



INCLUSIVE SOCIETY INSTITUTE

Op-ed

Rejuvenating South Africa's economy - an SMME sector perspective By Daryl Swanepoel

Small, medium and micro enterprises (SMMEs) are undoubtedly the lifeblood of South Africa's economy. In fact, President Ramaphosa has asserted that, "the growth of our economy will be sustained by small businesses, as in the case of many countries". They represent more than 98% of businesses, employ between 50-60% of the country's workforce, and contribute 39% to GDP. But the SMME sector also seems to be the most vulnerable in a global crisis.

Over the last 18 months, small businesses have been in the eye of the Covid-19 storm, which has done more than just exacerbate the longstanding challenges the SMME sector was already facing. The impact of the ongoing lockdowns has decimated many small businesses and left others battling to survive.

The number of SMMEs in South Africa declined by 11% (or 290 000) year-on-year from 2.65 million to 2.36 million in 2020:03. Of this contraction, 232 000 occurred in 2020:02. A further 58 000 SMMEs closed for business in 2020:03, despite the general economic rebound during the third quarter. Furthermore, of all jobs lost in the economy, 90% of those were in the SMME sector.

In order to turn this catastrophe around, the key barriers to recovery and growth need to be urgently addressed. Starting with the increasing level of red tape and bureaucracy, which remains a major stumbling block and burden on business in dealing with government. It strangles the capacity of business to compete globally by causing needless costs and delays; putting the brakes on new businesses; and placing existing enterprises in a predicament about their sustainability and growth.

The reality is, many SMMEs simply lack the resources and information to deal with the issues arising from regulations. In addition, there is a sense that an extensive list of legislation is being introduced, without the capacity to enforce that legislation.

Current policies need to be consolidated and only those rules and regulations that are necessary must be kept and properly implemented. Furthermore, the introduction of user-friendly information technologies such as e-government services will streamline and integrate systems, allowing communication to reach a wider audience.

Bribery and corruption are also contributing on a vast scale to destroying SMMEs, and the economy. There is a huge problem with corrupt government officials and state-owned enterprises (SOEs), but this is a two-way street – businesses contribute to corruption by participating with government in corrupt actions.

However, these small enterprises are being backed into a corner where they are coerced, and sometimes blackmailed, into either paying a bribe for an opportunity or suffering the consequence: losing their business. Although private corruption affects the entire supply chain, the most severe

damage is done through the perpetuation and normalising of corruption by highly influential individuals.

To tackle this issue head-on, institutional systems and incentives need to be put in place that are credible, with accountability and enforcement mechanisms. And these systems need to reach the level of local government.

The late Auditor-General Kimi Makwetu said in 2018 of the sorry state of local government that “on average almost 60% of the revenue shown in the books will never find its way into the bank account”. This is due on one hand to a deep-seated skills deficiency and on the other to the hiring of employees solely on political grounds. The result: officials in positions that they are simply not qualified for.

With such rampant corruption and incompetence going unchecked, it is inevitable that there would be a growing mistrust and an escalating resistance to paying rates and taxes, which in turn has negative consequences for building infrastructure, providing service delivery, funding grants, prioritising small businesses for payment, etc.

As the bedrock of government, municipalities need to be reliable and trustworthy. They need to be capacitated with highly skilled, apolitical personnel. This is at the epicentre of municipal failure.

But the educational disconnect also needs to be tackled at its foundation: in the schools and colleges. Students are not being taught the content and skills they need to be employable in the practical world of business. There is scant focus on the scarcest skills in South Africa: being in the science, technology, engineering and maths (STEM) areas. There need to be more technical and agricultural high schools in close proximity to poorer communities, and students need to be equipped with courses on entrepreneurship and technology.

By not addressing these concerns, unemployment will continue to soar past its current rate as one of the highest in the world, with a large proportion of these people coming from the townships and rural areas.

While the education and skills deficit is a substantive part of the unemployment problem, it is by no means the only contributor. Monopoly by big companies, especially the multinationals, precludes fair competition and denies small businesses the opportunity to reach wider markets. The focus is on turnkey projects that neglect the township economy, with the result of cutting off the circulation in the greater economy. The public policymakers need to look at breaking down these projects into biteable chunks to widen the spectrum of businesses that can be pulled in.

Another contributor is the exploitation of illegal immigrants, who have lower wage demands, rather than employing local workers. These workers often don't pay tax and send large portions of their wages back to their families in their home countries. This is a drain on the rand, stalls growth and increases unemployment.

In South Africa, there is too much focus on redistribution in the country. While social grants are a key element of individual and social well-being considering the relentless unemployment, poverty and health crisis, compounded now by the pandemic, they need to be effectively and equally dispensed if they are to have the desired end goal of true social welfare.

The concern is that some measures may pose a risk to fiscal sustainability by undermining people's incentives to work, save or invest. A solution would be to move from handing out survival grants, which can create dependence and stifle economic liberation, to empowerment grants, rather using those funds to create a business environment that serves as an incubation centre.

Under the right conditions, the SMME sector has the power to be a dynamic transformational force. Although there is still much to be done to create these conditions, and despite the hardships, small business owners remain optimistic about the future of the sector, saying that now is not the time to lose hope, it is the time to start our own engines, put our shoulder to the wheel and drive our own businesses, and with them the South African economy, into a flourishing future.

Daryl Swanepoel is Chief Executive Officer of the Inclusive Society Institute, an autonomous and independent research institute. This article captures the essence of the SMME sector's contribution towards the development of the institutes blueprint for the rejuvenation of the South African economy.

8 November 2021