

**Institutional Framework for Promoting and Supporting Small, Micro and
Medium Enterprise in South Africa: Supply Perspective**

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ABSTRACT

All around the world, many studies demonstrate the importance of Small, Micro and Medium Enterprises (SMMEs) in lifting-up the economy and creating employment. Many governments around the world have created institutions with the aim to enhance SMME survival and growth. This in turn contributes to social and political stability in a country. Despite the importance of SMMEs to the economy and employment creation, in South Africa studies (Hallberg, 2000; World Bank, 2000; World Bank, 2007; SBP, 2014; GEM, 2015, & Edinburg Group, 2015) show that government policy hinders the development and growth of SMMEs. One of the most cited government policies that hinder SMME development and growth is the *institutional framework*.

Institutions are viewed as the platform that could be used to apply formal and/or informal “rules of the game” in society. These institutions play a critical role for the individuals and organisations (our emphasis) to manage unforeseen events, outcomes and high transaction costs. In order for the institutional platforms to remain relevant, it is critical that they are developed to meet the needs of entrepreneurs and SMMEs, since in actual fact they are the ones, which need the institutional platforms for growth.

The National Planning Commission through the National Development Plan (NDP, 2013) stresses the need for South Africa to create a conducive business environment. This means eliminating policy and regulatory constraints in order to accelerate development and growth of SMMEs. It is also stated that the institutional matrix plays a crucial role to ensuring that organisations remain viable, profitable and survive growth phases. To experience successful change process, organisations need to appreciate the constraints that hinder development. Hence it is important to ensure that governments create business environment that respond to the needs of the SMMEs.

The aim of the study was to examine the current South Africa’s institutional framework for SMMEs and find out if the designed and implemented programmes appropriately meet the demands of SMMEs in South Africa. The objectives of the study were to review various *institutional frameworks* for promoting and supporting SMMEs that are promoting and supporting SMMEs around the world and in South Africa; to assess the extent to which

SMMEs support institutions were designing and implementing support services and strategies that responded to the short- and long-term needs of SMMEs.

The research study found that the key institutional constraints perceived by public sector service providers as inhibiting the development of SMMEs in South Africa are the following: there is low coordination between organizations supporting SMMEs; inadequate management skills, in particular financial management; lack of domestic and global market access; high regulatory burden, to clear the red tape and lack of access to information and technology infrastructure. This research study advances that solid institutions can help to improve and enhance the role of SMMEs in meeting government's developmental objectives. This view was enabled by the research approach to gather primary information from public sector experts supporting SMMEs, but it also affirms that the views narrated would be subjective.

The research study argues that South Africa has a relatively developed institutional framework that supports growth and development of SMMEs. However, the plethora of government programmes administered in various levels of government; different departments and agencies coupled with limited resources has caused fragmentation. The findings in this research study show that government agencies including their oversight holding departments have shown substantial overlap indications in terms of their programmes offering. Further, the findings indicate that there is inadequate interaction with the private sector, SMMEs associations, higher education institutions including civil societies in designing programmes, as result the needs of SMMEs are not properly considered. It essential to improve partnerships in programmes that support export promotion, innovation and training and development.

The research study further proposes that South Africa, should adopt and adapt the institutional structures applied in Malaysia and the United States of America (USA). Their institutional structures support a high level body that includes both the political representation and private sector, SMMEs associations, higher education institutions including civil society representation in its composition. This way, social partners would be enabled to influence policy and programme development in relation to the SMME industry. The thesis emphasises the important role of a partnerships approach in implementing development programmes. Further, the thesis argues that what is vital is to listen and incorporate the needs of the

business owners, and ensure that policies and programmes meet the expectations of the SMMEs.

Acronyms

DFIs: Development Finance Institutions

DTI: Department of Trade and Industry

DSBD: Department of Small Business Development

SBA: Small Business Administration, USA

SEDA: Small Enterprise Development Agency

SEFA: Small Enterprise Finance Agency

GEM: Global Entrepreneurship Monitor

IDC: Industrial Development Corporation, RSA

NEC: National Economic Advisory Council, USA

NEF: National Empowerment Fund, South Africa

NDP: National Development Plan

NYDA: National Youth Development Agency

OECD: Organization for Economic Co-operation and Development

RFC: Reconstruction Finance Corporation, USA

SBA: Small Business Administration, USA

SBIC: Small Business Investment Company, USA

SDPA: Small Defence Plants Administration, USA

SMME: Small, Medium, and Micro Enterprise

SWPC: Smaller War Plants Corporation, USA

WB: World Bank

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CHAPTER 1: INTRODUCTION TO THE RESEARCH STUDY

1.1 BACKGROUND TO THE STUDY

Globally, studies (Wennekers, Uhlaner & Thurik, 2002; Abor, 2007; Fuchs, Lacovone, Jaeggi, Napier, Pearson, Pellegrini & Sanchez, 2011; Tewari, Skilling, Kumar & Wu, 2013; Neneh, & 2014) demonstrate the importance of Small, Micro and Medium Enterprise (SMMEs) in lifting-up the economy and creating employment, and thus creating social and political stability in a country. The Edinburg Group (2015) reported that small business enterprises represented 52 per cent of the private sector value added, and thus mark a crucial global economic contribution. Further, SMMEs play an important role in job creation, and it is visible in both developing and developed countries (Edinburg Group, 2015). In low income countries, in which the small business sector is predominantly constituted by informal enterprises its contribution to GDP ranges to 16 per cent, in high income countries small business sector contributes to 51 per cent of the GDP (Edinburg Group, 2015).

The Edinburg Group (2015) report outlined that in the Organisation for Economic Cooperation and Development (OECD) economies, approximately 95 per cent of firms are SMMEs, representing 55 per cent of GDP. Abor (2007) suggests that SMMEs in South Africa make up approximately 91 per cent of formal business, and further contribute between 52 and 57 per cent to GDP. In South Africa SMMEs contribute approximately 61 per cent, and about 80 per cent in Ghana towards employment (Abor & Quartey, 2010).

In South Africa, despite the importance of SMMEs to the economy and employment creation, studies revealed that government policy hinders SMMEs development and growth (Hallberg, 2000; World Bank, 2000; World Bank, 2007; SBP, 2014; GEM, 2015; Edinburg Group, 2015). One of the most cited government policies that hinder SMME development and growth is the institutional framework. Institutions are viewed as the platform that could be used to apply the “rules of the game” in society, they may be formal or informal (North, 1990). Both formal and informal institutions play a critical role for the individuals to manage unforeseen events, outcomes and high transaction costs (Menard & Mary, 2008).

Formal institutions are defined as the written rules and agreements that govern contractual relations and corporate governance; constitutions, laws and rules that govern politics,

government, finance, and society more broadly. While, informal institutions are unwritten codes of conduct, norms of behaviour, and beliefs including strategic operation programmes and strategies (Menard & Mary, 2008). Co (2004) emphasised that institutional platforms (policies, laws and regulations, programmes and services) should be solid to enable growth of SMMEs (Co, 2004). Consequently, in order for the institutional platforms to remain relevant, it is critical that they are developed to meet the needs of the entrepreneurs and SMMEs, since in actual fact they are the ones, which need the institutional platforms for growth. Hence, many governments around the world have created institutions with the aim to enhance SMME survival and growth (OECD, 2014).

The National Planning Commission through its National Development Plan (NDP, 2013) emphasises the need for South Africa to create a conducive business environment that would eliminate policy and regulatory constraints in order to accelerate development and growth of SMMEs. Shirley (2008) advocated for an integrated institutional support for development that will incorporate knowledge centre to support innovation and human capital development. It is essential for countries to create an environment that would promote investment and to ease constraints that hinder business activity (Shirley, 2008). Co (2004) stressed that organisations need to be created to take advantage of the opportunities provided within a given institutional framework. Hence it is important to ensure that governments create business environment that respond to the needs of the SMMEs. The right policies and/or programmes should be developed taking into account the expectations of the entrepreneurs and SMMEs (Co, 2004). Shirley (2008) advanced that countries should not ‘copy and paste’ institutions established in other countries, they should adapt them to fit the local conditions, and thus must demonstrate a ‘good fit’ feature aligned to the host country’s belief and norms.

The OECD (2014) advanced that the way the institutional framework is designed plays an important role in how effectively the policy is implemented. In today’s society, with rapid flow of information and increased uncertainties, human beings have created institutions to insulate the risks. North (2008), raised the importance of perceptions of individual actors in a particular setup, be it political, economic or social, on how they influence the shape of a particular institutions in order to insulate risks and improve organisational performance to become competitive.

Further, North (2008) stated that the institutional matrix plays a crucial role to ensuring that organisations remain viable, profitable and survive growth phases. To experience successful change process, organisations need to appreciate the constraints that hinder development (North, 2008). In a more pragmatic sense, one held believes need to be aligned with reality in order for the policies and programmes that are created meet the intended outcomes or results (North, 2008). Internal organisational arrangements are as important as the external market dynamics (Coase, 2008). Coase (2008) emphasised the point that decisions on how to allocate resources in a strategic manner are made by individuals within organisations, and thus organisational arrangements are key in the performance of the organisation other than the market. Coase (2008) articulated that apart from how prices influences the function of the market, transaction costs such as negotiations, internal organisational arrangements, operational decisions, development of contracts, interface actions with key stakeholders such as suppliers including customers are an integral part for an effective and efficient market (political, economic and social). To this end, incentive initiatives and governance structures become important in order to mitigate conflict in a desire to realise mutual gains for the better functioning of the market (Williamson, 2008).

Shirley (2008), building from North and Coase advanced that high transaction costs and lack of institutions that would protect property rights deter investment. An integrated institutional support that would strengthen and enhance organisational performance cannot be over-emphasised (Shirley, 2008). Further, knowledge centres that would support innovation and human capital development should be created (Shirley, 2008). Shirley (2008) stressed a need for the creation of an environment that would promote investment and to ease constraints that hinder business activity. The main objective is to ensure an effective and efficient market performance to meet better economic and social development outcomes.

Institutions could be inherited, and their change would be determined by the demands of the organisations to insulate transaction costs (Murrell, 2008). One needs to look at institutional setup in a dynamic way, thus institutions evolve and are not static. Quality of institutions remains a critical factor, proper functioning of the state organs (including ease regulatory burden) would support overall performance of the sector of the economy and society (Murrell, 2008).

1.2 MACRO OVERVIEW OF SOUTH AFRICA SMME

In 1996, the National Small Business Act which provides for a financial and non-financial support for SMMEs was passed. According to the World Bank (2000) and Bureau for Economic Research (BER) (2016), Ntsika Enterprise Promotion Agency focused on the non-financial support, and the Khula Finance Agency provided financial services. The Department of Trade and Industry (DTI) played an oversight function over the two SMMEs support agencies. Socio-economic policy initiatives were also initiated such as the Broad Based Black Economic Empowerment (BBBEE) codes of Good practice in an attempt to address equity and economic policy considerations to ensure that black businesses fully participate the South African economy. In 2005, the South African government passed the Integrated Small Business Strategy, with main three pillars to increase the supply of financial and non-financial support; creating demand for SMMEs products or services; and to reduce regulatory constraints that hinder the growth of SMMEs.

South Africa's institutional platform has evolved over the years. Currently, South Africa has various departments and agencies which offer non-financial and financial services to SMMEs. The Department of Trade and Industry has an internal support programme for SMMEs, and further exercises oversight function over public entities; Export Credit Insurance Corporation of South Africa SOC Ltd and the National Empowerment Fund (NEF). Both the Departments of Economic Development and the newly formed Department of Small Business Development which was established in 2014 play an oversight role over the State Enterprise Finance Agency (SEFA). According to the National Expenditure Estimates (2015 and BER (2016) Khula Finance was merged with the South Africa Micro-Finance Apex Fund (SAMAF). Interestingly, SEFA is a subsidiary of the Industrial Development Corporation (IDC), a development finance agency which falls under the oversight of the Department of Economic Development (Timm, 2011 and National Expenditure Estimates, National Treasury, 2015). The Department of Science and Technology plays an oversight function over the Technology Innovation Agency (TIA) to fund innovation. The Presidency oversees the functioning of the National Youth Development Agency (NYDA), which provides non-financial and financial support to small businesses owned by young people (Timm, 2011 and BER, 2016). Further, the National Treasury, through the Land Bank provides support to small and micro farmers, including

farm workers. In addition, various departments and all provincial agencies provide SMMEs support (National Treasury, Budget Review, 2014).

In spite of the efforts by the South African government to promote SMME development, in numerous studies (Hallberg, 2000; World Bank, 2000; World Bank, 2007, Endeavor, 2012, PWC, 2015 & Simodisa, 2017), SMMEs in South Africa raised various challenges such as lack of access to finance, taxation, crime, infrastructure support, corruption, regulatory burden including poor reach of government support programmes to intended beneficiaries that hindered their development and growth and some of these challenges still persist till to date (GEM, 2015). The institutional constraints are not only experienced by South Africa, but also peculiar to other Africa countries. In the case of Ghana and Nigeria, some of the institutional constraints were mentioned as some of the factors that hinder small business development (Erastus, Stephen, & Abdullai, 2014; Ode, Wombo, Ede Ekpe & Mile Ngodoo, 2014). From a strategic policy perspective, the current form of South Africa's institutional support to SMMEs has been regarded problematic for strategic coordination purposes (NDP, 2013). By observing public policy debates, the new department for Small Business Development could serve as an addition to the already plethora of departments and agencies supporting SMMEs. It appears that there is a need for government in all spheres to improve efficiency and effectiveness of governance (SBP, 2014). Studies (Fuchs, et al., 2011; World Bank, 2007; Timm, 2011, & SBP, 2014) emphasised that government agencies including their oversight holding departments have shown substantial programmes overlap. Hence, other studies (Fuchs, Lacovone, Jaeggi, Napier, Pearson, Pellegrini & Sanchez, 2011; World Bank, 2007; Timm, 2011, & SBP, 2014) advocated for reconfiguration of South Africa's institutional platform for financing and non-financial support of SMMEs.

Hallberg (2000) and Endeavor, (2012) offered that SMME promotion and support should be demand driven rather than supply driven. The emphasis should be on the needs of the SMMEs. In South Africa, researchers (Hallberg;2000; Endeavor,2012, & PWC,2015) framed public support services to SMMEs as of poor quality and that programme coverage most remains limited. This take us to the strategic narrative by Murrell (2008) that institutions could be inherited, and their change would be determined by the demands of the organisations to insulate transaction costs. Further, it is important to look at the institutional setup in a dynamic way, as institutions evolve and are not static (Murrell, 2008).

North (2008), raised the importance of perceptions of individual actors in a particular setup, be it political, economic or social, on how they influence the shape of a particular institutions in order to insulate risks and improve organisational performance to become competitive. In addition, for the institutions to experience successful change process, organisations need to appreciate the constraints that hinder development (North, 2008). The World Bank (2007) emphasised that in order for South Africa to be able to lift SMMEs support and performance, it should consolidate and rationalise the existing programmes. South Africa should cut duplication. It appears that better coordination, and improved alignment and integration of government support are more favoured than an incoherent and fragmented funding and support approach to SMMEs. According to Co (2004) advanced that the right policy mix and/or programmes should be developed taking into account the expectations of the SMMEs. This thesis seeks to further contribute to the perspective that institutional framework should be created having taken into consideration the needs of the SMMEs. Further, it is critical to ensure that the public-private sector approach is integrated in institutional design and implementation.

1.3 PROBLEM STATEMENT

Many studies (Wennekers, Uhlaner & Thurik, 2002; Abor, 2007; Fuchs, et al., 2011; Tewari, Skilling, Kumar & Wu, 2013 & Neneh, 2014) have found that developing and developed economies demonstrate the importance of SMMEs in jump-starting economic growth and creating employment, and in creating social and political stability in a country. Despite the essential role that SMMEs can play in many economies, other studies such as (Hallberg, 2000; World Bank, 2000; World Bank, 2007; Endeavor, 2012; GEM, 2015, & PWC,2015) have identified that in South Africa, government policy is as one the constraints that hinders SMMEs development, including inadequate access to finance, education and training, taxation, crime, infrastructure support, corruption, regulatory burden including poor reach of government support programmes to intended beneficiaries.

Researchers (Buckley et al., 2007; Yang, Jiang, Kang, & Ke, 2009) emphasise that strong *institutional frameworks* supporting legal and regulatory elements including protection of property rights and broadening public funding boost functional performance of firms. In South Africa, research studies (Fuchs, et al., 2011; World Bank, 2007; Timm, 2011; SBP, 2014, & the National Planning Commission 2012-referred NDP 2013NDP) show financial and

non-financial support programmes for SMMEs are problematic when it comes to resource allocation, programme implementation, and strategic coordination. Despite various reviews conducted by government the expectations of the SMMEs seem not to have shaped the institutional set-up, and hence their expectations appear not to have been taken into account. Further, researcher (World Bank, 2007; Fuchs, et al., 2011; Timm, 2011; National Planning Commission, 2012 & SBP, 2014) asserted that South Africa lacks a single, focused and coherent SMME platform at the national level which has linkages with provincial and local SMMEs. According to Co (2004) and the NDP (2013) there is a need of institutional platforms (policies, laws and regulations, programmes and services) to be solid to enable growth of SMMEs. As such, in order for the institutions to remain relevant it is critical that they are developed to meet the needs of the SMMEs.

Although the *institutional framework* remains one of the essential requirements in order to jump-start SMME growth and development (OECD, 2014), institutional capacity and capability need to be addressed to avert constraints that hinder the growth and development facing SMMEs (Hallberg, 2000; World Bank, 2000; World Bank, 2007 & GEM, 2015). Further, it is important to ensure that the *institutional framework* anchors the functioning support programmes (Shirley, 2008; Co, 2014; Erastus, Stephen, & Abdullai, 2014; Ode, Wombo, Ede Ekpe & Ngodoo, 2014).

1.4 RESEARCH OBJECTIVES

The main aim of the study is to examine the current institutional framework for SMMEs in South Africa; and find out if the designed and implemented programmes appropriately meet their (SMMEs in South Africa) demands. The secondary objectives of the study are as follows:

- To review various institutional frameworks for promoting and supporting SMMEs that are promoting and supporting SMMEs around the world and in South Africa.
- To review the SMMEs support institutions in South Africa.
- To assess the extent to which SMMEs support institutions were designing and implementing support services and strategies that responded to the short and long term needs of SMMEs.

- Identify key institutional constraints perceived by public sector service providers as inhibiting the development of SMMEs in South Africa.

The overall research questions are:

- How is the current institutional framework for SMMEs in South Africa?
- Do the designed and implemented programmes appropriately meet the demands of the SMMEs in South Africa?
- Do the implemented programmes appropriately meet the demands of the SMMEs in South Africa?

1.5 CONTRIBUTIONS TO THE STUDY

The New Institutional Economic Theory (NIET) advocates the important role institutions play in the political, social and economic life. In the case of this research study, solid institutions can help to improve and enhance the role of SMMEs in meeting government's developmental objectives. The knowledge and insight gained in crafting this thesis would add to the current body knowledge in relation to the research work on SMMEs in South Africa. This research study would assist policy and decision makers in the public sector, in countries in similar development stages like South Africa.

The study recognises that South Africa has an existing *institutional framework* designed to support SMMEs. However, this study argues that the current *institutional framework* needs to be improved in order to enhance SMME performance towards achieving government policy priorities. Further, South Africa can learn from other countries such as Malaysia and the USA.

In other studies, researchers (Shirley, 2008; Co, 2004; Erastus, Stephen, & Abdullai, 2014; Ode, Wombo, Ede Ekpe & Ngodoo, 2014) advance that institutional frameworks should be built to cement business development programmes. The SMME industry in South Africa should support and promote private partnerships, and there must be a greater role played by SMMEs, business associations, institutions of higher learning, civil society and financial institutions. This study emphasises that SMME institutional platforms must be developed to meet the needs of the SMMEs.

Table 1 outlines the rest of the chapters that will be covered in the study. Table 1 presents Chapters 2-5, including the key topics that will be expanded.

Table 1: Representation of the Thesis Structure

NUMBER	CHAPTER TITLE	KEY TOPICS
2	Literature Review	2.1 Introduction 2.2 Definition of Institutions Framework 2.3 Theories and concepts on Institutions Framework 2.4 Types of Institutions – formal and informal 2.5 A review of Institutions Framework around the world- developed and developing countries: Malaysia and USA 2.6 A Review of Institutional Framework in South Africa 2.7 SMMEs in South Africa 2.8 Conceptual framework on how to enhance Institutional Framework for promoting SMMEs in South Africa 2.9 Lessons to learn from developed and developing countries 2.10 Summary
3	Research Methods	3.1 Introduction 3.2 Philosophical Framework in relation to the differences between Quantitative and Qualitative Research Approaches 3.3 Research Methodology 3.4 Summary
4	Discussion of Findings	4.1 Introduction 4.2 Demographic Profiling of the Participants 4.3 Analysis of the Thematic Policy Areas 4.4 Summary
5	Conclusion and Recommendations	5.1 Introduction 5.2 Summary and Conclusion 5.3 Policy Recommendations 5.4 Avenues for Future studies 5.5 Summary

CHAPTER 2: LITERATURE REVIEW

(SMMEs Institutional Framework to Realize Policy Objectives)

2.1 INTRODUCTION

In developing and developed countries, SMMEs play a vital role in the social development of a country, enhance job creation and thus are recognised as engines for economic growth (Wennekers, Uhlaner & Thurik, 2002; Abor, 2007; Fuchs, et al., 2011; Tewari, Skilling, Kumar & Wu, 2013 & Neneh, 2014). Dalberg Global Development Advisors (2011) highlight that SMMEs are a critical driver for job creation, economic growth and development and have gained prominence in economic policy. Consequently, many countries look to SMMEs to address the problem of unemployment and further boost economic growth. Kraemer-Eis, Lang & Gvetadze (2014) state that SMMEs account for 99.8 per cent of all non-financial enterprises (in the European Union). Further, in terms of employment SMMEs in the European Union registered 66.5 per cent of the total employment. In developed and emerging markets SMMEs remain an important source of job creation (Kraemer-Eis, Lang & Gvetadze, 2014).

Abor and Quartey (2010) articulated that in South Africa, 91 per cent of formal business was constituted by the SMMEs, and they contribute between 52 and 57 per cent to GDP, and provide about 61 per cent of employment. Many recent reports including the GEM (2015) reveals that South Africa remains an unequal society with unemployment rates reaching 27,7 per cent in the third quarter of 2017 (Statistics South Africa, 2017). The NDP (2013), emphasises the need for the creation of an enabling business environment for small business enterprises to respond the country's economic and development agenda.

Douglass North (1990) and Co (2004) advance that it is important to establish institutions that would ease functioning of the economies. Co (2004) stresses that organisations need to be created to take advantage of the opportunity provided within a given *institutional framework*. It is thus important that the business environment is conducive to respond to the needs of the entrepreneurs and SMMEs.

This chapter presents the definitions of *institutions framework*, the theories and concepts thereof, and the applicable types of institutions. Further, this chapter provides a brief review

of the Malaysian and American (USA) SMME *institutional framework*. It is important to draw experiences of both the developed and developing countries. A review of the South African *institutional framework* and SMMEs is presented. This entails an outline of how the South African *institutional framework* for SMMEs can be enhanced. Lastly, lessons that South Africa can learn from developed and developing countries are provided.

2.2 DEFINITION OF INSTITUTIONS FRAMEWORK

Institutions are viewed as the platform that could be used to apply the “rules of the game” in society, they may be formal or informal (North, 1990). From institutional theory perspective, North (1990) advocated that, institutional framework of a society comprises the fundamental political, social, and legal ground rules that establish the basis for production and distribution. In addition, organizations must conform to the institutional framework if they are to receive support and legitimacy. He further noted that, the viability, profitability and indeed survival of SMMEs typically depend on the existing institutional matrix. Following North’s definition of institutions and the empirical findings about the impact of institutions on development of SMME sector as discussed above, two major observations can be made. Firstly, the concept of promoting SMMEs development goes beyond the establishment of formal incentive support institutions and provision of incentive packages for small-scale entrepreneurs. Secondly, the nature of institutions can help or harm SMMEs development in a given society. As noted by Roxas, et al. (2006), these environmental factors comprise the diverse forms or manifestations of institutions, such that they serve as constraints and/or provide incentives for SMMEs to flourish, shrink or die.

Menard and Mary (2008) describe institutions as the written rules and agreements that govern contractual relations and corporate governance. They (Menard and Mary, 2008) go on to state that institutions reflect constitutions, laws and rules that govern politics, government finance (including strategic operational programmes and strategies), and society more broadly. According to Menard and Mary (2008) informal institutions are unwritten codes of conduct, norms of behaviour. Thus institutions manage how resources are strategically allocated in society. This requires delicate management of politics and economics in society. North (2008) states that the institutional matrix plays a crucial role in ensuring that organisations remain viable, profitable and survive growth phases. This means all role players

(government, civil society and financial institutions) in SMME industry need to create a common vision that would yield sustainable outcomes.

2.3 THEORIES AND CONCEPTS ON INSTITUTIONS FRAMEWORK

The New Institutional Economics Theory comprising of Resource Dependency (RDT) and Transaction Cost (TCT) will frame the theoretical framework of this research study. The New Institutional Economics (NIE) integrates theories of institutions into economics (North, 1992). It builds on the neo-classical theory, it further appreciates the assumption anchored on scarcity and competition (North, 1992). The NIE has infused the work in economics and political science, and covers the importance of property rights, public choice, organisational structure and behaviour including transaction costs (Coase, 2008 & North, 1992).

The RDT was developed in 1978, when Pfeffer and Salancik's launched their publication entitled "The External Control of Organizations: A Resource Dependence Perspective" (Hillman, Michael, Withers and Collins, 2009). The RDT puts the organisation within the context of the environment it operates within (Hillman, et al., 2009). Hutchinson (2018) expresses in a metaphoric manner that in ecosystem, species (organisation, our case SMMEs) are interdependent on each other and at the very same time, and still compete with each other in a given environment. The external environment could include education institutions and financial structures (Hutchinson, 2018).

The RDT place great emphasis that the organisations need to recognise that their survival depends on their interaction with the external environment (Hillman, et al., 2009 & Hutchinson, 2018). Thus SMMEs need to have strong connection with the external environment for it to prosper (Chimucheka & Mandipaka, 2015, & Desta, 2015). SMMEs need to have access to resources both from the public and private sector, which offer business development services, and Further they need to innovate and further seek strategic alliance and position themselves in new markers to minimise the dependency syndrome (Chimucheka and Mandipaka,2015, & Desta, 2015).

It has been identified that SMMEs face "financing gap", and that it constrains the growth of small business enterprise since formal financial system do not adequately address their needs (OECD, 2006; Chimucheka & Mandipaka, 2015). The Finance Gap Theory recognises the

supply-demand gap with regard to capital (OECD, 2006; Chimucheka & Mandipaka, 2015). It takes us to the challenge that many SMMEs are faced with, such as the lack of access to capital that include finance and infrastructure. Thus if SMMEs lack funding, they will not be able to grow, and create employment and spur economic growth (Harvie, 2011).

Transaction cost is a cost incurred in making political, social and economic exchange in a given market (Coase, 2008, Menard and Mary, 2008 & North 2008). It is emphasised that incentive initiatives and governance structures created need to mitigate conflict in a desire to realise mutual gains for the better functioning of the market (Williamson, 2008). That the transaction cost experienced by SMMEs need to be minimised. High transaction costs and lack of institutions that would protect property rights deter investment. (Shirley, 2008). Further, knowledge centres that would support innovation and human capital development should be created (Shirley, 2008). Hence it is emphasised that there is a need for the creation of an environment that would promote investment and to ease constraints that hinder business activity (Shirley, 2008).

In today's society, with rapid flow of information and increased uncertainties, human beings have created institutions to insulate the risks. These institutions play a critical role for the individuals to manage unforeseen events, outcomes and high transaction costs (Menard & Mary, 2008). The perceptions of role players in any setup, whether is a political, economic or social, influence the form and structure of a particular institutions (North, 2008). Hence, the actions of the role players will insulate risks and improve organisational performance to become competitive (North, 2008).

Further, North (2008) stated that the institutional matrix plays a crucial role to ensuring that organisations remain viable, profitable and survive growth phases. To experience successful change process, organisations need to appreciate the constraints that hinder development (North, 2008). In a more pragmatic sense, one held believes need to be aligned with reality in order the policies and programmes that are created meet the intended outcomes or results (North, 2008).

Internal organisational arrangements are as important as the external market dynamics (Coase, 2008). Coase (2008) emphasised the point that decisions on how to allocate resources in a strategic manner are made by individuals within organisations, and thus organisational

arrangements are key in the performance of the organisation other than the market. Coase (2008) articulates that apart from how prices influence the function of the market, transaction costs such as negotiations, internal organisational arrangements, operational decisions, development of contracts, interface actions with key stakeholders such as suppliers including customers are an integral part for an effective and efficient market (political, economic and social). To this end, incentive initiatives and governance structures become important in order to mitigate conflict in a desire to realise mutual gains for the better functioning of the market (Williamson, 2008).

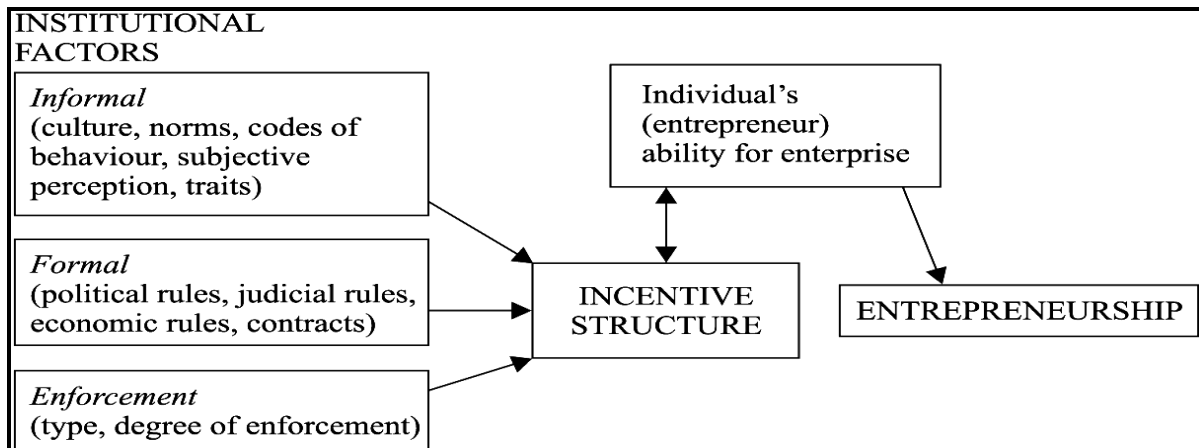
Shirley (2008) states that high transaction costs and lack of institutions would protect property rights insulate investment. Further, Shirley (2008) advocates for an integrated institutional support for development that will incorporate knowledge centre to support innovation and human capital development. Shirley (2008) advocates that it essential to create an environment that would promote investment and to ease constraints that hinder business activity. In order to implement institutions established in other countries respective countries should adapt them to fit the local conditions, and thus must demonstrate a ‘good fit’ feature aligned to the host countries’ believes and norms (Shirley, 2008). However, the main objective is to ensure an effective and efficient market performance to meet better economic and social development outcomes.

Institutions could be inherited, and their change would be determined by the demands of the organisations to insulate transaction costs (Murrell, 2008). One needs to look at institutional setup in a dynamic way, thus institutions evolve and are not static. Quality of institutions remains a critical factor, proper functioning of the state organs (including ease regulatory burden) would support overall performance of the sector of the economy and society (Murrell, 2008).

2.4 FORMAL AND INFORMAL OF INSTITUTIONS

Co (2004) developed and integrated the types of institutions as demonstrated in Figure 1. This framework is based on the theoretical work of North (1990), and others such as Menard and Mary (2008). The input of this thesis would adopt the summary of Co (2004) as the base of its theoretical framework.

Figure 1: Theoretical framework on formal and informal institutions



Source: Co (2004) The Formal Institutional Framework of Entrepreneurship in the Philippines: Lessons for Developing Countries, The Journal of Entrepreneurship

Informal constraints include culture, norms, codes of behaviours subjective perceptions and traits (North, 1990; Co, 2004 & Menard and Mary 2008). Co (2004) suggest that there is a need for the existence of informal institutions in order to strategically manage human interaction in societal situation. Thus they create an enabling environment to harness interaction of political, economic and social levers. In the main is to ensure that the formal institutional constraints are better managed to yield better political, economic and social outcomes (North, 1990; Co, 2004).

Murrell (2008) argues that the quality of institutions remains an essential element. Thus effective and efficient functioning of the state organs would support overall performance of the various economic sectors. Shirley (2008), building from North (2008) and Coase (2008) advanced institutional set-up need to reduce high transaction costs and drive investment. According to Shirley (2008) there a need for the creation of an environment that would promote investment and to ease constraints that would hinder business activity. The following section would try to outline the institutional framework that support growth of SMMEs in Malaysia and USA. Shirley (2008) suggest that countries should not 'copy and paste' institutions established in other countries, they should adapt them to fit the local conditions. It means that countries should demonstrate a 'good fit' feature aligned to the countries' believe and norms.

2.5 A REVIEW OF INSTITUTIONS FRAMEWORK AROUND THE WORLD-DEVELOPED AND DEVELOPING COUNTRIES: MALAYSIA AND USA

This section will focus on the *institutional framework* followed by Malaysia and USA. Shirley (2008) emphasises on a need for the creation of the integrated institutional support that would strengthen and enhance organisational performance, in this case SMMEs.

It is advocated that it is crucial to linking small business development targets to the overall national economic and social development objectives (OECD, 2004). The aim is to position small business development targets within the framework of the overall macro policy objectives such as employment creation, productivity, competitiveness, GDP growth, balance of payments including social, sectoral and regional equality and poverty reduction (OECD, 2004). The OECD (2004) suggests that if small business development policy is aligned against national development targets that would enable smooth co-ordination of business activities of various ministries, and further enhance prioritisation of goals. Thus cement the process of decision-making.

Some of the key structural policy focus areas identified in the OECD (2004), which are linked to small business development including the following:

- The quantity and quality of jobs created;
- Productivity and business development targets;
- International competitiveness, adding value to exports;
- Regional and local development and regeneration;
- Key industry and service sectors targeted in national plans;
- The reduction of inequalities and poverty.

2.5.1 The Malaysian Case Study

Like other countries, both advanced and emerging economies, small business enterprises play a vital role in the growth and development of Malaysia, and has the potential to fuel growth in new industries and cement established ones, and form part of the industrial development plan of the country (Saleh & Ndubisi, 2006; Khan & Khalique, 2014). Malaysia got independence in 1957, and its economy transformed from agricultural-based to industry-based, and now the economy is shifting from industry-based to a knowledge-based economy

in order to realise the strategic policy outcomes outlined in vision 2020, with the aim to become a developed economy (SME Corp. Malaysia, 2012; Khan & Khalique, 2014, & Madanchian, Hussein, Noordin and Taherdoost, 2016). To this end, strategies and economic plans including conducive business environment plays a crucial role in the development of small business enterprises (Khan & Khalique, 2014). Government support in facilitating global connectivity of domestic enterprises remains a vital point in the development of small business enterprises (SME Corp. Malaysia, 2012, & Khan & Khalique, 2014).

Small business enterprises comprise of 645,136 firms, representing 97.3 per cent of the total business establishments; and micro-enterprises represent 77 per cent of the total small business enterprises. (SME Corp. Malaysia, 2012). According to the Malaysian SME Annual Report for 2015/16 financial year (SME Corp. Malaysia, 2015), the SME GDP grew by 6.1 per cent in 2015 compared with the growth of 7.9 per cent recorded in 2014. However, the growth was higher than the overall GDP of the country, which was 5.0 per cent (SME Report, 2015). The growth of SMEs was attributed to the economic activities; services, manufacturing, agriculture, construction and mining and quarrying and mining (SME Report, 2015). The SME Corp. Malaysia (2015) further indicated that SME contribution to GDP increased from 32.2 per cent in 2010 to 36.3 per cent in 2015.

In terms of employment, SME Corp. Malaysia (2015) indicates that the SMEs contribution to total employment registered an increase compared to large firms. In 2015, employment grew by 5.6 per cent to 6.6 million workers compared with the employment growth of large firms of 3.4 per cent (SME Corp. Malaysia, 2015). The percentage share of employment by SMEs to total employment increased from 57.5 per cent in 2013 to 65.5% in 2015, and this increase is attributed to the higher employment share, which was contributed by the services sector (62.6 per cent, followed by the manufacturing sector (15.8 per cent), construction registered 11.8 per cent, agriculture (9.6 per cent) and mining and quarrying recorded 0.2 per cent. According to the SME Corp. Malaysia (2015) large firms record higher productivity as compared to small business enterprises. In 2015, the low productivity in SMEs was primary witnessed in the services (5.6 times), agriculture (2.2 times), manufacturing (1.5 times) and construction sectors (1.2 times).

Another policy consideration, was the contribution of small business enterprises in the exports. It is advocated that the small business enterprise policy strategy and plan should

show and coordinate efforts of institutional structures that impact policy which include legislatures, executive (line ministries, local government authorities and regulatory structures) including public-private support organisations focusing on exports, investment, regional development, public sector education and training institutions and financial institutions and civil society (see also figure 3 below, which neatly connected the roles and responsibilities of stakeholder in the SMME's ecosystem) (OECD, 2004). In addition, the OECD (2004) emphasised that private sector's roles and responsibilities need to form an integral part of the small business development strategy.

Since 1971 to date, the Malaysian government has demonstrated the significant role of the SMMEs in the overall economic and social transformation through various strategic economic policies such as the New Economic Policy (NEP, 1971), National Development Plan (NDP, 1992) including various Industrial Master Plans and the current SME Master Plan (Saleh & Ndubisi, 2006; Gunto & Haji Alias, 2013; Khan & Khalique, 2014; Madanchian, Hussein, Noordin & Taherdoost, 2016, & SME Corp. Malaysia, 2012).

Figures 2 and 3 show the Malaysian SME development framework and the Role of the Central Coordinating Agency respectively.

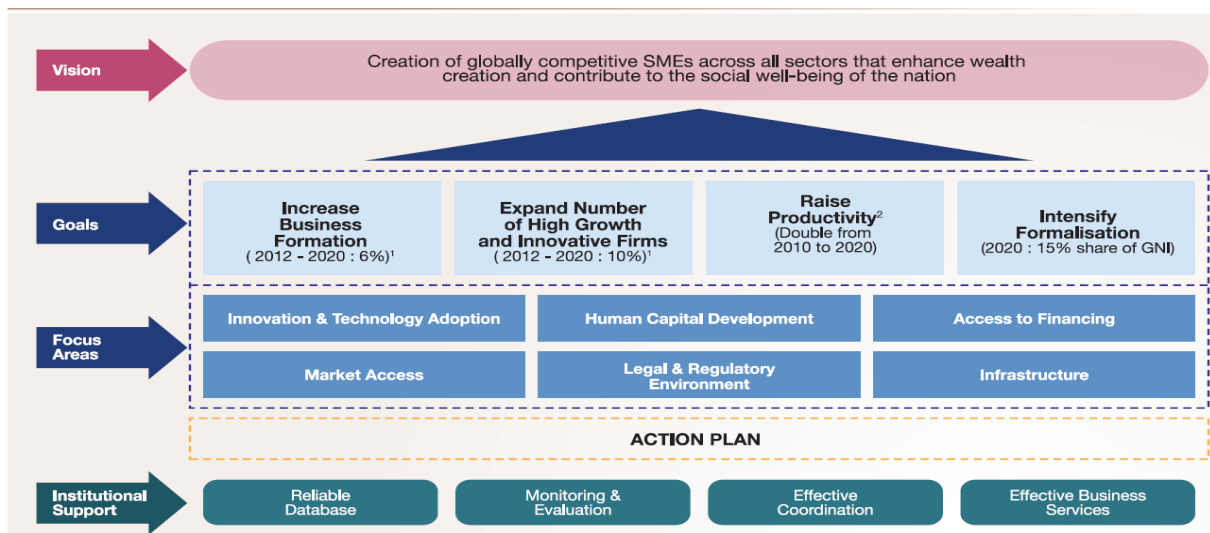
The Malaysian government has established the National SME Development Council (NSDC) to provide policy direction of small business enterprises. As the highest policy-making body, chaired by the Prime Minister, with representation of essential ministries and agencies operating in the SMME's industry (SME Corp. Malaysia, 2015). The essential role of the NSDC which was established in 2004, as mentioned in the SME Corp. Malaysia (2015) is to formulate strategies for SMEs development across all the economic sectors, and to ensure effective implementation of the overall small business enterprise development programmes in Malaysia.

As suggested by the OECD (2004), Figure 2 has smartly linked the various policy focus areas with the key strategic policy goals; increase business formation, expand the number of high growth and innovative firms, raise productivity and intensify formalisation of small businesses enterprises. The strategic policy focus areas have been identified in various papers and reports as some of the critical challenges facing small enterprise development in developed and emerging economies including Malaysia. In 2015, Malaysian government

implemented 150 programmes covering policy focus areas in human capital development, market access, innovation and technology, access to finance, infrastructure and legal and regulatory environment (SME Annual Report, 2015/16). The programmes as reported in SME Annual Report, 2015/16 benefited more than 580,100 small business enterprises, costing the government RM5 billion, and also in partnership with the private sector, government implemented 20 programmes amounting RM3.1 billion.

The strategic goals and policy focus areas aim to ensure a creation of globally competitive SMEs across all sectors that would enhance wealth creation and contribute to the wellbeing of the Malaysian nation. The vision reflects both economic and social dimension of the overall contribution of the SMMEs in society. In order to realise that, a solid institutional support would be needed which would provide reliable data base, monitoring and evaluation mechanism, effective coordination and business services. The OECD (2004) advanced that government has the responsibility to implement strategies and plans that aim to nurture small business enterprises, in collaboration with the SME/private sector, the civil society and the development partners. Hence there is a need to have a solid and capable policy coordination and monitoring structure at the national government level with a strong link with subnational and local government working closely with SME membership organisations. Figures 2 and 3 demonstrate a framework, which aims to infuse private sector participation in implementing small business enterprises development programmes. In Malaysia, the institutional set-up has created an environment for SMMEs to learn from other stakeholders (large corporations, institutions of higher learning and financial institutions) -(SME Corp. Malaysia, 2012).

Figure 2: SME institutional and development framework



Source: SME Masterplan, 2012-2020

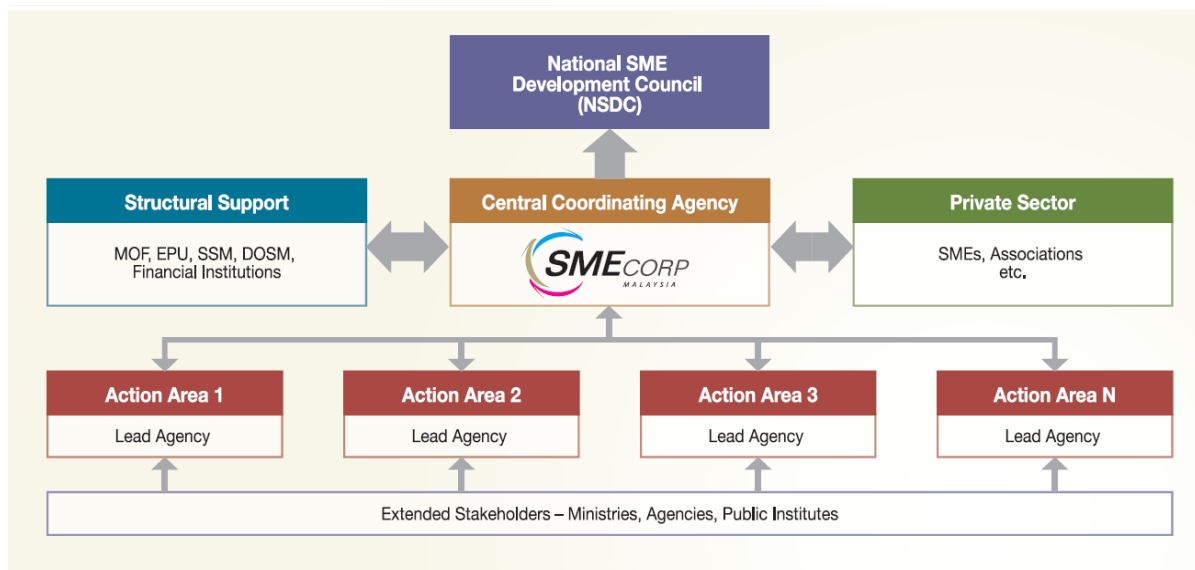
In order to yield better outcomes, the OECD (2004) advocated for the creation of an independent or semi-autonomous, central level SME institution to enhance policy coordination and monitoring. In 2007, the NSDC appointed the Small and Medium Enterprise Corporation Malaysia (SME. Corp. Malaysia) to operate as the central agency to formulate policies and strategies for small enterprises and to coordinate programmes across all ministries (15) and agencies (65) operating in the SMME industry (SME Corp. Malaysia, 2012; Gunto & Haji Alias, 2013, & SME Corp. Malaysia, 2015).

The Malaysian SME Corporation operated in 2009 under the Ministry of International Trade and Industry (MITI). It functions as a central agency that provides information and advisory services to all small business enterprises in Malaysia (Saleh & Ndubisi, 2006; SME Corp. Malaysia, 2012; Gunto & Haji Alias, 2013; Khan & Khalique, 2014 & SME Corp. Malaysia, 2015).

Figures 2 and 3 offer a neat infusion of a good policy setting of the institutional framework as canvassed in OECD (2004). The components of a good institutional framework entails:

- The SMME definition need to be clearly defined, and must be applied consistently;
- Establish sound coordination mechanism inter and intra government agencies;
- Formulate a responsive SMME development strategy, and develop implementation plans;
- Establish a single and autonomous policy executing agency, and it she be well resourced; and
- To ensure that measures that would enable informal businesses are properly developed.

Figure 3: Role of the Central Coordinating Agency and institutional framework



Source: SME Masterplan, 2012-2020

In many developing countries, many small business enterprises work in informal settings. Hence there is a need to accelerate the formalisation of informal enterprise to the main stream economic activity (OECD, 2004).

OECD (2004) and ERIA and OECD (2014) reported that Malaysian institutional framework setting was identified as one of the best framework, and scored second best after Singapore. Through the implementation of the SME Corp. Malaysia (2012), Malaysia set the strategic goal to increase business formation in order to deepen and attract private sector participation in the various industries in the economy. The SME Corp. Malaysia (2012), further set increase business registration (limited liability) on average from 2016 – 2020 by 7 per cent. Key to the Malaysian government, is to expand number of high growth and innovative firms in order to create new jobs, accelerate economic growth, promote home-grown enterprise, create partnerships between firms and research and development institutions, lift the quality outputs of vocational training institution (expand the pool of entrepreneurs), and this articulated in the SME Corp. Malaysia (2012).

In order to boost income and standard of living, the SME Corp. Malaysia (2012) recommends that Malaysia should raise productivity of SME by focusing on encouraging automation and mechanisation; encouraging product and process development. Further, to shifting resources allocation to higher value-added activities. To this end, resources should support high impact

programmes. The SME Corp. Malaysia (2012) has identified Six High Impact Programmes (HIPs), and thus the HIPs are viewed as the drivers of change in the SMME ecosystem. The HIPs focus on the following focal points which are linked to the strategic goals:

- To ensuring that business registration and licensing is integrated in order to ease way of doing business;
- To establishing technology commercialisation platforms to promote and support innovation;
- Further, to create SMME investment initiatives platform in order to finance and fund early stage;
- To form programmes that would link domestic SMMEs with international markets;
- To establish programmes that would support and promote catalytic SMME, and further enhance their international reach; and
- Further, to develop programmes that would support empowerment of the vulnerable groups (such as women), to improve income levels.

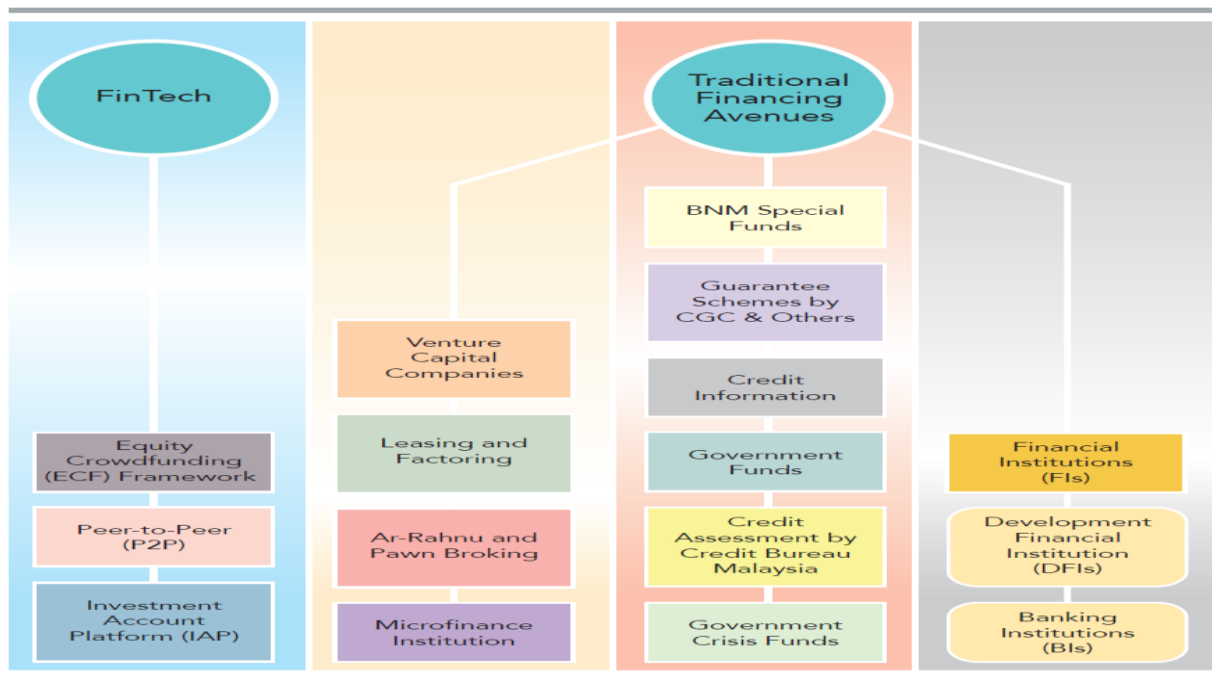
Further, small business enterprises can only grow faster if the institutional framework also has a component that offers business support services (OECD, 2004). Figure 1 and 2, show that the Malaysian institutional framework also comprises of an essential component that provide business support services. The business support services are offered by the government working closer with the private sector and business associations including civil society (OECD, 2004, & SME Corp. Malaysia, 2012).

The business support services, are designed in a partnership model that is demand driven recognising the needs of the small business enterprises (OECD, 2004, & SME Corp. Malaysia, 2012). The programmes of the business support services are aligned to the key policy focus areas; innovation and technology (highest impact on total factor productivity and employment growth), human capital development, access to financing, market access and regulations and infrastructure (Figures 1 and 2).

The SME Corp. Malaysia (2015) revealed that the financial institutions (include both the banking institutions (BIs) and development finance institutions (DFIs)), which accounted for 96 per cent of total SME financing have been the source in supporting the growth of SMEs. For the 2015 financial year, financial institutions' share of contribution to the small business

enterprise recorded 46.6, marking an increase from 43.8 per cent in 2014. As new business opportunities emerge in non-traditional sectors, the SME Corp. Malaysia (2015) states that new financing sources such as venture capital, angel investors, and crowdfunding, would feature strongly. Figure 4 shows the new financing and funding landscape in Malaysia.

Figure 4: Financing landscape in Malaysia



Source: The SME Annual Report, 2015/16

As earlier stated, extensive policy coordination and strategic programme management (monitoring and evaluation) are one of the essential elements that would harness SMME growth, and it strongly features in the SME Corp. Malaysia (2012), and see also table 2. The SME Corp. Malaysia (2012) advocates that the central coordinating agency, should be given power and non-financial and financial resources to enable it to effectively execute its responsibilities. Thus it should be empowered and elevated to take on the lead role to implement the small business development strategies and plans (OECD, 2004 & SME Corp. Malaysia, 2012).

The SME Corp. Malaysia (2012) further advances that the central coordinating agency should be involved in the early stage of planning and allocation of resources for the programmes undertaken by ministries and agencies. The essential role of the private sector is also emphasised including the participation of the industry associations, chambers and Non-

Governmental Organisations (NGO). The involvement of other stakeholders, as depicted in Figure 2 would enable the development programmes to cover the entire country. Thus to have a national and subnational and district wide reach including rural areas (OECD, 2004 & SME Corp. Malaysia, 2012).

2.5.2 The United States of America Case Study

In the United States small business enterprises play a crucial role in the economy of the United States. In terms of the private sector employment, small business enterprises contribute 50 per cent, paying 43 per cent of the total private sector payroll, generating, and representing 64 per cent of net new private sector jobs (National Economic Council-NEC, 2011; & OECD, 2015). The OECD (2015) report further outlined that small business enterprises have created 46 per cent of the private-sector output. SMMEs and entrepreneurs in the United States have longed regarded as engines for growth, and important drivers for wealth creation, and further boost innovation and employment (OECD, 2004; OECD, 2015, & SME Corp. Malaysia, 2012).

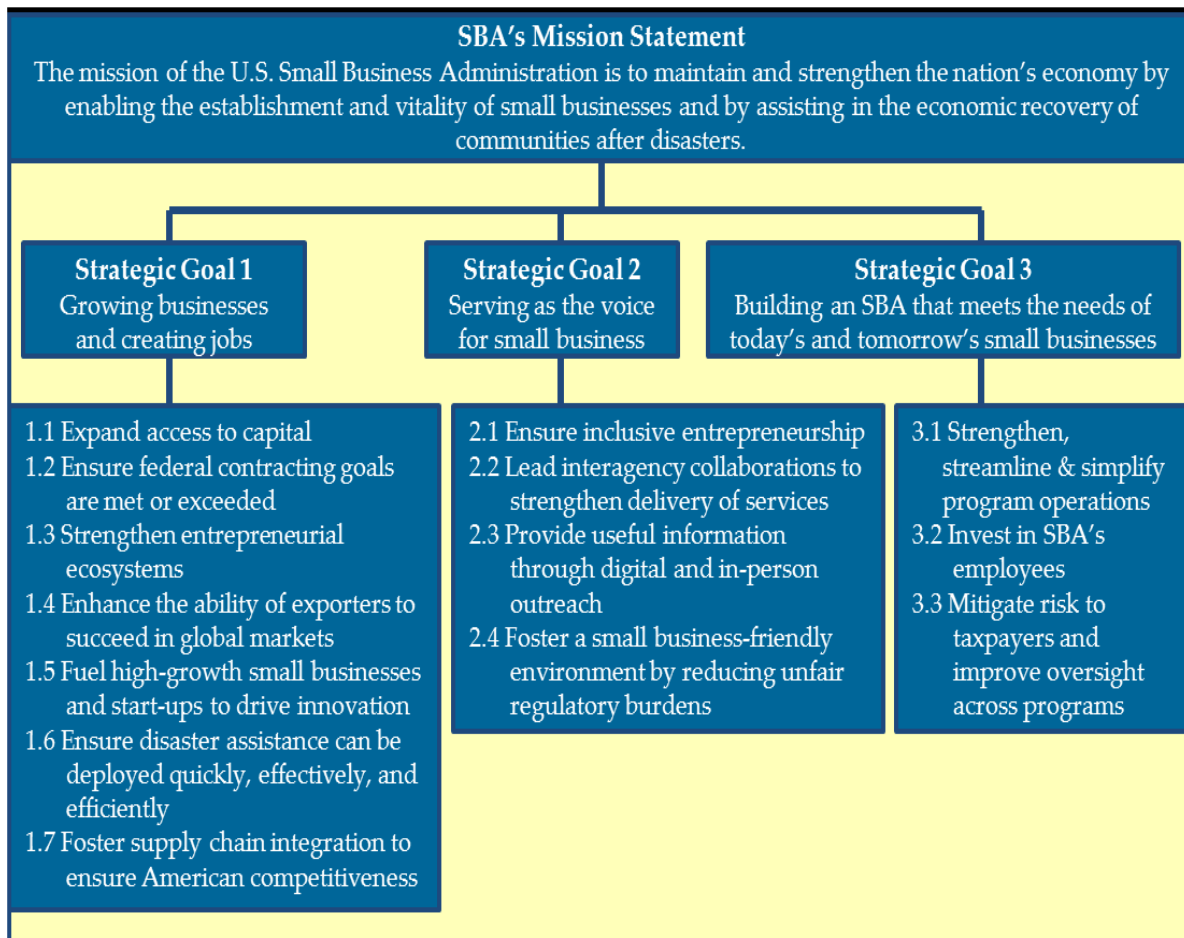
The NEC (2011) recognised the market gap that small enterprises face, and thus hinders growth of SMMEs. In response to this, the United States' government responded by; supporting more than \$53 billion in Small Business Administration (SBA) loan guarantees to more than 113,000 small businesses; awarding more than \$221 billion in Federal contracts to small businesses in Fiscal Year (FY) 2009 through April 30, 2011. Further it provided small business counselling, through SBA resource partners and other agencies, to more than 2 million entrepreneurs and small business owners. In addition, awarding more than \$4.5 billion in research funding through the Small Business Innovation and Research Program during FY 2009 and FY 2010 and streamlining Federal programmes to help small businesses such as the Department of Defence to reduce the time to pay its small business vendors.

USA government information revealed that SBA was established in 1953, evolved from Reconstruction Finance Corporation (RFC), in 1932 to Smaller War Plants Corporation (SWPC) in 1942 and to Small Defense Plants Administration (SDPA), established by President Herbert Hoover in 1932. In 1953, Congress passed the Small Business Act, with empowered the SBA to aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns, and to ensure that small businesses get a fair proportion of

government contracts (OECD, 2004 and SBA Strategic Plan, 2014). Another critical achievement of the United States in terms of uplifting support and development of the SMMEs was the promulgation of the Investment Company Act in 1958, which established the Small Business Investment Company (SBIC)-(OECD, 2004, SME Master Plan 2012-2020). The main function of the SBIC was to enable the SBA to licensed, regulated and help provide funds for privately owned and operated venture capital investment firms in response to innovation and technological policy consideration. So as from 1953 to date, SBA played a vital role to extensively coordinate SMMEs' policy and strategic programme implementation and management (monitoring and evaluation), a policy option that is further advanced in the OECD (2004) policy document.

The Small Business Act has empowered SBA, as sole central coordinating agencies that would provide information and advisory services for all small business enterprises, and further provide capacity building programmes and support through financial and non-financial development incentives (OECD, 2004, NEC, 2011 and SBA Strategic Plans 2014). To date, SBA programmes also cover poverty programmes through inclusive entrepreneurial initiatives, federal contract procurement assistance, management assistance, and specialised outreach to women, minorities and armed forces veterans (NEC 2011, & SBA Strategic Plan, 2014). Figure 5 shows how the programmes of the SBA are structured and their linkage to the agency mission, which is to maintain and strengthen the Nation's economy by enabling the establishment and viability of small businesses, and by assisting in economic recovery of communities after disasters. The policy focus of the programmes of the SBA covers economic growth, growth of small business enterprises, competitiveness, exports, job creation and social equity.

Figure 5: Summary Programme Structure of the Small Business Administration



Source: U.S. Small Business Administration, Strategic Plan Fiscal Years 2014 – 2018

Informed by the 2014-2018 strategic plan, the SBA budget policy priorities are:

- Establishing financing and funding platforms in order support high growth SMMEs in areas such as high technology and advanced manufacturing;
- Increasing microloans lending to expand the lending to entrepreneurs seeking to start new enterprises;
- Promoting inclusive entrepreneurship to empower women across race, including minority groups;
- Offering special services to support current military veterans who wish to start their businesses;
- Creating 21st century jobs through investing in programmes that support innovative, high-growth small businesses;

- Building capacity of small businesses linking them with global supply chain, and further harness public-private partnerships to help entrepreneurs to establish new markets and enhance existing ones;
- Forming programmes that would link domestic SMMEs with international markets, and lift product offering of support services in order to ensure SMMEs deepen foreign markets;

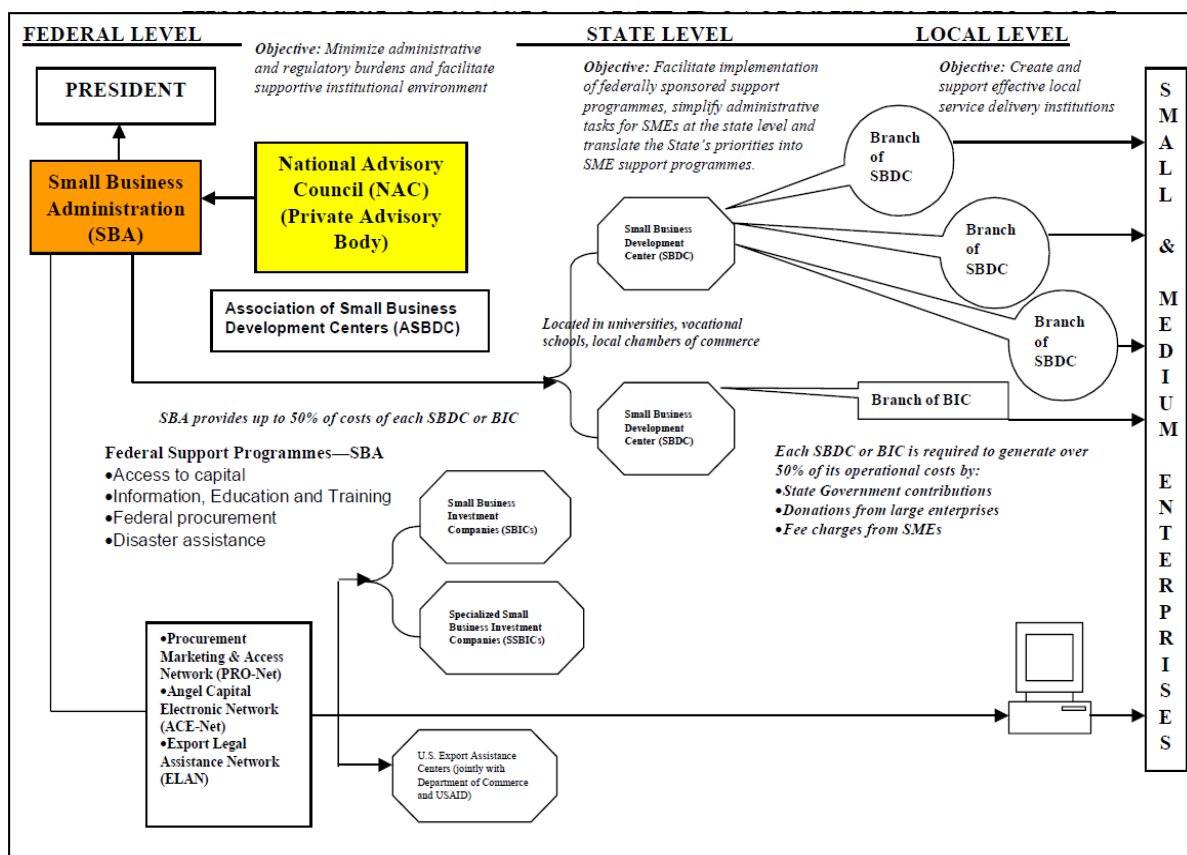
Figure 6 shows the accountability level of SBA, which includes a direct reporting function line to the President, and further demonstrates the contribution of the National Advisory Council to the work of the SBA. This component of the institutional setting shows the importance of the private sector players in the development and implementation of the SMME programmes, thus limiting the role of government in the SMMEs' industry. As already stated with regard to the Malaysian institutional framework in this report, the OECD (2004) advanced that government has the responsibility to implement strategies and plans that aim to nurture small business enterprises, in collaboration with the SME/private sector, the civil society and the development partners. Hence there is a need to have a solid and capable policy coordination and monitoring structure at the national government level with strong link with subnational and local government working closely SME membership organisations. In order to realise that, a solid institutional support would be needed which would provide reliable data base, monitoring and evaluation mechanism, effective coordination and business services. Figure 5 demonstrates a framework that aims to enhance private sector participation in implementing small business enterprises development programmes. Like in Malaysia, USA institutional framework is designed in such a way that it creates opportunity for SMMEs to be able to learn from other stakeholders such as large corporations, institutions of higher learning and financial institutions.

As the catalyst agency, SBA get involved in the early stage of planning and allocation of resources for the programmes undertaken by various ministries and agencies. The institutional framework as depicted in Figure 5 demonstrated the essential role of the private sector including the participation of the industry associations, chambers and Non-Governmental Organisations (NGO) in the development of the SMMES, and thus take into consideration the demands of the small business enterprises. The United States institutional framework support a private sector led SMME development approach. Small business

chambers or associations play a critical role in providing non-financial development support to SMMEs (OECD, 2004).

The Small Business Investment Company (SBIC) is recognised as one the innovative finances that support high impact firms (OECD, 2004, & SME Corp. Malaysia, 2012). For 2016, SBA was authorised to invest up to \$4 billion annually to finance high-growth businesses. The SBIC, is recognised as one of the successful public-private fiancé initiatives (contributed to the success of Apple, Hewlett Packard, Federal Express, Staples), which is managed by private sector (SME Corp. Malaysia, 2012).

Figure 6: SMME institutional and development framework



Source: OECD, 2004, Promoting Entrepreneurship and Innovative SMEs in A Global Economy

The involvement of other stakeholders, as depicted in Figure 5 has enabled the development programmes to reach the entire Country (SBA Strategic Plan, 2014 and SBA Congress Budget Justification, 2016), Thus enabling it to have a national and subnational and district wide reach including rural areas. Figure 5 shows the national foot-print of the SBA through services of the Small Development Centres and US Export Assistance Centres.

Figure 6 outlines three critical objectives that are essential in the good institutional framework; minimise administrative and regulatory burdens and facilitate supportive institutional environment (role of the National Advisory Council (NAC) and SBA); facilitate implementation of federally sponsored support programmes, simplify administrative tasks for SMEs at the state level and translate the State's priorities into SME support programmes (role of Small Business Development Centres). Further, the framework recognises the role of district or local authorities in creating and support effective local service delivery institutions through Small Business Development Centre Branches.

Collaborative efforts with research and development institutions will go long a way in supporting development of SMMEs (OECD, 2004). Linking SMMEs with innovative platforms would improve the competitiveness of the firms through technology acquisition, skills development and increase exports penetration (OECD, 2004). Figure 6 further shows the importance of linkages of SBDC with vocational institutions and local chambers.

2.6 A REVIEW OF INSTITUTIONAL FRAMEWORK IN SOUTH AFRICA

Since 1994 the South African government has recognised its important role in fostering an enabling environment for the creation and growth of small enterprises. In March 1995 the government articulated a number of measures to foster an enabling environment in the White Paper on national strategy on the development and promotion of small business in South Africa. On March 20, 1995: White Paper on "National Strategy for Development and Promotion of Small Business in South Africa" was passed. The key objectives of the White Paper on the national strategy for the development and promotion of small business in South Africa – the basis of SMME development in South Africa are to:

- Create an enabling environment for small enterprises;
- Facilitate greater equalisation of income, wealth and earning opportunities;
- Strengthen the cohesion among small enterprises;
- Prepare small businesses to comply with the challenges of an internationally competitive economy; address the apartheid-based legacy of disempowerment of black business;
- Support the advancement of women in all business sectors;

- Create long-term jobs stimulate sector-focused economic growth; and
- Level the playing fields between bigger and small businesses, as well as between rural and urban ones.

In 1996, the National Small Business Act was passed, which created a financial and non-financial support for SMMEs. Ntsika Enterprise Promotion Agency focused on the non-financial support, and the Khula Finance Agency provided financial services (World Bank, 2000, & BER, 2016). The Department of Trade and Industry played an oversight function over the two SMMEs support agencies. Socio-economic policy initiatives were also initiated such as the Broad Based Black Economic Empowerment (BBBEE) codes of Good practice in an attempt to address equity and economic policy considerations to ensure that black businesses fully participate the South African economy.

In 2005, the South African government passed the Integrated Small Business Strategy, with main three pillars to increase the supply of financial and non-financial support; creating demand for SMMEs products or services; and to reduce regulatory constraints that hinder the growth of SMMEs. Following the above, it becomes evident that the South Africa's institutional platform in the form of support to SMMEs has evolved. Currently, South Africa has various departments and agencies which offer non-financial and financial services to SMMEs. The Department of Trade and Industry has an internal support programme for SMMEs, and further exercises oversight function over public entities such as Small Enterprise Development Agency (SEDA), National Empowerment Fund (NEF) including the National Small Business Advisory Council (National Expenditure Estimates, National Treasury, 2015 and BER, 2016). According to the government accountability reports the Department of Economic Development exercise oversight function over Sefa, a new agency that was formed after Khula Finance was merged with South Africa Micro-Finance Apex Fund (SAMAF).

The Industrial Development Corporation (IDC) also provides financial support to SMMEs, and it falls under the Department of Economic Development (Timm, 2011 & National Treasury, 2015). The Department of Science and Technology plays an oversight function over the Technology Innovation Agency (TIA) to fund innovation. The Presidency oversees the functioning of the National Youth Development Agency (NYDA), which provides non-

financial and financial support to small businesses owned by young people (Timm, 2011 and BER, 2016). Further, the National Treasury, through the Land bank provides support to small and micro farmers, including farm workers. In addition, to the current national SMMEs support, all provincial agencies provide SMMEs support (National Treasury, Budget Review, 2014).

In 2013, South African government adopted the NDP as a primary social and economic development plan. The NDP (2012) and White Paper (1995) including the Reconstruction and Development Programme (RDP) recognising the role of small, micro and medium enterprises as catalysts for economic growth and employment creation. The Strategic Business Partners-SBP (2013) advance that the SMMEs have long been an integral part of South Africa's economic policy, and since 1995, South Africa has put in place various policies and programmes geared to support SMMEs.

In 2014, after the national general elections, the newly formed government established the Ministry for Small Business Development to lift the performance of small businesses. By observing public policy debates, the Ministry for Small Business Development could serve as an addition to the already plethora of departments and agencies supporting SMMEs. From a strategic policy perspective, the current form of South Africa's institutional support to SMMEs has been regarded problematic for strategic coordination purposes (NDP, 2013). It appears that there is a need for government in all spheres to improve efficiency and effectiveness of governance (SBP, 2014). Studies (Fuchs, Lacovone, Jaeggi, Napier, Pearson, Pellegrini & Sanchez, 2011; World Bank, 2007; Timm, 2011, SBP, 2014) emphasised that government agencies including their oversight holding departments have shown substantial overlap indications.

The World Bank (2007) emphasised that in order for South Africa to be able to lift SMMEs support and performance, it should consolidate and rationalise the existing programmes. South Africa should cut duplication. It appears as suggested by the World Bank (2007) including studies by (Fuchs, Lacovone, Jaeggi, Napier, Pearson, Pellegrini & Sanchez, 2011; Timm, 2011, SBP, 2014) that better coordination, and improved alignment and integration of government support are more favoured than an incoherent and fragmented funding and support approach to SMMEs.

2.6.1 Institutions providing financial and non-financial support to SMMEs) in South Africa

In 2015, Seed Academy released a document entitled “The Essential Guide to Funding in SA” including Estimates of National Expenditure, a publication of the National Treasury of the South Africa have outlined that there are several institutions and programmes supporting SMMEs in South Africa, namely, not limited to the following:

- Export Credit Insurance Corporation of South Africa SOC Ltd, is the state entity under the oversight of the Department of Trade and Industry (DTI). It has a programme focusing on Trade Export for South Africa SMMEs. The Strategic of the programme is to provide trade finance and credit insurance.
- Department of Trade and Industry administer Isivande Women’s Fund. The Isivande Women’s Fund offers exclusive women’s funding to accelerate women’s economic empowerment through affordable, usable and responsible finance.
- Black Business Supplier Development Programme (BBSDP), now managed by the newly formed Small Business Development Department (SBDD);
- Co-operative Incentive Scheme (CIS), also managed by the SBDD.
- Incubation Support Programme (ISP), which is administered by the Small Enterprise Development Agency;
- Manufacturing Competitive Enhancement Programme (MCEP) and Manufacturing Investment Programme (MIP), both programmes are managed by the DTI;
- The National Empowerment Fund (NEF) another Dti development finance agency, which was created and designed to support Broad-based Black Economic empowerment within sectors identified by the government. It also provides financial and non-financial support to black owned and black empowered businesses that are at a start-up phase or already existing.
- Another financing and funding programme that falls under the National Treasury is the Jobs Fund. The objective of the Jobs Fund is to co-finance projects by public, private and nongovernmental organisations that will significantly contribute to job creation.
- National Youth Development Agency (NYDA) is a public entity which falls under the oversight function of the Presidency. NYDA Offers both non-financial support

(mentorship and development programmes) and financial support in the form of grants to SMMEs owned by young people.

For the purposes of this thesis, one would focus on SEFA, which is the institution providing financial support. The thesis will also cover the functional work of SEDA, which offers non-financial support to SMMEs. Both the departments of Economic Development and newly formed Small Business Development Department (established in 2014, after the national general elections) play an oversight over the SEFA. SEFA was established after Khula Finance was merged with South Africa Micro-Finance Apex Fund (Samaf)-(National Treasury, Expenditure Estimates, 2015, & BER, 2016). What is also interesting, SEFA is a subsidiary of the Industrial Development Corporation (IDC), a development finance agency which fall under the oversight of the Department of Economic Development (Timm, 2011, & National Treasury, Expenditure Estimates, 2015). The Department of Science and Technology plays an oversight function over the Technology Innovation Agency (TIA) to fund innovation. This thesis would not cover the functional responsibilities of the TIA.

2.6.1.1 Institutions providing financial support: SEFA

Sefa is a subsidiary of the Industrial Development Corporation. In terms of oversight, it falls under the departments of Small Business Development and Economic Development. The main policy mandate of Sefa is to contribute to the growth of SMMEs and Cooperatives by offering finance (SEFA, Annual Report, 2016). The strategic objectives of Sefa recognises the importance of SMMEs in stimulating economic growth and boosting employment, thus access to finance for SMMEs remains essential (SEFA, Annual Report, 2016).

Sefa provides direct funding to businesses in the form of loans between R50.000 and R5 million in in the following ways:

- Directly through bridging loans, term loans, revolving loans and asset finance.
- Wholesale Lending by offering credit guarantees, revolving loans, structured finance solutions, term loans and equity.

In order to fulfil the its policy mandate, SEFA has established partnerships with various retail finance intermediaries. SEFA administers various programmes such as Identity Development Fund (IDF), Khula-Akwandze Fund, Anglo-Khula Mining Fund, Enablis Acceleration Fund and Khula Credit Indemnity Scheme. The IDF aims to create long-term growth from

profitable portfolio investments in SMMEs; promote BEE (black women and youth); and provide both debt and or equity funding (50/50 per cent) (repayment periods range between 3-5 years for start-up/early stage companies of R250 000 to R3 million, emerging /MBO and expansion of R3 million to R7.5 million and R7.5 million to R30 million for community projects). Khula-Akwandze Fund is a joint venture between Khula Enterprise Finance and Akwandze Agricultural Finance (Pty) Ltd (Akwandze). Its purpose is to provide agricultural development loans to small and medium scale sugarcane growers and contractors within the sugarcane production value chain in the Nkomazi region of the Mpumalanga Province. The fund is managed by Akwandze.

Anglo-Khula Mining Fund is a joint venture between Anglo American plc. And Khula Enterprise Finance to provide financial assistance to junior mining projects. Product offerings include equity and or debt instrument with individual investments between R1m and R20m per project; an equity stake will not exceed 49 per cent of the issued share capital of the investee company. Enablis Acceleration Fund was created to improve access to early-stage funding to SMEs; reach out to SMEs in remote/rural provinces; and create new sustainable jobs. Khula Credit Indemnity Scheme provides access to finance to people who wish to start or expand small to medium sized businesses but do not have sufficient collateral / security to support facilities provided by participating banks. The scheme covers facilities from R10 000 to R3 million.

In a 2015 survey conducted by Price Water Coopers, most small enterprises interviewed submitted that they have never used government funding to finance their enterprises. Most of the enterprises cited that they were not aware of government funding opportunities, 28 per cent of the small businesses mentioned that red tape has discouraged them. Another challenge faced by SMMEs, lack of professional advice received from government financing institutions, which resulted in funding applications to be declined (PWC, 2015).

It is advocated that government funding opportunities should be communicated to reach the broader society including rural areas (PWC,2015). As many SMMEs are not aware of existing funding and financing opportunities. Reduction of red tape will add valuable contribution in efforts to support SMMEs' growth and development (PWC, 2015). In addition, many SMMEs advance that funding applications should be simplified and financial products should be marketed extensively.

2.6.1.2 Institutions providing non-financial support: Small Enterprise Development Agency (SEDA)

Seda is another important public entity that support SMMEs including Cooperatives. The agency falls under the oversight function of the newly formed Department of Small Business Development (DSBD). The DSBD is mandated to implement government's small business strategy, design and implement a standard and common national delivery network for small enterprise development and integrate government-funded small enterprise support agencies across all tiers of government.

The aim of SEDA is to provide non-financial support to SMMEs in order to nurture growth of small businesses in partnership with other role players (SEDA, 2016). The agency also shares programme implementation responsibility with the TIA. TIA responsibility is to foster innovation in order to boost growth of SMMEs, and its core business objective is to support the development and commercialisation of competitive technology-based services and products.

In the main is to ensure that SMMEs grow to increase their contribution in the overall economy, and to boost employment and reduce poverty (SEDA, 2016). Over the 2017 medium term, Seda would focus on offering various products covering mentorship and coaching SMMEs including assisting small enterprises in developing business plans, and also establishing incubator programmes in various provinces (SEDA, 2017). Although SMMEs find lack of access to finance as one of the major challenges, lack of access to markets has recently been identified by many SMMEs as the number one challenge (PWC,2015). Over the medium term, Seda has planned to allocate resources to assist SMMEs to access domestic markets, and also create opportunities for local SMMEs to access global markets (SEDA, 2017).

As articulated in PWC (2015), some of the SMMEs are not aware of the government support programmes designed to supporting SMMEs. Chimucheka and Mandipaka (2015) advanced that even in cases where SMMEs have received support from the government, the government support they received in most cases were inadequate. What is critical is to lift the provision of advisory and consultancy services to SMMEs, and the use of partnership with

private sector organisations, civil society, business chambers including higher education institutions. This approach has been adopted in Malaysia and the USA.

The report by the United Nations Economic Commission for Europe (UNECE) argues that in order for the SMMEs to grow they need to be supported to link with their suppliers, buyers and business development services, research and development institutions including development finance and export agencies. Another key challenge advanced many studies such as Chimucheka and Mandipaka (2015) including PWC (2015), public business support services should be repositioned to focus on increasing services for technical production support, supplying market information, introduce technology advice. Further, they need to offer mentoring and coaching and provide training and development in managerial skills for SMMEs. This is the area that Seda is required to improve on in order to increase growth of SMMEs.

2.6.2 Similarities and Differences in Respect of the Institution Framework in Developed and Developing Countries, and South Africa

2.6.2.1 Similarities

South Africa business development programmes designed to supporting SMMEs are delivered by various development agencies, they focus on is similar programmes designed in Malaysia and USA. Both in developed and developing countries, SMMEs still bemoan bureaucratic burden that stifle growth of small enterprises including regulatory obstacles. Insufficient infrastructure designed to support SMMEs to gain growth targets.

The focus of the programmes seeks to provide training, advice, counselling to SMMEs at outlined in the National Small Business Act 1996, as amended in 2003 and 2004. These programmes are further aligned to the White Paper. The White Paper and the National Small Business Act requires that SMME support should ensure that SMMEs have access to domestic and international markets. Both the legislation and policy documents require that the South African government should create an enable environment that would allow SMMEs to compete in the economy; create capacity and capability for the public sector to formulate and co-ordinate national policy research. Further, government should establish capacity that would enable it to collect and disseminate information that would enhance SMME support.

Further, the programmes should ensure that SMMEs have access to finance and linked to technology and innovation institutions. There is a growing support to increase resource allocation to the high growth impact enterprises and to enhance support of vulnerable groups such as women, youth including ethnic minorities. These programmes are all encouraged in USA, Malaysia and South Africa.

Although, there are policy intentions to open channels that would enable SMMEs to access market information. In addition, services offered to small enterprises are required to be demand-oriented business development services. SMMEs still demand more space in the design of support programmes.

2.6.2.2 Differences

This thesis has demonstrated that in both cases of Malaysia and USA, the institutional framework shows strong features of collaboration in the implementation of programmes aimed at supporting and promoting SMME growth. The Malaysian and USA's institutional framework has created a single autonomous SMME growth and development agency, which all government support initiatives are directed and channelled. This policy feature is also supported by the OECD (2004) and ILO (2016a) studies. In South Africa, some of the SMME growth and development agencies fall under various ministries such as Trade and Industry, Economic Development and Small Business Development (National Treasury, Estimates of National Expenditure, 2016).

In 2014, the South African government formed a new ministry on Small Business Development. As things stand the SMME policy environment still experience policy certainty about the role of new ministry in relation to policy coordination of SMMEs, and including its capacity and capability to function as the main implementing agency for programmes supportive of SMMEs growth and development (SBP, 2014). According to the studies by OECD (2004) and ILO (2016a) a single SMME growth and development agency is more efficient and effective.

Further, a single SMME growth and development agency improve coordination and implementation of the SMME policies and programmes, and this perspective is also supported by various studies by (World Bank, 2007; Fuchs, et al., 2011; Timm, 2011, & SBP, 2014). In the case of South Africa as mentioned in the studies by (World Bank, 2007; Fuchs,

et al., 2011; Timm, 2011, & SBP, 2014) identified that government agencies including their oversight holding departments have shown substantial overlap indications in the provision of financial and non-financial support to the SMMEs. So lack of coordination of resource allocation could result in poor resource allocation, and constrain resources. As mentioned it could lead to duplication of efforts and supportive programmes could be delivered in an inefficient and ineffective manner (ILO, 2016a).

The Malaysian and USA institutional framework support the establishment of the Council or the Advisory body that would support and promote the interest of the SMMEs, and this is a case supported in South Africa which was expressed in the Act as amended in 2003. To date there is no such structure created by government to champion SMME interests in policy and programme design and implementation in government.

In Malaysia, the national business advisory council which represent the interest of SMME stakeholders is chaired by the Prime Minister, and thus has been given high status in terms of policy formulation and policy coordination. As mentioned in this thesis Malaysia Corp reports all its activities to the national business council, thus SMMEs voice find expression in highest level forums where policy decisions are taken (SME Corp. Malaysia, 2015). A similar approach is practiced in the USA, where SMMEs associations have a solid representation in the NAC. The SBA, in the USA fall under the oversight of the President of the United States, although it works closely with the Department of Commerce (ILO, 2016a). In terms of political governance, the SBA is managed by the Administrator (serving at the executive cabinet level) appointed by the President of the USA.

Another main feature of the Malaysian and USA institutional framework as also outlined in this study, is that private sector including civil society organisations play an essential role in the development and implementation of the programmes designed to support growth of SMMEs. In the Malaysian and USA situations, services and programmes are designed to suit the needs of the SMME, and this is the approach that is also supported by the OECD (2004) and ILO (2016a) studies. Partnership between government and the private sector including civil society and higher education institutions is strongly supported.

The ILO (2016a) suggest that the composition of the advisory councils should avoid political appointments since they could lead to governance and political risks in the management of

the SMME industry affairs. All relevant stakeholders should have a voice in the governance structure, and that should include individuals from other public sector agencies and private sectors. It is further advanced that SMME growth and development agencies should have solid master strategy plans, with clear annual plans that includes specific targets and indicators to monitor and evaluate implementation of the programmes (OECD, 2004 and ILO, 2016a).

Research, monitoring and evaluation capacity and capacity should be established, and thus could not be underestimated (OECD, 2004 and ILO, 2016a). South African government still plans to establish and strengthen research, monitoring and evaluation capacity (Estimates of National Expenditure, 2016). In the case of the USA, external independent evaluations are conducted, and the Office of Inspector General and General Accountability Office also report on evaluations (ILO, 2016a).

In Malaysia, the SME Corp Malaysia (2012) has empowered the central coordinating agency to get involved in the early stage of planning and allocation of resources for the programmes undertaken by ministries and agencies. The involvement of other stakeholders would enable the development programmes to cover the entire country, thus to cover national, subnational and district regions to have wider reach that would including rural areas (OECD, 2004 and SME Corp. Malaysia, 2012). The USA also practice a similar service delivery model (SBA, Strategic Plan, 2014 & SBA, Strategic Plan, 2016).

To date, in South Africa there is lack of sector and industries specific action plans that are developed to benefit the growth and development of SMMEs. Malaysia has developed an action plan focusing on the growth and development of small enterprises, the SME Corp. Malaysia (2012). The action plans focus on the improvement of the competitiveness of small enterprises, and the priority is to create enabling environment that would present an opportunity for SMMEs to grow.

2.7 SMMES IN SOUTH AFRICA

In examining the definition of SMMEs both in developed and developing countries Machirori (2012) and Desta (2015) have found that there is a lack of standard definition of SMMEs, and that is the case with South Africa. The Act both outlines the qualitative and quantitative

framing in defining SMMEs in South Africa (Destra, 2015). The Small Business Act defines SMMEs “a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries”. Further, the Act expresses SMMEs in terms of the size and turnover, and it includes standard industrial sector and subsector classification, size of class, and asset value – excluding fixed property. In South Africa number of employees as a category, which defines SMMEs plays a vital role: Micro: 0 to 4 employees; Very small: 5 to 9 employees; Small: 10 to 49 employees; Medium: 50 to 200 employees (Timm, 2011).

For the purposes of this thesis, when we refer to small enterprises it is in accordance with the definition as outlined in the Act. Table 4 outlines the classification of small enterprises in South Africa.

Table 4: Summary of classification of the SMMEs in South Africa

SECTOR OR SUBSECTOR IN ACCORDANCE WITH THE STANDARD INDUSTRIAL CLASSIFICATION	SIZE OF CLASS	THE TOTAL FULLTIME EQUIVALENT OF PAID EMPLOYEES	TOTAL TURNOVER	TOTAL GROSS ASSET VALUE (FIXED PROPERTY EXCLUDED)
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m

Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very Small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very Small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation and other Trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Transport, Storage and communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very Small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m

Source: Small Business Amendment Act, as amended in 2003 and 2004

2.7.1 Importance of the SMMEs in South Africa

Many studies have emphasised the importance of SMMEs in lifting-up the economy and creating employment, and thus creating social and political stability in a country (Abor, 2007;

Wennekers, Uhlaner & Thurik, 2002; Fuchs, Lacovone, Jaeggi, Napier, Pearson, Pellegrini & Sanchez, 2011; Tewari, Skilling, Kumar & Wu, 2013; Neneh, 2014). The Edinburg Group (2015), reported that small business enterprises represented 52 per cent of the private sector value added, and thus mark a crucial global economic contribution offered by the small business enterprises.

SMMEs play an important role in job creation, and it is visible in both developing and developed countries (Edinburg Group, 2015). In low income countries, in which the small business sector is predominantly constituted by informal enterprises its contribution to GDP ranges to 16 per cent, in high income countries small business sector contributes to 51 per cent of the GDP (Edinburg Group, 2015).

SMMEs can play an important role in creating employment opportunities in rural areas, and improve incomes, and thus accelerate economic development (Desta, 2015). Further, Desta, (2015) advance that because they are flexible can easily stand tough economic conditions, and also innovate faster than big enterprises can be used to foster rural development.

In South Africa, Abor (2007) and Abor and Quartey (2010) suggested that SMMEs make up approximately 91 per cent of formal business, and further contribute between 52 and 57 per cent to GDP, and provide about 61 per cent of employment. Abor and Quartey (2010) demonstrated that in South Africa SMMEs contributed 61 per cent to employment, and in Ghana have contributed much more approximately to 80 per cent of total employment. Further, FinScope South Africa Small Business Survey (2010) revealed that small business enterprises in South Africa represent 5.9 million small businesses, and creating 11.6 million total employment opportunities. The FinScope South Africa Small Business Survey (2010) further established that the micro-enterprises represent 82 per cent of the firms operating in the country. The study by covered approximately 5.6 million SMMEs.

South Africa is faced with high unemployment, that affects more young people (NDP, 2013 and National Treasury, Budget Review, 2017). The NDP (2013) including the ILO (2016b) advocate that South Africa need to prioritise SMMEs' development in order to address unemployment. Studies have found that young people and women are the most people that can be easily absorbed in small business enterprises (SBP, 2012; SBP, 2015 and ILO, 2016b). Most people employed in small firms are largely unskilled labours (SBP, 2012 and SBP,

2015). The SBP (2015) revealed that most people employed by SMMEs are those with low qualifications (unskilled employees). The SBP (2015) further state that small enterprises are more likely to employ young work seekers than those in middle age. What this means is that the creation of small enterprise would benefit mostly the vulnerable groups in society which are women and youth. But a policy caution should be emphasised that small business development's efforts should not only address poverty initiatives but also growth (wealth creation).

The National Treasury, Medium Term Policy State (2016) and the National Treasury, Budget Review (2017) acknowledged that since 1994 to date, the South African government has increased resource allocation to social welfare priorities (education, health and social grants). Further, in terms of economic growth since 2009, the country has performed very poor. Fiscal constraints continue to threaten the implementation of social and economic development programmes (National Treasury, Budget Review, 2017). Poverty in South Africa is on the rise since 2011 (StatsSA, 2017). The recent report by Statistics South Africa revealed that proportion of the people living in poverty declined from 66,6 per cent in 2006 to 53,2 per cent in in 2011. To date, poverty has increased to 55,5 per cent. Further, Statistic South Africa (2017) cite that women are the worst affected than men. Children and elderly citizens are also the most affected people. This is also a picture captured in Desta (2015), and further framing poverty along racial inequality line. Poverty in South Africa is largely evident in black African population (Desta, 2015 & StatsSA, 2017). In order to address poverty, South Africa needs to prioritise SMMEs (ILO, 2016a).

As advocated by others studies, small business enterprises are largely recognised as engines that can boost economic growth and create jobs (Abor, 2007; Wenekers, Uhlaner & Thurik, 2002; Fuchs, et al., 2011; Tewari, Skilling, Kumar & Wu, 2013; Machirori 2012 & Neneh, 2014). Although inequalities have decline, South Africa still regarded as a most unequal society in the world (Desta, 2015 and StatsSA, 2017). StatsSA (2017) indicates that black Africans have the highest income inequality with a Gini coefficient of 0,65 in 2015, and marked an increase from 0,64 in 2006, whilst the white population has experienced a decline from 0,56 in 2006 to 0,51 in 2015. The Gini coefficient amongst Coloureds in 2015 recorded 0,58 and amongst Indian/Asians registered 0,56. The NDP (2013) and other policy documents such as National Treasury, Medium Term Policy Statement (2016) and National Treasury, Budget Review (2017) advocate that unemployment, poverty and inequality that is

experienced by South Africa could be addressed by improving support measures provided to SMMEs. Job creation combined with economic growth should be prioritised (StatsSA, 2017).

2.7.2 Performance of SMMEs in South Africa

In overall good perform SMMEs in an economy, mean more jobs, reduction of poverty and income inequality (Machirori, 2012 & Nardos, 2015). It shows that the country's business environment is conducive to propel prospects for survival of SMMEs (Machirori, 2012).

Access to finance has been one of the critical factors cited by studies that hinder performance of SMMEs (Machirori, 2012 & Sitharam, 2014). In many instances SMMEs, during the early stages have no track record to secure funding, mostly from the private banks. That contributes to the failure of some of the SMMEs (Machirori, 2012). In South Africa many have argued that in most cases is not about lack of capital in the market, is the inability and lack of capacity of SMMEs to access financing because they do not have a collateral to secure financing (World Bank, 2000, World Bank, 2007; Endeavor, 2012; Machirori, 2012, & GEM, 2015). What is also needed is to deepen financing market for SMMEs. To establish a linkage of SMMEs with venture capital funds, including angels funding platforms (Machirori, 2012 & Endeavor, 2012). Like in other countries it appears that commercial banks prefer well established businesses to provide financing facilities than SMMEs (Machirori, 2012 & Sitharam, 2014). Further, commercial banks view SMMEs as high risk businesses to offer financing. This is the area that needs public sector financing to close the gap (Machirori, 2012; Sitharam, 2014 & PWC, 2015). However, studies indicate that public sector funding programmes have complicated financing requirements that either discourage entrepreneurship, and thus affect the growth rate of SMMEs (PWC, 2015). In most cases emerging small business enterprises do not have audited financial statements, as a result their application for funding are rejected (Sitharam, 2014).

The ILO (2016b) indicate that South Africa's low skilled labour force is classified as one of the factors that that hinders business growth, and the education outcome compromise success of enterprises. Of 144 countries in terms of competitiveness, South Africa was ranked last for maths and science (ILO, 2016b). The competitiveness and labour productivity concerns raised by the ILO (2016b) need to be addressed. The skills and education outcomes need to be improved in order for the country to enjoy sustainable growth outcomes. Managerial skills

are particular found inadequate in South Africa's SMME environment, particular in black African community (Machirori, 2012 & Sitharam, 2014). This is also framed in StatsSA (2017) with regard to inter racial inequality in the South African society, taking into account the racial political, social and economic system. StatsSA (2017) further notes the failure of the 'post-apartheid constitutional democratic state' to fast-track implementation of policies to reverse the apartheid legacy. The World Report "Doing Business" helps as a tool that can be used by policy makers to gauge how a particular economy accommodates the growth of SMMEs. In South Africa, regulatory regime has been cited by many SMMEs as an issue that needs to be addressed (Machirori, 2012). Compared to the 2016 report, South Africa ranked at 74 out of 190 countries, registering a decline of two places from the 2016 (World Bank, World Bank, 2017). South Africa came behind Mauritius (49) Rwanda (56) and Botswana (71), but was leading Africa's biggest economy, Nigeria which ranked at 169 (World Bank, 2017).

In most cases challenges of SMMEs are similar to the factors that hinders the performance of small business enterprises (Machirori, 2012). SMMEs view government policy and regulations as one of the factors that lead to failure of small business enterprises (Chimucheka & Mandipaka, 2015 and PWC, 2015). Although the World Bank, (2017), shows that starting (registration) a company in South Africa is improving, the country needs to tackle the red tape, including embarking on tax reforms that would afford growth of SMMEs (Sitharam, 2014). Compared with other emerging markets, and developed countries, South Africa policy and regulatory environment still viewed as high (Sitharam, 2014 & World Bank, 2017). Further, public procurement need to be addressed to support growth of SMMEs, thus small business enterprises need to be paid within 30 days' payment limit (NDP, 2013, & National Treasury, Budget Review, 2017). This is the issue that has been raised by various studies (Endeavor, 2012& PWC, 2015). This means government needs to lift support efforts for small firms, and create environment that would instil confidence (SBP, 2015 & PWC,2015).

The effects of the 2008 global financial and economic crisis had an effect on SMMEs performance (Sitharam, 2014, & National Treasury, Budget Review, 2017) and since then South Africa economic growth has performed lower than expected (National Treasury, Budget Review, 2017). The economy experienced high inflation and low business confidence coupled with lower consumer spending (National Treasury, Budget Review, 2017). These are

the macro economic factors that have been identified to have an effect on the performance of SMMEs (Sitharam, 2014). Further, the South Africa economy is viewed as highly concentrated and dominated by big firms, which export 93 per cent of all exports (World Bank, 2015). South Africa needs to insulate the concentration of its economy by big firms, and create an environment that SMMEs can be linked to the value chains of big firms (World Bank, 2015 and National Treasury, Budget Review, 2017). This could then address the argument advanced in Machirori (2012) that small business enterprises fail as a result of stifling competition exerted by big firms. Further, investment in research and development, including technological capability designed for SMMEs have a potential to allow small business enterprise to compete with foreign big firms (Sitharam, 2014).

Crime has been highlighted as one of the contributing factors to the failure of SMMEs in South Africa (Machirori, 2012 & BER, 2016). According to the BER (2016) and Sitharam (2014) report that high levels of crime coupled with corruption (which is on the increase path), would negatively affect cost of doing business in South Africa. This calls for government to develop strategies and actions plans that curb high crime rates.

2.7.3 Challenges of SMMEs in South Africa

Machirori (2012) advanced that in most cases the challenges of SMMEs are similar to the factors that make small business enterprises to fail (Machirori, 2012). The challenges faced by SMMEs can be grouped into two groups, namely external (macro) and internal (micro) environments (Brink; Cant & Ligthelm, 2003; Machirori, 2012 & Sitharam, 2014). The challenges facing SMMEs in South Africa are not only entirely unique in South Africa. Researchers (Erastus, Stephen, & Abdullai 2014; Ode, Wombo, Ede Ekpe & Mile Ngodoo, 2014) have further identified similar constraints that hinder growth and development of SMMEs in African countries such as Ghana and Nigeria.

2.7.3.1 Internal Factors

Mentoring and coaching and provide training and development in managerial skills for SMMEs, is becoming a one of the highest priority in order to boost SMMEs' growth and development (Machirori, 2012; Endeavor, 2012; Sitharam, 2014 and PWC, 2015). The ILO (2016b) indicate that South Africa's low skilled labour force is classified as one of the factors that that hinders business growth, and the education outcome compromise success of

enterprises. Of 144 countries in terms of competitiveness, South Africa was ranked last for maths and science (ILO, 2016b). Training in managerial skills becomes critical. Without strong managerial skills in finance, accounting, marketing, business strategy, SMMEs would not be able to survive. Further, managerial skills are particular found inadequate in South Africa's SMME environment, particular in black African community (Brink; Cant & Ligthelm, 2003; Machirori, 2012 and Sitharam, 2014). The skills and education outcomes in South Africa need to be improved in order for the country to enjoy sustainable growth outcomes (Business Monitor, 2009; Endeavor, 2012 & PWC, 2015).

Despite the importance of SMME to the South African economy, studies by the (SBP, 2015 & ILO, 2016b) established business enterprises in South Africa have recorded a decline in employment, turnover and many are finding difficult to survive. South Africa, labour environment is cited as one of the main factors that hinders hiring of employees (SBP, 2015 & ILO, 2016b). The SBP (2015) further state that as compared to other countries, South Africa is not absorbing staff in large numbers, and thus deprive many people in the labour market opportunities to earn an income.

The competitiveness and labour productivity concerns raised by the ILO (2016b) need to be addressed. The ILO (2016b) citing the findings of the Global Entrepreneurship Monitor in the case of South Africa, indicated an improvement in terms of high value of perceptions towards entrepreneurship, however 10 per cent of South Africans planned to start a business, and 2.7 per cent of South Africans aimed to change informal enterprises to established firms. In other countries such as Malaysia having a high proportion of SMMEs has been key in addressing the negative socio-economic effects of the recent financial and economic crisis (SBP, 2015 and ILO, 2016b). Access to financial support including to infrastructure such as ICT remains a key challenge taking into account what other emerging markets are doing (ILO, 2016b).

2.7.3.2 External Factors

Communication and marketing of government business development programme has been identified as one of the challenges that affect growth and development of SMMEs in South Africa (Chimucheka and Mandipaka, 2015 and PWC, 2015). In many instances SMMEs are not aware of the government business development programmes. Even if they have received the business development support, technical services proved not to be adequate to cater the

needs of SMMEs (Dalberg, 2014 and Chimucheka and Mandipaka, 2015). What proved to be critical is to lift the provision of advisory and consultancy services to SMMEs.

Government needs to enter into partnership arrangements with the private sector organisations, civil society, business chambers including higher education institutions (Endeavor, 2012; Dalberg, 2014; Chimucheka & Mandipaka, 2015; & PWC, 2015). Public sector business development services offered to small business enterprises need to be repositioned to focus on increasing services and needs of SMMEs. The focus should be offering technical production support, supplying market information, introduce technology advice (Chimucheka & Mandipaka, 2015; & PWC, 2015). Strong institutional platforms (policies, laws and regulations, programmes and services) remain as one of the pre-requisite to enable growth and development of SMMEs (Co, 2004). In order for the institutions to remain relevant it is critical that they are developed to meet the needs of the entrepreneurs and SMMEs.

Another critical challenge that SMMEs in South Africa, like in emerging economies and developed countries, is access to finance (World Bank, 2000, World Bank, 2007, Machirori, 2012, Endeavor, 2012; Dalberg, 2014; GEM, 2015; Chimucheka & Mandipaka, 2015; & PWC, 2015). Commercial banks seem to view SMMEs as high risk businesses to offer financing. Commercial banks have less appetite to invest in SMMEs because they make high returns in established big firms, and also avoid transaction costs related in lending to SMMEs (Dalberg, 2011). According to Dalberg (2011) this is the issue that needs to be change. Commercial banks need to change their lending culture, and increase their internal capacity and investing in their human resources to understand the needs of SMMEs.

Without capital, SMMEs cannot function. They would not be able to expand their operation to access opportunities to new markets, thus compromise their ability to create jobs and innovate (Machirori, 2012; Endeavor, 2012; Sitharam, 2014 & PWC, 2015).

In South Africa, SMMEs' view the regulator regime as a burden and thus affect the growth of the industry (World Bank, 2000, World Bank, 2007, Machirori, 2012, Endeavor, 2012; Dalberg, 2014; GEM, 2015; Chimucheka and Mandipaka, 2015; PWC, 2015 and World Bank, 2017). Studies (Sitharam,2014, & World Bank, 2017) advance that South Africa needs

to tackle the red tape, including embarking on tax reforms that would afford growth of SMMEs.

Government through various policy announcements namely Budget Review (2017) emphasised the need for SMMEs to benefit from public procurement programmes, and that small business enterprises need to be paid within 30 days' payment limit. In many instances government departments are failing to meet this policy requirement (Budget Review, 2016). This means government needs to lift support efforts for small firms, and create environment that would instil confidence (Endeavor, 2012 & SBP, 2015).

The economy needs to perform good, and South Africa since 2008 global economic crisis, coupled with internal poor economic governance failures, inflation has recorded high growth rate, economic growth remains very low, business confidence including lower consumer spending performed dismal (Sitharam, 2014 & National Treasury, Budget Review, 2017). These are the macro economic factors that have been identified to have an effect on the performance of SMMEs (Sitharam, 2014).

Other studies by (Machirori, 2012, & Sitharam, 2014) have identify competition exerted to SMMEs by big firms as one of the challenges that is faced by the SMMEs. Because big firms whether foreign or domestic have resource competitive advantage compared to SMMEs, this elbow out small enterprise from the market (Brink; Cant & Ligthelm, 2003, & Sitharam, 2014). Further, lack of investment in research and development, including technological capability designed for SMMEs have a potential to compromise growth of small business enterprise, and thus would be able to compete with largely foreign big firms (Sitharam, 2014).

In addition, the South Africa economy is viewed as highly concentrated and dominated by big firms, which export 93 per cent of all exports (World Bank, 2015). South Africa needs to insulate the concentration of its economy by big firms, and create an environment that SMMEs can be linked to the value chains of big firms (World Bank, 2015, & National Treasury, Budget Review, 2017).

Many SMMEs have been reported to have increased their security spending as a result of high crime rate in the South Africa (OECD, 2015). As a result of increase in security

spending, the operational costs of SMMEs increased, and thus increased the cost of doing business (Machirori, 2012; Sitharam 2014; OECD, 2015, & BER, 2016). An increase in corruption and crime would negatively affect cost of doing business in South Africa. This would require government to develop strategies and actions plans that would curb high crime rate.

2.8 CONCEPTUAL FRAMEWORK ON HOW TO ENHANCE INSTITUTIONAL FRAMEWORK FOR PROMOTING SMMEs IN SOUTH AFRICA

Figure 7 in Chapter 5 shows how South Africa can set-up an institutional framework that could infuse private sector participation in implementing small business enterprises development programmes. Like in Malaysia and USA, the institutional set-up has created an environment for SMMEs to learn from other stakeholders-large corporations, institutions of higher learning and financial institutions (SME Corporation, Malaysia, 2012 & SBA, Strategic Plan, 2014). In order to realise common vision, the OECD (2004) and ILO (2016a) suggest that countries should create an institutional support which would provide reliable data base, monitoring and evaluation mechanism, effective coordination and business services. The OECD (2004) advanced that government has the responsibility to implement strategies and plans that aimed at nurturing small business enterprises, in collaboration with the SMMEs, private sector, the civil society, development partners and higher education institutions. Hence, there is a need to have a capable policy coordination and monitoring structure at the national government level with a strong link with subnational and local government working closely with SMMEs and other social partners. Also, the National Advisory Council could play an essential role to provide policy direction of SMMEs. Further, to provide guidance in the development of SMMEs' support programmes across all the economic sectors, and to ensure effective implementation of the overall small business enterprise development programmes. The composition should include experts in SMMEs industry including representation of SMMEs' associations, various government's development agencies. The President or a Minister in the Presidency could chair the National Advisory Councils to lift the status of the SMMEs with government policy making platform. In Malaysia, the Prime Minister chairs the NSDC (SME Corp. Malaysia, 2015).

2.9 LESSONS TO LEARN FROM DEVELOPED AND DEVELOPING COUNTRIES

South Africa's economic policy places SMMEs support high on the government policy agenda. SMMEs are seen as the key to future growth, transformation and job creation (NDP, 2013; National Treasury, Budget Review, 2016, & National Treasury, Medium Term Budget Policy Statement, 2016). Despite SMME importance to the economy government has adopted complex and ever-changing strategies, and have yielded less outcomes for the SMME industry (ILO, 2016a). Further, South Africa's SMMEs have experience low survival and growth rate and thus could not move from informality to formality (SBP, 2015 and ILO, 2016a). As indicated in this thesis, the current form of South Africa's institutional support to SMMEs has been regarded problematic for strategic coordination purposes (NDP, 2012; SBP, 2014, & ILO, 2016b). The SBP (2014) advance that it appears that there is a need for government in all spheres to improve efficiency and effectiveness of governance. Researchers (Fuchs, Lacovone, Jaeggi, Napier, Pearson, Pellegrini & Sanchez, (2011); World Bank (2007); Timm, 2011 and SBP, 2014) emphasised that government agencies including their oversight holding departments have shown substantial overlap indications in terms of programmes offering.

The OECD (2004) advocated that it is crucial to linking small business development targets to the overall national economic and social development objectives. This is the policy option that Malaysia and the USA adopted, including other South-East Asia countries such as Indonesia. The aim is to position small business development targets within the framework of the overall macro policy objectives such as employment creation, productivity, competitiveness, GDP growth, balance of payments including social, sectoral and regional equality and poverty reduction (OECD, 2004). South Africa still need to develop sector plans (include targets and indicators) that are aligned to the National Development Plan. The OECD (2004) suggests that if small business development policy is aligned against national development targets, the end results will improve co-ordination of business activities of various ministries, and further enhance prioritisation of goals. This is the policy option, which is advanced by the ILO (2016a).

The OECD (2004) and ILO (2016a) advocate that the small business enterprise policy strategy and plan should show and coordinate efforts of institutional structures that impact policy which include legislatures, executive including public-private support organisations focusing on exports, investment, regional development, public sector education and training institutions and financial institutions and civil society. The Malaysian and USA institutional

support framework emphasised that the private sector's roles and responsibilities need to form an integral part of the small business development strategy.

The Malaysian government has established the National SME Development Council (NSDC) to provide policy direction of small business enterprises. As the highest policy-making body, chaired by the Prime Minister, with representation of essential ministries and agencies operating in the SMME's industry (SME Corp. Malaysia, 2015), The essential role of the NSDC which was established in 2004, as mentioned in the SME Corp. Malaysia (2015) is to formulate strategies for SMEs development across all the economic sectors, and to ensure effective implementation of the overall small business enterprise development programmes in Malaysia.

In 2015, the Malaysian government implemented 150 programmes covering policy focus areas in human capital development, market access, innovation and technology, access to finance, infrastructure and legal and regulatory environment (SME Corp. Malaysia, 2015). The programmes as reported in SME Corp. Malaysia (2015) benefited more than 580,100 small business enterprises, costing the government RM5 billion, and also in partnership with the private sector, government implemented 20 programmes amounting RM3.1 billion. The strategic goals and policy focus areas aim to ensure a creation of globally competitive SMEs across all sectors that would enhance wealth creation and contribute to the wellbeing of the Malaysian nation. The vision reflects both economic and social dimension of the overall contribution of the SMMEs in society.

The OECD (2004) advanced that government has the responsibility to implement strategies and plans that aim to nurture small business enterprises, in collaboration with the SME/private sector, the civil society and the development partners. Hence there is a need to have a solid and capable policy coordination and monitoring structure at the national government level with strong link with subnational and local government working closely SME membership organisations. Malaysian framework including the USA aim to infuse private sector participation in implementing small business enterprises development programmes. Learning networks amongst stakeholders remain a critical component in the development of small enterprises in Malaysia.

In order to yield better outcomes, the OECD (2004) advocated for the creation of an independent or semi-autonomous, central level SME institution to enhance policy coordination and monitoring. In 2007, the NSDC appointed the Small and Medium Enterprise Corporation Malaysia (SME. Corp. Malaysia) to operate as the central agency to formulate policies and strategies for small enterprises and to coordinate programmes across all ministries (15) and agencies (65) operating in the SMME industry (Gunto & Haji Alias, 2013, SME Corp. Malaysia, 2012, & SME Corp. Malaysia, 2015). The (SME. Corp. Malaysia) functions as a central agency that provide information and advisory services for all small business enterprises in Malaysia (Saleh & Ndubisi, 2006, Gunto & Haji Alias, 2013, Khan & Khalique, 2014, SME Corp. Malaysia, 2012, & SME Corp. Malaysia, 2015).

SBA in the USA has for many years focused on policy areas such as to aid, counsel, assist and protect the interests of small business concerns. Further, ensure that small businesses get a fair proportion of government contracts (OECD, 2004 and SBA Strategic Plans, 2014). In 1958, the promulgated the Investment Company Act, which established the Small Business Investment Company (SBIC)-(OECD, 2004, SME Corp. Malaysia, 2012). The main strategic focus of the SBIC is to deepen financing of SMMEs through privately owned and operated venture capital investment firms to support and promote high growth firms. Thus to promote innovation and technological advancement of SMMEs. Since its formation, the SBA played an essential role to coordinate SMMEs' policy and strategic programme implementation and management (monitoring and evaluation). Through the Small Business Act, the SBA was granted a status to be a sole central coordinating agencies that promote SMMEs growth and development through partnership with private sector, business associations, financial institutions and other government agencies by offering financial and non-financial development incentives (OECD, 2004 and SBA Strategic Plans, 2014).

To date, SBA programmes also cover poverty programmes through inclusive entrepreneurial initiatives, federal contract procurement assistance, management assistance, and specialised outreach to women, minorities and armed forces veterans (SBA Strategic Plans, 2014). The policy focus of the programmes of the SBA cover economic growth, growth of small business enterprises, competitiveness, exports, job creation and social equity.

As already mentioned, SBA reporting line is mainly directed to the President, and further demonstrate the contribution of the National Advisory Council to the work of the SBA. This

component of the institutional setting shows the importance of the private sector players in the development and implementation of the SMME programmes, thus limits the role of government in the SMMEs' industry. With regard to the Malaysian institutional framework including the OECD (2004) advanced that government has the responsibility to implement strategies and plans that aim to nurture small business enterprises, in collaboration with the SME/private sector, the civil society and the development partners.

As the catalyst agency, SBA get involved in the early stage of planning and allocation of resources for the programmes undertaken by various ministries and agencies. The institutional framework demonstrated the essential role of the private sector including the participation of the industry associations, chambers, Non-Governmental Organisations (NGO) and higher education institutions in the development of the SMMES. The United States institutional framework support a private sector led SMME development approach.

After examination of six SME promotion agencies from United States of America: Small Business Administration (SBA); Chile: Corporación de Fomento de la Producción (CORFO); Brazil: Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (SEBRAE); Spain (Basque region): Sociedad para la Transformación Competitiva- Eraldaketa Lehiakorrerako Sozietatea (SPRI); South Korea: Small & medium Business Corporation (SBC) including South Africa, SEDA and the ILO (2016a) made the following findings and recommendations in respect of institutional framework:

- To establishing single national coordinating and executing SMME agency. The work of all government department and agencies supporting the SMME industry should be coordinated by the coordinating and executing SMME agency. In doing so, resources would be used more efficient than to spreading resources over various support organizations.
- Further, the SMME promotion agency's role should be enacted, and Further if the organisation is autonomous, the governing legislation should explicitly define the functions of the organisation in relation to the government policy that has an effect to SMME
- Some agencies examined use an indirect approach to administer support programmes, and thus contract third parties to provide the services (demonstrating public-private partnership).

- It is important that the different stakeholders from the public and private sector are represented in the governing council or board overseeing the agency. This would lift the voice of SMMEs in programme design and implementation.
- SMME promotion agencies should target all SMMEs, even though each programme may focus on a specific group, sector or size class.
- Funding and financing mechanism should ensure long-term effectiveness of the agency. Long term planning is favoured to instil stability in the SMME industry.
- Personnel with high-level expertise should be recruited to improve the functioning of the SMME growth and development agency.
- Further, a monitoring and evaluation system should be established and should be supported by a legislative framework.
- Governance policies should insulate the functioning of the SMME industry from political risks.
- When fees are charged on SMMEs for business consulting services, they should not act as hindrance on the growth of SMMEs.

2.10 SUMMARY

Both the developed and developing countries place SMMEs' growth and support high on the economic policy agenda. It has been mentioned this chapter that South Africa's economic policy places SMMEs' support and growth as one of the vital policy priorities. Government support in facilitating global connectivity of domestic enterprises remains a vital point in the development of small business enterprises (Khan & Khalique, 2014 and SME Corp. Malaysia, 2012).

SMMEs can play an important role in creating employment opportunities in rural areas, and improve incomes, and thus accelerate economic development (Desta, 2015). Further, Desta, (2015) advance that because they are flexible can easily stand tough economic conditions, and also innovate faster than big enterprises can be used to foster rural development.

This chapter also presented the definition definitions of institutions framework, and the theories and concepts of institutions framework as advocated by Douglass North and other authors of new institutional economics. In addition, types of institutions would be presented.

It was also presented that institutions are viewed as the platform that could be used to apply the “rules of the game” in society, they may be formal or informal (North, 1990). From institutional theory perspective, North (1990) said that, institutional framework of a society comprises political, social, and legal ground rules that establish the basis for production and distribution, and organizations must conform to it if they are to receive support and legitimacy. North (1990) further noted that, the viability, profitability and indeed survival of SMES typically depend on the existing institutional matrix.

Further, this chapter would outline brief review of the Malaysian and United States America (US) SMME institutional framework. It is important that to draw experiences of both the developed and developing countries. SMMEs have been identified as the engines for economic growth and development. In Malaysia, strategies and economic plans including conducive business environment play a crucial role in the development of small business enterprises (Khan & Khalique, 2014). In this chapter, it was outlined that government support efforts in facilitating global connectivity of domestic enterprises is one of the essential policy pillars to spur growth of small business enterprises (Khan & Khalique, 2014 and SME Corp. Malaysia, 2012).

It was presented that in the USA, in recognising the market gap that small enterprises face, US government improved financing supporting to SMMEs (NEC, 2011). Key focus was on loan guarantees made available to SMMEs, increased awarding Federal contracts to small businesses; providing counselling, and enhanced partnerships with the private sector, increased financial support in research through the Small Business Innovation and Research Program. Further, streamlined Federal programmes to help small businesses. It was outlined that it is crucial to linking small business development targets to the overall national economic and social development objectives (OECD, 2004). The aim is to position small business development targets within the framework of the overall macro policy objectives. It was also presented that one of the critical achievement of the United States in terms of uplifting support and development of the SMMEs was the promulgation of the Investment Company Act in 1958, which established the Small Business Investment Company (SBIC). The main function of the SBIC was to enable the SBA to licensed, regulated and help provide funds for privately owned and operated venture capital investment firms in response to innovation and technological policy consideration.

As the catalyst agency, central coordinating and executing agency should get involved in the early stage of planning and allocation of resources for the programmes undertaken by various ministries and agencies. This chapter also highlighted the need for a solid institutional framework which would provide reliable data base, monitoring and evaluation mechanism, effective coordination and business services. Like in USA, Malaysia institutional framework is designed in such a way that it creates opportunity for SMMEs to be able to learn from other stakeholders such as large corporations, institutions of higher learning and financial institutions.

Both the Malaysia and USA sole central coordinating agencies that provide information and advisory services for all small business enterprises, and further provide capacity building programmes and support through financial and non-financial development incentives. The role of the private sector, SMMEs associations including institutions of higher learning is highly recognised in Malaysia and USA. It was presented that the institutional framework in Malaysia and USA advanced that government has the responsibility to implement strategies and plans that aim to nurture small business enterprises, in collaboration with the SMME/private sector, the civil society and the development partners. Hence there is a need to have a solid and capable policy coordination and monitoring structure at the national government level with strong link with subnational and local government working closely SME membership organisations. The United States institutional framework support a private sector led SMME development approach.

This chapter also highlighted the need for a solid institutional framework which would provide reliable data base, monitoring and evaluation mechanism, effective coordination and business services. Like in USA, Malaysia institutional framework is designed in such a way that it creates opportunity for SMMEs to be able to learn from other stakeholders such as large corporations, institutions of higher learning and financial institutions.

Further, this chapter presented the review of the institutional framework in South Africa. In examining the definition of SMMEs both in developed and developing countries Machirori (2012) and Nardos (2015) have found that there is a lack of standard definition of SMMEs, and that is the case with South Africa.

This chapter also presented that in South Africa, despite the importance of SMMEs to the economy and employment creation, government policy hinders SMMEs development and

growth. One of the most cited government policies that hinder SMME development and growth is the institutional framework. As indicated in this chapter, the current form of South Africa's institutional support to SMMEs has been regarded problematic for strategic coordination purposes. It was also outlined that there is a need for government in all spheres to improve efficiency and effectiveness of governance. Researchers (Fuchs, Lacovone, Jaeggi, Napier, Pearson, Pellegrini & Sanchez, (2011); World Bank (2007); Timm, 2011, & SBP, 2014) emphasised that government agencies including their oversight holding departments have shown substantial overlap indications in terms of programmes offering.

South Africa is faced with high unemployment, that affects more young people. The NDP advocate that South Africa need to prioritise SMMEs' development in order to address unemployment. Studies have found that young people and women are the most people that can be easily absorbed in small business enterprises (SBP, 2012; SBP, 2015, & ILO, 2016b). It was presented that in order for South Africa to be able to lift the role of SMMEs in the development of the country it needs to address some of the constraints that hinder growth and development of SMMEs. South Africa needs to improve coordination between organizations supporting SMMEs, address management skills, in particular financial management of SMMEs, lift up market Access, both domestic and global markets. Further, South Africa need to support SMMEs to access financing and funding, and also improve regulatory burden, to clear the red tape. In addition, it need to provide SMMEs with access to information and technology infrastructure.

CHAPTER 3: RESEARCH METHODS

3.1 INTRODUCTION

This chapter outlines the research methodology used in this thesis. The main objective of this study was to examine the current *institutional framework* for SMMEs and find out if the designed and implemented programmes appropriately meet the demands of SMMEs in South Africa.

As was earlier stated in Chapter 1, research methodology maps out an approach to problem-finding or problem-solving. In mapping this chapter, the following research methodology steps will be outlined. The first section will present the research problem and the research objectives. The following sections will cover the research design; sample techniques. In addition, data collection formation used will also be presented.

It is also critical to outline the data analysis method used in the study. This chapter will also outline the section that will cover the limitation of the study.

3.2 PHILOSOPHICAL FRAMEWORK IN RELATION TO THE DIFFERENCES BETWEEN QUANTITATIVE AND QUALITATIVE RESEARCH APPROACHES

A systemic sketching of the philosophies, paradigms and strategies that informed the research approach adopted are outlined. Table 2 below shows the differences between qualitative and quantitative research approaches.

Table 2: Comparison between qualitative and quantitative research approaches

ORIENTATION	QUANTITATIVE APPROACH	QUALITATIVE APPROACH
Paradigm/Worldview (assumption about world)	Positivism/Realism	Interpretivism/Idealism
Research Purpose (rationale)	Numerical description Causal explanation Prediction	Subjective description Empathetic understanding Exploration
Ontology (nature of reality)		
Epistemology (theory of	Dualist/Objectivist	Subjectivist

knowledge)		
Methodology (aims of scientific investigation)	Experimental/Manipulative	Hermeneutical/Dialectical
Research Methods (techniques and tools)	Empirical examination Measurement Hypothesis testing Randomization Blinding Structured protocols Questionnaires	Ethnographies Case studies Narrative research Interviews Focus group discussion Observations Field notes Recordings & Filmings
Scientific Method (role of theory)	Deductive approach, testing of theory	Inductive approach, generation of theory
Nature of Data Instruments	Variables Structured and Validated-data collection instruments	Words, images, categories In-depth interviews, participant observation, field notes, and open-ended questions
Data Analysis	Identify statistical relationships among variables	Use descriptive data, search for patterns, themes and holistic features and appreciate variations
Results	Generalizable findings	Particularistic findings; provision of insider viewpoint
Final Report	Formal statistical report with: • Correlations • Comparisons of means • Reporting of statistical significance of findings	Informal narrative report

Source: Antwi and Hamza, 2015

This chapter expands the presentation outlined in Chapter 1. Table 2 presents the research methodology philosophical framework.

Snape and Spencer (2003) captures qualitative research as a presentation of the world view. As depicted in Table 2, this research approach is interpretive. It has a material effect to locate human activity be it in the political, social and economic context. This approach further firms the rational for adopting qualitative research approach to meet the intended objectives of the study. Because the research philosophy of the study being subjective in nature, an inductive

approach as shown in Table 2 fit the main objective of the study. Since the current study seeks to assess the current South Africa's institutional framework for SMMEs and find out if the programmes designed and implemented appropriately meet the demands of SMMEs in South Africa, an inductive data analysis would enable the study to formulate better perspective of the current institutional framework for promoting and supporting SMMEs. That is, it would help in understanding influences and realities and experiences that shape the current institutional set-up, and possible proposes new institutional framework.

Since qualitative methods are concerned with providing additional information in order to have a better understanding of the research study, the manner of investigation affords in-depth insight into the research study. As mentioned in Chapter 1, the main aim of the qualitative research seeks to develop deeper understand of experiences in human activity, and investigating the perspective and behaviour of human setting in a political, social and economic context.

As this research study uses New Institutional Economics Theory as advocated by researchers such North, Coase, Williamson, Menard, Mary, Murrell and Shirley, the ontological perspective which entail interpretative approach, with a subjective element, and which applies inductive method affirms that the structures in a political, social and economic situation derived within a human activity. Ontological perspective presents the nature and structure of the world (Antwi and Hamza, 2015). It expresses the perceptions about the nature of the world, and afford an opportunity to understand the world. In the case of this thesis, it is advanced that solid institutions can help to improve and enhance the role of SMMEs in meeting government's developmental objectives.

The research approach to gather primary information from public sector experts supporting SMMEs, account that the views narrated would be subjective. Further, the study aims at getting insight and different perspectives with regard to the institutional framework, and how the current business development support programmes can be designed to meet the needs or demands of SMMEs, was anchored on an exploratory exercise.

3.3 RESEARCH METHODOLOGY

According to Buckley and Chiang (1976) research methodology is a strategy or architectural design by which the researcher maps out an approach to problem-finding or problem-solving. Chapter 3 will outline a detailed presentation of the “problem-finding or problem-solving approach” adopted in this thesis.

3.3.1 Research Design

The research design enables the researcher to find solutions to the stated research problem. It entails plans and the procedures to realise the research study (Cooper & Schindler, 2014). In this study, will mention three types of research design, namely qualitative, quantitative and mixed research design.

Creswell (2009) framed a qualitative research design as form that uses words, whereas quantitative research design as the use of numbers. The latter uses closed-ended questions (quantitative hypotheses) rather than uses open-ended questions (Creswell, 2009). Further, qualitative research designed can be further framed as inquiry that assess and deepening understanding the meanings individuals or groups attribute to a human or social problem. Creswell (2009) further advance that quantitative studies focus primarily on objective measurements and numerical analysis of collected data with the aim of identifying relationships between variables and possibly generalizing the results across groups. Mixed method research design is one that combines both quantitative and qualitative research approaches of inquiry within the same study (Creswell, 2009).

This study has adopted a qualitative research approach. The philosophy of this research study searches the deeper understanding of the perspectives and behavioural attitudes in setting institutional framework within a social, economic and political context. As institutions are established through the process of human activity, the research approach adopted a fundamental element of subjectivity. Subjectivity should be treated lightly in social policy regime, as it adds a critical element in in human activity (Harima, 2015). As mentioned that this study has adopted a subjective element in research, it will present an inductive formation in distilling the research outcome. This is a result that the research is building from previous established theories. It would take an explorative research approach.

This research will reflect on the current institutional framework in South Africa, which promote and support SMMEs meet the required needs of SMMEs. The study also draws from current studies to see how other countries in the world have done (specific reference from USA and Malaysia), and whether South Africa can learn from? Further, the research work would explore how the current support programmes are aligned to the expectations and perspectives of SMMEs. Building knowledge in this research area which involves human behaviour, qualitative research would fit well (Creswell, 2009; Harima, 2015). Since the information would be interpreted within a political, social and economic context, the qualitative research design as it not numerical, it would add essential element to the study.

3.3.2 Population and Sampling technique

The focus of this research study is on the *institutional framework* for promoting and supporting SMMEs in South Africa, observing perspectives from public sector service providers. The participants that were chosen in this study, are recognised as public sector experts in this field of study. The knowledge and experience ranges from policy and strategy development including operational experience in the public sector in terms of providing strategic and technical support to SMMEs. Both the national and provincial perspectives were canvased, in order to have a broader national perspective with regard to the institutional framework in South Africa.

The population and sampling method fit the proposed research method which is qualitative. Further it suits the specific research area. In this study, purposive sampling method was used (Creswell, 2009). The participants in this study were purposively selected based on their knowledge and experience for the research topic. Since this study has adopted a qualitative research, the non-probability sampling procedure was used.

As previously indicated, the participants covered the national and provincial perspective in relation to the research study. The number of participants was sufficient for this study. By adding more participants in the research study could not have yielded more information, thus the additional information would be classified as saturation (Harima, 2015). Once face-to-face interview was organised. The opportunity was offered, and the rest of the interviews were conducted via telephone.

3.3.3 Data collection methods

Harrison and Rouse (2014) define data collection as a systematic approach to gathering information from a variety of sources to get a complete and accurate answer to the research question. There are basically two types of data collection methods namely: primary and secondary data collection. Primary data involves data gathered and assembled for a research project at hand by the researcher. There are three types of primary data collection methods namely; observation, experiment, and survey methods. The primary data collection technique namely, the interview guide was used in this study. The interview guide helped to facilitate the discussions with the study participants.

Data collection was undertaken through open-ended, semi-structured interviews. The interviews were conducted face-to-face where it was possible; and telephonically. The semi-structured interviews enabled clear and broad questions to be presented to the participants in the research study. The broad and opened questions, and engagement would help to strengthen the interaction with participant (Hancock, 2002).

Taking into account geographic distances and resource constraints telephone interviews significantly helped with the collection of data information. The telephone interviews were conducted in English in the main, however study participants were allowed to codeswitch between languages to better express themselves. This made the study participants more comfortable to express their views. Further, this allowed the discussion to follow a systematic approach by the policy thematic themes.

Audio recordings were used during the telephone interviews and face-to-face interactions following consent from the study participants. The OECD (2014) helped in formulating the institutional framework's policy themes. According to the OECD (2014), the SME Policy Index was designed and has been applied in several regions in Western Balkans. The SME Policy Index was developed as a benchmarking tool for emerging economies to monitor and evaluate progress in policies that support small and medium-sized enterprises (OECD, 2014). The tool is aligned to the Small Business Act for Europe (SBA), and it enables emerging economies to design and implement relatively better SME policies (OECD, 2014).

Secondary data was used in developing the literature review. This data helped in gaining background information about the research study. Examples of secondary data sources that were used include text books, accountability reports of government which include policy documents, public expenditure reviews, programme reviews either internal by the government's agencies or external reports. The World bank reports, published articles, dissertations, internet sources and other relevant secondary data sources related to the study, were used.

3.3.4 Data Analysis

The interview guide was used as a based document to facilitate discussions during the interviews, which were conducted with the study participants (public sector experts). The data collected from the interviews was analysed verbatim by identifying similarities and differences from the views of the public sector experts. A policy perspective was then inducted from their views. Further, a policy thematic matrix was used as base document to assist to understand the content and context of various policy views advanced by the public sector experts interviewed. The approach also helped in formulating the outline of the analysis. The public sector experts' composition, offered both the policy, strategy and operational perspective with regard to public sector business development support services.

The outline of the data analysis was aligned to the policy areas that were used to guide the discussion during interviews. The policy areas were populated as thematic focus areas. Further, the policy thematic areas were aligned to the main objective of this study including its secondary objectives.

3.3.5 Trustworthiness and Credibility

To ensure the trustworthiness and credibility of the data the researcher applied the following procedures (Babbie & Mouton, 2001:277):

1. Prolonged engagement during data collection until data saturation.
2. Referential adequacy through the use of audio recordings.
3. Peer debriefing on the nature and implementation of the study.
4. Member checks as a form of assessing or analysing the data and its interpretation.

3.3.6 Limitations of the Study

The choice of the public sector service providers has an inherent risk of people who do not want to provide information because of fearing it might lend in the ‘wrong hands’ and compromise their careers. It had to take time and convincing to get people to provide information. Further, the views gathered are expressing the perspective of the interviewed public sector experts, and outlining the public sector supply perspective.

3.4 SUMMARY

This chapter outlined the research methodology used in this research study. The main objective of the thesis was revisited. In the first section of this chapter, the presentation of the research problem and the research objectives, including the research design; sample techniques, were stated. In addition, data collection formation, which were used are presented.

The data analysis method was also provided, including the section that covered the issues of reliability and validity coupled with the section addressing issues related to the limitations of the research study and other ethical considerations observed.

The research approach was interpretive. The philosophy of this research study searches the deeper understanding of the perspectives and behavioural attitudes in setting institutional framework within a social, economic and political context. As institutions are established through the process of human activity, the research approach adopted present a fundamental element of subjectivity. Subjectivity should be treated lightly in social policy regime, as it adds a critical element in in human activity (Harima, 2015). The research method adopted an inductive formation in distilling the research outcome.

The research approach entailed gathering primary information from public sector experts supporting SMMEs. However, it is noted that the views narrated would be subjective.

CHAPTER 4: DISCUSSION OF FINDINGS

4.1 INTRODUCTION

This Chapter outlines the research findings. It covers the policy areas that were thematically incorporated in the research discussion guide note. Further this chapter briefly present the demographic profile of the participants of this research study. In addition, it entails analysis of the thematic policy areas, and also present the overview and outlook of SMME development in South Africa based on the advanced opinions made by the study participants.

The research discussion guide note was used as a base document to facilitate discussions during the interviews. In this research study, semi-structured interviews were conducted with eight public sector experts. Of that, two were conducted face-to-face and six were conducted telephonically.

For the purpose of this research study, data collected from interviews was analysed identifying similarities and differences from the views of the public sector experts. Policy perspectives were then established from their views. Further, a policy thematic matrix was used as a base document to assist to understand the content and context of various policy views advanced by the study participants.

The themes were incorporated in the research discussion guide note. In a sense, the themes were pre-designed before the data was collected. The public sector experts' composition, offered both the policy, strategy and operational perspective with regard to the public sector business development support services.

The outline of the data analysis and findings are aligned to the policy areas that were used to guide the discussion during interviews. The policy areas were populated in a thematic focus area. Further, the policy thematic areas were also aligned to the main objective of this study including its secondary objectives. The approach also helped in formulating the outline of the analysis.

4.2 DEMOGRAPHIC PROFILING OF THE PARTICIPANTS

Table 3 shows the demographic profile of the participants in this research study. All the participants are South Africans in senior positions within the public sector. Four of the participants are working at national department and four at provincial offices. In terms of gender representation, six participants are males, and are two females. Amongst the 6 male participants' representation in relation to race, 2 are Whites and 4 are Blacks. In terms of race, the two female participants are Black. The majority of the participants are Black (n=6), and only two are White. Within the participants, others are serving in the provincial offices supporting business development.

Table 3: Summary of the Demographic Profile of Participants in the research study

CATEGORY OF THE ORGANISATION	OF NATIONAL/ PROVINCIAL OFFICE	POSITION	GENDER	RACE	NATIONALITY
<i>Development Agency that support SMMEs</i>	National	Expert, Senior Position	Male	**Black	South African
<i>Development Agency that support SMMEs</i>	National	Expert, Senior Position	Male	White	South African
<i>Development Agency that support SMMEs</i>	Provincial	Expert, Senior Position	Male	**Black	South African
<i>Development Agency that support SMMEs</i>	Provincial	Expert, Senior Position	Male	White	South African
<i>Development Agency that support SMMEs</i>	National	Expert, Senior Position	Female	**Black	South African
<i>Development Agency that support SMMEs</i>	Provincial	Expert, Senior Position	Female	**Black	South African
<i>Development Agency that support SMMEs</i>	Provincial	Expert, Senior Position	Male	**Black	South African
<i>National Department</i>	National	Expert,	Male	**Black	South African

****Black in this study means people classified as African; Coloured or Indian in South Africa**

4.3 ANALYSIS OF THE THEMATIC POLICY AREAS

This section presents the analysis of the data. The discussions are integrated in this analysis section, with the findings. As previously indicated, the outline of the data analysis and findings are aligned to the policy areas that were used to guide the discussion during interviews. Further, the policy thematic areas were also aligned to the main objective, and the approach also helped in formulating the outline of the analysis.

4.3.1 Planning and Design

The discussions in this policy area were focused on the areas identified below:

To understand whether South Africa has a multi-year SMME strategy in place? And whether the SMME strategy was embedded into a national development strategy. Does the strategy include the following elements: Measurable targets; Action Plan including a descriptive part about M&E of the strategy and action plan? Are there measurable and time bound targets attached to the action plan? Are there measurable and time bound targets attached to the action plan? Does the SMME strategy address the informal economy? Does the strategy include specific targets to encourage informal enterprises to transition to the mainstream? Is one central institution in charge of leading and coordinating SMME Strategy, and what are the risk faced by the institution that could undermine service delivery? Has an inter-ministerial consultation process taken place in developing of the strategy? Has the private sector, NGOs, small business associations, financial institutions and institutions of higher education been consulted in the developing of the strategy? Please indicate which institutions that have been consulted and not consulted? Further, in Malaysia SMMEs' development function is under the control of the Prime Minister's Office, and in USA is under the under the control of the presidency.

- *What is their take of this in SA, will it make any difference?*
- *What current partnerships does the government have with SMMEs industry players? What is its function?*

- *Is there any advisory board that promote the interest of SMMEs?*
- *Is the advisory body engage in early stage of planning and allocation of resources?*
- *How do appointments take place? Does the government involve the private sector and civil society when conducting appointments?*

All the participants recognise that the Small Business Development Act of 1996, was amended in 2003 and is the principal legislation that regulate SMME industry in South Africa. The Act is currently under review (including looking at the definition of SMMES, a comparative study has been commissioned to look at the definition of SMMEs). The main objective of the legislation review is to align the legislation with latest developments in the SMME industry, more so to align it with national government policy imperatives.

In addition to the review of the legislation, government is also in the process to review the SMME policy strategy, that was adopted in 2005. The SMME policy strategy guides various government departments and agencies in formulating their 3 years' medium term strategic plans and annual performance plans. There was a broader agreement that the current SMME policy strategy needs to be reviewed, and aligned to the national development plan, and it should be translated into sector specific action plans.

Public sector experts dealing with policy development and strategic management, advanced the importance of having a SMME strategy with action plans that will address various industries in the economy. Currently, in the review process, the discussions also consider including specific focus areas that would address informal enterprises to transcend to formal space. The approach is not necessary to force informal enterprises to formalise ("by introducing legislation"). The primary aim is to provide business development support services, "to create mechanisms to entice informal enterprises to reach a stage when they can formalise".

Further, to address specific groups in society such as empowerment-women, youth and people with disabilities. It has been mentioned in this research study that Malaysia and USA, in their SMME's strategic plans have deliberately created specific empowerment support programmes. The OECD (2004) advocated that it is crucial to linking small business development targets to the overall national economic and social development objectives. This

is the policy option that Malaysia and the USA adopted, including other South-East Asia countries such as Indonesia.

In 2014, South African government created a Ministry for Small Business Development (DSBD). Most of the participants believed that the policy intention of government was to have dedicated department to administer SMME public affairs, albeit the policy intention remains implicit. There was a broader agreement by the participants for a need to have clear policy directive that would be understood by all government departments and agencies, where the executive authority would be delegated in terms of formulating of policy, coordinating and executing programmes in relation to SMME industry. Currently, South Africa has various departments and agencies, which run their SMME's development programmes.

In South Africa you have different agencies dealing with non-financial support (SEDA) and financial support (SEFA), and the NEF also offering financial and to the certain extent non-financial support. Although there was no agreement on the form of the structure that would be ideal for South Africa, but the following issues were raised:

- The fact that South Africa has various departments and agencies offering their own SMME's support programmes they make SMME's service delivery to be more fragmented.
- The current SMME's service delivery structure need to be coordinated much better.
- Partnership with the private sector, academic institutions and civil society in terms of policy development and in designing programmes need to be improved.

As indicated elsewhere in this study, current structure of South Africa's institutional support to SMMEs has been regarded problematic for strategic coordination purposes (NDP, 2013); SBP, 2014 and ILO, 2016a). Further, SBP (2014) advanced that it appears that there is a need for government in all spheres to improve efficiency and effectiveness of governance. Researchers (Fuchs, Lacovone, Jaeggi, Napier, Pearson, Pellegrini & Sanchez, (2011); World Bank (2007); Timm, 2011 and SBP, 2014) emphasised that government agencies including their oversight holding departments have shown substantial overlap indications in terms of programmes offering.

Most participants advanced for the integration of the non-financial and financial support into a single SMME's support agency. To this effect, to merge SEFA, SEDA and the NEF into a single agency. The approach was seen as having a potential to consolidate both budget and policy oversight into one ministry or department, and further to improve effectiveness of business development support programmes. Further, to realise efficiency gains. Others, were arguing more for government to "improve coordination mechanism", and lift collaborative efforts between state institutions, rather than merging entities. According to them to "merging the development agencies would not necessary improve programme performance of the entities". The merger process could only realise efficiency gains not necessary "improving programme effectiveness".

From a policy development and management point of view, one of the public sector experts emphasised a need to adopt a model similar to the Malaysian model. The Malaysian government has established the National SME Development Council (NSDC) to provide policy direction of small business enterprises. As the highest policy-making body, chaired by the Prime Minister, with representation of essential ministries and agencies operating in the SMME's industry (SME Annual Report, 2015). The essential role of the NSDC is to formulate strategies for SMEs development across all the economic sectors, and to ensure effective implementation of the overall small business enterprise development programmes in Malaysia.

The OECD (2004), and ERIA and OECD (2014) reports, rate Malaysian institutional framework setting as the one of the best framework, and scored second best after Singapore. In South Africa there is no centralised coordination structure representing essential ministries including social partners in development. The composition of the effective coordinating structure requires a combination of critical role players such as political players, academics, SMME industry players (business associations) and civil society in order to enhance decision making.

4.3.2 Implementation

The discussion with regard to the policy implementation focus areas focused on the following discussion points:

To understand whether the budget was mobilised to drive implementation of the action plan? What is the role of the lead department or coordination agencies in the budget planning process in terms of planning and resource allocation in the SMMEs industry? If the SMME implementation body exists, is it operational? Have any measures been put into place to encourage informal enterprises to transition to the mainstream?

Linked to the planning and design policy focus area, is the policy area that focuses on implementation. All the participants have identified that the SMME's policy strategy in South Africa was implemented in a more fragmented manner. As already stated, South Africa has various national, provincial and local government departments and agencies responsible for implementing SMME's development programmes. The participants, particular those in serving in policy and strategy management, have identified that there could be areas where programmes are duplicated, and the multiplicity of programmes could create confusion.

The establishment of the DSBD, in principle was to focus on planning, policy and strategy management for SMME industry. To this effect, so far the new Ministry has not done much, although there are processes being put in place. It was advanced that the new Ministry was supposed to get involved in the early stages of planning in terms of resource allocation. There is a sense that coordination, and planning need to be improved in order for implementation of development programmes to become more effective.

The issue is not necessary to demand more funding for DSBD, but to coordinate resources allocated in other state departments and agencies. However, it was recognised that the budget allocated to the DSBD was small if one takes into account its policy mandate.

In Malaysia and USA, as already indicated in this thesis, exist a central coordinating agencies, empowered by the national legislations to act as catalyst agencies for the development and growth of SMMEs. The structure, includes representation of the private sector, academics, business associations and civil society. Both the Malaysia-SME Corp. and SBA get involved in the early stage of planning and allocation of resources for the programmes undertaken by various ministries and agencies. In South Africa, as observed and reflected by the participants is what is lacking, and thus affect implementation of development programmes. As such, some of the participants advocated that the central coordinating agency powers should be enacted in the legislation. Further, it should lead in the

planning, policy, strategy and resource allocation, when it comes to SMME industry. Currently, resource allocation is the sole responsibility of the National Treasury, with little involvement or no involvement of the new Ministry (DSBD). In addition, Sefa report to the DSBD purely on policy oversight, and for both budget and programme implementation it reports to the Industry Development Corporation, and entity reporting both for policy and budget oversight to the Department of Economic Development, and thus create accountability confusion and uncertainty.

It was also raised by all participants that partnership relationships between the private sector, institutions of higher learning and civil society should be improved and enhanced. It was acknowledged by all participants that in areas where public-private sector approach has been adopted in implementing development programmes, better results have been realised. Some of the of the best results were registered in programmes implemented by both the non-financial and financial support development entities (SEDA and SEFA respectively). For instance, Sefa uses micro-finance institutions (intermediaries) to lend funds to SMMEs, and Seda has incubator programmes (although limited) managed in partnership with private sector companies.

4.3.3 Support Services

With regard to the support services, the discussion in this policy areas focused:

SMMEs are complaining about the quality of the professionalism of the person/persons who handled their application? Are you aware of this? What do you think could be the possible cause of quality of the professionalism? Discussion about entrepreneurs' concerns about the quality of the mentorship programme offered by the public sector service providers, including complaints about poor communications during the application process. In many instances, SMMEs complain that public sector service providers offer poor quality of skills training programme. It is perceived that public sector communication is not good. Are there any plans to improve the reputational risk? SMMEs complain about the high levels of corruption in the service delivery process.

Most of the participants have observed that there are general complaints about the degree of professionalism in public sector, in handling applications from SMMEs or 'aspirant SMMEs'. They view some of the concerns which range from poor quality of professional

advice; lack of communication of public sector business development programmes and general corruption as exaggerated. Many attribute this perception to the fact that many SMMEs or 'aspirant SMMEs' have high expectations. The participants insist that most SMMEs because they do not meet certain requirements start to create negative image about public sector service providers. However, the participants agree that there are areas that need to be addressed:

- People supporting SMMEs need to understand the strategic objectives of government, of why there is a need to support SMMEs;
- Need to professionalise business advisors training and development programme, thus training to be standards and accredited like other professions in health, law and accountancy;
- There is a need to improve capacity of human resources supporting SMMEs. There are more SMMEs that need to be supported, hence there is a need to recruit and train more business advisors;
- Limited support to rural areas;
- Resources are concentrated in urban areas;
- Increase support to potential high impact growth-SMMEs, and thus improve research and development (support innovation, thus need to work with higher education institutions);
- To improve communication of financial assistance applications. To inform applicants in time with regard to the development with regard to the applications, which are under consideration were proceeding;
- Limited public resources, hence there is a need to forge partnership with private sector, academic institutions and civil society;
- Further, there is a need to establish partnership with private sector, academic institutions and civil society. Although other public sector service providers have established training and development initiatives with higher education institutions and professional bodies, there is still a need to do more;

These respondents are in line with the PWC (2015) report, that also established that the challenges faced by SMMEs in South Africa are the lack of professional advice received from government financing institutions, which resulted in funding applications to be declined. The report further states that government funding opportunities should be

communicated to reach the broader society including rural areas. Many SMMEs are not aware of existing funding and financing opportunities. This is the concern appreciated by all the participants. Hence there is a need to improve coordination of resources, and improve partnership with social partners. Chimucheka and Mandipaka (2015) and PWC (2015) advanced that even in cases where SMMEs have received support from the government, the government support they received in most cases was inadequate. What is critical is to lift the provision of advisory and consultancy services to SMMEs, and the use of partnership with private sector organisations, civil society, business chambers including higher education institutions. This approach has been adopted in Malaysia and USA.

Many participants agree that there is a need to improve the quality of programmes offered to the SMMEs. These programmes range from mentorship programmes that include mentoring and coaching of SMMEs including the incubator programmes. With regard to incubation and coaching programmes, it was recognised that the private sector runs its own programmes. As a result there is a lack of synergy and collaboration with the private sector including higher education and civil society (our emphasis).

Although, the situation is not worse as imagined, most of the participants agreed that there is a need to regulate the mentoring and coaching profession either by establishing a self-regulatory regime. In order to improve product offering and delivery.

It was recognised by many participants that many SMMEs in South Africa fail because of a lack of concerted effort to support them to reach growth levels. It was emphasised that post-investment programmes need to be improved. There was a broader understanding that both non-financial and financial public sector entities need to improve capacity. Closer collaborative initiatives by the development finance institutions such as SEFA, SEDA, NEF and NYDA should be improved and strengthened. This is as a result of acknowledgement that many product offerings from various departments and agencies if not properly coordinated create complexity in service delivery. Many SMMEs advanced that funding applications should be simplified and financial products should be marketed extensively (Fuchs, Lacovone, Jaeggi, Napier, Pearson, Pellegrini, & Sanchez, (2011); World Bank (2007); Timm, 2011 and SBP, 2014; Chimucheka and Mandipaka, 2015; PWC,2015).

In addition, many participants emphasised the need by public sector service providers to work closer with TVET colleges. Although other state entities such as SEDA have established centres of entrepreneurship with some of the higher education institutions, there was a need to lift training and development initiatives and to extend the reach to the private sector and civil society. Chimucheka and Mandipaka (2015) and PWC (2015), advanced that public business support services should be repositioned to increasing services such as mentoring, coaching and provide training and development in managerial skills for SMMEs.

Some of the participants in this study have recognised that perception on corruption in South Africa has in the recent past increased. Instances of corruption could be more prevalent in entities offering financial support, and less in state entities providing non-financial support to SMMEs. However, in recognising the potential existence of corruption in state entities, the development entities have established anti-corruption measures. For-instance one of the public sector agencies supporting SMMEs is currently implementing Political Exposed Persons regulations to insulate and eliminate influence of political connected individuals in the allocation of resources, and further cementing internal controls. Researchers (Machirori, 2012; Sitharam, 2014; BER,2016), have reported that crime coupled with corruption (which is on the increase) are some of the contributing factors to the failure of SMMEs in South Africa. Further, the cost of doing business in South Africa would be high. This would require government to develop strategies and actions plans that would curb corruption.

4.3.4 Monitoring and Evaluation

In this section, the discussion was essential in following areas:

Whether government has any monitoring mechanisms in place for the implementation of the strategy? Does the implementation body regularly produce a publicly available report? Is there M&E capacity and capability in monitoring effectiveness of business support programmes? Has an independent review of the action plan been conducted? Do the business support entities have partnership with external evaluation bodies? To what extent does the organisation take into account the evaluation results in adjusting programmes? SMMEs complain that there is lack of intelligence information system that would assist planning.

All the participants agreed that in South Africa there is no transversal Monitoring and Evaluation Framework and system that would assist to gauge the performance of the

SMMEs' industry. The development agencies have their own internal M&E system to measure only the organisational performance, not the SMME industry.

The following are the key issue that emerged during the discussion with the participants:

- There is no coordinated approach in doing M&E, and thus the implementation of the SMME strategy was not properly monitored;
- The development agencies only conduct internal programme reviews, and most cases the programme reviews and evaluations are conducted internally without the support of independent programme evaluations;
- It was not mandatory to publish programme evaluations;
- There is a lack of intelligence information system capacity and capability to help in decision making that would inform programme design and implementation. There is no centralised data-base of SMMEs;
- DSBD, need to establish the M&E capacity. An interesting issue was that the Department of Trade and Industry (DTI) has a solid M&E capacity and capability to monitor the performance of the financing incentives. In case of DTI, it uses the M&E capacity to manage the performance of the various incentives it offers to various companies operating in different industries. Further, if DTI do not have internal capacity to manage industry specific incentives, it should outsource services of an external experts.
- Lack of adequate M&E capacity and capability has a potential negative effect to the overall performance of the public sector services providers offering (Sefa and Seda) support to the SMMEs;

In a nutshell, South Africa has no proper mechanism that would assist to gauge whether the current SMME strategy meet the development targets. The OECD (2004) report, has advocated that it is crucial to link small business development targets to the overall national economic and social development objectives. The OECD (2004) report further suggested that if small business development policy is aligned against national development targets that would enable smooth co-ordination of business activities of various ministries, further enhance prioritisation of goals and thus cement the process of decision-making. It was indicated in this study that both Malaysia and USA, have a monitoring and evaluation capacity and capability which is anchored on their respective institutional support which

Procurement Programmes to
support SMMEs

5. Introduce tax incentives

6. Introduce ICT infrastructure

As mentioned in this study, in Chapter 2, Table 4 support other studies conducted in South Africa. The detail has been outlined in Chapter 2. What is interesting in this study is that many participants have mentioned that the primary issue is not necessary lack of access to finance. But what is essential is to provide market access; enhance training and skills development focusing primary on financial management.

What is then suggested by the participants in this study? The analysis suggest that South Africa SMME ecosystem need to focus on the following policy strategic areas:

- South has an existing SMME institutional framework, and has established business support services. However, there is a lack of coordination, and support services are delivered in a fragmented manner.
- There is a need to improve and enhance public-private partnership to enhance development and growth of SMMEs.
- There is a need to establish a uniform M&E system to support growth of SMME industry. Also establish a centralised SMME portal to support decision making.
- Further, there is a need to lift exports facilitation efforts, and introduce instruments that would support exports promotion.
- Support training and development, focus on managerial skills.
- To improve access to finance and promotion of access to ICT infrastructure.

4.4 SUMMARY

The research study argues that South Africa's has a relatively developed institutional framework that support growth and development of SMMEs. However, the plethora of government programmes administered in various levels of government; different departments and agencies coupled with limited resources has caused fragmentation.

The findings in this thesis have that government agencies including their oversight holding departments have shown substantial overlap indications in terms of their programmes

offering. All the participants have identified that the SMME's policy strategy in South Africa was implemented in a more fragmented manner.

The research study further proposes that South Africa, should adopt and adapt the Malaysian and USA institutional structure, which support a high level body that includes both the political representation and private sector, SMMEs associations, higher education institutions including civil societies representation in its composition. That would allow social partners to influence policy and programme development in relation to SMME industry.

The establishment of the DSBD, in principle was to focus on planning, policy and strategy management for SMME industry. However, there is little process made to this effect. It was advanced that the new Ministry was supposed to get involved in the early stages of planning in terms of resource allocation, and need to work with National Treasury, and other relevant ministries including social partners to improve planning and resource allocation in the SMME industry.

The thesis emphasis the important role of partnerships approach in implementing development programmes. Also, what appears to be important is to improve partnerships in programmes that support export promotion and innovation. In addition, the thesis argues that what is vital is to listen and incorporate the needs of the business owners, and ensure that policies and programmes meet the expectations of the SMMEs.

This Chapter has identified that South Africa has no capacity and capability to monitor the performance of the SMME industry. It therefore, suggested that there is a need to establish a uniform M&E framework and system to support growth of SMME industry. Also, there is a need to establish a centralised SMME portal to support decision making.

The research study has identified that low coordination between organizations supporting SMMEs, including lack of clear government SMME programmes; inadequate management skills, in particular financial management; lack of market access, both domestic and global markets are the key institutional constraints perceived by public sector service providers as inhibiting the development of SMMEs in South Africa. Further, in South Africa like in other countries, SMMEs still face lack of access to finance; high regulatory burden, to clear the red tape and lack of access to information and technology infrastructure.

This research study has also identified that lack of access to finance is not necessary the high issue perceived to constrain the development of SMMEs. The public sector experts interviewed, have advanced that what is high on the agenda is to provide market access and enhance training and skills development focusing primary on financial management.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

It has been mentioned elsewhere in this thesis that South Africa's economic policy places SMMEs' support and growth as one of the vital policy priorities. The NDP (2012), National Treasury, Budget Review (2016) emphasised that SMMEs are key to future growth, transformation and job creation of the Country. Despite SMMEs' importance to the economy, South African government has adopted complex and ever-changing strategies, and have yielded less outcomes for the small firms' industry (ILO, 2016a).

Chapter 4 presented the outcomes of this research study. The primary aim of this Chapter is to draw the conclusion and recommendations regarding the main findings of this thesis. A section that shows the alignment of the research study objectives with the outcomes, will also be presented. This chapter, will conclude with the section that will outline brief discussion in relation to policy recommendations, and finally present the summary.

5.1.1 Brief Literature Overview

Chapter 2 covered the literature review. This section will cover briefly the main findings of the literature review.

All around the world, many studies have demonstrated the importance of SMMEs in lifting-up the economy and creating employment, and thus creating social and political stability in a country. SMMEs can play in important role in creating employment opportunities in rural areas, and improve incomes, and thus accelerate economic development (Desta, 2015). Further, Desta, (2015) advance that because they are flexible can easily stand tough economic conditions, and also innovate faster than big enterprises can be used to foster rural development. Chapter 2 has mentioned that South Africa's economic policy places SMMEs' support and growth as one of the vital policy priorities.

The definition definitions of institutions framework, and the theories and concepts of institutions framework as advocated by Douglass North (1990) and other authors of new institutional economics, was presented. It was presented that institutions are viewed as the

platform that could be used to apply the “rules of the game” in society, they may be formal or informal (North, 1990). From institutional theory perspective, North (1990) said that, institutional framework of a society comprises political, social, and legal ground rules that establish the basis for production and distribution, and organizations must conform to it if they are to receive support and legitimacy. North (1990) further noted that, the viability, profitability and indeed survival of SMES typically depend on the existing institutional matrix.

These institutions play a critical role for the individuals and organisations (our emphasis) to manage unforeseen events, outcomes and high transaction costs. In order for the institutional platforms to remain relevant, it is critical that they are developed to meet the needs of the entrepreneurs and SMMEs, since in actual fact they are the ones, which need the institutional platforms for growth. Many governments around the world have created institutions with the aim to enhance SMME survival and growth.

Both in Malaysian and United States America, SMMEs have been identified as the engines for economic growth and development. In Malaysia, strategies and economic plans including conducive business environment play a crucial role in the development of small business enterprises (Khan & Khalique, 2014). Chapter 2, presented that in Malaysia, government support efforts in facilitating global connectivity of domestic enterprises is one of the essential policy pillars to spur growth of small business enterprises (Khan & Khalique, 2014 and SME Corp. Malaysia, 2012).

It was presented that in the USA, in recognising the market gap that small enterprises face, USA government improved financing supporting to SMMEs (NEC, 2011). Key focus was on loan guarantees made available to SMMEs, increased awarding Federal contracts to small businesses; providing counselling, and enhanced partnerships with the private sector. Furthermore, to increase financial support in research through the Small Business Innovation and Research Program. Further, streamlined Federal programmes to help small businesses.

It was outlined that it is crucial to linking small business development targets to the overall national economic and social development objectives (OECD, 2004). The aim is to position small business development targets within the framework of the overall macro policy objectives. It was also presented that one of the critical achievement of the United States in

terms of uplifting support and development of the SMMEs was the promulgation of the Investment Company Act in 1958, which established the Small Business Investment Company (SBIC). The main function of the SBIC was to enable the SBA to license, regulate and help provide funds for privately owned and operated venture capital investment firms in response to innovation and technological policy consideration.

As the catalyst agency, central coordinating and executing agency should get involved in the early stage of planning and allocation of resources for the programmes undertaken by various ministries and agencies. Chapter 2 highlighted the need for a solid institutional framework which would provide reliable data base, monitoring and evaluation mechanism, effective coordination and business services. Like in USA, Malaysia institutional framework is designed in such a way that it creates opportunity for SMMEs to be able to learn from other stakeholders such as large corporations, institutions of higher learning and financial institutions.

Both Malaysia and USA sole central coordinating agencies that provide information and advisory services for all small business enterprises, and further provide capacity building programmes and support through financial and non-financial development incentives. Role of the private sector, SMMEs associations including institutions of higher learning is highly recognised in Malaysia and USA. It was presented that the institutional framework in Malaysia and USA advanced that government has the responsibility to implement strategies and plans that aim to nurture small business enterprises, in collaboration with the SMME/private sector, the civil society and the development partners. Hence there is a need to have a solid and capable policy coordination and monitoring structure at the national government level with strong link with subnational and local government working closely SME membership organisations. The United States institutional framework support a private sector led SMME development approach.

The Malaysian and USA institutional structure support a high level body that includes both the political representation and private sector, SMMEs associations, higher education institutions including civil society representation in its composition. The institutional framework allows social partners to influence policy and programme development in relation to SMME industry. Both Malaysian and USA institutional structure emphasis the important role of partnerships approach in implementing development programmes.

In chapter 2, it was also highlighted the need for a solid institutional framework which would provide reliable data base, monitoring and evaluation mechanism, effective coordination and business services. Like in USA, Malaysia institutional framework is designed in such a way that it creates opportunity for SMMEs to be able to learn from other stakeholders such as large corporations, institutions of higher learning and financial institutions. Further, chapter 2 presented the review of the institutional framework in South Africa. In examining the definition of SMMEs both in developed and developing countries Machirori (2012) and Desta (2015) have found that there is a lack of standard definition of SMMEs, and that is the case with South Africa.

It was demonstrated that South Africa's has a relatively developed institutional framework that support growth and development of SMMEs. However, the plethora of government programmes administered in various levels of government; different departments and agencies coupled with limited resources has caused fragmentation. It was also outlined that in South Africa, despite the importance of SMMEs to the economy and employment creation, government policy hinders SMMEs development and growth. One of the most cited government policies that hinder SMME development and growth is the institutional framework. The current form of South Africa's institutional support to SMMEs has been regarded problematic for strategic coordination purposes. It was also outlined that there is a need for government in all spheres to improve efficiency and effectiveness of governance. Researchers (World Bank, 2007; Fuchs, et al., 2011; Timm, 2011 & SBP, 2014) emphasised that government agencies including their oversight holding departments have shown substantial overlap indications in terms of programmes offering.

The NDP (2013) stresses the need for South Africa to create a conducive business environment that would eliminate policy and regulatory constraints in order to accelerate development and growth of SMMEs. It is stressed that organisations need to be created to take advantage of the opportunities provided within a given institutional framework. It is also stated that the institutional matrix plays a crucial role to ensuring that organisations remain viable, profitable and survive growth phases. To experience successful change process, organisations need to appreciate the constraints that hinder development. Hence it is important to ensure that governments create business environment that respond to the needs

of the SMMEs. The right policy mix and/or programmes should be developed taking into account the expectations of the entrepreneurs and SMMEs.

South Africa is faced with high unemployment, that affects more young people. The NDP (2012) advocate that South Africa need to prioritise SMMEs’ development in order to address unemployment. Studies have found that young people and women are the most people that can be easily absorbed in small business enterprises (SBP, 2012; SBP, 2015 and ILO, 2016b). It was presented that in order for South Africa to be able to lift the role of SMMEs in the development of the country it needs to address some of the constraints that hinder growth and development of SMMEs. South Africa needs to improve coordination between organizations supporting SMMEs, address management skills, in particular financial management of SMMEs, lift up market Access, both domestic and global markets. Further, South Africa need to support SMMEs to access financing and funding, and also improve regulatory burden, to clear the red tape. In addition, it need to provide SMMEs with access to information and technology infrastructure.

5.2 SUMMARY AND CONCLUSION

This section will provide high level of the alignment of some of the secondary objectives with research study outcomes. It will also outline the recommendations.

5.2.1 Alignment of the Secondary Objectives with Research Outcomes

Table 5 outlines the high level summary of the alignment of some of the secondary objectives with research study outcomes. This presentation demonstrates whether the study has been able to meet its strategic objective.

Table 5: High Level Summary on Alignment of the Secondary Objectives with Outcomes

OBJECTIVES	OUTCOMES
To review various institutional frameworks for promoting and supporting SMMEs that are promoting and supporting SMMEs around the world and in South Africa.	<ol style="list-style-type: none"> 1. South has an existing SMME institutional framework, and has established business support services. However, there is a lack of coordination, and support services are delivered in a fragmented manner. 2. Malaysia and USA, there is a central coordination and execution agencies responsible for providing planning,

	<p>policy and resource coordination for the SMME industry.</p> <p>3. Malaysia and USA institutional structure support a high level body that includes both the political representation and private sector, SMMEs associations, higher education institutions including civil societies representation in its composition. That allows social partners to influence policy and programme development in relation to SMME industry.</p> <p>4. There is a need for the Country to strengthen and enhance partnerships with the private sector, SMMEs associations, higher education institutions including civil societies.</p> <p>6. The partnership approach also features strongly in Malaysia and USA, in programme that are designed to promote export promotion and innovation. Something that South Africa needs to learn.</p> <p>5. South Africa has no proper mechanism that would assist to gauge whether the current SMME strategy meet the development targets. Thus it lacks an M&E system that could provide strategic support to the SMME industry. Malaysia and USA, have a monitoring and evaluation capacity and capability which is anchored on their respective institutional support which promote collaboration between the public sector and private sector including higher education institutions and civil society.</p>
<p>To assess the extent to which SMMEs support institutions were designing and implementing support services and strategies that responded to the short and long term needs of SMMEs.</p>	<p>1. Not adequate interaction with the private sector, SMMEs associations, higher education institutions including civil societies in designing programmes.</p> <p>2. Programme reviews and evaluations mostly conducted internal, lack of interaction with the private sector, SMMEs associations, higher education institutions including civil societies in designing programmes.</p> <p>3. Insufficient capacity to direct planning, policy and resource allocation by the DSBD.</p> <p>4. Inadequate communication between the government departments and agencies responsibility to provide business development support services and the with the private sector, SMMEs associations, higher education institutions including civil societies in designing programmes. Thus the is trust deficit between government and social partners.</p>
<p>Identify key institutional constraints perceived by public sector service providers as inhibiting the development of SMMEs in South Africa</p>	<p>1. Low coordination between organizations supporting SMMEs, including lack of Lack of clear government SMME programmes;</p> <p>2. Inadequate management skills, in particular financial management;</p> <p>3. Lack of Market Access, both domestic and global markets</p> <p>4. Lack of Access to finance</p> <p>5. Regulatory burden, to clear the red tap</p> <p>6. Lack of Access to information and technology infrastructure</p>

5.2.2 Recommendations

The recommendations of this study will help critical players in the South Africa's SMME ecosystem, particular policy makers. This thesis has canvassed that the current form of South

Africa's institutional support to SMMEs has been regarded problematic for strategic coordination purposes. Hence there is a need by the government in all spheres to improve efficiency and effectiveness of governance.

5.2.2.1 Policy Planning and Design

South Africa is in the process to review the current legislation and policy strategy that regulatory and provide a policy framework for the SMME industry. The main objective of the legislation and policy strategy review is to align the legislation with latest developments in the SMME industry, more so to align it with national government policy imperatives. It is therefore recommended that:

- The envisaged legislation and policy framework should establish a single coordinating and execution agency similar to the Malaysian and USA's SMME agencies. In 2014, South African government created a Ministry for Small Business Development (DSBD). Most of the participants believed that the policy intention of government was to have dedicated department to administer SMME public affairs, albeit the policy intention remains implicit.
- The powers and responsibilities of the SMME agency need to be enacted
- There is a need to merge SEDA, SEFA and NEF into a single development agency. If not, coordination mechanisms need to be improved in order to enhance programme effectiveness, and further realise potential efficiency gains.
- It is vital to link small business development plans with the overall national economic and social development objectives. The SMME strategy should have an action plan with specific focus on industries in the economy.
- Establish a national council with an inclusive composition: political representation including the private sectors, academic institutions and civil society. The council need to increase the voice of SMMEs in policy development and implementation. Malaysia and USA offer a structure that could be adopted and adapted to meet South Africa's conditions. Partnership with the private sector, academic institutions and civil society in terms of policy development and in designing programmes need to be improved.

5.2.2.2 Policy Implementation

Linked to the planning and design policy focus area, is the policy area that focuses on implementation. All the participants have identified that the SMME's policy strategy in South Africa was implemented in a more fragmented manner.

It was advanced by the public sector experts, interviewed that the establishment of the DSBD, in principle was to focus on planning, policy and strategy management for SMME industry. So far the new Ministry has not done much to realise this strategic objective. It therefore recommended that:

- The DSBD should be involved in the planning, and resource allocation working with other relevant ministries including social partners.
- As indicated in Chapter 2 and 4, In Malaysia and USA, exist a central coordinating agencies, empowered by the national legislations to act as catalyst agencies in partnership with private sector, academics, business associations and civil society for the development and growth of SMMEs.
- There is a sense that coordination, and planning need to be improved in order programme implementation to become more effective. DSBD need to coordinate resources that are allocated in other state departments and agencies in relation to the development of SMMES.
- Although funding for DSBD need to increase, the case that need to be emphasised is for improved resources coordination and allocation. Currently in South Africa, resource allocation is the sole responsibility of the National Treasury, with little involvement or no involvement of the new Ministry (DSBD).

5.2.2.3 Support Services

In terms of business support services, the following areas need to be addressed:

- There is a need to professionalise business advisors training and development programme, thus training to be standards and accredited like other professions in health, law and accountancy;
- There is a need to improve capacity of human resources supporting SMMEs. There are more SMMEs that need to be supported, hence there is a need to recruit and train more business advisors;
- Strategic resource allocation, need to address the needs of SMMEs in rural areas. Currently, although it is understandable, resources are concentrated in urban areas;

- Increase support to potential high impact growth-SMMEs, and thus improve research and development (support innovation, thus need to work with higher education institutions);
- To improve communication of financial assistance applications. To inform applicants in time with regard to the development with regard to the applications, which are under consideration were proceeding;
- Limited public resources, hence there is a need to forge partnership with private sector, academic institutions and civil society to bridge the financing and funding gap.
- Establish partnership with private sector, academic institutions and civil society to create quality incubator programmes, including coaching programmes.
- Although other public sector service providers have established training and development initiatives with higher education institutions and professional bodies, there is still a need to do more;

5.2.2.4. Monitoring and Evaluation

With regard to M&E as policy areas, there is a need for the development of a transversal monitoring and evaluation framework and system that would assist to gauge the performance of the SMMEs' industry. It is therefore recommended:

- There is a need to establish mechanisms to implement M&E, and ensure that the SMME strategy is effectively implemented, and is properly monitored;
- In partnership with the private sector, academic institutions and civil society, SMME development agency should periodically conduct programme reviews and evaluations, and must be mandatory to publish programme reviews and evaluations. The envisaged legislation need to enact that.
- There is a need to establish an intelligence information system capacity and capability to help in decision making that would inform programme design and implementation. Currently, in South Africa there is no centralised data-base of SMMEs.
- DSBD, need to establish the M&E capacity. Lack of adequate M&E capacity and capability has a potential negative effect to the overall performance of the public sector services providers offering support to the SMMEs.

5.2.2.5 Institutional constraints that need to be addressed

The following are the institutional constraints that need to be addressed in order to spur growth and development of SMMEs in South Africa:

- Low coordination between organizations supporting SMMEs, including lack of Lack of clear government SMME programmes;
- Inadequate management skills, in particular financial management;
- Lack of Market Access, both domestic and global markets;
- Lack of Access to finance;
- Regulatory burden, to clear the red tape;
- Lack of access to information and technology infrastructure;
- Including other economic infrastructure such as roads, water, energy and accommodation.

5.3 POLICY RECOMMENDATIONS

This research study argues that South Africa's has a relatively developed institutional framework that support growth and development of SMMEs. The findings in this thesis are similar to those found in other studies (World Bank, 2007); Fuchs, et al., 2011; Timm, 2011 & SBP, 2014) that government agencies including their oversight holding departments have shown substantial overlap indications in terms of their programmes offering. Further, the recommendations are aligned to the findings deducted from the data through interviews conducted with public sector experts in small business development. The following section outlines the broad policy recommendations, which can help South Africa to realise it's policy objectives, and design programmes and align resource allocation according to the needs of SMME industry:

- Better coordination of all government programmes would enhance efforts to improve implementation of the programmes. The government needs to eliminate duplication of programme offering to maximise resource allocation and usage.
- Further, partnering with private sector, including academic institutions and civil society would enhance South Africa's SMME ecosystem. The South African government needs to build relations with key stakeholders, therefore trust between government and important stakeholders such as the private sectors, academic institutions, civil society must be built and be preserved. Key, is to listen and incorporate the needs of the business owners, and ensure that policies and

programmes meet the expectations of the SMMEs. The policy option to contract third parties to provide services should be enhanced as it demonstrates public-private partnership.

- The establishment of the Department of Small Business Development (DSBD) by the South African in 2014, was a step in the right direction. What needs to be done is to lift the policy mandate of the Department, and place it as a single national coordinating and executing SMME department.
- The DSBD should be responsible to formulating overall policies and strategies for SMMEs. It should work closely with other state ministries and agencies, and stakeholders (private sector, academia and civil society) in development of SMMEs' programmes.
- The current institutional framework is characterised by multiplicity of departments and/or programmes offering support to SMMEs, with confusing accountability reporting lines. It is recommended that the non-financial and financial supporting agencies such as SEFA, SEDA and NEF, should be integrated and form a single small enterprise development agency. The budgeting and policy strategic oversight should be the responsibility of the DSBD.
- Further, there are various incubation programmes that are administered by the public sector service providers such as SEDA. However, it was observed that the programmes are not able to equip SMME's owners with the skills they need to succeed in the global economy. So it does not help to have many incubators, as many of them are of poor quality. This is the area that needs to be prioritised. Again, partnering with the private sector, academic institutions and civil society would go long way in improving the performance of SMMEs.
- It is recognised that South Africa has a skills deficit, and a critical element to spur development of SMMEs. Hence it important for the DSBD to work in partnership with industry players including the department of labour, sector training authorities and higher education to improve coordination and implementation of training and skills development programmes for SMMEs. Better allocation and coordination of resources would be vital for successful implementation of the SMMEs' support programmes. Personnel with high-level expertise should be recruited to improve the functioning of the SMME growth and development agency. Again partnership with private sector, academic institutions, civil society should be promoted and supported.

Moreover, there is a need for the establishment of a national information platform that would promote learning networks. The platform should include SMMEs' associations, government, civil society and institutions of higher learning.

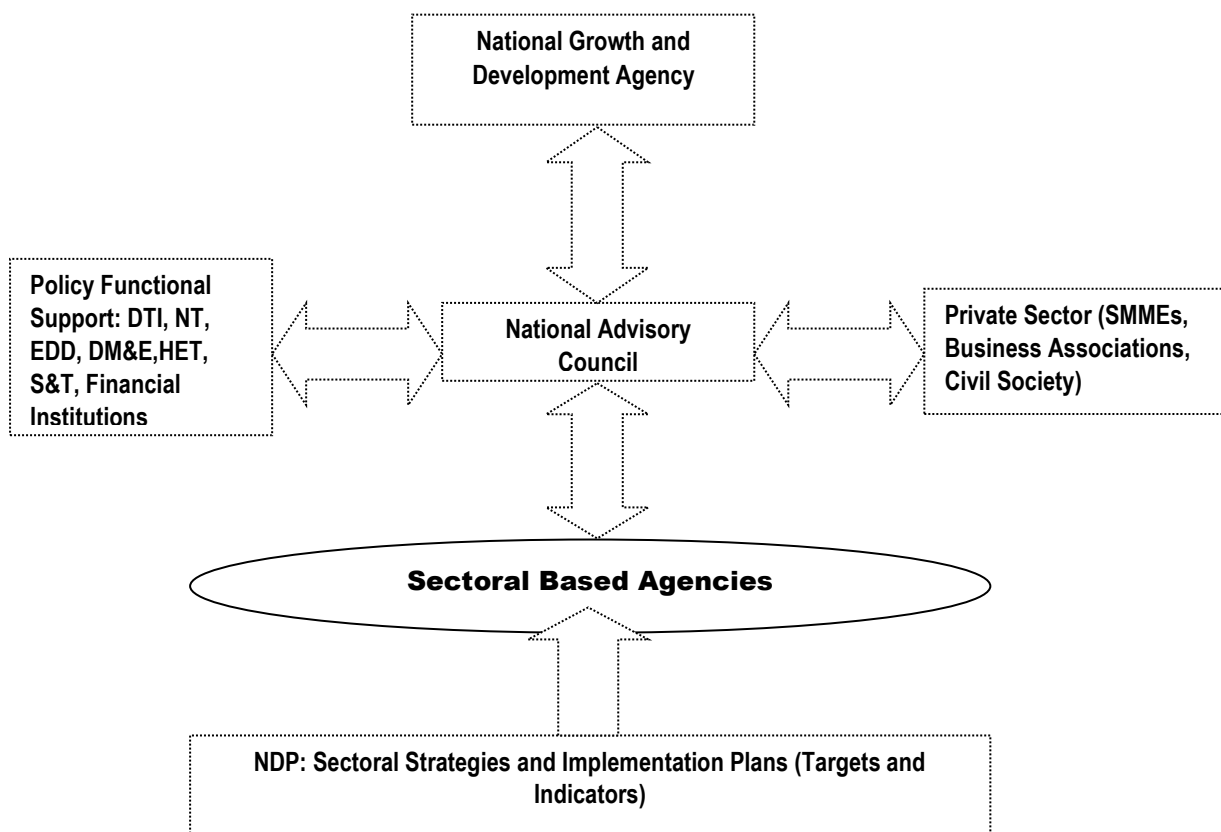
- The role of SMMEs needs to be integrated into strategic thinking, and programmes which are designed should be linked to the overall government economic policy. As reflected in other chapters, small business development programmes do not cover adequately the entire Country. Many SMMEs particular in rural areas lack knowledge of current government programmes. In Malaysia and USA, strong networks and collaboration with other support agencies, has created fertile environment to boost SMMEs' growth and development. These partnerships have enabled government to bind the required non-financial and financial support for small businesses. This study proposed that the same approach should be adopted in South Africa.
- Investment in infrastructure such as ICT would help SMMEs to access affordable broadband internet bandwidth. Therefore, private participation should be prioritised.
- As observed in Malaysian and USA, the institutional framework that supports SMMEs in both countries is aligned to development plans. It is also coherent and it is anchored through partnerships with the private sector and institutions of higher learning. It is mostly industry led, and the needs of small enterprises influence the design of business support programmes. The SMME's strategy should be aligned to the government broad economic policy, and the programmes must be designed and implemented taking into account the needs of SMMEs. Currently, in South Africa SMMEs or their associations are less involved in the design of the of business development support programmes.
- The planning, policy formulation and resource allocation (in partnership with National Treasury, and supported with relevant ministries) should be the responsibility of the central coordinating and executing SMME agency (DSBD). In doing so, resources would be used more efficient, and spending would be more effective.
- Currently, the South African government is in the process to review the current Small Business Development Act. This thesis recommends that the SMME promotion agency's role should be enacted, and Further if the organisation is autonomous, the governing legislation should explicitly define the functions of the organisation in relation to the government policy that has an effect on SMME.

- It is important that the different stakeholders from the public and private sector are represented in the governing council or board overseeing the small enterprise development agency. This would lift the voice of SMMEs in programme design and implementation.
- SMME promotion agency should target all SMMEs, even though each programme may focus on a specific group, sector or size class.
- Funding and financing mechanism should ensure long-term effectiveness of the agency. Long term planning is favoured to instil stability in the SMME industry. The SMME's coordination and execution agency (in SA, the DSBD) should be involved in the initial planning and budgeting stages, and work closer with National Treasury, and relevant ministries in the allocation of resources.
- The NDP (2013) stresses the need for South Africa to boost economic growth and lift job creation. The DSBD should ensure that SMMEs get capital by streamlining and simplify government existing lending platforms; creation of specific programmes in partnership with the private sector and higher education institutions, that would focus on high impact corporations, social enterprise, vulnerable groups (women, youth and people with disabilities, including military veterans); supporting regional clusters and growth accelerators that support innovation; creation of a venture capital fund (support efforts to deepen alternative financing) with the private sector to support growth industries. This is a model advanced in the USA.
- Lifting export support programmes should also be a priority. It is important for government to work with private sector to improve coordination of export support programmes. It is critical for SMMEs to have access to export markets. Thus means that interface between the DSBD and Department of Trade and Industry and relevant state entities should be prioritised.
- As further observed from Malaysia and USA, business development support should focus on the following strategic areas: access to markets and finance, research and innovation, technology transfer, access to information and communication technologies. This would require government to avail resources in partnership with the private sector, academic institutions and civil society to respond to this strategic area.
- Further, a monitoring and evaluation system should be established and should be supported by a legislative framework.

- Governance policies should protect the functioning of the SMME industry from political risks. At the core is the need to improve the policy and regulatory environment for the growth of SMMEs.

Figure 7 shows a proposed new institutional framework for South Africa. The study shows that in order for South Africa to lift SMMEs support and performance, it should consolidate and rationalise the existing programmes.

Figure 7: Proposed institutional framework for South Africa



Source: Developed by the researcher

Figure 7 shows an institutional structure with a representation of high level body (National Advisory Council), which is composed of the political representation and private sector, SMMEs associations, higher education institutions including civil society representation. This way, social partners would be enabled to influence policy and programme development in relation to the SMME industry. The proposed institutional structure emphasises the important role of a partnerships approach in implementing development programmes.

In addition, Figure 7, shows that the central executing agency responsible to formulating overall policies and strategies for SMMEs, should work closely with other state ministries and agencies, and stakeholders (private sector, academia and civil society) in development of SMMEs' programmes. Furthermore, Figure 7, depicts that the SMME's strategy should be aligned to the government broad economic policy, and the programmes must be designed and implemented taking into account the needs of SMMEs. As this study agree that what is vital is to listen and incorporate the needs of the business owners, and ensure that policies and programmes meet the expectations of the SMMEs.

South Africa should cut duplication and avoid creating multiplicity of business development support programmes. The needs of SMMEs should be taken into consideration when programmes are designed. Thus nothing should happen without the intended beneficiaries. Figure 6 emphasises the need for better coordination, and improved alignment and integration of government support. The public-private sector approach should be integrated in institutional design and implementation.

5.4 AVENUES FOR FUTURE STUDIES

There is no doubt SMMEs play an essential role to the development of the economy. This study has demonstrated that South Africa has a relatively developed institutional framework that support growth and development of SMMEs. However, the plethora of government programmes administered in various levels of government, different departments and agencies coupled with limited resources has caused fragmentation. It may as well evaluate the effectiveness of the programmes, thus scale-up working programmes and stop ineffective ones.

Although this research study has realise the set objectives. Using this study as a building base, another study can focus on using both quantitative and qualitative research approach in addressing the same research topic presented in this study.

5.5 SUMMARY

This research study contends that South Africa's has a relatively developed institutional framework that support growth and development of SMMEs. However, the current form of

South Africa's institutional support to SMMEs has been regarded problematic for strategic coordination purposes. Hence there is a need by the government in all spheres to improve efficiency and effectiveness of governance.

This chapter provided the conclusions and the recommendations of the study. Currently, South Africa need establish a transversal monitoring and evaluation framework and system that would assist to measure the performance of the SMMEs' industry. Further, it has been outlined that SMME's policy strategy in South Africa was implemented in a more fragmented manner. In terms of resource allocation, there is a need to address the needs of SMMEs in rural areas. Currently, although it is understandable, resources are still concentrated in urban areas.

In the first section of this research study, brief literature review was presented. Section that shows the alignment of the research study objectives with the outcomes, was also presented. This chapter also presented a section that provided the discussion on policy recommendations including the proposed institutional framework for South Africa.

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