

Small Business Organisations in South Africa

Why are they being ignored?



This CDE report is based on a project we conducted with four business associations representing small firms in Gauteng.

A small business project

Small businesses in South Africa face many challenges. One fruitful way to bring about changes in policies that affect them is for associations that represent small businesses, particularly those in peri-urban areas, inner city regions, and townships, to put pressure on government to do so. In April 2021, CDE set out to discover whether there are any such associations operating in Gauteng. We wanted to understand (1) if they exist, what challenges they face in becoming effective advocates for reform; and (2) whether CDE, a think tank with extensive advocacy experience and a proponent of reforms to help small businesses grow, could do anything to assist them.

The four associations we found span various regions of Gauteng, from townships to peri-urban areas; have different sectoral focus areas, from tourism to informal sector trade; and have been in existence from anywhere from one to 50 years. Each organisation represents between a few dozen to over 400 small business members. All were eager to share the challenges they face and to get help in building capacity and amplifying their voices.

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Following discussions with the associations around the challenges faced by SMMEs in Gauteng, particularly relating to often unnecessary regulations and overly burdensome requirements, CDE did research to find out more about what small businesses themselves perceive to be their biggest regulatory hurdles. Working with the associations, we conducted a survey of their members. Using the results from these surveys, CDE helped the business chambers develop a public communications strategy to articulate their grievances and other challenges they face.

Finally, we set up a roundtable discussion to facilitate constructive engagement between these 'voices' of small businesses across the province and government representatives, so that the latter may understand better the frustrations and difficulties of small business owners, especially black entrepreneurs from spatially disadvantaged and disconnected regions, and so adopt a more fruitful attitude towards them.

The business chambers CDE worked with

1. Greater Alexandra Chamber of Commerce and Industry (GALXCOC)

The GALXCOC was established in 1969 and is one of the oldest chambers of commerce representing the interests of black business owners in townships in South Africa. The chamber claims to represent over 400 local businesspeople and seeks to give voice to aspiring entrepreneurs in the Greater Alexandra region. This is achieved by engaging with and connecting key stakeholders with local businesses and promoting private enterprise and a market-oriented approach with equal opportunities.

2. South African Informal Traders Forum (SAITF)

The SAITF is a non-profit organisation that represents the interests of informal trading businesses. It has done a lot of advocacy work in city centres around South Africa. The forum's mandate is to support a conducive business environment and to protect members from overreaching legislation and harassment from authorities, including the police. It has won several court victories to allow members to continue to trade, including during Covid-19. Founded in 2005 and registered in 2012, it now has more than 12,000 members across six provinces.

3. Soweto Tourism Association (STA)

The STA was re-established in 2017 by local tourism businesses in Soweto, which recognised the need to have an organised vehicle that will serve as their mouthpiece, to ensure a channel of communication between the private and public sectors. The association has a membership base of more than 200 registered small, micro, and medium-sized enterprises (SMMEs).

4. Orange Farm Business Community Chamber (OFBCC)

The OFBCC was formed in 2019 and formally registered in 2021 as a member-based organisation which claims to represent 64 businesses and entrepreneurs in the peri-urban region of Orange Farm. Affiliated with the Small Business Institute and the Johannesburg Business Forum, it advocates and lobbies for a sustainable SMME sector.

CDE 2022

What did we learn?

The four business associations represent small firms across Gauteng, from the inner city to the townships of Alexandra, Soweto, and Orange Farm. Our discussions were characterised by a common theme: Despite their best efforts, government (municipal, provincial, national) has failed to work with them effectively or support them in any substantial way. This is how the leaders put it:

Brian Phaloh (General Secretary, South African Informal Traders Forum) – “We want to work with government, but we always get nowhere. On the rare occasion where government actually invites us to a meeting, we find that a decision has already been made. Their idea of consultation is to simply go through the motions. The only way to get the city or the province to do anything is to take them to court. We have done that numerous times.”

Kagiso Leso (Communications Manager, Greater Alexandra Chamber of Commerce and Industry) – “We have made extensive efforts to work with government but have never received the kind of support and cooperation that would make sense for the small businesses that we represent. Chambers like ours should be facilitating SMME development on behalf of government. That would be the best way forward, but unfortunately we have given up hope that such a relationship will ever emerge.”

Thato Mothopeng (Chairman, Soweto Tourism Authority) – “SEDA [the Small Enterprise Development Agency] has a target of developing 100 SMMEs in Soweto. We have over 200 members, so we could easily work with government to ensure that they find the best 100 to work with, in quick time. But that doesn't happen. It should never be the case that you have to know somebody, or you have to pay somebody, to receive a service. To facilitate township development, we need a different kind of government, but we are not optimistic that we will get that any time soon.”

Celiwe Tshabalala (Deputy Chairperson, Orange Farm Business Community Chamber) – “Our mission is basically to promote economic development in our fast growing but very challenging township. We are a relatively new organisation, and we remain hopeful that government will work with us to strengthen businesses in the area. So far, though, we have had very little help.”

We gained valuable insights from the survey we conducted and complemented this with extensive desktop research and discussions with numerous small business development experts. Three key findings have emerged from these investigations.

1. While some of the special loans, set-asides, and other forms of assistance provided by the Department of Small Business Development (DSBD) must go to some black-owned businesses, many small business owners in townships, villages, and other remote areas never see any of these benefits. Kgotso Mmadi, President of the Wesvaal Chamber of Business, captured this view when he said, “Government's procurement strategy works for a few connected individuals but does nothing for most of us.”¹ In our small business survey, respondents reported that the red tape attendant with applying for funding, both private and public, was overly complicated and demanding. They also complained about the lack of training and information they receive to potentially overcome these challenges. The DSBD has programmes in place that are supposed to provide funding, information, and training. These programmes are not reaching the businesses belonging to the organisations we interviewed, all of whom are their intended targets.
2. Even if these programmatic interventions were more far-reaching, this strategy does nothing to change the extremely challenging environment in which businesses in marginalised areas are forced to operate.

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Difficulties include the absence of large enough markets, inadequate transport networks, limited access to services and information, failing municipalities, inadequate schooling or training, and regulations that impose costs on small firms they cannot afford, such as being forced to adhere to decisions made at sectoral bargaining councils. The President has acknowledged the problem and promised since 2018 to deal with 'red tape'. This does not seem to have happened and in his 2022 State of the Nation Address he again promised to "improve the business environment for companies of all sizes" but this time through a dedicated capacity in the Presidency.² To achieve this, he has appointed Siphso Nkosi, Chairman of the Small Business Institute and CDE Board member, to head up a team whose job it will be to cut "red tape across government". That may have positive consequences, especially with regards to speeding up the work the DSBD is already doing to remove unnecessary and harmful regulations. What we need to see, though, is implementation, which has steadfastly failed to materialise so far.

3. Instead of removing barriers, government policies and actions at various levels add to the difficulties that firms confront, especially those in the informal sector. It is preferable for firms to operate in the formal sector where they are registered and have access to services, legal contracts, and loans at reasonable interest rates. However, that preference cannot justify forcing informal firms out of existence by way of heavy-handed police actions. Informal, non-criminal economic activity is far preferable to no economic activity, which only deepens South Africa's horrendous and growing unemployment rate. Government should do what it can to assist businesses in registering and complying with regulations. At the same time, it should identify and remove unnecessary regulations that impose costs on doing business – what is known as 'red tape' – especially for new market entrants and small firms.³ This is a complex, time-consuming process, but it is one that should be fast-tracked. Significant reforms are urgently required if the small business sector is to grow and create jobs at scale.

What can be done to help?

Small business advocacy groups are doing their utmost to push for a more open and conducive environment for small business. Their reward has been consistent neglect – or worse – from a government that claims to support such entrepreneurs. To turn this situation around, CDE recommends that:

Government (at national, provincial, and municipal level) should:

- Engage constructively with representative, well-established, legitimate organisations which both understand and represent the interests of local small businesses. Excessive consultation is not required, but there are undoubtedly many ways in which various government agencies at different levels could take on board advice from these organisations about what township-based businesses need, and to provide support to initiatives already in place rather than duplicating efforts badly and without consultation.
- Prioritise improved business conditions instead of special programmes and procurement policies that, in practice, tend to favour the politically connected.
- Reduce and remove harmful regulations by quickly and efficiently assessing the economic impact of all regulations that affect SMMEs.⁴ Provide small businesses (below a certain turnover or employee threshold) with exemptions to destructive regulatory requirements, such as national minimum wages, centralised bargaining council decrees, and other mandatory obligations that prevent small businesses from growing.
- Strive to make bureaucracies across all three tiers of government meritocratic by coming down hard on corruption and hiring and promoting officials best suited to the work.
- Ensure that property rights, which are essential for investment, are secure. Unnecessary land use restrictions must be removed.
- Recognise informal firms as providing a crucial economic outlet and services that their customers value.

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Then work with those engaged in legitimate activities to ensure they are able to become registered and can avoid undesirable practices.

In turn, small business associations should:

- Take every measure to become registered and be able to vouch for their bona fides as legitimate representatives of small businesses in particular sectors and/or areas.
- Stay in close touch with their members and have a clear understanding of their members' challenges and concerns.
- Be very frank and clear in their dealings with government.
- Be unambiguous in their opposition to corruption and nepotism. Report and publicise all instances of government malpractice. This is extremely important to showcase their bona fides, since public-private engagements may have the potential to facilitate both corruption and perceptions thereof if they are insufficiently transparent.
- Focus their core campaigns on demanding the changes in laws, policies, and practices that will benefit all small businesses.

Endnotes

¹ Stefan Schirmer and Rehan Visser, What role can small and micro businesses play in achieving inclusive growth? Questions requiring answers, Centre for Development and Enterprise (June 2021).

² State of the Nation Address by President Cyril Ramaphosa, Cape Town City Hall (10 February 2022).

³ Recently, Minister of Small Business Development Stella Ndabeni-Abrahams announced that her department had a "responsibility to enforce regulatory compliance in the SMME sector and close businesses that are trading illegally". This led CDE's executive director Ann Bernstein to label her the "Minister of Small Business Destruction" and to call on her to cut regulations and help legalise unregistered firms. Ann Bernstein, Twitter (25 January 2022), URL: <https://twitter.com/annbernsteinSA/status/1485979307239514112?cxt=HHwW-gIC9-dGToZ8pAAAA>.

⁴ Since 1 October 2015, all Cabinet memoranda seeking approval for draft policies, Bills or regulations must include an impact assessment that has been signed off by the Socio Economic Impact Assessment System Unit housed in the Presidency's Department of Planning, Monitoring, and Evaluation. However, this directive has not been followed except in one instance, the National Treasury's draft Twin Peaks Bill. Moreover, it does nothing to address the costs and harmfulness of existing legislation and policies. Department of Planning, Monitoring, and Evaluation, 'Socio Economic Impact Assessment System (SEIAS)', URL: <https://www.dpme.gov.za/keyfocusareas/Socio%20Economic%20Impact%20Assessment%20System/Pages/default.aspx>.

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Transformation: Racial Myths Stand in the Way of Entrepreneurship, Business Day, 6 April 2011

State Fails Enterprise Challenge, Business Day, 12 July 2004

Five Vital Steps in Entrepreneurship, (Publication unspecified), 12 July 2004



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