

What will it take to get the SME sector back on its feet?

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SME development has been on the agenda since the days of the Mandela presidency - and yet, South Africa's small businesses continue to flounder. Their precarious state has been placed under even more pressure by unforeseen events such as the pandemic lockdowns and July riots, and, with our unemployment rate now standing at more than 30%, it is more important than ever to take action. Will it ever come right? Well, according to the panelists taking part in a recent Courageous Conversation hosted by the South African Institute for Chartered Accountants (Saica) and facilitated by *Daily Maverick* investigative journalist Pauli van Wyk, SMEs will continue to find it difficult to forge their niche in the mainstream economy until we find a way to fix deep-seated societal problems.



Professor Wiseman Nkhulu

According to event's speakers, which consisted of Saica CEO Freeman Nomvalo; KPMG's Professor Wiseman Nkhulu; Oteo Investment Holdings' Mlu Mancu, Basa's Khulekani Mathe and Busa's Cas Coovadia, the depth of the problem becomes clear when one considers that the unemployed are not the only people marginalised from the mainstream economy. Taking into account those who earn a meagre income in the informal sector and the unskilled who earn very low wages, we are looking at a total of almost 70% of South Africans who feel disaffected – and whose view of the economy as a vehicle for 'the few' is likely to lead to more unrest unless urgently addressed.

The problem – or, at least, one of them – is that the definition of what, exactly, constitutes a small business remains blurry: the parameters range from entities generating a turnover of less than R200,000 per annum, to those turning over R70 million. Obviously, there is an enormous range of challenges experienced across this spectrum; the obstacles facing a micro-enterprise cannot be compared to those encountered by a medium sized business.

This became clear immediately after the KZN and Gauteng July riots.

While roadside vendors were as likely to have their businesses destroyed as the independent pharmacies, hardware stores, doctors and lawyers based in the malls that were targeted by looters, the latter had a definite advantage over the former in that they have maintained records proving their existence. The contribution of informal businesses to the economy is no less important, and yet it is harder for them to be acknowledged, because they do not have formal structures in place. This is accompanied by further challenges: it is difficult for a company of this nature to, for example, open a bank account or register with CIPC, precisely because the economy still appears to favour established businesses. The plus side, though, is that this is an obvious area where the broader business community and industry authorities can help: if established entities are prepared to mentor their less formal counterparts, provide assistance when it comes to matters such as registration and essentially walk their business journey alongside them, they may well fare better.

This points to the fact that, although access to finance continues to be a major challenge facing small businesses, non-financial support is equally important. This could come in the form of providing back office support (as Saica does through its Enterprise Development entity), or helping them boost their business acumen so that they are better placed to understand the workings of business. This may sound ambitious, but projects are already in place to support several sectors. For example, one of Saica's recent initiatives saw young people trained as finance assistants, and placed inside schools. A similar initiative could be truly transformative for the small business sector; perhaps we could see a project

equipping the young to act as 'business guides' within a small business, helping them to formalise their processes and, ultimately, laying the foundation for them to scale and grow the business.

Partnerships have a critical role to play here. Saica has already seen the power of partnerships through its work with the Hope Factory, a division established to help small businesses access funds earmarked by organisations for enterprise development in order to improve their BEE scorecards. However, we're not simply talking about partnerships with professionals or corporates and small business owners. It is equally important to establish relationships between policy makers and government. Although challenges such as fronting and corruption at government level cannot be denied, we also need to give credence to the existence of solid policies and frameworks. The question is, how can we leverage these effectively?

Yet stresses the panel, it's important that these partnerships extend to communities, resulting in a matrix that stretches between government, business and society. These stakeholders cannot be compartmentalised, because the reality is that developing business doesn't benefit the economy only; it benefits society, too.

We need to be realistic about how much and what can be done to benefit this sector

As much as we would like to see all young South Africans able to create their own enterprises, some people have a greater aptitude for entrepreneurship than others – and some simply are not cut out for what is, after all, an extremely challenging career path.

We also need to take stock of the fact that not all entrepreneurs need help with debt finance. For some – in fact, many – providing venture capital would be far more useful; and to this end, it may be worthwhile for key stakeholders to consider how access to such capital could be increased. One solution may come in the form of angel investors – but, more than simply providing venture capital, such investors should be prepared to offer mentorship and guidance, too.

One of the reasons we fail to recognise SMEs' needs in the area of funding, amongst other areas, is that we don't truly understand their needs or the issues that keep entrepreneurs up at night. This is partly due to the lack of a cohesive representative body for the SME sector, which would be able to clearly articulate challenges and create a formal structure for discussing solutions. This, too, is a lack that should be addressed, as it is the only way we can start to address the causes of the challenges facing SMEs, rather than merely trying to deal with their consequences.

Our failure to understand their needs or include SMEs in the formal economy is making them lose faith in that economy – and fast. This is entrenched by a culture which sees companies showing preference to suppliers they know, or who are like them. Such confidence may be regained only if there is a committed stakeholder who makes a deliberate and intentional effort to do so. This is precisely why policy is not enough. Action is imperative. Small business owners need to witness for themselves that the links between commercial opportunity and political connections are being dissolved. Then, they need to see how avenues for access are being created for them. Here's an example; one which draws on the all-important partnerships we mentioned earlier: government departments have recurring requirements for goods and services that must be fulfilled on a regular basis; stationery, for instance. Professional bodies could help provide access for small business owners by liaising with government to establish their needs, then identify the small businesses amongst their networks which may be able to assist. A bridge is built, and an opportunity granted.

This is one step towards creating a conducive environment for SMEs – but it's just the beginning. The mounds of red tape that SMEs are hampered with should also be reconsidered. Is it reasonable, for example, to ask a small business owner for proof of black ownership so that they can fulfil BEE scorecard requirements, when ownership status is self-evident? In the same way, it may be fair to consider adjusting regulations that are in place for established businesses, to make them more practicable from the small business owner's point of view. No one is suggesting that such businesses be allowed to force employees to work in unsafe conditions, or that they should be exempted from paying VAT – but there may be ways to make the regulatory environment more appropriate for a player whose parameters are vastly different from a large corporate.

Local governments may have a role to play here, too. While rates and utilities bills are a part of life for every citizen, corporate ones included, they place a rather onerous strain on small business owners – especially when those same utilities are not always readily available; electricity being a case in point. While municipalities obviously have their own dynamics in play, we suggest that the solution thereof should not come at the expense of small businesses.

It is time we acknowledged the magnitude of our challenges impeding the growth of the SME sector, rather than treating it as a small matter. While we are all eager to see South Africa's economy get on track, it is highly unlikely we will reach this point while such a large sector of the population remains economically marginalised.

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