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Why SA's small businesses stay that way

Lack of access to finance, harsh regulatory environment seen as main obstacles in crucial sector

Senior Business Correspondent

THERE is growing concern about stagnating growth in the numbers of small businesses, it emerged in the latest review of the sector by the trade and industry department.

Government's policy for the small business sector has come under fire from entrepreneurs and small business practitioners, who say it is not doing enough to boost the sector's contribution to economic growth.

The small business sector, which is seen as a vital engine for economic growth and job creation, faces difficulty in accessing finance and complying with myriad regulations.

In its annual review of the sector for 2003, the trade and industry department says that the static rate of formal small business creations suggests that there is little progress from survivalist micro enterprises to more formal enterprises.

The report, released last month, says that micro, very small and small enterprises contributed only 28% to gross domestic product (GDP). This excluded non-enterprise producers, who contributed 38% to GDP.

The sector contributed just over 70% to employment during the same period.

The review also says that the number of employers and selfemployed in the small business sector rose 7,3% from 1,23-million to 1,74-million between 2002 and 2003.

However, the number of employers in the formal sector fell 0,4% during the period.

Informal entrepreneurship boomed in 2003 compared to the previous year, with total growth of 10,9% recorded.

The growth was highest among black women at 13,9%, while the number of black men in the informal small business sector increased by 10,7%.

Trade and Industrial Policy Strategies head Steven Hanival says the uneven spread of institutional support for small business and a restrictive regulatory environment seem to be the key explanatory factors in the low growth rates of many established small businesses.

"Small business development is not a panacea for the underdevelopment and poverty characteristic of the second economy," says Hanival.

"However it is an important part of government's directed and active strategy to ensure mobility between the first and second economies, create conditions for sustainable livelihoods and eliminate conditions of extreme poverty."

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Hanival says that if one ignores the businesses that are not economically active, one could conclude that almost half of the entities registered by the trade and industry department's Companies and Intellectual property Rights Registration Office (Cipro) are micro enterprises.

According to Statistics SA figures for last year, there were 212161 micro enterprises, 6748 medium sized companies , and 4596 large corporations.

Hanival says the industries in which small businesses operate in the formal sector are quite different from the ones preferred by informal businesses.

Small businesses in the formal sector are more involved in the financial and business services (44%), followed by general trade (23%) and manufacturing (12%).

Most small businesses in the informal sector are involved in trading (70%), with 9% of businesses involved in manufacturing and 7% in providing financial and business services.

"This is not surprising as primary and secondary activities such as agriculture, manufacturing and construction are capital intensive and therefore are more advantageously carried out on a larger scale," says Hanival.

Trade and Industry Minister Mandisi Mpahlwa says in the foreword to the report that much work needs to be done in the small business sector particularly in improving the position of black women entrepreneurs, reducing the high rates of business failures, improving access to finance and lowering the regulatory burden for small businesses.

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