

**ADDRESS BY THE KWAZULU-NATAL MEC FOR ECONOMIC DEVELOPMENT AND
TOURISM, MR MICHAEL MABUYAKHULU ON THE OCCASION OF THE DURBAN
BUSINESS FAIR**

19 APRIL 2013

Programme Director;

His Worship, the Mayor of eThekweni Municipality, Councillor James Nxumalo;

Esteemed members of Parliament Present;

Representatives from the Business Community;

Dignitaries;

Ladies and Gentlemen;

All protocol observed.

On behalf of the government of KwaZulu-Natal and the people of this province, we wish to express our sincere gratitude for being part of this event which is aimed at highlighting the importance of the small medium micro enterprises in our economy and, critically, the contribution of this sector in creating employment in our community.

Programme Director; allow us to shower the eThekweni Municipality with kudos for its dedication to making this event, which started from humble beginnings a few years ago, as one of the premier platforms which showcases the importance of the SMME sector in our province.

As all of us know, this year we are celebrating 15 years of the success of this fair, a milestone that should make all of us proud of the role that has been played by the eThekweni Municipality to grow this fair. As many would recall, in its formative years, this fair was focused on showcasing small businesses around the city of eThekweni. The growth and determination of small businesses who participated with gusto over the years have ensured that this fair become a key event in the annual business calendar of our province.

Programme Director, research all over the world has shown that the surest way to create employment is by stimulating the SMME sector of the economy. Among a number of reasons that have been cited by scholars are that small businesses survive and prosper for many different reasons chiefly because:

- Developing personal relationships - small businesses are well placed to build personal relationships with customers, employees, and suppliers. With a small business you know who you are dealing with; you can 'put a face' to the person you are in contact with. Person-to-person interaction is as important as ever in building strong relationships.
- Responding flexibly to problems and challenges - in a small business there is little hierarchy or chain of command. Large businesses may have set ways of operating and establish procedures that are hard to change. Small businesses are often far more flexible. It can also reach a quick decision on whether or not it can do what is required.

- Inventiveness and innovation - small businesses are well positioned to introduce and develop new ideas. This is due to their owners not having to report or seek approval from anyone else. For example, when Anita Roddick set up The Body Shop, she developed a range of environmentally friendly cosmetics in unsophisticated packaging. This would have been frowned on in a conventional cosmetics company.
- Low overheads - due to the small scale of operation, small businesses have lower overhead costs. They operate in small premises with low heating and lighting costs, and limited rent and rates to pay. Low costs result in lower prices for consumers.
- Catering for limited or niche markets -large firms with high overheads must produce high levels of output to spread costs. By contrast, small firms are able to make a profit on much lower sales figures. They can therefore sell into much smaller markets.

As all of us know, our government has recently adopted the National Development Plan which is our compass for creating a better South Africa to live in by 2030. Taking our cue from the National Development Plan we have also developed the provincial growth and development strategy whose aim is to ensure that by 2030 our province becomes the gateway to the African continent. One of the critical pillars of this plan is that we have identified the SMME sector as critical in growing an economy premised on the notion of shared prosperity. Such is the importance of this sector that it is estimated that, for example 90 percent of jobs created between 1998 and 2005 were in small medium micro enterprises in South Africa.

Despite this, total early-stage entrepreneurial activity rates in South Africa are about half of what they are in other developing countries. While as government we have always acknowledged the importance of the contribution of this sector to the economy of our country, we must be candid to admit that we have not done enough to support this sector.

Programme Director, we believe that state support for this sector should not only be financial support but should also include a gamut of other measures such assisting to create off take agreements, market access, easing the administrative and regulatory burdens on small businesses and the general recognition that small businesses operate in a different environment.

This should not be misconstrued as advocating for the fact that small businesses should be exempted from the laws and other regulatory requirements of this country, but should be understood in the context of the difficult terrain in which this sector operates. In this regard, the size of the business, its geographical location and the sector in which it operates should guide us as to what support we need to give, according the National Growth and Development Plan. The plan states that support measures should be segmented, based on whether small firms are startups, or multi-startups; survivalist businesses or high growth businesses.

Programme Director it is estimated that nearly 80 percent of small businesses in South Africa offer retail services and the remaining 20 percent provide services. Small, medium and micro enterprises in the retail sector mainly buy products and sell in the same form. Those offering services are involved largely in manufacturing,

tourism and business services. According to the small business Project's Small and Medium Sized Enterprises Growth Index 2011, new employment is not typically created on a significant scale in existing businesses.

The main reason for this, according to the National Growth and Development Plan, is the current economic environment followed by the labour environment, financial constraints and skill challenges. The challenge is therefore twofold: to create a more enabling environment for small enterprises to grow, expand their operations and employ more people; and secondly to create the conditions under which start-ups can flourish and more entrepreneurs can enter the market. Interventions to support both these outcomes will be mutually reinforcing for the sector.

In this regard, the National Growth and Development plan makes key proposals to support small business development. These include:

Public and private procurement

- Leverage the Local Procurement Accord to promote stronger buyer–supplier relations and deeper localisation.
- Implement commitments to 30-day payments to smaller suppliers. As government we have taken a strong decision to ensure that all government departments adhere to this. We know that there are many small businesses which have failed to keep afloat because of late payments from government.
- Make government procurement opportunities more accessible to small businesses. This is also one of the areas which are a key focus of our government. As such in our province, for an example, the cabinet approved a resolution in 2011 on preferential procurement- for the provincial government to spend 50% of its budget on SMMEs and cooperatives between 2007 -2012. From 2012 to the outer years, cabinet approved that 70% of the provincial budget must be spent on small enterprises.

The plan also states that government should prepare a comprehensive regulatory review for small and medium micro enterprises. This includes regulations in relation to business registration, tax, labour and local government. The plan also states that we should examine the role played by the state in easing access to finance for startups and emerging businesses.

The government and the private sector should collaborate in creating financial instruments for SMME. As government we are also of the view that we need to strengthen our small business support services. We believe that it is not enough to give small businesses funding and leave them to their own devices as they navigate the treacherous waters of business. It is because of this reason that in this province, we have decided to form a SMME agency which will provide assistance to emerging businesses. Our aim is not to duplicate all the other services which are provided by the existing agencies. But we believe that we need to improve around the area of co-ordination.

However, because our focus is not only on short to medium solutions but we are focusing on the future, we have also decided to put together an SMME master plan which will be our loadstar for growth in this sector. This

master plan will give us an idea of which sectors within the small medium micro enterprises will be winners in the future. The plan will provide a long term view of what we all need to do in order to make the SMME sector one of the catalysts from growth and development in our country. As many of you know, there are a few countries in the world which have developed an SMME master plan. One of these is Malaysia whose SME master plan is touted as a game changer for the country's economy prospects.

The eight-year plan has four main objectives, namely, to drive business growth, increase the number of high-growth and innovative companies, increase productivity, as well as formalise the businesses. We want ours to also incorporate these elements but critically we want our SMME master plan to lay the foundation for this sector to be a key driver of growth and development in the future.

Programme Director, the current global economic environment remains subdued at best and depressed at worst. With the confidence in the global economy still in doubt and foreign direct investment squeezed to a trickle, we have to work hard to create our own small businesses which can compete with the best in the world. In order for us to realise this goal we can no longer afford to relegate the SMME sector to an inconsequential sector which is not at the summit of our list of priorities. In order for us to grow the economy and to create employment we need to ensure that we focus our energies on supporting this sector. We dare not fail.

I thank you

Michael Mabuyakhulu, MPP

KwaZulu-Natal MEC for Economic Development and Tourism