

SME's have strong advice for the new minister of Small Business Development

South Africa's SMEs are ready to be called to action in support of growth and job creation - but they say they need a more enabling environment from government...

The South African government took a significant first step in the right direction by creating the Department of Small Business Development (DSBD) earlier this year. On average worldwide, 50% of formal employment is in the small and medium enterprise (SME) sector; in developing nations, the proportion can rise to 80-90%. "The development of the small business sector is critical to economic development and transformation," said DSBD Minister Lindiwe Zulu after her appointment in May. She called for dialogue with SME role-players, "to see where the challenges are."



Lindiwe Zulu: A massive opportunity. (Image: GOS)

Survey

According to the results of a large scale survey undertaken by the South African Institute of Chartered Accountants (SAICA), the minister is sitting on a massive opportunity. Respondents had some clear ideas on how the department could help: reduce government-generated red tape, relax labour law as it applies to SMEs, use tax laws to incentivise SMEs to grow and to employ more people in that order. The difficulty of obtaining finance was cited as the next most important obstacle to business expansion.



SMEs, wherever they are, be it in cities such as Joburg, or small towns, have the potential to provide a massive boost to employment figures in SA. (Image: Wikimedia Commons)

The DSBD is in a perfect position to collaborate with the treasury, the unions, SME lenders like SEFA and Business Partners, and SME stakeholder bodies to work out a "package" that incentivises small business development. It remains to be seen whether this new ministry will demonstrate the leadership required to balance the needs of the unemployed with the age-old arguments of the unions, and to convince treasury that it would be in the long term interests of the fiscus to grow the SME tax base whilst at the same time reducing the burden of the welfare payments that currently constrain the budget. SMEs attested that they would be willing and able to expand both their businesses and the number of staff they employ significantly, so imaginative and bold leadership is called for.

Encouraging response

The general thrust of responses was encouraging - 83.5% believe their profitability will remain stable or increase over the next year, and 86% expect to retain their full staff complement, or increase it over the same period. Optimism is something of a ground state for entrepreneurs, it's true, but their positivity is borne out by other data in the survey that has relevance to the DSBD's deliberations on policy.

The correlation that is apparent is that the number of people employed rises sharply with SME turnover. While most of the SMEs surveyed are well-established and relatively successful - 75% have been in business for more than five years - stability alone is not enough. Most SMEs begin as one- or two-person concerns, where the immediate aim of the business is to support the shareholders' families. Only when that family support is secured, can they think of expanding the business and employing more staff. SME's need the incentive and the capital to grow from "small" to "medium" if they are going to become significant providers of employment.

Foster faster growth among SMEs

In short, if we are to fast-track economic transformation, it may be in the DSBD's best interests to focus on encouraging the formation of new SMEs, but more so on fostering growth and expansion among existing SMEs. This second strategy also has a shorter time frame and lower risk levels.

Such a package would focus on established SMEs, which have been in business for perhaps three years or more and are now ready and able to contribute to the objectives of the National Development Plan - GDP growth and job creation. Of course this can only be achieved by working with that most basic of SME needs - the need to grow their own wealth levels.

The reason the DSBD has been set up is to influence and, where necessary, change policy with respect to the creation of conditions in which SMEs will thrive. Having been asked for their input, the SME sector has responded with a clear indication of the conditions that would allow them to become mighty generators of new jobs. If the DSBD were able to put those conditions in place, we could be rewarded with a growing SME sector creating its own cycle of accelerating employment. SAICA is already embarking on a second SME survey to gather more intensive data, and will continue to support government employment and economic growth efforts as a capability-building partner.

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