



BUSA ACTION PLAN ON ENTERPRISE DEVELOPMENT FOR SMES, START-UPS AND FORMALISING BUSINESSES

1. PURPOSE

The purpose of the action plan is identify key actions for BUSA, together with the relevant timeframes, resources and monitoring framework, so as to make a substantial contribution to enterprise development for SMEs, start-ups and formalising businesses in South Africa.

2. BACKGROUND

SMEs provide a key opportunity to significantly increase labour market participation, thereby impacting positively in addressing poverty, unemployment and inequality. Evidence gathered worldwide shows that SMEs are the most significant source of new employment in a country. Under the right conditions, SMEs can enhance competition, entrepreneurship, job growth and spur economy-wide efficiency, innovation and poverty reduction.

While SMEs constitute the largest contributor to private employment in South Africa, their employment contribution falls well short of the averages in developed and developing economies. In Turkey, SMEs account for 99.9% of all businesses in the country and contribute 76% to formal employment. In Brazil and Malaysia, SMEs contribute 52% to 58% respectively towards private employment and constitute 99% of all businesses operating in both countries. Enterprise development serves as a major opportunity to achieve the employment and growth objectives of the National Development Plan.

In 2015, with the support from the ILO, BUSA embarked on a series of activities towards developing an evidence based policy position and action strategy to boost SME development and facilitate the transitions of informal businesses to formality. This formed the basis of work for BUSA to engage with the social partners. These activities included reviewing successful small business development strategies in three selected countries (Brazil, Malaysia and Turkey); a comprehensive review of available literature on SME development and the informal sector in South Africa, and interviewing a representative sample of 640 small and informal business owners and their employees on key constraints in relation to an enabling environment for sustainable enterprise development.

The research culminated in two reports: “BUSA’s Policy Position and Action Strategy to boost sustainable enterprise development & the transitions to formality – Background Report and 3 Country Review” (May, 2015), and the “Enabling Environment for Sustainable Enterprise (ESEE) South Africa Report”, published by the ILO in February 2016. BUSA has engaged with the SME sector, informal business and has worked with Government and organised labour to validate these reports. The

evidence gathered from the research has identified key challenges and constraints to SME development and has resulted in a solid, evidence-based basis for action.

3. OBJECTIVES OF THE ACTION PLAN

While the research shows a wide range of challenges hindering SME development and barriers to formality, a number of key issues and key opportunities for BUSA's engagement to enhance enterprise development and facilitate transitions to formality emerge. These are set out below in no order of priority:

3.1 Support better access to information for start ups and SME growth

The research identified that entrepreneurship and business support services are under-developed in South Africa. The respondents to the primary research indicated that the top two barriers to starting and formalising a business were: there are too many procedures to register a business, and that respondents did not know how or what to do. Deeper findings from the SME Growth Index show that on 1% of formal small manufacturing firms and less than 7% of business services receive business development support from government, with the majority stating that accessing such support was either too bureaucratic, or they did not know where or how to apply for such business support.

Analysis of the research findings shows two particular areas where support is required:

a) Simplify Hiring and Employment Practices

The second most problematic element to formalising a business in South Africa reported by both SME owners and informal business owners was in the hiring of people. This finding is reinforced by the Global Competitiveness Report 2015 that ranks South Africa at 143 out of 144 countries on hiring and firing practices.

b) Develop new ways to increase access to finance and market opportunities

The survey findings show that the second highest barrier reported to hinder young people from starting a business is their inability to access finance. Both formal, and informal, business owners reported using their own savings as their first choice in financing a start-up business. SMEs are more likely to use bank and venture capital finance as their second and third choice, whereas informal businesses are more likely to use family savings and stokvels as their second and third preference. An overwhelming majority of respondents stated that it would be either difficult (47%) or impossible (37%) to access support finance from government.

3.2 Reduce the regulatory burden for formalising businesses & SMEs

The 2015 Global Competitiveness Report places South Africa in terms of the Burden of Government Regulations at 117 out of 144 countries. The top barrier to formalising a business cited by respondents to the EESE survey was that there are too many procedures to registering a business. Findings from the Davis Tax committee and the SME Growth Index data indicate that the burden of regulatory compliance to small business equates to an administrative opportunity cost of R216 000 a year or R18 000 a month. Furthermore, analysis of the SME Growth Index data shows that over 60% of SMEs surveyed were unsure of the regulations that they need to comply with, and 80% of SMEs reported in 2015 that the business regulatory climate is becoming increasingly hostile to their firm growth.

3.3 Strengthen the voice of small and informal business to promote an enabling environment for SME development and transitions to formality

The concerns and needs of small and informal businesses need to be strengthened in the national policy and social dialogue debates. Over three quarters of SMEs surveyed indicated that their interests in both national policy debates and in Nedlac consultations were inadequately represented by organised business (chambers and business associations).

The EESE report and lessons from the 3 countries reviewed indicate the following as priority actions for a more conducive environment for sustainable enterprise development and to facilitate the transitions to formality:

- Improve policy coordination, coherence and policy certainty across all spheres of government
- Differentiate and target support measures to encourage transitions to formality, growth and competitiveness
- Simplify the definition for small, medium and micro businesses and ensure alignment across all government and public and private institutions
- Reduce the regulatory burden and administrative inefficiencies, and introduce the “think small first” principle in policy development and regulatory reform
- Reduce corruption
- Implement a robust, consultative and transparent impact assessment system to reduce the affects of policies and laws that negatively impact on small businesses and the transitions to formality.

3.4 Improve entrepreneurship & skills development for SMEs

Most of the survey respondents stated that better education would lead to a more prosperous society. An overwhelming majority of respondents identified that the top barrier preventing young people from starting a business was that South Africa’s education system does not teach young people to be entrepreneurial. The second highest barrier to business start-up was inadequate information on how to start a business. The majority of both SME business owners and informal business owners believe that there is no entrepreneurial and business skills support in South Africa. Findings from the research show that while South Africans have a high value towards entrepreneurship and starting a business, only 2.7% actually convert to establishing a business and when they do, 70% fail within their first two years, representing one of the highest business start up failure rates in the world. Coupled with this, skills shortages in the workplace is constantly ranked as one of the biggest impediments to the growth of small firms. Only 4% of the SME respondents to the research agreed that vocational education (SETA-run courses) meets most of the needs for their businesses.

4. ACTION PLAN: Enhance SME development and facilitate the transitions to formality

Based on the outcomes of the research findings the following provides an outline of the key, strategic objectives and actions for BUSA to enhance SME development and facilitate the transitions to formality in South Africa.

Objective 1: Support better access to information for start ups and SME growth

Actions:

- a) Refresh BUSA website and develop a web page to show-case web links with members and partner associations that provide information on support services and incentive programmes on offer for business starts ups and SMEs. Consideration to be given to allow for open access to broader public for entry level information and explore option for web page to collect needs assessment from public using the web page for additional information requirements. Monitor and track usage and expand services over time.
- b) Partner with government and government support institutions to provide for web links to show-case information on business registration requirements (how to register a business and where).
- c) Partner with CCMA to develop material and provide links to show-case information on employment hiring and employment practices (CCMA web project).
- d) Partner with BASA to show-case links/information on financing opportunities offerings by financial institutions and financial services providers for business starts ups and SME growth.

Objective 2: Reduce regulatory burden for formalising businesses & SMEs

Actions:

- a) Evaluate and propose workable solutions on priority actions that are required in order to reduce regulatory burdens for transitions to formality and SME growth. Initial priority areas for engagement to include: easing the tax burden for SMEs; and simplifying business registration (short to medium term); and access to skills development.
- b) Explore partnership/engagement with local and provincial government programme focusing on reducing red tape burden and present workable actions to reduce red tape at local government level
- c) Advocate for the inclusion of SME growth and transitions to formality considerations as a key criteria in government's socio-economic impact assessment methodology.

Objective 3: Strengthen the voice of small and informal business to promote an enabling environment for SME development and transitions to formality

Actions:

- a) Form a joint Econpol and Socpol BUSA task team focussing on SME and transitions to formality at BUSA. This task team will include the Nedlac Small Business Task Team and be pivotal in bilaterals with key government departments such as the Department for Small Business Development (DSBD).
- b) Prepare position paper and programme of work for submission to government to establish inter-departmental forum for regular structured engagements between government, business and labour to focus on policies and priorities to support SME development and job creation and facilitate transitions to formality.
- c) Prepare position paper with workable recommendations for submission to Ministry for Small Business Development to simplify definition of small business in amending the National Small Business Act
- d) Conduct, and respond to advocacy initiatives in line with emerging and pertinent issues to SME development and transitions to formality, ensuring that there are mechanisms to engage directly with SMEs and representative associations.

Objective 4: Improve entrepreneurship & skills development for SMEs

Actions:

- a) Champion and lead, with the support of the USAID's Business Advocacy Fund, an integrated small enterprise capacity and skills development programme, the BUSA Business Bridge, to accelerate the growth and viability of small businesses and support their integration into member local supply chains.
- b) Prepare a self-help guide for prospective and existing SMEs to better access SETA opportunities and funding, and explore the necessary participation of SMEs in high-level Skills Council currently being considered by BUSA.
- c) Prepare a position paper that investigates and explores possible options for incentives to SMEs to subsidise salaries of trainees in accredited training programmes that will promote and popularise increased SME involvement in SETA or NSF training offerings.
- d) Investigate and explore social security benefits for SMEs and informal business employees, including health care benefits, pension fund benefits and unemployment insurance benefits to small and informal owners and employees.
- e) Provide input to early entrepreneurship education.

BUSA Action Plan on Enterprise Development for SMEs, Start-ups & Formalising Businesses: Summary Framework

	Result Areas	Means of Verification (MoV)	Resources
<p>Goal Enhance SME development & transitions to formality in South Africa to improve economic growth, employment and reduce poverty and inequality</p> <p>Outcome Enabling environment for sustainable small businesses development improved for SME growth & formalisation of the informal economy</p>	<p>Increased inclusive economic growth & employment</p> <p>Improved policies, laws, regulations enable SME development & transitions to formality; improved SME growth & viability & increase in business registrations</p>	<p>Statistics SA reports, govt human development indicators, GCR reports</p> <p>Nedlac reports, SEIA reports, CIPC reports, Statistics SA reports, GEM, World Bank reports</p>	
<p>Outputs</p> <p>1. Better access to information for start ups & SME growth</p> <p>2. Regulatory burden reduced for formalising & SMEs</p> <p>3. Representation of small & informal business strengthened in policy & social dialogue</p> <p>4. Entrepreneurship & skills development improved for SMEs</p>	<p>1.1 Increased awareness of business support services to improve SME sustainability & growth</p> <p>1.2 Increased number of formalising small businesses</p> <p>2.1 Compliance costs reduced for SMEs</p> <p>2.2 Barriers to formalisation reduce & increased business registrations</p> <p>3.1 Increased response of SME & informal business needs and challenges by social partners</p> <p>3.2 SEIAs demonstrate impact of laws and regulations on SME growth and transitions to formality</p> <p>4.1 Improved entrepreneurial skills for SMEs & informal businesses & greater number integrated in local supply chains</p>	<p>New services provided by BUSA for SMEs & informal businesses</p> <p>Number of active visitors (SMEs & Informal businesses) to webpage tracked & monitored</p> <p>CCMA, BASA reports</p> <p>BUSA joint task team reports & Nedlac reports</p> <p>Policy papers & submissions & recommendations adopted</p> <p>SEIA reports, Stats SA reports</p> <p>Business Bridge reports tracking number of SMEs participating, turnover & employment growth, corp transactions)</p>	(as below)

Primary Priority					
Secondary Priority					
Main Activities	Due Date	Estimated Budget	Possible Resources	Evidence of Completion	Business Lead
Objective (Output) 1: Support better access to information for start ups and SME growth					
a) Refresh BUSA website and develop a web page to show-case web links with members and partner associations that provide information on support services and incentive programmes on offer for business starts ups and SMEs. Consideration to be given to allow for open access to broader public for entry level information and explore option for web page to collect needs assessment from public using the web page for additional information requirements. Monitor and track usage and expand services over time.	TBC	R300 000	BASA ILO BUSA	Web site link	
b) Partner with government and government support institutions to provide for web links to show-case information on business registration requirements (how to register a business and where)	March 2018	R60 000	SEDA, SEFA	Web links	
c) Partner with CCMA to develop material and provide links to show-case information on employment hiring and employment practices (CCMA web project)	March 2018	R1 200 000	Working with CCMA & EPP funding	Web site established	Sino and Tanya
d) Partner with BASA to show-case links/information on financing opportunities offerings by financial institutions and financial services providers for business starts ups and SME growth.	June 2018	R20 000	BASA, Financial Sector Charter Council	Info on website	Olivier, Tyson and Mbini
Objective (Output) 2: Reduce regulatory burden for formalising businesses & SMEs					
a) Evaluate and propose workable solutions on priority actions that are required in order to reduce regulatory burdens for transitions to formality and SME growth. Initial priority areas for engagement to include: easing the tax burden for SMEs; and thereafter simplifying business registration (short to medium term, ECONPOL reference group); and access to Skills Development	December 2018	R200 000 R100 000	ILO	3 papers	Olivier and Tyson – tax, registration

b)	Explore partnership/engagement with local and provincial government programme or research focusing on reducing red tape burden and present workable actions to reduce red tape at local government level	2018	Tbc	EPP, SBP, DSBD	Research report	
c)	Advocate for the inclusion of SME growth and transitions to formality considerations as a key element in government's socio-economic impact assessment methodology	On going	N/A	EPP	Engagements with DPME x2	Olivier / Laurraine/ Tanya
Objective (Output) 3: Strengthen the voice of small and informal business to promote an enabling environment for SME development and transitions to formality						
a)	Consider forming a joint ECONPOL and SOCPOL BUSA task team focussing on SME, start-ups and transitions to formality at BUSA. Alternatively embed an agenda item into the policy committee work. This will include the Nedlac Small business task team and bilaterals with key government departments such as the DSBD.	September 2016 & ongoing	-	BUSA	Focused SME issues identified and activated.	Policy Directors
b)	Prepare position paper and programme of work for submission to government to establish inter-departmental forum for regular structured engagements between government, business and labour to focus on policies and priorities to support SME development and job creation and facilitate transitions to formality.	Tbc	R40 000	BUSA/ILO	Thought starter and Preparatory Meetings x2	
c)	Support for Capacity for organisations representing SMMEs			ILO/ DSBD/ DTI/ EDD/TRIAS/?		Mbini/ Sino
d)	Prepare position paper with workable recommendations. This will be used for submission to Ministry for Small Business Development to simplify definition of small business in amending the National Small Business Act.	Completed	R60 000	ILO	Submission	Engage with the Ministry
e)	Conduct, and respond to, advocacy initiatives in line with emerging and pertinent issues to SME development and transitions to formality e.g. Employment Tax Incentive	Ongoing		ILO or BUSA	Submissions	Policy Directors
Objective (Output) 4: Improve entrepreneurship & skills development for SMEs						
a)	Champion and lead, with the support of, a scalable small enterprise capacity and skills development programme, to accelerate the growth and viability of small businesses and support their integration into member local supply chains.	Tbc	Tbc		Pilot programme rolled out with BUSA members	Socpol/SBP Sino

b) Prepare a self-help guide for prospective and existing SMEs to better access SETA opportunities and funding, and explore the participation of SMEs in high-level Skills Council currently being considered.	Tbc	R200 000	NSF funding/ Nedlac/ EPP	Guide developed & distributed to BUSA members	Part 2 for CCBA
c) Prepare a position paper that investigates and explores possible options for incentives to SMEs to subsidise salaries of trainees in SETA training programmes that will promote and popularise increased SME involvement in SETA training offerings.			SETA funding	Position Paper	Socpol
d) Investigate and explore expansion of social security benefits to SMEs and informal businesses including health care benefits, pension fund benefits and unemployment insurance benefits to small and informal owners and employees.	September 2018	R200 000	ILO	Proposal	Ditshego
e) Provide a position paper on how to enhance early entrepreneurship education.	March 2018	R150 000	NBI/ BLSA CEO Initiative Questionnaire	Position Paper	

(December 2017)