

Government must create conditions for SMMEs to grow into larger enterprises

By [Simone Cooper](#)

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South African Finance Minister, Enoch Godongwana is scheduled to deliver his maiden budget speech tomorrow (23 February).



Source: [Pexels](#)

The country's SMME sector, which has been hard hit by the impact of Covid-19, load shedding, record-high fuel prices, a lacklustre economy and political unrest, will be hoping for announcements that highlight and support some of the constraints facing small businesses in the country.

South Africa's SMME landscape is characterised by a divide between formal urban enterprises - located closer to developed business and financial hubs - and less formal peri-urban or peripheral enterprises located in townships, informal settlements or among rural communities. Both segments face onerous and often inappropriate regulation. Both segments experience challenges with power supply, crime, poor municipal-, provincial-, and national services delivery, expensive transport, and poor, pricey and inadequately distributed internet connectivity. Both segments struggle to attract skills.

South Africa's peripheral small-business segment, however, is particularly impacted by the legacy of spatial apartheid. Township enterprises, for example, lack infrastructure and are located far away from business activity hubs and connectivity and logistics networks. As a result, many of these small periphery businesses are isolated in disconnected, economically marginalised and poorly serviced areas where intense competition from other similar survivalist businesses contributes to low survival rates.

Implementation of simpler policies for SMMEs required

An efficient and effective State sector has a big role to play in ameliorating many of the disadvantages that SMMEs and small township or periphery businesses suffer. While South Africa boasts an impressive array of policy initiatives designed to support the country's SMME sector, co-ordination and implementation is required if these are to adequately address the pain points of enterprises within this sector. A game-changing intervention could be the consideration of separate, limited and much more simple legislation for small businesses so that they are not held to the same commitments as large corporates.



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Great municipal services and effective, co-ordinated government policy and implementation at provincial and national levels, for example, would compensate for the isolation of peripheral businesses while also building much more robust local economies in previously marginalised areas.

Effective services and good infrastructure will also drive more SMME formation, especially in peripheral areas. Great services will also encourage developed formal businesses with better skills, capital, and networks to invest in peripheral areas. This will improve integration between South Africa's core and marginalised business segments, drive inclusion, increase growth and expand employment among economically isolated communities.

In short, government has a critically important role to play in creating the conditions for SMMEs and especially small township and peripheral businesses to grow into larger enterprises. As they grow or partner with established businesses and larger corporations, they will contribute much more meaningfully to broader economic growth, drive much wider inclusion, and increase employment.

Development of SMMEs critical to enable economic growth

South Africa's SMME sector is critically important because it holds the key to growth, inclusion and long-term social stability – everything that has been eluding South Africa for so long. In most economies around the world, small businesses contribute by far the most to the growth of Gross Domestic Product (GDP), employment and tax revenue. In South Africa, small businesses contribute only 34% to GDP and to just a little over half of South Africa's jobs.



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A larger and more robust small-business segment in South Africa will dramatically increase employment, enabling more South Africans to support themselves and their families.

Even without starting a single new business, if we grew every micro enterprise client into a small enterprise, every small enterprise client into a medium-sized business, every medium-sized business into a corporate client, and every corporate into a multi-national, South Africa would achieve a measurable increase in job creation, employment and GDP growth. This is the potential that banks can unlock in every micro and small enterprise client.

The result will be fewer people relying on government for welfare grants and other social services. At the same time, a more robust small-enterprise sector will broaden the tax base and increase national revenue. All this will free the government to focus funding on maintaining and expanding the social and economic infrastructure to support growth, create more jobs and broaden inclusion.

In a country with a shrinking tax base and high social wage bill, the advantages of liberating millions of South Africans from state dependence is probably the strongest argument for a concerted effort across all sectors and industries to unlock the potential of South Africa's SMME sector, to re-ignite growth and make general and permanent prosperity a reality for the majority of South Africans.

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