

BUSINESS BRIDGE FOR BUSINESS GROWTH[®]

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Is red tape costing you valuable time and money?

From the editor's desk

Welcome to the first edition of *Business Bridge for Business Growth*. This innovative newsletter is especially tailored for South Africa's up-and-coming entrepreneurs and their business partners. As an ambitious entrepreneur, you need the latest business updates and real-time insights into what is happening in your target market and in the overall business environment. To help you achieve your goals, *Business Bridge for Business Growth*, will feature news, views, and stories from our project partners and from our ongoing research into the small and medium-sized (SME) business sector.

Business Bridge for Business Growth aims to be the leading-edge entrepreneur-focused newsletter that gives you the vital information you need – and it's free!

Business Bridge for Business Growth is managed and published by SBP, an independent private sector development and research organisation promoting strategic partnerships and a better policy and regulatory environment for business growth in Africa.

We want this newsletter to meet the needs of South Africa's dynamic emerging entrepreneurs. Please let us know what topics you would like to read about in the upcoming editions of *Business Bridge for Business Growth*.

■ Michelle Preiss

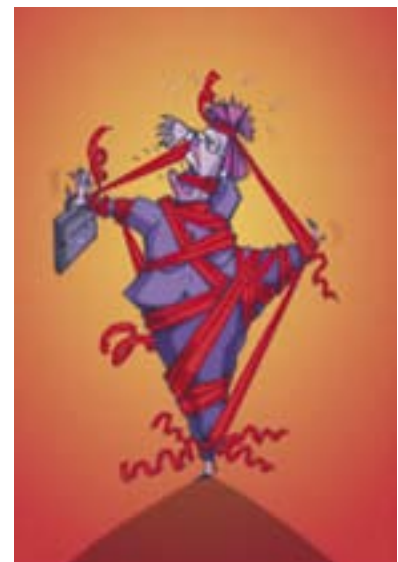
As a small business owner-manager, you personally know just how frustrating red tape can be. Maybe you don't have access to a messenger to lodge forms on your behalf. You probably can't afford an in-house financial manager to handle VAT and RSC levies.

So have you noticed that you are spending more and more time completing your UIF, VAT and RSC levy forms? Nowadays, you feel like you are always stuck at your desk, working through huge piles of difficult paperwork when you should be out in the field looking after your customers and developing new business opportunities. Is that right?

With these challenges in mind, the SBP has carried out a pioneering survey called *Counting the cost of red tape for business in South Africa* (SBP Headline report 2004). Between February and June 2004, a total of 1 794 businesses throughout the country were interviewed in depth, making this the largest survey of its kind undertaken anywhere in the world. Respondents ranged from corporations on the top 200 list to enterprises in the informal sector. The survey covered all the sectors of the economy, including manufacturing, mining, construction, trade, agri-business, and services.

Counting the cost of red tape showed that regulatory compliance – red tape – cost South African businesses R79 billion in 2004, an amount equivalent to 6,5 per cent of Gross Domestic product (GDP). The headline report can easily be downloaded from our website at www.sbp.org.za.

Here's a concrete example of the cost of red tape – both in terms of money and time. When starting a new business with a turnover of more than the VAT threshold (R300 000), nine separate registration requirements must be complied with. That means



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Finding out more about the benefits of Business Bridge

Your Business Bridge contact is Michelle Preiss. Feel free to contact Michelle with your queries and comments by phone on (011) 486 0797; by fax on (011) 486-0810; or by e-mail at michelle@sbp.org.za. Or chat to Michelle at your monthly Business Bridge meeting.

If you would like to find out more about SBP, access our user-friendly website at www.sbp.org.za.

SBP also publishes *Business Bridge for Business Growth* on its website, www.sbp.org.za, so you will be able to print out a spare copy, or check out previous editions.

Red tape news update

In his February 2005 State of the Nation speech, president Thabo Mbeki committed the South African government to reducing the red tape burden on small business. And in the 2005/6 budget speech, the minister of finance, Trevor Manuel, stated that small businesses are set to benefit from R1,4 billion in tax relief.

This includes the extension of relief to a broader range of service companies, and raising the turnover limit for eligibility from R5 million to R6 million.

Additional relief of R367 million would form part of streamlining ongoing filing obligations. This involves halving the number of VAT payments small businesses make in a year, and exempting them from the skills development levy. The exemption from the skills levy will benefit employers with an annual payroll of R500 000 or less.

Looking at the big picture for business growth in Africa

Most readers of this newsletter already know about Business Bridge in South Africa. But did you know that some of our other business linkages work includes projects in Tanzania, and future expansion into other African countries? To learn more, please read the following interview with SBP's director of operations, Corin Mitchell.

Many of you have met and networked with Corin at the monthly Business Bridge meetings. But when he's not busy with Business Bridge here in South Africa, he's often in Tanzania, where he has successfully implemented a programme called the Psi (Private Sector Initiative) Tanzania.

Business Bridge for Business Growth recently caught up with Corin to talk to him about the Tanzanian programme. 'The Psi Tanzania,' he said, is a mechanism for creating sustainable and mutually profitable linkages between large corporations and Tanzania's small and medium enterprises. It's been really successful,

because it makes business sense. It's not a charitable initiative. The Psi enables large companies to join forces efficiently with each other, government, donor agencies and Tanzanian SMEs.'

The following are the corporate participants in the Psi Tanzania: BP Tanzania, Kahama Mining Corporation, Kilombero Sugar Company, National Microfinance Bank, Sumaria Group, Tanga Cement Company, Tanzania Breweries, and Tanzania Cigarette Company. In 2002, the first year of Psi Tanzania, these corporate participants spent US\$21 million on inputs from Tanzanian SMEs. In 2003, this figure rose to US\$30 million – a remarkable 43 per cent increase. By the end of 2004, a further nine corporations had joined the Psi Tanzania.

The Psi has helped to increase the country's economic capacity, and helped organised business to participate more effectively in policy formation and dealing with issues relating to the investment climate as a whole. So keep an eye on Tanzania. As the Psi and the Tanzanian economy keep growing, there could be opportunities for you to explore ...

Breaking News: SBP, in conjunction with BP, will implement a regional Psi in Malawi in 2005, and is involved in discussions about developing a similar programme in Angola. Read *Business Bridge for Business Growth* for more news on the Psi's pioneering approach to private sector development.



Psi Tanzania public event in September 2004: From left to right: Fred Kibodya (government and external affairs manager, BP Tanzania), Corin Mitchell (director: operations, SBP), Sam Mupanemunda (head of country – Southern Africa, BP Southern Africa), Chris Darroll (executive director, SBP), and Frank de Cruz (communications and external affairs manager, BP Angola).

About SBP

SBP is an independent not-for-profit private sector development and research organisation, promoting strategic partnerships and a better policy, regulatory and operational environment for business growth in Africa. Our work combines research, advocacy, and practical business development programmes.

Originally known as the Small Business Project, SBP started life as a voluntary organisation in the early 1990s. In 1998 it was formally registered in South Africa as a section 21 company.

Over the years, SBP has grown and diversified. Some of our projects have become self-sustaining and have been spun off to develop on their own. However, the development of SMEs remains one of our main goals in South Africa and across the continent, as key to economic growth and job creation.

Through our Business Bridge programme, SBP empowers SMEs to enter the supply chain of large corporations in a mutually beneficial and sustainable way. In the process, SMEs can grow, generate profits, and create jobs.

Business Bridge is an informal business development forum for high-growth SMEs to get together on a regular basis to identify, discuss, and resolve real-time challenges and issues of mutual interest. It is an informal peer-networking tool leveraged to transfer skills, experience, and expertise from large companies to small companies. Even more important, it provides a platform for SME owner-managers to learn from one another.

In the policy field, SBP's broad objective is to assist governments in Africa to make life easier for businesses so that business can do what it does best: that is, provide much-needed goods and services, and create wealth and jobs. SBP gathers evidence about the specific ways in which laws and regulations create unnecessary problems for business. We then develop tools that governments can use to promote a more enabling environment for business.

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that you have to make contact with five different central government offices. And all the paper work has to be completed and correctly lodged before the new enterprise has been registered. Imagine how many opportunities you might be missing as you spend your precious time completing the forms and running from pillar to post as you lodge them.

And it doesn't end there ... there are other requirements that you need to adhere to, such as Occupational Health and Safety (OHS), the Labour Relations Act, and the Compensation for Occupational Injuries and Diseases Act, to name but a few. You also have to spend valuable time finding out which new regulations apply to you, and how to comply with them. There are so many new regulations each year that keeping up with changes is a serious challenge.

As an SME owner-manager, you will be interested to hear that the burden of red tape compliance costs is very closely linked to firm size. Small firms bear the heaviest burden in relation to turnover and number of employees. For instance, average red tape costs per person employed are ten times higher in a firm with five or fewer than five employees, than in a firm with 200 to 500 employees.

All this means that red tape often feels like a steep cliff blocking the growth path of your business. So what can be done to make the climb to success easier?

On the basis of our research, these are some of the suggestions that the SBP has made to government:

- ◆ Unnecessary requests for the same information from different departments should be avoided through better use of IT;
- ◆ Forms should be shorter, clearer and easier to complete; and
- ◆ The number of times in a year that forms have to be filled in should be reduced.

Reforms like these would return resources worth about R40 billion a year to the South African economy. And a significant part of that R40 billion would definitely find its way into the pockets of SME owners.

Business Bridge for Business Growth will regularly feature a 'Regulation Alert', ensuring that you are kept up to date with changes to the rules and regulations affecting small business in South Africa.



SME facts and figures

There are 73 million entrepreneurs across the globe, either starting companies or owner-managers of young companies. (*Global Entrepreneurship Monitor 2004 Executive Report*)

More than 30 million women worldwide are entrepreneurs, accounting for 41% of the 73 million people involved in starting up a business in 2004. According to GEM's *2004 Report on Women and Entrepreneurship*, the average level of female entrepreneurial activity across the 34 countries surveyed ranged from 39,1% in Peru to just 1,2% in Japan.

South Africa does not have very reliable business data, but, having analysed the available figures, SBP estimates that about 60% of formal businesses are SMEs. Everyone agrees that SME development is crucial to business growth and job creation.

There are 880 000 registered close corporations (CCs) and 340 000 registered companies in South Africa, according to the Companies and Intellectual Property Registration Office (www.smallbusinessonline.co.za).