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SMALL BUSINESS IS BIG BUSINESS

A UNDP Perspective on SMME Development in South Africa

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A UNDP Perspective on SMME Development in South Africa

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November 2014

INTRODUCTION

South Africa has the second largest economy in Africa, thanks to a strong and diversified industrial base (including automobile manufacturing and exports), a world-class infrastructure and a highly sophisticated financial sector dominated by banking, insurance, the mortgage industry and the stock market. South Africa is ranked 53rd out of 148 countries in the World Economic Forum's Global Competitiveness Index for 2013-14. South Africa is ranked by the World Bank as an upper middle-income country. In comparison with other countries in Southern Africa, it has by far the biggest GDP. South Africa is considered an emerging market and is a member of the G20 as well as the BRICS.

South Africa’s economy was hard hit by the 2008-09 global recession. After growing at an average of 3.6% per year between 1994 and 2008, the economy contracted by 1.5% in 2009, representing its first recession since the end of apartheid. Since the recession, growth has been uneven, slipping from 3.5% in 2011 to 2.5% in 2012 and 1.9% in 2013, primarily because of persistent structural constraints, including high inequality, high unemployment and sluggish demand, especially in export-led sectors. The current growth rate is too sluggish to cut the high unemployment rate, which continues to exacerbate economic and social inequalities. A majority of the youth remain unemployed due to lack of skills and qualifications. To achieve the National Planning Commission’s (NPC’s) goal of halving unemployment in South Africa, the country would need to employ 2.2 million of the 4.4 million unemployed. There can be no doubt that the South African economy needs radical structural transformation. Not only does growth need to accelerate, it needs to be inclusive, sustainable and equitable. Small, Medium and Micro-enterprise (SMME) development can and must be at the centre of this transformation, because its impact can be massive. And that is why small business must be seen as big business in South Africa.

OPPORTUNITIES AND CHALLENGES

With a labour absorption rate at a mere 40%, the lowest among the BRICS economies, SMME development remains one of the key potential catalysts to create employment, reduce poverty and inequality in South Africa. However, the level of entrepreneurial activity is extremely low in South Africa when compared with other developing markets such as Ghana, Zambia, Brazil and Chile. In 2010, South Africa ranked 35th out of 54 profiled countries in terms of total entrepreneurial activity and was below the average of all participating countries. The NDP estimates SMME contribution to GDP at 45%, one of the lowest in the world, and has set a target contribution of 90% by 2030.

Yet opportunities exist for SMME development in the country. First is the youth and women dividend. The youth dividend stems from the sheer demographic weight of youth and the fact that the current generation of young people in South Africa is undoubtedly the most educated in the country's history. The women or gender dividend takes its root from the full participation, even leadership in some instances, of women in the struggle for political liberation and freedom in the country. To this day, South African Women are fully engaged in the political and social domains. However, this is not the case in the SMME sector, unlike other countries in the region where this sector is largely dominated by women.. No doubt, if the energies of South African women are properly channelled into small businesses development their entrepreneurial spirit will be unleashed.

The second opportunity is the recognition of the potential of SMME by the Government of South Africa and other critical stakeholders, including the private sector. The Government recognises the importance of SMME development, and has a 20-year record of policies and structures to prove it. Since 1994, the South African democratic process has been geared towards economic transformation and inclusion to ensure expanded access to employment opportunities poverty reduction. The Government has developed and implemented over the years several development and planning programmes to transform the South African economy. One can cite the 1995 launch of the Reconstruction and Development Programme (RDP) to address the socio-economic challenges created by the apartheid legacy and which aimed to create a developmental state to foster development with equity. In 1996, the Growth, Employment and Redistribution (GEAR) policy was launched with a focus on employment creation, income redistribution in favour of the poor and expanded access to social services. Subsequent years have seen the launch of the 2006 Accelerated and Shared Growth Initiative for South Africa (AsgiSA), the New Growth Path in 2010, culminating in the 2012 National Development: Vision 2030. Each of these programmes recognised the central role of SMMEs in achieving economic structural transformation.

In the midst of all the aforementioned development plans and programmes, the Government created or supported the Black Economic Empowerment (BEE) initiative, the Small

Enterprise Development Agency (SEDA), the Small Business Development Institute (SBDI) and, most recently, the new Department of Small Business Development. In addition, a number of provincial governments have launched their own enterprise development initiatives, a prime example being the Gauteng Enterprise Propeller. The private sector has been generally supportive and gotten involved in various Government and development partner initiatives, such as the BEE and the UNDP-supported Supplier Development Programme (SDP). A number of multi-sectoral initiatives have also been undertaken. For instance, in 2013, Government, business, community organisations, youth organisations and organised labour signed a Youth Employment Accord, a collective effort to cooperate in empowering youth with skills and prepare them for decent jobs.

Despite all these initiatives, the growth of small business has remained stubbornly anaemic. The failure of SMMEs to blossom in South Africa may be attributed to a number of factors, some of them well-known. These include inadequate access to finance, limited market access, poor business skills and networks, insufficient research and development, and limited engagement of the private sector. In addition to these rather classic challenges, South Africa faces a unique and difficult hurdle. The long years before liberation and freedom were very poor preparation for entrepreneurship, particularly among black and other disadvantaged groups. Most, particularly youth and women, were not equipped with technical or entrepreneurial skills or opportunities. Indeed the informal sector was practically inexistent. In response, the Government has launched a massive social protection programme, which has led, in some cases, to a sense of dependence on, even entitlement to, such assistance by some of these groups.

Thus, although the Government has identified and sought to promote SMME development as a crucial driver in job creation and poverty reduction, the majority of South Africans do not possess the requisite experience and skills to survive in the business environment. This position is supported by the findings of a research conducted by ABSA Bank Small Business Section, which revealed that 63% of small businesses fail in the first 18 months of their trading. The following are cited as constraints affecting the survivability of SMMEs: capability and capacity of SMMEs to provide quality goods and services according to the requirements of big companies; inappropriate technical skills, insufficient operative and financial management skills; and lack of access to finance.

UNDP'S CONTRIBUTION

UNDP in South Africa agrees with the assessment of Government and other stakeholders that SMME development is a sine qua non for economic structural transformation. Indeed UNDP is committed to seeking effective solutions to the SMME conundrum by engaging both with Government and other partners at the policy and strategic level as well as assisting in piloting promising initiatives, such as the SDP, which can yield lessons applicable on a large scale. The underlying principles and drivers of UNDP engagement in SMME are founded on our organisation's strategic plan. Inclusive, sustainable and equitable growth as well as empowerment of youth and women are central pillars of our work and are seen as vehicles for reducing poverty, unemployment and inequality. These are also the aims of SMME development in South Africa A happy coincidence indeed. Cross-cutting aspects of the strategic plan, which are pertinent to SMME development include the need for UNDP to support capacity building, operate at upstream (i.e. at policy and strategic) levels and promote green growth.

Inspired by these principles, UNDP is involved in two key interventions conceived to boost the SMME sector in South Africa. The first intervention is through the Supplier Development Programme. The SDP addresses the challenge of access to markets frontally. Its objective is to build the competitiveness of SMMEs by enhancing their capacity and capability as suppliers and integrate them into local, regional and global value chains. The SDP supports companies at different phases of their development, including: (a) start-ups, which are given basic training from business registration to placement in incubators until they are able to stand on their own; (b) companies that have started production but find it difficult to stay in business; (c) companies that are looking to modernize and expand their production; and (d) those looking for possibilities to export. Consequently, UNDP has teamed up with a number of Government entities (DTI, DSBD, SEDA, Gauteng Enterprise Propeller, etc.), parastatal and private sector entities (PRASA, BUSA, BBC, MTIYA Dynamics, SBDI, ABSA, etc.) to assist youth and women-owned SMMEs to access markets constituted by large, South Africa-based corporations, in the first instance, with the ambition to access external markets eventually.

The second intervention is through inclusive finance for women. South Africa has created many policy instruments and established special funds to support women entrepreneurs. Yet the impact of these efforts appears minimal. A major obstacle appears to be access to finance for women. UNDP, in collaboration with UN Women, is working to address this problem. UNDP assisted the Government to establish an interdepartmental steering committee to look into the challenges confronting women entrepreneurs in accessing finance. The committee, consisting of the Department of Trade and Industry, (the former) Department of Women, Children and People with Disability, National Treasury, UN Women and UNDP, as chair, is expected to find answers to the factors hindering women entrepreneurs' access to credit and finance. To support the work of the steering committee UNDP and UN Women, through a project implemented by an NGO, New Faces New Voices, jointly supported a study to identify constraints faced by financial institutions in funding women's businesses. The project seeks to learn from and share the experiences of financial institutions elsewhere, such as Equity Bank in Eastern Africa, which have managed to overcome these constraints and profited by serving predominantly women-owned SMMEs. UNDP is also working with the Progressive Women's Movement of South Africa to develop a programme to empower rural women, young girls and women entrepreneurs. The programme will focus on three areas namely, skills development, entrepreneurship, and financial education for women.

In addition to the two interventions above, in the past year, UNDP, ILO, the Department of Labour and the National Youth Development Agency collaborated on an initiative to explore solutions to youth unemployment in the country. This inter-agency effort has led to the commissioning of two studies. The first investigated successful local and international youth employment schemes in order to derive appropriate lessons and provide evidence-based input into the on-going national efforts to find solutions to youth unemployment. The second study profiled unemployed youth in the unemployment databases of Government, National Youth Development Agency and the South Africa Graduate Development Association.

To conclude, small businesses often need intermediaries to access finance. This calls for a robust micro-finance industry. South Africa is relatively underdeveloped in this area, as the financial services industry, world-class though it is in many ways, is not geared towards financial intermediation for small and micro-enterprises. The Government and other stakeholders may wish to consider deliberate measures to foster and grow a financial services segment more attuned to the needs of SMMEs. As mentioned earlier, in addition to classic micro-finance institutions, valuable lessons could be learned from the experience of Equity Bank, a worthy example in this sub-region of how a financial institution can adopt a business model which extends credit to small businesses and yet remain financially viable. UNDP stands ready to join in this great endeavour with the new Department of Small Business Development, SBDI and other stakeholders by sharing the knowledge, lessons and experiences of countries with relevant experience or through direct technical support. Working together, we are confident we can grow small businesses into a big business in South Africa.