance faced by SMEs, high failure rate of SME businesses, and poverty alleviation through provision of decent employment by SMEs. Thus, the resultant recommendation submitted in the study is that the VCC regime should as such be extended beyond its current sunset date in order to ensure the South African economy continues to enjoy the benefits that the regime has to offer.

KEYWORDS: SMEs, financial performance, job creation, decent employment, tax incentives, venture capital, access to finance, Section 12J, South Africa

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BER	Bureau for Economic Research
CIPC	Companies and Intellectual Property Commission
CSBP	Centre for Small Business Promotion
CSES	Centre for Strategy and Evaluation Services
DBSA	The Development Bank of Southern Africa
DEFIC	The Development Finance Centre
DTC	Davis Tax Committee
DTIC	The South African Department of Trade, Industry and Competition
ESVCLP	Early Stage Venture Capital Limited Partnership
ETI	Employment Tax Incentive
EU	European Union
EUR	European Union currency: Euro
G-20	The G20 is an international forum for the governments and central bank governors from 19 countries and the European Union.
GDP	Gross Domestic Product
Government	The South African Government
HMRC	Her Majesty’s Revenue and Customs
HR	Human Resource(s)
IDC	Industrial Development Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
LSEG	London Stock Exchange Group
NDP	National Development Plan
NPC	National Planning Commission
OECD	Organisation for Economic Co-operation and Development
RSA	Republic of South Africa
SARS	South African Revenue Services
SAVCA	Southern African Venture Capital and Private Equity Association
SEDA	Small Enterprise Development Agency
SBI	Small Business Institute
SME(s)	Small and Medium Enterprise(s)
StatsSA	Statistics South Africa
UK	United Kingdom
UKCES	United Kingdom Commission for Employment and Skills
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
VC	Venture Capital
VCC(s)	Venture Capital Company(ies)
ZAR	South African Rand

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Chapter 1 :
INTRODUCTION

1.1 Introduction

This chapter provides the background to the study, as well as a definition of the research problem, the research questions and objectives thereof. It also outlines the justification, significance, scope and limitations of the study.

1.2 Background of the Study

It is widely documented in literature that Small and Medium Enterprises (SMEs) play a critical role in promoting economic growth, employment creation and poverty alleviation in developed and developing economies (Hasheela, 2016; Dlova, 2017; Rungani & Potgieter, 2018). The consensus from these sources are that SMEs fulfil this role through acceleration of innovation, value addition by being flexible and quick to adapt to changing market demand and supply situations, diversifying economic activity and reaching areas of society that big corporations are either not keen or able to reach. Given this, countries across the globe have prioritised the creation of a conducive and enabling environment for growth and development of their SME sector.

Developing countries like South Africa cannot afford to neglect the SME sector and the possible benefits it has to offer. These benefits are particularly important considering that the South African economy currently has underwhelming growth prospects and alarming unemployment levels. According to the African Development Bank (AfDB), South Africa's real Gross Domestic Product (GDP) grew at an estimated 0.7% in 2019, down from 0.8% in 2018, and is projected to rise to 1.1% in 2020 and 1.8% in 2021 amid domestic and global downside risks. However, these projections did not consider the impact of coronavirus (COVID-19) global pandemic. According to the National Treasury (2020b), the Real GDP growth in South Africa is expected to plummet by 7.2% in 2020, and is now projected to only grow by 1.3% in 2021, due to the economic disruption led by the pandemic. This coupled with the high unemployment rate, which ranged between 21% and 29% for the past 11 years (2009 to 2019) (Statistics South Africa (StatsSA), 2019), makes the current economic situation rather grim. Taking into account the impact of COVID-19 pandemic, the unemployment rate in South Africa is now forecasted to increase from 29.7% in the fourth quarter 2019 to 34.5% by fourth quarter 2020 (Strauss, Isaacs & Passoni, 2020). The National Development Plan (NDP) envisions that by 2030, SMEs will contribute 60% to 80% to the GDP increase, and generate 90% of the 11 million new jobs in the country (National Planning Commission [NPC], 2011).

SMEs, however, continue to face challenges that hamper their profitability, survival and growth. According to the Bureau for Economic Research (BER) (BER, 2016), the most apparent challenges for SMEs in South Africa include access to finance and markets, poor infrastructure, labour laws, crime, skills shortages and inefficient bureaucracy. The challenge of access to finance has been identified specifically as the common key reason for the high SME failure rate in South Africa (BER, 2016; Hasheela, 2016; Dlova, 2017).

This study focuses on economic policy efforts targeted at addressing the challenge of access to finance faced by SMEs in South Africa in order for them to grow and thrive and, in turn, for the SMEs to fulfil the expectation of reducing unemployment. In particular, this study seeks to examine whether the use of tax incentives – specifically Section 12J tax incentive under the Income Tax Act – to boost investment into the SME sector is an effective policy for economic development.

1.2.1 Definition of Small and Medium Enterprises (SMEs)

There is currently no universally accepted definition of SMEs. The European Union and Work Bank both define SMEs in terms of thresholds pertaining to three elements (namely, number of employees, annual turnover and total value of assets) that enterprises ought to have in order to be regarded as SMEs (World Bank, 2019:19; European Commission, 2020). Similarly, the South African government defines SMEs based on the number of employees and annual turnover, but excludes the element of asset value (Republic of South Africa [RSA], 2019). As indicated in Table 1 below, all these three institutions also differ in terms of thresholds associated with each element.

The multiplicity of SME definitions make it difficult to benchmark the performance of SMEs, conduct comparative analysis across industries and economies, as well as evaluate various assertions about how much SMEs actually contribute to important aspects of the economy, such as employment (Small Business Institute [SBI], 2018).

Table 1 Definition of Small and Medium Enterprises: South Africa, World Bank and European Union standards

Institution	Indicators	Micro Enterprise	Small Enterprise	Medium Enterprise	Source
South African Government	Number of Employees	0 - 10	11 - 50	51 – 250	Republic of South Africa (2019:111)
	Total Assets (ZAR)	Not Applicable			
	Annual Sales (ZAR)	<20,000,000	20,000,000 - <80,000,000	80,000,000 – 220,000,000	
World Bank	Number of Employees	0 - 9	10 - 49	50 - 300	World Bank, (2019:19
	Total Assets (USD)	<100,000	100,000 - <3,000,000	3,000,000 – 15,000,000	
	Annual Sales (USD)	<100,000	100,000 - <3,000,000	3,000,000 – 15,000,000	
European Union	Number of Employees	0 - 9	10 - 49	50 - 249	European Commission (2020)
	Total Assets (EUR)	<2,000,000	2,00,000 - <10,000,000	10,000,000 – 43,000,000	
	Annual Sales (EUR)	<2,000,000	2,000,000 - <10,000,000	10,000,000 – 50,000,000	

Accordingly, the definition of SME adopted in this study is based on section 12J of the Income Tax Act of South Africa. This study will adopt the definition of SME as 'an enterprise (1) with assets having a book value no more than ZAR 50 million, unless the firm is a junior mining company in which case assets' book value must not exceed ZAR 500 million; (2) conducting any lawful business except those activities listed in the exclusion list in the table below; and (3) has a threshold of 50% shareholding for individuals with shares in a Section 12J venture capital company relating to such an enterprise'.

Table 2 List of Excluded Business Activities specified within section 12J

ID	SECTOR	SPECIFIC EXCLUSIONS
1	Immovable Property	Trade in immovable property, except to trade as a hotel keeper (includes bed and breakfast establishments).
2	Financial Service Activities	Offer financial service activities such as banking, insurance, money-lending and hire-purchase financing.
3	Financial or Advisory Services	Provide financial or advisory services, including legal, tax advisory, stock broking, management consulting, auditing, or accounting.
4	Gambling	Gambling operations including casinos or other games of chance.
5	Manufacturing	Business activities involved in manufacturing, buying or selling of liquor, tobacco products or arms and ammunition.

Source: Republic of South Africa (2020a:s12J)

1.2.2 Definition of Decent Employment

Oxfam (2015), International Labour Organisation (ILO) (2018) and Small Enterprise Development Agency (SEDA) (2019) all consider the reduction of unemployment as an imperative towards reduction of poverty and a critical means for achieving equitable, inclusive, and sustainable development. This is only possible if the reduction of unemployment is done through deliberate efforts for creating and preserving jobs that offer decent employment. According to the ILO (2020b), decent employment involves "opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity, and treatment for all women and men." This ILO definition of decent employment is as such concerned with the availability of employment in conditions of freedom, equity, security, and human dignity.

This study defines decent employment – which is a definition elicited from reports by Oxfam (2015), OECD (2016a; 2016b), ILO (2018; 2020b) collectively – as employment that (1) offers adequate earnings, skills development; job enrichment; job security; job permanence; income levels; job formality; productive and value-adding work; and due regard to appropriate labour relations practices, and as a result leads to reduction of poverty and inequality in society.

1.2.3 Incentives and SMEs

In order to effectively support national economic priorities such as reduction of unemployment, poverty and inequality, governments offer a variety of incentives aimed at stimulating and facilitating development of sustainable and competitive SMEs. Likewise, the South African Government offers an array of incentives for SMEs through institutions such as the Department of Trade, Industry and Competition (DTIC), Industrial Development Corporation (IDC), Department of Small Business Development (DSBD) and the South African Revenue Services (SARS) (Business Partners, 2020). For instance, incentives such as Business Process Services scheme, Automotive Investment Scheme, and Workplace Challenge Programme, are offered to support the development of commercially viable and sustainable SMEs through the provision of grants, subsidies or tax relief, thereby enabling these SMEs to create new and sustainable jobs (IDC, 2020, DTIC, 2020).

Similarly, the South African Government has implemented several tax incentives aimed at boosting growth and development of the SME sector, as well as the sector's ability to create and preserve jobs. According to the Davis Tax Committee (DTC) (2014), Makgalemele (2017) and Ssennyonjo (2019), key tax incentives in this regard include the following:

Employment Tax Incentive (ETI), which is aimed mainly at reducing the cost of employment for companies including SMEs, with specific focus on youth employment; Section 12H incentive, which provides an allowance for a tax deduction SMEs may claim – if they are paying for training or an apprenticeship – for any of their employees in terms of a registered learnership agreement; and Section 12J incentive, which attracts equity investment into the SME sector by providing equity investors with a tax deduction benefit when they invest into this sector for a set period.

Despite incentives being popular globally, tax incentives are also known to entail costs that may end up exceeding their benefits and considerably eroding the general tax base (UN, 2018). Such costs include revenue loss, low-economic efficiency, increased administrative and compliance costs, and excessive tax planning and tax evasion (UN, 2018; European Commission, 2018). Although the incentives mentioned above have yielded great benefits for the SME sector and the South African economy, they are not operating at their maximum potential within the SME sector (DTC, 2014; Makgalemele, 2017; Ssennyonjo, 2019). This is mainly because SMEs in South Africa generally do not have the capacity or capability to interpret, and internalise the specifications and requirements attached to these incentives, and SMEs find professional fees for outsourcing such expertise too expensive (DTI, 2014; Piek & Fintel, 2018; Ssennyonjo, 2019).

The Section 12J incentive has potential to help alleviate this challenge of underemployment of incentives. This is particularly the case because Section 12J introduces active involvement of the venture capital company (VCC) in the operations of qualifying SMEs, and these VCCs are understood to have the management expertise and technical knowledge necessary to make the most of available tax incentives (Yuan-Jun, 2014). As such, the burden of compliance to, and dealing with the complexities of Section 12J is on the VCC more than it is on the qualifying SMEs. This shift is a key driver that lends Section 12J unique relative to the tax incentive set up for the benefit of the SME sector in South Africa.

This study investigates the effectiveness of tax incentives as enabling policies for South African SMEs in their role towards economic development. In particular, it focuses on Section 12J as a tax incentive and investigates whether the applicable SMEs are progressively yielding the expected benefits: growth and creation of decent employment. It also aims to determine whether the incentive should be extended beyond its imminent sunset clause due to take effect in June 2021.

1.2.4 Section 12J Tax Incentive and the Venture Capital Regime in South Africa

The South African Government has acknowledged access to finance, particularly equity finance, as one of the fundamental challenges to the survival and growth of SMEs (SARS, 2020). It is for this reason that in 2009, it established a venture capital companies' (VCC) regime aimed at boosting investment into the SME sector. This VCC regime is underpinned by a tax incentive legislated through Section 12J of the Income Tax Act, which encourages equity investment into the SME sector (SARS, 2018).

Venture capital investments, as opposed to other forms of funding, afford several benefits to investee firms. The main benefit is that the VCC contributes risky capital, managerial competencies and mentoring to firms they invest in, which helps enhance operational efficiencies and to rapidly mature such firms into advanced stages of corporate development (Yuan-Jun, 2014; Colombo & Murtinu, 2016). Accordingly, the VCC regime can also be considered essential to opening up the VC market to SMEs in South Africa.

1.3 Problem Statement

The development of the SME sector is one of the avenues through which the issues of high unemployment rate, slow economic growth, poverty and inequality may be alleviated. However, enterprises in this sector experience several challenges one of which is access to finance.

The participation of VCCs in channelling equity capital into the SME sector is considered critical towards ensuring the survival and success of SMEs which, in turn, would help to reduce the high unemployment rate in South Africa. Accordingly, the government has established a VCC regime aimed at encouraging investment into SMEs through a tax incentive for investors provided for in Section 12J of the Income Tax Act.

The challenge with tax incentives are that they are costly to administer, monitor and protect from potential abuse. Additionally, if the anticipated benefits are not realised, it would be at the cost of foregone fiscal revenue and loss of trust in future tax incentives. This study seeks to assess whether the VCC regime has benefited the economy in terms of impact on qualifying SMEs from a perspective of financial performance and provision of decent employment.

1.3.1 Access to Finance and Financial Performance

SMEs require finance to fund their operations; the sources of finance are generally either debt-oriented or equity-oriented. Debt instruments, if secured by SMEs, are advantageous in that they provide funds without having to forgo some ownership to the providers of such funds. However, these financing options can be quite unattractive to SMEs because of the high cost of acquiring funds and the negative impact on the SMEs' cash flows, the issue of collateral required when acquiring a bank loan, and the failure of the providers of this kind of capital to provide the necessary skills (Gumbo, 2015; Hasheela, 2016; Dlova, 2017).

As an alternative to debt-oriented capital instruments, SMEs can explore the use of venture capital. The benefits here include the broader enablement that the VC management bring in terms of access to business and investor networks, and to finance beyond just venture equity capital. A general expectation from VCs is for the financial performance of the investee firms to improve significantly in light of operational efficiencies, management capabilities and access to markets afforded through the venture capital company (Colombo & Murtinu, 2016; Wang, Wu & Guomin, 2017). Thus, this study also assesses whether financial performance of SMEs improves as a result of venture capital investments and VCC involvement.

1.3.2 Creation and Preservation of Decent Employment

Developed countries have long viewed employment as an effective avenue for eradicating social exclusion and poverty and have done so through incentivising behaviour that facilitates social mobility by reducing tax burden on the targeted population with the aim of creating jobs (European Commission, 2018). This view underpins the South African Government's expectation of SMEs being a key source of employment and poverty eradication.

The ILO (2015) emphasises that policy makers must not neglect the net job creation effect of some policy interventions, and defines net job creation as the difference between the jobs created by new or existing enterprises and the jobs destroyed either through contraction of existing enterprises or through business closures. The concept of net job creation is particularly important for this study, considering that VCCs by nature tend to focus on improving the productivity and efficiency of their investee companies in order to maximise shareholder value (Yuan-Jun, 2014; Wang, Wu & Guomin, 2017). The possibility of the VCC regime yielding an insignificant net job creation, thus, cannot be ignored.

The ILO (2015) cautions against promoting SMEs because of their large contribution to employment, without considering the nature and quality of employment. This is because SMEs are known to include a large number of enterprises that create jobs that are neither productive nor decent (ILO, 2015). This study looks into how SMEs create and preserve jobs that offer decent employment as a result of venture capital investments and VCC involvement.

1.4 Research Objectives

This study draws its research objectives from that of Section 12J VCC regime as earlier discussed. As such, this study seeks to:

- Assess the extent to which financial performance of qualifying SMEs has changed due to the VCC regime;
- Analyse the extent to which qualifying SMEs have created and preserved decent employment as a result of the VCC regime.

1.5 Research Questions

To address the research problem of this study, the researcher seeks answers to the following questions:

- In what way has Section 12J VCC regime affected the financial performance of qualifying SMEs?
- How, and to what extent, has Section 12J VCC regime enabled qualifying SMEs to create and preserve decent employment?

1.6 Justification and Significance of the Study

The significance of the study is the intended assessment of venture capital financing in the context of SMEs in South Africa, specifically focusing on determining whether or not the current VCC regime in South Africa is yielding sufficiently positive results and should therefore be continued beyond the legislated sunset clause that will take effect in 2021.The South African Government and the National Treasury, in particular, would benefit from the study by having a basis for continuing or discontinuing, the VCC regime beyond this sunset date. The study also makes recommendations on improvements to the regime, should a decision be taken to continue it beyond its current timeline.

SME managements and academics may learn from the study the factors to consider in assessing the impact of tax incentives on an enterprise, particularly in relation to financial performance and job creation benefits. Most importantly, the VC industry would have added content to its body of knowledge, which, to date, has not granted emphasis on studying VC funding in the country from the perspective of SMEs.

At a higher level, the study contributes toward answering the question on whether tax incentives are an effective policy to boost investment into the SME sector and enhance the sector contribution to the growth and development of an economy.

1.7 Delimitations and Scope of Research

This study is restricted in scope to South African SMEs in the context of Section 12J of the Income Tax Act. Thus, it applies only to VCCs within this context, and not VCCs in general. Similarly, the definition of the SMEs will be restricted to that which is aligned with the requirements of Section 12J of the Income Tax Act to ensure consistency. Furthermore, throughout the existence of the Section 12J tax incentive, there are several exogenous factors (such as material legislative changes, political turmoil and technological advancements) that affect the ability of qualifying SMEs to perform financially and create jobs. Although this possibility is well acknowledged by the author, to maintain focus, this study will not investigate these factors.

1.8 Limitations of the Study

In light of the scope delimitations discussed above, the study is limited in terms of generalisability and repeatability in that a mixed population of SMEs, and VCCs beyond the scope definition of this study are likely to yield different research results. Although the study will strive to preserve replicability in other emerging economies, it would be necessary for each economy to be mindful of the strong dependencies of the outcomes of this study on the legislative context of South African tax laws which may not necessarily be the same as those in other emerging economies. Lastly, this study was initiated before the coronavirus (COVID-19) became prevalent globally. By the time COVID-19 become a global pandemic, the study was already in-flight. As such, to remain true to its original objectives, this study did not fully explore the extent to which the pandemic has had an impact on the SME sector in South Africa. Nevertheless, it is acknowledged that unemployment and economic conditions were worsened by this pandemic.

1.9 Organisation of the Study

This dissertation is structured into five chapters:

Chapter 1: Introduction, which offers a background to the study. The chapter presents the purpose of the study, the problem statement, research questions and objectives, justification for the study, as well as definitions of key terms.

Chapter 2: Literature Review, relates to the VCC regime and its impact on economic development of the SME sector. It addresses the use of tax policies to boost investments into the SME sector, the meaning of SMEs in general and in terms of this study, contribution of the SME sector towards economic development, SMEs' contribution towards reduction of unemployment, and the challenge of access to finance.

Chapter 3: Empirical Analysis and Discussions, outlines the research methodology, as well as presents data analysis and discussion of the findings of this study.

Chapter 4: Conclusions, outlines a summary of the main findings of the study, as well as the overall conclusions.

Chapter 5: Recommendations, presents policy recommendations and suggestions for further research.

1.10 Conclusion

The focus of this study is on Section 12J tax incentive and how this incentive has helped address the challenge of access to finance faced by SMEs in South Africa for them to grow and thrive and, in turn, for the SMEs to fulfil the expectation of reducing unemployment. The research questions and objectives are based on SME's financial performance and provision of decent employment as results of the impact that the Section 12J tax incentive has had on these SMEs. The next chapter discusses the literature review underpinning this study.

Chapter 2 :
LITERATURE REVIEW

2.1 Introduction

This chapter discusses the use of tax incentives to address the challenge of access to finance, which is understood to undermine the potential of SMEs to grow, perform well, and deliver on the expectation of significantly reducing unemployment. Particular attention has been paid to the Section 12J tax incentive as a specific policy intervention by the South African Government. The expectation is that when the SME sector thrives, it would absorb a large labour force and help to reduce the high level of unemployment in South Africa. The chapter also provides a critical analysis of the Section 12J tax incentive and the current VCC regime in South Africa, as well as a brief overview of how the tax incentive compares with those in Australia and the United Kingdom (UK).

2.2 Definition of SMEs

According to Gibson and van der Vaart (2008) and the Centre for Strategy and Evaluation Services (CSES) (CSES, 2012), a consistent and universal understanding of what constitutes an SME is imperative for quality discussions and formulations of SME policy, and also a key - but missing - ingredient for adequately demonstrating the role of SMEs in developing economies. Unfortunately, there is no universally accepted definition of SME considering that the various national governments, multilateral and bilateral development institutions, NGOs, statutes, industries and economies, all choose to formulate a definition that is narrowly suitable to a policy or purpose (Gibson & van der Vaart, 2008; CSES, 2012; Dlova, 2017; Rungani & Potgieter, 2018). Although this siloed approach towards defining SMEs generally enables a streamlined focus and contained scope of economic interventions, the absence of a universally accepted definition makes SME policy analysis, and therefore SME policy, virtually random and hard to extensively benchmark (Gibson & van der Vaart, 2008; CSES, 2012; Katua, 2014).

Included in the ongoing debate about the definition of SMEs, is the contention regarding elements mostly used for defining SME in literature, which generally include: number of employees, value of assets, and turnover that enterprises ought to have in order to be regarded SMEs (World Bank, 2019:19; RSA, 2019; European Commission, 2020). For instance, as indicated in Table 1, the World Bank, European Union (EU) and the South

African Government differ in terms of thresholds associated with each element. Although the South African Government defines SMEs based on the number of employees and annual turnover, it excludes the element of asset value (RSA, 2019).

Defining SMEs by number of employees suggests, incorrectly, that the larger an enterprise, the more employees it will have, and that to grow it must take on more employees. This approach to defining SMEs is relevant to this study considering that VC investments by nature tend to prioritise making investee firms efficient, which includes ensuring more productivity with fewer employees.

Definition of SMEs by assets is also a deficient method considering the fact that SMEs rarely have a precise estimate of the value of their fixed assets and generally minimise them in environments where substantial asset taxes are imposed (Gibson & van der Vaart, 2008; International Finance Corporation [IFC], 2018). Moreover, governments are inconsistent with regard to what they count as assets when defining business size.

For decades, according Gibson and van der Vaart (2008) and IFC (2018), the volume of turnover of a business has been considered a more appropriate measure of SMEs relative to their size. Among the many distorting influences of employee-based and asset-based measures of business size is that both these measures serve to maintain the impression that labour force and capital-intensive sectors (such as manufacturing) are typical of the SME sector in developing countries. This assumption is patently not true as it excludes agriculture, the largest sector in many low-income countries, as well as the rapidly expanding service industry. (Ismail, 2018).

Section 12J adopts a non-universal asset-based definition of SME by specifying the nature of business permissible (that is, mining or non-mining, and permissible or excluded business activities) and share ownership thresholds. It then places a higher book value threshold for junior mining companies, due to the capital-intensive nature of mining operations, where equipment and machinery are generally of a much higher value (SARS, 2020). The shareholding threshold also safeguards against possible abuse of the incentive policy by investors who would hoard investment opportunities.

As such, this study defines an SME as ‘an enterprise (1) with assets having a book value no more than ZAR 50 million, unless the firm is a junior mining company in which case assets’ book value must not exceed ZAR 500 million; (2) conducting any lawful business except one with activities listed in the exclusion list in Table 2; and (3) has a threshold of 50%

shareholding for individuals with shares in a Section 12J venture capital company relating to such an enterprise'.

2.3 Role of SMEs in Economic Development

This study assumes the relevance of SMEs in relation to economic development to be underpinned by a neo-liberal theory of political economy. Zoaka, Samson, Ernest and Collins (2017) maintain that within a neo-liberal economic system, where the government intervenes through implementation of policies and an infrastructure set up to enable SMEs to thrive in a free-market, such enterprises become commendable vehicles for the achievement of national economic objectives such as employment generation and poverty reduction at a low investment cost.

Makgalemele (2017), in evaluating whether tax incentives promote development of SMEs that ultimately yield economic growth, indicated that the SME sector in South Africa provides employment to about 60% of the labour force. According to SEDA (2019), the SME sector contributed about 35% to the GDP in 2019, and the aim is to increase this contribution to 50% by 2024. However, these numbers do not reflect the scope of the current financial landscape, which has been significantly altered by the coronavirus (COVID-19) global pandemic. In addition to providing employment and contribution to the GDP, SMEs are also understood to play a critical role in an economy with regard to being the starting point for large corporations, diversifying economic activity, accelerating innovation and value addition, being flexible and quick to adapt to changing market demand and supply situations, and reaching untapped sections of the society (BER, 2016; Hasheela, 2016; Rungani & Potgieter, 2018; Ssennyonjo, 2019).

On the other hand, considering the high number of SME inefficiencies and failures, as well as non-adherence or non-compliance to economic policies, there is also the broader question as to whether the emphasis on the role that the SME sector plays towards economic development is overstated (BER, 2016; Zoaka *et al*., 2017).

An argument in favour of investing resources and capital into the SME sector is the potential that this sector has to give birth to large corporations that end up yielding economic development and growth at a larger scale (Hunter & Kazakoff, 2014). Popular worldwide examples of large corporations that started off as small businesses include the likes of Microsoft, Apple, Google, and Facebook. In a contrarian view, Gibson and van der Vaart (2008) cautioned against too much emphasis on investing resources and capital into the SME sector and argued that in most typical developing countries, natural resource extraction, privatisation of state industries, and subsidiary operations of multinational corporations have given rise to large firms that were born as large firms.

Ismail (2018) maintains that developing economies would never reach the level of competitiveness that developed countries have without investing in diversification of economic activities and products. The SME sector is argued to be a key enabler for countries to diversify their economic base that will serve consumers while fostering local comparative advantages, creating jobs and sustaining the global economy (Ismail, 2018; United Nations Conference on Trade and Development [UNCTAD], 2020). Gibson and van der Vaart (2008), however, argued that it is ambitious to expect SMEs to be a means of diversifying economies without scales and access to markets, considering that they are unlikely to yield this benefit at material levels of economic impact. This argument, though, neglects the possibility of large corporations acquiring or strategically partnering with SMEs to offer scale and access to markets. This is currently the trend within the financial and technology sectors, collectively known as 'FinTech' – a trend where large financial institutions such as banks, partner or acquire FinTech SMEs that have brilliant products, but lack scale or access to markets (Hutton, Bhana, Allen & Nursoo, 2019).

Arguments for and against the role of the SME sector towards economic development, and the resultant need to implement policies that would boost this sector, are credible. As such, this study is based on the premise that SMEs do make a positive contribution towards economic development.

2.4 Contribution of SMEs towards reduction of Unemployment

Globally, SMEs account for two-third of all jobs and as such make a crucial contribution to job creation and income generation in various world economies (ILO, 2015; London Stock Exchange Group (LSEG), 2018). In South Africa, the National Development Plan (NDP) indicates that the SME sector is expected to play a critical role towards creation of jobs and promotion of labour absorbing industries.

Accordingly, the NDP states that:

> "... Some 90% of jobs will be created in small and expanding firms. ... By 2030, this share of small and medium sized firms in output will grow substantially. …Export growth, with appropriate linkages to the domestic economy, will play a major role in boosting growth and employment, with small- and medium-sized firms being the main employment creators." (NPC, 2011:119)

The focus on creation of jobs and promotion of labour absorbing industries is particularly important for South Africa. However, expectation that the SME sector will be the main instrument to address this economic challenge does not go unquestioned in literature. In support of this expectation, the assertion by SEDA (2019) is that SMEs are able to actually absorb more labour (as they tend to be more labour intensive than their larger counterparts), are nimbler, and have less stringent requirements than large organisations.

The alarming unemployment rate in South Africa is in reality even worse considering that this rate only reflects unemployment defined in terms of those persons who are not employed, had taken steps to look for a job or to start a business, and were available to take up a job had it been offered (Alenda-Demoutiez & Mügge, 2019). Thus, people who have given up on looking for jobs, or have not started though they are capable of working, are excluded in this rate.

According to Lee (2014), in addition to the challenge of access to finance, SMEs growing rapidly tend to also face difficulties relating to employee recruitment, skills shortage and management expertise. This, in spite of SMEs being able to expedite recruitment processes due to quick decision making, and also often only being able to hire (and therefore compelled to train) unskilled workers who generally do not meet the hiring criteria of large firms (Gibson & van der Vaart, 2008; Lee, 2014; Piek & Fintel, 2018). However, SEDA (2019) maintains that SMEs are able to do so due to the inferior quality and security of jobs they create, as well as the rampant non-compliance to labour relations regulations (SEDA, 2019).

2.4.1 Net Job Creation

The ILO (2015) asserts that policy makers must not neglect the net job creation effect of some policy interventions, and defines net job creation as the difference between the jobs created by new or existing enterprises, and those destroyed either through contraction of existing enterprises or as a result of business closures. The concept of net job creation is particularly important for this study considering that VCCs tend to focus on improving productivity and efficiencies of their investee companies, and invest in firms that are closer to or older than five years, which may lead to a reduction in the number of employees in these companies (Yuan-Jun, 2014; ILO, 2015). It is therefore important to not only be attentive to jobs created by investee SMEs under Section 12J, but to also look at the number of jobs they fail to preserve, and the net effect thereof (ILO, 2015).

2.4.2 Decent Employment

The Small Enterprise Development Agency (SEDA) and National Planning Council (NPC) calls for the SME sector to not only become a major source of creation and perseveration of jobs, and promotion of labour absorbing industries, but to also promote decent employment and inclusive economic growth in order to eradicate poverty and inequality in South Africa (NPC, 2011; SEDA, 2019). The OECD (2016b), in its study on analysing the relationship between quantity of employment (number of jobs) and quality of employment (decency of jobs) across the OECD countries, shows that there appears to be no major trade-offs between the two but rather, potential synergies: countries that do relatively poorly with respect to decent employment tend to have relatively low employment rates and vice versa.

SEDA's call above is consistent with the ILO's policy regarding decent work and sustainable development, and Oxfam's ongoing campaign for access to decent employment (Oxfam, 2014; ILO, 2018; ILO, 2020b). Both SEDA and Oxfam triggered a question of interest to this study as to whether the jobs created via SMEs of the VCC regime are decent jobs, and contribute towards the eradication of poverty and inequality.

The Organisation for Economic Co-operation and Development (OECD) (2016a; 2016b) provides a framework looking at decent employment based on three main dimensions:

(1) Earnings quality, which refers to the extent to which the earnings received by workers contribute to their well-being by taking into account both the average level as well as the way earnings are distributed across the workforce;

(2) Labour market security, which focuses on the risk of unemployment (the risk of becoming unemployed and expected duration of unemployment) and the degree of public unemployment insurance (coverage of the benefits and their generosity); and

(3) The quality of working environment, which is meant to capture non-economic aspects of job quality and measures the incidence of job strain characterised by high demanding jobs that have few job resources to carry out these demands.

Elements of decent jobs – elicited mainly from studies by Oxfam (2015), OECD (2016a; 2016b), UN (2016), ILO (2018; 2020b) collectively – include skills development; job enrichment; job security; job permanence; income levels; job formality; productivity; value-adding; and labour relations practices.

2.4.3 Relationship between Elements of Decent Employment

Reports by Oxfam (2015), OECD (2016a), UN (2016), and ILO (2018; 2020b) indicate that elements of decent employment are inter-related, one should expect improvement of one element to lead to improvement of the other elements, and deterioration of any element to have a similar knock-on effect. For instance, the OECD (2016a) maintains that substantial differences in job decency emerge across different workers, where low-skilled workers have on average poorer earnings quality and higher labour market insecurity than high-skilled workers. Similarly, ILO (2018) assert that a strong skills base promotes productivity and employment through heightened adaptability to change and the capacity to innovate.

According to the United Kingdom Commission for Employment and Skills (UKCES) (2014) and OECD (2016a), there is a positive relationship between skills development and job permanence because when businesses invest substantially into skills development of their employees, they tend to provide permanent employment for those employees so that there is a return on investment. Returns to skills not only show up in the form of higher employment but also of better jobs in terms of higher earnings quality, higher job security and higher job enrichment OECD (2016a).

According to McGowan and Andrews (2015), a source of productivity loss at the country and industry level is having workers in jobs that are not appropriate to their skills or qualifications. This was also supported by the ILO (2018) and the OECD (2016b) which indicated that firms where there is substantial skills development investment tend to not only increase employability of employees, and help transition them from informal to formal employment, but also enhance job security and permanence for jobs within their businesses. However, this is provided that the training provided is strategically targeted and linked to current labour market needs as well as anticipating and building competencies for the jobs of the future (ILO, 2020b).

Labour relations practices and labour market policies can play an important role in reducing the loss of employment by workers with obsolete skills by offering re-training and up-skilling opportunities to increase their employability in higher value-added activities (OECD, 2016a). The OECD (2016a) further asserts that stronger labour relations practices, such as effective collective bargaining arrangements, have the potential to strengthen the association between skill proficiency and skills use at work through the positive effect of workers' participation.

2.5 Finance: Access to Finance and Firm Performance

The SME sector continues to be faced with several challenges that often hamper profitability, sustainability and growth; the existence of such challenges is the reason for the failure rate of SMEs in South Africa (Leboea, 2017). It is estimated that 40% of all new businesses in the country fail in the first year of their existence, 60% in the second year, and 90% within the first 10 years of inception (Bushe, 2019). The lack of access to finance and financial support is one of the main challenges faced by SMEs in South Africa (BER, 2016; World Bank, 2019).

Whenever SMEs wish to obtain debt-oriented finance such as bank loans, they need to discharge the burden of proving that they have the capacity to repay the loan and have adequate collateral as security for the bank in case of default (Rungani & Potgieter, 2018). This is in addition to incurring premiums on interest payable on acquired loans (Rungani & Potgieter, 2018). This not only makes the cost of obtaining capital high, but also means a significant reduction of SMEs' working capital since more funds are used in servicing loans regardless of how SMEs are performing (Dlova, 2017).

Alternatively, SMEs can explore equity-orientated instruments as means of raising capital. Equity capital also has its pros and cons. The main benefit is that equity capital does not require interest payments, which means more working capital is available; and equity financing generally does not require collateral, which means a lot more freedom to utilise the firm's assets without restrictions associated with collateral requirements (Rungani & Potgieter, 2018). The main downside of equity financing is that it comes with giving up stake to the investor, which means losing some control and diluting management powers.

2.5.1 Theoretical Framework

A theoretical framework underpinning the relationship between capital structures and financial performance is based on several capital structure theories that have emerged over the years. Most famous theories of capital structure like Modigliani and Miller's (1963) theory, static trade-off theory, pecking order theory, agency theory, the theory of free cash flows and many other conditional theories are designed by researchers for beneficial financing decisions (Gohar & Rehman, 2016). Although capital structure theories are well documented, there are still several gaps to be addressed, and as illustrated in the empirical literature discussed later in this section, there is still no test that has produced conclusive results regarding the competing theories of capital structure. It is well documented that firm-specific characteristics (such as size, age, profitability, asset tangibility, growth prospects, taxes, non-debt tax shields and dividend policy) have an impact on firm financing (Gumbo, 2015; Gohar & Rehman, 2016; Ndlovu, 2018).

This research study is specifically underpinned by two theories: pecking order theory and trade-off theory. According to the pecking order theory, firm managers rank their sources of finance in order of preference from the least risky option (that is, internal sources such as retained earnings) to riskier options such as debt (Modigliani & Miller, 1963; Binaebi & Frank, 2019). The trade-off theory assumes that there is an indirect positive relationship between leverage and firm performance because a low performance level may increase bankruptcy risk (Kraus & Litzenberger, 1973; Binaebi & Frank, 2019). These theories will both assist to evaluate whether changes in capital structures of SMEs under Section 12J VCC regime have had any impact on the firm performance of such SMEs.

2.5.2 Capital Structures and Financial Performance

The VCC regime is fundamentally about boosting investment into the SME sector by encouraging venture equity capital investment. Access to equity capital via the VCC regime means changes in capital structures of SMEs. Capital structure refers to a firm's mix of various sources of funds used to finance operations and it broadly consists of different proportions of various sources of debt and shareholders' equities. According to Gohar and Rehman (2016), the efficacy of the capital structure is seen in the financial performance of the firm. As such, changes in capital structure are meaningless on their own, but the impact of the capital structure of a firm is understood and interpreted when analysed in relation to its performance from a financial perspective.

Worldwide, there are several researches carried out to study the relationship between capital structure and performance of enterprises. However, findings of these studies are inconsistent with each other. Most studies report existence of a relationship between the two, while some found no significant link.

For instance, Ramadan and Ramadan (2015) analysed the data of 72 Jordanian firms over a period of five years, with the aim of exploring the impact of capital structure variables on the performance of these firms. They observed the significant negative effect of capital structure on ROA. Hossain and Hossain (2015) also had similar findings when exploring the impact of capital structures of firms in Bangladesh. Gebremichael (2016) examined the impact of capital structure on profitability of enterprises in Ethiopia and concluded that capital structure had a significant impact on the profitability of core business operations, and there was a significant negative relationship between capital structure and net interest margin.

On the contrary, the findings of Yegon, Cheruiyot, Sang and Cheruiyot (2014) revealed that short-term debt had a significant and positive relationship with firm profitability. Similarly, Witowschi and Luca (2016) evaluated in what ways capital structure influences bank profitability in European countries. Their study showed the existence of a significant and positive relationship between capital structure and profitability.

Interestingly, Nadeesha and Pieris (2014) conducted a study to investigate the impact of the choice of capital structure on a firm's performance in Sri Lanka and found that there was a positive relationship between debt to total assets and return on capital employed.

Although the literature indicates contradictory findings regarding the relationship between capital structure and a firm's performance, it largely indicates that the existence of the relationship between the two is dependent on variables used to measure capital structure and profitability, respectively.

It is in the interest of all SME sector stakeholders to have firm performance of qualifying SMEs improve significantly under the VCC regime. This is because optimum firm performance should lead to greater returns for investors and VCCs, growing SMEs, higher economic activity and contribution to economic growth. The main question would be how firm performance would be evaluated in light of the relationship it has with changes in capital structure and equity ownership mix. The most common variable for measuring and evaluating the relationship between capital structures and firm performance in the studies discussed above include: return on assets, interest cover, leverage, and turnover or net profit. These variables will also be used in this research, and discussed further in Chapter 3, in order to assess whether Section 12J investment (which change capital structure of the qualifying SMEs) has had an impact on the financial performance of SMEs and to what extent.

2.6 Tax Incentives as a means for boosting investment in the SME Sector

In order to address the challenge that SMEs face regarding access to finance, governments tend to implement various interventions that may come in the form of grants, subsidies and incentives (Ssennyonjo, 2019). This study pays specific attention to the use of tax incentives, through which government incentivises society for a particular behaviour through tax savings, exemptions, or deductions (UN, 2018). The study particularly looks into the Section 12J tax incentive, which the South African government provides to investors when they buy equity shares of qualifying SMEs through approved VCCs.

2.6.1 Overview of Tax Incentives

According to the United Nations (2018:iii), economies worldwide justify the generalised use of tax incentives by the need to

> "correct market inefficiencies associated with the externalities of certain economic activities; subsidise companies during their sector's downturn; target new industries and mobile investments that are subject to tax competition; generate a form of agglomeration economies, or concentration externalities; and to attract foreign investment and foster national industries."

Although the use of tax incentives is popular globally, they are also known to entail costs that may be so significant that they end up exceeding their benefits and considerably erode the general tax base (G-20 Development Working Group, 2015).

The impact of tax incentives on an economy differs from one country to another. This is considering that the socio-economic challenges, economic conditions and maturity of the overall fiscal policy framework are hardly identical among countries (UN, 2018).

The gap between macroeconomic analysis and revenue feedback analysis necessitates continuous review and analysis of tax policy, even those policies that have a fixed timeline like the Section 12J tax incentives in terms of the current VCC regime.

Continuous monitoring, review and evaluation of tax incentives is necessary to allow identification of areas requiring change and a rationale for change. Sound rationale for tax incentives change is important because changes in any tax policy have the potential to either create or worsen a fiscally unstable economy, thereby necessitating a change in taxes or spending in the future to reach a sustainable equilibrium (Zolt, 2014; UN, 2018). Thus, whether or not changes are made to Section 12J, for example, a change to extend the VCC regime beyond its current sunset date of 2021, the rationale has to be sound so as to minimise chances of compromising economic stability of the VC industry or South Africa at large.

2.6.2 Advantages and Disadvantages of Tax Incentive

By definition, a tax incentive is meant to provide particular taxpayers with special beneficial treatment in order to encourage certain behaviour that is expected to produce some benefit to the public that is greater than the cost of providing the incentive (UN, 2018; Ssennyonjo, 2019). In the case of the VCC regime, the direct intended benefit is that the SME sector ought to have access to more equity finance and have their businesses sustained as a result of the VCC regime (Zuccollo, 2019; SARS, 2020). An indirect intended benefit, and ultimate intended result, is that the SMEs benefiting from the VCC regime contribute to the reduction of unemployment in South Africa (12J Association of South Africa, 2020).

Tax incentives are considered an easier tool for legislators and politicians to rapidly attract investment; particularly in instances where it is time-consuming or difficult for them to address the real and main reasons for lack of investment (Zolt, 2014). It is also because alternatives to tax incentives, such as subsidies, involve expenditure of funds. This makes them a less desirable option for legislators and politicians to pursue considering the extensive scrutiny that alternatives involving expenditure of funds tend attract when compared with other public expenditure needs (Ngwenya, 2014).

Tax incentives are also commonly used by governments to promote the establishment of labour-intensive industries or employment of particular categories of workers, such as young persons, the disabled, or the long-term unemployed (Makgalemele, 2017). The question in relation to this study is whether Section 12J has had unintended consequences such as providing access to finance for qualifying SMEs and benefiting investors, but not developing these SMEs into long-term viable and sustainable businesses that contribute towards creation and preservation of decent and inclusive employment.

2.6.3 Tax Incentives in South Africa

The South Africa Government offers several incentives to benefit the SME sector in the form of deductions (such as Sections 12E(1A) and 23(b) incentives), cost-sharing (such as Employment Tax Incentive (ETI)), subsidies (such as Workplace Challenge Programme) and grants (such as Automotive Investment Scheme).

According to DTC (2014), Makgalemele (2017), and Ssennyonjo (2019), although the SME-related tax incentives have yielded great benefits for the SME sector and the South African economy at large, there were several concerns regarding the effectiveness and utilisation of these incentives. For instance, the DTC (2014) pointed out a fundamental problem with incentives such as Section 12E, which specifically do not provide relief to SMEs with no taxable income – as SMEs with no taxable income are the ones more likely to be in need of financial intervention from the government.

Ngwenya (2014) also asserted that tax incentives can be very expensive and cumbersome to administer. For example, although the ETI tax incentive is celebrated in the development space because of its potential to address both SME sector development and employment stimulation, this incentive has been found wanting in terms of benefiting SMEs (DTIC, 2014; Ssennyonjo, 2019).

Tax incentives may also be problematic in terms of practical application for the benefit of SMEs in need of such incentives. For example, the Section 23(b) incentive requires part of a home for which a claim is being lodged, must specifically be equipped for that trade, which has proven to be too strict and inflexible for SMEs (DTC, 2014). According to Ssennyonjo (2019) this is considering that many SMEs being operated from homes would simply require free space or a free room without any particular equipment (depending on the nature of the business). Given that the trade is being carried out at home, equipping some part of the family residential home with different gadgets could be somehow problematic.

The challenge faced by SMEs in terms of incentives being expensive and complex to comply with leads to broad underutilisation of SME-related incentives, due to the lack of capacity or expertise by these SMEs (Makgalemele, 2017; Piek & Fintel, 2018). The Section 12J incentive has the potential to help address this challenge of underutilised SME incentives; considering that the burden of compliance to and dealing with complexities of Section 12J is on the VCC more than it is on the qualifying SMEs. This shift is a key driver that lends

Section 12J unique relative to other tax incentives set up for the benefit of the SME sector in South Africa.

2.7 Section 12J Overview and Analysis

The legislative framework for this study is underpinned by Section 12J of the Income Tax Act of South Africa, which is summarised in Appendix 2 of this report. Below is an analysis of key developments of the VCC regime underpinned by this Section 12J, and it compares with similar regimes in other countries.

2.7.1 Critical Analysis of Section 12J VCC Regime

Developments of the VCC regime have mainly come from two sides: the VC investment industry side and the policy development side, spearheaded by National Treasury. On the one hand, the general sentiment in the VC investment industry is that the VCC regime has yielded significant benefits for the South African economy, but continues to perform below its potential due to a number of factors such as stringent restrictions and policy uncertainty (Makgalemele, 2017; Ssennyonjo, 2019; Zuccullo, 2019). The National Treasury, on the other hand, is concerned with the apparent misuse and abuse of the Section 12J tax incentive, and as such continuously strives to enhance its anti-avoidance controls and find productive ways of making the VCC regime effective and fruitful (National Treasury, 2020a).

The benefits observed regarding the VCC regime since its inception include creation and preservation of jobs through investee SMEs, raising substantial investment for SMEs that would probably not have been able to secure capital, reduction of SMEs business failure due to lack of business management expertise; and provision of alternative investment vehicles for retail investors, especially those in low-income tax brackets (12J Association of South Africa, 2020).

According Zuccollo (2019), Ssennyonjo (2019) and 12J Association of South Africa (2020), the shortcomings or criticisms relating to Section 12J, which are understood to be the cause for the incentive to perform below its potential, include:

- the absence of a secondary market for Section 12J equity shares, which makes the market illiquid and heightens the risk associated to such shares

- limits on amount of equity capital invested into one qualifying SME, eliminates the possibility of having anchor investors who are meant to invest large amounts of equity to make the VC fund attractive to other investors
- shareholding in any qualifying SME, the amount of investment income permissible and the amount of investment per investor, which are all considered to unduly limits willing investors with significant amounts of capital but prohibited by these restrictions
- the constant significant changes to the legislation creating policy uncertainty amongst investors, which results in these investors electing to allocate their capital to more traditional investment classes other than Section 12J shares; and potential investee SMEs electing not to partner with Section 12J VCCs due to concerns regarding the longevity and stability of the incentive (and therefore their funding) going forward.

National Treasury indicated the need to reintroduce the tax year investment limit in respect of investment in VCC shares and as such proposed that the tax deduction be limited to ZAR 2.5 million per annum per VCC shareholder (SARS, 2019). The VC investment industry generally disapproves of this proposal claiming that about 65% of the 'Section 12J Industry Body' members will be impacted with a risk of non-compliance as a result of the proposed investment cap, thereby having a negative impact on the VCC's potential to create jobs (Zuccollo, 2019).

As discussed earlier in this Chapter, the major downside to tax incentives is the forgone tax revenue, which is similarly the case for Section 12J incentive in that it provides an upfront tax deduction and consequent loss to the fiscus. Zuccollo (2019) argues that the loss of tax revenue as a result of the Section 12J tax incentive is significantly mitigated by tax revenue generated from VCC regime in terms of: income tax paid by the VCCs and their investee SMEs; value-added tax paid by the investee SMEs; and dividends withholding tax relating to returns of capital to Section 12J investors; and capital gains tax which is calculated from a base cost of zero as a result of the initial Section 12J tax deduction.

Furthermore, the VCC regime has enabled the South African Government to create a vibrant SME sector in areas of the economy that received little to no support from traditional capital markets, such as agriculture, fin-tech, hospitality, renewable energy, services, student accommodation and moveable asset rentals (Zuccollo, 2019; Faulds, 2019).

Lastly, the VCC regime is subject to a 12-year sunset provision within Section 12J, which is scheduled to end on 30 June 2021. Considering the VCC regime is about to reach this date, not knowing whether or not this regime will be extended and what amendments will be made to it creates further uncertainty, which may be a disincentive for investors to invest now instead of later when it is known whether the regime will be extended (Kotze, 2020).

2.7.2 Comparison of the VCC Regime in South Africa with other Countries

The VCC regime is not unique to South Africa since the Section 12J tax incentive followed in the footsteps of various other countries around the world, such as the United Kingdom (UK) and Australia (Ssennyonjo, 2019). South Africa, UK and Australia have VCC regimes with similar approach to giving an incentive to the investors as a way of encouraging them to invest more into the small businesses (Commonwealth of Australia, 2020; HMRC, 2020; SARS, 2020). However, unlike South Africa, which has only one scheme within its VCC regime, the UK and Australia have several schemes. In Australia, there are two VCC schemes: The Venture Capital Limited Partnership scheme and the Early Stage Venture Capital Limited. Partnership scheme (Commonwealth of Australia, 2020). The UK has three schemes: Enterprise Investment; Seed Enterprise Investment Scheme; Social Investment Tax Relief; Venture Capital Trusts (HMRC, 2016; HMRC, 2020). The use of multiple schemes within a VCC regime allows for a targeted approach to application, evaluation, monitoring and review, which enables these countries an opportunity to terminate only schemes that prove ineffective as opposed to the entire regime.

2.8 Conclusion

This literature review demonstrated that there is merit to the notion that SMEs are a critical contributor towards economic development and unemployment reduction. It is also observed in literature that the use of tax incentives can be an effective economic policy for boosting investment into the SME sector, and help this sector deliver to the expectation of reducing unemployment. Accordingly, the critical analysis of Section 12J tax incentive point to the need to review whether this incentive has improved the financial performance and therefore led to growth of SMEs in South Africa. The discussions in this chapter offered the basis for considering to evaluate impact of Section 12J VCC regime on SMEs in South Africa in terms of financial performance or employment impact. The next chapter outlines the research methodology, empirical analysis and discussion of findings for this study.

Chapter 3 :
EMPIRICAL ANALYSIS AND DISCUSSIONS

3.1 INTRODUCTION

This chapter describes the research methodology followed to address the questions and objectives of this study. It also provides insights into the research method used for collecting and analysing data. The chapter further presents an analysis and discussion of the findings of this study.

3.2 RESEARCH PHILOSOPHY, APPROACH AND DESIGN

This study seeks to discover and understand the impact of the Section 12J tax incentive on SMEs in South Africa, and whether it has enabled such SMEs to provide decent employment. The study does so through the perspective of participants of the study who provided their perceptions and insights regarding this impact. Thus, the study is inductive and exploratory in nature, and adopts a mixed methods approach. Epistemologically, the study adopts a phenomenological approach, which allows for understanding subjective experience, gaining insights into people's perceptions and observations (Babbie & Mouton, 2009).

3.3 DATA

This study uses primary data collected, using survey questionnaires, from participants who are stakeholders of the VCC regime in varied capacities. The data was about the SMEs and the impact that the VCC regime has had on these SMEs, as well as general impressions that these stakeholders have in terms of the overall effectiveness of the VCC regime.

The research data collected comprises three sets of variables: financial performance, employment, and overall effectiveness.

- ***Financial performance variables:*** Turnover growth, net profit growth, return on assets, leverage, and the cost of financing (that is, interest rates, charges, fees, commissions and collateral requirements).
- ***Employment variables:*** Variables relating to quantity of jobs created variables: number of jobs created, number of jobs preserved, number of jobs lost, and net job creation; and variables relating to provision of decent employment: skills

development, job enrichment, job security, job permanence, income levels, job formality, value-adding work, productivity, and labour relations practices.

- ***Overall effectiveness variables***, which consider the extent to which the VCC regime has been effective in terms of boosting investment into the SME sector, growing SMEs into being more commercially viable businesses, and yielding benefits that outweigh the costs of having it in place. Assessment of overall effectiveness also considers whether the VCC regime should be extended - and if so, how significant should such extension be; if not, is it because it has run its course well or failed. As such, the overall effectiveness of the VCC regime is assessed based on the following four variables: Investment boost, commercial viability

Data collected was based on the observations of qualifying SMEs over a period of five years (2016 to 2020). The reason for timing and duration being a criterion is that the VCC regime took time to take off when it was established, and that it would be unreasonable for the purpose of this study to expect respondents of the survey to have views of SMEs for a period longer than the most recent five years.

The unit of analysis for this study is the SMEs that are investee firms in respect of the VCC regime in South Africa. The variables incorporated within the survey questions are, therefore, in relation to the unit of analysis in this regard. The unit of observation for this study is the stakeholders of the VCC regime that are able to share substantive views about the impact of the VCC regime on SMEs in South Africa.

Participants from whom data was collected were from either the supply-side or demand-side. The supply-side refers to suppliers of VC offerings (i.e. VC equity, services and expertise), which is represented by stakeholders such as VCC Managers, Shareholders and Partners, as well as VC Investors. The demand-side refers to recipients of VC offerings (Investee SMEs), which is represented by SME Owners, Managers, Employees and Advisors.

The participants were split into two sides to allow for richness of views and observations as participants from either side respond to the study from different perspectives. The researcher intended for this diversity of perspectives to highlight possible differences in observed impact of the VCC regime on SMEs depending on participants' side.

3.4 RESEARCH METHOD

The study endeavours to answer two key research questions. Firstly, in what way has the Section 12J VCC regime affected financial performance of qualifying SMEs. Secondly, how and to what extent has the Section 12J VCC regime enabled qualifying SMEs to create and preserve decent employment.

The ultimate purpose of this study is to determine the impact that the VCC regime has had on qualifying SMEs in South Africa, with the aim of contributing towards the basis for continuation or termination of the regime upon expiry of its legislated ‘sunset’ provision.

3.4.1 Data Collection Method

Given the research question mentioned above, surveys were identified as the most suitable method to be used for collecting data from participants of the study. The key reason for the survey method is that it is an effective means of collecting data from a dispersed population of participants, and is helpful in making inductions about a population from which the sample was selected (Collis & Hussey, 2003).

3.4.2 Sampling Method and Sample Size

This study used a non-probability sampling method, specifically, convenience sampling. Considering that the researcher was interested in analysing the data from both the supply and demand sides of the target population, the target population is divided into two strata. Convenient sampling was used for each stratum due to the researcher’s accessibility to stakeholder data.

A total sample size of 30 participants (15 per side) was targeted for this study in order to keep the sample size large enough to enable theoretical saturation and low enough to be manageable for the researcher.

3.4.3 Research Instrument

The instrument for collecting the research data for this study was a questionnaire (enclosed in Appendix 3). Among other reasons, this instrument was chosen because it allows for a consistent and objective set of questions to be asked to all participants, which enhances comparability of responses, and ease of analysis. Questionnaires were distributed and self-administered online using the ‘Survey Monkey’ platform.

The questionnaire comprised 24 closed-ended questions, and 1 open-ended question. Possible responses for the 24 closed-ended questions were based on a 5-point ordinal rating scale. A bipolar format was adopted for the 5-point rating scale where the midpoints were intended to represent a more neutral territory between two opposing constructs. The scales were ordered as ‘significantly favourable, moderately favourable, neutral, moderately unfavourable, significantly unfavourable’ in respect of the impact that the VCC regime has had on SMEs. However, descriptors for rating scales were modified as per the questions to make them more intuitive and relatable and avoid having verbose questions. See table below using questions 3 and 14 from the questionnaire as examples:

Table 3 - Rating Scales Descriptors and Interpretation

Rating Scale Numeric value	**Default 5-point rating scales**	**Modified descriptor for Question 3 (Impact on Return on Assets)**	**Modified descriptor for Question 14 (Impact on Productivity of Employees)**	**Impact Rating Interpretation**
1	Most favourable	Became significantly higher (1)	Enabled significant improvement (1)	Significantly Positive
2	Less favourable	Became somewhat higher (2)	Enabled some improvement (2)	Moderately Positive
3	Neutral	Remained unchanged (3)	Had no impact (3)	No Impact
4	Less unfavourable	Became somewhat lower (4)	Enabled some decline (4)	Moderately Negative
5	Most unfavourable	Became significantly lower (5)	Enabled significant decline (5)	Significantly Negative

Source: Author’s own

To ensure consistency and comparability of results, the same research instrument and method was used for all participants regardless of whether they were from the supply-side or demand-side.

The questionnaire was divided into three sections. The first section comprised 7 questions relating to variables of financial performance. The responses to these questions were used to address the research question and objectives relating to the impact of the VCC regime, where financial performance is considered a proxy for SME growth.

The second section comprised 13 questions relating to employment factors. Responses to these questions addressed the research question and objective of SMEs helping to reduce the unemployment, where employment is looked at as both quantity jobs and provision of decent employment.

The last section comprised 5 questions relating to the overall effectiveness of the VCC regime. The responses to these questions were used in relation to the overall purpose of the study, which is to assess whether the VCC regime has been effective and whether it should be extended beyond its current sunset date of 30 June 2021.

The estimated maximum time required to respond to all questions was 20 minutes.

3.4.4 Data Analysis

The study uses descriptive statistics to analyse and interpret the data. Descriptive statistics are helpful in reporting frequencies, mean, percentages, and standard deviations; as well as to summarise a set of scores obtained from questionnaire responses and to illustrate basic patterns in data (Magada, 2016). Some of the key benefits of the descriptive approach are: improved proximity between the researcher and the information; and ease in grasping the behaviour and trend of the variable for respondents (Dulewicz & Higgs, 2005; Magada, 2016).

To further supplement the analysis, commentaries provided by participants in relation to the only open-ended question were synthesised and categorised in themes. This thematic analysis approach enabled the researcher to move the analysis from a broad reading of the commentaries towards discovering patterns and developing themes. Thus each theme that emerged from these commentaries provided further insights about participants' perceptions about the VCC regime's impact on SMEs.

3.4.5 Validity and Reliability

Validity and reliability in qualitative research are ascertained based on credibility, transferability, dependability, and conformability (Lietz & Zayas, 2010).

Credibility refers the degree to which a study's findings represent the meaning of the research participants (Lietz & Zayas 2010). In this study, credibility was obtained through involving participants who are knowledgeable and actively involved in Section 12J incentive and venture capital investments. Secondly, ensuring that participants attribute their responses to questions based on the common intended meaning of key concepts, which was done through defining key concepts relating to each question. Lastly, by ensuring data collected and findings from the study link back to participants' perceptions and insights as reflected in their comments in the open-ended question.

Transferability is the extent to which results of the research apply to other contexts, settings or respondents (Babbie & Mouton, 2009). Transferability for this study is enhanced through three factors: highlighting the importance of knowledge of Section 12J incentive by participants, defining key concepts relevant to the study and outlining the legal framework applicable. This ensures that whoever wishes to transfer the results of the study to a different context, would first make a judgement on how sensible the transfer would be in light of these three factors.

According to Shenton (2004), dependability is about reflecting evidence that if the same study is repeated - in the same context, methods and participants - then similar results would be obtained. A questionnaire with standardised closed-ended questions and definition of key concepts within each question were used to enhance the dependability of this study.

Confirmability refers to the extent to which the findings of a study are the results of the experiences, insights and ideas of research participants, rather than the researcher's own characteristics and preferences (Shenton, 2004). In this study, confirmability was achieved through basing findings on data collected and analysis against the literature review from which research questions were elicited.

3.4.6 Limitations

The research methodology adopted for this study presented several limitations. Firstly, generalisability and repeatability can be easily compromised in a research context where the definitions of SMEs and VCCs are vastly beyond the scope of definitions used in this study. Similarly, although the study will strive to preserve replicability in other emerging economies, it would be necessary for each economy to be mindful of the strong dependencies of the outcomes of this study on the legislative context of the South African tax laws which may not necessarily be the same as those in other emerging economies.

Secondly, the research data is largely ordinal scale type of data, which measures rank ordered data without assessing the actual values or difference in values. This presents a limitation regarding the statistical techniques that could be used and the robustness of conclusions that could be drawn. Thirdly, the survey questionnaire is designed to solicit objective data, and as such does not grant the opportunity for identification of reasons a participant selects one response instead of the other, which denies the researcher knowledge or understanding of the rationale for responses. The last question of the survey was introduced and deliberately made open-ended to mitigate the impact of this limitation. Lastly, the survey is based on perceptions of participants; and perceptions are not always consistent with reality. Much better data would have been the real ratio data, as opposed to perceptions only.

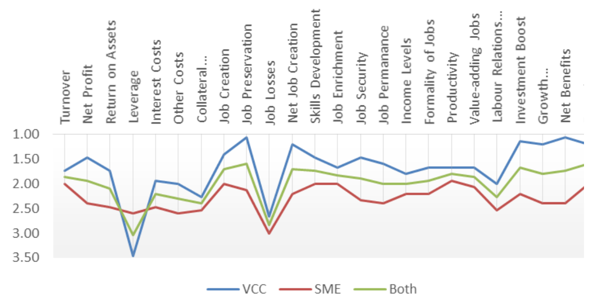
3.4.7 Ethical Considerations

The study was conducted according to the approved proposal which obtained ethical clearance from the Research Ethics Review Committee of the university. Accordingly, ethical measures in this study included consent, confidentiality and anonymity, privacy, dissemination of results and the right to withdraw from the study at any time. An invitation to participate in this study was sent to eligible individuals, with assurance from the researcher that confidentiality, anonymity and privacy would be upheld throughout the study and in the research report. Respondents were not forced or rewarded to participate in the study. Submitted responses were anonymised by the online platform through which questionnaires were self-administered so there was no way of linking a response back to a respondent. For the purpose of privacy, any personal information (that is, name, surname and email address) linked to participants was kept safely by the researcher and not shared with anyone, and this information was used strictly for the purpose of distributing the questionnaire for this study only.

3.5 DISCUSSION OF FINDINGS

Primary data collected for this study comprised two dimensions: areas of impact and participant perspectives. The area of impact dimension refers to the three sets of variables mentioned earlier: financial performance, employment, and overall effectiveness. Participants' perspective was either supply-side oriented, focusing on the supply of Section 12J venture capital offerings for SMEs; or demand-side oriented, focusing on SMEs as recipients of Section 12J venture capital offerings.

Descriptive statistics (frequencies, mean, median, and correlation) were used to interpret the impact rating data relating to responses for the 24 closed-ended questions. Where the frequency of responses was less than 50% on both sides of the neutral rating, the outcome for the corresponding variable was considered inconclusive. In this study, a supposition is considered conclusive when the collective rating is more than 50% on either side of the neutral rating, or the neutral rating itself is more than 25% of responses. A mean impact rating of less than 3 refers to a positive impact of the VCC regime on SMEs in relation to the variable(s); mean impact rating of 3 indicates no impact; and a mean impact rating above 3 indicates that the VCC regime had a negative impact on SMEs in relation to the variable(s). The last and only open-ended question provided an opportunity for respondents to share any comments, observations and insights in relation to the impact that the VCC regime has had on SMEs. Themes emerging from responses to this question were then contrasted to the outcomes of the preceding 24 questions.



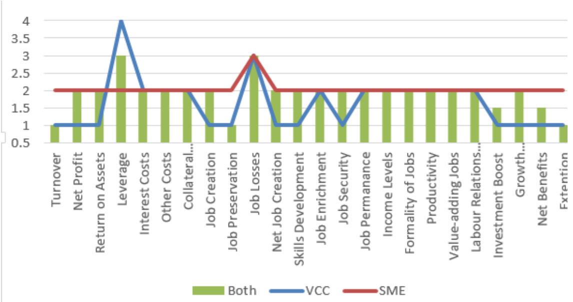


Figure 1 - Impact Rating: Average (mean) *Figure 2 - Impact Rating: Median*

Figure 1 and Figure 2 above reflect the sample impact rating means and medians per variable of data collected. The impact ratings' means and medians for all variables, other than leverage and job losses, were below 3, which indicates that respondents were of the view that the VCC regime has had a positive impact on SMEs. However, on average, respondents from the supply-side were of the view that this impact has been significant (1 ≤ mean impact rating < 2), whereas those from the demand-side were of the view that the impact has been positive but moderate (2 ≤ mean impact rating < 3). This difference in terms of appreciation of the impact that the VCC regime has had on SMEs is also reflected within respondents' commentary.

"*…investee SMEs are at the mercy of VCCs, and operationally, Section 12J tends to benefit the latter more than the former…*" ***[RE_A04]***.

Such commentary by respondents, discussed later, indicates a prevailing contention regarding the extent to which the VCC regime benefits the supply-side relative to the demand-side.

At the level of areas of impact, the mean impact rating for financial performance (mean = 2.26) was inferior to that of employment (mean = 1.94), and overall effectiveness (mean = 1.70). This indicates that although the impact on financial performance of SMEs is considered positive, the general impression is underwhelming relative to that of other areas of impact. Financial performance impact could have been weakened by the high dispersion of responses regarding 'leverage' as a variable, where respondents had conflicting views about the direction of the impact that the VCC regime had on SMEs. This dispersion was worsened by indifferences that respondents had regarding the impact that the VCC regime had on SMEs in relation to debt-oriented variables such as interest rates and collateral requirements. It is also possible that employment reflects a superior mean impact rating due to the biased appreciation of any positive shift in job creation given the already high unemployment levels in South Africa.

Table 4 - Grouped (Theme-level) Pearson's Correlation Matrix

	Financial Performance	*Employment Creation*	*Decent Employment*	*Overall Effectiveness*	*Extension*
Financial Performance	1.00				
Employment Creation	0.32	1.00			
Decent Employment	0.48	0.37	1.00		
Overall Effectiveness	0.51	0.57	0.58	1.00	
Extension	0.46	0.65	0.46	0.73	1.00

Source: Author's own

Table 4 above reflects the Pearson's correlation coefficients, which are used to quantitatively measure both the direction and the strength of the tendency for these themes to vary together.

A correlation coefficient (r) between 0.3 and 0.5 reflects a moderately strong and positive strength of association; while a correlation coefficient between 0.5 and 1 indicates a strong and positive strength of association (Akoglu, 2018). Thus, based on Table 5 above, all areas of impact have either a strong or moderately strong positive correlation with each other. In other words, an increase in the level of impact that one area has on the SMEs would reflect increases in the other areas. However, the degree of correlation differs from one area to another. For instance, financial performance appears to have the least strength of association with employment creation but the most strength of association with the overall effectiveness. Overall effectiveness appears to have the strongest strength of association with all other areas. The view on whether or not to extend the VCC regime beyond the current sunset date is strongly associated with the overall effectiveness theme ($r = 0.73$), and then employment creation ($r = 0.65$).

3.5.1 IMPACT ON FINANCIAL PERFORMANCE

Financial performance is considered an appropriate proxy for firm growth, which is important for the SME sector to thrive. Indicators of firm growth considered in this study and incorporated in the research data collected included: turnover, net profit, financial ratios (return on assets and leverage), and cost of finance (interest rates, non-interest rate costs, and collateral requirements).

3.5.1.1 Question 1: Turnover

Turnover, or revenue, is one of the most commonly used measures of the size of a firm and to determine whether it is part of the SME sector (World Bank, 2019). Significant growth in turnover is a key factor that may lead a firm to graduate from the SME sector into being a mainstream corporate enterprise. As such, turnover is regarded as an appropriate proxy for an SME firm’s performance and growth.

In the survey, respondents were asked about the impact of the VCC regime on SMEs with regard to turnover growth, as well as the direction of such impact - where increased or maintenance of stable levels of turnover growth means positive impact, and a decline in turnover growth means negative impact. Survey results in terms of frequency (%) per impact rating are outlined in Table 5 below.

Table 5 - Impact on Turnover Growth

	Question 1 (Turnover Growth)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**
Enabled material increase (1)	56.7%	80.0%	33.3%
Enabled maintenance of stable levels (2)	23.3%	0.0%	46.7%
Had no impact on turnover (3)	3.3%	0.0%	6.7%
Prevented a major decline (4)	10.0%	6.7%	13.3%
Enabled SMEs to survive despite a decline (5)	6.7%	13.3%	0.0%

Source: Author's own

A majority of the respondents (56.7%) were of the view that the VCC regime has enabled SMEs to materially increase their turnover growth. A larger majority of supply-side respondents (80%) held this view, while from the demand-side 46.7% respondents said the VCC regime has only enabled SMEs to maintain stable levels of revenue growth. Ironically, about 13% of supply-side respondents indicated that turnover growth of SMEs was on the decline in general, but the VCC regime enabled SMEs to survive regardless of this decline. It is not clear from the data whether this view is due to a real observation of turnover growth of investee SMEs over the last 5 years or tainted by disruptions due to the COVID-19 pandemic that was prevalent at the time of collecting data for this study. The possibility of the latter being the case cannot be ignored considering comments provided by some respondents regarding the effect of the pandemic on the effectiveness of the VCC regime in South Africa. Nevertheless, the collective view of all respondents (56.7%) indicates that the VCC regime has had a positive impact on SMEs over the past 5 years, enabling them to realise material revenue growth.

3.5.1.2 Question 2: Net Profit

Respondents were asked whether the VCC regime has had an impact on SMEs with regard to net profit growth, as well as the direction of such impact - where increased or maintenance of stable levels of net profit means positive impact, and a decline in net profit means negative impact. Survey results in terms of frequency (%) per impact rating are outlined in Table 6 below.

Table 6 - Impact on Net Profit Growth

	Question 2 (Net Profit Growth)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**
Enabled material increase (1)	43.3%	66.7%	20.0%
Enabled maintenance of stable levels (2)	40.0%	26.7%	53.3%
Had no impact on turnover (3)	0.0%	0.0%	0.0%
Prevented a major decline (4)	13.3%	6.7%	20.0%
Enabled SMEs to survive despite a decline (5)	3.3%	0.0%	6.7%

Source: Author's own

Most supply-side respondents (66.7%) were of the view that the VCC regime enabled SMEs to materially increase their net profit growth over the last five years. On the other hand, a majority of demand-side respondents (53.3%) were of the opinion that the VCC regime led to maintenance of stable levels of net profit growth for SMEs. Collectively, 43% respondents indicated that the VCC regime has had a positive impact on SMEs in terms of increasing net profit growth. This finding is consistent with that of Witowschi and Luca (2016) who revealed that there is a significant positive relationship between capital structure and profitability. In accordance with the findings from this study and those of Witowschi and Luca (2016), profitability of SMEs can be improved by equity investment and any other capital structure adjustments introduced by the VCC regime.

3.5.1.3 Question 3: Return-on-Assets

Respondents were asked about the impact of the VCC regime on SMEs with regard to ROA, as well as the direction of such impact. Survey results in terms of frequency (%) per impact rating are outlined in Table 7 below.

Table 7 - Impact on Return on Assets

	Question 3 (Return on Assets)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**
Became significantly higher (1)	30.0%	53.3%	6.7%
Became somewhat higher (2)	36.7%	20.0%	53.3%
Remained unchanged (3)	26.7%	26.7%	26.7%
Became somewhat lower (4)	6.7%	0.0%	13.3%
Became significantly lower (5)	0.0%	0.0%	0.0%

Source: Author's own

Slightly more than a quarter (26.7%) of the respondents were of the view that the VCC regime has had no impact on the ROA of investee SMEs. This is a rather concerning observation considering that part of the value-add of VCCs for SMEs includes optimising operational efficiencies, which is understood to include ROA optimisation. Unfortunately, none of the themes that emerged from the commentary provided by respondents was of any assistance in explaining this view of no impact on SMEs' ROA.

Nevertheless, 53.3% of supply-side respondents opined the VCC regime had enabled significant increase in SMEs ROA. Similarly, 53.3% of the demand-side respondents were of the view that the impact has been positive, but moderate. Collectively, 66.7% of the respondents agree that the VCC regime has had a positive impact on SMEs' ROA, but over half (36.7%) are of the view that this impact has been only moderately positive. This overall observation is inconsistent with the findings of Ramadan and Ramadan (2015) who observed a significant negative effect of capital structure on ROA, but it is consistent with the assertion by the VC market that VCCs' add-value to investee firms improves efficiencies such as ROA (Colombo & Murtinu, 2016).

3.5.1.4 Question 3: Leverage

Leverage (calculated as total debt divided by sum of total debt and total equity) refers to the extent to which a business utilises borrowed money, and this study is based on the pecking-order theory. According to the pecking-order theory, managers rank their sources of finance in order preference from the least risky option (that is, internal sources such as retained earnings) to much riskier options (that is initially debt and ultimately equity) (Modigliani & Miller, 1963; Binaebi & Frank, 2019).

This premise may seem counter-intuitive considering that the starting point for VCCs and the VCC regime is about raising equity capital for SMEs. However, this study recognises that at a fundamental level, VCCs have a multipronged mandate including to raise equity capital, invest in qualifying SMEs, help maximise value of these SMEs and ultimately maximise return on investment for VC equity investors. Part of delivering on this mandate effectively includes optimising the capital structure of these SMEs. As such, VCCs would, over time, enable SMEs to access debt at favourable terms and increase leverage.

In this study, respondents were questioned on the impact of the VCC regime on SMEs with regard to leverage, as well as the direction of such impact – where increased leverage means positive impact and reduced leverage means negative impact. Survey results in terms of frequency (%) per impact rating are outlined in Table 8 below.

Table 8 - Impact on Leverage

	Question 4 (Leverage)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**
Became significantly higher (1)	6.7%	13.3%	0.0%
Became somewhat higher (2)	36.7%	6.7%	66.7%
Remained unchanged (3)	16.7%	26.7%	6.7%
Became somewhat lower (4)	26.7%	26.7%	26.7%
Became significantly lower (5)	13.3%	26.7%	0.0%

Source: Author's own

The responses reflected material variation, especially among respondents from the supply-side. This is one of the few questions that had a significant number of respondents that had views of both sides of the ratings scales: in all, 43.7% of respondents were of the view that the impact has been on the positive side of the rating scale (i.e. increase leverage), while 40% said the impact has been on the negative side of the rating scale (i.e. reduced leveraged).

Nevertheless, what respondents appeared to agree on is that the VCC regime has had an impact on SMEs' leverage. Although collectively, 37% of respondents indicated a dominating overall rating of 2 (moderate increase of SMEs leverage), the direction of the impact on leverage appears inconclusive due to the material variation and dispersion of ratings along the 5-point scale. In accordance with the premise above, it is possible that the impact on leverage would be negative in early stages of the VCCs' involvement in SMEs' businesses due to increased equity relative to debt as a result of the VC equity capital raised by the VCCs. However, over time, debt levels may increase as SMEs grow and the SME/VCC relationship matures, which would result into a positive impact on leverage. This would be supported by Nadeesha and Pieris (2014) who maintained that there was a positive relationship between debt to total assets and return on capital employed.

The two possibilities above would help explain the findings by Abeywardhana and Magoro (2017) that debt financing in terms of short-term debt had a negative impact on firm performance while long-term debt had a positive impact.

3.5.1.5 Questions 5 to 7: Access to Finance

Due to their weaker bargaining power and higher risk involved for lenders, SMEs are characterised by higher working capital requirements and a greater proportion of short-term finance (Hasheela, 2016; Dlova, 2017). As such, SMEs tend to also pay higher interest rates and other costs of financing (specifically, charges, fees, and commissions) to compensate for higher perceived risk. The VCC regime should be helpful in terms of transitioning qualifying SMEs towards having stronger bargaining power and obtaining more favourable terms and conditions. The survey (Questions 5, 6 and 7) sought views about the extent to which this benefit of the VCC regime has materialised over the last five years.

Table 9 - Impact on interest rates and other costs of finance, and collateral requirements

	Question 5 (Interest Rates)			Question 6 (Other Costs)			Question 7 (Collateral Requirements)		
Response (Impact Rating)	**All**	**Supply Side**	**Demand Side**	**All**	**Supply Side**	**Demand Side**	**All**	**Supply Side**	**Demand Side**
Became significantly more favourable (1)	20.0%	40.0%	0.0%	16.7%	33.3%	0.0%	13.3%	20.0 %	6.7%
Became more favourable (2)	50.0%	26.7%	73.3%	46.7%	33.3%	60.0%	43.3%	33.3 %	53.3 %
Remained unchanged (3)	20.0%	33.3%	6.7%	26.7%	33.3%	20.0%	33.3%	46.7 %	20.0 %
Became less favourable (4)	10.0%	0.0%	20.0%	10.0%	0.0%	20.0%	10.0%	0.0%	20.0 %
Became significantly less favourable (5)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Author's own

Ironically, about 33% of supply-side respondents said interest rates charged from SMEs remained unchanged despite the participation of VCCs in their operations. This is an alarmingly high percentage, considering VCCs are enable or enhance bargaining power of SMEs when securing additional funding. One possible reason for this could be that some VCCs choose to focus on raising equity capital and optimising business efficiencies without renegotiating terms on existing liabilities or securing any additional debt.

A majority of supply-side respondents (66.7%) indicated that SMEs were able to attract favourable interest rates as a result of the VCC regime. Of these, 40% were of the view that the impact was significantly favourable, whereas 26.7% said the impact was moderately favourable. Similarly, about 73% of demand-side respondents held the view that interest rates levels became favourable, but moderately so. Collectively, 50% of the respondents said the VCC regime helped SMEs attract moderately more favourable interest levels.

A third (33.3%) of supply-side respondents and just over a quarter (26.7%) of all respondents were of the view that the VCC regime has had no impact on other costs of financing. Both these numbers are rather concerning, considering that VCCs involvement ought to include optimising efficiencies such as working capital management and trade finance, which should naturally include cost savings. However, it is possible that these respondents either consider the bargaining power to not have improved materially, or VCCs to not have put in much effort in the area of renegotiating favourable cost of financing. If this is indeed the case, it is clearly a lost opportunity for the VCC regime. A more favourable cost of financing would translate into more working capital available for SMEs. Nevertheless, around half of the respondents (46.7%) are of the view that the VCC regime has had a positive impact on SMEs in terms of enabling them to secure moderately favourable costs of financing.

Similar to interest rates and other costs of financing, a good number of supply-side respondents (46.7%) were of the view that the VCC regime has had no impact on securing more favourable collateral requirements for SMEs. Commentary by the respondents did not reveal any explanation for this view. Nevertheless, 43.3% of all respondents said that the VCC regime has had a positive impact on SMEs in terms of enabling them to secure moderately favourable collateral requirements.

3.5.1.6 Overall Impact on Financial Performance

The overall finding from the survey is that the VCC regime has had a positive impact on the financial performance of SMEs. The positive impact has been moderate for 4 of the 7 financial performance variables considered in this study – ROA, collateral requirements, interest rates and other cost of finance (i.e. charges, fees, and commission) – and significant for both turnover and net profit growth. The positive impact on these variables was moderated by a material proportion (though not a majority) of the respondents being of the view that there was no impact. Although the VCC regime appears to have had an impact on SMEs in terms of leverage, the direction of this impact (i.e. whether it was favourable or unfavourable for SMEs) was inconclusive.

These findings indicate that the VCC regime has enabled SMEs to become more profitable (due to increased turnover and net income growth) and more efficient (due to increased returns on assets). However, the regime does not appear to have been able to improve the credit profile of these SMEs (considering the inconclusive direction regarding impact on leverage and material proportions of views that there was no impact in terms of cost of finance). This suggests that the VCC regime does not work according to the pecking order theory, as equity capital is prioritised ahead of debt-oriented capital.

3.5.2 IMPACT ON EMPLOYMENT

In this study, the assessment of impact that the VCC regime has had on SMEs in terms of employment is split into two aspects: employment creation (quantity of jobs) and decent employment (quality of jobs). This is to ensure there is a clear understanding between the overall number of jobs created in the SME sector owing to the impact the VCC regime, and the extent to which the regime has enabled these SMEs to provide decent employment. Although it is possible to deliver on one of these to aspects and fail on the other, ideally the VCC regime should have a positive impact on both aspects.

3.5.2.1 Questions 8 to 11: Employment Creation

The VCC regime is understood to have the potential to stimulate creation and perseveration of jobs, as well as reduce the number of job cuts in the SME sector. Even in instances where there have been job cuts due to operational efficiency, the expectation is that overall net effect of job creation or preservation would be positive.

Based on both the median and mean impact ratings, as indicated in Table 10 below, respondents said the VCC regime has had a positive impact on SMEs in terms of creation and preservation of jobs, but no impact on reducing the number of job cuts. Most importantly, the respondents said the VCC regime has had a positive impact on SMEs in terms of the net job creation.

Table 10 - Employment Creation: mean and median impact rating

		MEAN			MEDIAN		
Question	**Attribute**	**Supply-side**	**Demand-side**	**All**	**Supply-side**	**Demand-side**	**All**
8	Job Creation	1.40	2.00	1.70	1	2	2
9	Job Preservation	1.07	2.13	1.60	1	2	1
10	Job Cuts	2.67	3.00	2.83	3	3	3
11	Net Job Creation	1.20	2.20	1.70	1	2	2

Source: Author's own

3.5.2.1.1 Questions 8 (Creation of New Jobs) and 9 (Preservation of Existing Jobs)

Regarding the impact of the VCC regime in terms of creation and preservation of jobs over the last 5 years, results in terms of frequency (%) per impact rating are outlined in Table 11 below for both variables. A positive impact would mean the VCC regime has enabled SMEs create or preserve more jobs than they would otherwise do.

Table 11 - Impact on job creation and preservation

	Question 8 (Creation of New Jobs))			**Question 9 (Preservation of Existing Jobs)**		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**	**All**	**Supply-side**	**Demand-side**
Enabled significant increase (1)	36.7%	60.0%	13.3%	53.3%	93.3%	13.3%
Enabled some increase (2)	56.7%	40.0%	73.3%	40.0%	6.7%	73.3%
Had no impact (3)	6.7%	0.0%	13.3%	0.0%	0.0%	0.0%
Enabled some decline (4)	0.0%	0.0%	0.0%	6.7%	0.0%	13.3%
Enabled significant decline (5)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Author's own

As high as 93.3% of all respondents were of the view that the VCC regime has enabled SMEs to create and preserve jobs. However, respondents differed in terms of how significant this impact has been. The majority of the supply-side respondents (60% for job creation and 93.3% for job preservation) were of the view that the impact has been significantly positive. A majority of demand-side respondents (73.3%) were of the view that the impact has been moderately positive with regard to both creation of new jobs and preservation of existing jobs. As reflected in Table 10 and 11, respectively - based on the mean, median and frequencies (%), respondents were collectively of the opinion that the positive impact of the VCC regime has been more prevalent in preserving existing jobs than on creating new ones.

This indicates that the VCC regime has been effective in enabling SMEs preserve the jobs they had already created but did not necessarily create any additional jobs. Considering the high unemployment level in South Africa, this is still a commendable upside. However, the question that emerges is whether the preserved jobs are indeed a result of the VCC regime's impact or the SMEs would still have kept those jobs intact. This is considering the commentary provided by some respondents indicating that:

"…this study should not discount the reality that VCCs tend to cherry-pick SMEs that are likely to do well with or without their help" **[RESP_A25]**, *and*

"…that in the past five years, SMEs in general have been growing organically and this growth should not be wrongly attributed to the VCC regime" **[RESP_A04]**.

These are curious comments considering that the VCC regime is meant to enable SMEs to grow and employ more people than it would otherwise be possible. Nevertheless, the collective observation that the impact has been positive in terms of job creation and preservation is consistent with the objectives set out for the VCC regime, which is to enable the SME sector to create as many jobs as possible.

3.5.2.1.2 Question 10: Reduction of Job Cuts

In respect to the impact of the VCC regime on reduction or cutting down of existing jobs due to operational efficiency reasons, the impact ratings are outlined in Table 12 below. A positive impact would mean the VCC regime has enabled SMEs reduce the number of job losses, more than these SMEs would otherwise do.

Table 12 - Impact on loss of existing jobs due to operation efficiency reasons

	Question 10 (Loss of Existing Jobs)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**
Enabled significant decline in cutting down existing jobs (1)	13.3%	20.0%	6.7%
Enabled some decline in cutting down existing jobs (2)	26.7%	26.7%	26.7%
Had no impact on cutting down existing jobs (3)	26.7%	26.7%	26.7%
Enabled some increase in cutting down existing jobs (4)	30.0%	20.0%	40.0%
Enabled significant increase in cutting down existing jobs (5)	3.3%	6.7%	0.0%

Source: Author's own

This question did not reflect convincing results in terms of the impact of the VCC regime. The median impact rating was 3 (no impact) for both sides, and the mean impact rating was 2.67 (moderately positive impact) for the supply side and 3 (no impact) for the demand-side. Even in terms of frequency of responses, more than 50% of respondents on both sides were either of the view that the VCC regime has had no impact, or if any impact, it has been unfavourable for SMEs. Accordingly, the collective view on this question is inconclusive in terms of both impact and direction.

An inconclusive outcome is rather unfortunate considering that this question links to various variables of decent employment. In other words, if variables of decent employment are favourable, then the number of job cuts should decline.

3.5.2.1.3 Question 11: Net Job Creation

Respondents were questioned about the impact of the VCC regime in terms of net job creation; where net jobs created refers to the sum of new jobs created, and existing jobs preserved less jobs lost due to operational efficiency reasons. A positive impact would mean the VCC regime has enabled SMEs to increase net job creation over the last 5 years, more than these SMEs would do without the involvement of VCCs. Survey results in terms of frequency (%) per impact rating are outlined in Table 13 below.

Table 13 - Impact on Net Job Creation

	Question 11 (Net Job Creation)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**
Enabled significantly positive net job creation (1)	46.7%	80.0%	13.3%
Enabled somewhat positive net job creation (2)	43.3%	20.0%	66.7%
Had close to zero net effect on job creation (3)	3.3%	0.0%	6.7%
Enabled somewhat negative net job creation (4)	6.7%	0.0%	13.3%
Enabled significantly negative net job creation (5)	0.0%	0.0%	0.0%

Source: Author's own

The concept of net job creation is particularly important for this study considering it may be virtually impossible for SMEs under the VCC regime to avoid downsizing in order to save their businesses. Although the possibility exists that the VCC regime may yield a negative net job creation due to these downsizing efforts, the expectation is the net job creation is positive since the ultimate intended benefit of the VCC regime is to help reduce the high unemployment levels. It is therefore important to not only be attentive to jobs created and preserved by SMEs under the VCC regime but also look the number of jobs that were lost and the net effect thereof.

On both demand and supply sides, 80% of the respondents indicated that the VCC regime has had a positive impact on SMEs in terms of increasing the net job creation. However, majority of supply-side respondents (80%) were of the view that this positive impact has been significant, whereas majority of the demand-side respondents (66.7%) said the impact being moderately positive. This difference is another reflection of supply-side responses being positively skewed in favour of the VCC regime and the possibility of more bias than the demand-side responses. Nevertheless, based on the mean impact rating (1.70) and frequency (46.7%) of all respondents, the collective view is that the impact has been significantly positive in terms of net job creation.

The collective view that the VCC regime has had a significantly positive impact on SMEs in terms of net job creation is consistent with the intended benefit. However, the question regarding higher job cuts due to operational efficiencies remains open due to the inconclusive outcome referred to earlier. Similarly, a closer look at net job creation should include differentiating between new employment that is genuine, and not simply employment that is double counted or moved from one member of a firm to another within the same network of SMEs and VCCs. For example, a VCC appoints one human resource (HR) manager for five of its investee SMEs and accounts for five jobs created. It does not factor for the four other HR management jobs that could possibly be in place in the absence of a shared HR Manager. Both, the possible increase in jobs and double-counting of jobs created could lead to an inflated view of net jobs created.

3.5.2.2 Questions 12 to 20: Decent Employment

Whether the VCC regime has been effective in addressing the challenges of employment would partly be seen on how well SMEs have been able to provide decent employment.

The collective view of all respondents was that the VCC regime has had a positive impact, enabling SMEs to provide decent employment. The median for all variables of decent employment is rating 2 (moderately positive impact), and as depicted in Figure 3 below, the mean impact rating for 6 of the 9 variables is below 2 (significant positive impact) and the mean impact of the remaining 2 variables is 2 or more, which indicates a moderately positive impact. When ranking the variables of decent employment in terms of mean impact rating, skills development, productivity and job enrichment are the top three variables; and job permanence, income levels and labour relations practices were the bottom three variables.

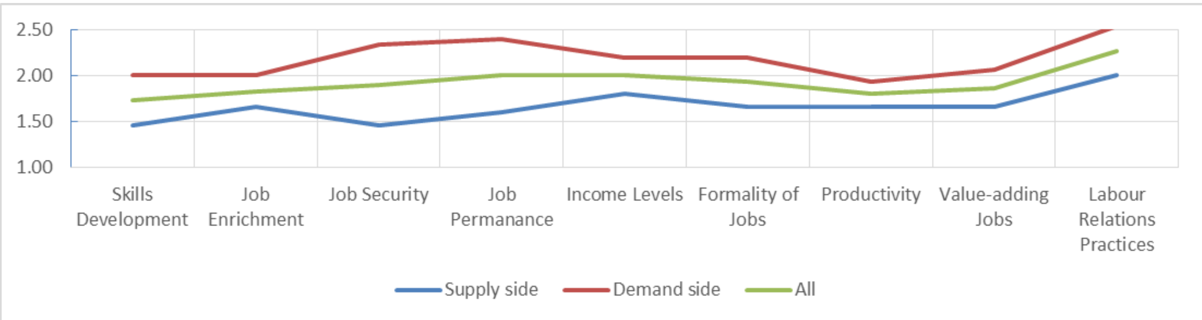


Figure 3 - Mean Impact Rating: Decent Employment variables

3.5.2.2.1 Questions 12 (Skills Development) and 13 (Enrichment)

In this study, skills development refers to deliberate efforts and programmes aimed at adjusting skills of the labour markets so that workers and enterprises improve their productivity and ability to add-value (ILO, 2018); and job enrichment refers to efforts aimed at making work more interesting and challenging for the employees, such as giving more responsibility, creating opportunities for professional growth and recognition (Belyh, 2016). Accordingly, both skills development and job enrichment are variables of decent employment that help assess the extent to which SMEs invest in employees and enhance their employability and productivity.

Respondents were asked questions regarding the impact of the VCC regime in terms of Skills Development (Question 12) and Job Enrichment (Question 13). Survey results in terms of frequency (%) per impact rating are outlined in Table 14 below for both these variables.

Table 14 - Impact on Skills Development and Job Enrichment

	Question 13 (Job Enrichment)			Question 12 (Skills Development)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**	**All**	**Supply-side**	**Demand-side**
Enabled significant improvement (1)	26.7%	40.0%	13.3%	30.0%	53.3%	6.7%
Enabled some improvement (2)	63.3%	53.3%	73.3%	66.7%	46.7%	86.7%
Had no impact (3)	10.0%	6.7%	13.3%	3.3%	0.0%	6.7%
Enabled some decline (4)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Enabled significant decline (5)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Author's own

Respondents from both sides said the VCC regime has had a positive impact in terms of Skills Development and Job Enrichment. A majority of supply-side respondents (53.3%) were of the view that positive impact in terms of Skills Development has been significant; whereas those from the demand side (86.7%) consider this impact to have been moderately positive. Collectively, two-thirds of all respondents opined there was a moderate positive impact in terms of Skills Development. Similarly, in terms of Job Enrichment, respondents from both sides separately (53.3% supply side and 73.3% demand side) and collectively (63.3%) said the VCC regime has had a moderately positive impact on SMEs.

As observed in literature, SMEs are more often only able to hire unskilled workers and are compelled to train them (Gibson & van der Vaart, 2008; Lee, 2014; Piek & Fintel, 2018). This makes SMEs a critical instrument for expanding or uplifting the labour market.

3.5.2.2.2 Question 16 (Income Levels)

In this study, income level refers to the overall level of earnings to employees in respect of gross remuneration in cash and in kind, paid at regular intervals, for time worked or work done together with remuneration for time not worked (Stuart, Pautz & Wright, 2016). Respondents were asked about income levels under the VCC regime over the last 5 years. Survey results in terms of frequency (%) per impact rating are outlined in Table 15 below.

Table 15 - Impact on Income Levels

	Question 16 (Income Levels)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**
Enabled significant improvement (1)	20.0%	26.7%	13.3%
Enabled some improvement (2)	63.3%	66.7%	60.0%
Had no impact (3)	13.3%	6.7%	20.0%
Enabled some decline (4)	3.3%	0.0%	6.7%
Enabled significant decline (5)	0.0%	0.0%	0.0%

Source: Author's own

Respondents from both sides separately (66.7% supply side and 60% demand side) and collectively (63.3%) said the VCC regime has had a moderately positive impact in terms of income levels. A positive impact regarding income levels is particularly important considering that SMEs are widely criticised for not paying wages and salaries that enable workers to escape the bondages of poverty (Oxfam, 2015; ILO, 2018).

3.5.2.2.3 Questions 14 (Job Security), 15 (Job Permanence) and 17 (Job Formality)

Job security, permanence and formality are variables of decent employment that view jobs in relation to the nature, structure and format of the relationship between the employer and employees and assess the sustainability and longevity of jobs within the SME sector. A high degree of these variables can be helpful towards increasing labour market security (which focuses on the risks of workers becoming unemployed and the expected duration of unemployment), and thereby reducing instability of employment levels.

In this study, job security refers to the secure feeling an employee has about the future of their gainful employment; high job security means the individual feels their risk of unemployment is minimal (UpCounsel, 2020). Job Permanence refers to the extent to which employees are eligible for full employee benefits such as leave and medical insurance. Formality of jobs refers to the extent there are clear written rules of recruitment, agreement, and job responsibilities; a standardised relationship between the employer and employee maintained through a formal contract; and employees are expected to work for a set amount of time and for specific salaries or incentives (fundsforNGOs, 2020).

Table 16 - Impact on Job Security, Permanence, and Formality

Response (Impact Rating)	Question 17 (Job Formality) All	Question 17 (Job Formality) Supply Side	Question 17 (Job Formality) Demand Side	Question 15 (Job Permanence) All	Question 15 (Job Permanence) Supply Side	Question 15 (Job Permanence) Demand Side	Question 14 (Job Security) All	Question 14 (Job Security) Supply Side	Question 14 (Job Security) Demand Side
Enabled significant improvement (1)	23.3%	40.0%	6.7%	26.7%	46.7%	6.7%	30.0 %	53.3 %	6.7%
Enabled some improvement (2)	63.3%	53.3%	73.3%	46.7%	46.7%	46.7%	56.7 %	46.7 %	66.7 %
Had no impact (3)	10.0%	6.7%	13.3%	26.7%	6.7%	46.7%	6.7%	0.0%	13.3 %
Enabled some decline (4)	3.3%	0.0%	6.7%	0.0%	0.0%	0.0%	6.7%	0.0%	13.3 %
Enabled significant decline (5)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Author's own

Questions 14, 15 and 17, in the survey were related to these three variables of decent employment (i.e. job security, permanence and formality) respectively; and Table 16 above outlines survey results for these variables in terms of frequency (%) per impact rating.

Respondents said that in terms of all three variables (job security, permanence, and formality), the VCC regime has had a moderately positive impact on SMEs. There is a notable difference regarding responses to job permanence, where a significant percentage of demand-side respondents (46.7%) and small percentage of supply side respondents (6.7%) said the VCC regime has had no impact. Such difference is concerning and could mean either the supply-side is painting an unrealistically positive picture about the VCC regime, or the demand-side is oblivious to the impact the VCC regime has had. Logically, the former is more probable considering that the demand side is made up of SMEs' representative who should be a lot closer to the reality on the ground.

Nevertheless, the frequencies are still significant enough (over 50% responses indicating positive impact) to conclude that similar to the other two variables (job security and job formality), the VCC regime has had a positive impact in terms of job permanence. This positive impact is commendable as it represents a substantive portion of how the VCC regime has been instrumental in improving the extent of decent employment in the SME sector (OECD, 2016b; SEDA, 2019).

3.5.2.2.4 Questions 18 (Employees Productivity) and 19 (Value-Adding Work)

Decent employment pays attention to aspects about the outcome of work done by employees and their direct contribution to the performance of the firm (OECD, 2016a; OECD, 2016b). Equally so, decent employment is attentive to the quality of working environment, which is meant to capture non-economic aspects of job quality and measures the incidence of job strain characterised by high demanding jobs that have few resources to carry out these demands (OECD, 2016a; OECD, 2016b).

In this study, productivity of employees refers to the efficiency of a worker or group of workers in terms of the output in a specific period of time; Value-adding work refers to the extent to which job activities further the purpose of an organisation by generating output that is considered more valuable by its internal and/or external customers than the inputs consumed in producing it (Universal Class, 2020).

Table 17 below outlines survey results, using frequency (%) per impact rating, with regard to the two questions relating the impact of the VCC regime in terms of Employees' Productivity (Question 18) and Value-Adding Work (Question 19).

Table 17 - Impact on Employee Productivity and Value-Adding Work

	Question 19 (Value-Adding Work)			**Question 18 (Employee Productivity)**		
Response (Impact Rating)	**All**	**Suppl y-side**	**Deman d-side**	**All**	**Supply-side**	**Deman d-side**
Enabled significant improvement (1)	26.7%	46.7%	6.7%	30.0%	46.7%	13.3%
Enabled some improvement (2)	60.0%	40.0%	80.0%	60.0%	40.0%	80.0%
Had no impact (3)	13.3%	13.3%	13.3%	10.0%	13.3%	6.7%
Enabled some decline (4)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Enabled significant decline (5)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Author's own

Dominating responses regarding productivity and value-add variables were identical for supply and demand side, respectively. Majority of the supply-side respondents (46.7%) said the VCC regime has had a significantly positive impact in terms of both variables. A majority of demand-side respondents (80%) were of the view that the impact for both variables has been moderately positive. Collectively, a majority of the respondents (60%) opined that the impact for both variables has been moderately positive.

The outcome above is consistent with the commentaries below by respondents (**RESP_A28** and **RESP_A32**) regarding the contribution VCCs make in terms of technological advancements and access to affordable intellectual property, and how these benefits tend to make SMEs and their employees a lot more productive and value-adding. This view is also supported in literature on the basis that VCs' technical skills, management expertise and access to advanced resources enable SMEs to be operationally efficient and optimal (Yuan-Jun, 2014; Ngwenya, 2014; Colombo & Murtinu, 2016).

"*…investors of the VCC regime consist of high net worth individuals, successful entrepreneurs and captains of industry who are willing to provide intellectual capital to SMEs that (they) otherwise would (not) be able to afford* " **[RESP_A28]**

"…the VCC regime enabled growth in the access and use of technology…" **[RESP_A32]**

3.5.2.2.5 Question 20 (Labour Relations Practices)

The last and most important variable of decent employment considered in this study is labour relations practices, which refers to the extent to which employees' rights – to dignity, equality and fair labour practices among others – are respected and protected. In the survey, respondents were asked about the impact of the VCC regime in terms of labour relations practices (Question 20). Survey results in terms of frequency (%) per impact rating are outlined in Table 18 below.

Table 18 - Impact on Labour Relations Practices

	Question 20 (Labour Relations Practices)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**
Enabled significant improvement (1)	16.7%	33.3%	0.0%
Enabled some improvement (2)	43.3%	33.3%	53.3%
Had no impact (3)	36.7%	33.3%	40.0%
Enabled some decline (4)	3.3%	0.0%	6.7%
Enabled significant decline (5)	0.0%	0.0%	0.0%

Source: Author's own

The mean impact ratings (supply side = 2.00; demand side = 2.53; all = 2.27) for labour relations practices indicated this variable of decent employment as having improved the least. Over a third of all respondents on either were of the opinion that the VCC regime has had no impact in terms of Labour Relations Practices. This is rather ironic considering that there is rampant non-compliance to labour relations regulations within the SME sector that cannot be ignored if this sector were to thrive as a sustainable source of employment (SEDA, 2019).

The upside is demand-side respondents (53.3%) were of the view that the VCC regime has had a moderately positive impact in terms of this variable, whereas the supply-side respondents (66.6%) were split equally between significant and moderately positive impact. Nevertheless, the collective view of all respondents (43.3%) indicates that the VCC regime has had a moderately positive impact in terms of Labour Relations Practices. This positive, albeit moderate, impact is of great benefit to the SME sector and the economy at large as it should help alleviate exploitation of employees and help improve compliance to labour relations regulations.

3.5.2.3 Overall Impact on Employment

The overall finding regarding employment creation is that the VCC regime has been effective in enabling SMEs to preserve the jobs they had already created, but not necessarily in creating any new jobs. It was inconclusive from the data whether or not the VCC regime had any impact regarding reduction of job cuts where jobs become redundant due to operational efficiency. Most importantly, the finding indicates that the VCC regime has enabled SMEs to yield positive net job creation. In terms of decent employment, the overall finding is that the VCC regime has had a positive impact on all variables of decent employment. It was concerning though, that there was substantive deviation from this view in terms of two variables (i.e. Job Permanence and Labour Relations Practices), where the view was that there has been no impact.

3.5.3 OVERALL EFFECTIVENESS

In terms of the overall effectiveness of the VCC regime, respondents were asked to indicate whether they agree or disagree that the VCC regime has been effective in: boosting investment into the SME sector (Question 21), growing SMEs into being more commercially viable businesses (Question 22), and having economic benefits outweigh the costs (Question 23). These three variables helped assess the overall effectiveness of the VCC regime as perceived by respondents. Survey results in terms of frequency (%) per impact rating are outlined in the table below for each of these variables.

Table 19 Ratings of Overall effectiveness of the VCC regime

	Question 21 (Investment Boost)			**Question 22 (Growth)**			**Question 23 (Net Benefits)**		
Response (Impact Rating)	**All**	**Supply Side**	**Demand Side**	**All**	**Supply Side**	**Demand Side**	**All**	**Supply Side**	**Demand Side**
Strongly agree (1)	50.0%	86.7%	13.3%	43.3%	80.0%	6.7%	50.0%	93.3%	6.7%
Agree (2)	36.7%	13.3%	60.0%	40.0%	20.0%	60.0%	26.7%	6.7%	46.7%
Not sure (3)	10.0%	0.0%	20.0%	10.0%	0.0%	20.0%	23.3%	0.0%	46.7%
Disagree (4)	3.3%	0.0%	6.7%	6.7%	0.0%	13.3%	0.0%	0.0%	0.0%
Strongly disagree (5)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Author's own

Over 80% of the respondents were of the opinion that the VCC regime has been favourably effective in (a) boosting investment into the SME sector and (b) growing applicable SMEs into more commercially viable businesses. Similar to most variables in this study, supply-side respondents felt more strongly than demand-side respondents about the effectiveness of the VCC regime. Considering the concentrated ratings of the supply-side and the relatively dispersed ratings of the demand-side, the overall rating for both variables in terms of frequency indicate that respondents collectively are of the view that the VCC regime has been effective in (a) boosting investment into the SME sector and (b) growing applicable SMEs into commercially viable businesses.

In terms of question 23 (benefits versus cost of the regime), survey results connote existence of some contention between the supply-side and demand-side respondents. This, considering that 46.7% of demand-side respondents provided a neutral rating, but 93.3 % of supply-side respondents said the overall economic benefits of the VCC regime definitely exceed the economic costs associated with it. However, considering that none of the respondents disagreed with the view that the economic benefits exceed the cost, a logical conclusion is that there is consensus among respondents on the same, and the contention is in terms of the extent which the overall economic benefits exceed the economic costs. The contention is also observable from commentaries provided by respondents in relation to the shortcomings of the VCC regime, which will be discussed later in this chapter.

The collective response to all variables of the overall effectiveness of the VCC regime induce a conclusion that it has been effective, and Section 12J as the underpinning tax incentive policy has had a positive impact on the SME sector.

3.5.4 SECTION 12J EXTENSION BEYOND CURRENT SUNSET DATE

The last of the 24 close-ended questions in the survey asked respondents their views regarding extension the VCC regime[1] beyond its current sunset clause date (i.e. June 2021). The purpose of this question was to assess how respondents link their perceived overall effectiveness of the VCC regime to the rationale to extend (or not) this regime beyond the current sunset date and period of extension considered reasonable. The survey results regarding this question are outlined in the table below.

Table 20 - Ratings on Extension of Section 12J

	Question 24 (Extension)		
Response (Impact Rating)	**All**	**Supply-side**	**Demand-side**
Yes, extend - and with a period longer than 5 years (1)	53.33%	80.00%	26.67%
Yes, extend - but by no more than 5 years (2)	33.33%	20.00%	46.67%
No sure (3)	13.33%	0.00%	26.67%
No, do not extent - the VCC regime has ran its course. (4)	0.00%	0.00%	0.00%
No, do not extent - the VCC regime has proven not to be effective. (5)	0.00%	0.00%	0.00%

Source: Author's own

As depicted in the table above, all respondents were of the view that the VCC regime must be extended beyond its current sunset date. However, there were differing views between the two categories of respondents. Majority of the demand-side respondents (47%) were of the view that the extension must not be more than 5 years. Whereas an overwhelming 80% of supply-side respondents said the extension must be longer than 5 years. Considering the concentrated ratings on the supply-side and the relatively dispersed ratings on the demand-side, the collective view of all respondents is pulled towards the dominating view of the supply side. Thus, collectively, respondents (53.3%) were of the view that the VCC regime

[1] *It is important to note that technically, the extension referred to would be for Section 12J as the underpinning tax incentive policy for the VCC regime. However, considering that termination of Section 12J would by default result in the end of the current VCC regime, the discussion below will continue to refer to extension of the VCC regime.*

has been effective and should therefore be extended beyond the current sunset date by a period longer than 5 years.

The longer extension would be consistent with assertion by Jordaan and Schoeman (2015) that the impact of tax incentives is often only determinable in the long term and as such, the Section 12J tax incentive must also be given sufficient time to embed its impact in the economy of South Africa. Regardless of the perceived success and potential positive impact inherent to section 12J tax incentive, according to respondents, it would still be important to determine by how many years (longer than 5 years) must the extension be. The period should neither be too short that it yields no material benefit, nor too long that it becomes impractical to review of nuances of its performance.

3.5.5 GENERAL COMMENTARY

Considering the qualitative nature of this study, it was important to seek participants' intuitive and emotional impressions of the VCC regime in general to help uncover more than "top of mind" responses provided to the 24 close-ended questions. As such, Question 25 set out to allow respondents to provide commentary, which was used to elicit their insights and sentiments about the VCC regime in general, and highlight any additional factors regarding the impact that this regime has had on SMEs beyond what the 24 questions covered.

Several themes emerged from the thematic analysis on commentaries provided by respondents. These themes can be classified into the following categories: ***prevailing benefits*** reflecting aspects that respondents indicated as invaluable and commendable about VCC regime*;* ***impediments*** highlighting exogenous factors that respondents indicated to prohibit the effectiveness or compromise the impact; ***shortcomings*** highlighting endogenous factors that respondents indicated as limitations or downsides, and if not improved could prohibit the effectiveness or compromise the impact of the VCC regime; and lastly, ***proposed improvements*** indicating recommendations from respondents in terms of improvements they consider necessary for the VCC regime to enhance its effectiveness.

In addition to the themes and theme categories, respondents' commentaries also helped reveal the extent to which they were holistic in their judgement. Accordingly, based on the commentaries, respondents could be classified into three types: advocates, sceptics, and pragmatists. Advocates were those respondents who provided responses to the 24 close-ended questions with predominantly significantly favourable ratings, as well as commentaries that mainly reflected positive sentiment about the prevailing benefits of the

VCC regime. The sceptics were respondents who provided responses to the 24 questions with predominantly unfavourable ratings and some moderately favourable ratings, and their commentary highlighted mostly negative sentiment and reflecting mainly shortcomings and impediments. Pragmatists comprised a hybrid of advocates and sceptics in that they provided responses to the 24 questions with predominantly moderately favourable ratings and commentary that highlighted shortcomings and impediments, and suggested improvements and enablers.

Table 21 – Percentage of respondents, their emerging response type and perspective side

Respondent Types	Demand-side	Supply-side	All
Advocates	23%	37%	60%
Pragmatists	20%	13%	33%
Sceptics	7%	0%	7%

Source: Author's own

A majority of respondents (60%) appear to be advocates of the VCC regime – made up of 23% from the demand-side and 37% from the supply-side. The remaining 13% of respondents from the supply-side emerged to be pragmatists and there was no indication of sceptics from the supply-side. Respondents from the demand-side appeared to be split as 23% advocates, 20% pragmatists and 7% sceptics.

Compelling themes emerged from all three types of respondents, and a majority of these themes indicate a positive sentiment about the VCC regime and the impact it has had on the SME sector. This is not surprising considering that only 7% of respondents were sceptics and their commentary, although compelling and layered with negative sentiments, was not against the VCC regime, but merely pessimistic about the extent of its effectiveness.

Having some supply-side respondents emerging as pragmatists is a credible signal that not all respondents from this side were biased in their responses about the positive impact of the VCC regime and its effectiveness. This is an important signal considering that a majority of the VCC respondents had provided responses that were materially in favour of the regime for 22 of 24 questions, which cast an element of doubt regarding their bias.

3.5.5.1 PREVAILING BENEFITS

Theme: Job Creation and Decent Employment

The respondents maintained that foregone revenue from Section 12J tax deductions is far less compared to the socio-economic benefits realised under the VCC regime, such as the number of jobs created, the provision of decent employment and the reduction of social grants burden on the fiscus. The most dominant theme within the prevailing benefits category was emphasis that the VCC regime has been an effective and affordable tool for creating sustainable jobs.

"*…[the VCC regime] is good for the fiscus and the industry because... investor[s] are taxed [on their capital gains] and a business that can sustain itself will sustain the jobs and hopefully grow its job-base*." **[RE_A29]**

Respondents' commentaries, however, reflect the general view that the VCC regime is yet to show significant impact in terms of ensuring that investee SMEs offer decent employment.

"…although the VCC regime has had a positive impact on the [South African] economy, [a lot more focus] should be on the creation of sustainable jobs and develop skills". **[RESP_A01]**

Some respondents further submitted that the notion of decent employment should not be the burden of the VCC regime, and should not be put ahead of creating jobs, lest business ideas end up not being operationalised for fear of not being able to offer decent employment.

"*…[care must be taken] not to have too much expectation out of the VCC regime. Creating jobs is the highest priority.... Focus on aspects such as decent employment could be an impediment to delivering on this crucial priority [of reducing high unemployment rate in South Africa]"*. **[RESP_A33]**

The commentary regarding job creation benefit is consistent with outcomes regarding net job creation (questions 8 to 11) discussed earlier on this Chapter, where the concluding collective view was that the VCC regime has had a positive impact on SMEs in terms enabling them to create more jobs than those it cut down. However, commentary regarding provision of decent employment is worrisome considering the negative sentiment inherent to these commentaries, which are contrary to the concluding collective view from respondents in terms of decent employment variables (i.e. questions 12 to 20). The negative commentary also brings to question whether the observed positive impact of the VCC regime in terms of any of the decent employment variables may have been coincidental as opposed to having been due to the deliberate commitment and efforts from VCCs. Regardless of what the answer to that question may be, the fact that the commentaries were not against the notion of decent employment, indicates there are still some concerns regarding the importance accorded to decent employment.

Theme: Net effect on tax revenue

The respondents were of the view that the overall tax revenue generated through the VCC regime has been more than the foregone up-front tax deduction. The above view is consistent with concluding collective views regarding revenue (question 1), net profit (question 2) and income levels for employees (question 16) indicating that the VCC regime has had a positive impact on these three variables, enabling SMEs to increase all these variables. This is considering that these variables are among the most common sources of tax types referred to above.

Although the positive net effect on tax review may very well be the case, and if so, should be well appreciated, it is also important not to disregard two other factors in assessing the net effect on tax revenue: (a) multiple-taxation effect, and (b) other costs of the VCC regime. Firstly, the multiple-taxation effect due to the presence of all four types of tax (i.e. income tax, value added tax, withholding tax and capital gains tax) more often than not applies to the same entities or persons, which may be regarded by some investors as excessive and therefore a disincentive. Secondly, the cost of a tax incentive is not only the foregone tax revenue, but also includes tax efficiency loss and increased administration and compliance costs (United Nations, 2018). Nevertheless, it is unlikely that the two factors mentioned above would have increased the overall costs of the Section 12J tax incentive to the extent that these costs exceed the total tax revenue raised in the same tax year through the VCC regime.

Theme: Capital Retention and Mobilisation

Another important theme that emerged is capital retention and mobilisation. In this theme, respondents opined that the VCC regime has helped South Africa retain capital in the economy as capital invested into the SME sector through the VCC regime is capital that could have left South Africa as part of a foreign portfolio investment.

"… [as a result of the VCC regime] wealth of high net-worth individuals in South Africa has been retained in the country as opposed to being invested offshore." **[RESP_A28]**

"*… in addition to capital retention, the [VCC] regime has been instrumental in mobilising capital in SME sector"* **[RE_A23]**

Although the point about capital mobilisation made by respondent [RE_A23] was shared by several others, respondent [RESP_A24] cautioned that capital raised through the VCC regime could be concentrated in some segments of the SME sector, while other segments remain severely neglected.

"…there is proliferation of hospitality and student accommodation through the VCC regime, which undermines the spirit of Section 12J tax incentive and even worse, enriches property developers and the real estate market which is totally over capitalised" **[RESP_A24]**.

Theme: Technological Advancements and Intellectual Capital Access

The theme of access to technology and intellectual capital also emerged from the commentary provided by respondents. Underpinning this theme is the collective view that VCCs have enabled SMEs to get better access to technological resources and intellectual capital at affordable levels, which would have been unlikely in their absence.

"*…investors of the VCC regime consist of high net worth individuals, successful entrepreneurs and captains of industry who are willing to provide intellectual capital to SMEs that (they) otherwise would (not) be able to afford* " **[RESP_A28]**

"…the VCC regime enabled growth in the access and use of technology" **[RESP_A32]**

This theme is consistent with the concluding collective outcomes regarding productivity (question 18) and value-adding work (question 19) variables, where the VCC regime has had a significantly positive impact on SMEs.

3.5.5.2 IMPEDIMENTS

Theme: Economic Disruptions - COVID-19 Pandemic

Respondents indicated that key impediments towards the effectiveness of the VCC regime are economic disruptions that emerge from time to time. The most mentioned economic disruption being the COVID-19 pandemic. Although COVID-19 is particularly mentioned by most respondents, the underlying message from their commentaries is that consideration should be made on the effect that disruptive economic conditions in general have had on the effectiveness of the VCC regime.

According to respondents, part of the reason for being in favour of extending the VCC regime beyond the current sunset date stems from the believe that the VCC regime is effective in helping the economy recover from economic disruptions such as the one caused by the COVID-19 pandemic.

"…the VCC regime will help cushion interruptions and challenges brought up by the current COVID 19 crisis in the SME sector" **[RESP_A33]**

"***…****the VCC regime (is) more relevant now during, and as results of the COVID-19 pandemic and the observed lack of economic stimulus packages seen in developed countries. The [VCC] regime could assist in providing much-needed funding for small businesses".* **[RESP_A31]**

Moreover, the year 2020 was when the VC industry had expected to witness benefits stemming from the VCC regime, but it is now questionable that any real observation can be made in light of economic disruptions exacerbated by the COVID-19 pandemic. As such, respondents were of the view that the VCC regime requires more time to reach its full potential, and help the SME sector recover from the economic downturn caused by the pandemic.

Theme: Policy Uncertainty

Respondents were also concerned that there have been frequent and unpredictable legislative changes relating to the VCC regime. This concern could stem from the significant legislative changes in 2014, then again in 2018 and recently in 2019. Changes to legislation are consistent with the expectation that a tax policy has to be monitored, reviewed and refined continually to ensure its ongoing effectiveness (United Nations, 2018). However, respondents believe it is questionable whether changes introduced lately have led to enhanced effectiveness.

"*…unpredictable changes in the legislation has had a negative impact on investors' confidence on [the VCC regime, which] hampers even the effectiveness of the scheme*." **[RESP_A12]**

Thus, respondents' views indicate that frequent and unpredictable legislative changes compromise the simplicity originally inherent to the VCC regime and create policy uncertainty.

Theme: Stringent Restrictions and Requirements

Respondents expressed concerns regarding stringent restrictions and cumbersome requirements inherent to the VCC regime and indicated that these are serious impediments to the regime operating at its full potential. The two most common examples in this regard relate to SARS status and investment limits.

"…*requirements to be able to qualify as SARS approved status can be difficult and tedious"* **[RESP_A17]**;

"…*the introduction of limits regarding the amount that persons can invest has potential to be problematic in many ways*." **[RESP_A16]**

Concerns regarding the investment limit refers to new investment limits introduced by the National Treasury in 2019, which are ZAR 2.5 million for individuals and trusts, and ZAR 5 million for companies in a VCC structure (SARS, 2019). This means any amount invested into the VCC regime beyond these limits will not be tax deductible. This means the VCC regime's potential to help address the challenge of access to finance faced by SMEs can be hampered by these stringent restrictions and requirements. Moreover, as purposed by Zuccollo (2019), the VC investment industry generally disapproves of this investment limit on the basis that majority of its members will be impacted with the risk of non-compliance as a result of the proposed investment cap, and most importantly, it will have a negative impact on a VCC's potential to create jobs.

3.5.5.3 SHORTCOMINGS

Theme: Power Imbalance

The theme regarding a power imbalance emerged when respondents indicated that the voice of SMEs involved in the VCC regime seems to be overshadowed by the ambitions of the VCCs, and when there was conflict between the two sides, the supply-side appeared to be overpowering the SMEs.

"…*indicated that they believe the VCC regime work for the venture capitalists more than it does for SMEs."* **[RESP_A03]**

"…investee SMEs are at a mercy of VCCs, and operationally, Section 12J tends to benefit the latter more than the former." **[RESP_A05]**

There may be merits to the theme of power imbalance considering that supply-side respondents had more favourable respondents than the demand-side, that most advocates belong to the supply-side, and it also had no sceptics. These perceptions of power imbalances, if true, would be unfortunate as they may lead to uncontainable scope for abuse of power.

Theme: Accessibility and Inclusiveness

One contentious theme that emerged is the accessibility and inclusiveness of the VCC regime in terms of SMEs considered. The underlying message is that since VCCs are free to invest in any SMEs of their choice, there is no obligation to cast their investment net wide and beyond the social circle of the members of these VCCs. As such, the contention regarding this theme is that VC equity investments tend to be made in SMEs whose members or owners are connected in VCC circles, as opposed to SMEs with potential to do well and in dire need of capital.

The alleged exclusionary nature of the VCC regime leads to the opinion that there is over-capitalisation of some segments of the SME sector; accusations that the regime only makes the rich richer as opposed to helping alleviate poverty in the economy; and discrimination of SMEs represented by individuals of some identity markers such as race or gender. Below are some of the commentaries made by respondents in relation this alleged exclusionary nature of the VCC regime:

"*… venture capitalists by nature are not widely available to the general public, which makes it difficult to see the benefits of VCC regime being accessible to diverse a make-up of SMEs in terms of nature of business or identity markers of the owners for these SMEs*." **[RESP_A03]**

"…there is proliferation of hospitality and student accommodation through the VCC regime… feeding the developers and the real estate market which is totally over capitalised." **[RESP_A24]**

"…it would be interesting to know how transformative the VCC space has been, and [how is had fared] in relation to high growth businesses that are predominately black-owned versus those that are predominantly white-owned businesses in the past 5 years." **[RESP_A26]**

The potential lack of accessibility and inclusiveness referred to in this theme, if true, is in serious disregard to the spirit of the VCC regime, which is developmental and transformative in that its end goal is to facilitate provision of decent employment that leads to eradication of poverty and reduction of inequality.

Theme: Capital Deployment Delays

Another theme that emerged was the time it takes for VCCs to deploy capital raised into applicable SMEs.

"… [it would be interesting to know] how significant is the delay between raising investment capital from investors and deploying the raised investment capital into investee SMEs; and whether such significance calls for concern." **[RESP_A33]**

Although it was clear that there were perceived delays between the time the VCC receives equity capital from investors and the point that this capital reaches investee SMEs, it was not clear from the commentaries what the cause for the delay was. However, the possible reasons could include VCCs preferring to gain clarity regarding legislative changes prior to committing capital; or the delay could simply be administration in nature, which might include waiting on capital reaching certain thresholds before the deploy. A significant delay in deploying capital in terms of this theme would mean equity capital withheld by VCCs and not reach SMEs, which defeats the purpose of the VCC regime in terms of boosting investment into the SME sector.

Theme: Single VC Scheme

The last key theme that emerged was that the current VCC regime is underpinned only by the Section 12J tax incentive. Hence, non-extension of the sunset date of this incentive is tantamount to terminating the VCC regime itself. Countries such as the UK and Australia use multiple schemes within their VCC regimes, which enables these countries an opportunity to terminate only schemes that prove ineffective as opposed to the entire regime (Commonwealth of Australia, 2020; HMRC, 2020).

"*It would also be helpful if government could introduce several schemes that complement 12J, which will make it easier for the shortcomings of one scheme to be compensated by another, and for the termination timelines to lag against each other so that at any point in time, the SME sector has some VCC scheme available*." **[RESP_A33]**

3.5.5.4 PROPOSED IMPROVEMENTS

Theme: More time required to make impact

A prominent theme that emerged from the data is where respondents said the VCC regime requires more time to make a meaningful and sustainable impact.

"The *VCC regime is a key component economic development which needs to be given more time*." **[RESP_A15]**

This theme is aligned with the findings on extending the VCC regime beyond the current sunset date (i.e. question 24), which highlighted that it has been effective and should therefore be extended by a period longer than 5 years.

Theme: Formation of a credible body

The formation of a Section 12J Industry Body, though not a benefit of the VCC regime in itself, is also one of the commendable developments, as this body helped to independently inform, educate and advise its members and members of the general public about the impact and importance of the Section12J incentive (Zuccollo, 2019). However, some commentary from 'pragmatist' respondents cautioned that the body may not be sufficient.

"*…it would also be ideal to have a credible and legal body for reporting on developments of this regime - as opposed to the current gentlemen club called 12J…*"**[RESP_A33]**

Although it can be observed in the media that the Section 12J Industry Body has enabled the VCC regime to have an organised key point of contact – to interact with the government, regulatory bodies, the public, the press and business organisations in relation to the Section 12J incentive – the point made by respondents cannot be discounted. Members of the VC industry are not obliged to join the body, and even those who are members are not a representation of the industry. This is likely to be different if the body was of similar standing such as SARS, which has both legitimacy and powers to enforce integrity of information reports by entities under its jurisdiction. It is also curious that a new body was set up as opposed to leveraging on the already existing structures in the VC industry. SAVCA is one such existing organisation that would have been ideal taken on this role.

3.6 CONCLUSION

The research approach adopted for this study was both qualitative and quantitative in nature, based on primary data collected from various stakeholders of the VCC regime, using convenience sampling method. The data variables of the study were based on factors relating to the impact that the VCC regime has had on the financial performance, provision of decent employment and overall effectiveness of qualifying SMEs, as deduced from the existing literature. Descriptive statistics and thematic analysis methods were used for analysing collected data

The overall findings indicate that the VCC regime has had a positive impact on SMEs in terms of financial performance, employment creation and provision of decent employment. The findings also indicate that the VCC regime has been effective in terms of boosting investment into the SME sector, delivering benefits that exceed the cost of having the regime in place and growing SMEs. There were no conflicting views between the supply-side and demand-side in terms of the direction of the impact that VCC regime has had in relation to any of the variables under study. However, for all variables other than leverage, the supply-side provided impact ratings that were more favourable than the demand-side, which indicate a possible bias towards the regime. The next chapter expands on these findings and draws conclusions in relation to the research objectives.

Chapter 4
CONCLUSIONS

4.1 INTRODUCTION

The purpose of this chapter is to outline a summary of the major findings and draw logical conclusions in relation to the research objectives. The chapter ends with the overall conclusion for this study.

4.2 SUMMARY OF FINDINGS AND CONCLUSIONS

The VCC regime is targeted at boosting investment into the SME sector in South Africa, in order to address the challenge of access to finance. The expectation is for the VCC regime to also enable these SMEs to grow and thrive as sustainable businesses, and for them to help reduce unemployment. As such, this study sought to first assess the extent to which financial performance, as a proxy for growth, of qualifying SMEs has changed due to the VCC regime; and second, to analyse the extent to which qualifying SMEs have created and preserved decent employment as a result of the VCC regime.

4.2.1 Financial Performance

It was found that the VCC regime has had a positive impact on the financial performance of SMEs. Although the overall impact in terms of financial performance was moderately positive for most variables, it was significantly positive when it came to turnover and net profit growth – key indicators that qualifying SMEs have grown as viable businesses.

It also found that the VCC regime does not appear to help SMEs improve in terms of debt-related variables. This is considering the inconclusive direction regarding impact on leverage and cost of finance (such as interest rates, fees, and commissions). These are key indicators that the VCC regime might not be an effective tool for improving creditworthiness of applicable SMEs, and a reflection that the regime does not work according to the pecking order theory, as equity capital is prioritised more than debt-oriented capital.

4.2.2 Employment

In terms of employment, it was revealed that the VCC regime had a positive impact on SMEs in terms of net job creation and provision of decent employment. However, the VCC regime has been more impactful in preserving existing jobs and improving provision of decent employment rather than creating new jobs. This means, instead of growing SMEs into becoming businesses that can employ more people, VCCs are more likely to optimise the business and make jobs more meaningful and decent. The downside is that VCCs are also likely to reduce the number of existing jobs within SMEs.

The positive impact that the VCC regime has had in terms of enabling SMEs to enhance their provision of decent employment is highly commendable. This, considering that SMEs are often criticised for having high non-adherence to labour relations practices, sub-standard working conditions and inferior income levels for employees. Considering that SMEs under the VCC regime have shown improvement on all variables of decent employment (i.e. skills development; job enrichment; job security; job permanence; income levels; job formality; employee productivity; value-adding work; and labour relations practices), it is concluded in this study that the SME sector, through policies such as Section 12J tax incentive, does contribute significantly and positively towards economic development.

4.2.3 Overall Effectiveness

In general, the VCC regime has performed below its potential due to various impediments (such as economic disruptions, policy uncertainty and stringent regulatory requirements) and shortcomings (such as power imbalances between the supply-side and demand-side of VC equity, accessibility and inclusion of the VCC market, venture capital deployment delays, and having only one venture capital scheme). However, these impediments and shortcomings notwithstanding, there was no denial on the effectiveness of the VCC regime in terms of boosting investment into the SME sector, growing them into more commercially viable businesses and stimulating economic activity leading to more tax revenue (i.e. more income tax, value added tax, withholding tax and capital gains tax). This overall effectiveness, coupled with the impact in terms of SMEs' finance performance and creation of decent employment, is the basis for concluding that the VCC regime has yielded more economic benefits than the economic costs of having the regime in operation.

4.3 CONCLUSION

In conclusion, the VCC regime, as underpinned by Section 12J tax incentive, has had a positive impact on the South African SME sector in terms of improving financial performance and the ability for SMEs to create decent employment. In addition, the VCC regime has shown to be an effective enabler for SMEs to become commercially viable businesses, and being formidable in expediting poverty alleviation through enhancing provision of decent employment. Therefore, there are merits for extending the VCC regime beyond its current sunset date in order to ensure the South African economy continues to enjoy the benefits that this regime has to offer.

Chapter 5
RECOMMENDATIONS

5.1 KEY RECOMMENDATIONS TO ENHANCE THE VCC REGIME

Based on the findings of this study and conclusions thereof, the researcher proposes three key recommendations. Firstly, extension of the VCC regime beyond its current sunset date by a period longer than 5 years to allow sufficient time for the real potential for the VCC regime to be realised. The decision to extend the regime beyond the sunset must be made and communicated to investors soon to reduce uncertainty and motivate the release of VC capital investment from those who have withheld it pending a decision on the extension of the tax incentive.

Secondly, VCCs should be commended for preserving jobs, creating some jobs and improving SMEs' ability to offer decent employment. However, attention must be paid to the extent to which the net job creation prevails. As businesses become more operationally efficient and require less people to do the same job, or some jobs become obsolete, the alternative to cutting down jobs would be reskilling or upskilling as many of the affected employees as possible, and redeploying them to areas of business that come with growth. This should help minimise the number of job losses in the name of operational efficiency. This way, the VCC regime would demonstrate focus not on survival of SMEs, but also their sustainable growth and provision of decent employment.

Lastly, the South Africa Government should consider introducing other venture capital incentive schemes in addition to Section 12J, and have these additional schemes targeted at specific segments of the SME sector that are struggling to secure capital investment. Having multiple schemes would ensure that each scheme has a focused set of objectives and timelines, as opposed to a quasi-catch-all approach adopted through having only one scheme. One of these additional tax incentives could specifically be aimed at dealing with the explicit requirements and targets pertaining to job creation and decent employment, which may be triggered only when certain targets are met.

5.2 SUGGESTIONS FOR FURTHER RESEARCH

The following recommendations are proposed for future research. Firstly, a quantitative study could be done aimed at evaluating the impact that the VCC regime has on financial performance of SMEs based on secondary financial data obtained from a credible institution such as SARS. This will ensure enhanced credibility, rigour and generalisability of findings that the study in this report could not provide.

The second proposed research is a comparative analysis study looking at financial performance of SMEs that have VCC backing versus those that do not over the short and long term. Such a study would help determine the extent to which SMEs advance due to organic growth relative to growth emanating from the backing of VCCs.

Lastly, a quantitative study evaluating the impact that investment amount limits imposed by National Treasury have had on VC industry and its ability to boost investment into the South African SME sector. The outcomes of such a study would provide empirical evidence for either the National Treasury to demonstrate efficacy of such limits, or the VC Industry to be justified in their request for these limits to be lifted.

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APPENDIX 1: DESCRIPTIVE STATS

6.1 IMPACT RATING: MEDIAN, MEAN VARIANCE & DISPERSION INDEX

Category	Question	Attribute	MEDIAN			MEAN			VARIANCE			INDEX OF DISPERSION (VARIANCE/MEAN)		
			Supply side	Demand side	All	Supply side	Demand side	All	Supply side	Demand side	All	Supply side	Demand side	All
Financial Performance	Question 1	Turnover	1	2	1	1.73	2.00	1.87	2.35	1.00	1.64	1.36	0.50	0.88
Financial Performance	Question 2	Net Profit	1	2	2	1.47	2.40	1.93	0.70	1.54	1.31	0.47	0.64	0.68
Financial Performance	Question 3	Return on Assets	1	2	2	1.73	2.47	2.10	0.78	0.70	0.85	0.45	0.28	0.41
Financial Performance	Question 4	Leverage	4	2	3	3.47	2.60	3.03	1.84	0.83	1.48	0.53	0.32	0.49
Financial Performance	Question 5	Interest Costs	2	2	2	1.93	2.47	2.20	0.78	0.70	0.79	0.40	0.28	0.36
Financial Performance	Question 6	Other Costs	2	2	2	2.00	2.60	2.30	0.71	0.69	0.77	0.36	0.26	0.33
Financial Performance	Question 7	Collateral Requirements	2	2	2	2.27	2.53	2.40	0.64	0.84	0.73	0.28	0.33	0.30
Job Creation	Question 8	Job Creation	1	2	2	1.40	2.00	1.70	0.26	0.29	0.36	0.18	0.14	0.21
Job Creation	Question 9	Job Preservation	1	2	1	1.07	2.13	1.60	0.07	0.70	0.66	0.06	0.33	0.41
Job Creation	Question 10	Job Cuts	3	3	3	2.67	3.00	2.83	1.52	1.00	1.25	0.57	0.33	0.44
Job Creation	Question 11	Net Job Creation	1	2	2	1.20	2.20	1.70	0.17	0.74	0.70	0.14	0.34	0.41
Decent Employment	Question 12	Skills Development	1	2	2	1.47	2.00	1.73	0.27	0.14	0.27	0.18	0.07	0.16
Decent Employment	Question 13	Job Enrichment	2	2	2	1.67	2.00	1.83	0.38	0.29	0.35	0.23	0.14	0.19
Decent Employment	Question 14	Job Security	1	2	2	1.47	2.33	1.90	0.27	0.67	0.64	0.18	0.29	0.34
Decent Employment	Question 15	Job Permanance	2	2	2	1.60	2.40	2.00	0.40	0.40	0.55	0.25	0.17	0.28
Decent Employment	Question 16	Income Levels	2	2	2	1.80	2.20	2.00	0.31	0.60	0.48	0.17	0.27	0.24
Decent Employment	Question 17	Formality of Jobs	2	2	2	1.67	2.20	1.93	0.38	0.46	0.48	0.23	0.21	0.25
Decent Employment	Question 18	Productivity	2	2	2	1.67	1.93	1.80	0.52	0.21	0.37	0.31	0.11	0.21
Decent Employment	Question 19	Value-adding Jobs	2	2	2	1.67	2.07	1.87	0.52	0.21	0.40	0.31	0.10	0.21
Decent Employment	Question 20	Labour Relations Practices	2	2	2	2.00	2.53	2.27	0.71	0.41	0.62	0.36	0.16	0.27
Overall Effectiveness	Question 21	Investment Boost	1	2	2	1.13	2.20	1.67	0.12	0.60	0.64	0.11	0.27	0.39
Overall Effectiveness	Question 22	Growth Enhancement	1	2	2	1.20	2.40	1.80	0.17	0.69	0.79	0.14	0.29	0.44
Overall Effectiveness	Question 23	Net Benefits	1	2	2	1.07	2.40	1.73	0.07	0.40	0.69	0.06	0.17	0.40
Overall Effectiveness	Question 24	Extention	1	2	1	1.20	2.00	1.60	0.17	0.57	0.52	0.14	0.29	0.33

6.2 CORRELATION MATRIX

		Financial Performance							Employment Creation				Decent Employment									Overall			Extension
		Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20	Q21	Q22	Q23	Q24
Financial Performance	Q1	1.00																							
	Q2	0.58	1.00																						
	Q3	0.25	0.40	1.00																					
	Q4	-0.02	-0.25	0.06	1.00																				
	Q5	0.05	0.18	0.06	-0.04	1.00																			
	Q6	-0.12	0.12	0.13	0.22	0.54	1.00																		
	Q7	0.08	0.49	0.12	-0.18	0.39	0.29	1.00																	
Employment Creation	Q8	0.31	0.32	0.37	-0.27	0.25	-0.02	0.31	1.00																
	Q9	0.15	0.49	0.38	-0.30	0.07	0.03	0.29	0.53	1.00															
	Q10	0.06	-0.04	-0.02	-0.15	0.14	0.09	0.11	0.18	0.30	1.00														
	Q11	0.22	0.45	0.35	-0.19	0.13	0.22	0.32	0.57	0.68	0.24	1.00													
Decent Employment	Q12	0.10	0.43	0.42	-0.04	0.42	0.41	0.56	0.29	0.47	0.22	0.28	1.00												
	Q13	0.20	0.29	0.41	-0.09	0.00	0.17	0.00	0.15	0.21	-0.20	0.10	0.41	1.00											
	Q14	0.29	0.44	0.62	0.07	0.03	0.24	0.31	0.37	0.46	0.10	0.47	0.43	0.40	1.00										
	Q15	0.36	0.37	0.30	-0.19	0.10	0.16	0.11	0.23	0.29	0.04	0.22	0.45	0.55	0.52	1.00									
	Q16	0.23	0.26	0.48	-0.12	-0.06	-0.23	0.06	0.33	0.24	0.09	0.18	0.38	0.50	0.49	0.53	1.00								
	Q17	0.11	0.17	0.23	-0.16	-0.03	0.09	0.05	0.20	0.44	-0.10	0.44	0.33	0.48	0.24	0.20	0.29	1.00							
	Q18	0.23	0.13	0.34	-0.04	0.01	0.05	0.16	-0.08	-0.03	-0.05	-0.12	0.37	0.38	0.38	0.53	0.49	0.13	1.00						
	Q19	0.23	0.42	0.50	-0.22	-0.07	-0.11	0.30	0.07	0.23	0.02	0.12	0.41	0.31	0.45	0.52	0.63	0.22	0.74	1.00					
	Q20	0.24	0.33	0.49	-0.01	0.12	0.08	0.25	0.55	0.55	-0.03	0.49	0.26	0.32	0.59	0.30	0.44	0.42	0.19	0.21	1.00				
Overall Effectiveness	Q21	0.22	0.54	0.56	-0.24	0.24	0.05	0.35	0.58	0.58	0.24	0.46	0.61	0.17	0.59	0.35	0.49	0.15	0.14	0.52	0.37	1.00			
	Q22	0.16	0.53	0.53	-0.28	0.27	0.08	0.38	0.54	0.51	0.07	0.38	0.55	0.26	0.60	0.42	0.45	0.09	0.18	0.51	0.28	0.92	1.00		
	Q23	0.26	0.56	0.49	-0.23	0.31	0.35	0.40	0.60	0.55	0.02	0.58	0.63	0.33	0.53	0.50	0.24	0.21	0.23	0.33	0.27	0.69	0.72	1.00	
Extension	Q24	0.28	0.55	0.42	-0.26	0.34	0.03	0.38	0.59	0.66	0.26	0.54	0.53	0.16	0.46	0.13	0.48	0.22	0.05	0.26	0.50	0.77	0.68	0.56	1.00

APPENDIX 2: Legislative Framework - Section 12J

The legislative framework for this study is underpinned by Section 12J of the Income Tax Act of South Africa, which is summarised below based on what the relevant provisions of this Act (RSA, 2020a) and the corresponding VCC regime guide compiled by SARS (SARS, 2020). Section 12J can easily be understood in terms of how it applied to investors, VCCs and SMEs.

A. INVESTORS

Through Section 12J, taxpayers are incentivised to invest in the economy via approved VCCs and it permits such investing taxpayers to deduct the full amount invested into these VCCs from their taxable income for the specific tax year. The investor will benefit from both the tax deduction and a return on the investor’s full investment, provided the investor does not withdraw this investment for a period of five years. In other words, this tax deduction will not be subject to recoupment if the VCC shares are held for longer than five years; but should the investor withdraw or sell their shares within a five-year period, 125% of the tax deduction will be recouped.

To qualify as an investor under the VCC regime, one would have to meet the following requirements: must be a South African taxpayer; must only claim income tax deductions in respect of the expenditure actually incurred to acquire shares in approved VCCs; must provide SARS with proof when the investor claims the relevant tax deduction, and this proof must be a certificate issued by an approved VCC; where any loan or credit is used to finance the expenditure in acquiring a venture capital share and remains owing at the end of the year of assessment, the deduction is limited to the amount for which the taxpayer is deemed to be at risk on the last day of the year of assessment; and no deduction will be allowed if at the end of any year of assessment, after the expiry of a period of 36 months commencing on the first date of the issue of venture capital shares, a taxpayer is a connected person to the VCC.

By way of illustration: if an investor invests ZAR 1 million into a VCC (assuming a maximum marginal tax rate for an individual), the investor will receive a tax credit of ZAR 450,000 on the submission of their tax return for the assessment year in which the investment is made. Effectively, an investor’s risk exposure will be 55%, while earning a return on 100% of their investment.

B. Venture Capital Companies

A VCC operates as a vehicle established to pool together the equity investments of small investors and a financier to SMEs by using the funds of the small investors to invest in qualifying SMEs. For an entity to qualify and operate as a VCC, it must meet all of the following preliminary requirements for each year of assessment, including: being approved to operate as a VCC by the Commissioner of SARS; being a resident of South Africa with the sole object of managing investments in qualifying SMEs; have its tax affairs in order; and be registered and licensed to operate as a Financial Service Provider with the Financial Sector Conduct Authority.

A minimum of 80% of the expenditure incurred by the VCC to acquire assets must be for qualifying shares, and ensure that each investee SME, immediately after the issuing of the qualifying shares, holds assets with a book value not exceeding: ZAR 500 million in any junior mining company; or ZAR 50 million in any other qualifying company. The expenditure incurred by the VCC to acquire qualifying shares in any one qualifying SMEs must not exceed 20% of any amounts received in respect of the issue of venture capital shares.

C. QUALIFYING SMES

In order for an SME to qualify for VC equity investment in accordance with Section 12J, the SME must be a tax-compliant South African entity, trading mainly inside the country, not be a controlled group company, and may not operate in impermissible trades listed in Table 2.

The qualifying SME must immediately after the issuing of the qualifying shares, hold assets with a book value not exceeding ZAR 500 million in any junior mining company; or ZAR 50 million in any other qualifying SME. The SME must limit participation and voting rights of persons with, or connected to persons with, shares in its VCC to more than 50%. Similarly, the investee SME must not carry on any trade in relation to a venture, business or undertaking or part thereof that was acquired by that SME, directly or indirectly, from a person who holds a share in a VCC to which that SME has issued any share; or who is a connected person in relation to a person who holds a share in that VCC.

Section 12J has a sunset provision, which schedules the tax incentive to end on 30 June 2021.The purpose of this provision is to allow for a review of the effectiveness of the VCC regime, subsequent to which a decision will then be made as to whether or not to extend the VCC regime beyond the current scheduled end date. This sunset provision is consistent with the recommendation by the United Nations (UN) (2018), which states that tax policies must indicate the time from which the tax incentive will apply (sunrise) and for how long it should apply (sunset); and also review the success of the incentive during its operational phase.

APPENDIX 3: SURVEY

8.1 LETTER TO PARTICIPANTS

The impact of Section 12J Venture Capital Companies' regime on the Small and Medium Enterprises in South Africa

Dear <<Participant>>

Thank you for participating in this survey.

I am conducting a study aimed at assessing the impact that the Section 12J VCC regime has on the SMEs in South Africa, with specific focus on the overall employment and financial impact. This study forms part of requirements for my Master of Commerce in Development Finance at the University of Cape Town and has been approved by the Commerce Faculty Ethics in Research Committee.

I humbly request that you take about 20 minutes of your time to complete the questionnaire and submit it as soon as possible. Instructions for completing the questionnaire are included in the online form.

Please note that all individual responses will be kept anonymous; and only aggregated responses will be analysed and included in the research report. Your participation is voluntary and no form of punishment or reward is linked to this activity. You can choose to withdraw from the research at any time.

For any questions or concerns about completing the questionnaire or your participation in this study, you may contact me at makhalemele@gmail.com.

Your participation represents a valuable contribution to this research.

Thank you in advance for completing and submitting the questionnaire.

Yours sincerely,
Moeketsi Makhalemele

8.2 QUESTIONNAIRE

The Impact of Section 12J Venture Capital Companies' Regime on the Small and Medium Enterprises in South Africa

The primary objective of the Venture Capital Companies (VCC) regime, in terms of Section 12J of the Income Tax Act, is to help address the challenge of access to finance faced by Small and Medium Enterprises (SMEs) in South Africa. The SMEs are in turn expected to grow into sustainable businesses and help reduce the high level of unemployment in South Africa.

The purpose of this research study is to assess the impact that the VCC regime has had on the SMEs in South Africa, with specific focus on financial performance of these SMEs and their provision of decent employment.

Questionnaire Guidelines

This questionnaire comprises 25 questions in total, and these are divided into three sections as follows:
SECTION A: FINANCIAL IMPACT (7 Questions)
SECTION B: EMPLOYMENT IMPACT (13 Questions)
SECTION C: OVERALL IMPACT & FORWARD LOOKING (5 Questions)

The estimated time to respond to all questions is 20 minutes.

Please respond to all questions based on your own experience or perception of the impact that the VCC regime has had on the SMEs in South Africa.

SECTION A: FINANCIAL IMPACT (7 Questions)

Question 1	How would you characterise the impact of the VCC regime on SMEs' **turnover growth** in the past 5 years?
A	Enabled material increase in turnover growth
B	Enabled maintenance of stable levels of turnover growth
C	Had no impact on turnover growth
D	Prevented a major decline in turnover growth
E	Enabled SMEs to survive despite a decline in turnover growth

Question 2	How would you characterise the impact of the VCC regime on SMEs' **net profit growth** in the past 5 years?
A	Enabled material increase in net profit growth
B	Enabled maintenance of stable levels of net profit growth
C	Had no impact on net profit growth
D	Prevented a major decline in net profit growth
E	Enabled SMEs to survive despite a decline in net profit growth

Question 3	*In this study, Return-on-Assets refers to how efficient a business is at using its assets to generate earnings; calculated as earnings before interest and tax divided by total capital.* How would you characterise the impact of the VCC regime on SMEs regarding **Return-on-Assets** in the past 5 years?
A	Became significantly higher
B	Became somewhat higher
C	Remained unchanged
D	Became somewhat lower
E	Became significantly lower

Question 4	*In this study, **leverage** refers to the extent to which a business is utilising borrowed money; and it is calculated as total debt divided by sum of total debt and total equity.* How would you characterise the impact of the VCC regime on SMEs regarding **leverage** in the past 5 years?
A	Became significantly higher
B	Became somewhat higher
C	Remained unchanged
D	Became somewhat lower
E	Became significantly lower

Has the VCC regime improved access to other forms of financing and done so with better the terms and conditions which SMEs would have been unlikely to obtain with the support and backing of the VCCs.

Question 5	How would you characterise the impact of the VCC regime on **the level of interest rates** for SMEs in the past 5 years?
A	Became significantly favourable
B	Became more favourable
C	Remained unchanged
D	Became less favourable
E	Became significantly less favourable

Question 6	How would you characterise the impact of the VCC regime on the **level of the cost of financing other than interest rates** [e.g. charges, fees, commissions] for SMEs in the past 5 years?
A	Became significantly favourable
B	Became more favourable
C	Remained unchanged
D	Became less favourable
E	Became significantly less favourable

Question 7	How would you characterise the impact of the VCC regime on **collateral requirements** for SMEs in the past 5 years?
A	Became significantly favourable
B	Became more favourable
C	Remained unchanged
D	Became less favourable
E	Became significantly less favourable

SECTION B: EMPLOYMENT IMPACT (13 Questions)

The VCC regime has had potential to stimulate creation, perseveration or destruction of jobs in the SME sector. The hope has been that even in the instances where there has been job cuts due to operational reasons under the VCC regime, overall net effect of job creation or preservation would be positive.

Question 8	How would you characterise the impact of the VCC regime on **SMEs regarding creation of new jobs** in the past 5 years?
A	Enabled significant increase in creation of new jobs
B	Enabled some increase in creation of new jobs
C	Had no impact on creation of new jobs
D	Enabled some decline in creation of new jobs
E	Enabled significant decline in creation of new jobs

Question 9	How would you characterise the impact of the VCC regime on **SMEs regarding preservation of existing jobs** in the past 5 years?
A	Enabled significant preservation of existing jobs
B	Enabled some preservation of existing jobs
C	Had no impact on preservation of existing jobs
D	Enabled some decline in preservation of existing jobs
E	Enabled significant decline in preservation of existing jobs

Question 10	How would you characterise the impact of the VCC regime on **SMEs regarding cutting down existing jobs due to operational efficiency reasons** in the past 5 years?
A	Enabled significant decline in cutting down existing jobs
B	Enabled some decline in cutting down existing jobs
C	Had no impact on cutting down existing jobs
D	Enabled some increase in cutting down existing jobs
E	Enabled significant increase in cutting down existing jobs

Question 11	How would you characterise the impact of the VCC regime on **SMEs regarding net job creation** in the past 5 years? *Net jobs created = New Jobs + Preserved Jobs - Destructed Jobs (i.e. jobs cut down)*
A	Enabled significantly positive net job creation
B	Enabled somewhat positive net job creation
C	Had close to zero net effect on job creation
D	Enabled somewhat negative net job creation
E	Enabled significantly negative net job creation

The VCC regime had potential to perpetuate or improve the quality or decency of employment in the SME sector. In this study, decent employment is looked at from perspectives of skills development, job enrichment, job security, income levels, permanence, formality, productivity, value-add, and labour practices.

Question 12	How would you characterise the impact of the VCC regime on SMEs regarding **skills development of employees** in the past 5 years? *Skill Development refers to deliberate efforts and programmes aimed at adjusting skills of the labour markets so that workers and enterprises can improve their productivity and ability to add-value.*
A	Enabled significant improvement
B	Enabled some improvement
C	Had no impact
D	Enabled some decline
E	Enabled significant decline

Question 13	How would you characterise the impact of the VCC regime on SMEs regarding **job enrichment of employees** in the past 5 years? *Job Enrichment refers to refers to efforts aimed at making work more interesting and challenging for the employees, such as giving more responsibility than what originally applied to the job, creating opportunities for professional growth and recognition*
A	Enabled significant improvement
B	Enabled some improvement
C	Had no impact
D	Enabled some decline
E	Enabled significant decline

Question 14	How would you characterise the impact of the VCC regime on SMEs regarding **job security** in the past 5 years? *Job Security refers to the secure feeling an employee has about the future of their gainful employment; high job security means that the individual feels their risks of unemployment are minimal.*
A	Enabled significant improvement
B	Enabled some improvement
C	Had no impact
D	Enabled some decline
E	Enabled significant decline

Question 15	How would you characterise the impact of the VCC regime on SMEs regarding **job permanence** in the past 5 years? *Job Permanence refers to the extent to which employees are eligible for full employee benefits such as leave, medical insurance or similar.*
A	Enabled significant improvement
B	Enabled some improvement
C	Had no impact
D	Enabled some decline
E	Enabled significant decline

Question 16	How would you characterise the impact of the VCC regime on SMEs regarding **income levels of employees** in the past 5 years? *Income levels refers to the overall level of earnings to employees in respect of gross remuneration in cash and in kind paid, as a rule at regular intervals, for time worked or work done together with remuneration for time not worked, such as annual vacation, other type of paid leave or holiday.*
A	Enabled significant improvement
B	Enabled some improvement
C	Had no impact
D	Enabled some decline
E	Enabled significant decline

Question 17	How would you characterise the impact of the VCC regime on SMEs regarding **formality of jobs** in the past 5 years? *Formality of Jobs refers to the extent to employment has clear written rules of recruitment, agreement and job responsibilities; a standardised relationship between the employer and the employee maintained through a formal contract; and employees expected to work for a set amount of time and for specific salaries or incentives.*
A	Enabled significant improvement
B	Enabled some improvement
C	Had no impact
D	Enabled some decline
E	Enabled significant decline

Question 18	How would you characterise the impact of the VCC regime on SMEs regarding **productivity of employees** in the past 5 years? *Productivity of Employees refers to the efficiency of a worker or group of workers in terms of the output of an employee in a specific period of time.*
A	Enabled significant improvement
B	Enabled some improvement
C	Had no impact
D	Enabled some decline
E	Enabled significant decline

Question 19	How would you characterise the impact of the VCC regime on SMEs regarding **value-adding work** in the past 5 years? *Value-adding work refers to the extent to which activities of a job further the purpose of an organization by generating output that is considered more valuable by its internal and/or external customers than the inputs consumed in producing it.*
A	Enabled significant improvement
B	Enabled some improvement
C	Had no impact
D	Enabled some decline
E	Enabled significant decline

Question 20	How would you characterise the impact of the VCC regime on SMEs regarding **labour relations practices** in the past 5 years? *Labour Relations Practices refers to the extent to which employees' rights - to dignity, equality and fair labour practices amongst others – are protected.*
A	Enabled significant improvement
B	Enabled some improvement
C	Had no impact
D	Enabled some decline
E	Enabled significant decline

SECTION C: OVERALL IMPACT & FORWARD LOOKING (5 Questions)

Question 21	In general, do you agree that the VCC regime has been effective in boosting investment into the SME sector?
A	Strongly agree
B	Agree
C	Not sure
D	Disagree
E	Strongly disagree

Question 22	In general, do you agree that the VCC regime has been effective in growing SMEs into being more commercially viable businesses?
A	Strongly agree
B	Agree
C	Not sure
D	Disagree
E	Strongly disagree

Question 23	Would you agree that, in general, the economic benefits for having the VCC regime in place exceed economic costs?
A	Strongly agree
B	Agree
C	Not sure
D	Disagree
E	Strongly disagree

Question 24	In general, what is your view regarding question of extending the VCC regime beyond its current sun-set clause date (i.e. June 2021)?
A	Yes, extend - and with a period longer than 5 years
B	Yes, extend - but by no more than 5 years
C	No sure
D	No, do not extent - the VCC regime has ran its course.
E	No, do not extent - the VCC regime has proven not to be effective.

Question 25	What are your general sentiments about the VCC regime, which you believe the researcher should consider in this study?
A	<<Free Text>>