

# SMME Development in South Africa

*Briefing to the Portfolio Committee on Small Business Development*

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**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# The SMME Sector in South Africa

- The share of employment in SMMEs is high, but declining
  - 75% of employment in 2008 was in firms smaller than 50 employees
  - Fallen to 65% in 2013
  - Loss of 1.4 million jobs
- Rate of growth of SMME sector is low – turnover increased by only 13% in 2103, moderately above inflation.
- In 2013, 29% of SMMEs faced a threat to their survival
  - 35% faced threat to survival in 2012
- SMMEs suffer from different problems.

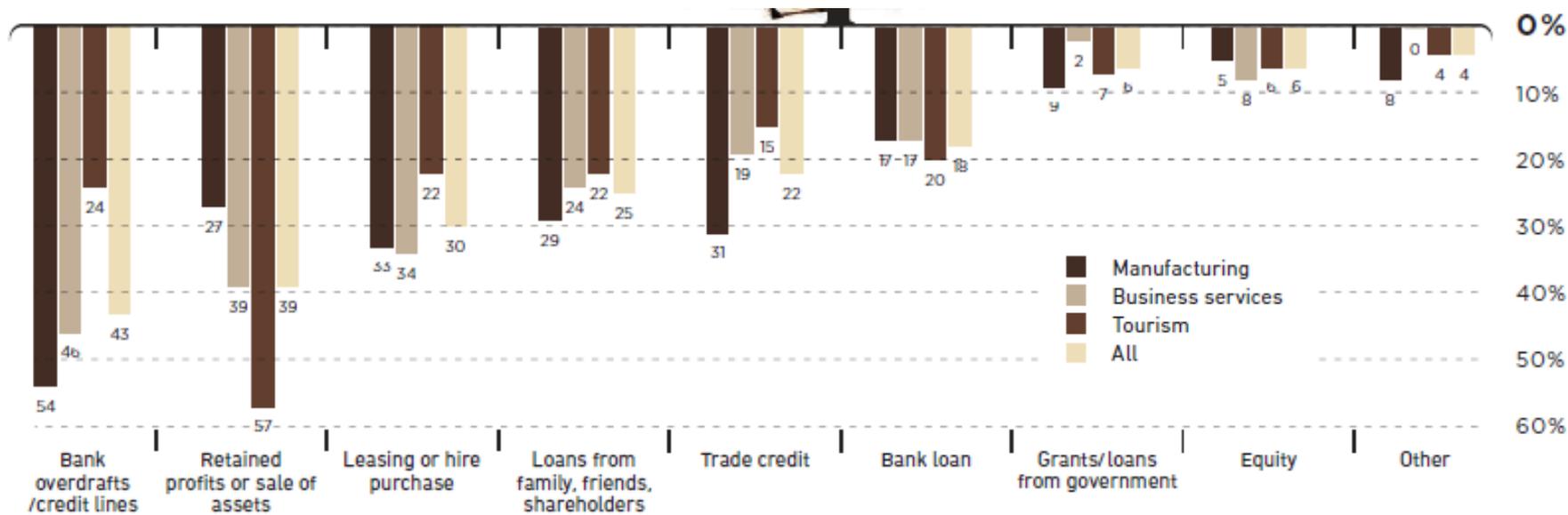
# Obstacles to SMMEs

- SBP has an annual survey of 500 SMMEs
- 71% of panel said it had become harder to operate a business in South Africa in 2013
- Chief obstacles to growth were:
  - Lack of skilled staff
  - Regulations
  - Local economic conditions
  - Access to finance
  - Cost of labour
- Lack of skilled staff and regulations were the worst obstacles for fastest growing SMMEs.
- Companies spent an average of 75 hours a month dealing with red tape.

# Financing SMMEs - government

- A number of initiatives have been centralised in the Small Enterprise Finance Agency (SEFA)
  - Amalgamation of South African Micro Apex Fund, Khula Enterprise Finance and the small business lending of the IDC.
  - SEFA is a subsidiary of the IDC.
  - SEFA receives an allocation of R861m over the 2014 MTEF from the Department of Economic Development which included allocations from the Economic Competitiveness and Support Package)
- SEFA has two main lending products
  - Direct lending – loans from R50 000 to R 5m
  - Wholesale financing
    - Lending via private sector parties
    - Joint ventures
    - Credit guarantee scheme – risk-sharing with private banks
- Government is a small part of a much broader financing framework for small businesses

# Small Role for Government as a financing mechanism



# Other Government Support for SMMEs

- Small Enterprise Development Agency
  - Provides non-financial support to SMMEs
  - Allocated over R1.5 billion over the 2014 MTEF
  - SEDA Technology Programme – support to technology-based SMMEs through incubators
  - Allocated R397m over the 2014 MTEF
- Incentives in place to support Small Business and Cooperatives aimed broadening participation and cooperatives to improve competitiveness and sustainability
- iMbewu Fund – SMME Fund run by the National Empowerment Fund
- Tourism Enterprise Partnership – support to SMMEs in the tourism sector – in collaboration with the private sector
- Strategic Partners in Tourism – allocates procurement to SMMEs
- Socio-economic Transfers – provides technological support to SMMEs
- Idea Development Fund – Technology Innovation Agency provides small amounts to SMMEs to patent their IP
- IDC runs a small-scale mining project for DMR
- Provinces and cities run their own incubators and provide funding

# Concluding thoughts

- Most funding comes from the private sector.
  - What then is the role for government?
  - Indications show that financing is not most important challenge, but most of our programmes are about providing funds
- Uptake of government support is very low in the sector. If financing is such an obstacle, why is there not greater demand for government funds?
  - Are companies aware of products?
  - Is the cost of accessing funds too high (regulations)
  - Are we offering products that the market wants?
- **Treasury view** SMME development is a crucial element of our economic strategy. Getting our strategic intent right, prioritising activities that service the intention, coordinating different government initiatives and providing products that the market requires is a necessary first step.