

Perspectives on the success prospects of the Small Enterprise Development and Finance Agency

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Keywords

Small enterprise, SEDFA, SEDA, SEFA, entrepreneurship

Abstract

This study was an inquiry into a contemporary issue, the formation of the Small Enterprise Development and Finance Agency (SEDFA), following resolutions of the South African cabinet to merge the South African Development Agency (SEDA), the South African Small Enterprise Finance Agency (SEFA) and the Cooperative Development Bank (CDB). The purpose of the study was (1) to explore the prospects of success for SEDFA and (2) to determine what SEDFA can do to operate successfully. The study adopted a focus group discussion research design. It was based on the views of small enterprises in the Eastern Cape Province who were to benefit on the prospects of SEDFA, and what it should do to succeed. The study found mixed perspectives on the success of SEDFA, with some respondents suggesting that SEDFA may fail to impress as its predecessors did, while others took the view that it would definitely succeed if it operates differently. Respondents suggested the need to provide a supportive legal and policy framework, to support the entire small business ecosystem, and to promote both macro and micro level strategies for the success of small entities in South Africa.

Introduction

The Small Enterprise Development and Finance Agency (SEDFA) was established to address the limitations of the South African Development Agency (SEDA), the South African Small Enterprise Finance Agency (SEFA) and the Cooperative Development Bank (CDB). The role of SEDA and SEFA in helping small entities recover in the post-COVID-19 period has been complex given the devastating nature of the pandemic. These challenges include poor access to funding. SEDA (2024) reported that only 6% of surveyed MSMEs had received government funding, while 9% had obtained private funding. Small enterprises also lack access to appropriate markets for their products, have no clear market entry strategies, lack capacity to empower their employees for better enterprise performance, have poor technological capacity, and limited skills potential. As a result, expectations are high that SEDFA will perform better in capacitating small entities. There are high expectations that SEDFA will be more effective and will deliver better outcomes than what its constituents achieved as separate entities (SEDA, 2024).

This study seeks to provide an overview of strategic focus operations that can lead to the success of SEDFA. The study is meant to inform SEDFA at its inauguration on the strategic focus areas to attend to in order to achieve success and propel small enterprise success. Since the attainment of democracy, South Africa has recognised the central role of small enterprises in its economy and several policies have been developed to guide the small enterprise sector (Baloyi & Khanyile, 2022). The legal framework and policy framework for strengthening small enterprises is supremely defined by Section 22 of the Constitution of the Republic of South Africa (Act No.108 of 1996) (South African Government, 1996a) which gives everyone the right to practise in a trade, profession or occupation as regulated by law. The promulgation of the National Small Enterprise [previously Business] Act, No.102 of 1996 (South African Government, 1996b) which was further amended to the National Small Business Amendment Act (No. 29 of 2004) (The Presidency, 2004) provided for the formation of the Small Enterprise Development Agency (SEDA). South Africa's commitment to the development of a strong small enterprise ecosystem then later led to the formation of Small Enterprises Finance Agency (SEFA) in 2012 as a merger of three institutions, namely: (1) the South African Micro-Finance Apex Fund (Samaf), (2) Khula Enterprise Finance Limited and (3) structures from the Industrial Development Corporation (IDC). To ensure the effective administration of

these systems and their coordination, the Department of Small Business Development (DSBD) was then formed in 2014.

Literature review

While general economic literature applauds the significant role of entrepreneurs in the economies of various countries, small enterprises experience several challenges that make it difficult for their contribution to be fully realised (United Nations Conference on Trade and development [UNCTAD], 2023). Some of these challenges include poor business skills, lack of financial resources, and competition from large enterprises as well as weak support from regulatory environment (Sagar, Anand, Varalaxmi, Singh & Raj, 2023). These challenges can be categorised as both macro and micro levels (Parker, 2020). At the macro level, the government has intervened through policies and institutions such as SEDFA, recently formed institutions to lead entrepreneurial success. Micro level interventions to advance small business growth and success have included strengthening entrepreneurship education in higher education institutions, provision of support through small enterprise incubators, as well as other small enterprise support institutions (Lose, 2019). Parker's (2020) study on small enterprise competitiveness recognised that the lack of success for the South African small business ecosystem can be attributed to a weak economic situation, red tape and bureaucracy in the administration of the small business sector, the dominance of large enterprises, wide socio-economic inequalities, poor infrastructure, as well as an education system that does not adequately support entrepreneurship. The role of macro level initiatives such as that of SEDFA in enhancing entrepreneurial and small business growth is vital due to the vulnerabilities faced by small entities. In this way the operations of SEDFA require adequate scrutiny and enough support for the strengthening of the small business ecosystem in South Africa. In the view of Machado (2016), small enterprise growth and success is a unique phenomenon that deserves its own special consideration, and known theories of small enterprise growth need to be adapted. This means the success of such initiatives as SEDFA is based on having an appropriate model that is suitable to small entities. Small business entrepreneurs require good administration, resources, and capabilities for their success, and it is important for SEDFA to facilitate this (Lose, Bernard, & Jack, 2024).

The formation of SEDFA indicates a macro initiative to strengthen small enterprises. Macro level institutions are useful if they are capable of creating an environment that strengthens micro level needs of small business such as mentorship, technical support, skills and facilities (Muriithi, Ndegwa & Juma, 2018). The situation in South Africa is such that entrepreneurship and small business support is enhanced by small business accelerators and incubators (Sebake, 2024). SEDFA has to also ensure that the entire network involved in small business development is strengthened. This study is consistent with the work of Lubinski, Wadhvani, Gartner and Rottner (2018) who advocate for a new dimension in entrepreneurship research based on diverting attention from micro-level perspectives of entrepreneurship which focus on entrepreneurial opportunities, and turning to macro-dynamics which focus on societal transformation. This is relevant in South Africa where socio-economic inequalities are the highest globally. If real transformation is to be realised through entrepreneurship, then this has to be driven at the macro level. This study seeks to support the formation of SEDFA through providing empirical evidence on its prospects for success and the factors that may be critical for its success.

Methodology

This study followed the paradigm of constructivism to determine the factors and prospects of success of SEDFA. Accordingly, the study collected qualitative data. Qualitative studies that are informed by the constructivist paradigm tend to yield a large volume of data which results in deep understanding of a phenomenon (Abutabenjeh & Jaradat, 2018; Creswell & Creswell, 2018). It was essential in this study to ensure that in-depth data was collected to strengthen the results so that the success of SEDFA is enhanced and small enterprises can benefit in the interests of their viability. The study was conducted among small enterprise entrepreneurs who are expected to benefit from the activities of SEDFA. The small enterprises, as beneficiaries of SEDFA operations, have expectations which SEDFA has to fulfill for it to be described as successful. The small enterprises have received assistance from SEDA and/or from SEFA in the past. This made it possible for them to be in a position provide perspectives of what SEDFA needs in order to

achieve satisfactory results. The small enterprise entrepreneurs who participated in this study were selected from the Eastern Cape. The Department of Small Business Development (DSBD) provided possible entrepreneurs to participate in the study via its database. Potential entrepreneurs were contacted by telephone using the DSBD database and forty small business entrepreneurs across the Eastern Cape Province indicated their willingness to participate.

The study used a focus group discussion technique to collect data. An online social communication group was established to agree on the date, time and venue for the focus group discussions. A community hall within the Eastern Cape was identified as an appropriate meeting venue for the focus groups discussions. The data collection process involved splitting the forty entrepreneurs into four groups of ten participants with a group leader. The four focus group discussions involving ten members were conducted on 1 July 2024. On 1 August, the entire group of forty met to finalise the results. The discussion questions were: In your opinion, (1) what are the prospects of success for SEDFA and (2) What should SEDFA do to operate successfully? The discussions took 30 to 45 minutes and notes were taken by a secretary during the discussions. Everyone contributed and a final summary was provided and agreed upon by each group. The final summaries were then the subject of confirmation and final discussion on the second day. The participants represented various small business entrepreneurship ventures that included food and drink retailing, crafts, small goods manufacturing, and various services. Each focus group had at least 3 females and there were 18 females compared to 22 males in the entire group. The focus group summaries for the four discussion groups are presented in the summary section.

Findings

The findings of the study can be grouped into major categories: firstly, the entrepreneurs' perspectives on SEDFA's prospects of success (associated with the question, 'What are the prospects of success for SEDFA?'); and secondly, factors necessary for the success of SEDA (associated with the question, 'What should SEDFA do to operate successfully?'). The results arising from these two categories are discussed in this section.

Discussion question 1: What are the prospects of success for SEDFA?

The summaries provided by group leaders pointed to mixed perspectives on the prospects of success for SEDFA. Generally, respondents felt that SEDFA has to follow a different approach which would be distinct from its predecessors. Its ability to act differently in a way that seeks to address past problems was frequently mentioned as a contributing factor for success. In the end, these results were interpreted to indicate that SEDFA will succeed or fail based on whether it takes a new approach that addresses the weaknesses of SEDA and SEFA, or if it operates as a continuation of SEDA and SEFA. These rewards were echoed by the Group 1 leader who was then supported and applauded by the entire group on Day 2 of the confirmation data collection.

The success of SEDFA depends on its ability to do things differently, starting with an appropriate vision for the success of all the SMEs in South Africa. Small businesses operate in different circumstances in South Africa, and it is vital for SEDFA to tailor-make its operations so as to address unique circumstances. If all small business enterprises are put in the same bracket of being small, then SEDFA may not be successful because unique factors will not be addressed. Therefore, SEDFA has great prospects of success if it simply takes each enterprise as unique. I also see SEDFA succeeding if it manages to spread its arms to every localised area, a ward, a village, a township or a location. The more branches it [has] at localised levels the more it is likely to succeed. A person should just find it very easy and convenient to meet a SEDFA official for assistance. Basically, SEDFA can succeed if [it floods] South Africa and [can] be everywhere where people are to make it easy for its services to be accessed and used.

The sentiments above demonstrated that SEDFA has good prospects of success if it simply strengthens its operations by thoroughly attending to unique situations and through a highly decentralised method of approach where it is easily accessible and where everyone can use its services everywhere. This general view provided by the Group 1 leader may be in contrast to the more pessimistic perspective that was provided by the leader of Group 2 who stated that:

I do not really think SEDFA has something new to offer. While it was formed to pursue a noble means, vision and mission, it may fail to implement this in practice. The formation of SEDA and SEFA back then was also a noble idea which was poorly implemented. Surely there is no guarantee that SEDFA will be different. Chances are high that we will continue with our old problems but being associated with a new institution.

Discussion question 2: What should SEDFA do to operate successfully?

It also emerged from the responses provided in this study that SEDFA needs to take a broad and holistic approach in handling matters for the success of small enterprises in South Africa. It was argued in the study that assistance that simply addresses the small entities may not be enough. Instead, SEDFA may have to focus on the entire small business ecosystem together with all the players such as incubators and accelerators who are also players in supporting small entities. One focus group discussion leader stated that:

For SEDFA to succeed, it should first make the right objectives based on adequate situational analysis which looks at factors affecting the success of small enterprises as well as the reasons for the failure of SEDA and SEFA. These reasons should inform the focus for SEDFA. In particular, small enterprises should be prioritised as they significantly contribute to the economy. This means small enterprises must be seen within an ecosystem made up of government, small enterprise support institutions, private small enterprise support entities, and small business incubators and accelerators, educational institutions, large entities and the small enterprises themselves. Support for small entities only may not yield the required results because they do not operate in isolation. SEDFA should have a masterplan that assembles all economic players as an ecosystem of small enterprise growth.

In providing the response summary above, the focus group leader concurred with the work of Lubinski et al. (2018) who argued that government departments using macro-level policies to ensure entrepreneurial growth should seek to achieve transformation through engaging the broad system of components involved and that are relevant for success.

A prominent factor for the success of SEDFA was also provided by another focus group leader as follows:

SEDFA cannot operate entirely on its own and solve the problems that small enterprises face. It is important for SEDFA to be simply the focal institution that coordinates various sectors in small business success such as higher education institutions and private small enterprise support institutions. The question of skills and business management knowledge affect the success of small business. Many entrepreneurs lack the skills and management knowledge to adequately manage small business[es], leading to their collapse. Large private entities should also be coordinated to support small entities as key conduits in their value chain (Lose, 2023). These links are vital.

It also emerged from the study that there is need to strengthen the regulatory framework and environment to promote the operations of SEDFA. Some respondents stated that it was necessary to have a thorough study of the operational environment for SEDFA and create a favourable and supportive legal and policy framework for SEDFA to attain its objectives. Specific laws and policies to strengthen and support SEDFA will enhance its operations, as suggested by another focus group leader:

As you know, SEDFA is a macro level initiative for reviving small enterprises. Such initiatives need strong government support through appropriate legal and policy systems that can promote its smooth operation. Without a strong legal and policy framework, SEDFA will find various obstacles on its way and may fail to deliver the expected performance.

Discussion of findings

This study explored the prospects of success for SEDFA and what it may need to do in order to be successful. The study was based on the views of small business entrepreneurs. While studies on the operations of SEDFA are still emerging, the results of this study support earlier findings that small enterprises face numerous challenges, and that both macro level and micro level initiatives are essential for the success of SEDFA to vitalise the small enterprise sector (Bruwer & van den Berg, 2017; Omoruyi, Olamide, Gomolemo.& Donath, 2017; Davids, Tengeh & Duffett, 2021). In view of these various

challenges, the study has found significant support for the formation of SEDFA and for promoting its operations to ensure that the small enterprise sector remains fully viable and continues to contribute to the success of the economy. The findings of this study also suggest the need for a holistic approach in promoting small enterprises (Lose, 2016). This entails using various theoretical frameworks that strengthen both micro level and macro level initiatives for small enterprise development. Earlier work such as that of Baloyi & Khanyile (2022) on initiatives to improve MSME funding as well as that of Parker (2020) on the view that the small business sector and ecosystem is where holistic attention on the success of various institutions and strategies for small business development should be focused are vindicated in this study.

Future research and recommendations

The study recommends strengthening of existing systems for the viability of small enterprises, and the strengthening of SEDFA. In particular the legal and policy framework for the operations of SEDFA may need to be carefully considered so that it is supportive and appropriate. Future research is required to keep appraising SEDFA operations, to identify obstacles in its operations and to suggest solutions to challenges that it may face. Future research may also collect views from various stakeholders within the small business ecosystem. A model for the effectiveness of the South African Small Enterprise Development and Finance Agency (SEDFA) should be developed.

Conclusion

This study investigated the prospects of success for SEDFA as well as what is required for its success. Generally, it found that SEDFA should be a macro level initiative that is expected to improve the small business sector, thereby making it imperative to support it and ensure that it attains its mission. It was also found in this study that the micro level strategies for small business success remain vital and both levels have a significant impact on small business support.

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