



SMALL ENTERPRISES & ENTREPRENEURS DESERVE MORE SUPPORT

Business Day Article

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Over the decades, many have argued in support of the SA informal economy. Through travelling in Africa and Asia, as well as doing research, it has become clear to me that allowing the informal sector to thrive is essential. Mindful of the negative effect apartheid had on the informal sector, it seemed obvious that the democratic government needed to do all it could to free the informal sector.

It is therefore good to observe that the government has indeed been making efforts to ensure that the informal sector is not suffocated as in the past. After all, the informal sector can provide something of a cushion for the hardship many people experience. This is why support, even just positive rhetoric, regarding the informal sector should be encouraged.

Arguing for the informal sector is in no way intended to romanticise this troubled sector of the economy. Nor am I oblivious to the reality that the informal sector is insufficient to create all the jobs SA needs, or to catalyse robust economic growth.

We should be doing more to encourage the small, medium and micro-enterprise (SMME) sector though that can create low-skilled jobs for the unemployed masses, and address other challenges facing the economy and society.

The debate over whether the SMME sector really matters in this regard was settled through evidence that emerged in the 1990s. Among the critical findings of the research was that SMMEs can contribute not only to job creation and economic growth but also to foreign exchange earnings. SMMEs, particularly in manufacturing, were found to have high propensities and intensities to export.

It is therefore unsurprising that the National Development Plan (NDP) envisaged that the SMME sector would generate 90% of the 11-million jobs expected to have been created by 2030. In many countries, SMMEs are engines for the economy and create most jobs. This is not to say there is any reason a smaller firm should do better than a bigger firm.

Evidence suggests that supporting SMMEs is good for societies in general. They are an excellent entrepreneurship training ground, contribute to incomes of poor households, facilitate youth development and increase overall economic activity. This is another reason entrepreneurship is critical and should be encouraged, even when the economy is not doing well.

More needs to be done to encourage SMMEs and facilitate SA entrepreneurship. About 90% of enterprises in the country fall into the SMME category, and they generate about 40% of GDP and about 80% of jobs. This is apart from foreign exchange earnings, which are critical for any economy.

Institutions of learning must play their part, and it is good that some technical vocational education and training (TVET) colleges and some universities now have entrepreneurship courses. Through such efforts and by letting entrepreneurs out of the cage, the wellbeing of societies is boosted.

The government is largely doing its part. SA ended 2023 with a big milestone regarding the SMME sector. On December 5 parliament adopted the National Small Enterprise Amendment Bill after a lengthy process of debate, public hearings and numerous deliberations. The bill is now under consideration at the National Council of Provinces (NCOP), and if approved the president will have to sign it into law. Thereafter the process creating the Small Enterprise Development Finance Agency (Sedfa) can formally take place.

There has been much work behind the scenes to ensure that the amalgamation of relevant institutions is sound and meets desired results. The bill amends the 1996 National Small Enterprise Act to, among other things, establish the Sedfa. The new agency will take over what the Small Enterprise Finance Agency, Co-operative Banks Development Agency and Small Enterprise Development Agency have been doing, to improve the efficiency of government support (financial and nonfinancial) to small enterprises and co-operatives.

Arguably, this should ensure that the support the government gives to small enterprises and co-operatives is comprehensive and there is integration, as well as ensuring that incubator and investment support; as well as business advice, facilitation and development services are effective. As the bill indicates, the Sedfa wants to be a leading business development entity that facilitates socioeconomic transformation through the effective provision of customised financial and non-financial support as well as improved access to finance for small, medium and micro enterprises (SMMEs) and co-operatives. There are moral, economic, ideological and other arguments for co-operatives. Through co-operatives — perhaps even more than SMMEs — societies achieve greater wellbeing.

The recent Global Entrepreneurship Monitor report highlights that the business discontinuance rate has been increasing, and many SA SMMEs continue to fail. Research puts the failure rate of SMMEs in SA at 60%-80% in the early years of an enterprise.

Entrepreneurs face many constraints. These challenges would have intensified during Covid-19, though SMMEs and entrepreneurs faced numerous challenges before then too due to the poor performance of the economy, which affected revenues, costs and increased indebtedness.

The economy should be fixed to ensure inclusive growth. SMMEs and entrepreneurs would do far better in an economy that is performing better than the SA economy has been in a while, particularly lately. Given that it will take a while for the economy to perform optimally, let us ensure that SMMEs and entrepreneurs can play their parts.