

# Call for increased SME sector support to foster SA economic recovery

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The onset of Covid-19 in 2020 and subsequent energy crisis, have dealt deafening blows to the small- and medium-sized enterprises (SME) industry. Now, as the sector and the country at large fights to enter a phase of economic stability, small businesses represent one of South Africa's most promising opportunities for economic recovery.



Jeremy Lang, chief investment officer at Business Partners Limited

This is according to Jeremy Lang, chief investment officer at Business Partners Limited who believes strongly that the vital function which small businesses play within South African society is multi-faceted. As he says: “A move to support small businesses is a move to support the economic growth of the country.”

## Sector development and its link to GDP

The role small businesses play, as engines of economic growth in South Africa, has been well-documented. An estimate by the International Finance Corporation (IFC) puts the annual GDP contribution of the local SME sector at 34%, with these enterprises employing between 50% and 60% of the total workforce.

There is however much work to be done in the way of supporting the growth of the sector. According to the IFC, based on the current quantum of SMEs in South Africa and its GDP per capita, the country's early-stage entrepreneurship rate should be three times greater.

As Lang comments: “On a macro level, we know that SMEs have the potential to boost GDP. However, as our quarterly SME Index continues to show, there is an urgent need for greater access to finance for local businesses. Going forward, partnerships between the public and private sectors will be vital in providing small businesses with financial support, which will in turn stimulate the economy.”

## Small businesses as solar-power innovators

The bounce-back loan scheme, implemented by The National Treasury in the wake of the pandemic, was purposed towards providing local small businesses with much-needed impetus towards their goal of recovering Covid-related losses. In light of the poor uptake of this scheme last year, and against the backdrop of rising interest rates and the increased frequency of rolling blackouts, government proposed a change in direction.

As announced by Minister Enoch Godongwana in this year's national budget speech, the bounce-back loan guarantee scheme will now be used as a vehicle to fuel small business recovery but also to support the rollout of renewable energy.

“This is both an intuitive and necessary move by the public sector,” says Lang, who adds that, “small businesses across sectors have the ability to become important contributors to building the renewable energy sector. SMEs are encouraged to use the bounce-back scheme as a way to combat the impact of load shedding while positioning themselves as small-scale producers of embedded generation. While this sector has yet to take shape, SMEs have the opportunity to invest in technology now that will become immensely valuable in future.”

For SMEs who are looking for solutions just for their own businesses consumption only, the recently launched Business Partners Ltd Energy Fund for SMEs provides finance up to R2m. The biggest benefits of the Energy Fund for SMEs is the cost of financing, which is generally charged at prime plus 1% and the tax benefit as businesses are able to reduce their taxable income by up to 125% of the cost of their investment in renewables.

### **SA's SME sector – a solution to unemployment**

Furthermore, according to the Small Enterprise Development Agency, 90% of all the jobs lost during the early pandemic years were in the SME sector. This harsh reality placed the economy under undue strain, with increased pressures filtering down to ordinary South Africans on the ground.

Small businesses have the ability to absorb a significant amount of the socioeconomic pressure being placed on the country by record high unemployment, particularly amongst the youth. To this end, the IFC has committed to working with several private sector lenders to use an injection of funding to produce as many as 50,000 jobs.

“Taking into account the job creation multiplier effect, this could lead to the creation of between 73,000 and 98,000 jobs – a testament to the power of partnership, and the potential of collaboration to uplift society at a grassroots level,” Lang says.

### **The role of women in business**

In proposing plans to develop South Africa's small business sector, there is also an important gender dimension to be considered.

As Lang says: “We know that a significant concentration of women entrepreneurs are based within the informal, micro-enterprise sector. As such, government needs to hone its focus on formalisation to bring these smaller businesses into the economic fold. Both private and public sector financiers should foster greater financial inclusion for women entrepreneurs so they can play their rightful role as contributors to the GDP.”

Much progress is on the horizon in this regard, with government announcing its intention to inject R2.8bn into its Township and Rural Entrepreneurship Fund, which will support the development an estimated 120,000 township and rural-based businesses.

### **A call for practical action towards the reduction of red tape**

Providing his perspective on the greatest hurdles facing the growth of the SME sector in the months ahead, Lang highlights the ardent need for ease of doing business to be improved. As such, he calls for an 'uncompromisingly pragmatic' approach to building the SME sector.

“Government needs to deliver on the commitments it's made to reduce red tape and to make doing business in South Africa less admin-intensive and therefore more accessible to a wider spectrum of society.

“As we have seen through the results of the Business Partners Limited SME Index, policy reform will play an increasingly important role in creating a more enabling environment for entrepreneurs – particularly those who are entering the industry as first-time business owners.”

### **The role of training and development for aspiring entrepreneurs**

Furthermore, the sector faces a substantial setback in terms of the lack of adequate training and the mentoring of prospective small business owners.

“Through initiatives such as our annual business plan competition, we have identified the need for young entrepreneurs to receive quality education on business and specifically, how to survive beyond the first three years within South Africa's unique socioeconomic climate.

In addition, we also need to get 'back to basics' in terms of showing aspiring entrepreneurs how to formulate a business plan, how to comply with the relevant tax laws, how to train and hire their first recruits and most importantly, how to manage cash flow effectively. If we can focus on these key areas of personal and professional development, we can make faster progress towards building an entrepreneurial force that is well-equipped to take on the challenges that face South African small businesses," concludes Lang.

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