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Small Business in South Africa: What the Department of Small Business Development Can Do to Stimulate Growth

This paper analyzes the current state of small business in South Africa, what has been done so far to assist small businesses, the current obstacles, and what can be done to encourage small business growth.

1. Introduction

With the creation of the Department of Small Business Development, President Jacob Zuma has reaffirmed the importance of small business growth to South Africa's economy, and the hope that it can lead the way to a more thriving future. Lindiwe Zulu, formerly President Zuma's international relations advisor, will head the department, which will aim to strengthen small, medium, and micro enterprises (SMMEs) in an effort to create jobs and stimulate South Africa's economy. This is far from the first step that South Africa has taken toward fostering small business growth. It has been on the national agenda since 1994, yet despite the country's ongoing efforts, small businesses continue to struggle. The department may very well be effective in achieving its goals, but only if it engages in substantive action to change the landscape for small business in South Africa.

2. South Africa and Small Business Historically

For decades there has been a focus on small business growth in South Africa. In 1996 Parliament passed the National Small Business Act. The Act provided for the establishment of the National Small Business Council, with its stated purpose being to "represent and promote the interests of small business" and to "advise the national, provincial, and local spheres of government on social and economic policy that promotes the development of small business." It also created the Ntsika Enterprise Promotion Agency to provide non-financial support and training in accordance with the National Small Business Strategy.

Furthermore, the Act defined small, medium, very small, and micro businesses. Although the number of employees varies by industry, and there are additional categories of total annual turnover and total gross asset value, the sizes of these businesses breakdown as follows: medium businesses are those with fewer than 120-200 employees; small have fewer than 50; very small fewer than 10-20; and micro have fewer than five. [1]

Despite these efforts, though, small business growth failed to reach its potential, and in order to address this problem the government took further action. In 2004 the National Small Business Amendment Act established the Small Enterprise Development Agency (SEDA), which brought together three other entities, the Ntsika Enterprise Promotion Agency, the National Manufacturing Advisory Centre (NAMAC), and the Community Public Private Partnership Programme (CPPP).

As part of the Department of Trade and Industry, SEDA aims to provide small business development and support by working in partnership with other organizations. As of the end of 2012, SEDA had 43 branches, 18 mobile units, 48 electronic information kiosks, three enterprise information centres, 12 enterprise development centres, 42 incubation centres, and 47 'access points' throughout the country.[2]

More recently, government created the Small Enterprise Finance Agency (SEFA) in 2012, in order to simplify and expand financing for small businesses. Whereas SEDA operates in the development and support space, SEFA is a direct financing agency. Previous agencies worked with other intermediaries to provide financing to small businesses, but SEFA provides financing directly to business owners and entrepreneurs.

SEFA offers several different types of financing. *Bridging loans* are short-term loans designed to finance working capital needs so that businesses can meet their current obligations with immediate cash flow. *Term loans* have a fixed period of one to five years, with either a fixed or floating interest rate, and can be used to finance assets with a medium to long-term lifespan. *Structured finance* can be used to finance approved business needs that fall outside of the scope of term and bridging loans. The financing that these facilities offer ranges from R50 000 to R5 million.[3]

3. The Current Environment

Although South Africa has made many efforts to assist SMMEs, the current atmosphere is one in which running a small business is difficult and risky, and the failure rate is high. Trade and Industry Minister Rob Davies has acknowledged that five out of every seven small businesses in South Africa fail within one year.[4] By comparison, in the United States 70% of small businesses survive at least two years, according to the U.S. Small Business Administration.[5]

Entrepreneurial activity is an important indicator of the future of SMMEs, since the small business owners of tomorrow are today's entrepreneurs. The Global Entrepreneurship Monitor (GEM) research project is a joint venture of Babson College and the London Business School, first started in 1997. It measures entrepreneurship and its impact on national development. Its 2013 report on South Africa showed that attitudes toward starting a business and are not very favorable. South Africans ranked lower than other sub-Saharan nations when asked about their perception of good opportunities, as well as their own capabilities. Only 37.8% of the adult population in South Africa thinks that there are good opportunities to start a business, compared to 74.5% on average in other sub-Saharan countries. Similarly, 42.7% believe they have the capabilities needed to start a business, whereas 78.9% of people on average in other sub-Saharan countries believe they do.[6]

South Africa's business environment is not all bad news, though. In its 2014 report on doing business, the World Bank ranked South Africa 41st for ease of doing business (out of 189 economies) and 64th for ease of starting a business.[7] While not as high as the G8 nations, South Africa fares better than most other

African countries and is on par with, or better than, most developing nations. In fact, some steps have already been taken towards making it easier for companies to do business. In 2013 South Africa minimized the time and documents needed to export and import goods through its customs modernization program, and in 2014 it made paying taxes easier by replacing the secondary tax on companies with a dividend tax on shareholders.

Still, doing business in South Africa remains a challenge for SMMEs. In its 2014 report on growth and competitiveness for small business in South Africa, private sector development and research company SBP conducted a study of 500 small and medium enterprises from various industries. Owners strongly believed that the business environment is unfavorable to their operations, with 71% of respondents saying that it became harder to operate a business in South Africa in 2013, while only 9% said it became easier. They identified the chief impediments to growth as: lack of skilled staff, burdensome regulations, local economic conditions, lack of finance, and cost of labour.[8]

4. The National Development Plan and Future Goals

The National Development Plan (NDP) has laid out an aggressive economic growth strategy, in which SMMEs play a significant part. One of its major economic goals is to reduce unemployment to 6% by 2030. In order to achieve that goal, South Africa would have to generate 11 million additional jobs, which would require real GDP to grow by 5.4% annually.[9] The South African Reserve Bank, however, predicts 2014 growth of only 3%. With official unemployment levels at 25% and unofficial rates even higher, SMME success is crucial not only to GDP growth, but to job creation as well. For this to happen, SMMEs must perform and expand at a substantially better rate than they have in the past.

The NDP's vision of economic growth has equally lofty goals for SMMEs. It projects that 90% of new jobs will be created in small and expanding firms. This is in spite of South Africa having only about half of the total early-stage entrepreneurial rates of other developing economies. The NDP touches on how South Africa can achieve this broadly, but does not go into many specific proposals or policy recommendations. For example, the NDP mentions the need for greater access to debt and equity finance, simpler regulations, and better skills training. It does not, however, suggest what specific changes should be implemented in order for this to happen. For an idea of what kind of government action may benefit South Africa, a look at what other countries have done, both now and in the past, may be instructive.

5. Fostering SMME Growth in Other Countries

Small businesses have long been regarded as a key driver of job creation and GDP growth, and governments around the world have responded by taking action to make it easier for small businesses to succeed.

5.1. The United States

In his work on small business and jobs, notably *The Job Generation Process*, David Birch argued that small firms are an important component of job creation in the United States. Although subsequent studies have questioned the true impact of small businesses on job creation, their role remains important. Between 1993 and 2011 small firms, defined in the United States as having fewer than 500 employees, created 64% (or 11.8 million of 18.5 million) of the net new jobs.[10]

In the US, government involvement with small business has a long history. The government formed its Small Business Administration (SBA) in 1953 with the intention of fostering small business growth through education and access to finance. Through various initiatives, the SBA has taken steps to remove bureaucratic red tape, enhance access to capital, streamline application procedures, and improve educational opportunities for small business owners.

In its *2014 Congressional Budget Justification* and *FY 2012 Annual Performance Report*, the SBA lays out its current strategic goals. Its primary goal is to grow businesses and create jobs. It aims to achieve this by expanding access to capital through its lending network, ensuring that federal contracts are being awarded to a defined number of small businesses, strengthening its entrepreneurial education and counseling services, and enhancing its focus on high-growth entrepreneurs.

The SBA also lists its achievements from the past year. It enhanced its in-person and online education while streamlining its existing lending platforms. It adopted a 'No Wrong Door Approach,' which means that a phone call to any government agency will be properly routed to the correct one, thereby ensuring that small business owners gain the assistance they need. It also improved its data collection and analysis to ensure that policy and program decisions are based on sound factual information. The SBA has a team dedicated to analyzing key metrics, statistics, and historical trends. Additionally, it tracks its programs to see whether they are achieving the desired outcome.

The US is in a different stage of economic development than South Africa, and the longevity of its focus on small business is evidence of that. American-style programmes to aid small business may not be attainable in South Africa in the near-term, but are something to aspire to in the long-term. However, other BRICS countries make for more apt comparisons, and several of them are taking steps to increase assistance to small businesses.

5.2. India

India has recognized the importance of small and medium businesses in its rapidly growing economy, and has introduced measures to encourage their growth. The micro, small, and medium enterprise sector employs 69 million people and its contribution to India's GDP has been increasing at 11.5% annually, faster than the country's overall GDP growth of 8%.[11]

India's Ministry of Micro, Small, and Medium Enterprises was created in its present form in 2007, but the government's focus on assisting small business dates back to 1999, with the Ministry of Small Scale Industries. In 2006 India passed the Micro, Small and Medium Enterprises Development Act to address policy issues affecting SMMEs. The Act assigns primary responsibility for promotion and development of SMMEs to state governments, although the national government does provide additional support through its various initiatives.[12]

The Indian government has undertaken several programmes to support small businesses, primarily in order to enable sufficient access to credit, to support technology modernization, and to provide educational opportunities for business owners and managers. Additionally, it has set targets for banks lending to SMMEs. The Prime Minister's task force on SMMEs calls for a 20% year-on-year increase in lending to micro and small enterprises, and a 60% increase in total lending to the SMME sector.[13]

Despite India's efforts, though, there is room for improvement. The International Finance Corporation (IFC) observed in its 2012 report on small business finance in India that there is a substantial finance gap. Only 40%-70% of SMME demand for financing was being met at the time of the report's publication. The IFC attributes this gap to both demand-side challenges, such as complicated and burdensome legal structures of enterprises, and supply-side gaps like a lack of investment funds focused on SMMEs.[14] It calls for "holistic fiscal support and enabling policies" in order to stimulate SMME growth.[15]

5.3. Brazil

Brazil is another BRICS nation that has encouraged small business development through government policy. In an effort to stimulate SMME growth, Brazil passed legislation in 1999 that made it easier for businesses to pay taxes, access capital, and export their goods.[16] The government has continued its SMME-friendly attitude by recently announcing a reduction in the interest rate on public loans for small business owners from 8% to 5%, making it easier for SMMEs to access capital for business expansion.

In addition to streamlining its tax procedures and making access to capital more attainable for SMMEs, Brazil has also made efforts to expand the presence of business incubators, which assist early-stage small businesses with strategy, legal navigation, educational resources, and other guidance, through its National Incubation Support Programme. This programme combines the support of various government agencies and institutions in order to improve the existing financial institutional framework for incubators in the country.[17]

Brazil's policies have achieved success. SMMEs are currently responsible for 96% of jobs in Brazil and account for 98% of the companies in the country, according to data gathered by Endeavor Brazil.[18] This has generated excitement and enthusiasm among potential entrepreneurs. A recent GEM survey conducted in the country found that more than 80% of people believe that staring a business is a desirable career path. The report also found that having a business is the third most common wish among Brazilians, after owning a house and travelling.[19] This is in spite of a small business atmosphere that still has substantial room for improvement. The World Bank ranks Brazil 134th out of 189 countries for ease of doing business. It ranks 109th for ease of credit and 159th for ease of paying taxes.[20]

6. What Is Holding South Africa Back?

There are several factors working against SMME success in South Africa and if the country hopes to encourage small business growth, it will have to make significant changes. Some of these will fall within the Department of Small Business' domain and some that will not. The most pressing challenges are listed below.

6.1. Unnecessary complexity

Current government assistance to small business is complex and difficult to navigate. The 2012 merger that resulted in the Small Enterprise Financing Agency (SEFA) was a step toward simplification, but more is needed. SEFA is housed under the Department of Economic Development, while SEDA is part of the Department of Trade and Industry. The creation of the Department of Small Business Development could potentially further complicate matters, making it harder for small business owners to know where to turn for help, and for government to co-ordinate its efforts.

6.2. Early-stage support

The fact that five out of seven small businesses fail in their first year is a strong indication that SMMEs need more early-stage support. Government support initiatives do exist, such as DTI's Incubation Support Programme (ISP). The ISP creates private/public partnerships to provide financial assistance to SMMEs through business incubators. Similar successful projects have been undertaken in the United States, United Kingdom, and other countries. In South Africa, though, business incubators have yet to achieve their desired effect.

Access to capital is another early-stage concern. With one of the top financial markets on the continent, South Africa has the resources to supply SMMEs with the early-stage capital they need to succeed. Actually obtaining the necessary funding, though, is less straightforward. Many SMMEs have financial needs that traditional lending sources are unable to meet. Small businesses often require more collateral in order to secure a loan from a traditional lender than an established business because of greater inherent risk. Without the capital to invest in hard assets that can serve as collateral, though, they often have little to no collateral at all; thus, they frequently fail to qualify for adequate financing opportunities.

6.3. Education

Perhaps the two biggest obstacles that South Africa faces with regard to small business growth are also the most difficult to surmount. The problems surrounding South Africa's education system have been well documented. Recently the World Economic Forum ranked South Africa last out of 148 countries for the quality of its maths and science education. It also ranked the country 146th for the overall quality of education. The Department of Basic Education quickly criticized the report, stating that the methodology did not accurately reflect the state of education in the country. This response does have some merit; the ranking was based on a survey of business executives and their impressions of countries' education systems rather than a more objective measure like standardized test performance.

But while the significance of the World Economic Forum rankings may be debated, they are still worth heeding for a couple reasons. This is not the first time that South Africa's poor quality of education has been brought to the public's attention. Were it an isolated finding, it would be easier to justify dismissing it. It is clear, though, that the education system is badly in need of reform and has been for quite some time. Whether it is as bad as the recent ranking suggests is beside the point: It is broken, and it needs fixing one way or another.

Second, the rankings are of particular relevance to the future of business in South Africa because they have been compiled based on the opinions of business executives. The true state of education is of great importance, but so is its perceived quality. If business leaders think that South African education is poor, then they will be more likely to look for qualified employees elsewhere. Similarly, South African small businesses and entrepreneurs may look at other countries to launch or develop their business ideas because of a perceived shortage of educated employees.

6.4. Labour legislation

For an economy to function well it needs labour laws that allow both employee and employer to enter into fair and reasonable contracts regarding employment. While employees should be entitled to work without fear of unjust termination, employers should at the same time be permitted to end an individual's employment when that person is no longer adequately performing the tasks of the job. Otherwise employment and hiring can be an excessive burden on an employer. The expense of terminating an employee, and perhaps even worse, the cost of paying a salary to an employee who is doing little to contribute to the business and maybe even harming it, is great. In the case of South Africa, there is a strong argument that the country's far-reaching labour laws are in fact a hindrance to business expansion and job creation.

The 2013/2014 Global Competitiveness Index Report recently showed just how rigid South Africa's labour laws are. Out of 148 countries the report examined, South Africa was at or near the bottom of several categories. It ranked 144th for flexibility of wage determination, 147th for rigid hiring and firing practices, and 148th for employee/labour relations. In the last two categories its rank dropped since the 2011/2012 edition of the report.[21]

The rigidity of South Africa's labour laws creates a strong disincentive for businesses to expand, one that is felt even more acutely among small enterprises. All businesses require sufficient cash flow to finance their operations and pay their debts. Larger ones often have larger cash flows, which create a cushion that allows a business to meet its obligations even if it incurs unexpected expenses or fails to receive a payment. SMMEs, though, operate on much stricter budgets, and so the effect of any additional expense has a greater proportional effect on them.

When a business is unable simply to terminate (dismiss) an employee, it is forced to continue paying a salary for work that is presumably not meeting expectations, thereby resulting in an undesired and perhaps unsustainable expense. Alternatively, the business may take legal action to terminate the employee, provided it has a genuine case. The cost of doing so is often prohibitively expensive, though. When hiring an employee creates a risky and perhaps expensive scenario for a business, it has little incentive to do so. The end result, then, is that the business fails to create the very jobs that it has the potential to create.

6.5. Attitudes toward entrepreneurship

As the GEM Report showed, attitudes toward entrepreneurship are very negative in South Africa, and significantly worse than those in other African countries. It is difficult to overestimate the impact of apartheid on this reality. Until 1994, and especially during the years of legislated racial segregation, blacks were prohibited from fully participating in the economy of South Africa. With such limited economic opportunities, the majority of South Africans did not have good prospects for starting businesses and, with multiple generations denied this opportunity, it is not surprising that there is little optimism for entrepreneurship now. Without a greater awareness of the opportunities available to potential entrepreneurs, especially among the portion of the population that was disenfranchised for so long, South Africa will not experience new business growth.

7. Recommendations

Policy changes will be needed across several different areas in order for small businesses to be able to thrive, grow, and create jobs in the South African economy. The Department of Small Business Development will not be able to address all of these changes directly, but by working in conjunction with other ministries, especially the Department of Trade and Industry (DTI), the Department of Economic Development (DED), the Department of Basic Education, and the Department of Higher Education and Training, it can introduce policies to create a more favorable environment for SMMEs in South Africa. The following recommendations will be instrumental in making that happen.

7.1. Reduce complexity

The availability of small business support is in and of itself a good thing. The myriad ways in which the government offers it, though, make finding the proper channels and resources very difficult. The new Department of Small Business Development runs the risk of further complicating matters, but it can also help to streamline and clarify government action.

The department should work with other existing departments (DTI and DED) to establish a unified approach toward their initiatives, and work to present it as such to small business owners. A policy similar to the United States' 'No Wrong Door' approach would ensure that enquirers get the assistance they need. In addition, the department should work with provincial and local governments to ensure that the initiatives they are providing give adequate local assistance and that their respective responsibilities do not overlap. The department can then empower local government while directing action according to the national objective of supporting small business and creating jobs.

Small business agencies, such as SEDA and SEFA, should be housed in the new department, and it should function as the source for all SMME resources. The department should take charge of its mandate to streamline and build on existing resources for small business owners.

7.2. Enhance awareness of entrepreneurship as a viable career path

The GEM Report showed that the majority of South Africans simply do not consider entrepreneurship as a career option. While innovative entrepreneurs drive other developing countries' economies, as in Chile, Brazil, and India, this is not the case in South Africa.

For South Africa to grow small business, it has to create a culture of entrepreneurship, since entrepreneurs are the future small business owners. In order to do that, though, it will have to generate awareness and excitement. From an early age, children should be exposed to the notion of starting and running a business. In the same way that young people might consider working as a civil servant, lawyer, engineer, or miner, they should consider being an entrepreneur.

The government should also work to increase awareness and visibility of the programs it offers. Just because South Africans do not perceive entrepreneurship as a career, it does not mean that they do not have creative business ideas that can become successful ventures. By raising awareness through publicity campaigns, outreach programmes, and open houses, the department can ensure that potential entrepreneurs are aware of the options available to them, and of how they can help transform an idea into a business.

7.3. Expand incubation and mentorship programmes

Of course, merely raising awareness is insufficient when it comes to growing entrepreneurship. The necessary training, education, and assistance will have to be accessible to budding entrepreneurs as well.

More business incubators in South Africa would be able to provide greater options for early-stage businesses. By offering mentorship, tax advice, and business guidance, incubators can help nurture nascent business ideas into successful startups. The current incubation programme is a step in the right direction, but it is being operated on a small scale. The department should look to expand the existing programme with substantially more investment. It should also make it more accessible and able to better reach potential business owners by expanding its geographical reach and having a bigger presence in townships.

7.4. Enhanced financing options

Without capital investment, there is little likelihood that a small business will succeed. SMMEs need access to capital throughout various stages of their growth in order to become successful and profitable. Because they often do not qualify for traditional lending, though, alternative financing is necessary.

Various types of financing options exist for small businesses. Microfinance organizations, angel investors, and venture capital firms are often eager to invest in what they perceive to be promising early-stage companies. For SMMEs to take advantage, though, this network of financing has to be navigable. This is currently not the situation. Government should take steps to connect investing networks to entrepreneurs through business plan competitions, information sessions, and public/private partnerships.

The department should consider creating incentives for lenders to extend credit to SMMEs and for investors to back them. For lenders, it could consider setting either a minimum amount of capital or number of loans that a bank would be required to direct toward SMMEs. Certain measures would be necessary to ensure the quality of the loans as well, such as monitoring business success and defaults so that lenders do not focus on quantity over quality.

Additionally, the government should work to create demand for small business goods and services. It can do this both by allotting a certain percentage of government contracts to SMMEs as well as by motivating other businesses to purchase from SMMEs. This could be achieved by exploring tax incentives or credits for businesses that comply.

7.5. Labour law revisions

In order for SMMEs to expand and create jobs, labor laws have to change. Current policy is excessively restrictive and functions primarily to inhibit small business growth by placing financial burdens on the very companies that can least tolerate them. Workers' rights are of great importance. They must be balanced, however, with businesses' needs. Fair legislation should create an environment in which both parties can prosper, where employees can work without fear of unjust termination, and where businesses can hire employees to fill their needs and fire those who fail to provide satisfactory work.

The current atmosphere incentivizes businesses not to expand because doing so could force them to incur substantial expenses. With fewer net jobs as a result, this kind of policy does not help workers, despite its best intentions. In fact, it harms them by reducing the number of available employment opportunities.

Labour conditions have not gone unnoticed in the global community. Ratings agencies like Standard and Poor's and Fitch's have expressed growing doubt in South Africa's economy. S&P, which recently downgraded South Africa's credit rating to BBB-, one notch above junk status, expressed doubt that government would be able to undertake the labour and economic reforms necessary to boost GDP. Fitch's, which did not downgrade South Africa's rating but did change its outlook from stable to negative, had similar concerns.[22] Ratings downgrades increase South Africa's cost of borrowing on the international market, and may also discourage foreign investment in the country.

If South Africa is to restore confidence in its economy and government is to come close to its new jobs goal, the country will have to change its current labour laws to reduce the number of restrictions placed on businesses. Specifically, the Labour Relations Act should be amended to reduce the number and extremity of regulations regarding hiring and firing, both to allow SMMEs to grow and to restore foreign investors' confidence in the South African economy.

7.6. Smart government investment

Government investment can play a key role in job creation, but it has to be targeted and utilized in effectively creating the right conditions for business growth. It has so far lacked this focus. The need for enhanced incubation and credit lending has already been discussed in this paper, and is of great importance. Additional government investment in infrastructure will be necessary to increase national productivity, enable successful businesses, and assist job-creating ventures.

South Africa has remarkable infrastructure in many parts of the country, which can compete with that of many developed nations. It is concentrated primarily, though, in major commercial centres like Cape Town, Johannesburg, and Pretoria. Many townships and informal settlements, which house a significant number of unemployed people, lack it.

Inadequate job opportunities throughout much of the country, as well as the lure of employment in major urban areas, have caused people to migrate there. The end result, though, is not the creation of net new jobs, but a concentration of oftentimes unskilled workers living in informal settlements finding only occasional work. This will not lead to real economic growth.

Instead, government should invest in the components needed for decentralized local economies to thrive. Goods and services require production inputs such as electricity, raw materials, machinery, and labour, as well as a market where transactions can take place. Throughout a good portion of the country, these requirements are simply not present. When they are, they are often insufficient to support economic activity.

On a community-by-community basis, government should examine the existing infrastructure, meet with local leaders, and determine what they need to conduct business. Adequate roads, electricity, and places of business will all be necessary. There will likely be other needs too, though, which must be met if small businesses are to thrive.

In addition to building the requisite infrastructure, government should also focus its investments on businesses that will meet real needs in the economy. The GEM Report identifies two types of entrepreneurs.[23] The first is a 'necessity entrepreneur.' The requirement to subsist, and not much else, motivates a necessity entrepreneur. For him or her, entrepreneurial activity is simply the best available option at a given time. If things change, the entrepreneur may just as likely pursue something else.

An ‘opportunity entrepreneur,’ on the other hand, is driven by a perceived market opportunity. That is, a need that exists but which the market has not yet met. This entrepreneur, by the very nature of his or her actions, is seeking to provide the economy with something valuable. Because opportunity entrepreneurs create value in an economy, they are more likely than necessity entrepreneurs to develop successful businesses that expand and create job opportunities.

Opportunity entrepreneurs, because of their role in job creation, are where government should most focus its investment in entrepreneurs. Similarly, with SMMEs government should look to assist those that are meeting needs in the market and that have the potential to create jobs. By identifying these companies early on, government can make sure that their business ideas are properly incubated and developed to the point where they can be realized, thereby meeting the economy’s needs, expanding, and creating jobs as they do so.

8. What This Means for the Department of Small Business Development

The reasons for stagnant small business growth and the issues surrounding it are many in number and complex in nature. There is no single solution, and the current situation demands combined efforts from numerous stakeholders in both the public and private sectors. What is clear, though, is that substantive action must be taken to effect the desired change.

For the Department of Small Business Development to be successful with its new mandate, it will have to be at the forefront of motivating government change. It will certainly not be able to do it all, though. South Africa’s education problem, for example, falls outside of its scope even though it negatively affects small business. This and other issues will require cooperation from several departments and the private sector as well.

On issues that directly affect SMMEs, though, the department will have to show strong commitment and leadership. It will have to introduce policy changes and successfully pass them through Parliament. It will have to work to change the nation’s attitude toward entrepreneurship and business ownership. Its task is not easy, but it is very important for the future of the economy and of the country.

9. Conclusion

The creation of the Department of Small Business Development is in and of itself neither good nor bad. What matters is how it functions and whether it can take the steps needed to stimulate small business growth.

The department certainly runs the risk of creating a more bloated bureaucracy. More ministers and a new department do not necessarily translate into a more favorable environment for SMMEs. This is especially true when SMMEs need simplified paths to government assistance, greater financing opportunities, and fewer legal obligations.

The creation of the department does, though, give South Africa the chance to reflect on the importance of small business in its current economic situation. To grow GDP, create jobs, and reduce the devastating unemployment the country faces, small businesses will have to succeed. It is the department's mandate to make this happen. The future of the South Africa's economy depends in large part on its ability to do so.

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