Research on the Delays and Non-payment by Government on Small, Micro and Medium Enterprises

Department of Planning, Monitoring and Evaluation

This report has been independently prepared by Nemai Consulting Pty (Ltd). The Research Steering Committee comprises the Department of Small Business Development and the Department of Planning, Monitoring and Evaluation. The Steering Committee oversaw the operation of the research, commented and approved the reports.

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LIST OF ABBREVIATIONS

AsgiSA	Accelerated and Shared Growth Initiative in South Africa
DPME	Department of Planning, Monitoring and Evaluation
DPSA	Department of Public Service and Administration
DSBD	Department of Small Business Development
DTI	Department of Trade and Industry
GDP	Gross Domestic Product
MSME	Micro, Small and Medium-Sized Enterprises
NDP	National Development Plan
NSBA	National Small Business Act
NT	National Treasury
OECD	Organization for Economic Co-operation and Development
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprises
SMME	Small, Medium and Micro Enterprises
SSA	Sub-Saharan Africa

1 INTRODUCTION

1.1 The Background to the Research

According to the World Bank, Small and Medium Enterprises (SME) represent about 90% of businesses worldwide and provide an estimated 50% of all employment globally. The World Bank estimates that by the year 2030, approximately 600 million jobs will need to be absorbed by the economy due to the growing workforce.

In South Africa Micro Enterprises are considered equally significant as Small and Medium Enterprises hence the terminology Small, Medium and Micro Enterprises (SMMEs). The socio-economic importance of SMME's in global and national economies cannot be underestimated. SMME's contribute positively to many growth and development objectives such as economic development, poverty alleviation, employment creation, and equalisation of wealth. According to DSBD, 2019, it was reported, at the Presidential Jobs Summit held in October 2018, that approximately 2.8 million SMME's were in existence and collectively contributed between 52% and 57% of the Gross Domestic Product and 60% of employment.

During the first quarter of 2019, the unemployment rate in South Africa was 27.6% (World Bank, 2019), with the majority being unemployed youth. The SMME business sector can play a vital role in reducing the unemployment rate as well as contributing to the continued growth of the economy. Hence, it is imperative that challenges faced by the Sector are identified and mitigated for continued economic growth.

The South African Government, through several legislative and institutional tools, has endeavoured to aid SMME's in growing and prospering. However, challenges abound, even where good intentions exist. The public procurement process is one area were most South African SMMEs find working with government counterdevelopmental. Non-payment of invoices, specifically to SMME's can prove detrimental to the survival of the Sector.

1.2 Purpose and Scope of the Research

The Department of Planning, Monitoring and Evaluation (DPME), provides oversight on the performance of government, and envisions improving government outcomes and its impact on society. Together with National Treasury (NT) and the Department of Public Service and Administration (DPSA), the DPME has been monitoring National and Provincial Governments compliance with NT Regulations, published in March 2005 in terms of the Public Financial Management Act (Act No 01 of 1999), as amended, which requires all Accounting Officers to

settle contractual obligations and pay money owing to Service Providers within 30 days of an undisputed invoice. Based on data submitted to NT, DPME identified a trend of delayed and/or non-payment of invoices by Provincial and National Government Departments to SMMEs.

This study, therefore, aims to research the extent of delayed and/or non-payment of services, by Government to SMME's and the implications thereof on the economy, government relations with the Service Provider and service delivery.

The findings of the research will also assist the Department of Small Business Development (DSBD) to develop a policy framework that addresses the resultant effects of delayed and/or non-payments by Government on livelihoods of SMME's.

The scope of the research is limited to delayed and/or non-payment by National and/or Provincial Government Departments to SMME's doing business with these departments between April 2015 to March 2019. For the purposes of the research the following definitions were applied:

- Delayed Payment - The payment is considered delayed when a service provider has been paid after 30 days of invoicing.
- Non-payment – The payment is considered a non-payment when a service provider has not been paid after 30 days of invoicing.
- SMME's –Option B (Schedule Update) of Update of Schedule 1 of the National Small Enterprise Act (No 102 of 1996) to Promote Employment in South Africa, Final Report

1.3 **Key Research Questions**

The research is based on one main question relating to the extent and effect of delayed and/or non-payment, by the Government, on SMME's. Sub questions largely drawn from the main question are also included. Hence, the research study is driven by the following key questions:

1. To what extent is there a problem of delayed and/or non-payment of invoices by government?

    - Number of SMME s affected by delayed and/or non-payment by Government;
    - Type of services rendered to Government by these SMMEs;
    - Profile of key SMMEs in the sample of SMMEs; and
    - Proportion of SMMEs affected to GDP.

2. What is the effect of delayed and/or non-payment by Government on SMMEs?

    - Number of small businesses that have been forced to close as a result of non-payment;

- Number of jobs that have been lost as a result of businesses closing;
- How much money is spent through the litigation processes; and
- How many businesses have been deregistered due to non-compliance with tax clearance issues?

3. What are the outcomes on the livelihood of those directly and indirectly affected?

- What are the social outcomes related to delayed or non-payment of invoices to SMMEs within 30 days?

4. What is the impact of delayed and/or non-payment on the economy?

- Current contribution of the small business sector to the country's GDP and how this has been impacted by the culture of non-payment?

5. How does delayed and/or non-payment within 30 days impact on business relations with Government?

- What risk mitigation strategies do suppliers include in their engagement/business with government?
- How is the supplier pool available to government affected in terms of number of bids received, competition, pricing etc.?
- In what ways is quality of service compromised?
- What are the financial and non-financial implications on Government?
- What are the unintended consequences of delayed and/or non-payment?

6. What provisions should be made in the National Small Business Act (Act No 102 of 1996) for addressing non-payment within 30 days?

- What are the expectations of the Small Business Sector from Government?
- What are the lessons learnt from other countries?

2 METHODOLOGY

The research adopted a mixed-method approach, the main objective was to establish the causal effects of delayed and/or non-payment on SMMEs. Figure 1 below, provides an overview of the research approach.
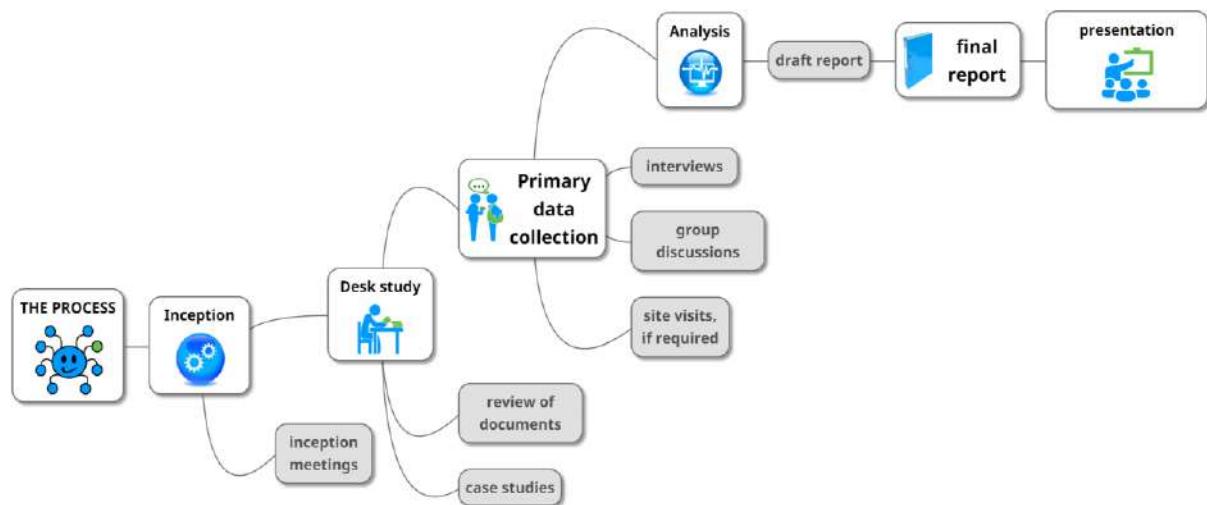
Figure 1: Research Methodology

2.1 Research Methods

The research made use of both quantitative and qualitative research methods to address the research questions. A few tools were used to gather and analyse both qualitative and quantitative information. Primary data was collected, using a questionnaire, during interviews with SMMEs and key stakeholders while secondary data sourced from published and grey literature and approved documents.

- Sample selection: NT provided a database of 24679 SMMEs doing business with national and provincial government. A random sample of 219 SMMEs were selected from the database to participate in the study. During the inception phase of the research it became clear that the database provided was not only of SMME's instead it included many large companies. Also, many of the SMMEs contacted had not done business with provincial and national government in the last 3 years. The team replaced SMMEs that did not meet the research criteria by selecting new SMMEs from the database until a sample of 219 SMMEs that met the criteria was achieved however only 212 SMMEs agreed to participate in the research. Hence, the population size was 212.

- Pilot Study: The research tool, a questionnaire, was piloted with 10 randomly selected SMME's. Based on the findings of the pilot study the approach and research tool were revised.

- Interviews: The research study targeted 219 SMMEs from all 9 provinces to conduct both quantitative and qualitative interviews, however, only 212 SMMEs agreed to be part of the research. A questionnaire with both quantitative and qualitative questions was administered as the research tool. Only telephone interviews were conducted as the SMMEs refused to be part of one on one interviews in fear of being victimised by government officials for participating in the research.

- Public Sector SMME Late Payment Assistance Hotline: The study utilised data from a hotline established and launched in 2009 as a measure for Government to monitor compliance to the 30-day payment cycle.

- Review of research related documents and published and grey literature: The research study made use of secondary data in the form of published studies looking into challenges faced by small business enterprises. This was necessary to triangulate findings with other published work.

2.2 <u>Analysis</u>

The analysis is driven by the research literature and by the emerging issues within the study itself. To be able to identify the issues emerging from the data collected, statistical analysis and thematic analysis were used. Descriptive statistics such as frequency distributions and cross tabulations that indicate a given variable relative to total count or percentage of that variable are used to learn about the way the data is distributed. The relationships or associations between certain data postulated from the literature are investigated with the use of appropriate statistical methods tools such as chi-square and fishers test. Were possible inferential statistics such as regression analysis was used to establish relationships between variables and to infer were possible to a broader population. Initially, it was intended that qualitative data will be analysed using a thematic analysis approach whereby similar topics, viewpoints or ideas are grouped together under certain themes, coded and reviewed to better understand the findings. However, very limited qualitative data was collected due to the reluctance by respondents to provide information in fear of being victimised by Government Officials.

2.3 Limitations of the Research

The following key limitations were identified:

1. **Unreliable data source** – A database of 24679 SMMEs was provided by NT from which a randomly selected sample of 196 SMMEs were selected. Many of the SMMEs contacted did not meet the research criteria. As a result, the population group from which the sample size was calculated and the sample of SMMEs selected may not be representative of SMMEs doing business with government. Hence, the research may be reflective of the composition of the participants and their experience with delayed and/or non-payment by provincial and national government.

2. **Classification of a SMME** – The current definition of a SMME was difficult to apply in the research. Many SMME's were classified as an SMME based on employment criteria but not on turnover. Also, many SMMEs provided services across business sectors and therefore could not be classified in any one sector. The research team therefore separated the number of employees from average turnover and collected data on the main business sector that the SMME provides a service to.

3. **Reluctance of SMMEs to be part of the research** – Initially, 300 SMME's were randomly selected and contacted to be part of the research however, the majority of SMMEs selected decided against participating in the research. In the end, 1 569 SMMEs were contacted before a sample of 212 agreed to participate in the research. SMMEs were concerned that their involvement in the research will result in fewer contracts with government going forward. Many with existing contracts were concerned that they would be victimised by Government Officials if it became known that they were part of the research. The 212 SMMEs that did agree to participate did so on the condition that there was no face to face interviews and that they could stop the interview if the questions required detailed information that could be traced back to them.

4. **Difficulty in answering all research questions** – Given the reluctance of SMMEs to provide information, it was not possible to answer all research questions in detail.

5. **Gender dimension of the study not included** – The research did not consider the impact on women owned organisation. While the literature suggests that women owned SMMEs are greatly impacted by delayed payments, it was not possible to verify the extent of the impact through the current research.

Despite these limitations, the information collected and analysed is consistent with the findings of the literature review and international trends. The research provides valuable information and insight on the extent of the impact of delayed and/or non-payment by government on SMMEs doing business with Provincial and National Government Departments.

2.4 Ethics Approval

The project timeframes did not allow for ethical clearance for the study. Participation in the research was voluntary and no Participants were paid to be part of the research.

The full research scope was explained to the 1 569 potential Participants who were given 7 days to decide if they wanted to participate in the research. The participants refused to sign consent letters to be part of the research.

The team revised the research approach once it became clear that Participants were uneasy to share information that could lead back to them. Hence, only quantitative questions were asked via telephone interviews and no face to face interviews were held. The Participants were guaranteed anonymity and the Researchers observed the principles of Beneficence and Nonmaleficence, Fidelity and Responsibility, Integrity, Justice and Respect for People's Rights and Dignity when conducting the research.

3 LITERATURE REVIEW

The literature review cites published and grey literature regarding the challenges facing SMME's with a specific focus on delayed and/or non-payment by Government. While there is not much depth to the research on the impact of late payment by Government on SMMEs, there is extensive literature on SMMEs themselves, what are the drivers of business success, what growth and sustainability constraints exist and how Government procurement can assist in the development of SMMEs.

3.1 Importance of SMMEs

The global prominence of small enterprise development and promotion over large corporation can be traced back to the 1970s and 80s. This "small-business turn" was first witnessed in western economies, due to either faltering of big corporations during the economic turbulence of the early 1970s in industrialised economies, or the high employment creation of US-based small business enterprises in the 1980s (OECD, 2017). As such, a move towards promotion of small business, as essential contributors of employment creation and economic growth was adopted as regional policy among the Organization for Economic Co-operation and Development (OECD) countries in the 1980s.

The apparent positive prospects of the SME economy were transferred to developing countries (Asia, Latin America, Sub-Sahara Africa), as structural adjustment packages and aid conditionality in the late 1980s and early 1990s; and possible replacement of welfare (socialist) economies (Rogerson, 2004; 2008). However, the conceptual import of small businesses was not easily transferable, evident from a variety of conceptualization and implementation in different contexts.

While micro, small and medium-sized enterprises (MSMEs) play a major role in most economies, their value is more pronounced in the developing economies of Asia and Sub-Saharan Africa (SSA). The World Bank estimates about 365 to 445 million MSMEs in the two regions, of which only 85-100 million are formalised, while over 340 million (over 75%) are informal (World Bank, 2017), see Figure 2. As such, informal firms outnumber formal firms by a ratio of 3.5:1. However, collectively MSMEs contribute about 60% of total employment and up to 40% of national income (GDP) to the two regions.
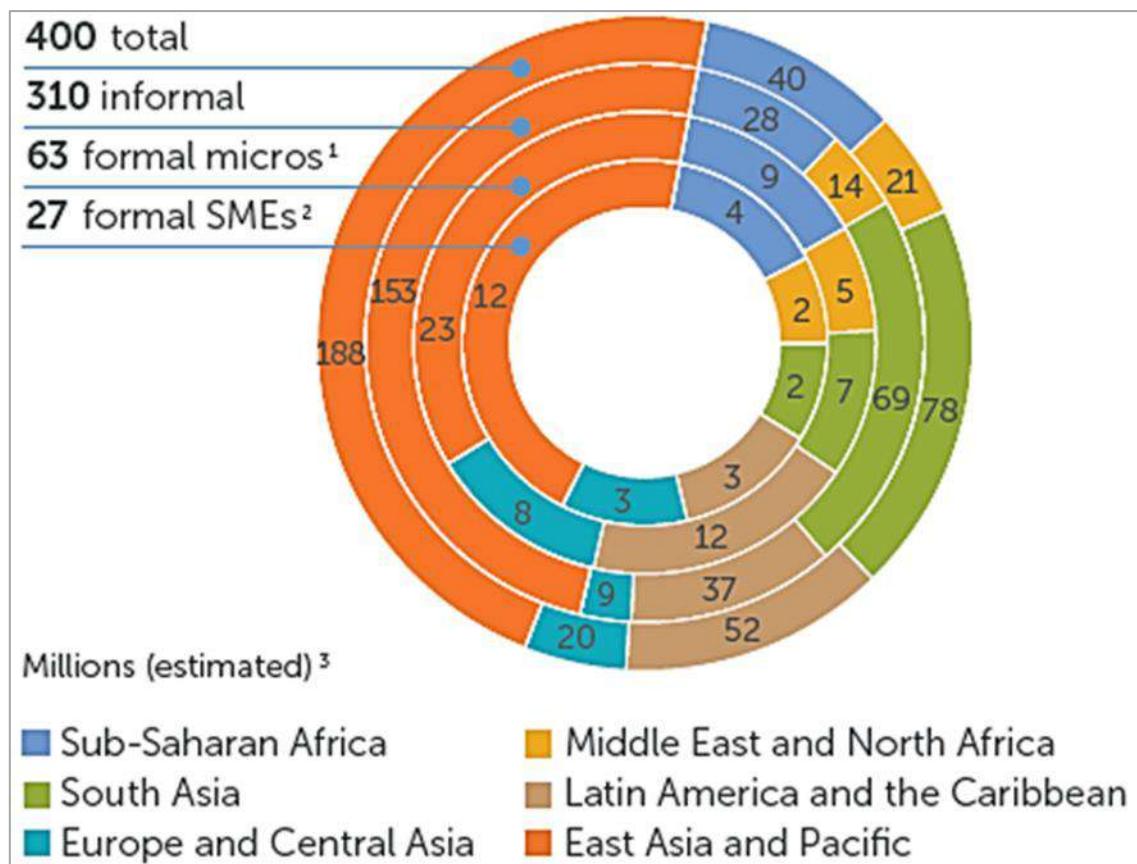
Figure 2: Global developing markets' formal and informal SME market size

Source: World Bank, Alternative Data Transforming SME Financing, 2017:1

These figures may be higher, since there is irregular and unreliable data for informal enterprises.

The World Bank estimates that globally formal SMEs contribute up to 40% to the GDP of emerging countries. For developing countries SMMEs not only contribute to economic growth, but they play a huge role in employment creation (World Bank Group, 2018). In South Africa, by the second quarter of 2015, there were an estimated 2 251 821 million SMMEs both formal and informal (SEDA, 2016). The growth of the SMMEs represents a huge potential for employment creation and growth of the South African economy.

3.2   Definition of a SMME

According to Kushnir (2010), "this increased attention to MSMEs begs the question -- what, exactly, should be considered an MSME?". Kushnir (2010) notes that while there are different definitions of small business enterprises according to context, there have been attempts to come up with a universal conceptualisation of SMMEs. While there are advantages within the global economic transactions and lending regimes, Kushnir (2010) acknowledges that this will

also mark important purposes of small businesses in different countries. In the same line, Rogerson (2004; 2008), acknowledges that SMMEs tend to have strategic objectives for countries, which include economic (job creation, economic growth and international competitiveness), welfare (poverty alleviation) and political (equalising racial/class distribution of wealth) objectives.

Kushnir (2010), therefore argues that while a universal definition could have invaluable heuristic advantages, the definition of SMMEs does also rely on contextual variables:

> …such as business culture; the size of the country's population; industry; and the level of international economic integration. Or it could be the result of businesses lobbying for a particular definition, which would qualify their enterprise for governmental MSME support program.

In China an SME can be any business enterprise with less than 3000 employees, between 40-400 million Yuan, and 10-300million Yuan in business revenue (Kushnir, 2010). On the other hand, within the European Union, any venture with less than 250 employees and up to 50 million Euros is regarded as an SME (Kushnir, 2010). In 2005, the European Commission came up with three quantitative criteria for defining and classifying SMMEs: number of annual employees; annual turnover and annual balance sheet (Berisha & Pula, 2015).

Table 1: European Union Definition of Small and Medium Enterprises

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	< 250	≤ €50 million	or	≤ €50 million
Small	< 50	≤ €10 million	or	≤ €10 million
Micro	< 10	≤ €2 million	or	≤ €2 million

Source: Berisha & Pula, 2015:19

The World Bank uses slightly different quantitative indicators: number of employees; total assets in US$; and annual sales in US$ (Berisha & Pula, 2015).

Table 2: World Bank Definition of Small and Medium Enterprises

Enterprise indicators (2/3)	Number of employees	Total assets	or	Total annual sales
Medium	> 50; ≤ 300	>\$3,000,000; ≤\$15,000,000	or	>\$3,000,000; ≤ \$15,000,000
Small	> 10; ≤ 50	>\$100,000; ≤ \$3,000,000	or	>\$100,000; ≤ \$3,000,000
Micro	< 10	≤ \$100,000	or	≤ \$100,000

Source: Berisha & Pula, 2015:19

For the World Bank, small businesses are classified MSMEs depending on the size of their staff, turnover, and total assets.

Berish and Pula (2015), highlight the lack of comparability in the indicators of the World Bank and European Commission. They argue that these irreconcilable differences foreshadow the international SMME context, in which "every country exercises the freedom to define SMEs specifically" (Berisha & Pula, 2015:20).

According to Section 1 (xv) of the National Small Business Act (No 102 of 1996) as amended a, 'small business' is officially defined as:

> "… *A separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy...* "

In 2003, the South African classification of a SMME closely mirrored the World Bank indicators (total full-time equivalent of paid employment; total annual turnover, and; total gross asset value). However, in 2017, the Department of Small Business Development (DSBD) commissioned a study to review and update South Africa's definition of a SMME. The review came to similar conclusions with the DTI (2010) study, underscoring the need to:

 i. update SIC classifications and thresholds using updated and accurate data from StatsSA;
 ii. reduce proxies to two (employment and turn over);
 iii. introduce the NIBUS classification to informal business;
 iv. develop guidelines for use of the definition (whether turnover thresholds should be before or after sales; or what to do in case of overlap of proxy thresholds); and
 v. ensure that NSBA definition is updated every five years (DSBD 2018:4).

In essence, the review exercise was aimed at ensuring that the definition and classification of SMMEs in various legislations (including the NSBA) is not only aligned but is also relevant to the SMME sector in South Africa, in order to ensure that all relevant businesses gain access to Government support (DSBD, 2018).

In the *Final Report* on the *Update of Schedule 1 of the National Small Enterprise Act to Promote Employment in South Africa*, 2018 the DSBD presented two options of updating Schedule 1 of the NSBA (1996, 2003), and redefining the SMME sector.

Table 3: Current and Proposed Employment Cut-offs

Current definition	Employment cut-offs	Proposed Change	Employment cut-offs
Medium	≤ 200	Medium	≤ 250
Small	≤ 50	Small	≤ 50
Very Small	≤ 20	Micro	≤ 10
Micro	≤ 5		

Source: Department of Small Business Development, 2018

As can be seen from Table 3, the proposed change not only shifts the upper (250) and lower limits (10), it also collapses the small and very small enterprise category into one. Proposed Option A for the Schedule 1 is a mere update of the current Schedule 1 (amended in 2003) by just dropping the asset thresholds and adjusting the current turnover threshold for inflation, by an annual rate of 6% until 2020 (see Table 4). Option B (Table 5), is a more comprehensive amendment, which include collapsed categories of small and very small enterprises into one (in alignment with international classifications of SMEs), updated employment thresholds in line with evidence from SARS-NT dataset, as well as adjusted turnover thresholds using 6% annual inflation rate.

For the purposes of the research, Option B was used in identifying SMME's.

Table 4: Option A (Schedule Update)

Sectors or sub-sectors in accordance with the standard industrial classification	Size or class of enterprise	Total full-time equivalent of paid employees	Total annual turnover
Agriculture	Medium	200	35,0 Million
	Small	50	17,0 Million
	Very small	10	10,0 Million
	Micro	5	7,0 Million
Mining and quarrying	Medium	200	210,0 Million
	Small	50	50,0 Million
	Very small	20	20,0 Million
	Micro	5	10,0 Million
Manufacturing	Medium	200	170,0 Million
	Small	50	50,0 Million
	Very small	20	16,0 Million
	Micro	5	5,0 Million
Electricity, gas and water	Medium	200	180,0 Million
	Small	50	60,0 Million
	Very small	20	16,0 Million
	Micro	5	5,0 Million
Construction	Medium	200	170,0 Million
	Small	50	75,0 Million
	Very small	20	22,0 Million
	Micro	5	6,0 Million
Retail, motor trade and repair services	Medium	200	80,0 Million
	Small	50	25,0 Million
	Very small	20	10,0 Million
	Micro	5	5,0 Million
Wholesale	Medium	200	220,0 Million
	Small	50	80,0 Million
	Very small	20	33,0 Million
	Micro	5	16,0 Million
Catering, accommodation and other trade	Medium	200	40,0 Million
	Small	50	15,0 Million
	Very small	20	6,0 Million
	Micro	5	3,0 Million
Transport, storage and communications	Medium	200	140,0 Million
	Small	50	45,0 Million
	Very small	20	17,0 Million
	Micro	5	5,0 Million
Finance and business services	Medium	200	85,0 Million
	Small	50	35,0 Million
	Very small	20	12,0 Million
	Micro	5	3,0 Million
Community, social and personal services	Medium	200	70,0 Million
	Small	50	22,0 Million
	Very small	20	7,0 Million
	Micro	5	3,0 Million

Source: Department of Small Business Development, 2018

Table 5: Option B (Schedule Update)

Sectors or sub-sectors in accordance with the standard industrial classification	Size or class of enterprise	Total full-time equivalent of paid employees	Total annual turnover
Agriculture	Medium	250	35,0 Million
	Small	50	17,0 Million
	Micro	10	7,0 Million
Mining and quarrying	Medium	250	210,0 Million
	Small	50	50,0 Million
	Micro	10	15,0 Million
Manufacturing	Medium	250	170,0 Million
	Small	50	50,0 Million
	Micro	10	10,0 Million
Electricity, gas and water	Medium	250	180,0 Million
	Small	50	60,0 Million
	Micro	10	10,0 Million
Construction	Medium	250	170,0 Million
	Small	50	75,0 Million
	Micro	10	10,0 Million
Retail, motor trade and repair services.	Medium	250	80,0 Million
	Small	50	25,0 Million
	Micro	10	7,5 Million
Wholesale	Medium	250	220,0 Million
	Small	50	80,0 Million
	Micro	10	20,0 Million
Catering, accommodation and other trade	Medium	250	40,0 Million
	Small	50	15,0 Million
	Micro	10	5,0 Million
Transport, storage and communications	Medium	250	140,0 Million
	Small	50	45,0 Million
	Micro	10	7,5 Million
Finance and business services	Medium	250	85,0 Million
	Small	50	35,0 Million
	Micro	10	7,5 Million
Community, social and personal services	Medium	250	70,0 Million
	Small	50	22,0 Million
	Micro	10	5,0 Million

Source: Department of Small Business Development, 2018

3.3 Challenges Faced by SMMEs

SMMEs, particularly in developing countries, face several challenges, however according to the World Bank (2018) the main challenge is financing. In most cases, SMMEs lack the collateral needed to access funds from formal institutions such as banks and as a result, opt for high-interest loans to finance their activities. Inability to access low interest rate capital limits the working capital and this is a challenge for SMMES (Moram & Mureithi, 2009). Therefore, due to the limited funding opportunities, SMMEs are prone to conduct small scale activities and these activities are seen to be associated with higher risks of limiting business growth due to the limited cashflow (World Bank, 2018). Linked to working capital, (Moram and Mureithi, 2009) also indicate that SMMEs face challenges of debt collection and as a result

SMMEs limit doing work based on available credit and asking for upfront payments before any work is started.

Of a non-financial nature, SMMEs in developing countries face challenges related to the work environment in which they conduct business and the marketing challenges to promote their business (Cant & Wiid, 2013, Moram & Mureithi, 2009, Chimucheka, 2013). Acquisition of appropriate office space, lack of electricity/power interruptions, lack of reliable internet connection, government legislation and lack of business knowhow are found to be within the top 10 of challenges facing SMMEs. Office space relates to the availability of appropriate infrastructure within the office to make it conducive to conduct business. Most SMMEs in developing countries lack electricity and internet connectivity which are necessary for business growth as being online opens the business to the global market. SMMEs also lack the necessary support services to start and grow their companies. This is linked to the know-how to conduct business or the necessary exposure to the business world to excel, hence often SMMEs fail to meet the needs of the Client. In South Africa, according to a study conducted by Chimucheka, 2013, SMMEs face the challenge of a lack of training and education. This is congruent with the findings of the World Bank. SMMEs lack managerial skills which includes decision-making, budgeting, and planning skills. SMMEs therefore need support in the form of capacity building to be better prepared (Cant & Wiid, 2013). From a marketing perspective SMMEs do not have a competitive advantage due to their size to take on huge conglomerates and establish a niche within the market. SMMEs are not able to access markets and to compete with already established brands, they therefore do not have the bargaining power as compared to bigger companies (Chimucheka, 2013). The challenges faced by SMMEs is dependent on their line of business and the environment in which they operate.

3.4   Definition of Late or Delayed Payments

The definition of delayed and non-payments varies depending on the country and the type of business. According to the Department of Business and Innovation in the UK, late payment is defined as payments that are not processed after a service has been rendered and within the agreed-upon period of payment (Baily, 2019). In Ghana, a late payment in the construction sector, is defined as the failure to pay the agreed-upon amount of money after a Contractor has completed the job (Ansah, 2011). The Ghanaian definition considers the completeness and adherence to stipulated guidelines as criteria to affect payment to a Contractor. According to Miller, T., & Wongsaroj, S. (2017), late payments are payments not paid within a given time frame based on a study undertaken in 11 countries. In some countries like in Germany, late payments are not allowed for certain sectors such as the public health sector (Baily, 2019).

Most of the literature suggests that the term late or delayed is used interchangeably to describe payment not made during an agreed timeframe. The current definitions for late or delayed payment do not specify a fixed timeframe within which payment must be made, instead the time frame for payment depends on the agreement between the two parties.

In South Africa, NT Regulations, published in March 2005 in terms of the Public Financial Management Act (Act No 01 of 1999), as amended, requires all Accounting Officers to settle contractual obligations and pay money owing to Service Providers within 30 days of an undisputed invoice.

In all literature considered, there was no definition provided for non-payment of invoices.

In the context of this research delayed/late payments are payments made after 30 days of issuance of an invoice. With this definition, there is a fixed time frame regardless of the nature of the business and the business sector in which the business is categorised.

Non-payments refer to invoices not paid beyond 30 days of the date of the invoice and remain outstanding at the time of the research.

3.5   Reasons Behind Delayed Payments

There are varied reasons given for late payments. Baily, (2019) found that late payments are a result of the prevailing business culture and power dynamics already existent in a country. A study conducted by Miller, T., & Wongsaroj, S. (2017), found that late payments are a result of invoices not being received on time, invoice amounts being disputed, and invoices withheld and paid in certain periods of the financial year. A study conducted in Ghana on the causes and effects of delayed payments on construction projects found that delayed payments are due to the poor financial standing of the Employer or of the Contractor, misunderstandings between the Contractor and the Client and delays in acquiring the necessary certification to start the project.

In 2018 the DSBD undertook a sample study to understand the challenges that influence delayed and non-payment of SMME's and Co-operatives by the Public Sector. The study was mandated by the Small Business Portfolio Committee and focused on delayed payments in the last quarter of the 2017/18 financial year. The study interviewed 22 officials from Finance and Supply Chain Management Units from 9 Government Departments. Although the study focused only on data collected from Government Departments, it provides critical information on the challenges faced by Government Departments in meeting the 30 day payment period. The findings of the DSBD study in relation to the finding of this research provides a complete picture on the extent, impact and reasons for delayed and/or non-payment of invoices, from

SMME's, by Provincial and National Government Departments. The DSBD sample study found the following challenges that result in delayed and non-payment of invoices:

a) **Systematic Challenges:** Lack of a system, either a manual or computer (IT) system to trace invoices, coupled with limitations caused by financial delegations that confers the responsibility at a single point. This type of challenge is mostly experienced in instances where designated officials are on leave or rather working out of office. A sense of "no urgency" has been detected by the unit as some of the challenges for non or late payment by officials. The latter could be attributed to the possible corruption where officials want to be bribed before processing invoices.

b) **Non-adherence to Supply Chain Processes:** Service Providers are often contracted to do jobs without government following procurement and supply chain management processes. Often, they don't have an order number, letter of appointment or they have been instructed by officials through unofficial channels to render services. Invoices emanating out of this context form part of unauthorised expenditure and therefore not legitimate. This is perhaps indicative of the lack of access to information on the side of Service Providers and their susceptibility to manipulation based on their position of desperation to earn an income and obtain jobs.

c) **Poor financial management:** In some departments, the non-payment of invoices is attributed to poor budgeting or financial planning by government departments, lack of alignment between budget and procurement plans as well as inability to adhere to procurement plans. Officials tend to over-commit the institution, causing inabilities to honor commitments as allocated resources get depleted sooner.

d) **Contractual disagreements:** The unit has learnt that poor contract phrasing, resulting in different interpretations of the contractual clauses by government and service providers, terminations of contracts without proper communication to the affected party are some of the challenges experienced. Invoices raised out of this situation are not legitimate and causes disputes that have to be resolved first before payment is made.

e) **Lack of documented processes (Standard Operating Procedures):** Many departments lack documented processes which can be used for reference in instances of uncertainty. This results in delays and errors in executing elementary processes as officials would attempt to proceed based on their understanding or mimic other processes, only to discover that what they have implemented is not supported through to completion and finalization of the procedure. Payment of invoices is process driven and should be conducted procedurally as unauthorised processes tend to block progress at a certain point and therefore cause delays.

f) **Subcontracting matters:** Many departments have a hands-off approach when there are sub-contracting matters, regardless of the fact that this status has a direct bearing on service delivery. In most instances, contract holders delegate delivery of contracted goods and services to third parties. The outcomes of this practice are mostly characterised by negative results. In some instances, sub-contractors are unable to deliver in accordance with set standards, regarding quality, time or quantities. In other instances, disputes or relations between the contract holder and the sub-contractor challenges delivery. Challenges may even extend to sub-contractors not being paid by the main contractor, resulting in delays in completion of projects.

g) **Lack of capacity:** Some departments lack capacity in critical areas of financial management, resulting in blockages in payment of suppliers. This challenge even extends to finding situations where one person is assigned to execute a number of processes in the chain of processing payment, which poses a serious process risk as segregation of processes is critical in managing risks in the financial and supply chain processes. In addition to the vacancy rates, in some instances there is a shortage of skills to execute financial management tasks adequately and timely.

h) **Cash flow management:** Accruals are depleting cash flow and as a result some departments start the financial year on a negative balance. A lot of unavoidable expenditure is experienced with services such as health as normal planning for delivery of services is conducted on the basis of historical performance. This being the case, unforeseen or unplanned occurrences that pressurise the system due to the fact that patients cannot be turned away, on account of inadequacy of funding, exacerbates the problem, as demand keeps growing uncontrollably based on a number of unforeseen occurrences while resources remain scarce.

3.6 <u>Impact of Delayed Payments</u>

The impacts of late payments range from the individual business owner to the wider population within a country. Baily, 2019 establishes that late payments disrupt the cash flow of businesses hence affecting the growth potential of the SMME. According to Miller & Wongsaroj, S. (2017), SMMEs that are faced with late payments also incur opportunity costs associated with following up on these payments. The study establishes that SMMEs lose on average around 5 to 20 days following up on late payments. These days, if converted into monetary terms, translate to huge costs that could otherwise be used for business growth and employment creation. Baily, 2019 finds that due to delayed payments, SMMEs lose their competitive edge and market share to those companies that are not faced with such challenges. The impact of this is that SMMEs would eventually collapse as they have no capital to compete with big

financially stable companies. Cant and Wiid, 2013 establish that SMMEs in South Africa fail to make it past their second year of operations. Moram and Mureithi, 2009 also state that in general due to the challenges that SMMEs face, SMMEs owners' loose interest in the business within the first five years of start-up.

Given that it is the goal of business to grow, delays play a detrimental role to that effect. Hence delaying payments is contradictory to President Cyril Ramaphosa's seven priorities of which two of those priorities / goals are mentioned in his sentiments captured by Dludlu in 2019:

> *"Our work in this term of office will be directed at ensuring that SMMEs [small, medium and micro enterprises] and cooperatives contribute to the two goals of, first, growing our economy at a much faster rate than our population, and; second, a million more young people being in employment over the next 10 years."*

According to Baily, 2019, delays and non-payments reduce the productivity of SMMEs and renders SMMEs incapable of taking on new work. With limited cash flow and access to low-interest financing options at short notice, SMMEs are at times pushed to finance their work through high interest and unreasonable options. Faced with such high interest, SMMEs begin to work towards paying off these high interests' loans, at times selling assets to finance both the business and to pay off loans. The study in Ghana on delays in payments for construction finds that the effects of delays result in financial challenges leading to the eventual closedown of the companies (Ansah, 2011).

The DSBD, 2018/19 Sample Study made the following conclusions on the effects of late and non-payments of SMME's:

a) Negative impact on the cash flow positions of SMME's, which threatens their ability to honor financial obligations and therefore relations with suppliers.

b) SMME's face a number of challenges which include among others: they are forced to borrow money to meet their contractual obligations and in most instances the cost of debt become too high based on their credit ratings and their adverse record regarding management of debt; retrenchments and forced closures due to constrained cashflow positions.

c) Results and effects of late and non-payment of SMME's are contradictory to the NDP and NGP intentions on the creation of sustainable jobs.

d) Undermining of growth and expansion opportunities, cannot invest in new equipment, deplete resources that could be invested in operational support such as marketing, chain reaction in network and business productivity.

e) The knock-on effect results in potential job losses, unsustainable businesses and in the long term contribute to the increase of SMME's mortality rate.

f) Increase barrier to entry and thus reduced competition in sectors where late payment is rife.

g) Limits abilities to participate and benefit in bigger trade discounts, which results in alleviation of pressure on margins, pricing and competitiveness.

h) Spoilt relationships with suppliers.

i) Limits investment in the business and therefore stifling growth.

j) Encourage the corruption factor as it is the only option left to remain competitive.

k) Increase reputational risk to Government and severs relations with suppliers which could result in encouraging underhand dealings and fraudulent practices.

4   KEY RESEARCH FINDINGS

The findings of the research are guided by the research questions. Data collected from the desk review of documents and literature is used to triangulate findings and provide further explanations of the analysis.

4.1   To What Extent is There a Problem of Delayed and/or Non-Payment of Invoices by Government?

The study establishes that there is a problem of delayed and/ or non-payments at both Provincial and National levels of Government. However, a significant percentage of delayed payments experienced by SMME's are at the Provincial level. Non-payments are also higher at the Provincial level when compared to the National level. To fully establish the extent of delayed and/or non-payments by the government the findings are broken down into 3 sub findings as shown below.

4.1.1   Number of SMMEs affected by delayed and/or non-payment by the Government.

A total of 56% of SMMEs, that is 118 of the 212 interviewed, experienced delayed payments at the Provincial level while only 18% experienced delayed payments at a National level, Figure 3.
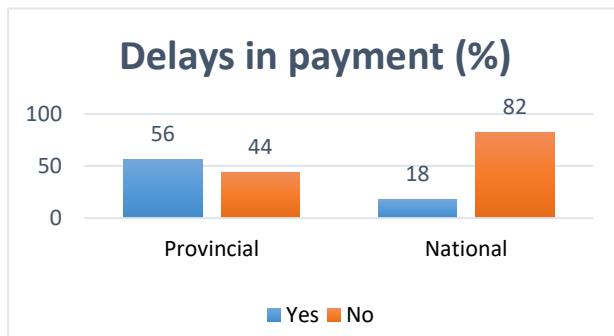
Figure 3: Delays in payments at Provincial and National level

Regarding non-payments, 16% of SMME's experience non-payments at the Provincial level, and 6% experienced non-payments at the National level. While it may appear as though the process of settling invoices within the stipulated 30-day period works better at the National level compared to the Provincial level, one must be mindful of the number of contracts between SMMEs and Government Departments at both levels. It would stand to reason that if there is a smaller number of contracts at a national level it may explain the speed at which invoices are settled.

Although non-payment of invoices exists, the occurrence is considerably less when compared to delayed payment. In most cases, SMMEs are eventually paid, however, they experience delays well beyond the 30-day payment requirement.

For the 56% and 18 %, of SMME's that experienced delayed payments at the Provincial and the National level respectively, the responses were further analysed by size of enterprise. Figure 4 shows that 83%, 12% and 5% of the SMME's that experienced delayed payments at the Provincial level, were Micro, Small and Medium Enterprises respectively. Also, in Figure 4, it is shown that of the 44% of SMME's that did not experience delayed payments at a Provincial level the majority (81%) were Micro Enterprises.

At the National level, Figure 5, 79%, 15% and 6% of SMME's that experienced delayed payments were Micro, Small and Medium Enterprises respectively. In addition, of the 82% of the SMME's that were not affected by delayed payments at a national level, 83% of these SMME's were Micro Enterprises.
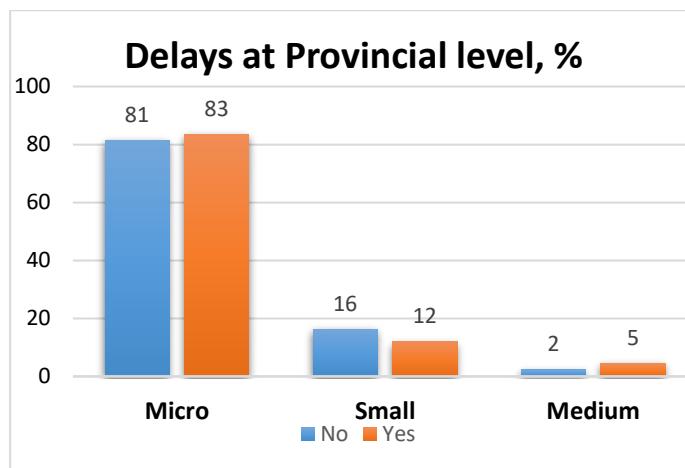

*Figure 4: Delayed payments by class of enterprise at provincial*
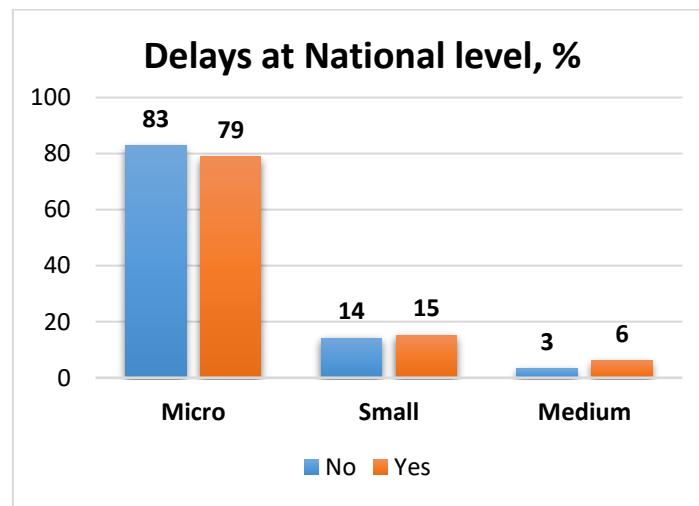
Figure 5 : Delayed payments by class of enterprise at National level

Micro Enterprises experience the greatest number of delayed payments at both the Provincial and National levels. Can it then be concluded that as a Micro Enterprise the organisation will experience more delayed payments?

Due to the lack of an equal sample size across the sizes of enterprises, the Chi-square and Fishers exact tests were administered to check whether there is any association between the size of an enterprise and experiencing delayed payments by both provincial and national Departments. Given a null hypothesis of there being an association between experiencing delayed payments at both levels of Government, the finding is that there is no association between the size of enterprise and experiencing delays, (Chi Square test for independence, p = 0.51 and p = 0.71 respectively) implying that all 3 sizes of enterprises are likely to experience delayed payments at the provincial and national levels.

Figure 6 shows that 16% of SMME's experience non-payment by provincial departments while 6% experience non-payment by national departments. Again, the responses are further analysed to determine which size of enterprise is most affected by non-payments.
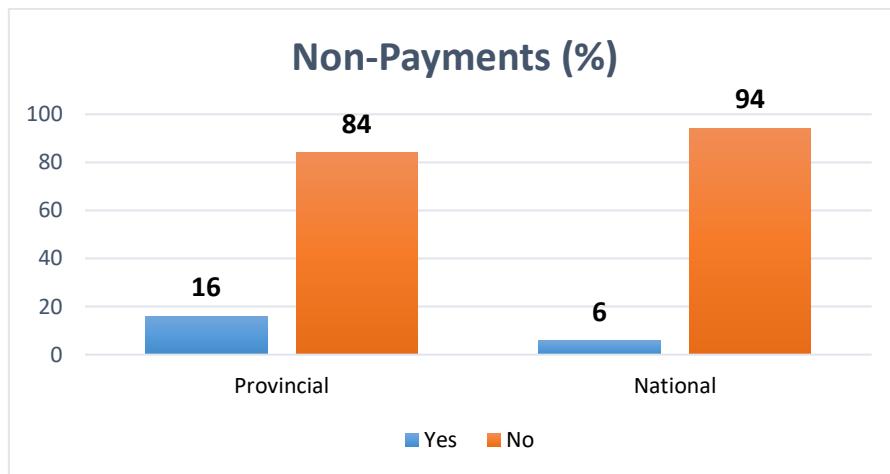
Figure 6: Non -Payments at provincial and national levels

From Figures 7 and 8, it is shown that 83%**,** and 17% of SMME's that experienced non-payments at the Provincial level, were Micro and Small Enterprises respectively. Similarly, at the National level, 90% and 10% of SMME's that experienced non-payments were Micro and Small Enterprises respectively.

There is no association between the size of enterprise and experiencing non-payments at both the provincial and the national levels (Chi square test for independence, p = 0.50 and p = 0.74 respectively). Given that all sizes of enterprises are likely to experience delayed and/or non-payments at both the provincial and national levels of government imply there is a systematic failure to process invoices by both levels of government within the stipulated 30-day period. It would imply that no policy adjustment targeting a specific size of enterprise is necessary as all 3 classes of enterprise will experience delayed and/or non-payments regardless it's size. However, the tolerance and resilience of each size of enterprise is different hence, the effects of delayed and/or non-payment on the business may vary which may warrant a policy review.

Non-Payments at Provincial level

Size	No	Yes
Micro	82	83
Small	14	17
Medium	4	0
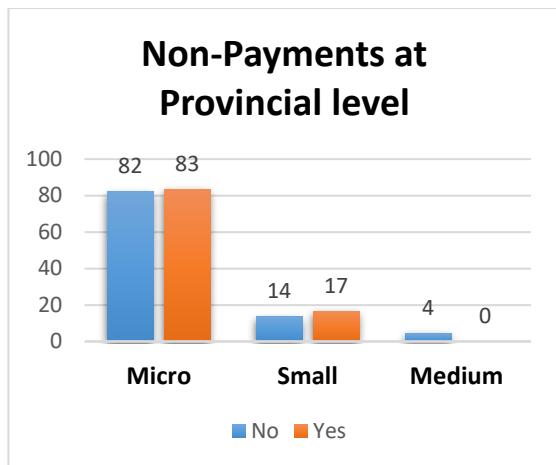
Figure 7:Non-payments by size of enterprise at a provincial level

Non-Payments and National level

Size	No	Yes
Micro	82	90
Small	14	10
Medium	4	0
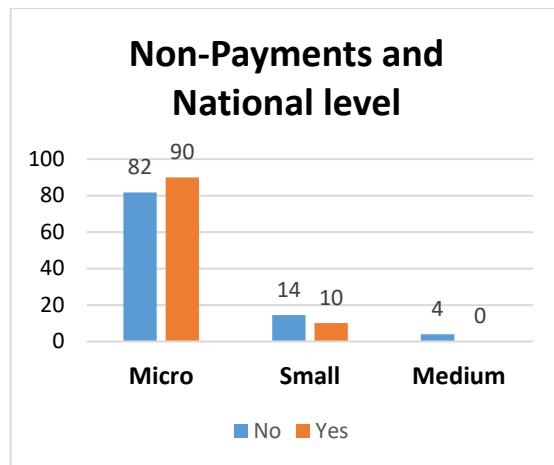
Figure 8: Non-payments by size of enterprise at a national level

The probability of encountering delayed and/or non-payments may in theory vary by Provincial location. This variation could result from the differences in the volume or spread of SMMEs, classification (rural or urban) and the general administration culture of each Province.

Delays/non-payments by Province, %

Province	%
Gauteng	41
Limpopo	6
North-West	10
Mpumalanga	8
Western...	3
Eastern Cape	11
Free State	5
Kwazulu...	15
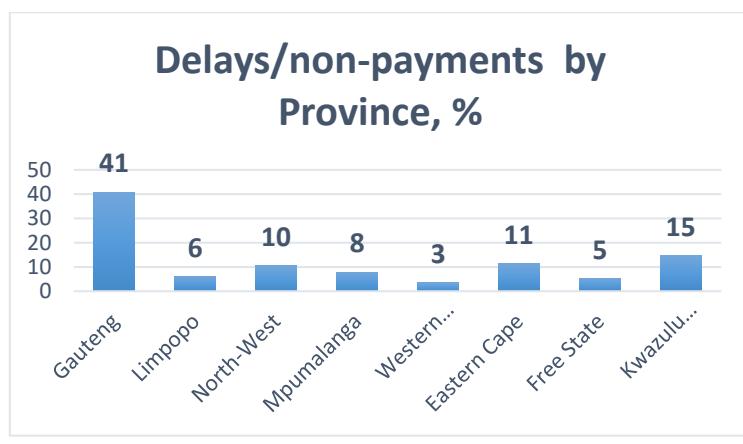
Figure 9: Delays / non-payments by province

There were no SMME's from the Northern Cape in the sample selected. Figure 9, 41% of SMMEs experienced delayed and/or non-payments in the Gauteng Province while 10% indicated the North-West Province. A study published in 2016 by the University of Stellenbosch, estimated that by the year 2015, the number of SMMEs, both formal and informal in Gauteng Province was 373 434 compared to 112 856 in the North-West Province. As such, there are considerably more SMMEs operating in the urban Provinces compared to the more rural Provinces. As the number of SMMEs operating in a Province increases it could be related to an increased probability of experiencing delayed and/or non-payments in that Province.

The Chi square test was used to determine if there is an association between provincial location and delayed and/or non-payment. The result is that there is no association between delayed and/or non-payments and provincial location (p-value of 0.95 with a 5% level of significance). There is less than a 5% chance that a delayed and/or non-payment is due to

provincial location. This means that SMMEs experience delayed and/or non-payments similarly regardless of the province in which the work was undertaken.

Encountered greatest number of delays by business size (%)
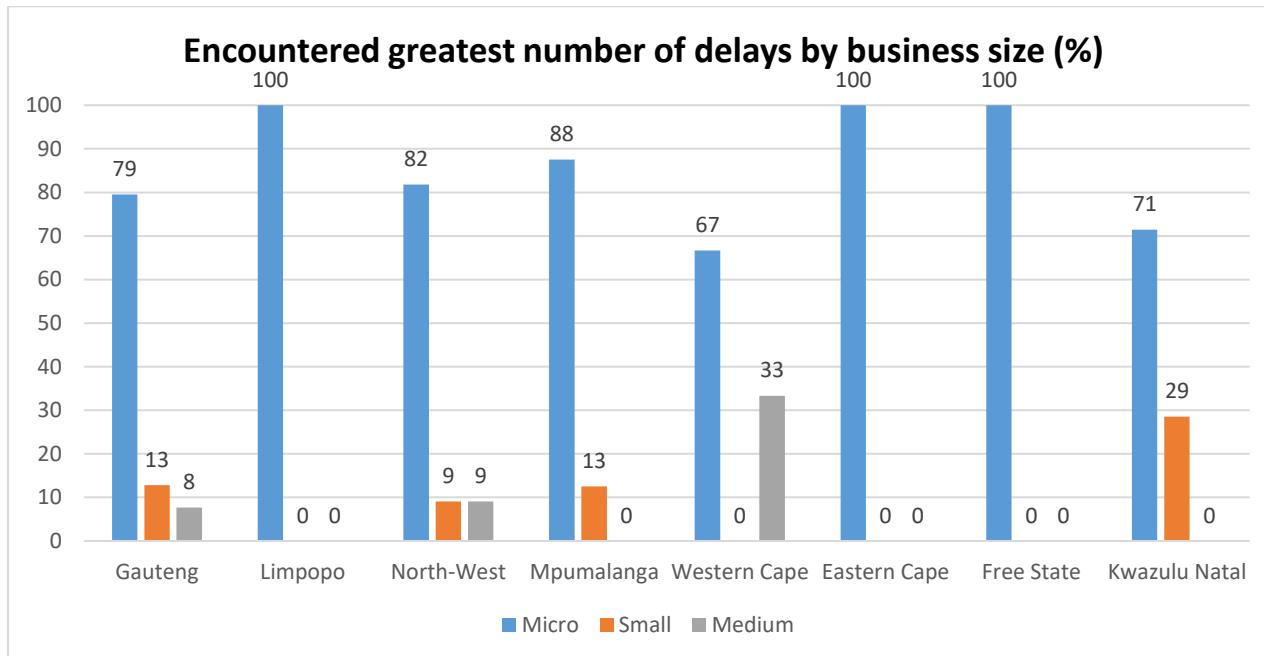
Figure 10: Delays per province and size of enterprise

Figure 10 finds that of the 41% of SMMEs that experienced delayed payments in Gauteng Province, 79%, 13% and 8% are Micro, Small and Medium enterprises respectively. 100% of the SMMEs that experienced delays in Limpopo, Eastern Cape and Free State Provinces were Micro enterprises. Once again, the Fishers and Chi-square test confirm that there is no association between the size of enterprise and Provincial location.

SMMEs experienced delays and/non-payments from several Provincial and National Departments. Within the Provinces' chances of encountering delayed and/or non-payments vary according to the Government Department. Respondents were unaware of whether a Department was at the Provincial or National level, Figure 9

The greatest number of delayed and/or non-payments rests with the Department of Health followed by the Department of Education and then Local Municipalities. This finding is in line with the DSBD, 2018/19 Sample Study on the effects of late and non-payments of SMME's in which it is stated that the Department of Health in Gauteng had the largest number of unpaid invoices.

Greatest number of delayed and/or non-payments encountered.
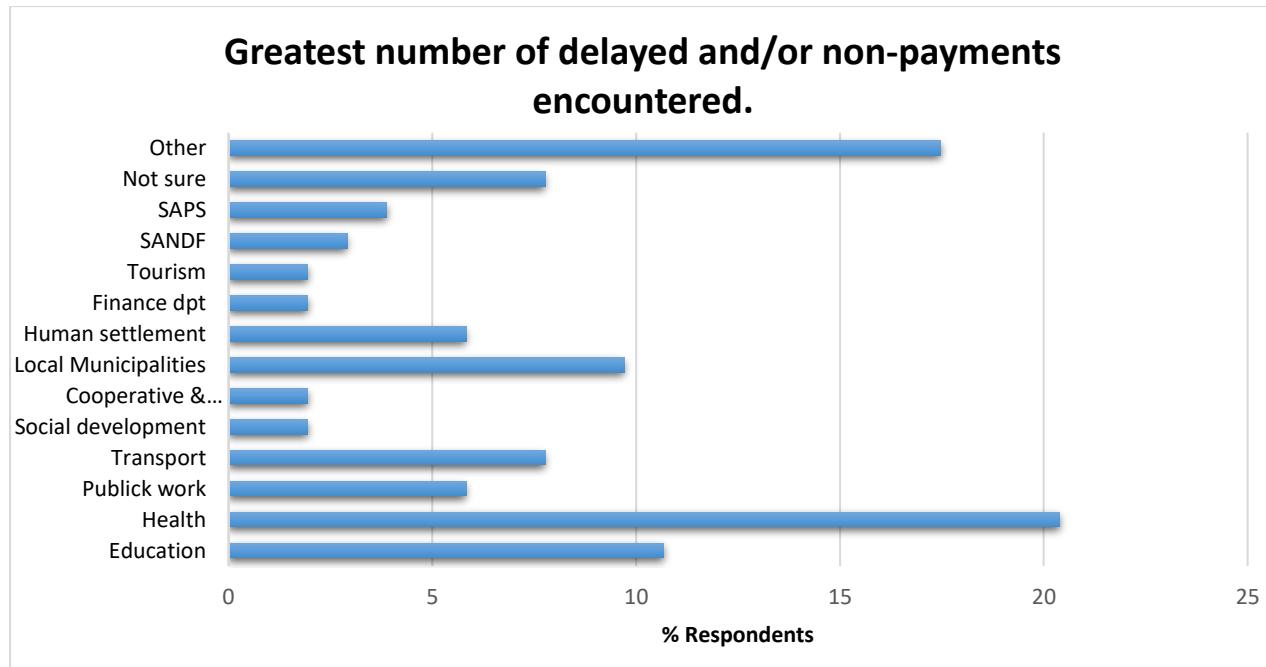
Figure 11: Provincial and National Government Department(s) responsible for delayed and/or non-payments

Other Government Departments and Institutions mentioned, though less frequently, include Eskom, the Department of Tourism, Public Safety, South African Police, Department of Correctional Services, Department of Human Settlements, Department of Economic Development, and the Department of Arts and Culture.

The few SMME's that worked with National Departments mentioned the Department of Health, Department of Public works, Department of Agriculture, South African Defence Forces and the Department of Co-operative Governance and Traditional Affairs.

From the sample of 212 SMMEs interviewed, only 96 respondents mentioned the Departments responsible for delayed and/or non-payments. The remaining respondents did not answer the question in fear of retaliation from Officials.

According to one SMME,

"I cannot disclose the government department, they will limit my opportunities of working with them or totally stop working with us."

These sentiments are congruent with the findings of a public hearing held by the Public Service Commission, in August 2015, on Government's 30 day payment compliance to service providers. During the public hearing SMME's highlighted,

"people with information feared being victimised".

The fear of victimisation was prevalent in the research, hence respondents who were uncomfortable answering the question responded as "not sure".

4.1.2   Type of Services Rendered to Government by SMMEs

Across the globe, SMMEs operate within all sectors of the economy providing a wide range of services. In South Africa, a significant percentage of SMMEs in the year 2015, operated in the Domestic, Community and Accommodation Sectors (SEDA, 2016). These economic or business sectors provide a proxy as to the services that are possibly rendered to Government by SMMEs. From Figure 112, it is noted that 35% of the SMMEs operate within the Construction Sector, followed by the Finance and Business Services Sector at 14%.

Economic Sectors, SMME (%)

Sector	Value
Others	9
Community, social and personal services	8
Finance and business services	14
Transport, storage and communications	10
Catering, accommodation and other trade	10
Wholesale trade, commercial agents and	1
Retail and motor trade and repair servi	3
Construction	35
Electricity, gas and water	3
Manufacturing	4
Mining and quarrying	1
Agriculture	2

Figure 12: Economic sectors for SMMEs Operations

Figures 13 and 14 provide an overview of the distribution of delayed and/or non-payment by size of enterprise and economic sector.

In the Agricultural Sector, 50% of the SMME's that experienced delayed payments are Micro Enterprises while the remaining 50% are Small Enterprises. In the Mining, Retail and Transport Sectors, 100% of the affected SMME's are Micro Enterprises.

Regardless of the economic sector, over 50% of the SMMEs that experienced delayed payments are micro enterprises. However, there is no association between size of enterprise and the economic sector in which the SMME operates in, as confirmed by the Chi-square test. All sizes of SMMEs are likely to experience delayed payments in all economic sector (Chi-square test for independence $p = 0.4$ and $p = 0.72$). Businesses operating in all economic sectors experience delays quite similarly regardless of the services they render to the government.

In terms of non-payments, using the Fishers exact test due to a small sample we still find no association at the 5% level of significance, between non-payments and economic sector (Fishers exact test, $p = 0.1$). However, at the 10% level of significance there may be an

association with a small chance that the Retail and Agricultural Sectors are seen to be where most non-payments are experienced, 40% and 33% respectively. From the respondents interviewed, none had encountered any non-payments in the Mining Sector.
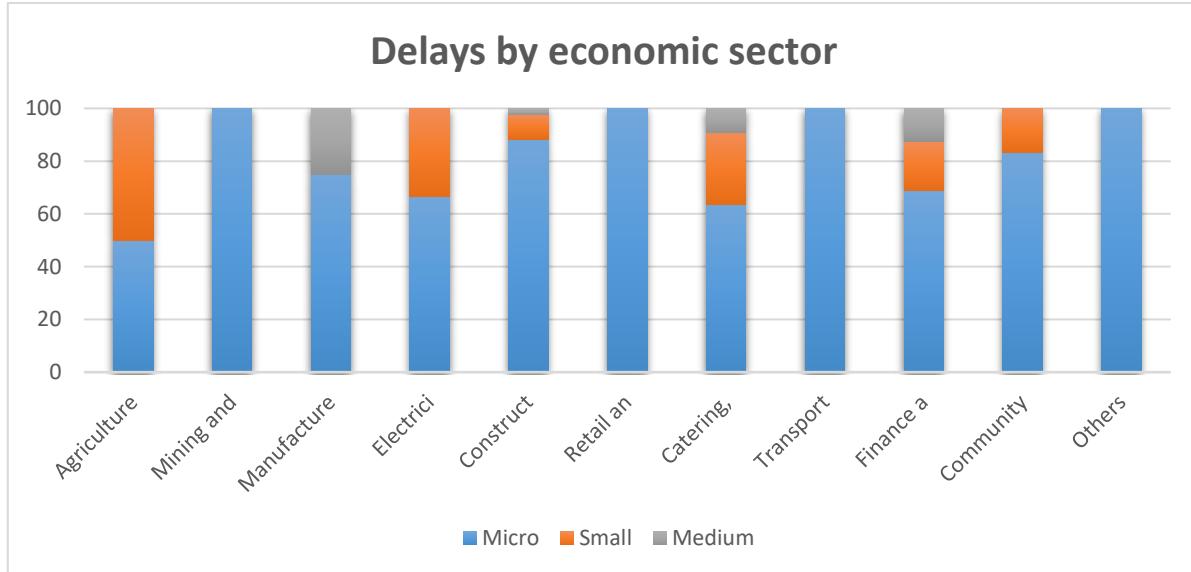
Figure 13: Delays by economic sector.

To investigate whether there is any association between business sector and the potential to experience delays we again use the Chi-square statistical tool.
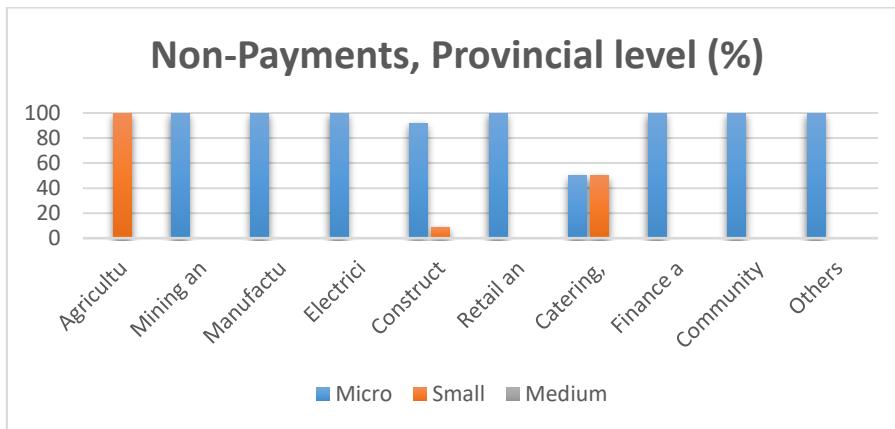
Figure 14: Non-Payments by economic/business sector

Source: Survey data.

The lack of association between delayed and/or non-payments with either the economic Sector, Provincial and National location and size of enterprise indicates a systematic failure to process invoices within the 30 days from the date of invoice.

4.1.3   Profile of SMMEs Interviewed

A total of 83% of the SMMEs interviewed were Micro Enterprises (0-10 employees), while 14% were Small Enterprises and the remaining 3% were Medium Enterprises. Companies with more than 250 employees were excluded from the survey, as these fall outside the definition of SMMEs.

Given that 83% of the SMMEs are Micro-Enterprises with at most 10 employees, it is understandable that 55% have only been in operation for a period of 1-5 years. As Cant and Wiid, 2013, and Moram and Mureithi, 2009 established, SMMEs collapse within the first 2 to 5 years. Chances of SMMEs going beyond 5

Figure 15: No of employed persons

years of being established are greatly reduced due to the challenges they face (Moram and Mureithi, 2009).

According to a Small Business Survey conducted in 2016, 76% of SMMEs that were 1-5 years old identified lack of funding and limited cash flow as the reasons that hindered their growth. Given that the number of years a company has been in operation signifies its growth, it is imperative to ensure that SMMEs stay in business longer (Moram and Mureithi, 2009). SMMEs that have been in operation for more than 10 years' account for 26% of the respondents while those with 6 to 9 years' account for 19% of the respondents. It is likely that delayed and/or non-payment of invoices will result in cashflow challenges for South African SMMEs which will negatively impact the survival of SMMEs.

Figure 16: No of years that the SMME has been in business

The research data was analysed further to establish the business sectors in which SMMEs have managed to stay in business for a longer period. More than 50% of SMMEs operating in the Manufacturing, Retail, Motor-trade and Repair Services and Finance and Business Services Sectors have been in business for more than 10 years. These sectors, particularly the Finance and Business Sector are more formal Sectors whose characteristics would explain the ability of the SMMEs to be in existence for a longer period.

The average turnover of the SMMEs, regardless of size of enterprise and economic sector in which they operate, was found to be R13.942 million. The median turnover for all sizes of

Enterprises and Sectors was R10 million. Table 6 and 7 below provide the breakdown of the average turnovers by size of Enterprise and economic Sector from the sample of respondents interviewed.

Table 6: Average turnover

Turnover, Million Rand

Size of Business	Mean	Std. Dev.
Micro	8.51	2.42
Small	37.78	25.33
Medium	43.86	23.96

For Micro Enterprises the average turnover is R8.51 million, with a smaller standard deviation compared to that of the Small and Medium Enterprises. In other words, the turnover is closer to the average when compared to the Small and Medium Enterprises with higher standard deviations.

Table 7: Average turnover by sector

Turnover, Million Rand

Business Sector	Mean	Std. Dev.
Agriculture	11.00	5.48
Mining and quarrying	26.67	20.21
Manufacturing	18.89	17.64
Electricity, gas and water	26.67	25.82
Construction	17.03	20.32
Retail and motor trade and repair services	10.42	7.14
Wholesale trade, commercial agents and allied services	20.00	0.00
Catering, accommodation and other trade	7.00	4.10
Transport, storage and communications	9.38	8.39
Finance and business services	12.24	10.57
Community, social and personal services	9.00	7.43

SMMEs in the Wholesale Trade, Commercial Agents and Allied Services Sector have on average the highest turnover at R20 million.

4.2 What is the Effect of Delayed and/or Non-payment by Government on SMMEs?

The day to day operations of SMMEs is of a business nature, meaning that there are constant transactions taking place, be it provision of services, payment of salaries or taxes and acquisition of new clients. All these transactions require steady cash flow. However, as already established, SMMEs face the challenges of delayed and/or non-payments by the Provincial and National Government Departments. The delayed and/or non-payments have varying implications on the operations of the SMMEs. Figure 17 provides an overview of the effects of

delayed and/or non-payments of invoices on SMMEs as derived from the qualitative data analysis.

Effect of Delays and non-payments
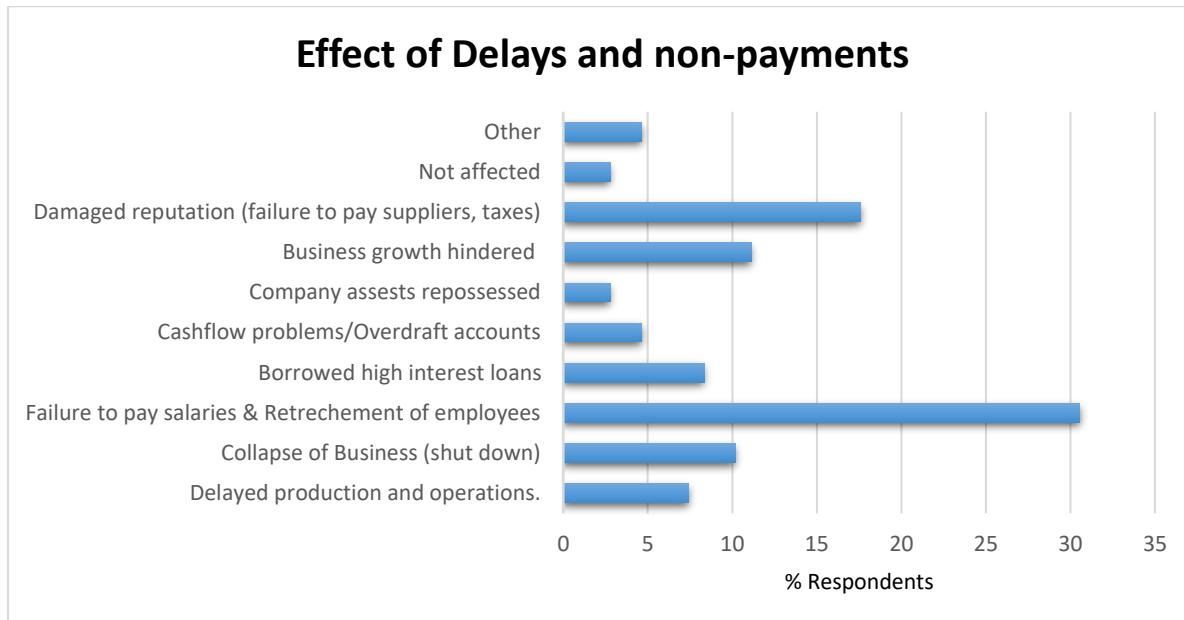
Figure 17: Effect of delayed and/or non-payments of invoices on SMMEs

The largest impact of delayed and/or non-payment of invoices is the failure to pay salaries as indicated by 31% of the SMMEs. This could adversely impact on staff morale and productivity and a knock-on effect on household income, family well-being and poverty reduction to a wider affected community. According to one SMME,

"I was unable to pay wages and I had to retrench some people".

With an already significant unemployment rate, such effects would further destabilise the economy and increase the inequality gap. According to the study by Miller, T, and Wongasaroj, S. 2017, 34% of SMMEs constantly paid their workers late. An owner of a SMME stated,

"As a business owner, a good reputation is the key to continued growth. Failure to pay suppliers or taxes lead to a damaged reputation".

Some SMMEs recorded that they used personal funds to assist with operational costs when invoices were not settled on time.

As many as 18% of SMMEs indicated that their business reputation had been damaged and this severely impacted their business. Delayed and/or non-payments by provincial and national government departments also hindered the growth of businesses and contributed to the collapse of the business. According to Miller and Wongasaroj, 2017, the nature of a SMME business is that it directs most of its capacity and resources to one Client at a time. This means that most of their income is spent on that one Client and failure of that Client to pay on time

has a crippling and domino effect on the operation of the SMME. This is by far the most worrying effect of delayed and/or non-payments as it has a direct impact on economic growth.

This view is supported by Schizas, 2015 who found that SMMEs are more likely to cut down on future investment to stay afloat. Since small businesses experience difficulties in accessing affordable finance, the idea of doing business end up being compromised because of regular activities that are supposed to be performed in keeping their businesses active and productive. Late payment can potentially depress business investment, especially in times of economic recovery and in turn reducing productivity, real wages and overall growth (Schizas, 2015).

As previously indicated, the average turnover or total revenue, regardless of business sector or size of enterprise, is R13.942 million. It has been established that anything that affects a company's production such as loss of cashflow, limited raw materials and the like have a negative impact on a company's revenue. Results of the regression of delayed and/or non-payment on turnover are presented in Table 8 below.

Table 8: Effect of delayed and/or non-payment on average turnover

Turnover (Log)	Provincial level	National level
Delays (Yes=1, N=0)	-0.054 (0.595)	0.070 (0.626)
Years in business	0.176 (0.009) ***	0.166 (0.017) **

Source: Author. Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

From Table 8, it is observed that the specified models, that includes delayed payment and the number of years the business has been operational, explains 5% (R-square) of the variation in turnover. Although the explanatory power of the model is low, there is a negative association between delayed payments at a provincial level and SMME turnover. Although the relationship between delayed payments and turnover is not significant, it cannot be ignored. Delayed payments contribute partly to a reduction in turnover, taking into account several other factors that were not part of the analysis.

This means that SMMEs that experienced delayed payments at a Provincial level are likely to experience a decline in the turnover of their company. The association between delayed payments and turnover is in line with the findings of several other studies.

At times, some SMMEs, 7% took legal action against Provincial Departments. In 17% of the cases, the cost of the legal action surpassed the value of the unpaid invoice while 83% of the SMMEs had to pay legal costs ranging from 0-25% of the total invoice amount. There were no cases of legal action taken against a National Department. It was found that 57% and 43 % of the SMMEs that took legal action were Micro and Small Enterprises respectively, while no

% Spent on litigation

- 0 to 25% of invoice amount.
- >100% of invoice amount.
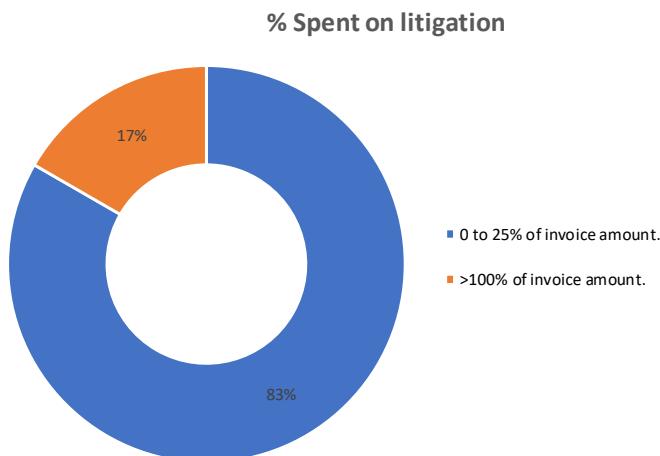
Figure 18: Proportion of invoice cost spent on Litigation.

Medium Enterprise had taken any legal action. This could be because Medium Enterprise have more resources and are able to withstand the effects of delayed payments.

Bearing in mind that 57% of the SMMEs that did take legal action were Micro Enterprises, it can be concluded that delayed and/or non-payments have placed an extra financial burden on a size of

Enterprise that has the least resilience to deal with unforeseen costs.

Apart from the litigation costs, there are other costs such as, time spent chasing payments that could otherwise be used productively. The time spent following up on delayed payments is further exacerbated by the frequency of encounters with delayed payments.

In the main, 56% of SMMEs experienced less than 3 delayed and/or non-payment while 22%

encountered more than 10 delayed and/or non-payment, in the last 24 months. Experiencing this number of delayed payments over a relevantly short period of time is likely to have a detrimental impact on the efficiency and effectiveness of the business and thereby its growth. According to Hopkins and Richmond, 2017, a month delay in payment would reduce capital spend by 1.2% and could lead to reduced profitability for as long as five years thereafter.

Times SMME encountered delays, %

- 0 to 3
- 4 to 7
- 8 to 10
- > 10
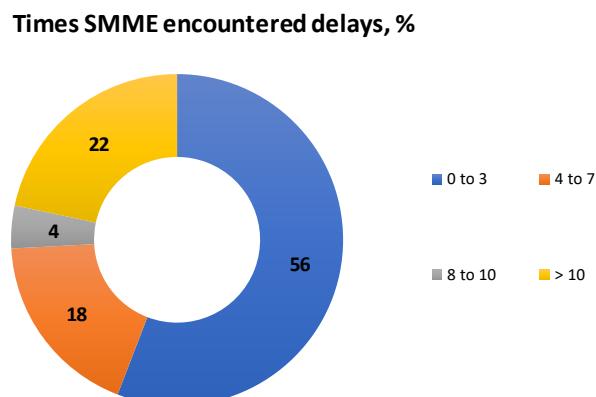
Figure 19: Number of times SMMEs encountered delays.

Average delay in payment (days)
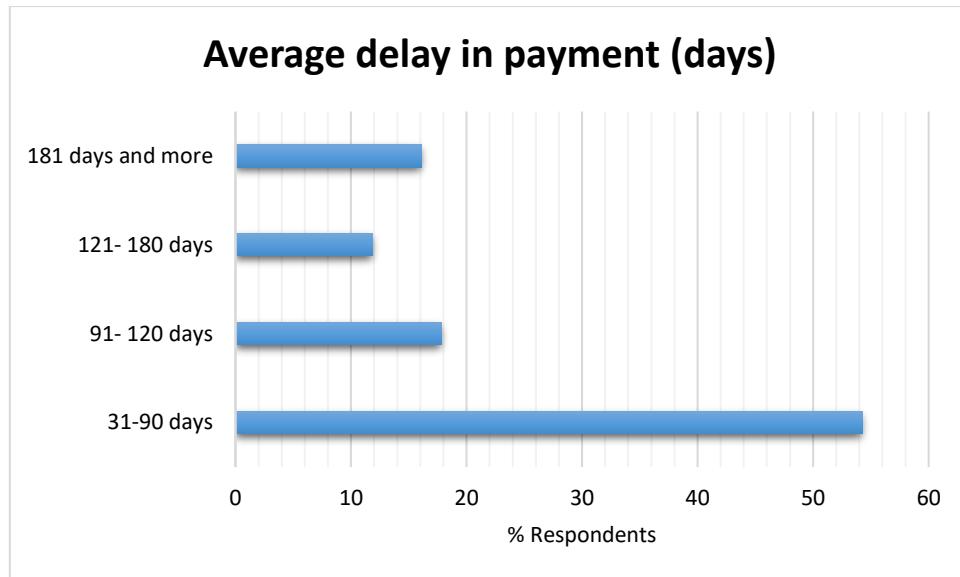
Figure 20: Waiting time, days

From Figure 20, it is observed that 54% of SMMEs waited between 31 to 90 days for invoices to be settled. At worst that is 3 months, which according to Hopkins and Richmond (2017), then implies that 3.6% of capital spend is directed away from the business. This is likely to have a substantial impact on the long-term growth and longevity of the organisation.

While the majority of SMMEs are paid between 31-90 days, 19% waited an average of 91 to 120 day, 12% waited between 121 to 180 days and 16% had to wait over 120 days to be paid. Such delays may deliver the final blow to the survival of an SMME. According to a Fintech company offering digital invoice financing to small business suppliers, SMMEs lack bargaining power when dealing with established businesses and government.

"Given their size, SMMEs cannot afford to ruin these relationships – even when payment is pushed out by as many as four months. "Every late payment has a material impact on a small business. Salaries don't get paid, raw materials can't be purchased, and fewer new projects can be taken on".

24% of SMMEs, Figure 21 below, worked for Provincial or National Government as a sub-contractor and of these SMMEs, only 25% experienced delayed and/or non-payments because the main Contactor was not paid on time.

Subcontracting

25%
24%
76%
75%

■ No
■ Yes
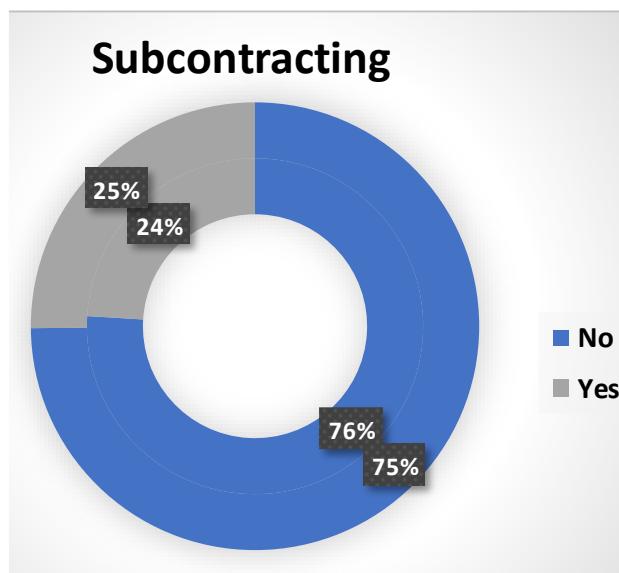
Figure 21: Delays for subcontractors

SMMEs are at times asked to resubmit their invoices for their payments to be processed. As many as 55% of SMMEs were asked, in the last 2 years, to resubmit invoices before payment was made. There are numerous reasons for the resubmission of invoices as illustrated in Figure 23 below.

Asked to resubmit Invoice

45%
55%

■ Yes
■ No
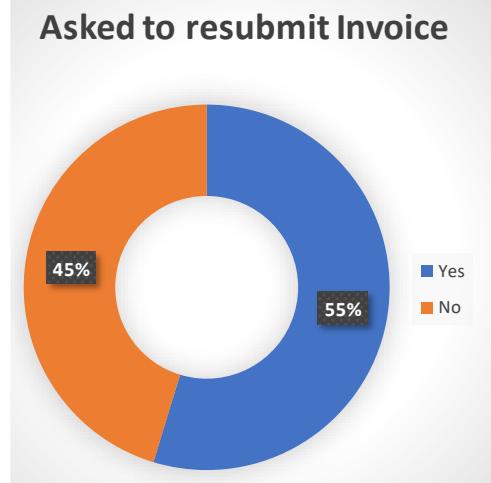
Figure 22: Requests for Invoice Resubmission

Reasons for resubmision of invoice

- Misplacement of invoice
- No reason Given
- Change of contact person
- Unclear Invoice/outdated information on invoice.
- Did not understand question

34%
11%
6%
34%
15%
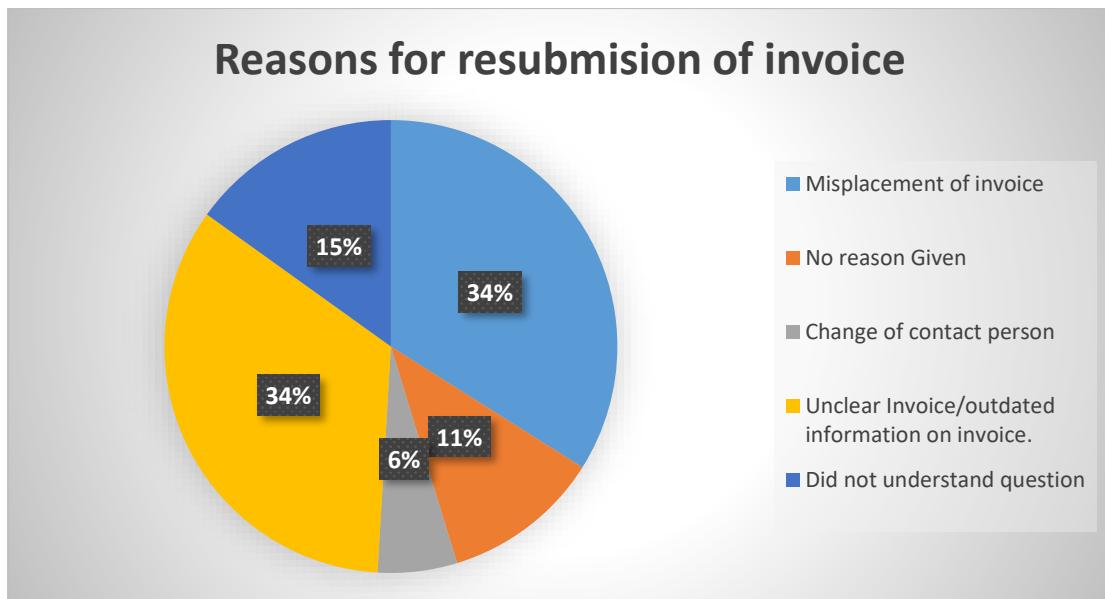
Figure 23: Reasons for resubmission of invoices

Some SMMEs mentioned that delayed payments are a result of late submission of documents, no closure certificates or not submitting the appropriate accompanying documents. However, 34% of respondents indicated that their invoices had been misplaced by the relevant Government Department while another 34% indicated that they were informed that the invoices were either unclear or had outdated information. The Public Sector SMME Late Payment Hotline also indicated that invoices were at times misplaced and at times unclear. This would prompt the Government Department to request for invoices to be resubmitted. However, the Hotline also established that SMMEs were asked to re-submit invoice because documents were incomplete or with incorrect details. If issues were resolved through continued awareness of the information required and if a login system for invoices was available to track payments, it would benefit both Government Departments and SMMEs. High staff turnover at Departments also resulted in delayed processing of invoices. One SMME claimed,

"the person I initially worked with on processing my payment changed and then I had to start all over again with the submission of invoices and waiting for payment".

Findings from the Public Sector SMME Late Payment Hotline confirmed that there is a lack of continuity within Government Departments. Officials are continuously moved from their post and this affects the payment processing cycle. The Hotline suggested that a handover system should be initiated, regulated and monitored at both the National and Provincial levels. This points to poor administrative capacity to process and follow-up on invoices, with a negative bearing on administrative justice for the SMME sector.

Another SMME stated,

"We are asked to re-invoice when they are outside the 30 days, then we are asked to change the date and submit a new invoice but nothing else on the invoice has changed".

A surprising number of SMMEs, 15% did not understand the question because, they did not know that they could invoice after a service was provided. Instead, the 15% of SMMEs waited for the department to let them know when funds were available to process payment and only then were, they allowed to issue an invoice. Many SMMEs are of the perception that the government uses them as a buffer to get work done even though it knows that it does not have the budget to pay. SMMEs are less likely to complain while larger more established companies have the resources to hold Government to account and levy interest on all late payments. As of 2017, the Government owed SMMEs at a total of R4.3 billion in unpaid invoices (Fin24, 2019). This finding is congruent with that of the Public Sector SMME Late Payment Assistance Hotline Report in which it is indicated that one reason for delayed payments was lack of funds within the Government Departments. Overall budget planning aligned to deliverables and targets need to be address by government.

Below, is a summary of potential effects of delayed and/or non-payment of invoices on SMMEs. The effects were mentioned by SMMEs interviewed as well as the findings of other studies:

Table 9: Potential effects of delayed and/or non-payment on SMMEs

Thematic Analysis	Findings	Potential Intervention Strategies
Reduction in business investment, trade, business growth and expansion and participation in the international market.	Time spent on chasing invoices, re-issuing of invoices and having to write off unpaid invoices as bad debt, has a debilitating consequence on SMMEs, the sector's growth as well as a secondary retarding effect on the growth of the economy.	Streamlining government procurement processes and prioritisation of payments to SMMEs because of their limited working capital.
	According to Fjose et al (2010) Africa's export of manufactured goods has increased, but on a much lower scale. Due to negative impact on international exports because of late payment, SMMEs are forced to operate on cautious transactions due to international risks. The longer SMMEs wait for payment, the lower the level of investment they make. A month delay in being paid would reduce capital spend by 1.2% and could lead to reduced profitability for as long as five years thereafter (Hopkins & Richmond, 2017). As asserted by Bhorat and Tarp (undated) Elements of the business environment, such as the time it takes to set up a business and get electricity and access to credit, all remains critical areas that needs reform. All these factors point toward an environment that is not fully conducive to the start-up and operation of efficient small, micro, and medium sized enterprises (SMMEs), as well as a thriving informal sector. This is, no doubt, one of the contributing factors to the low productivity of the manufacturing sector in Africa.	Strategies to be put in place to protect SMMEs and pave a way for their participation in the international market. Assist SMMEs to strengthen linkages with global partners. Increase information streams on the participation of SMMEs in the global market.
Business interruptions	Paying their own suppliers late creates a knock-on effect, reason being that the suppliers themselves also rely on the incoming money to pay their own bills which according to Schizas (2015) costs suppliers in multiple including costs associated with the financing of working capital, forgone interests on cash reserves, administrative costs associated with collections and recoveries, work passed up and substantial distraction for business staff and managers. Late payments to SMMEs has a knock-on effect in causing further invoices to be paid late which in many cases may be late payment to other SMMEs.	Setting up concessional loans and funding guarantees specifically for SMMEs in case of delayed payments to guarantee their liquidity position and continuity of business processes.

Thematic Analysis	Findings	Potential Intervention Strategies
	When SMMEs are unable to honour payments, suppliers lose trust in them making it impossible for SMMEs to grow and develop.	Streamlining government procurement processes and prioritisation of payments to SMMEs because of their limited working capital.
	Late payments sometimes mean that staff are paid late resulting in a decrease in production and staff motivation. Also, late payments disrupt the backward and forward linkages between potential suppliers and the value chain is affected.	
	Top management having to reduce their salaries to keep money within the company results in a loss of personal income to fund business continuity.	
	Some SMME's are likely to have to draw down any reserve they have for staff bonuses. They may even have to reduce staff commission or worse, delay the payment of staff salaries to keep the business going in the event of an imbalance between income received and outgoing payments (Miller and Wongasaroj, 2017:6).	
	Taking legal action to ensure payment places an additional financial burden on the enterprise given that in some cases more than 100% of the invoice value is spent on litigation. Also, time is diverted away from growing the business.	Policy consideration for the provision of claiming interest, at a fixed rate, on delayed payments as well a fixed amount for compensation for recovery of costs and consideration of a more efficient and effective dispute resolution mechanism than through the courts.
Socio-economic implications	The use of personal funds for operational costs when payments are delayed has a larger socio-economic impact than just the enterprise.	Streamlining government procurement processes and prioritisation of payments to SMMEs because of the unintended impacts.

Thematic Analysis	Findings	Potential Intervention Strategies
Budget Planning	In some instances, SMMEs fund government expenditure until government has the budget to release payment.	Governments overall budget planning must be aligned to deliverable and targets

It was not possible to model other variables to give a richer and more in-depth understanding of the effects of late payment due to limited information because participants were unwillingness to provide information.

Economic growth and reducing the unemployment rate are among the 7 key priorities identified by President Cyril Ramaphosa. Given the impact of delayed and/or non-payment on SMMEs, it is imperative to address the issue immediately to reduce the knock-on effect on the economy and employment.

4.3 What are the Outcomes on the Livelihood of those Directly and Indirectly Affected?

Delayed and/or non-payments not only affect the companies but also those who are directly and indirectly associated with the company. These individuals range from employees and their families, the business owner, and their family and the wider society as there are trickledown effects. Ninety-four percent of respondents indicated that delayed and/ non-payments had social implications particularly with regards to their well-being. The main effect identified by 33% of the respondents, was the failure to support their families. As a result, their family relationships were strained. Business owners were failing to pay school fees, rent and some of their accounts on time. Some indicated that they were unable to provide food for their families. Due to the failure to pay employees, the working relationship was strained. These issues put a strain on personal relationships with family and friends causing unnecessary stress and anxiety, which may eventually result in health issues. All these effects are interlinked, and they spur from delayed and/or non-payments. Social outcomes identified and grouped under 'Other' include having to deal with scrupulous individuals such as loan sharks which would eventually lead to business owners being attacked due to failure to re-pay loans on time.
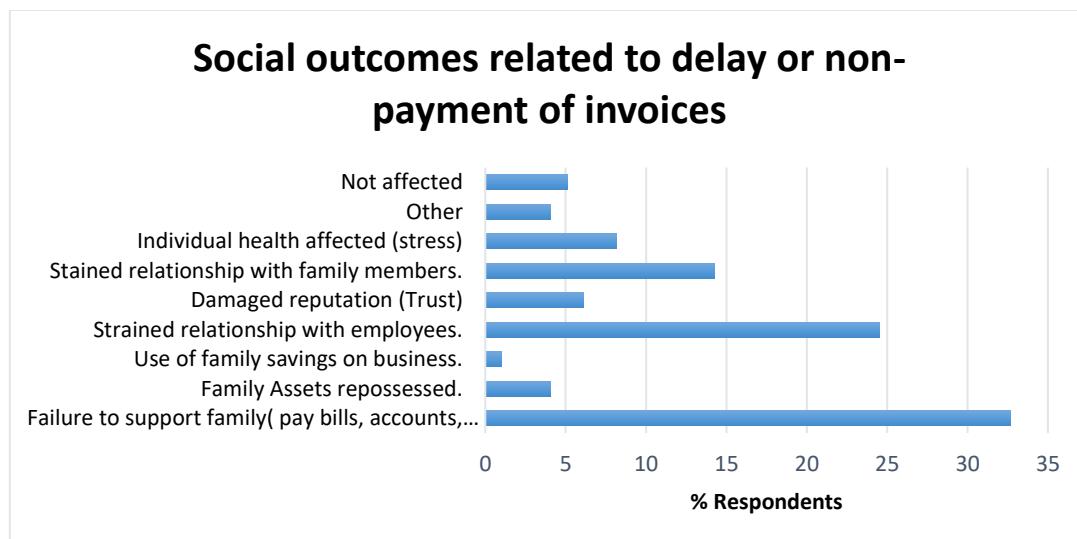

Figure 24: Social outcomes due to delays and non-payments

4.4 Outcomes for Delayed and/or Non-payment

In the Presidential Jobs Summit Framework Agreement, an outcome of Presidential Jobs Summit held in October 2018, the government and its social partners – business, labour, and civil society – acknowledged the crucial role played by SMMEs in the country's economy and

proposed a number of interventions aimed at stimulating and supporting these enterprises. Small businesses form part of the backbone of a thriving society. Although estimates of the contribution made by SMMEs to the economy vary, the Department of Trade and Industry estimates the number of SMMEs in South Africa at 2,8 million and their contribution to employment at 60% and contribute 52% to 57% to GDP. Further, the National Development Plan projects that by 2030 no less than 90% of new jobs will be created in small and expanding firms.

To understand the impact of delayed and/or non-payments on the economy, the impact on the micro-level and the causal links to the macro level and how it contributes to the economy were investigated based on the literature reviewed. At a micro level, the day to day business decisions taken by SMMEs include decisions to take on a new client, how many staff to hire and how to maximise production and capacity. These decisions are mainly influenced by the businesses' cash flow and as already established, delayed and/or non-payments affect the cash flow of SMMEs. Respondents indicated that they had to retrench staff, not take on new business, not pay taxes and to delay production. The question is then, 'how do such decisions affect the country's economy as measured through GDP? Individual decisions taken by SMMEs affect the production output of a country and by default the performance of GDP as it is a function of total production and consumption in a country (McConnell et al, 2009).

The findings of this study has established a causal chain that contributes to the performance of the economy. Delayed and/or non-payments result in business owners failing to pay workers and retrenchment of workers. Both retrenching and not paying workers have a ripple effect on the production time and delivery of services to Clients. A reduction in production contributes to a decrease in GDP growth. Delayed and/or non-payments result in SMMEs failing to deliver goods and services on time. This had been found to affect the reputation of the company. Trust is a requirement in any business and social transactions therefore the loss of trust results in failed business transactions, lost Clients and possible investment opportunities. Delayed and/or non-payments have been found to mainly impact a company's ability to invest in future business growth and often they fail to pay their suppliers (Miller & W, 2017, Baily, 2019). Limited business growth is not good for the economy. As SMMEs are seen to be the key drivers to sustainable economic growth (OECD, 2019), such constraints that limit business growth should be addressed. A slight delay may seem insignificant at face value, but along the chain of events, it is very costly to the company and eventually over time, to the economy. In Germany, SMMEs claim interest of 8 to 9% above the European central bank for any late payments, and in case the SMME is conducting business with the public health service, no exceptions are given for late payments (Baily, 2019). In Japan incidents of late payments by government are limited, however, if they happen to occur, SMMEs may charge

an interest of 6% on the principal if the government is found to be responsible for the late payment (Baily, 2019).

Understanding how many enterprises progress from micro to small to medium to becoming larger corporates could be another indicator of economic growth and hence be further investigated to supplement the findings in this study.

4.5 How Does Delayed and/or Non-Payment within 30 days' Impact on Business Relations with Government?

While some SMMEs have developed risk mitigation strategies to assist, when conducting business with the government, due to the foreseen delayed and/or non-payment of invoices, 35% of the SMMEs, have no coping mechanisms. The SMMEs with no mitigation strategies are at the mercy of Government Departments settling invoices on time which affects their relationship with Government. The marginalised SMMEs are likely to have a relationship of gratitude with Officials, a relationship based on such an imbalance of power, is an unhealthy relationship. Delayed payments have unintended consequences such as fraud and corruption. Some SMMEs are rationalising fraud as a result of delayed payments. According to an article by Mongie, 2009, fraud occurs when there is an incentive or a rationalisation to commit fraud. Corruption counteracts growth and if SMMEs must resort to a corrupt relationship with Government Officials to have payments processed, it would be detrimental to the economy.

Figure 25 provides an overview of the strategies adopted by some SMMEs in South Africa.
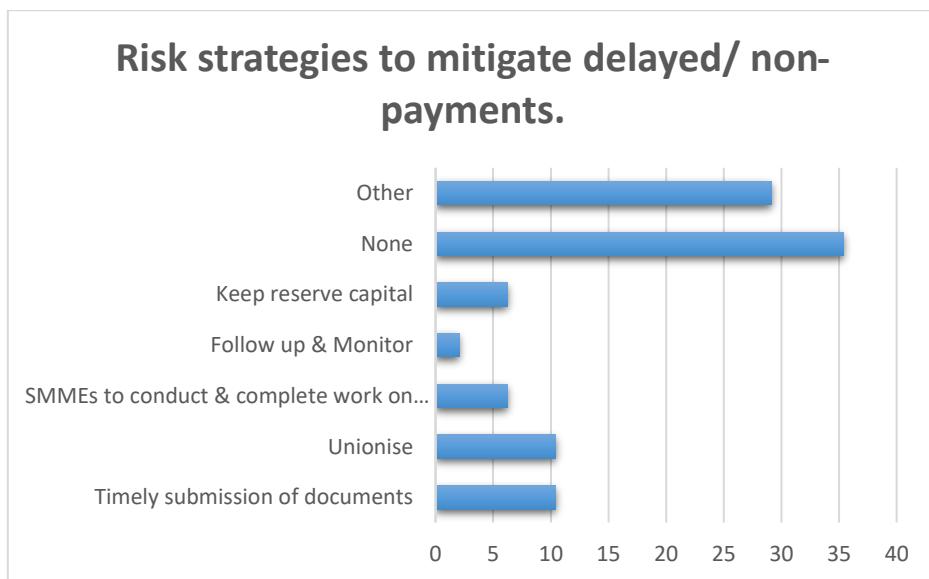

Figure 25: Risk Strategies to mitigate against delays and non-payments by Government

Respondents indicated that some delayed payments were a result of them not understanding the requirements upfront. Hence, to reduce the risk of a delayed payment and to improve

working relations with Government Officials, some SMMEs produce proforma invoices for review. This approach does not always work as some Officials consider this additional work for them.

The SMMEs that can afford it, keep capital reserves as one way to mitigate the risk associated with delayed and/or non-payments. SMMEs are often advised by their personal banker to set aside funds in the case of such unforeseen emergencies, however this is not always practical. Often due to the number of outstanding payments, capital funds are depleted well before the Government processes the payment. Capital funds are often reserved for future investment, hence depleting them directly affects business growth (Baily, 2019). Chimucheka, 2013 states that capital is one of the essential components needed for business growth, coupled with planning and control of business activities.

SMMEs declared that completing work on time is one way of ensuring that payments are made on time and in maintaining a healthy working relationship with Government. According to respondents, the quality of work is an influential factor in the payment period. However, they also indicate that the quality of work output is compromised by delayed and/or non-payments due to a lack of working capital to acquire necessary equipment and raw materials. This directly compromises the quality of services.

Some SMMEs have taken a different view in that they believe it's not their job to develop mitigation strategies, instead it's the responsibility of the government to ensure that there are strategies in place to protect them against delayed and/or non-payments.

29% of the SMMEs mentioned various coping strategies including, having a company payment policy that asked for a deposit upfront before starting any business. This ensures that they have funds available for use in the project and that they are not required to dip into their own savings. Some business owners indicated that they relied on bank overdrafts to sustain their business when they encountered delayed and/or non-payments. Many SMMEs only tender for government work that will not impact on the company's financial resources hence, the size of the tender is the determining factor on whether they work with Government or not. In other words, to limit the impact of delayed and/or non-payment on their company, business owners are less likely to tender for big contracts. This approach limits their ability to grow and it limits the number and competitiveness of proposals received by Government.

Another risk strategy discussed under 'Other" in Figure 25, is to overcharge Government for services rendered to make up for the anticipated delayed payment.

Although SMMEs did not overtly state that they have strained relationships with Government Departments, 44% believe that National and Provincial Government is aware of the effects of delayed and/or non-payments on SMMEs and choose to do nothing because they do not care

about the negative effects on their businesses and livelihoods. The remaining 56% believe that if Government knew the impact of delayed and/or non-payment of invoices they would strive to pay within 30 days.

Only 12% of SMMEs that took legal action against a Government Department, for late payment, indicated that their working relationship with that Government Department was affected. The remaining, 88% of SMMEs indicated that their working relationship with Government was not affected despite taking legal action to seek settlement of unpaid invoices.

The Public Sector SMME Late Payment Assistance Hotline Report indicated that delays in payments are partly due to the negligence of SMMEs and are not wholly the fault of Government Departments. Some reasons for delayed payments captured by Late Payment Assistance Hotline include the submission of incomplete documents or the late submission of documents. These were the two main reasons for invoices being settled late. Submitting incomplete documents resulted in SMMEs being asked to resubmit their invoices and this tends to increase the time between job completion and payment of SMMEs. Government Departments stated that some SMMEs failed to complete their work in time while simultaneously requesting to be paid. Failure to adhere to the project timeline often leads to rushed work especially when payment is needed within a certain time frame. This results to sub-standard work and is considered a violation of contractual obligations. Hence, payment is deferred, delayed or withheld until such time as the work is completed according to the agreed upon terms.

From the Hotline, it is surprising to note that certain Departments indicated that delayed and/or non-payments of invoices is due to budget constraints. One would expect that contracts fall within specific budget lines and timeframes and are awarded based on the available budget. Due to the unavailability of funds to pay businesses, invoices are not processed until funds are available which could take some time. Finally, the Departments indicated that staff turnover and reshuffling of Department Officials contributes to delayed payments. The findings of this research study aligns with the findings of the Public Sector SMME Late Payment Assistance Hotline Report and the DSBD, 2019 Report on the challenges influencing delayed and non-payment of SMME's and Co-operatives by the Public Sector.

4.6 What Provisions Should be Made in the National Small Business Act (No 102 of 1996) for Addressing Non-Payment within 30 days?

The National Small Business Act (No 102 of 1996) (NSBA) stipulates that an annual review by the Minister of Trade and Industry must indicate the progress towards promoting the objectives of the National Small Business Strategy. The National Small Business Strategy

indicates the need for an Accelerated and Shared Growth Initiative in South Africa (AsgiSA). AsgiSA has several focus areas one of which is to ensure that SMMEs that work with government do not experience cash-flow problems. It stipulates that there should be timely payment of SMMEs, and that constant monitoring should be done (DTI, 2008). As established by the National Treasury, timely payment entails payment within 30 days of receipt of the invoice. Figure 26 provides an overview of SMMEs sentiments towards the NSBA. Monitoring systems at departmental levels need to be strengthened and audit processes need to be able to identify or track the problems better.

Some SMMEs, 17% would like the NSBA to include measures to address the perceived lack of accountability and corruption in Government Departments when settling invoices. However, 24% of SMMEs believe that the Act adequately addresses Governments expectation of payment within 30 days and that the current problem is a result of a lack of proper administration, implementation and enforcement of current policies rather than a lack of policy and legislative guidance.

According to one SMME,

"a series of events take place before payment can be processed in a Department, if any part of the process does not work optimally, the whole chain collapses resulting in delayed payment of invoices. If the administration is the weak and non-functioning link, it must be dealt with. Punitive measures and means to track the progress of payments need to be specified to curb delayed payments".

Addressing problem of delayed &/ non-payments

- Accountability & Corruption
- Decentralise payment system
- Administrative problem (not policy)
- Employ qualified staff, new management,hire more staff
- New payment strategies
- Other
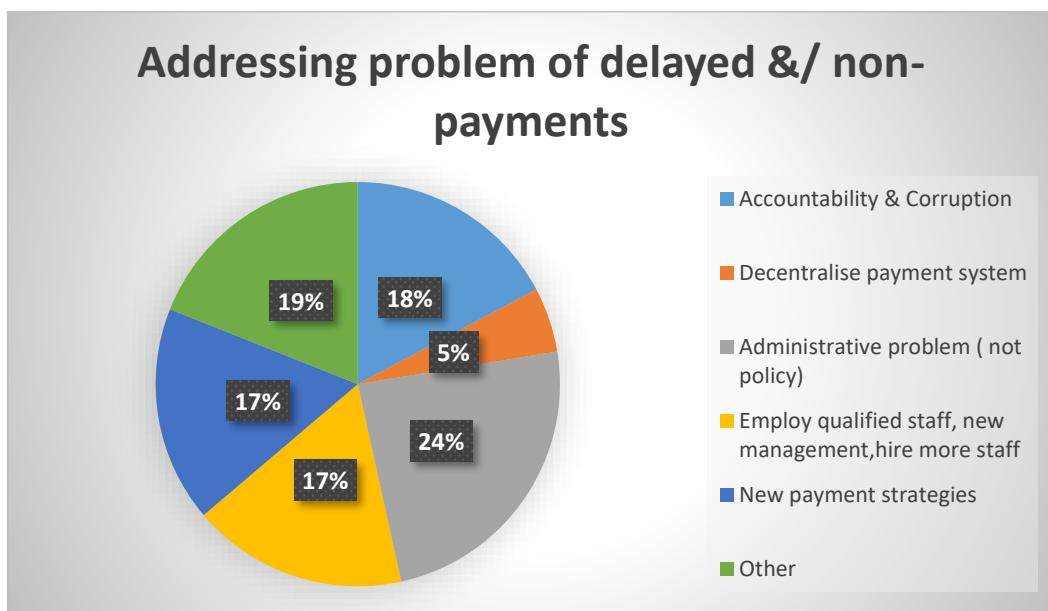
Figure 26: Ways National Government can address the problem of delayed and, or non-payment of invoices.

The suggestions made by SMMEs to improve the current payment of invoices has little to do with amending the NSBA and more to do with better processes.

5% of SMMEs are of the opinion that decentralisation of the payment system and employment of more staff to assist with processing of invoices would improve the current system. 19% of SMMEs made various other suggestions including a need for Management to be proactive and involved in resolving delayed payments. Some respondents indicated that the number of days required for Departments to process payments must be reduced from 30 days to 7 days. In that way the possibility of invoices being misplaced and invoices sitting on the desks of Officials unattended could be avoided. Further, one business owner indicated that the processing of invoices should be privatised to improve efficiency and streamline the process.

18% of SMMEs would like to see accountability at Departments for delayed payments and that Treasury should investigate the causes of poor administrative processes at both Provincial and National levels. Many SMMEs simply expect Government to enforce the current policy on payment within 30 days of receiving an undisputed invoice.

Developed countries within Europe and Asia such as Germany and Japan have managed to resolve the problem of late payments. The European Union introduced Contractual terms in its policies to discourage delayed payments. These Contractual terms included setting a realistic period in which payments are to be made. The payment period considers the actual time it takes officials to process an invoice from receipt to release of payment. Even though the timeframe may be more than 30 days, payment is made within the period and SMMEs can plan their operations knowing they will get paid on time. Other policy provisions include claiming interest, at a fixed rate, on delayed payments as well a fixed amount for compensation for recovery of costs. The study by Ansah, (2011) recommended that levies should be introduced on overdue payments and government departments that fail to pay on time are penalised by the Treasury.

5 CONCLUSIONS

The research has shown that there is a problem of delayed and non-payment of invoices at both provincial and national levels of government. However, SMMEs doing business with provincial departments experience more delayed and non-payments than SMMEs doing business with national departments.

Delayed payments are encountered quite similarly in all provinces and across all business sectors. Delayed payments are also encountered similarly by all sizes of enterprises within the different business sectors. The location, size of enterprise and economic sector has little to do with delayed and/or non-payments, instead the problem lies with the government departments. SMMEs that have been in existence between 1-5 years are the most vulnerable to the effects of delayed and non-payments. Current policies should consider additional support for SMMEs that have been in operation for less than 5 years.

The impact of delayed payments on average turnover at a provincial level was found to be negative, meaning that for those SMMEs that are affected by delayed payments, their average turnover/revenue is likely to decline. Hence, the processing of invoices at provincial departments should be prioritised.

Given that the processing of payment is a system on its own, systems thinking should be employed. Each part of the system especially the administration and awareness raising should be scrutinized. Hence, steps need to be taken by government to address administration as the consequences to delays and non-payments are detrimental to the overall growth of the economy which has a direct impact on the country's GDP.

The social impact of delayed and non-payments was found to be negative, encompassing a wide range of people from workers and their families to business owners and their families and to other SMMEs. The impact on SMMEs was also found to be negative and had the potential to foster fraud and corruption. Overall, the impact of delays on the socio-economic outlook of SMMEs is negative. SMMEs are deterred from tendering for government work because they expect to be paid late, resulting in limited competition.

In conclusion, noting that 56% of SMMEs, the majority of which are micro enterprises, were impacted by delayed payments there are negative compounding effects on the inequality index, unemployment rate and economic growth. These effects are too large to be ignored. Government should take effective measures to enforce the 30-day policy and ensure that there are repercussions even unto itself for the failure to pay within the agreed-upon time.

6 RECOMMENDATIONS

6.1 Recommendation 1: Strengthening Monitoring Processes and Better Enforcement of Current Policies at Provincial Government

The findings of the research point to delays and/or non-payments being a result of the failure of the payment system to function according to set regulations and procedures at provincial level. A systems approach should be applied to existing monitoring and enforcement processes to identify bottlenecks in the implementation of current policies. There should be accountability for the lack of implementation of the 30day payment policy.

6.2 Recommendation 2: Development of a System Value Chain

The evaluation undertaken by the DSBD on Challenges Influencing Delayed and/or non-payment of SMMEs and Co-operatives, 2018/2019 recommended that a system value chain is developed. SMMEs found that there are differing requirements for the submission of invoices which could be a result of the lack of cohesion between finance and supply chain units within Provincial and National Government Departments. The findings of this research study support the recommendation of the DSBD Study. The system must identify the role players and the timelines assigned to each party in the payment process to improve efficiency and accountability. The System should consider an invoice tracking system to lessen the burden on SMMEs following up on payments.

6.3 Recommendation 3: Contracts by Government Departments Should be Validated and Approved based on the Availability of Funds to Pay Contractors

15% of SMMEs interviewed did not realise that they could invoice for services provided because Department, would tell them when to invoice. The SMME only invoiced when the Government Department confirmed there was funds available to process payment.

This finding is supported by the Public Sector SMME Late Payment Hotline that found some delayed and non-payments are a result of the lack of funds to pay SMMEs. As of 2017, the Government owed SMMEs at a total of R4.3 billion in unpaid invoices to SMMEs (Fin24, 2019). Contracts should only be awarded based on the available budget for a given financial year.

6.4 Recommendation 4: Research on the Impact of Delays and Non-Payments on Women Owned Organisations

The current study failed to take cognisance of the impact of delayed and non-payments on women owned organisations. The literature research has shown that the impact on women owned organisation can be dire however this research did not disaggregate the socio-economic outcomes by gender. Failure to do so implies that policies or regulations may not have a gender dimension and decisions made could be detrimental with regards to gender mainstreaming and equity.

6.5 Recommendation 5: Support Strategies for Micro, Small and Medium Enterprises

Although the research has shown that all categories of enterprises namely Small, Micro and Medium Enterprises are equally affected by late payments, the research also shows that Micro Enterprises have the least resources to pursue payment. National policy treats Small, Micro and Medium Enterprises equally yet the tolerance thresholds to buffer the impacts of delayed and non-payment is very different for each size of enterprise. Current polices should be reviewed to take cognisance of the risk and tolerance threshold that each size of enterprise can withstand.

6.6 Recommendation 6: Support Strategy for SMMEs that have been in Operation for less than 5 years

SMMEs are most likely to fail in the first 5 years of operation. Current policies place emphasis on the size of an enterprise however the age of the enterprise also influences the success of the enterprise. Current SMME policies and strategies should be reviewed to facilitate additional support for settling delayed payments to enterprises in operation for less than 5 years.

6.7 Recommendation 7: Decrease the Cost for Recovering Late Payment

SMMEs spend valuable time, human resources and financial resources in recovering money not paid on time. The DSBD has proposed the establishment of a national Small Enterprise Tribunal, whose mandate and function will be to assist small enterprises across the country to deal with disputes including those arising out of late payments and unfair contract terms and practices. This mechanism should lower the cost burden for SMMEs chasing unpaid invoices and to recover costs and interest on late payments.

6.8   Recommendation 8: Rapid Assessment of Changes Made to Invoices

34% of SMMEs were requested to re-submit invoices because the information provided on the invoice was either unclear or outdated. A rapid assessment of the changes made to a sample of the invoices in the last 24 months should be undertaken. This will provide valuable insight into the exact nature of the unclear and outdated information provided by SMMEs. The DSBD has partnered with the Services Sector Education and Training Authority to develop the Online Ecosystem Programme. The findings of the rapid assessment should inform the tools and templates developed as part of the Programme.

6.9   Recommendation 9: Interest and Cost Recovery Policy for Delayed Payments

Government contracts should be reviewed to consider claiming interest, at a fixed rate, on delayed payments as well a fixed amount for compensation for recovery of costs, for unpaid invoices, by SMMEs.

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Appendix 1 – Research Instrument

planning, monitoring & evaluation
Department:
Planning, Monitoring and Evaluation
REPUBLIC OF SOUTH AFRICA

For Office Use

Stakeholder		Unique ID	
Interviewer		Date	
Data Capturer		Date	

Research on delays and non-payment by Government on Small, Micro and Medium Enterprises

QUESTIONNAIRE

Hello, I am _____ [first name]. We at NEMAI Consulting are conducting this research on behalf of the Department of Planning Monitoring and Evaluation to determine the impact of delays and non-payment by government on Small Enterprises. We are calling to ask you some questions that would allow the government to understand the challenges behind this problem and how it has affected you and your business. Are you willing to participate in our research?

[If yes, continue]

Before we proceed, I would like to assure you anonymity. The answers that you give us will not be linked to you or your company.

We would also like to explain that delayed payments refer to all payments made after 30 days of invoicing while non-payment refers to all payment not yet received after 30 days of invoicing.

Section A: Demographics/Small Enterprise profile

A1.   How many employees do you currently employ?

a) 0-10
b) 11-50
c) 51-250
d) More than 250. Thank you for your time. [Stop interview]

A2.   In which economic sector does your business operate? *Select all the applicable*

	Business sector	Business size	Number of employees	Select	Average turnover, million rand		Select
a)	Agriculture	Medium Small Micro	250 50 10	☐ ☐ ☐	35 17 7		☐ ☐ ☐
b)	Mining and quarrying	Medium Small Micro	250 50 10	☐ ☐ ☐	210 50 15		☐ ☐ ☐
c)	Manufacturing	Medium Small Micro	250 50 10	☐ ☐ ☐	170 50 10		☐ ☐ ☐
d)	Electricity, gas and water	Medium Small Micro	250 50 10	☐ ☐ ☐	180 60 10		☐ ☐ ☐
e)	Construction	Medium Small Micro	250 50 10	☐ ☐ ☐	170 75 10		☐ ☐ ☐
f)	Retail and motor trade and repair services	Medium Small Micro	250 50 10	☐ ☐ ☐	80 25 7.5		☐ ☐ ☐
g)	Wholesale trade, commercial agents and allied services	Medium Small Micro	250 50 10	☐ ☐ ☐	220 80 20		☐ ☐ ☐
h)	Catering, accommodation and other trade	Medium Small Micro	250 50 10	☐ ☐ ☐	40 15 5		☐ ☐ ☐
i)	Transport, storage and communications	Medium Small Micro	250 50 10	☐ ☐ ☐	140 45 7.5		☐ ☐ ☐
j)	Finance and business services	Medium Small Micro	250 50 10	☐ ☐ ☐	85 35 7.5		☐ ☐ ☐
k)	Community, social and personal services	Medium Small Micro	250 50 10	☐ ☐ ☐	70 22 5		☐ ☐ ☐

l) Others – Please specify _____

A3.   How many years have you been in business?

    a) 1 to 5 years
    b) 6 to 9 years
    c) More than 10 years

Section B: Delayed payment and non-payment and their consequences

B1.   Have you ever encountered any delayed payments from Provincial government?

   a) Yes
   b) No

B1.1   Have you ever encountered any delayed payments from National government?

   a) Yes
   b) No

B2.   Have you ever encountered any non-payments from Provincial government?

   a) Yes
   b) No

B2. 2 Have you ever encountered any non-payments from National government

   a) Yes
   b) No

B3   Have you worked for the Provincial and/ National Government as a sub contactor to the main contractor?

   a) Yes
   b) No

B3.1   As a sub-contractor, have you been affected by delayed and /or non- payment of invoices?

   a) Yes
   b) No

If NO to both B1, B2 and B3 → Thank you for your time. [Stop interview]

B4.   On average, what was the longest delay in payment?

   a) 31-90 days
   b) 91- 120 days
   c) 121- 180 days
   d) 181 days and more

B5.   On average, how many times did you encounter delayed payments?

   a) 0 to 3

b) 4 to 7
c) 8 to 10
d) > 10

B6. **Currently, how many unpaid invoices do you have?**

a) None
b) 1 to 3
c) 4 to 7
d) 8 to 10
e) > 10

B7. **In your experience, which sphere of government most frequently has delayed and/or non-payment of invoices?**

a) National
b) Provincial

B8. **Have you ever been requested to resubmit an invoice?**

a) Yes
b) No

B8.1 **If yes, please explain.**

B9. **In which province(s) have you encountered the greatest number of delayed and/or non-payments?**

a) Gauteng
b) Limpopo
c) North West
d) Mpumalanga
e) Northern Cape
f) Western Cape
g) Eastern Cape
h) Free State
i) KwaZulu Natal

B10 **Which National Department(s) have you encountered the greatest number of delayed and/or non-payments?**

B10.1 Which Provincial Government Department(s) have you encountered the greatest number of delayed and/or non-payments?

B11   Do you think National and Provincial Government understands how delayed and/or non-payment affects small enterprises?

    a) Yes

    a) No

B11.1 Please explain your answer

B12.   How has delayed and/or non-payment of invoices affected your business

For example, Retrenchment of employees; Unable to pay taxes; Business was deregistered because of unpaid taxes; Had to close down the business

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B13.   Do you think that the delayed and/or non-payment of invoices has any social impacts (i.e. well-being of the entrepreneurs, employees and their families)?

    a) Yes
    b) No

B13.1 If yes, please explain.

B14.   Have you ever taken legal action against National and/or Provincial Government for delayed and/or non-payment of invoices?

    a) Yes (if yes, proceed to B15)
    b) No

B15.   What percent, in relation to the value of the delayed and/or non-paid of invoice, was spent on litigation?

    a) 0 to 25% of the invoiced amount

b) 26 to 50% of the invoiced amount
c) 51% to 100% of the invoiced amount
d) >100% of the invoiced amount

B16. Did the litigation affect your working relationship with National and/or Provincial Government?

a) Not significantly
b) Significantly
c) Not at all
d) I don't work with Provincial and / National Government any more

Section C. Qualitative Questions

1. Describe your experience, in relation to payment of invoices from Provincial and National Government

2. What risk strategies do you think small enterprises can adopt to mitigate delayed and/or non-payment of invoices when working with Provincial and National government?

3. Is there anything that small enterprises can do to address the problem of delayed payments and/or non-payment of invoices?

4. What do you think National Government can do to address the problem of delayed and/or non-payment of invoices? *If possible, speak about policy, e.g. National Small Enterprise Act, programme or remedies you have come across.*

    Probe*: Could legislation and regulation address the problem within the small enterprise ecosystem? What are the expectations of the small enterprise sector from Provincial and National Government?*

    Probe*: Other than ligation, how else can small enterprises ensure that the National and Provincial Government pays within 30 days?*

5. What do you think are some of the unintended consequences of delay and/ or non-payment of invoices?

6. What are the social outcomes related to delay and/or non-payment of invoices?
    Probe: *Dependency ratio; unemployment; non-payment of utility bills; health and education costs etc.*