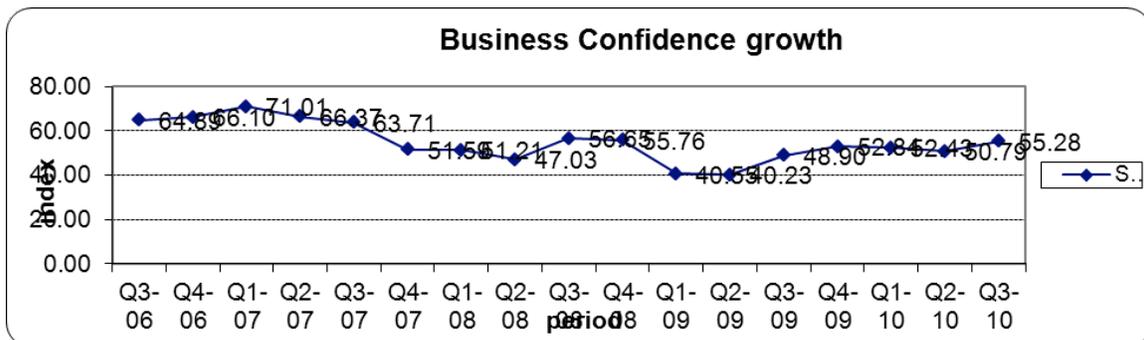


PRESS RELEASE October 4, 2010

Is there finally a glimmer of hope for SMMEs?

Is there finally, the proverbial, light at the end of the tunnel for the beleaguered SMME sector? All indications are that the sector is slowly beginning to show signs of a small but sustained recovery trend. Business Confidence survey conducted by the Africagrowth Institute, among owners and managers of South Africa's SMMEs for the third quarter of 2010 has reflected an upward trend. This global recession has been one of the most severe in living memory but it appears that the worst is over for the SMME sector in this country says Professor Biekpe, President of Africagrowth Institute. However the Professor cautioned that much will depend on the government's growth policies. He argued that the sector is currently over-taxed and over-regulated with cost of starting a business still very high.

The graph below shows the overall trend of South African SMMEs Business Confidence Indices from 2006 until the third quarter of 2010. The overall Business Confidence Index (which averages all the three business sectors in the economy) shows an increase from 50.79% during the second quarter of 2010 to 55.28% in the third quarter of 2010 representing an increase of 8.84%.



The main sector drivers which contributed to this quarter's upward trend are the trade and industrial sectors. For an emerging market like South Africa, this is very important because these sectors are critically important if growth in the wider economy has to be sustained say Professor Biekpe. The trade sector increased significantly from 41.33% during the second quarter of 2010 to 45.95% in the third quarter of 2010, representing an increase of 11.18%. In the industrial sector, the confidence index increased from 41.17%, in the second quarter of 2010, to 46.79% in the third quarter, representing an increase of 13.66%. The bad news is that the index for the services sector declined from 48.33%, in the second quarter of 2010, to 39.72% in the third quarter, representing a decline of 17.82%. The decline in business confidence in the services sector is very worrying as this sector is supposed to be one of the main beneficiaries of the country's hospitality sector. One possible reason for the decline could be attributed to the current strength of the rand. A stronger rand makes it very expensive for tourists to visit the country. In addition to this, the sector, and in particular the hospitality sub-sector, is still trying to recoup its investment value of the 2010 World Cup says Prof Biekpe.

Most businesses surveyed cited a number of inhibiting factors impacting negatively on their businesses. These include strong rand, high operating costs, high government taxes and regulations, limited access to bank credit, insufficient demand and high employee costs. Unlike big business, small businesses tend to exhibit unusually large swings in business confidence which is a reflection of their vulnerability.

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The South African SMME Index is constructed by Africagrowth Institute. The Founding Sponsors for the Index are the Industrial Development Corporation (IDC) and WK Kellogg Foundation

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