

Lending a hand: state-owned enterprises can assist small business development

There is an overall lack of information on the interaction between state-owned enterprises (SOEs) and small and medium enterprises (SME) that provide services to SOEs, with the exception of larger SOEs, such as Eskom, Telkom, Transnet and the Post Office. Johan Viljoen looked at the question of the role SOEs can play in the development of SMEs.



Background

In his inaugural State of the Nation Address in June 2009, President Jacob Zuma reflected on the New Growth Path (NGP) and highlighted the need for support to promote small business and entrepreneurship and the elimination of unnecessary red tape which South Africa has imposed on a relatively weak small and micro enterprise sector.

The NGP also aims to enhance growth, employment creation and equity by reducing the dependencies of South African industries on imports, and promoting the development of skills and capabilities that are in short supply within the country. It identifies

strategies that will enable South Africa to grow in a more equitable and inclusive manner and promotes the development of new industries to attain South Africa's developmental agenda.

Building on the principles of the NGP, the ruling ANC's state-owned enterprises (SOE) policy calls for support of the developmental state through the effective utilisation of the strength of SOEs and development finance institutions (DFI), support and direct private sector investments to productive sectors of the economy to stimulate manufacturing as well as the promotion of entrepreneurship development programmes that will enhance the levels of existing deracialisation

Small business development losing ground

Statistics released by Adcorp support the above perspectives, revealing that 440 000 small businesses in South Africa shut up shop between 2005 and 2010. Another notable trend is the fact that in 2001, about 250 000 people were involved in starting their own businesses while in 2011, only 58 000 people were trying to do so - a decline that started in 2007. These figures provide a worrying scenario of regress in what has been achieved by small business development in South Africa.

In the face of the Presidential review of the country's SOEs, many have been paying

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closer attention to their own role in assisting the government in achieving its small business development agenda. SOEs have also attempted to align their objectives closer to that of the government and to play a more pronounced role in developing local skills and capabilities. Accepting that SOEs represent huge resources and a considerable slice of the South African economy, it goes without saying that the potential for assisting SME development is of particular significance. Their huge resources and significant share of the South African economy underline the potential of SOEs for assisting SME development.

SME development at large enterprises

The role of Schedule 2 SOEs (Eskom, Telkom, Transnet and others) in their contribution to SME development reveals a number of interesting facts and figures. As a general rule, larger infrastructure intensive Schedule 2 SOEs had procurement rules in place which benefited SMEs. Other more specialised SOEs, such as the Air Traffic and Navigation Services, have experienced difficulty in procuring locally and from SMEs due to their need for sourcing high-technology aviation navigation components that were only available internationally.

Eskom reported, for instance, that they would allocate between 6.34% and 8.85% of local content commitments to SMME companies for large projects, such as the construction of the new Medupi and Kusile power stations. This amounted to more than R5 billion – a significant boost to SMMEs in the construction and engineering sector.

Eskom also hosts an annual opportunities and franchise expo for SMEs. This expo is potentially of great value in linking small businesses and large corporations that need to expand their procurement databases.

Also worth mentioning is that these large SOEs have all introduced supplier skills-development programmes to identify SME suppliers and provide them with coaching and assistance.

Notably, the contribution of SOEs to SME development goes beyond procurement and skills development programmes. The Independent Development Corporation (IDC) reported on making a significant contribution to SME support in South Africa. The IDC provided financial support to SMEs to the value of R2 103 million in 2010 and reported on increased support to entrepreneurial development for start-up and expansionary enterprises in poorer provinces and areas of depressed industrial activity across earmarked priority sectors. They also reported on a programme where SMEs with approved government blue-chip tenders be paid within 21 days of the submission of their application.

Late payments and other limitations

A number of limitations and challenges remain in the support that SMEs receive from SOEs. A survey by the South African Chamber of Commerce and Industry (Sacci) has, for instance, found that late payments to SMEs doing business with government impacted severely on the financial health of small businesses due to cash flow constraints. There are indications that payments later than 30 days resulted in cash-flow constraints of 60% of the businesses in the survey.

Although the Sacci survey focused on SMEs doing business with government, it clearly demonstrates the impact of late payments on small businesses that rely solely on supplying goods and services to a limited number of institutions, such as government or SOEs.

Despite the promise by SOEs of coaching and supplier development programmes in assisting SMME suppliers, this study identified the need for more targeted programmes of support, with a specific emphasis on providing assistance to young entrepreneurs, as is indicated by the Post Office. Current programmes of support mostly deal with BEE compliance requirements and therefore exclude a number of challenges facing new and start-up SMEs. There is a need for more support programmes targeting specifically young entrepreneurs.

Conclusion and recommendations

This study concludes that there is an overall lack of information on the interaction between SOEs and SME service providers. The only exceptions are larger SOEs which include Eskom, Telkom, Transnet and the Post Office, which generally have more capacity to report on their dealings with SMEs. Despite the administrative burden of current reporting measures in place at SOEs in terms of BEE and general financial compliance, a strong argument can be made for extending these reporting measures to the procurement and programmes of assistance to SMEs. This will offer a much clearer picture of the role of SOEs in developing SMEs.

A particularly innovative scheme and good example of best practice worthy of more attention by SOEs is that of Telkom, that has developed a scorecard method which reflects procurement spent on SMMEs. This scorecard is used to guide performance on a number of indicators which focus, among others, on SME and B-BBEE preferential procurement and proves to be particularly useful in measuring the impact and contribution of the organisation to SME development.

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