SMMEs need help in alleviating SA's jobs crisis

South Africa's most recent unemployment figures paint a gloomy picture. Our unemployment rate is now a staggering 32,9%, which is among the highest in the world. The problem is that the country's chronic joblessness is what leads to most other socio-economic issues, including crime, poverty and inequity. In other words, we can't fix our other challenges until we fix unemployment.

Stephen de Blanche, chief revenue officer at TransUnion Africa | image supplied

One way to solve the problem is to create more small businesses, which employ more people. This brings us to our next problem: approximately 70%-80% of small businesses fail within five years, especially in the disadvantaged communities that need the jobs and economic activity the most.

According to research by the University of the Western Cape, only about 1% of micro-enterprises that start with fewer than five employees grow to employ 10 people or more. The downside of this is clear. These businesses aren't helping solve the unemployment issue, let alone contribute to the broader economy.

There are many reasons for this; Covid-19, spiralling inflation and interest rates, and soaring fuel prices are creating a perfect storm of chaos. A storm that's making it really hard for existing small businesses to survive and new ones to start up.

The other challenge is that many small business owners lack the core skills they need to run a successful business. This includes basic financial acumen, like how to manage cash flow and debt, along with business and project management skills that are critical in helping small businesses operate efficiently.

There’s no doubt that more entrepreneurial skills are needed in South Africa. But it goes further than that. And that’s where South Africa’s corporates have a major role to play.

Big corporate players need to act as the enablers of small businesses and their success at several levels - creating opportunities, developing the skills needed to run businesses, and providing access to funding.

Access to financing is key. Even the best-run businesses can only grow their business to the limit of their cash flow. A lack of cash flow and funding limits their ability to hold stock. As an example, the solar industry offers massive opportunities for small businesses right now, but it’s impossible for most SMMEs to hold the stock of inverters, solar panels and batteries they would need.

Youth entrepreneurship in South Africa is locked, and corporates hold the key

Catherine Wijnberg 9 May 2022

Access to finance is even more challenging when a business operates informally, because they simply don’t have the basic things that lenders look at to assess risk, like income statements and balance sheets. They are what we in the financial services industry call ‘thin file’ clients: they are practically invisible to the economic mainstream because they have no credit history to evaluate.

The answer may lie in using alternative data to qualify more SMMEs. In this space, business owners are inextricably linked to their businesses. If you lend money to a business, you effectively lend money to the person. So, by evaluating their personal risks, you may be able to get a picture of their ability to repay loans.

Beyond that, corporates have a major role to play in getting more SMMEs to become accredited vendors. Apart from giving them the skills and support they need to do the onboarding needed to become a supplier, they can ensure those SMMEs are paid as quickly as possible. In some cases, they can even put favourable payment structures in place to support the small business’ cash flow.

Our economy, and our society, need jobs desperately. Our small business sector can provide them. They’re just going to need a bit of help first. Our futures depend on it.