

SME wish list ahead of the 2023 National Budget Speech

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Last year saw local small businesses emerge from the pandemic years tentative but 'cautiously optimistic' about the prospects of economic recovery. Unfortunately, however, several socio-economic factors have served to erode business confidence and thwart efforts to rebuild an already struggling sector.



Jeremy Lang
Chief Investment Officer
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Now, with preparations underway for the 2023 National Budget Speech, set to take place on 22 February, all eyes will be on Minister Enoch Godongwana, with a growing expectancy for urgent government intervention that will offer much-needed relief for small- and medium-sized enterprises (SMEs).

SMEs struggling to regain their foothold in the wake of the pandemic

This time last year, Finance Minister Godongwana announced the launch of a government-initiated bounce-back scheme – a mechanism by which to offer financial support to businesses impacted by Covid-19. Of the R15bn that was to be deployed, however, only R140m in loans had been approved, with only R77m disbursed by late 2022.

For Jeremy Lang, chief investment officer at Business Partners Limited, the discouragingly low approval rate and uptake are a testament to the far-reaching impact of the multi-layered economic decline that has undermined any progress

towards post-pandemic recovery.

The struggle of local small businesses against the oppositional forces of rising inflation and interest rates, petrol hikes and stage 6 loadshedding has been well-documented, with many businesses shutting their doors in 2022.

“Fundamental and large-scale intervention aimed at addressing the specific problems facing SMEs,” is the only measure that will rescue the sector, says Lang, who recalls President Ramaphosa’s 2022 promise to ‘unleash the potential’ of the businesses that create the most jobs and provide the most opportunities for poor people to earn a living.

He elaborates on these measures by putting together a wish list for small businesses ahead of the Budget Speech:

1. Enlist the services of SMEs on the road to solving the energy crisis

Arguably, the most immediate concern for South Africa’s SME sector is the impact of the worsening energy crisis. In the 2023 State of the Nation Address, Ramaphosa indicated that state-level measures to help small businesses install solar power and energy-saving devices will be rolled out including through the adjustment of the bounce-back loan scheme.

“Bringing SMEs into the supply chain for alternative, renewable sources of energy that will relieve pressure on the grid,” is one way in which government can boost the sector, says Lang.

Looking ahead to the National Budget Speech, Lang believes that involving small businesses in the process of building an energy secure nation will be a step in the right direction.

Referring to last year’s Budget Speech in which Godongwana announced that the Public Procurement Bill would be tabled before Parliament over the ensuing months, Lang asserts that: “Rooting out procurement corruption and driving policy reform in ways that are favourable to the development of small businesses, is just as crucial as providing financial means of relief.”

2. Invest in transport-related infrastructure as a matter of priority

Last year, the Minister committed R17,5bn to the launch of infrastructure catalytic projects. And while good examples of planning have been seen in provinces such as KwaZulu-Natal, a more “targeted approach to dealing with obstacles that are the most imperative to the growth of small businesses, is what is needed,” says Lang.

Elaborating on this point, he points to the importance of rehabilitating and expanding the reach of the country’s urban rail network as a much-needed solution to more efficient public transport. Furthermore, as Lang explains, initiatives such as the African Continental Free Trade Area are effective “in principle, but not in terms of practicality,” given the poor state of South African rails and roads.

“A single-minded focus by the public sector on resolving these issues should be a top budgetary priority,” he says.

3. Revise fiscal policy to support industry development

In Lang’s opinion, this year’s National Budget Speech should also detail the government’s plans to bolster the growth of the SME sector and encourage entrepreneurial activity through tax breaks and incentives.

“Currently, SMEs qualifying as small business corporations are exempt from paying income tax on the first R91,250 of their taxable income. This exemption, although renewed every year to account for inflationary pressures is not being increased at a rate high enough to make the difference that is needed for small businesses to regain ground in a way that is impactful and sustainable,” says Lang.

This is a challenge that needs to be addressed as a matter of urgency and in tandem with revisions to the current employment tax incentive (ETI), which was increased by 50% to a maximum monthly value of R1,500 in last year’s Budget

Speech.

As Lang concludes, "If SMEs are to benefit materially enough to grow their ventures and help alleviate the scourge of youth unemployment, tax incentives that support this objective need to be revised upwards at a rate that exceeds inflation. Further interventions could include extending the applicable age bracket of the ETI to 35 and expanding the country's designated special economic zones to include under-resourced communities in all nine provinces.

This year's Budget Speech will undoubtedly mark a turning point in the state of South Africa's small business sector. Progress made towards developing small businesses as engines of the GDP, is progress made for people on the ground, which is ultimately where it effectively makes a tangible difference."

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