



FORUM REPORT



SMALL AND MEDIUM ENTERPRISES IN THE SPOTLIGHT – A FOCUS STEMMING FROM PBF NETWORKING EVENTS

A recent series of Progressive Business Forum networking sessions, held in Durban, Johannesburg and Cape Town, provided a platform for business people, to interact with Government Ministers and senior Officials. These sessions provide direct insight into the state of SMME's in South Africa and the extent and effectiveness of Government interventions to address this engine of the economy.

The following is a summary of some of the salient points made by the Minister of Cooperative Governance and Traditional Affairs, Sicelo Shiceka and his Deputy, Minister Yunis Carrim, during these events. They are presented herewith to highlight the importance accorded by the Government to Small and Medium Enterprises.

The State of Play

South Africa's gini coefficient (a measure of the degree of inequality of earnings) remains one of the highest in the world. Without any doubt, the global economic crisis has had a serious impact on business in general. SMME's have been severely impacted.

Unfortunately, access to funding and projects remains one of the principal obstacles to participation in mainstream business activities, which have been experienced by the historically disenfranchised in this country. The South African Government has identified this fact as a weakness that needs to be addressed. Despite limited resources, Government remains determined to prioritize SMME development, given its vital role as a driver of future development and as a mechanism to fight poverty, unemployment and inequality.

As a country, South Africa remains overly reliant on capital in production. This constrains our objectives as a developing state, both as a provider of employment and to ensure greater equality in South Africa.

Domestic production output has not been optimal and we have experienced an increase in imports to our country, particular in sectors that are traditionally labour intensive. The strength of our currency as well as our labour policy has also limited our ability to appropriately respond to these challenges.

With the scaling down of production in the labour intensive sector, we have witnessed significant loss of jobs, particularly in the unskilled sectors like mining and manufacturing. The question facing South Africa is - "How can we respond to these challenges"? Some alternatives spring to mind such as:

- Amending our economic and labour policy accordingly;
- Making a structural shift away from mining, towards services - being mindful that such actions should not interfere with investments.

Ours is an economy on the mend in the wake of the economic challenges of the past few years. A strong emphasis on SMME development will assist our resiliency. The quality of our response to these challenges will be informed by the extent of businesses partnering with Government and the resultant innovation that arises from that partnership.

So What?

The Government is widely respected for managing the economy effectively and for creating an economy, which is robust and stable. This aside, we must also accept the fact that it has not, as yet yielded desirable results in the area of narrowing the inequality gap and more effectively alleviating poverty.

The collapse of certain prominent foreign banks and the financial challenges experienced by Greece and Portugal, remind us that no country or institution is immune from the economic impact of living in a global village.

South Africa has been constrained by bottlenecks in our economy. Government has had to identify new growth areas that will promote and incorporate labour intensive methods in building social cohesion and using levers of state to achieve sustainable business growth.

The domestic economy allows little room to maneuver. Government believes that more emphasis should be placed on promotion of enterprise development through government infrastructural expansion projects.

The Minister of Cooperative Governance and Traditional Affairs, Sicelo Shiceka, has conceded that in order to bolster

social cohesion and get the country functioning optimally, Government must fulfill its mandate. This would involve ensuring the speedy and effective delivery of basic services such as water, sanitation and electricity amongst other societal competing interests, like housing and education.

Access to essential services has improved dramatically, but more still has to be done. There exists a backlog of nearly 2,1 million houses for example and Government has to move swiftly to pioneer a partnership model with banks to appropriately respond to these important challenges. In this regard, Government has pledged almost 1 billion Rand to partner with banks to provide bond access to those who do not qualifying for either government subsidy houses or mortgage loans.

Despite the demands on the economy and the global recession, Government has remained steady in the provision of most services. Government anticipates that the pace of delivery will also accelerate significantly to meet the 2014 objectives as outlined by Government.

Based on these challenges, Minister Shiceka has noted that government on its own will not attain these ambitious goals without private sector involvement. Private equity funds, backed by foreign investors can be a solution to boosting infrastructure finance.

The reduction in tax revenue, growing social security requirements and also the decline in local gross fixed capital formation, have negatively influenced Government ability to deliver on its mandate. Private sector involvement is likely to stimulate the economy by creating employment opportunities.

It is the intention of the Government to strive towards a business environment that is biased towards SMME's. These enterprises will need assistance and greater facilitation in order to do what they do best- absorb labour faster than most other sectors. It is the intention of Government to assist these SMME's to achieve just that.

It is exactly amid this environment – which the Progressive Business Forum (PBF), comes into its own – The PBF exists to harness the twin motors of Government and Business to ensure mutual benefit. Most businesses have not shied away from working closely with the PBF and have played an active role in the dialogue of the forum since its inception. The participation of these businesses, ensure that their voices are heard and responded to.

Shape of Economy

South Africa is an energy-based economy and its growth depends upon stability of supply and the creation of new ways to harness alternative energy. Sustained growth of our

economy will require strategic infrastructural investments and development of human capital, particularly in the areas of science and technology.

South Africa requires a mix of production dynamics, Minister Shiceka said. He identified the fact that South Africa should strive to use local product and expertise over importing of foreign technology and expertise. South African innovation stands to provide a depth to our economy. Innovation indeed, which will add diversity and hope-grown expertise in all sectors. Minister Shiceka added that innovation stood to provide employment opportunities and thereby assist in eradicating wealth inequalities in South Africa.

South Africa will expand employment opportunities as its markets grow. The Minister called on stakeholders to play a more active role in stimulating enterprise development.

It is important, Minister Shiceka pointed out, for Government to make a strategic investment in areas of comparative advantage. The economic benefit that could be derived there from was proportional to the investment, he said.

Leadership

Leadership, governance, and effective government are important for investment, but there ought to be a balance between investor interests and societal interests.

As society has changed, so too has the response by Government. These changes are reflected in the structure of Government Ministries. Key policy directives have been undertaken to review and reconfigure Government business. This has altered significantly the way Government performance gets appraised and is monitored. The appointment of the Minister in the Presidency responsible for Performance and Monitoring was the most logical way for ensuring that Government is responsive and proactive in respect of the needs of all citizens.

Essential to these changes is the imperative for Government to minimize costs and avoid duplication. The establishment of the Ministry of Cooperative Governance and Traditional Affairs was designed to eliminating strict departmentalism and to greater better coordination among Departments of all Ministries.

Banking

South African Banks have proven in the past that they are resolute and robust. The financial crisis that eliminated credible international banking institutions provides us with reasons to be optimistic that our banking system is globally competitive in all spheres.

Times of crisis however, reveal faults and shortcomings, for example, the harsh and unbending policies that involved repossession of the assets of clients unable to meet debt obligations because of the financial crisis. Whilst banks have to protect shareholder value, they also have a moral obligation to their customers.

Some lessons can be learned from the way in which India supports its small enterprises. Most of the entities are capitalized by government support and the Small Industries Development Bank of India. There is a broader buy-in from member banks to support these initiatives and this ensures that access to finance is not a complex and time-consuming process.

In South Africa, the Khula Small Enterprise Development Agency's decision to directly lend to business owners through the KhulaDirect scheme, provides a more positive outlook for the SMME sector, granting access to funding at a quicker pace.

Procurement

One of the most delicate issues of dealing with Government has been tendering. Doing business at local government level has often been riddled with accountability issues and procurement policy challenges.

Government has to tighten the procurement process if it is to obtain public confidence in the adjudication of procurement. There are presently inefficiencies and at worst, allegations of corruption.

One immediate solution lies in a rigid peer review process on the actual adjudication of price. More often than not, the procurement policies fail to deal with actual costs of doing business and financial risk of exposure. This almost always leads to the awarding of a tender to a business with no capacity to deliver, as it did not comprehend the full nature and extent of services to be provided.

Yet another problem facing SMME's is the difficulty encountered when seeking to compete in a tender with a large established company.

In addition, another issue is that Government's procurement processes allows for higher margins to be charged by businesses. This reveals a sharp difference in the structure of pricing from one region to another. Community participation and ownership will ensure accountability and lower costs.

Minister Shiceka stressed transparency in the tender processes. There is a determination on the part of Government to effectively prevent tender manipulation. Such steps include, but are not limited to, accounting officers taking direct responsibility for the process and ensuring that

stakeholders are the only responsible personnel to oversee the process.

The prevailing view is that Government is corrupt on this issue, but the truth is that some in the private sector are willing participants. A rapid response to corrupt business practices will curb any corrupt practice by the private sector.

Economic challenges

We have witnessed the growth of our economy over the last few years, but Government is the first to admit that this does not translate into truly meaningful gains for the poorest of the poor. South Africa has witnessed a loss of almost a million jobs in the last few years.

The Government is convinced that its social programs and Extended Public Works Programme have helped to cushion the severest impact of the economic downturn.

What remains unfathomable for the Government is that the majority of our population remains outside the formal economy. It is incumbent on all stakeholders to ensure economic growth filters to as many sectors of the society as is possible.

LED & Municipalities

Local government is the critical focus of delivery. Community and business participation is of critical importance. Some municipalities are on the verge of insolvency, and the services they are supposed to render, almost non-existent.

In response to this state of affairs, Government unveiled the Local Government Turn-Around Strategy (LGTAS) the purpose of which is to address the municipal challenges and to turn them into a well functioning vehicle for service delivery. Amongst some of the targets, is the goal to ensure that by 2014, all municipalities have achieved clean financial audits.

The policy that advocates that municipalities are similar or identical does not work and has proven to be the downfall in the service delivery of several municipalities. One step to address this problem of resources, is the announcement of the introduction of the Special Purpose Vehicle (SPV) to deal specifically with inter-government co-ordination.

Initiatives such as Local Economic Development (LED) must be strengthened to achieve their intended goal. LED is aimed at ensuring the cooperation of civil society, business and municipalities to ensure economic growth, job creation and local development in a municipal area.

To ensure sustainability and ownership of local development, there must be availability of primarily local resources and skills to stimulate growth and development. Municipalities

have a responsibility to foster the conditions for business growth in their areas. It is envisaged that the LED will promote skills enhancement and growth of local businesses. Municipalities will also thereby attract domestic and foreign investments

PBF

The majority of PBF participants fall into the category of SMME's which is the single biggest driver of employment their growth will almost definitely have a positive impact on employment and GDP growth.

The PBF must remain at the forefront of stimulating a dialogue and facilitate continuous learning and assessment of how Government performs in the area of business promotion.

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To put it in context, the PBF must take the lead in organizing and facilitating an economic summit that will assist government in navigating the economic direction of the country and ensure that it is inclusive and beneficial to all citizens of South Africa.

Conclusion

Government considers SMME's an engine of employment creation and poverty alleviation.

There must be shared common objectives, as is the case with China, in which businesses and government reach a consensus. Strategies and steps are agreed between the sides and priorities are established for the country to achieve. The key ingredient for the growth of the economy of South Africa is involvement and investment by private sector players.

Following are a selection of the questions raised and the answers given during the networking sessions (Minister Sicelo Sicheka, Minister of Cooperative Governance and Traditional Affairs and his Deputy, Yunis Carrim gave the answers)

Q: Whilst the first and second tier of government are working effectively and efficiently, one of the biggest concerns lies in the third tier, where they seems to operate with impunity, what is being done to address these problem?

A: *Government has noted the problem and it is receiving the necessary attention. We are aware that there is often no accountability in the structures mentioned, particularly at a level of SOE's, in which initiatives such as empowerment are not taken into account when the businesses procure services..*

Without viable SOE machinery, which is aligned to the government agenda, we will definitely fail to be a developmental state that we all envisage it to be. It must also be said that these entities rely to a certain extent on public funding for their operations.

The issues of procurement in these structures have always been a bone of contention, and need to be thoroughly addressed given the fact that their failure to comply impacts on government business. As we speak there is a process in motion which is meant to reconfigure SOE's and ensure that the operational capital in their budget is spent to boost SMME development.

We are also aware of the fact that certain large corporations have benefited significantly from government business at the expense of SMME's. The PBF must take lead and engage the Minister to address these kinds of activities on behalf of their membership.

Q: The issue of the benefits to be derived by the hosting of the World Cup is contentious given the fact that only or mostly big companies were the beneficiary of the project. Another concerning factor is the issue of fronting. What is government doing pertaining to this issue?

A: *It is important to ensure that government does audits on beneficiaries of this massive project to ensure that in future the benefits that flows from such projects are not only enjoyed by the big corporates but do trickle down to all business irrespective of size and character.*

What must also be mentioned is that projects of this nature are a catalyst in fast tracking development of SMME's. We have learned our lessons and we will ensure that in future, all activities are conducted in a way that they assume a project character that must benefit SMME's in particular.

Q: One of the biggest constraints in doing business with government is the legislative requirements. In many instances when there is big project to be done, one of the requirements that a Construction Company must have to succeed is the CIDB (more often CIDB 8). In all likelihood, only a few SMME have this accreditation. What is government doing to address this issue?

A: *This is truly a concern particular as it goes against our goals in government and the ANC, which is to ensure equal distribution of opportunities and wealth. If we want to address economic inequality, the starting point will be re-looking the legislative aspects that disadvantage businesses to operate and compete on an equal basis.*

A process to review these kinds of requirements is happening with the involvement of the Ministry concerned. We acknowledge that these serve as blockage to getting more participation by small business in big contracts. I must also quickly add that it was done with good intentions, of which one was to curb poor workmanship performance. We are mindful that it disadvantaged mostly the historically disadvantaged and entrenches big business who continues to get the bigger slice of government business.

Q: Land remains the Achilles heel of most cooperative ventures; what is government doing to help cooperatives?

A: *Cooperatives play an important role in our economy given the skills challenges and unemployment. Our government has undertaken to make this one of the most important economic interventions to transform the economy. The current*

administration's policy is to pump more resources into the sector and have a biased approach in which services and products supplied by cooperatives in certain areas like hospitals, receive preference when a procurement decision is taken.

Q: As a SMME entity doing business with government, we have found it difficult to operate effectively given government's poor creditor payments; what is being done to address this?

A: *It is important that government lead by example in this regard and does not fail the micro enterprises that we profess to support by our inability to meet payment obligation within the stipulated time frame. My Department has taken issue with Departments who are failing to pay suppliers within normal stipulated time frames.*

Also, the President has spoken about this matter and he is in the forefront to encourage, but also prescribe in no uncertain terms that the failure to pay has a direct impact on SMME's and we need to urgently address it.

Government has given all concerned Department ultimatums to get this resolved within a reasonable period. For instance, Gauteng fast tracked the process since the new administration took over. People will also be held accountable for this embarrassment.

Q: Why must business be expected to adopt a municipality?

A: *It is in everyone's interest, including business, to have a well functioning and effective municipality, delivering quality service. It is also incumbent on business to make it work and be held accountable. Enhancement and strengthening of interaction between these entities will serve all parties concerned. Such interaction will also allow the two entities to share best business practice, knowledge, and the improvement of services.*

Q: Bureaucracy remains the biggest obstacle in working with the authorities; what is the Ministry doing to resolve the issue?

A: *This is a concern that we are addressing and we have staff available to effectively deal with queries and attend to other issues. Business is encouraged to have direct access to my staff. To have a more direct contact you can contact the following people in our Ministry for assistance:*

sshoba@coqta.gov.za
brutusm@coqta.gov.za

Q: What is government doing to up-skill rural municipalities and how is monitoring done to ensure quality service delivery?

A: *Municipalities are the most crucial pillar of our government as they are at the coalface of community deliverables. Without capacity, they will never be able to deliver quality services. Our response to the challenge encountered by municipalities include improving quality monitoring and ensure that those who do poor workmanships are disqualified and blacklisted from doing future government projects and where necessary, we will not hesitate to take the companies to court to recover losses that might have been incurred by the municipality.*

But it is also important to ensure that the adjudication process is transparent and fair. This entails growing the skills base of the officials responsible. We have to also look at ensuring that the future appointment of the top 5 municipality officials are conducted in a way that will help to get quality individuals.

Q: On the trade front, China is the leading exporter to South Africa; is there possibility to copy their approach? We are currently importing more than we are exporting ...

A: *Whilst that is achievable, it is the practicability of implementation, given our domestic policies that are the issue here. An input-output methodology has been used to analyse the sources of sectoral and aggregate growth in the domestic market; and it is clear that we must promote the manufacturing industry. Through Nedlac, there are stimuli to improve these sectors.*

An initiative or agreement was reached by Nedlac to restrict the inflow of goods from China, given its negative bearing on the economy and employment. It is the private sector competing with the private sector with goods flowing from Malaysia and other countries. We must also take into account the interest of the labour movements when considering the adoption of the

Chinese model. Also during the State of the Nation address, new creative measures were announced by the Presidency to deal with the wage factor that is meant to satisfy the labour movements – namely a wage subsidy.

Q: The character of most strikes has been accompanying violence, which is very negative for business. What is being done by government to counter this culture?

A: *It is unfortunate. But it is also important to note that it is a democratic right to engage in industrial action. We also need to locate this in their correct context that for workers it is important to exert some pressure on authority to accede to their demands. What can be of concern is the extent of violence when embarking on strike. A process has been put in place to counter such occurrence and government is very proactive by engaging the employees through the bargaining unions in which there is wage agreement negotiations that covers a period of 3 years before another review.*

Q: What is happening to Municipalities requesting/inviting proposals for skills development and training and then do not act on it? There is problem with taking accountability for the SMME's.

A: *We are aware that municipalities have also failed in their mandate to play a more decisive and influential role in strengthening business by being accountable. That is being addressed; we also encourage you to get in touch with our staff to get assistance in respect of holding a municipality to account. As PBF, you must also play a more decisive role in facilitating and providing information to engage with us. We must make sure that people are involved in building the country.*

Q: Accountability and accessibility remains one of the biggest challenges in the municipalities, what is being done to improve the situation? More often municipalities do not want to make a decision.

A: *We admit that access at times is the biggest obstacle and it gets to be worse if the municipality is led by a different political organization. In those instances, we are incapacitated to have stronger influence but we've got a relationship with most executives of those municipalities. We will do all we can to ensure that access to decision makers in the municipality is created and where you battle to gain access, we are there to lend a helping hand. We, however, do not guarantee the outcome of the discussion.*