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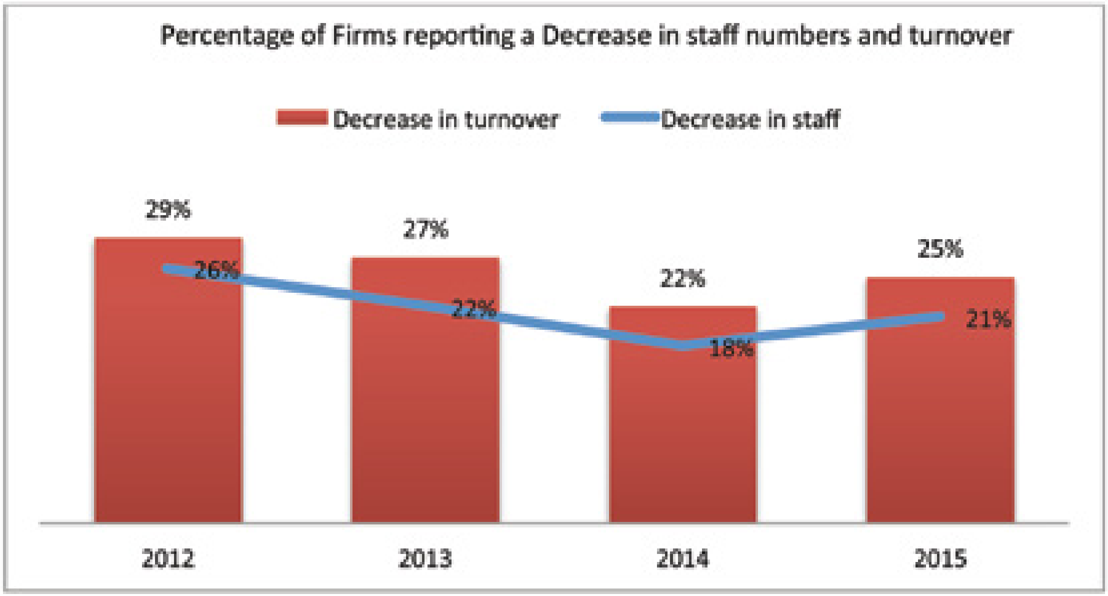
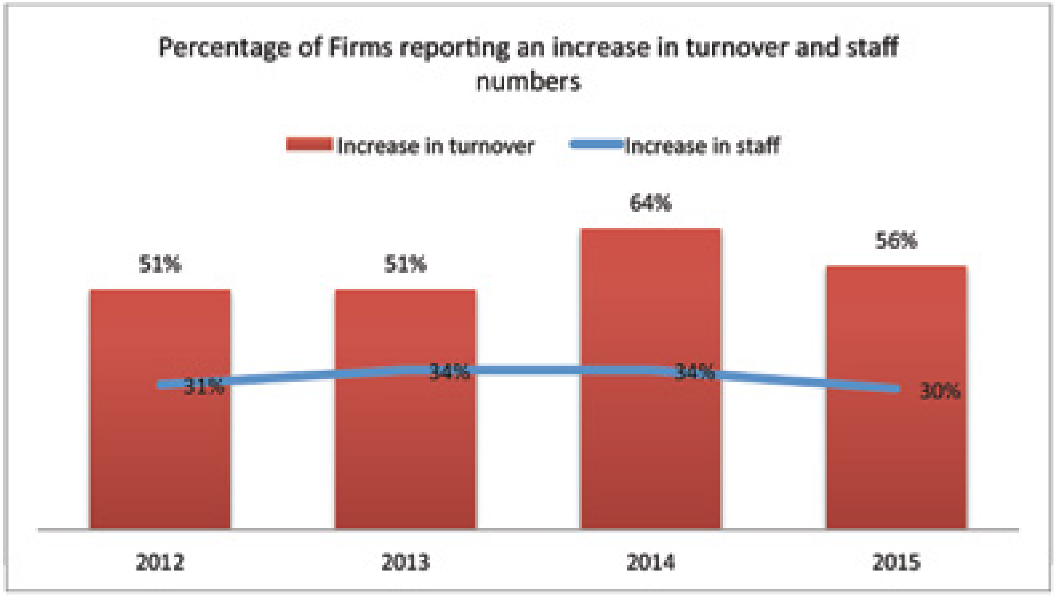
SME sustainability and growth should be an obsession for job creation in South Africa

Contrary to global trends where small and medium enterprises (SMEs) constitute the largest employer in either developed or developing economies, smaller firms in South Africa are showing stagnation in both turnover and employment growth. Both these measurements are important – turnover has a strong bearing on the wealth being created in the economy, while employment is vitally important for South Africa's social stability.

These worrying trends are the latest in the findings from the SME Growth Index. Conducted by business environment specialists SBP, the SME Growth Index is geared towards establishing a solid evidence-based understanding of SMEs in South Africa. The largest, most comprehensive study of the SME community ever undertaken in South Africa, the survey annually tracks a panel of 500 SMEs operating in three sectors across three metropolitan areas. The data assembled over the course of the study since its base year in 2011 provides an unparalleled resource for understanding the lived dynamics of South Africa's SMEs.

Just over one in five firms of the panel reported a decline in turnover between 2014/2015 and a further 20% reported no growth in turnover in the same period. Only 56% of the panel reported an increase in turnover at an aggregate annual increase of just on 11%, marginally better than 9% recorded in 2012 but down from an average of 13% in 2013/2014.

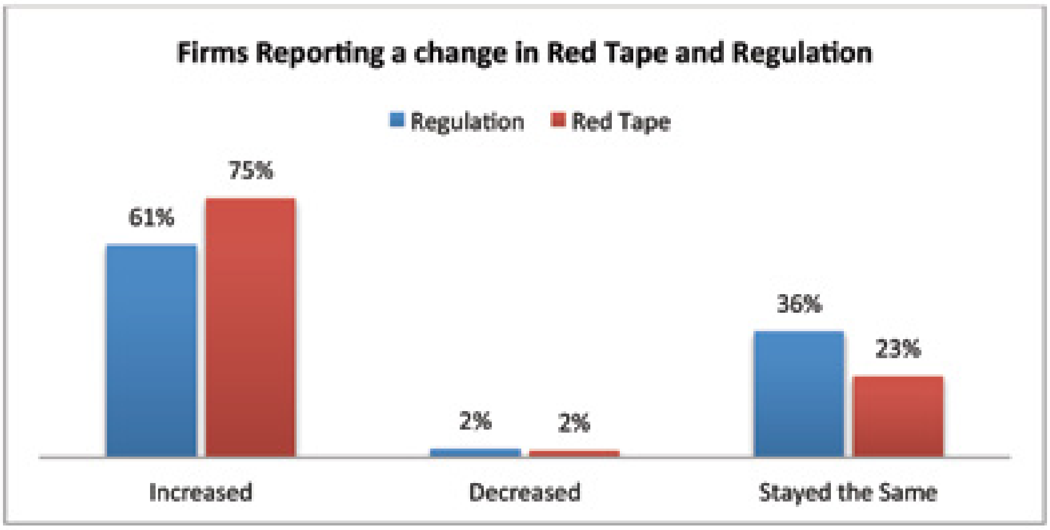




The number of firms reporting a decrease in staff spiked for the first time since the survey's base year, up from 18% in 2013/2014 to a current 21%, with panellists attributing the decrease in staff complements to unfavourable trading and economic conditions over the past year.

Year on year changes in the sub-indices of the SME Growth Index are showing downward trends. 78% of the panel report that the business climate is becoming increasingly hostile to their firm growth, representing the highest number of firms reporting this since the survey's base year in 2011.

To understand the direction that the regulatory environment is taking, panellists are asked to assess whether the amount of regulations they have to comply with has increased, decreased or stayed the same over the preceding year.



In addition, panellists are also asked to assess whether the red tape burden has increased, decreased or stayed the same. A clear majority (61%) believe that the regulatory burden has increased (up from 58% in the previous year). 75% of the panel also report that the amount of red tape has increased, up from 73% in the last year.

The latest findings of the SME Growth Index signal a crisis in confidence on the part of South Africa's SME community, driven in part by an excessive focus on regulation combined with policy uncertainty.

The shrinking role of small firms as job creators in South Africa has a troubling dimension. Not only could they be sources of dynamism and economic growth for the country – as they are in other economies – but smaller firms employ the type of people whose labour market characteristics mirror those of the unemployed. Given the right conditions, SMEs in South Africa could provide an important source of employment for the most marginalised in the South African labour market. Earlier findings from the SME Growth Index have shown that employment created by the sample was heavily biased towards unskilled employees. The current downward trend in turnover and employment absorption shown by SMEs is bad news. As a community, SMEs are not taking on staff in large numbers as they are elsewhere in the world, depriving those least competitive in the job market of the opportunities to earn an income and the dignity of work.

In a country where, according to the latest findings from Statistics SA, fewer than half of all adult South Africans actually work and the rest – an astonishing 8.7million – are unemployed, the sustainability and growth of our SMEs should be an obsession if South Africa is ever to attain the socio-economic goals of the National Development Plan.

Government is investing time and money in a variety of policy initiatives – new visa regulations, new business registration rules and the recent changes to the BBBEE codes – whose effects on the sustainability of SMEs and jobs have significant impact.

In the move towards achieving radical transformation and a developmental state, Cabinet recently approved a new methodology that now require all national departments to measure the impacts of regulation against government's objectives of (in order of priority) social cohesion, security, economic growth and environmental sustainability. The new Socio-Economic Impact Assessment (SEIA) methodology, championed by the Department of Performance and Monitoring replaces the Regulatory Impact Assessment (RIA) system adopted by Cabinet in 2007.

Whether government's new SEIA approach will encounter the same difficulties in implementation that the RIAs experienced, the fundamental issue facing South Africa is about embedding sound regulatory governance and policy certainty.

Equally, it should not be assumed that a focus on regulatory environment would be in itself a sufficient intervention to propel market-driven economic growth and large scale job creation. To do so is to simplify a complex set of issues. The failure of South Africa's SMEs to drive inclusive growth, unlike their peers elsewhere in the world, is an outgrowth of numerous factors that cumulatively express themselves in diminishing workforces, declining demand, skills shortages, restricted cash-flows, dysfunctions in governance and poor service delivery.

The latest findings of the SME Growth Index are signalling a business climate that is growing increasingly hostile, especially for South African SMEs. There needs to be a quantum change in government's thinking towards increasing the country's global competitiveness and supporting the sustainability and growth of its smaller firms.

A key recommendation is that every government policy and regulatory initiative, existing or new, needs to be looked at through the lens of whether its effect on job creation, business and especially SMEs, and market-driven economic growth will be positive.

In adopting the use of SEIA, government must commit itself to ensuring that all policies, laws and regulations are measured against their effects on economic growth, job creation, business growth particularly SMEs, poverty and equity and transformation, as factors that will lead to the broader objectives, such as social cohesion, only in the longer term.

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SBP is a not for profit company specialising in improving the environment for doing business. We have worked in Africa and internationally since 1998 providing innovative solutions for policy formulation, better regulation and development in emerging markets. We have a special interest in small business as vehicles for growth and job creation.

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