

Minister of Public Works
Mr J Radebe
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National Industrial Chamber(NIC) Conference **Government's Expectations of the Smme Sector**

Ceremonial Greetings

We meet at an exciting and challenging juncture in the history of South Africa. The political angst of 1994 has evaporated like a mist, we have done comparatively well in surviving the dark clouds of the global economic meltdown of recent years and on the not so distant horizons we have an impending second democratic election. On every major front our ANC-led government has laid the foundations and begun meeting the challenges of delivery head-on. At every level of society we continue mobilising for change and accelerated delivery in the coming term of office.

Critical perhaps in all of this is the fact that much of our success can be attributed to the excellent partnerships that our government has built with all sectors of South African society. Through our partnerships with deep rural communities we have begun to turn around the horrid legacy of crushing poverty and under-development. Through our partnership with civil society and community policing structures we have begun to break the back of rampant crime and lawlessness endemic to the social dysfunction created by apartheid. Our partnership with business, large and small, has seen numerous opportunities open up in manufacturing, export, technological innovation and in public sector procurement amongst others.

To ask therefore what government's expectations are of the SMME sector is perhaps to obscure and shift the focus from a more important issue. I believe that issue, is the extent to which the SMME sector has been able to access and utilise the opportunities created under the new dispensation. As we prepare to accelerate change, this will assume greater importance. An important element in mobilising for change and consolidation of the gains of the Mandela years, is the vigilance, creativity and entrepreneurship required to seize every opportunity that presents itself; to explore new markets; set new benchmarks in business and technological innovation; and accelerate the rate of entry of the informal sector into the mainstream economy .

We should perhaps not ask what government's expectations are of the SMME sector but rather what expectations the sector has of itself. Do you have the vision to exponentially grow and expand your market stake , do you have the aspiration to be the largest creator of job opportunities, do you have the plans and programmes to maximise on a new legislative environment, new opportunities, new realisation of the central role that your sector plays in the global economic scenario. To borrow the Shakespearean phrase: "Ask not what Rome can do for you..."

Ladies and Gentlemen: I must however highlight the fact that in 1994 when our government came to power the occurrence of small business ownership in South Africa was way below that of similar economies. Through the introduction however of the positive legislative environment and a coherent strategy and support mechanisms for small, medium and micro enterprises (SMME's) we have begun to create a new and vibrant SMME culture. Government's vision for this enterprise is captured in the White Paper, National Strategy for the Development of Small Business in South Africa. This in turn has set the agenda for transforming small business into the driving force behind job creation.

I want to re-iterate the words of President Mandela, in the UNDP Human Development Report of 1996, when he highlighted the critical need for a partnership between the private and public sectors to devise a national strategic vision to "lift us out of this quagmire" and accelerate the growth of SMMEs.

I believe I can speak without any fear of contradiction when I say that it is in the Corporate Sector's interest to support a vibrant, expanding SMME sector to underpin sustainable economic growth. Increased unemployment and burgeoning poverty would adversely affect the future of big business. Corporate SA has the skills and the market opportunities to accelerate the growth of job and wealth creating SMME's. The spectre of restructuring thrust on major corporations by the pressures of globalisation, increased competition and the need to focus on areas of core competence opens up for the SMME sector a favourable position in the global economy for the foreseeable future. In view of this, government and many large corporations have embarked on affirmative procurement and small business development programmes.

It is somewhat surprising that the SMME sector has not fully utilised its collective muscle to engage the corporate and public sectors to maximise the opportunities presented. I want to relate an interesting

observation made by a caller on a recent Radio Metro interview. He said that despite the fact that government had introduced the Green Paper on Public Sector Procurement in November 1995, to date more SMMEs and emerging business entities had benefited from Public Works procurement reform initiatives than all other government departments combined. Whilst this may undoubtedly be somewhat exaggerated, the fact is that in 1995 we estimated that the state acquired no less than R56 billion in goods and services annually. The question we must ask is how much of this stake have you as the SMME sector leveraged? Our own statistics reflect a success story that we have been able to accelerate access to public sector construction contracts from less than 3% prior to 1994 to 28% by the end of 1998. We have already put in place measures to intensify this. As our government moves decisively to accelerate and deepen the nature of the engagement of the emerging SMME sector, will there be a concomittal effort on the part of the emerging sector to access these opportunities and to expand their capacity to move from informal to formal; from small to micro; from micro to medium; and medium to large entities.

Our continued partnership with the SMME and large corporate sector should also reinforce the need to promote the development of SMME's for the long-term benefit of our national economy. You must therefore not under-estimate the potential of your sector to contribute to long-term growth and the attainment of our socio-economic objectives. You must not regard yourself as junior partners in the quest to grow the economic stake of this country. On the contrary you are role-players in your own right.

I believe that the SMME sector has both the potential as well as the historic task of bringing millions of people from the informal and small business economy into the mainstream. Your task is to maximise the opportunities created by a favourable legislative environment and by effective support institutions and mechanisms. However this will not be realised as long as the grassroots support structures remain weak and disorganised. New entrants in the SMME sector must be provided adequate support to ensure that they survive the harsh introduction to the rigours of doing business in the mainstream. Success and failure is a normal part of business processes but effective networking, adequate skilling, developing good business acumen and sound principles and practices coupled with a high degree of business integrity will ensure that the prevalent environment does not perpetuate a culture of failure but rather a winning culture. We need an SMME culture that encourages the survival of new entrants rather than throwing them to the ravages of the market. We are not advocating a dependency syndrome but rather we wish to emphasise that the inter-dependence of all role-players in our economy is critical to the survival of the whole.

I would also like to see the SMME sector play a greater advocacy role to ensure that the grassroots structures that are so essential for the support and survival of new entrants is developed and strengthened. In this initiative I believe that government can rely on the Corporate sector and the donor community at large to extend valuable support and mentorship to this vital sector of our economy.

Despite the economic turmoil of recent times, small, micro and medium sized enterprises (SMMEs) remain an important engine for industrial development. SMME businesses whose contributions are often overlooked in the overall economic picture, have an important role in both the emerging economies as well as the developing economies. According to the recent trade statistics SMMEs' contribution to total exports remain high in the range of about 56% in Taiwan, 50% in China, 50% in Thailand, 20% in Vietnam, 42% in South Korea, 17% in Hong Kong and 16% in Singapore, to name a few. All other countries of this region have also registered a significant volume of exports generated through SMMEs.

Since recently the developing economies of Asia have shifted their strategy from a general export drive to more selective promotion of priority sectors that have distinctive comparative advantages. In line with this strategy, high growth SMMEs have successfully integrated skilled manpower capability and advanced technologies mostly acquired from the developed countries into production systems and thus made them highly competitive internationally. We need to ask to what extent our own SMME sector has geared up to meet the opportunities presented by new export markets and to what extent you have been able to enhance your prospects by drawing on new technology.

The advent of Internet Marketing or E-commerce as it is now popularly called is becoming a major boom to the SMMEs in developing countries. Whereas, in the past, third world manufacturers had to depend on middlemen to secure orders for their products, they can now directly sell their products, negotiate joint ventures, buy technology equipment, etc, via the Internet. In developing our SMMEs from small to micro to medium, it is essential that we utilise the potential that this new realm of business has to offer.

The SMME sector needs to remain vigilant of new opportunities emerging, be that in terms of technological innovation or in the form of defining new markets. They need to be an integral part of the process that spreads new opportunities and opens up avenues for new entrants to the market. It is often the marginalised sectors such as single women and home-based business entities of the informal sector that seek to break into new

vistas. To make that process a success it essential that the SMME community plays the crucial and indispensable role of providing the "social glue" and networking that binds small firms together in both high tech and "Main Street" activities. The continued well-being of our economy depends on the continued high level of creation of new and small firms in all sectors of the economy by all segments of society. I can assure you that government will continue to bolster an environment that is enabling and eliminates barriers to entry.

The world economy at the end of the 20th century is characterized by increasing cross-border awareness and interdependence among nations. Both international trade and investment have increased manifold. Total world trade increased from \$629 billion (in 1995 dollars) in 1960 by eight times to \$5 trillion by 1995, while world output grew only by 3.6 times. Total world foreign investment went up faster than either world trade or world output. In this process the SMME sector has demonstrated its value as a positive contributor to growth and market expansion.

One can therefore not underscore the value of entrepreneurship in maintaining and enhancing the global advantage of developing economies such as South Africa. One of the principle advantages of the SMME sector is that they are more focused on change. This factor enables them to respond swifter and more decisively in extracting maximum advantage from the opportunities presented.

Government views the SMME sector as a reflection of our prospects for the future because it mirrors the entry of new players into the formal economy. It is therefore of paramount importance that these new entrants are able to access vital information that can unlock its full potential. As agents of change it is essential that SMME networks provide entrants with an essential source of new information that stimulates new ideas and consolidates its position .

As we reach towards attaining higher levels of growth and stability, the SMME sector will continue to be challenged by the need to provide and engage in new levels of innovation, entrepreneurship and variety.

The crucial barometer for economic and social well-being is the continued creation of new start-up SMME firms and establishments by all segments of society and in all corners of our country..

In conclusion, I want to re-iterate that small, medium and micro firms will continue to be an essential mechanism by which millions enter the economic and social mainstream. In terms of the larger process of transformation of the economy, government welcomes your efforts and pledges its continued support. It is therefore important that we accelerate the entry of new players for in doing so we are also able to address the historically skewed patterns of ownership. In all of these initiatives we believe that the most valuable tool is our continued partnership.

I thank you!

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