

# Small businesses are critical to SA's economy post Covid-19

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Over the last four decades the world has evolved into a multi-facet and revolutionary change. The challenges and complexities facing organisations cannot be separated from broader international developments.



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Organisations operate in a global world where economies and societies are intertwined. From a global competition and trade perspective, countries are tied through their business economic structures. Between 40 and 50% of the workforce in developing countries are employed in small and medium scaled businesses that were startups by enterprising individuals. Entrepreneurs through small businesses can cause a great impact on an economy through job creation and income generation.

In his 2012 article, titled *How Many Jobs Can Your Startup Create This Year?*, Brad Sugars highlighted that small businesses accounted for between 60-80% of all jobs in the US. Since 1995, small businesses were responsible for paying out 44% of the total US private payroll. Another important advantage of small businesses is that they give money back to their community.

A recent study by Retail Capital found that small businesses in South Africa are buckling – knocked by a low-growth economy, unreliable utilities and rising operating costs, among other things, the study further showed that business was only good for 10% of our SMEs, while the other 90% are floundering due to the weak economy.

"Half of small businesses had a cash buffer of less than one month...Moreover, 25% of small businesses hold fewer than 13 cash buffer days in reserve." published the JPMorgan Chase Institute.

### **Future opportunities**

It is inevitable that the future will never be the same. The last recession from 2008-2010 killed around 170,000 small businesses in the US, but there are opportunities in turbulent times too. Some of the most successful firms operating today started during recessions. Canon started during the great recession in 1930, Airbnb started in 2008 and Uber in 2009. For some, turbulent times present opportunities to disrupt and capitalise on resources that are being redistributed in the economy.

Speaking to Mybroadband, Efficient Group economist, Dawie Roodt projected that, 100,000 South African businesses could be shut down permanently due to the impact of Covid-19, based on an assumption of one million job losses from small businesses employing 10 people on average.

In the most recent past, we witnessed a mushrooming of “tender-preneureship” emerging from the South African governments’ encouragement of small businesses in an effort to curb the alarmingly high rate of unemployment. However, this did not come without its limitations, which in some instances exposed the vulnerability of the public sectors’ procurement and supply chain systems, therefore, defying the intended purpose.

In providing further detail on the relaxation of the lockdown measures the Minister of Corporative Governance Dr Nkosazana Dlamini- Zuma reiterated President Ramaphosas’ words that the national lockdown presented them an opportunity to restructure the South African economy for better, with reference to fair participation of all role players and transparency.

Despite indisputable evidence that SMMEs form the backbone of many successful economies, South Africa is yet to achieve this reality. All credit to the government for forming a department specifically focused on the development of small businesses, however to date, most SMME’s still failed within the infant stage. The ones surviving the first three years in business find it difficult to proceed and grow for various reasons ranging from the cost associated with compliance with regulatory requirements and high tax burdens. Perhaps it is time we draw lessons from other countries and learn how they built strong economies through championing the SMME philosophy.

### **Transformational process**

Through nearly five decades of hard work and sound economic management, Taiwan has transformed itself from an agricultural nation into economic power and a leading producer of high technology and consumer goods. Much of this growth has stemmed from Taiwan’s early development of small and medium enterprises. Extending credit to farmers and small business owners in rural areas can propel small and medium enterprises at the most foundational level in an economy. This approach is similar to Taiwan’s own “begin at the beginning” SME philosophy.

With sustainable small business and farming development in rural areas, reliance on imported products is eased,

employment is increased, poverty is reduced, and small businesses and farms are put on the road to growth. Some businesses and farms can, in the longer term, expand to larger operations, including exporting business. Also, as noted above, these operations can lead to stronger institutional capacity and stability.

The critical role of Small- and Medium-Size Enterprises (SMEs) cannot be overlooked when considering the South Korean economy. As a key driver of Korea's economic growth, the Korean administration has put a strong focus on supporting SMEs, which account for more than 50% of Korea's total manufacturing output and form the backbone of the economy.

According to IMF, India's GDP continues to grow at a fast pace, outstripping major world economies. Without any dispute, SMEs are one of the key drivers behind this growth story. This sector, comprising of manufacturing, infrastructure, service industry, food processing, packaging, chemicals, and IT, has emerged as the most vibrant and dynamic engine of growth of Indian economy over the past few decades.

The IMF further revealed that these self-funded proprietary firms, private co-operatives, private self-help groups, Khadi, and Village and Coir industries not only provide huge employment opportunities but also ensure regional balance by taking industrialisation to rural and backward areas, about 20% of SMEs operate out of rural and backward areas.

In India SME's employs about 106 million, 40% of India's workforce. SME's produces more than 6,000 products with a GDP contribution of around 6.11% of the manufacturing GDP and 24.63% of Service sector GDP. SME Output constitutes 45% of the total Indian manufacturing output. SME Exports 40% of the total exports. Bank Lending Accounts for 16% of bank lending. SME Growth Rate has as maintained an average growth rate of over 10%. Comprehending the sector's contribution towards employment numbers, towards GDP, innovation and entrepreneurship, the Government of India has launched numerous initiatives to further the cause of SMEs.

The South African economy may be enhanced by implementing practical solutions such as developing a clear legal framework for social enterprises. The lack of a legal definition of a social enterprise could be a source of confusion, and the lack of legal frameworks and structural support may pose constraints to the development of the sector. Legal frameworks not only bring clarity and provide legitimacy but also enable policymakers and private actors to support social enterprises. Strengthening the legal framework can bring needed foundational support to the policy ecosystem.

### **Entrepreneur education**

A great need exists for training on management skills and business acumen. A shortage of technical skills and financial resources constitute major barriers for social enterprises and inclusive entrepreneurs in South Africa. By developing special support mechanisms and instruments – for example, online courses for SMME's, or courses on the measurement of social impact – the government could address the needs of target groups and social enterprises. Developing dedicated instruments to promote entrepreneurship within the target group, via the group's allocated budget, could be a good practice example for the other target groups.

South Africa needs to strengthen the SMME finance ecosystem. To build on the existing structures that provide microfinance, the government could consider developing instruments to address the seed phase of social enterprises and entrepreneurs representing the target groups. In the longer term, the development of an overall impact finance ecosystem and partnerships with private-sector players could be beneficial for developing instruments that support the growth phase of selected ventures. A pro-active SMME development approach over a longer period could prove sustainable against a reactive relief funds approach.

The new era of the Fourth Industrial Revolution requires all industries to adjust and adopt new methods and technologies. SMEs need to keep up with the latest technology and trends to be competitive in the market. Fifty-nine percent of South Korea's SMEs are using emerging technology, and 45% use e-commerce to find new customers outside of South Korea while 49% predict an increase in revenues from e-commerce. An increase in e-commerce trade also means SMEs must rely more heavily on their logistics providers, and it is critical that they receive the support they need from the government to continue the growth of their business.

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