CHARTERED INSTITUTE FOR BUSINESS ACCOUNTANTS NPC

Press Release – For Immediate Distribution
Date: 17 February 2025

CIBA Challenges Government and Accountants to Rethink SME Support in Light of Economic Analysis and the 2025 Budget Speech

Cape Town, South Africa – 17 February 2025 – The Chartered Institute for Business Accountants (CIBA) is calling for a critical reassessment of South Africa's small business policies ahead of the 2025 National Budget Speech by Finance Minister Enoch Godongwana scheduled for Wednesday, 18 February 2025.

Recent commentary by leading economist Dawie Roodt has shattered the misconception that small businesses are the primary drivers of employment and tax revenue in South Africa.

While SMEs play a crucial role in economic activity, CIBA warns that not all small businesses contribute meaningfully to sustainable growth. Many operate as survivalist enterprises, failing to scale, create long-term employment, or pay significant taxes. With the country facing severe fiscal constraints, policymakers must allocate tax revenue wisely—prioritising scalable SMEs that can grow into mid-sized enterprises, rather than merely keeping survivalist businesses afloat.

The Reality of South Africa's SME Sector

The traditional view that SMEs are the backbone of job creation and economic growth is only partially true. As Dawie Roodt recently pointed out, most small businesses do not significantly contribute to long-term employment growth or government tax revenue. Instead, large businesses pay the majority of taxes and sustain more formal employment with higher wages and benefits.

"However, simply abandoning small businesses as Economist Dawie Roodt advocates is not the solution" says Nicolaas van Wyk, CEO of the Chartered Institute for Business Accountants (CIBA)

Instead, CIBA argues that government and accountants must focus on supporting scalable SMEs—businesses with the potential to grow, become profitable, and create stable jobs.

"The problem isn't that we have too many small businesses—it's that too many of them operate in a way that isn't financially sustainable," says Nicolaas van Wyk, CEO of CIBA. "If we want SMEs to drive real economic change, we need to shift the focus from merely keeping them alive to helping them scale into successful enterprises."

CIBA Supports DSBD's Role in SME Development

Economist Dawie Roodt recommends that the Department of Small Business Development (DSBD) be dissolved and their budget given to big business.

The DSBD's budget allocation for the 2024/25 financial year stands at R2.437 billion, with SEDA receiving R1.316 billion of this amount. While this allocation aims to support various programs, the demand for SEDA's services often surpasses the available resources, leading to mid-year budget depletions and subsequent limitations in service delivery.

The DSBD recently consolidated its agencies into one super SME support agency the Small Enterprise Development and Finance Agency (SEDFA), merging SEDA, SEFA, and CBDA, represents a significant step toward streamlining SME support and reducing fragmentation.
However, underfunding remains a critical issue, with previous budgets running out mid-year, leaving thousands of small businesses without assistance.

"CIBA believes that the solution is not to dissolve the national SME department, as proposed by economist Dawie Roodt, but rather to depoliticize SME support and centralize all efforts under SEDFA" states van Wyk.

Every province and municipality currently run separate SME units, leading to duplication, inefficiency, and inconsistent success measurement. Instead of dispersing resources across multiple disconnected departments, all SME tax allocations should be allocated to SEDFA's budget and its operations aligned with financial professionals to ensure sustainable business success.

"We fully support SEDFA's mission, but without proper financial oversight and professional involvement, funding will continue to be wasted on unsustainable businesses," says Nicolaas van Wyk, CEO of CIBA. "Government must rethink how SME funding is managed—support should be linked to financial accountability, and accountants must play a key role in assessing and guiding SMEs toward scalability."

A Smarter Approach: CIBA's Framework for Effective SME Support

CIBA proposes a structured, results-driven approach to SME support, ensuring that taxpayer funds drive real economic impact rather than sustaining survivalist businesses indefinitely.

- All SME support should be centralized under SEDFA, eliminating duplicative provincial and municipal SME units.
- SME funding should be linked to financial accountability, requiring businesses to demonstrate proper record-keeping, financial management, tax compliance and sustainability.
- CIBA accountants should be embedded in SME programs, ensuring businesses have access to professional financial expertise.

- **SEDFA's budget should be doubled**, allowing for expanded training, mentorship, and financial support services.
- **Success should be measured through financial indicators**, not just business registration numbers—ensuring real economic upliftment.

Where Should the Government Spend Tax Revenue?

As the 2025/26 Budget Speech approaches, CIBA urges the National Treasury to rethink how tax funding is allocated to SME development:

- Tie government SME funding to financial accountability – SMEs should demonstrate financial discipline before receiving grants or loans.
- Shift support towards scalable businesses – Fund growth-oriented SMEs that can expand into mid-sized enterprises.
- Strengthen financial oversight for funded businesses – Require professional accountants to oversee grant allocations, ensuring proper use of public funds.
- Encourage large businesses to integrate SMEs into supply chains – Instead of subsidies, incentivise corporate-SME partnerships for long-term sustainability.

"Simply giving money to struggling businesses without oversight will not fix South Africa's economic challenges," van Wyk continues. "Government needs to invest in SMEs with strong financial structures, proper governance, and real growth potential."

Why South Africa Needs a Smarter SME Strategy

Recent data from the South African Revenue Service (SARS) underscores the disproportionate tax contribution of large corporations and the urgent need to develop scalable SMEs that can meaningfully contribute to economic growth and tax revenue.

Key Statistics on Corporate Tax Contributions:

- Only 1,051 large companies (0.1% of total companies) pay 72.3% of all company income tax in South Africa.
- Companies with taxable income over R100 million contribute 72.2% of the total taxable income base.
- Businesses earning between R1 million and R100 million contribute 25.5% of company income tax, highlighting the untapped potential of mid-sized enterprises.
- Almost 96.7% of all assessed companies with positive taxable income – from R1 to R10 million – pay only 11.3% of total company tax, demonstrating how small businesses fail to meaningfully contribute to tax revenue.

These figures confirm that South Africa's corporate tax base is highly concentrated among a few large firms, making the economy vulnerable to industry downturns and corporate tax losses. If small businesses remain survivalist and fail to scale into mid-sized enterprises, they will continue to add little to the tax base.

The Accountant's Role: Helping SMEs Scale

CIBA emphasises that accountants have a crucial role to play in ensuring that SME support is effective. Not all SMEs are good clients, and financial professionals must assess which businesses have the potential to succeed.

CIBA's Client Risk Assessment Matrix

To help accountants and policymakers determine which SMEs are worth supporting, CIBA has developed a Client Risk Assessment Matrix based on key financial and operational criteria:

Criteria	High Risk (Survivalist, Avoid/Monitor Closely)	Medium Risk (Potentially Viable)	Low Risk (Scalable, Prioritize Support)
Annual Turnover	< R500k	R500k – R5m	> R5m
Profitability	Negative/Break-even	5-10% profit margin	> 10% profit margin
Cash Flow Stability	Irregular/unpredictable	Some delays in payments	Consistent inflows
Debt Level	> 60% of revenue	30-60% of revenue	< 30% of revenue
Industry Risk	Declining sector	Moderate volatility	Stable/growing sector
Financial Management	No financial records	Basic records kept	Professional accounting system
Growth Potential	No expansion plans	Slow growth	Strong expansion strategy
Market Demand	Low or seasonal demand	Moderate demand	High & growing demand
Compliance Status	Non-compliant with SARS	Partially compliant	Fully compliant
Owner's Experience	< 3 years	3-7 years	> 7 years
Access to Markets	No established customer base	Limited but growing market	Strong customer base
Demand for Product	Declining demand	Stable but competitive demand	High and growing demand

How Accountants Should Use This Matrix:

- High-risk SMEs: Engage cautiously—offer basic financial literacy but avoid major advisory work unless externally funded.
- Medium-Risk SMEs: Assess potential—offer targeted business advisory if the owner is open to change.
- Low-risk SMEs: Prioritize these businesses as core accounting clients for long-term engagement.

CIBA's Call to Action: Smarter SME Support for Economic Growth

With South Africa's economic outlook under pressure, CIBA is urging government, accountants, and financial institutions to rethink their approach to SME support:

- Government must allocate tax revenue wisely – Supporting survivalist businesses indefinitely will not grow the economy.
- Accountants must prioritise scalable SMEs – Businesses that can formalize, access funding, and expand should be the focus.
- SME owners must embrace financial discipline – Growth requires proper cash flow management, compliance, and long-term planning.

"The 2025 Budget Speech must signal a shift in how we support small businesses," says van Wyk. "Instead of spreading resources thinly across thousands of struggling SMEs, let's strategically invest in businesses with real economic potential. It's time for quality over quantity in SME support."

For More Information
For more information on CIBA's Client Risk Assessment Matrix or to engage in this initiative, please contact:
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About CIBA

Founded in 1987 in South Africa, CIBA brings over 35 years of experience in cultivating skilled finance professionals at every level of the finance department. Our members—ranging from bookkeepers and financial administrators to CFOs and accountants-in-practice—contribute to the success of communities, traditional leaders, civil society, businesses, and governments across Africa.

As a Professional Accountancy Organisation (PAO), we represent a diverse spectrum of finance professionals in both the public and private sectors. With offices in South Africa and Namibia, CIBA is internationally recognised as a founding member of the International CFO Alliance (ICFOA)headquartered in France, solidifying our global presence and influence.

We are a leading professional body representing business accountants in South Africa. CIBA is committed to elevating the accounting profession, supporting SME growth, and driving economic transformation through financial leadership.

CIBA is registered in terms of the:

- National Qualifications Act, 2008 and authorised to issue professional designations registered with the South African Qualifications Authority (SAQA).

We are a controlling body for accountants-in-practice that perform the following engagements:

- independent accounting professional,
- accounting officer,
- independent review, and
- business rescue.

As a statutorily recognised professional accountancy organisation (PAO), CIBA is committed to advancing the accountancy profession throughout Africa while upholding the appropriate standards of ethics, conduct, and service. We serve as a trusted partner to accountants and tax practitioners, ensuring public trust and professional excellence

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