The indelible impact of load shedding on SMEs

By Shiluba Mawela , issued by SAICA

19 Apr 2023

South Africa's estimated 2,6 million micro, small and medium enterprises (MSMEs) are confronted with various challenges that impede their ability to thrive and create much-needed employment in order to reduce the 42,6% unemployment rate. Right now, access to reliable energy and funding are the most pressing matters.

Shiluba Mawela

The South African MSME sector contributes more than 40% of the total GDP and accounts for over 87% of employment in the country, according to FinMark Trust. The National Development Plan (NDP) recognises the importance of MSMEs in the fight against poverty through job creation and aims for MSMEs to contribute 60% to 80% and to employ over 90% of South Africa's workforce.

Currently, according to the Organisation for Economic Co-operation and Development (OECD), MSMEs employ over 12,9 million workers. 37% of these businesses are considered formal, with 32% providing between one and ten jobs. The 40% GDP contribution of South Africa's SMEs still lags behind other regions, mainly the EU, which currently makes a 57% contribution to its GDP, as a McKinsey study points out.

Many businesses were tragically impacted by the global Covid-19 pandemic, with alarming numbers filing for bankruptcy. In 2022 alone, South Africa recorded over 1,900 liquidations, according to Stats SA. Most of these businesses retrenched a large number of employees to survive the impact of the pandemic. Just as many businesses began to recover, load shedding dealt another serious blow to SMEs operating in the country.

Despite SMEs' significant contribution to the economy and employment, the Department of Small Business Development estimates that over 70% of SMEs fail in the first year of operation. Persistent power interruptions further compromise the survival of these surviving SMEs, increasing the chances of failure. It is said that the best way to win a war is to cut off your opponent's power supply; thus, SMEs are seemingly at war with the very institutions meant to empower and protect them. I recently engaged three manufacturing SMEs who are having to contend with some of the challenges of load shedding and service delivery failure. They are having to make tough decisions to drastically cut costs, seek alternative energy sources, and in some instances retrench staff to reduce overheads.

According to SME South Africa, limited access to affordable funding also remains a barrier to business growth, with only 6% of SMEs surveyed receiving government funding and only 9% having sourced funding from private sources. There are efforts to unlock funding for SMEs with various initiatives such as the SA SME Fund and the government's Township and Rural Entrepreneurship Programme (TREP), which offers R740m in loans and grants targeted at informal businesses and formal micro-enterprises. Despite all these efforts, the current state is grim, but many MSMEs remain optimistic and resilient. More efforts, collaborations, and initiatives must be coordinated to support SMEs as the lifeblood of our ailing economy.

Government support

In the National Budget, Finance Minister Enoch Godongwana outlined some initiatives aimed to support SMEs.

These include the Energy Fiscal Package that will come into effect from 1 March 2023, in which 'businesses will be able to reduce their taxable income by 125% of the cost of an investment in renewables. There will be no thresholds on the size of the projects that qualify, and the incentive will be available for two years to stimulate investment in the short term.'

The government hopes that this will incentivise businesses to invest in self-generated renewable energy.

ABOUT THE AUTHOR

Shiluba Mawela is CA(SA) Managing Partner: Tshiamo Impact Partners - an impact advisory and impact fund management firm.

- **Directors' role as the cornerstone of the governance ecosystem** 25 Apr 2024
- **2-pot system: Key considerations before you withdraw your retirement savings** 27 Mar 2024
- **Saica launches business podcast to empower small businesses** 19 Mar 2024
- **Accountancy and loss adjusting** 15 Mar 2024
- **Making the auditing profession attractive to Gen Z** 8 Mar 2024

SAICA

SAICA is the professional home of #DifferenceMakers - A community of passionate accountants who are leaders in business, government, and the communities they serve. CA(SA); AGA(SA) and AT(SA).
Profile | News | Contact | Twitter | Facebook | RSS Feed