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Sections	Business	Info Graphics
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Careers	Small business KEEP IT LOOSE OR WE'LL LOSE IT By Carol Paton
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The overall numbers of small businesses and entrepreneurs in SA are growing strongly but there are marked differences between the formal and informal sectors.

Informal entrepreneurship is booming - it grew 11% from 2002 to 2003 - but formal-sector small business has stagnated and even shrunk slightly (0,5%) over the same period (see table).

By far the most informal enterprises were initiated by African women, whose participation in the formal sector simultaneously regressed.

These are the findings of the "Annual review of small business 2003", a report commissioned by the department of trade & industry and conducted by policy think-tank Trade & Industry Policy Strategies (Tips).

Tips says the rate of growth of entrepreneurs (7,5% overall) outstripped the growth of the economically active population, which suggests that "entrepreneurship is becoming an increasingly viable option for individuals". It cautions that this may be more out of necessity than opportunity, given the economic environment.

But the fact that micro and very small businesses are growing is a positive signal, the review says. "Micro and very small enterprises are relatively easily able to enter the business environment in specific sectors, such as services."

The Tips study also says the contribution of small business to employment has been underestimated in the past. Using the broadest definition of employment (which includes the entrepreneurs themselves and casual and seasonal workers) it is estimated that small business accounts for almost 75% of employment. About 33% of employees belong to micro enterprises.

While the growth of informal entrepreneurship is reason for optimism, the review says trends among formal-sector SMMEs are cause for concern.

Not only has the number of formal enterprises fallen but existing small enterprises appear to have stagnated and are not creating more jobs.

And while government policies have in the past assumed that informal enterprises, given the right support, would graduate into formal ones, the unequal rates of growth between the two sectors show that this is not the case.

The policy implications of the findings of the review are significant.

If significant numbers of entrepreneurs are able to enter markets where barriers are low, the key problem to overcome in developing small business is not that South Africans lack entrepreneurial flair but that more attention needs to be paid to lowering barriers of entry in the formal sector.

Second, the problem facing the economy is not that small businesses are not being formed at all, it is more that they have not been able to grow.

This highlights the significance of environmental factors - the general state of the economy and the regulatory regime - for small business.

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Weaknesses in the macroeconomic environment played a part in the weak performance of small business in 2003, says the review. Strong export-led growth was scarce, so small and big businesses competed for demand.

However, it was weak institutional support and the restrictive regulatory environment that were the key explanatory factors for the low growth rates among established SMMEs.

This is a finding echoed by many similar studies in SA and internationally - that the regulatory environment is the single most important element of a small-business growth strategy.

The review notes that government has not always been aware of the effects of its policies on small business.

Past Issues

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Though support for small business is a pillar of government policy, "with many policies being pursued concurrently, it is not always clear what the broader (net) impact of government's new policies is."

Small enterprises lack the channels through which to make their concerns about legislation known to government.

In 2003, for example, 61 new bills were legislated - and in at least one-third of these were issues with a bearing on the interests of small business.

"There is no reliable way of assessing whether small business interests were taken account of, but on balance, with no organised voice, the chances are likely to have been rather slim."

Government took no steps during the period under review to lighten the two greatest burdens of small business: labour regulation and tax compliance.

In fact, payment of Vat has become more difficult for small businesses. Before 1997, they were allowed to pay Vat on receipt of payment but they must now pay it on invoice. This has led to cash flow constraints when they are not paid promptly.

The administrative burden of tax - in particular Vat - is by far the biggest cost when it comes to compliance. An earlier research study by Upstart Business Strategies has quantified the Vat administrative burden for an SMME at around R8 441/year. A broader study of compliance, published by the Small Business Project (SBP) last month, estimated the total compliance burden across all enterprises to be R79bn.

Inappropriate regulation has the effect of stifling entrepreneurship and of dividing the economy into formal and informal sectors. Too much regulation can act as a "perverse incentive" for businesses to remain small and informal.

Indeed, this is one of the findings of the SBP survey. Businesses suggested that the two main ways they would avoid regulation would be to avoid employing more people or to remain below the Vat threshold.



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