

Why SMEs and fair competition must go hand-in-hand

By [Filum Ho](#)

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South Africa's economy is reeling amid the pandemic, and the year 2020 has prompted many discussions around why now is the time for the country to take inclusive growth more seriously.



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President Cyril Ramaphosa in mid-October presented his economic reconstruction and recovery plan that has received both good and more circumspect reviews.

In terms of the more critical reviews, several commentators and analysts have stressed that President Ramaphosa's government still needs to take the SME space more seriously, especially when considering that small businesses have the potential to become the main engine for job growth.

To date, South Africa has been behind the curve in this regard. For example, the Small Business Institute in 2018 published a report which highlighted that even though "formal SMEs contributed nearly 98.5% of the number of formal firms in the economy, they only accounted for 28% of jobs."

The Institute went on to say that based on international trends, this figure should be closer to 60-70%. Moreover, the Institute noted that up to 56% of jobs in SA only come from 1 000 larger employers, including government – and that these jobs have traditionally grown at a faster rate than what SMEs are creating.

It's clear that big businesses alone cannot make a dent into South Africa's recently announced expanded unemployment rate of 42%. We therefore need greater room for SMEs to take off and grow, especially following the toughest economic period in SA since the Great Depression of the 1930s.

To achieve this, we need to create a more enabling environment for SMEs. And a key way to doing this is by ensuring that there is fairer competition.

Structural challenges

The apartheid era was damaging in every respect from a social and humanitarian perspective. However, it has also left us with the economic headache of monopolistic behaviour and highly concentrated sectors.

It's been encouraging to see the Competition Commission taking a more active role in trying to change this.

For instance, earlier this year, the Commission took the bold step of publishing draft guidelines that seek to sweep away anticompetitive service and warranty plans in the local automotive sector.

For decades, owners of new cars in South Africa have been locked into using a vehicle manufacturer's service centres, repair shops and parts in 'embedded' motor and service plans. If these owners decide to use an independent service or repair provider of their own choice, vehicle manufacturers unfairly void their warranties. This is an outdated practice that is not present in markets such as the US and Europe.

In a big shakeup for the industry, the Commission in February this year published guidelines stipulating that consumers will no longer be compelled to conduct in-warranty service, maintenance or repair work only at approved dealers or approved service providers.

If ultimately implemented, this will unlock huge opportunities for smaller independent workshops and service centres. It will also give consumers greater choice and a market with enhanced competition.

It further has the potential to empower and uplift township economies by ensuring that workshops and service centres in those areas have more work opportunities and greater incentives to formalise.

Estimates suggest that South Africa has around 500 000 people employed in the broader automotive sector. Imagine, if we double that number by opening the market more and levelling out competition?

This is but one example of what needs to be done to change our economic landscape for the better. The broader economy needs to undergo similar changes too.

We need to tackle the job crisis in South Africa from many different angles, and hopefully this will be a period where the private and public sector can work more closely together in forging a new way forward.

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