
THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

SPECIAL EDITION: THE STATE OF SMALL BUSINESS IN SOUTH AFRICA

Briefing Note: Small business in the Job Summit

The Presidential Job Summit framework agreement targeted growth in small business as a central way to promote employment and greater economic equality in the long run.

It noted that

“The restricted small business sector is a major contributor to high joblessness. Just 6% of South African adults are self-employed or employers, compared to an average of almost 20% in other upper-middle-income countries. This reality arose because apartheid largely destroyed small black-owned business. Boosting employment to normal levels requires that we work together to rebuild the market and financial systems, infrastructure and resources required for a vibrant small-business sector.” (NEDLAC 2018, p. 7³)

In response to this situation, it emphasised the need for

“Holistic support for township and rural enterprise. Township and rural enterprises require not only resources, but also appropriate marketing and procurement systems, industrial and retail sites, reliable municipal infrastructure, and in some cases skills development and mentoring. Many actual and potential farmers need better access to land and water. Strategies to expand economic opportunities must address all of these shortfalls in a holistic fashion, with scaled up resources and support from all of the NEDLAC constituencies.” (NEDLAC 2018, p. 9)

The NEDLAC constituencies added that they were “committed to supporting small and medium enterprises to build their capacity and leverage national, regional and global value chains.” (NEDLAC 2018, p. 8)

The commitments in the Framework Agreement range from relatively small pacts, for instance establishing a single business that will employ a hundred workers, to reforms to market and procurement systems as well as regional schemes that could generate opportunities for tens of thousands. We here summarise some of the larger pacts.

All the sectoral and regional proposals in the Framework Agreement have elements of support for small businesses. They include the following:

- A large-scale agri-industrial programme has been initiated in the West Rand, building on resources left behind by gold mining in the region. The programme, supported by a variety of public and private entities, aims to leverage over R15 billion to promote agriculture and processing on 30 000 hectares of land. It will provide infrastructure, training facilities and other forms of support for producers.
- A number of initiatives will expand agricultural opportunities mostly for emerging farmers. Companies engaged in fruit production and livestock committed to fostering new suppliers. The establishment of agri-parks mostly in historic labour-sending regions will provide marketing, processing and other services for small producers. “Smart

villages” with infrastructure for small businesses will be established for farmworkers.

³ NEDLAC. 2018. *Presidential Job Summit Framework Agreement 4 October 2018. Annexure*

1. Johannesburg.

- The metals and machinery industries support around a quarter of formal small businesses in manufacturing. The Job Summit agreed to strengthen measures for the industry, including through supplier development, training, and increased take up of the Industrial Development Corporation’s (IDC) Steel Downstream Competitiveness Fund.

Sector initiatives were also proposed for the clothing, furniture and auto value chains and for business process services. Since these industries are important for formal small and medium enterprises, the proposed measures will open opportunities for small business on a significant scale.

Sefa, the small-business programme in the IDC, plans to scale up its Khula Credit Guarantee scheme. Under the initiative, government provides guarantees for private trade finance, loans for working capital, and finance for small businesses and co-operatives. It will provide guarantees for between 50% and 90% of loans to individual firms and to Portfolio Guarantee schemes operated by banks or non-bank financial intermediaries. It will also grant guarantees to suppliers who in turn can provide trade credit to small and medium enterprises. The ceiling for the guarantee will vary by industry, ranging from R5 million to R15 million.

Government has also committed R3 billion through 2020 for schemes to support small business in agriculture and in townships. The aim is for government and other NEDLAC constituencies both to empower and to learn from a broad range of approaches.

In rural areas, the initiative will support product clusters in agriculture. Specialisation should help smallholders to collectively improve procurement, marketing, skills development, packing and transport, and extension services. The initiative would support a variety of institutional set ups, including marketing co-operatives, non-profit support organisations and out-contracting by established processors and retailers. The aim is both to adapt to the needs of smallholders in particular regions, and to leverage existing support programmes around infrastructure, access to land and water, and extension services.

For township enterprise, the initiative recognises the need for initial funding to provide infrastructure, market services and technical support. These programmes need to coordinate with municipal planning to develop industrial and retail centres.

The Framework Agreement emphasises the importance of promoting local procurement in both the public and private sector. The measures proposed include identifying areas where import replacement makes sense and managing tender specifications to avoid unnecessary barriers to local producers. In this context, three initiatives aim to maximise the benefits to small and medium enterprises.

- Government committed to intensifying efforts to ensure that in larger contracts, 30% of

the value is subcontracted to small business.

- Government and business will strengthen existing initiatives to ensure payment within 30 days of invoicing, particularly for small and micro enterprise as well as co-ops.
- The NEDLAC constituencies agreed to replicate two existing initiatives for incorporating small business into the supply chains of government and large private companies: Gauteng's Township Economic Revitalisation Programme and the Supplier Development and Capacity Building Guideline developed by South African Supplier Development Council (SASDC). It was agreed that the provinces would each target between 1 000 and 2 500 small businesses, at a cost of around R24 000 per supplier.

Two initiatives centred on supporting youth entrepreneurs. The Finfind project brings together public and private actors to train and fund interns to assist small businesses with financial record keeping and readiness capacity. Under the Bizniz in a Box Youth Development Programme, Coca Cola and sefa work with agencies to provide training, mentorship and resourcing for emerging youth retailers.

The Framework Agreement argues that early childhood development centres provide an opportunity for small businesses based on existing government subsidies. It includes two initiatives to expand the number of small business providing these services by providing training, funding and access to the subsidy.

For more information on the Job Summit, click [here](#).

Published: January 2019