

MEDIA RELEASE

**South Africa difficult to do business in, study finds**

**Johannesburg, 21 February 2013 (SBP) –** It is becoming increasingly difficult to operate a small business in South Africa, and the SME community expects that this will become ever more so in the future. This emerges from the second round of the **SME Growth Index**™, produced by business environment specialists SBP.

The **SME Growth Index** is a multi-year research project, investigating the views and experiences of a panel of some 500 SME operators in the South African economy. These firms employ between 10 and 50 people, and are active in three sectors of the economy regarded by government as having growth potential: manufacturing, business services and tourism. The first and most comprehensive such study of its kind in the country, it allows the dynamics relating to firms’ growth, survival or decline to be tracked over an extended period of time. The first round was conducted in 2011 (published in a report in that year under the title *Priming the Soil*, available for download on SBP’s website <http://www.smegrowthindex.co.za>), and the second in 2012.

Nearly three quarters of the firms surveyed, or some 74%, feel that it had become more difficult to operate a business in the year preceding the survey. A mere 6% feel that it has become easier, with the remaining 19% indicating that it has not changed.

Manufacturers are most negative about the business environment, with around 81% feeling that things have become more difficult. Some 71% of business services panellists feel that things have become more difficult, and only 7% that they have become easier.

Respondents in the tourism and business services sectors are more positive, although large majorities of both groups still feel that operating a business has become more difficult.

These results are jarring when measured against government’s emphasis on manufacturing as a growth area. Manufacturers are the most negative about trends in the business environment. Given that manufacturing is also an endeavour that is likely to require specific fixed capital investment whose options for disposal in the event of failure are limited, that its input prices are climbing, that it may require scarce and pricy hard artisanal skills, and that it is prone to unionisation (even in small scale plants), it is a tough sector to operate in. This may also explain why manufacturing in South Africa is in long-term decline.

Tourism, less subject to these conditions, evidences much greater confidence. These results point to a need for serious policy adjustments for manufacturing if industrial plans are to have a chance of succeeding.

Larger firms, particularly those employing more than 40 people, are more likely to feel that things are getting more difficult than their smaller counterparts. This is deeply worrying, as it points to barriers and disincentives to firm growth – which means barriers to creating the employment opportunities South Africa desperately needs.

Those who feel that operating an SME was more difficult gave a range of explanations: the overall state of the economy; poor governance factors; the price of utilities; and the political climate.

Legislation and regulations (“red tape”) are repeatedly raised. A heavy compliance burden is diverting time and resources away from firms’ core business, and labour legislation makes employing staff risky. When asked specifically about the regulatory burden, not a single respondent says that it has decreased. A little over half report an increase in the burden, and slightly fewer than half say it had stayed the same.