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1. Introduction

The SMME Business Confidence Index (BCI) report is based on a quarterly survey of the responses of SMME owners or managers in relation to factors that impact on their businesses. The survey is conducted by the Africagrowth Institute. It, specifically, measures the opinions of SMME managers and owners all over South Africa about the current and future business prospects. This report provides useful information that serves to guide managers and decision makers in planning strategically and designing effective policies to mitigate constraining factors and improve on performance.

The index is constructed on the basis of responses to questions on policy factors ranging from employment levels, financial situation, new orders or contracts, volume of demand to selling price. The respondent firm (represented by the owner or a senior manager) then indicates whether these factors have gone up, down or remained the same in the last three months prior to the survey and also their perception for the next six months after the survey. The index is then a weighted average of responses based on the Diffusion Index method with firm size (number of employees) being the weight. The responses to this questionnaire are scored on a scale of 0 to 100, where 0 represents the lowest Business confidence rating and 100, the highest business confidence rating. The indices are divided into three strata. These are:

- (a) Industrial sector
- (b) Trade sector
- (c) Services sector

The BCI has continued with its downward trend in the second quarter of 2009, although Trade and Services sectors seemed to be cautiously optimistic about the future. Presented below are the results from the second quarter survey of 2009.

2. Background Information about sample

Out of the 1432 randomly selected SMMEs, 133 responded to questions posed in a survey. The provincial distribution of the SMMEs for this study is shown in Figure 1 below.

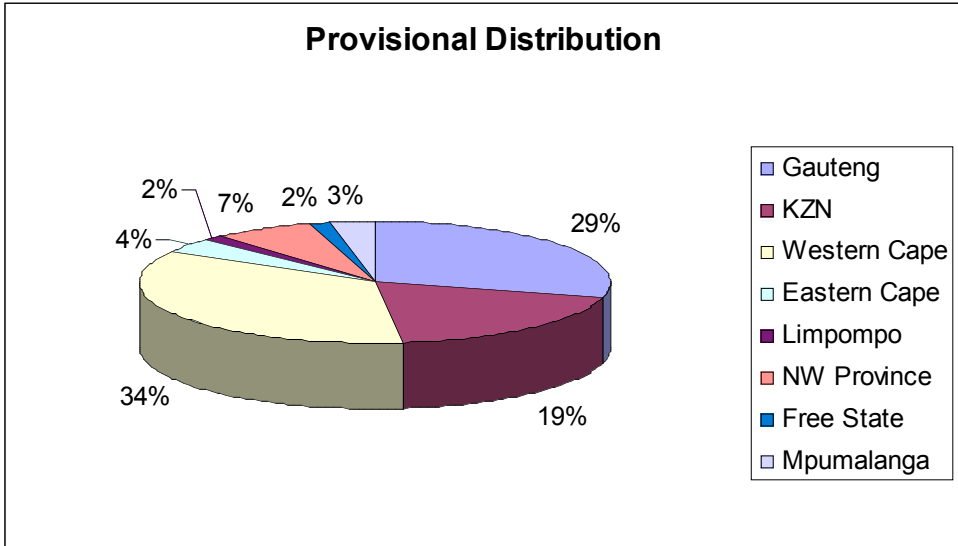


Figure 1 Provincial Distribution

From the graph (figure1) it is clear that Gauteng, KZN and Western Cape provinces, which have the highest SMMEs in the country, had the highest response rate. The three provinces combined represent 82% of the responses received.

In terms of sector distribution, figure 2 below shows that the services sector and industrial sector were the most represented. The trade sector remains the least represented.

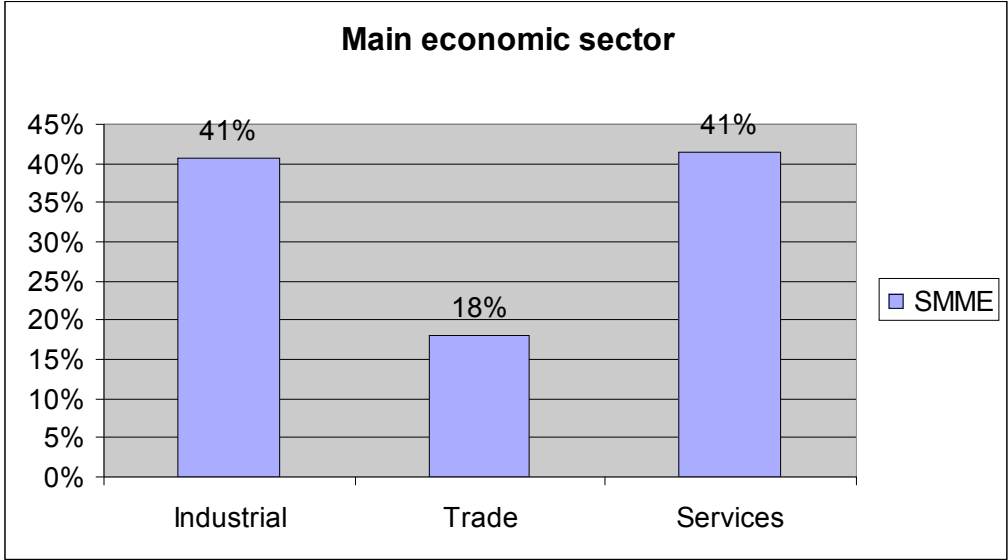


Figure 2: Distribution by Economic Sector

Sub-sector analysis in the broader Industrial sector indicates that the manufacturing sub-sector continues to dominate with a representation of 80% followed by construction (14%). In the trade sector response, the retail was more represented with 75% whereas the wholesale took the balance (25%). Finally, catering & accommodation was the most

represented with 41%, followed by Financial & Business services and community, Social & Personal services, Transport & Storage representing 31%, 24% and 4% respectively. This reflects a rise in Financial & Business services as the most dominant sub-sector in the services sector. Figure 3 displays a summary of the sub-sector distribution.

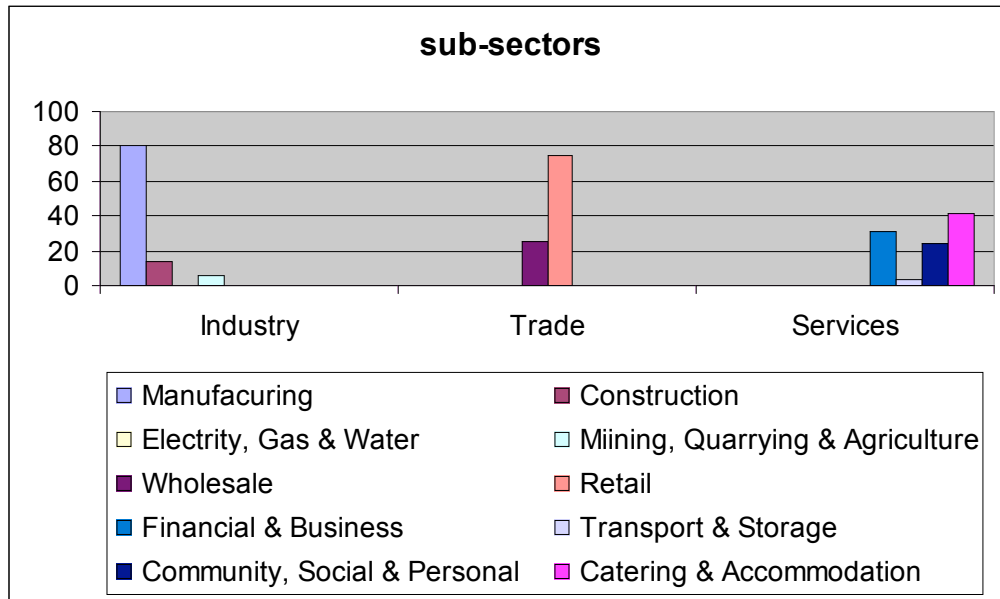


Figure 3: Sub-Sector Distribution

Figure 4 below shows a graphical representation of the number of people employed. It shows that majority of the firms who responded (31%) have a staff strength of less than 20.

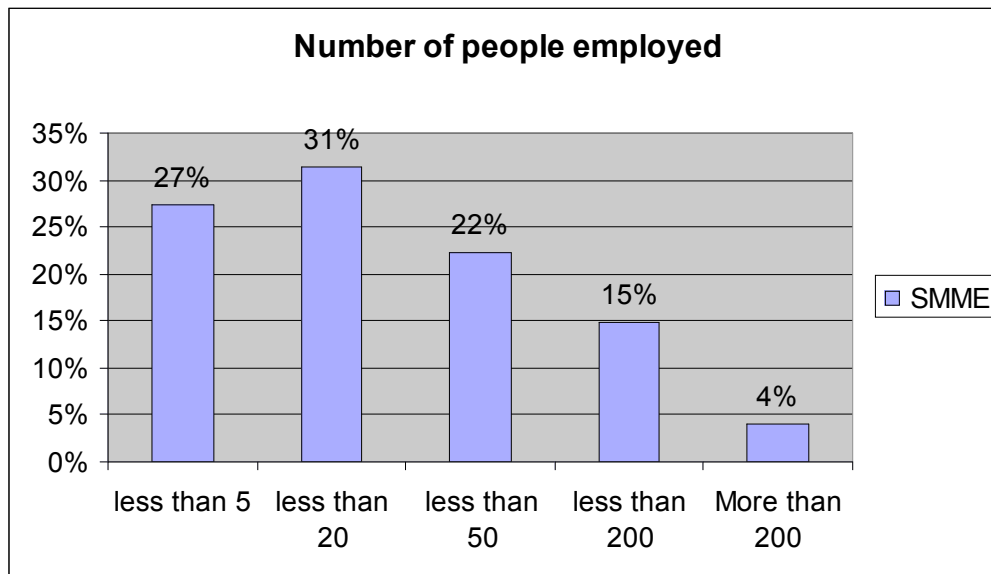


Figure 4: Number of Employees

Figure 5, which depicts the turnover distribution, shows that most of the firms (50%) record an annual turnover of above four (4) million Rand. However, there has been a decrease in

the percentage of firms with annual turnover less than 0.15m, making the firms with less than 2 million rise.

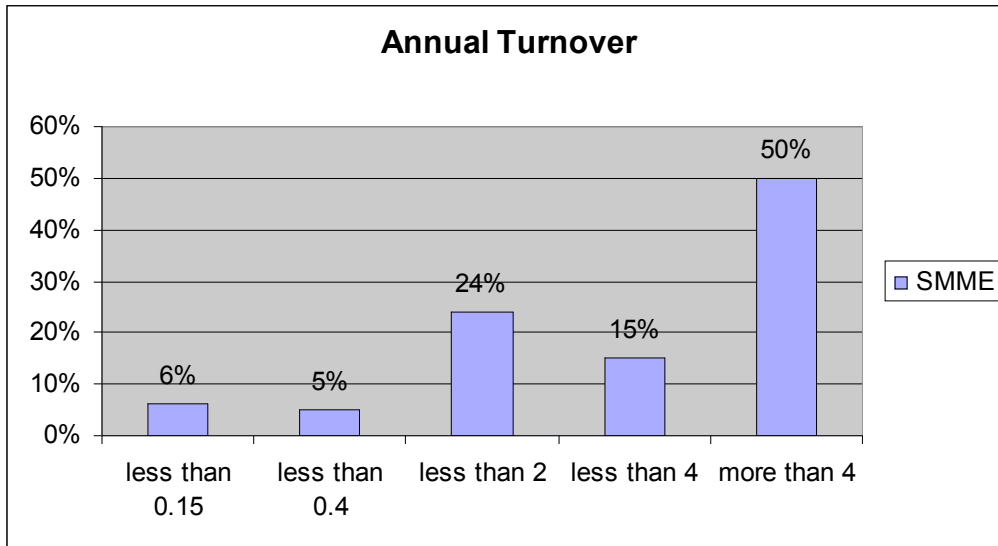


Figure 5: Annual Turnover

3. Survey Results

3.1 Business Limiting Factors

Firms were asked to indicate the five most important factors they consider as having adverse effects on their businesses. Most business managers representing of SMMEs sampled cited high operating costs, Government taxes & regulations, Insufficient demand and Employee costs respectively as major limiting factors to their operations. Figure 6 shows the response distribution.

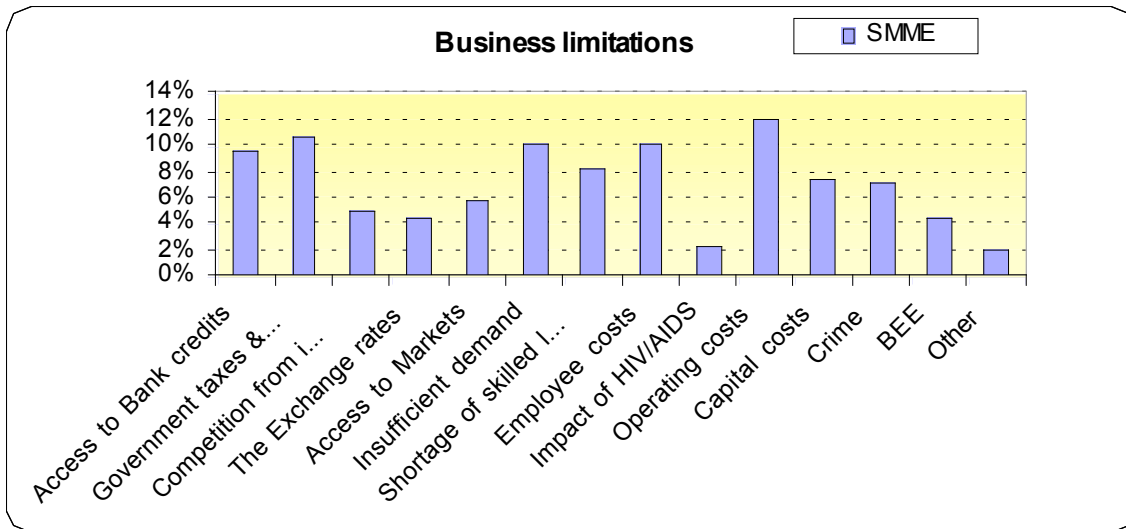


Figure 6: Business Limitations

3.2 Business Situation During the Last 3 Months

This section provides results of the survey questions pertaining to the BCI attributes which form components of the index: Number of people employed, financial situation, new orders or contracts and selling price. Figures 7, 8 and 9 show responses on attributes with respect to business situation in the last 3 months for the Industrial, Trade and Services sectors respectively.

Industry

- ❖ **Number of people employed:** In the industrial sector 46% of SMME owners indicated that their employment levels have gone down whilst majority of them 45% were of the view that it had remained the same and 9% were able to employ more.
- ❖ **Financial situation:** 69% of SMME owners showed that this had gone down while 24% were of the view that it remained unchanged and 7% indicated an improvement.
- ❖ **New orders or contracts:** 66% of SMME owners were of the opinion that new orders had gone down whereas 23% were of the view that it remained the same whilst 11% of them indicated that it had gone up.
- ❖ **Selling price:** 34% of SMME owners indicated a downward trend, 56% indicated no change and 10% witnessed an increase.

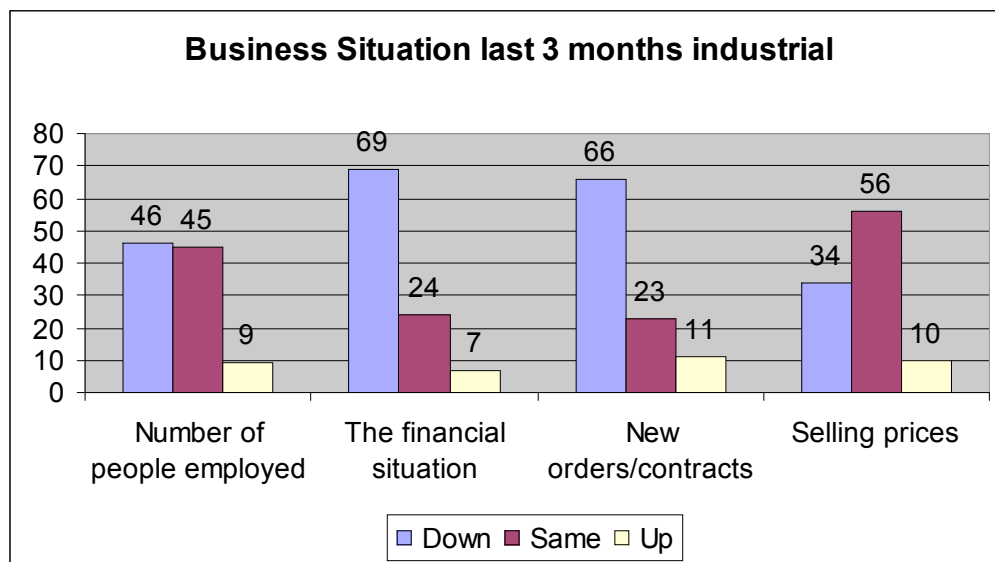


Figure 7: Industry Business Situation for last 3 months

Trade

- ❖ **Number of people employed:** 50% of SMME owners indicated that employment had gone down whilst 46% were of the view that it had remained the same and 4% were able to employ more.
- ❖ **Financial situation:** In the trade sector 53% of SMME owners showed that the financial situation had gone down whilst majority 29% were of the view that it remained unchanged and 8% indicated an improvement.

- ❖ *Volume of demand:* In the trade sector 75% of SMME owners were of the opinion that the volume of demand went down whilst 17% were of the view that it remained the same and 8% indicated that it had gone up.
- ❖ *Stock levels:* In the trade sector 62% of SMME owners indicated a downward trend, 21% indicated no change and 17% witnessed an increase.

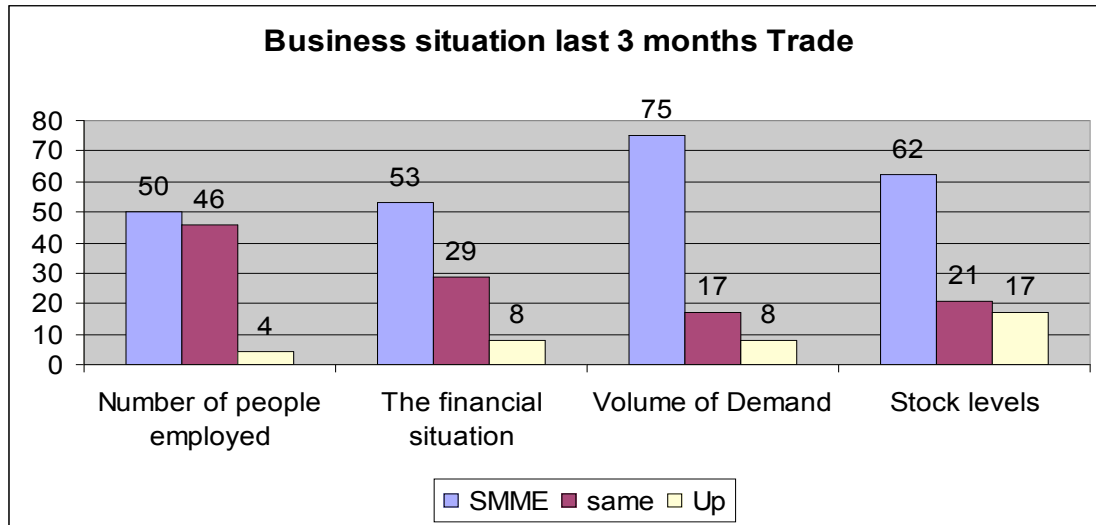


Figure 8: Trade Business Situation for last 3 months

Services

- ❖ *Number of people employed:* 30% of SMME owners indicated that employment had gone down whilst an overwhelming majority 59% were of the view that it had remained the same and 11% were able to employ more.
- ❖ *Financial situation:* 61% of SMME owners indicated that this had gone down whilst 27% were of the view that it remained unchanged and 14% indicated an improvement.
- ❖ *Demand for services:* 50% of SMME owners were of the view that volume of demand had gone down whilst 27% were of the view that it remained the same and 23% of them indicated that it had gone up.
- ❖ *Selling prices:* In this sector 25% of SMME owners indicated a downward trend, 53% showed no change in stock levels and 22% witnessed an upward movement.

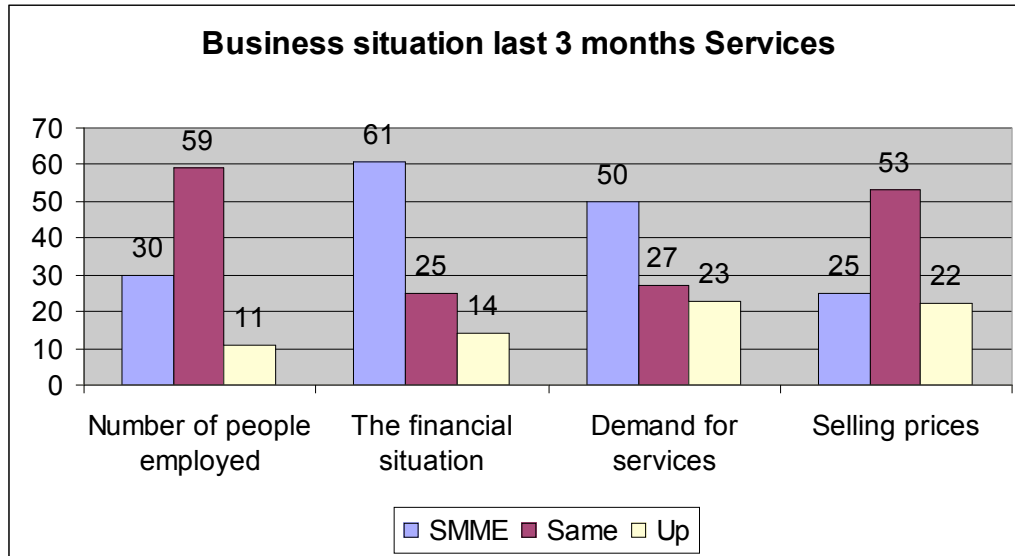


Figure 9: Services Business Situation for last 3 months

3.3 Business outlook for next 6 Months

This section provides results of the survey questions on the future outlook of BCI attributes - Number of people employed; Financial situation, New orders or contracts and Selling price. Figures 10, 11 and 12 show responses on attributes with respect to business outlook within the next 6 months for the Industrial, Trade and Services sectors respectively.

Industry

- ❖ **Number of people employed:** 42% of SMME owners indicated that employment will go down whilst 42% were of the view that it will remain the same and 16% will be able to employ more.
- ❖ **Financial situation:** 56% of SMME owners indicated that this will go down whilst , 16% were of the view that it will remain unchanged and 28% indicated an improvement.
- ❖ **New orders or contracts:** 51% of SMME owners indicated that new orders will go down whilst 21% were also of the view that it will remain the same and 28% of them indicated that it will go up.
- ❖ **Selling price:** 25% of SMME owners indicated a downward trend, 53% did not think there will be a change and 22% were of the view that selling prices will go up.

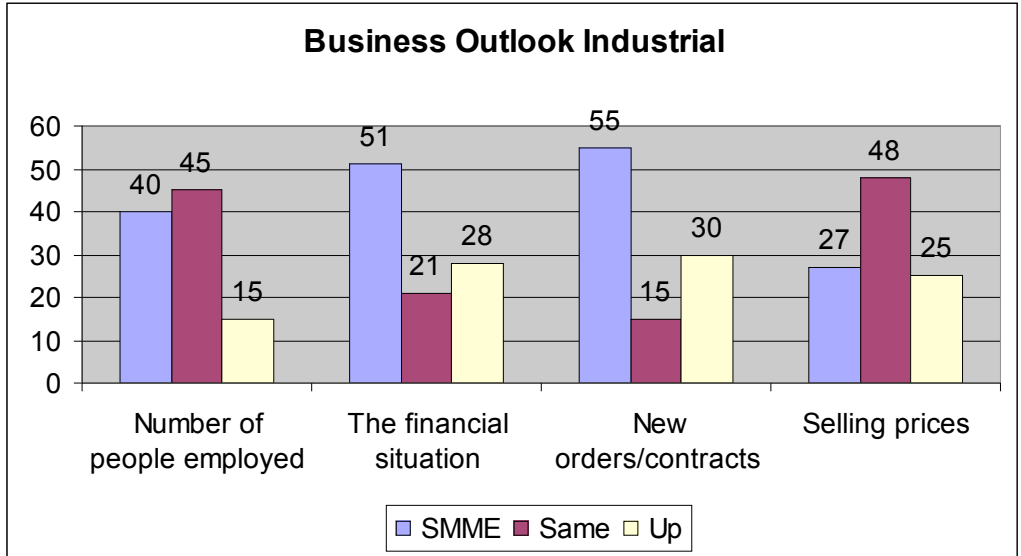


Figure 10: Industry Sector Business Outlook

Trade

- ❖ *Number of people employed:* 33% of SMME owners indicated that employment will go down. However 46% were of the view that it will remain the same and 21% will be able to employ more.
- ❖ *Financial situation:* 38% of SMME owners indicated that this will go down whilst about the same percentage, 41% were of the view that it will remain unchanged and 21% indicated an improvement.
- ❖ *Volume of demand:* 38% of SMME owners were of the opinion that the demand of services will go down whilst 37% were also of the view that it will remain the same and 25% of them indicated an upward trend.
- ❖ *Selling price:* 42% of SMME owners indicated a downward trend in future, 37% indicated there will be no change and 21% indicated an increase.

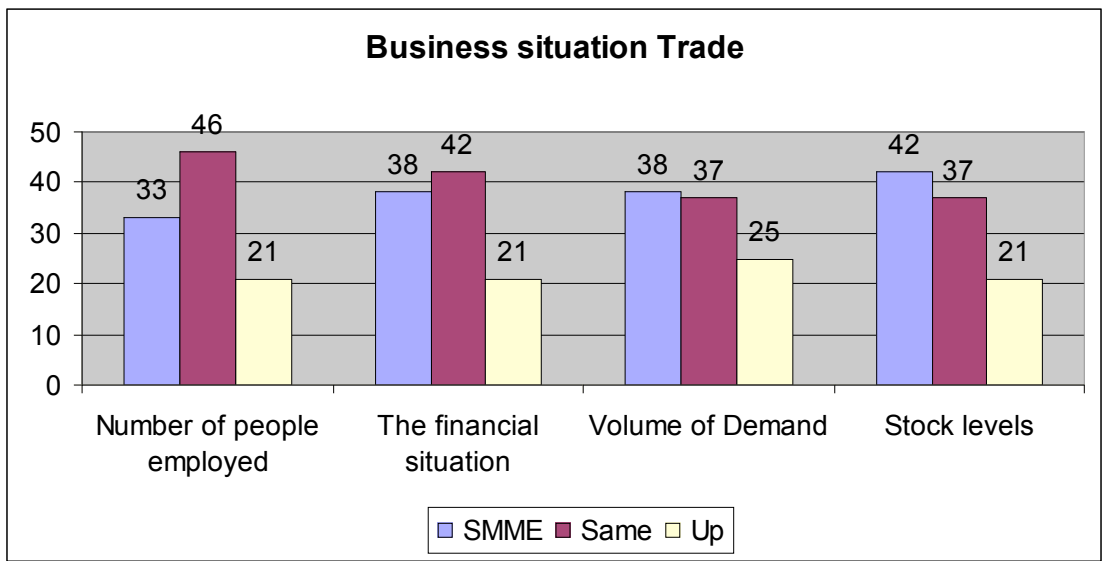


Figure 11: Trade Sector Business Outlook Services

Services

- ❖ *Number of people employed:* 27% of SMME owners indicated that employment will go down whilst 46% were of the view that it will remain the same and 27% will be able to employ more.
- ❖ *Financial situation:* 44% of SMME owners indicated that this will go down whilst 25% were of the view that it will remain unchanged and 31% indicated there will be improvement.
- ❖ *Demand for services:* In this sector 36% of SMME owners indicated that the volume of demand will go down whilst 26% were of the view that it will remain the same and 38% of them predicted a possible increase.
- ❖ *Selling price:* 15% of SMME owners indicated there will be a downward trend, 67% do not think there will be a change and 18% think selling price will go up.

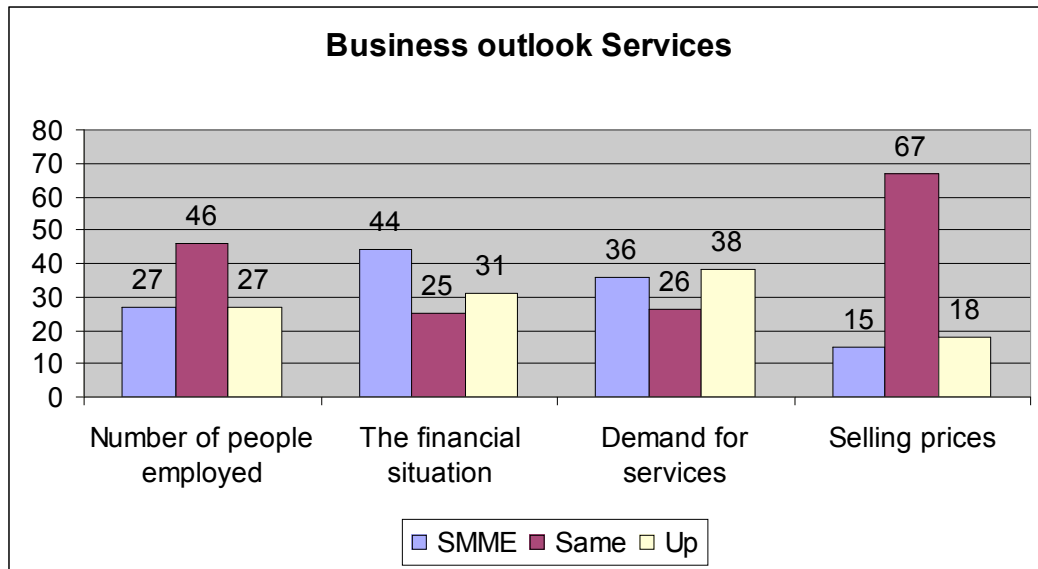


Figure 12: Services Sector Business Outlook

4. Business Confidence Index Results

4.1 Sectorial Present outlook

4.1.1 Industrial Sector Present Outlook

The industrial sector revealed a decrease in business confidence. The Business Confidence within the industrial sector has decreased from 36.87% in the first quarter of 2009 to 31.33 % in the second quarter of 2009. This represents a margin of 15.02%.

4.1.2 Trade Sector Present Outlook

The trade sector has recorded a decrease in business confidence from 26.78% in the first quarter of 2009 to 25.87% in the second quarter of 2009, representing a decrease of 3.40%.

4.1.3 Services Sector Present Outlook

Like the other sectors, services sector has also witnessed a decrease in confidence level from 42.92% in first quarter of 2009 to 41.69% in the second quarter of 2009, representing a decrease of 2.87%.

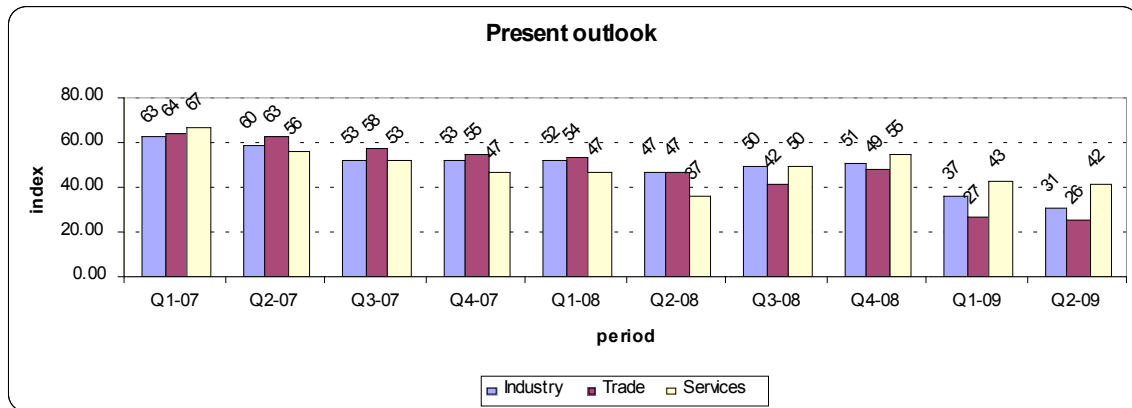


Figure 13: Present Outlook

4.2. Sectorial Future Outlook

4.2.1. Industrial Sector Future Outlook

The business confidence level for future outlook (Figure 14) under this sector moved from 44.09% in the first quarter of 2009 to 43.85% in the second quarter of 2009, representing a decrease of 0.54%.

4.2.2. Trade Sector Future Outlook

The confidence index for future outlook in this sector has increase from 43.07% in the first quarter of 2009 to 46.20% in the second quarter of 2009, an increase of 7.27%.

4.2.3. Services Sector Future Outlook

The services sector outlook for future business activity increased. The confidence index for future outlook increased from 49.54% in the first quarter of 2009 to 52.47% in the second quarter of 2009 (Figure 14), representing an increase of 5.91%.

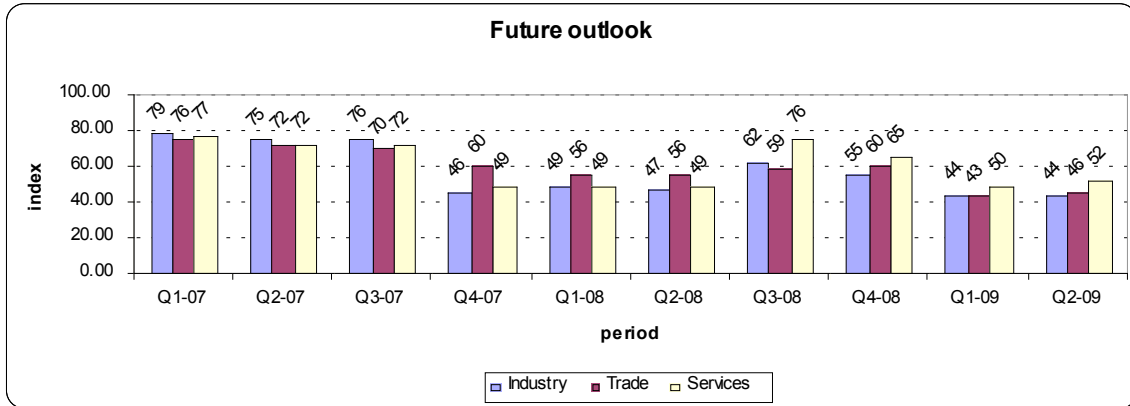


Figure 14: Future Outlook

4.3 Overall Present Index.

The business confidence index, for the present outlook in the second quarter of 2009; decline from 35.52% to 32.96%. This represents a decrease of 7.21%.

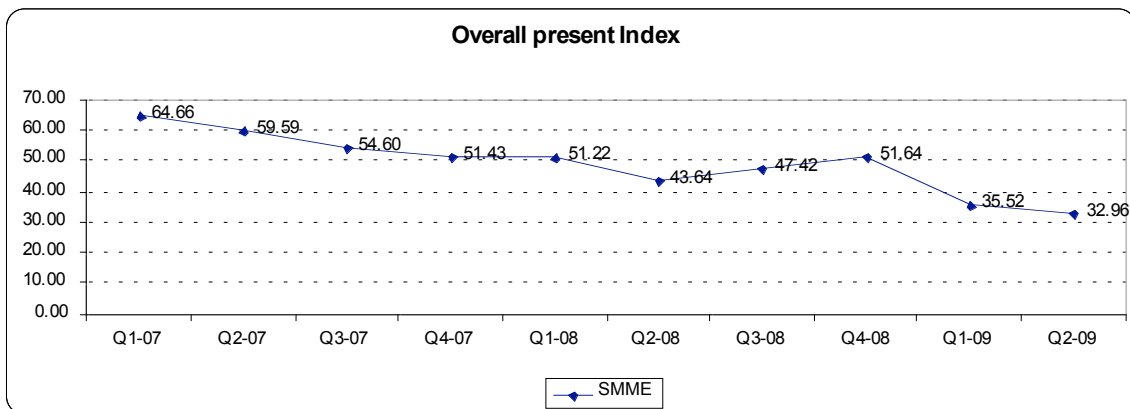


Figure 15: Overall Present Outlook Change

4.4. Overall Future Index.

The future outlook in the first quarter of the 2009 survey results (Figure 16) also shows a start of upward trend in business activities. The overall future outlook index increased from 45.57% in the first quarter of 2009 to 47.51% in the second quarter of 2009, an increase of 4.26%.

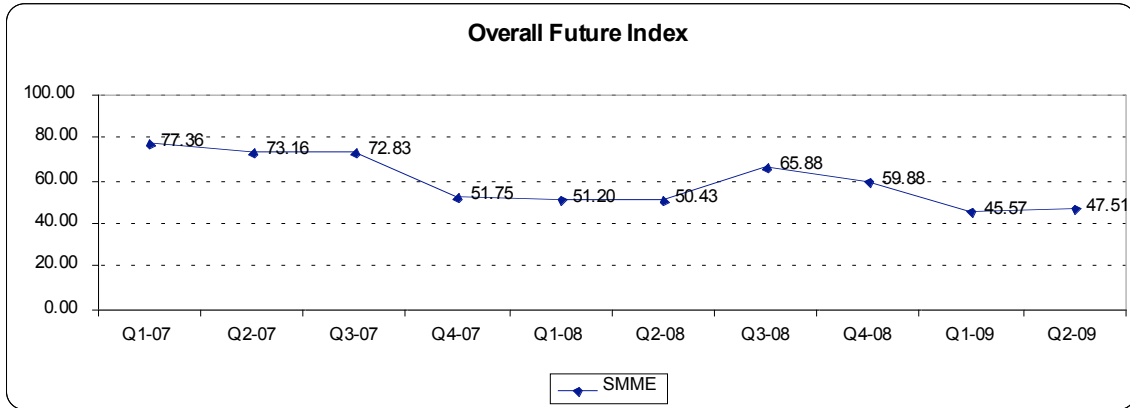


Figure 16: Overall Future Outlook Change

4.5. Overall Index Movement

The overall SMME Business Confidence Index (Figure 17) illustrates a descending trend in the second quarter of 2009. The overall index decreased from 40.55% in the first quarter of 2009 to 40.23% in the second quarter of 2009, a decrease of 0.79% in business confidence.

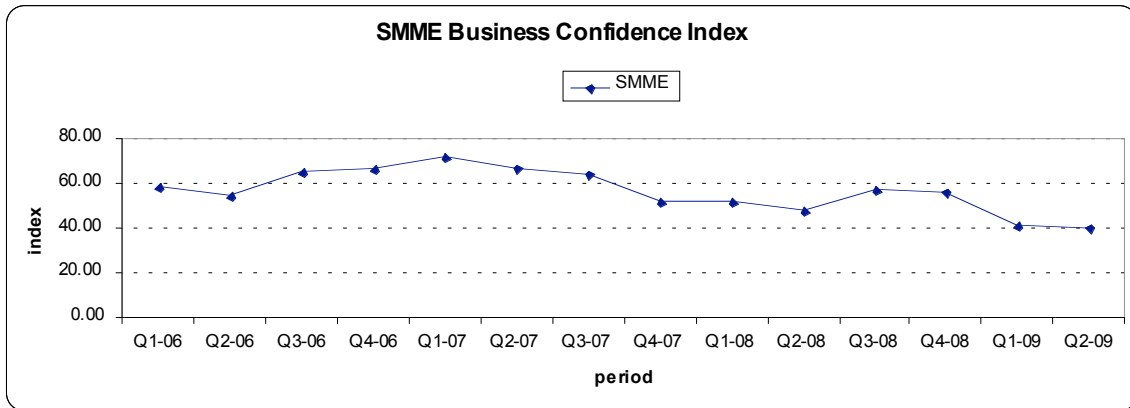


Figure 17: SMME Business Confidence Index

The year-to-date growth rate (Figure 18) for business confidence since the beginning of the survey in 2006, shows a general increasing growth in business confidence up to the first quarter of 2007. It, however, took a downward trend in the second quarter of 2007 and continued through the first and second quarters before taking an upward trend in the third quarter. This, however, did not last long as a result of the current global financial meltdown. The year-on-year growth rate has been fluctuating since the beginning of the survey in 2006 and is now starting to pick up in the second quarter of 2009.

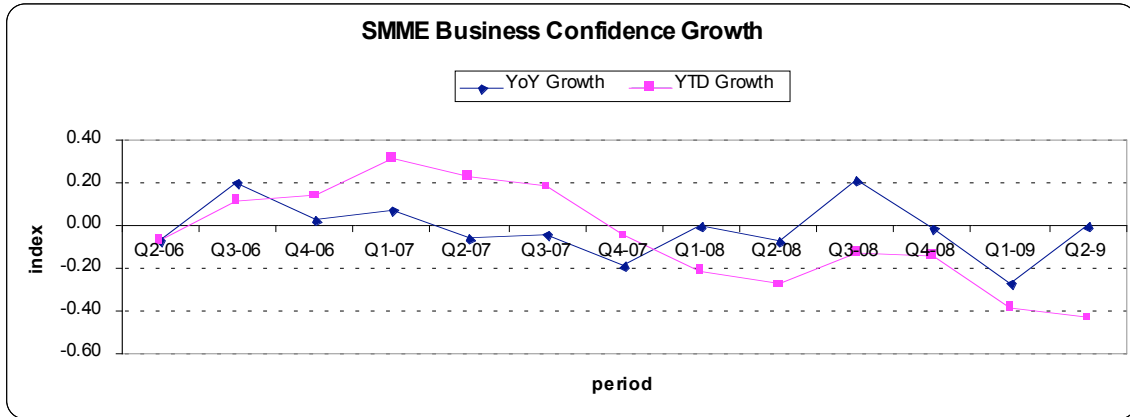


Figure 18: SMME Business Confidence Growth

5. Banking and Government Support

Questions were posed to establish a level of satisfaction regarding support provided by government and the bank to the SMMEs. From the survey, 80 percent of the firms interviewed indicated that banks and government are not doing enough to support the sector (see figure 19).

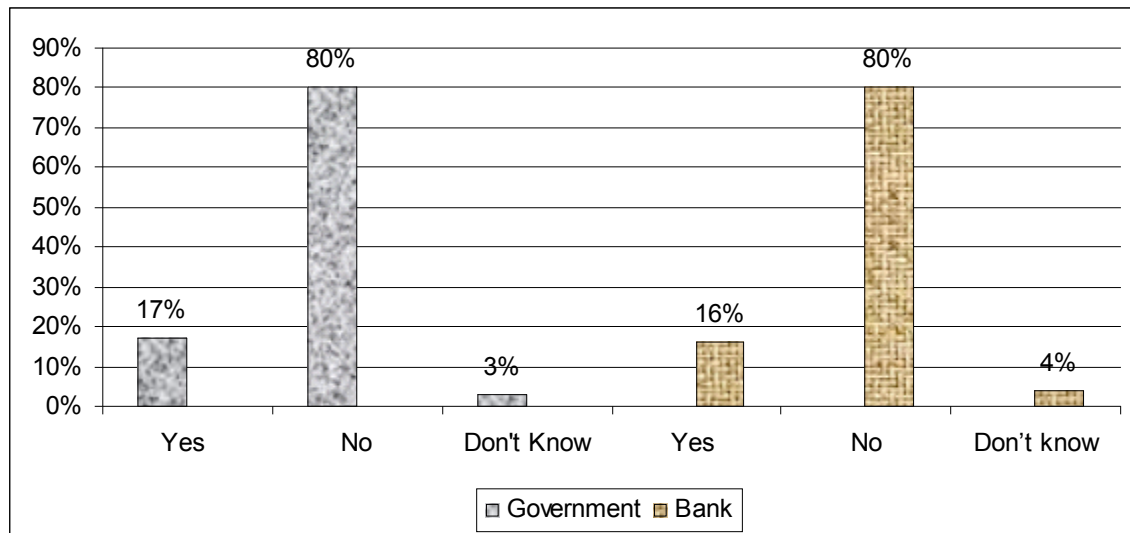


Figure 19: SMME Perception on Support from Government and Banks

5.1. Support from Government

When questioned on what government should do to support the activities of SMMEs, a significant number of respondents mentioned provision of financial support in the form of tax rebates, making tax and labour more business friendly and mentoring as areas needing attention (see figure 20).

Inadequate access to finance was mentioned as being the most critical factor hampering progress of small local businesses. Twenty percent of respondents mentioned capital constraints to be their key problem. The basic challenge facing SMMEs has been with obtaining adequate financial support. The demand for collaterals from banks also makes it difficult for small and micro businesses to obtain credit.

The next critical factor mentioned by respondents is lack of support from government. Thirteen percent of respondents suggested that government should review the existing tax laws of the country. Some respondents mentioned the very low or virtual zero duty imposed on certain imports as posing a challenge for their local businesses. This makes certain imported items cheaper on the domestic market making it almost impossible for competing small local businesses to survive. Respondents specifically called for the need to have tariff protection for local industries producing intermediate goods. Another area mentioned by respondents was the complex nature of the tax system in the country. More specifically, some respondents argued for the need for government to rationalize the tax system by reducing the number of taxes or at best combine them. A significant number of SMMEs also recommended a further reduction in corporate tax rate for small business. A significant number of respondents recommended the introduction of tax incentives to help support the sector through the global crisis. Respondents specifically mentioned the granting of tax concessions and tax relief as special incentives that could promote businesses in the country.

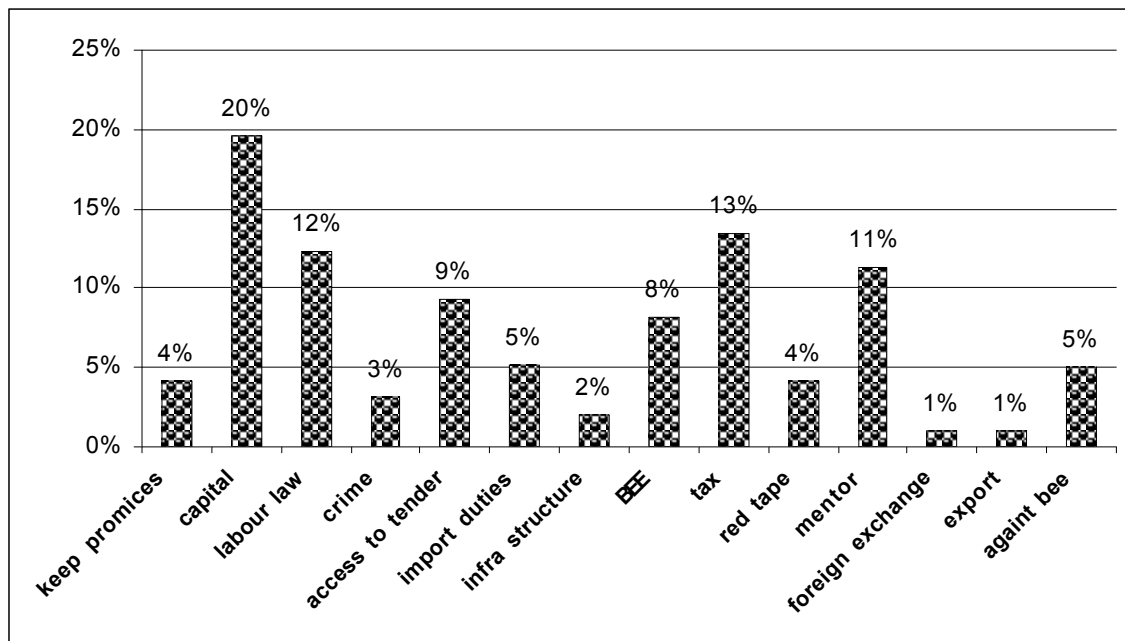


Figure 20: SMMEs' Proposition on Government support

A significant number (about 12 percent) of respondents also found the existing labour law to be ant- employers and pro employees. Other areas suggested as needing support and attention from government include mentoring, crime and establishment of a fair and equitable system that can make black economic empowerment work better for everyone in the country .

5.2. Support from Banking Services

When questioned on what the banks should do to support the activities of SMMEs, a significant number of respondents mentioned access to credit, reduction in interest rates and reduction in other bank charges(see figure 21).

A significant number (29 percent) of respondents mentioned access to credit as the most critical factor that needs to be looked into by banks. About 10 percent of respondents sited the requirement by banks to provide surety as one of the most difficult requirement to meet. Apart from the strict conditions, interest rates charged by banks were seen by a significant number (19 percent) of respondents to be quite high and needed to be reduced. Non-interest charges on loans are also seen to be very high. About 17 percent of respondents perceived non-interest charges on loans to be detrimental to the growth of their businesses.

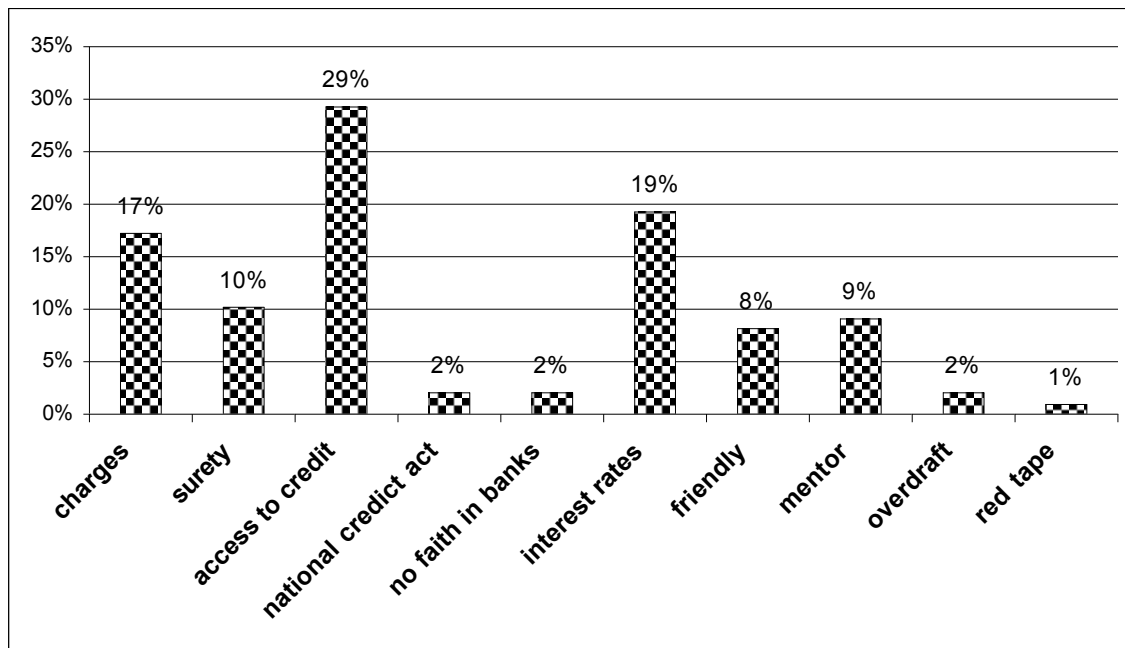


Figure 21: SMMEs' Proposition for Banking Services Support

6. Conclusion

The report has shown that the overall Business Confidence has continued its downward trend during the second quarter of 2009. However, the overall decline has been much reduced. The overall BCI fell by only 0.79 percent. In Present Business Outlook has not been good for this quarter as the overall index decreased by 7.21 %.

For Future Outlook, business were more confident compared to the first quarter of 2009 as the overall future outlook index increased by 4.26%. Most businesses anticipate an economic recovery with an improvement of the business climate over the next 6 months of 2009.

Most of the businesses indicated that operating costs (including government taxes & regulations and employee costs), inadequate access to bank credit and insufficient demand remain the most constraining factors inhibiting their business operations and performance.

The SMME owners/managers also cited some basic challenges facing them which need to be addressed by government and the banks. These include to need to:

- reduce interest rates on bank loans
- ease conditions for accessing loans
- rationalize the existing tax system, and
- review existing labour laws by making them more flexible to accommodate interests of both employees and employers