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## The Role of Provincial Governments in Supporting Small Enterprise Development



John Orford

Centre for Innovation and Entrepreneurship, University of Cape Town

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## Acronyms

BDS	Business Development Service
CDE	Centre for Development and Enterprise
CIE	Centre of Innovation and Entrepreneurship
DEDT	Department of Economic Development and Tourism
EMS	Economic Management Sciences
GEM	Global Entrepreneurship Monitor
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (GmbH) / German Technical Co-operation
IDC	Industrial Development Corporation
KZN	KwaZulu-Natal
LBSC	Local Business Service Centre
MAC	Manufacturing Advice Centre
PGWC	Provincial Government of the Western Cape
PPP	Public-Private Partnership
RED	Real Economic Development
SA	South Africa
SAIE	SA Institute for Entrepreneurship
SEDA	Small Enterprise Development Agency
SETA	Sector Education and Training Authority
TAC	Tender Advice Office
TEA	Total Entrepreneurial Activity
TEP	Tourism Enterprise Programme
<b>the dti</b>	Department of Trade and Industry
TIPS	Trade and Industrial Policy Strategies
UCT	University of Cape Town
VAT	Value-Added Tax

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## Executive summary

This paper considers the role of provincial governments in supporting small enterprise development. It is based on research conducted by the University of Cape Town's (UCT's) Centre of Innovation and Entrepreneurship (CIE). It was sponsored by TIPS (Trade and Industrial Policy Strategies), an independent non-profit research institution that is committed to assist government and civil society make informed policy choices, specifically in the areas of trade and industrial policy. In addition to drawing on ongoing research conducted by the CIE, including the *Global Entrepreneurship Monitor* (GEM) study, the paper summarises the results of discussions with small enterprise development policy-makers and stakeholders in three provinces – Gauteng, KZN(KZN) and the Western Cape.

The paper begins by summarising key findings from the GEM study. GEM is an annual survey of entrepreneurial activity in over 30 countries worldwide. SA (SA) has participated in the study since 2001 and it now appears that the GEM measure of entrepreneurial activity provides a reasonably accurate measure of entrepreneurial activity, which does not vary significantly from year to year. Furthermore, SA's ranking relative to other countries is stable. One of the key findings from the GEM study in SA has been that the rate of entrepreneurial activity in SA is significantly lower than in other developing countries included in the study.

There are reasonably stable international and national patterns of entrepreneurial activity. An important predictor of whether or not an individual will be involved in starting or running an enterprise is whether or not they believe they have the skills to start a business. An important finding in SA is that we have a very low number of people who believe they are capable of starting a business. This appears to be related to problems in the education system in SA. A major theme in the GEM study in SA has therefore been education.

Specific policy recommendations made by the GEM study in SA are:

- Dramatic improvements in the **quality of education** are needed, especially for black African students. A special focus on mathematics and science is needed.
- Appropriate **entrepreneurship education** needs to be offered in all schools up to Grade 12.
- **Regulatory reform** needs to be encouraged through the implementation of a Regulatory Impact Assessment in the President's Office.
- The government needs to **rethink its approach to deliver support** services to small enterprises. It should refrain from direct support and concentrate on facilitating private sector service provision.
- The **financial and general management capacity of small enterprises** needs to be improved in order to increase start-up and new firm survival rates. This can be achieved through targeted training and experienced mentoring.

The GEM study provided a context within which provincial discussions on how best to support small enterprise development were held. These discussions varied from province to province.

In Gauteng the discussion took place in a wide forum of interested parties, which was facilitated by Blue Catalyst, a government-funded agency to promote entrepreneurship in Gauteng. In KZN the discussion took place in a small seminar hosted by the KZN Department of Economic Development and Tourism (DEDT). In the Western Cape a round-table discussion was not possible, but instead the author of this paper was engaged as a consultant to review small enterprise development strategy in the Western Cape and in this process was involved in a series of discussions with key small enterprise development policy-makers and stakeholders in the region.

Despite the different format of the provincial discussions, common recommendations emerged in the three provinces. Priorities identified in the three discussion processes included:

- Education and training in schools to increase the supply of people capable of becoming entrepreneurs;
- Linking access finance to improved training and mentorship programmes that improve the capacity of small enterprise owners to manage their businesses;

- Improving the efficiency of government programmes;
- Developing support programmes that focus on the needs of particular industries and or local areas;
- Regulatory review to reduce the negative impact of regulations on enterprise formation and growth;
- Providing information to small enterprises and to people wanting to start small enterprises; and
- Focussing on developing private-sector business development service markets.

The provincial discussions all identified weaknesses in the delivery of public support to small enterprises. Consequently, in identifying the role of the provincial governments in small enterprise development, it seems important to evaluate public support for small enterprises. Overall the paper finds that public support for small enterprises has led to the creation of a significant range of agencies and programmes. However, a number of independent evaluations suggest that the government is failing in its attempt to support small enterprise development. Programmes are poorly delivered, lack relevance and have limited reach. However, there are successful examples of small enterprise support delivered by private-sector agencies and by public-private partnerships (PPPs). Examples considered in this paper include the Business Place, Tourism Enterprise Programme (TEP) and the Manufacturing Advisory Agencies (MACs), which deliver effective targeted support to small enterprises. It is important to learn from these examples of successful small enterprise support, some of which are examples of PPPs.

Some of the key reasons why these programmes appear to work are that they:

- Ensure that the people who deliver services to small enterprises have business experience, understand small enterprises and empathise with their clients;
- Ensure that programmes are focussed on particular objectives rather than trying to achieve a wide range of objectives;
- Ensure private and non-government participation to share costs, lock in private-sector capacity and reduce risk;
- Ensure client 'buy-in' to the service being offered; and
- Ensure that public interventions are designed to contribute towards efficient business development service markets (as opposed to interventions that distort markets).

In addition to reviewing the experience in SA, the paper also reviews international best practice in supporting small enterprise development. One of the key trends in small enterprise development has been a move away from direct-market substitution by international donors and governments towards a focus on facilitating private business development service (BDS) market development. This approach emphasises the limited ability of the public sector and or donor organisation to deliver services to small enterprises effectively. Facilitating BDS market development means conducting an assessment of the BDS market, identifying weaknesses and opportunities, and identifying interventions that could stimulate the provision of more and more relevant BDS product offerings. However, it avoids interventions at the level of the BDS transaction, instead relying on commercial BDS provision. Research in SA suggests that the BDS approach could have considerable benefit, and this paper supports provincial governments focussing on this approach in small enterprise development.

Overall the paper concludes that the priorities with regard to small enterprise promotion include:

- Education and training;
- Regulatory reform;
- Improving the efficiency, relevance and reach of public small enterprise support; and
- Focus on industry and locally specific programmes.

In identifying how best provincial government can intervene, the paper suggests that provincial government has a limited role to play with regard to the delivery of services to small enterprises

(over and above the accepted roles of government in providing public goods such as infrastructure, law and order, education and an enabling regulatory environment). Instead the role of the provincial government should focus primarily on facilitating the:

- **Flow of information to owners and potential owners of small enterprises** An effective small enterprise market relies on good information. People need information to decide if they should start businesses, how to start businesses and how to run businesses. They also need information on opportunities offered by national programmes and on regulatory issues. The provincial governments could play a key role in facilitating this flow of information. While this role may appear limited to provincial governments desirous of an interventionist role it is possibly one of the most important roles that the provincial governments with limited resources and capacity can play.
- **Private sector small enterprise support** Provincial governments should seek to support rather than supplant or compete with private-sector and non-government programmes supporting small enterprises. Public-private partnerships can play a key role in addressing some of the gaps in private business development service provision and at the same time can avoid the traditional failings associated with public-service delivery.
- **Developing of efficient business development service markets** International best practice suggests that the role of government, in this case provincial government, should be developing programmes that facilitate the development of BDS market development. In the Western Cape, the RED<sup>1</sup> DOOR programme could be adopted to play a BDS facilitating role. However, this is likely to require that rather than directly implementing the RED DOOR and providing services to small enterprises directly, the Western Cape provincial government needs to partner with agencies capable of playing a BDS facilitator role. This may have similar implications for the national approach in the creation of the Small Enterprise Development Agency (SEDA).

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<sup>1</sup> Real Economic Development

## **1. Introduction**

This paper examines the role of provincial governments in supporting small enterprise development. The paper is based on research conducted by the UCT CIE and discussions with small enterprise stakeholders and policy-makers held in Gauteng, KZN and the Western Cape. The paper was commissioned by TIPS, an independent non-profit research institution that is committed to assist government and civil society make informed policy choices, specifically in the areas of trade and industrial policy. The author was a researcher at the UCT CIE and is the author of the 2003/2004 editions of the SA GEM.

The paper includes six sections. Section 2 outlines the main findings of the GEM research study in SA. This provides a context for provincial discussions. Section 3 reports the results of three separate processes that engaged key small enterprise policy-makers and stakeholders in small enterprise development in Gauteng KZN and the Western Cape. In preparation for identifying the appropriate role for provincial governments, sections 4 and 5 of the paper consider the SA experience in small enterprise development and emerging international best practice in small enterprise development. Section 6 concludes by identifying the overall role of provincial governments in supporting small enterprise development.

## **2. Key findings from the GEM research study**

### **2.1. The GEM study**

The GEM is an unprecedented attempt to study entrepreneurial activity in a wide range of countries. Entrepreneurship is an essential ingredient in economic change, but despite considerable academic effort it remains poorly understood. As a result, policy-makers have lacked effective means to shape and influence entrepreneurial activity at a national level.

Internationally, the GEM study seeks to address four objectives:

- How much do countries differ in terms of entrepreneurial activity?
- What accounts for the national differences in entrepreneurship?
- What are the national consequences of differences in entrepreneurial activity?
- What can governments do to affect the level of entrepreneurship?

In SA, the GEM study has also been particularly concerned with identifying how best to support emerging small and medium enterprises.

GEM undertakes two major types of data collection. At the heart of the study is an annual survey of the adult population in each participating country. This survey is standardised across countries and provides the basis for harmonised indicators of entrepreneurial activity across countries. The primary measure of entrepreneurial activity produced by the GEM adult population survey is the total entrepreneurial activity (TEA) index. The TEA index measures the portion of adults aged 18 to 64 who are either starting a business they will own or managing a business that they own that is less than three and a half years old.

The second source of data is interviews conducted with national experts in each country, which examine the environment for entrepreneurship. These national experts also complete a 10-page questionnaire that provides a standardised measure of their assessments of the national environment for entrepreneurship in their countries.

The GEM study was launched in 1999 with 10 participating countries. It has grown considerably since then. SA joined the study in 2001 when GEM included 29 countries. In the latest (2004) survey, GEM included 34 countries representing all the regions of the world.

### **2.2. Key findings of the GEM study in SA**

The 2004 GEM Report is the fourth GEM survey to have been conducted in SA. Here we summarise some of the key findings and policy recommendations that emerge from the GEM study in SA. This provides the overall context for the remainder of the paper.

#### *2.2.1. How entrepreneurial is SA?*

In 2004 the TEA index in SA was 5.4%. This means that about 5.4% of those people aged 18 to 64 were involved in either starting a business or in managing a business that they own for less than three and a half years. These enterprises span the full range of informal and formal, large and small and registered and unregistered businesses. The average TEA rate for the 34 countries included in the GEM 2004 survey was 9.4%. However, it is probably more appropriate to compare SA's rate of entrepreneurial activity to that of other developing countries included in the GEM study. (The developing countries included in the 2004 survey were Argentina, Brazil, Ecuador, Jordan, Peru, SA and Uganda.) The average for developing countries included in GEM 2004 was 21.0%. SA's TEA rate is significantly and dramatically lower than that of other developing countries. The results for 2004 are consistent with the results obtained in previous years. SA has ranked in the lower half of countries included in GEM since 2001.

Not only is our ranking within GEM stable, placing SA in a group of countries with mid to low TEA rates, but the TEA rate for SA is relatively stable on an annual basis. Due to increased precision in the GEM survey in 2002 there was a decline in entrepreneurial activity in most countries participating in the GEM survey in both 2001 and 2002. Data for the period 2002 to 2004 suggests, however, that the GEM measures of entrepreneurial activity in SA are reasonably stable. Table 1 shows the GEM estimates of entrepreneurial activity since 2002. In

addition to the TEA estimate we provide estimates of start-up firm activity (firms that have paid wages or salaries for less than three months), new firm activity (firms that have paid wages for three to 42 months) and established firm activity (firms that have paid wages and salaries for more than 42 months). In addition to the estimated rates we provide the 95% confidence intervals.

Table 1 suggests that estimates for new firm and established firm activity rates do not vary significantly on an annual basis. Changes in the TEA rate appear to be primarily due to changes in the start-up activity rate, which we would expect to vary more as individuals enter and exit start-ups depending on changing economic conditions. Overall this data suggests that the entrepreneurial activity rates in SA are relatively stable. Furthermore, they are consistent with the estimates of self-employment derived from the Statistics SA Labour Force Survey. This suggests that the GEM estimates provide a reasonably good basis for making policy recommendations.

**Table 1: Entrepreneurial activity rates in SA: 2002-2004 (95% confidence intervals)**

	2002	2003	2004
Total entrepreneurial activity rate	6.3 (5.7-6.9) *	4.3 (3.5-5.1)	5.4 (4.5-6.2)
Start-up activity rate	4.5 (3.9-5.0)	2.7 (2.1-3.4)	3.9 (3.2-4.6)
New firm activity rate	2.0 (1.6-2.3)	2.0 (1.5-2.5)	1.6 (1.2-2.1)
Established firm activity rate	1.1 (0.9-1.4)	1.1 (0.7-1.5)	1.4 (1.0-1.9)

Source: GEM 2004

\* 95% confidence intervals in brackets. Where the upper and lower bounds of two population estimates overlap, we cannot be sure at the 95% confidence level that the true population parameters are different. On this basis the TEA and the start-up rates in 2002 are significantly higher than they were in 2003. However, no other differences within measures and between years are significant.

### 2.2.2. Key factors associated with entrepreneurial activity

The GEM research study in SA has identified a consistent set of relations between entrepreneurial activity and demographic factors such as age, gender and population group. As in the rest of GEM, men and people between the ages of 25 and 44 are more likely to be entrepreneurs than women and people younger than 25 and older than 44. In SA population group is also a key factor associated with entrepreneurial activity. Whites are significantly more likely to be entrepreneurs than black Africans. However, the differences between whites and black Africans largely reflect lower levels of education and the higher probability of black Africans than whites being located in rural areas. When we control for location, education and for individuals' self-belief in their ability to start a business, the differences in TEA rates between population groups are no longer large nor are they statistically significant.

Internationally one of the strongest findings of the GEM study has been that individuals' perceptions about their own skills to start a business, their ability to recognise opportunities and their personal knowledge of entrepreneurs are particularly strong predictors of entrepreneurial activity. This is true in SA as well. The GEM study asks individuals whether they:

- Think that they have the skills to start a business;
- Think there are good opportunities for starting a business in the next six months; and
- Have personally known an entrepreneur in the last two years.

On average in SA, for the period 2002 to 2004, those who are confident that they have the skills to start and manage a new business are about seven times more likely to be engaged in starting or running a new business. Those who see good business opportunities in the next six months are about five times more likely to be starting or running a new business. Those who know an entrepreneur are about four times more likely to be starting or running a new business. The joint impact of these three factors is very significant. Those who answer 'yes' to all three of these questions are nearly 20 times as likely to be involved in starting or running a new business than those who answer 'no' to all three of these questions. The GEM study has consistently found that SA has significantly lower numbers of people who believe they have the skills, experience and knowledge to start a business than the GEM environment on average and developing countries in particular.

Based on these findings, one of the clearest policy findings to emerge from the GEM study is that entrepreneurial activity is most likely to be supported by increasing the proportion of South Africans, especially black South Africans, that complete secondary school and continue to higher education, and in increasing the proportion of people who believe that they have the skills, knowledge and experience to start a business. These two go hand in hand, since higher levels of education are associated with significant increases in entrepreneurial self-confidence.

### *2.2.3. What can be done to stimulate higher levels of entrepreneurial activity in SA*

One of the key ways that the GEM research project identifies how to foster entrepreneurial activity is by conducting interviews with experts on entrepreneurship in each country that participates in the GEM survey. These experts are asked to identify factors that they think inhibit entrepreneurial activity and to recommend policy action to stimulate entrepreneurship in their countries. Based on an analysis of nearly 200 of these experts interviewed in SA, the GEM 2004 report suggests the following areas for policy action:

- Improving the education and training system so that the supply of people equipped to become entrepreneurs is increased;
- Improving the regulatory environment to reduce the cost of compliance to businesses;
- Rethinking the way in which government supports small enterprises; and
- Improving access to financial support.

### *2.2.4. Education for entrepreneurship*

Each of the four GEM reports (2001-2004) in SA has stressed the important role of education in developing the appropriate skills base for an entrepreneurial country. However, there has been little detailed research that considers the impact of entrepreneurship teaching on individuals' skills and attitudes towards entrepreneurship. The GEM 2004 report, however, suggests that entrepreneurship education can have a favourable impact. GEM 2004 reports on the results of a pilot study evaluating the Business Ventures Programme which has been developed by the SA Institute for Entrepreneurship. The results of this study, although based on a small selection of schools, are encouraging and support previous recommendations by GEM that entrepreneurship should be actively taught in SA schools. The study found that the Business Ventures Programme increased:

- Learners' self-confidence about their ability to start a business;
- Learners' understanding of financial and business issues;
- Learners' desire to start their own business; and
- Learners' desire to undertake higher education.

These are highly positive outcomes. The policy implications of this preliminary research are that the wider application of entrepreneurship education in SA schools, particularly in black African schools, could have a significant impact on the proportion of people who leave the schooling system with knowledge of entrepreneurship and confidence in their ability to start businesses (Shay and Wood in Orford, et. al.: 2005).

### *2.2.5. The regulatory environment*

International evidence suggests that the regulatory environment has a major influence on the survival and growth of small and new businesses. The GEM 2004 report surveys some of the evidence regarding the impact of regulations on small-business growth and development. It quotes research by the World Bank which suggests that regulatory reforms in developing countries could add as much as 1.4% to average annual GDP growth in these countries. Although SA has a relatively favourable regulatory environment there are areas where improvement to the regulatory environment could be made. In particular, improvements in value-added tax (VAT) and reductions in compliance costs could be achieved. Consistent with other policy research by the Centre for Development and Enterprise (CDE) and the SBP, and with the GEM 2003 report, the GEM 2004 report endorses the call for the establishment of a regulatory impact assessment that can review all existing and proposed legislation in order to

consider its impact on small enterprises (Hudson in Orford, et. al.: 2005; CDE: 2004; SBP: 2004).

### **2.2.6. Government support for small enterprises**

This paper considers in more detail the effectiveness of public support for small enterprises. The GEM 2004 considers evidence from the experts interviewed by GEM and from the 2004 Small Enterprise Survey. Both suggest that public support for small enterprises is hampered by poor quality and lack of reach. This is not because of lack of effort or investment and suggests that the government needs to radically rethink the way in which it supports small businesses. Later in this paper we consider in more detail the performance of public-sector support for small enterprises and also consider international evidence that suggests that the government should limit the role it plays in providing or subsidising small enterprise business development services directly and should focus attention on facilitating business development service market development (Goldstuck: 2004).

### **2.2.7. Financial support for small enterprises**

The 2003 GEM report considered in some detail the issue of financial support to small enterprises and start-up entrepreneurs. Start-up entrepreneurs in SA rely primarily on their own savings and on loans from their family and friends with banks and other financial institutions not playing a significant role in financing start-ups. However, comparisons to other countries included in the GEM study suggest this is not unusual. The GEM 2003 report therefore concluded that it is unlikely that formal financial institutions will be able to significantly increase the amount of finance they extend to first-time entrepreneurs.

The GEM 2003 report also reported evidence from a survey of black-owned small enterprises. This survey showed a significant positive relationship between financial management practices and access to bank lending. Based on this the GEM 2003 report suggested that the key to increasing financial support for black-owned small enterprises lay in supporting improvements in the financial management capacity of these businesses. Not only would this probably increase their access to bank lending, but it would also significantly reduce the proportion of businesses that were facing financial distress. Overall therefore the GEM 2003 report concluded that a policy priority in SA was implementing programmes including mentorship and training programmes that addressed the apparent financial management weaknesses in many small enterprises (Orford, et. al.: 2003).

### **2.2.8. Policy conclusions from the GEM study**

The findings of the 2004 GEM survey confirm recommendations made in previous SA GEM reports. The key policy recommendations that emerge from the GEM 2004 report are:

- Dramatic improvements in the **quality of education** are needed, especially for black African students. A special focus on mathematics and science is needed.
- Appropriate **entrepreneurship education** needs to be offered in all schools up to grade twelve.
- **Regulatory reform** needs to be encouraged through the implementation of a Regulatory Impact Assessment function in the President's Office.
- The government needs to **rethink its approach to delivering support** services to small enterprises. It should refrain from direct support and concentrate on facilitating private provision of business development and financial services to small enterprises.
- The **financial and general management capacity of small enterprises** needs to be improved in order to increase start-up and new firm survival rates. This can be achieved through targeted training and experienced mentoring. Such support should be privately provided.

### **3. Provincial discussion on supporting entrepreneurship**

One of the primary purposes of undertaking this exercise was to engage provincial policy-makers and stakeholders in a discussion about how best to support small enterprises. Three provinces were chosen for this exercise: Gauteng, KZN and the Western Cape. The process of engaging provincial-level stakeholders differed in each province. In Gauteng, Blue Catalyst, part of the Blue IQ group, hosted a forum of policy-makers and other stakeholders in the small enterprise sector. In KZN, the DEDT hosted a seminar of small enterprise development stakeholders. These forums were facilitated by briefing papers prepared by the author of this paper. In the Western Cape it was not possible to hold a round-table discussion. However, the author was commissioned to conduct a review of the Western Cape's strategy to promote small enterprises. This paper draws on this work in covering the Western Cape. A full account of the provincial discussions is included in Appendix 1. Here we provide a brief summary of the main recommendations from each province.

#### **3.1. Gauteng**

The Gauteng forum was important in terms of bringing together a diverse range of interested parties in what is hoped will be the first of a series of discussions. The topics addressed by this forum included:

- Government assistance to entrepreneurs and small enterprises;
- Financial assistance to entrepreneurs and small enterprises;
- Education and training;
- Government communication and research; and
- Government regulation.

The forum agreed on the following key recommendations:

##### **3.1.1. Government assistance**

Government assistance to entrepreneurs could be improved considerably by:

- Distinguishing clearly between social welfare and small enterprise promotion.
- Reducing the number of programmes/agencies supporting small enterprises and improving the quality of their service.
- Ensuring that staff in small enterprise support programmes/agencies understand small enterprises and are customer-oriented.
- Refocusing programmes on industry- and area-specific needs.
- Communicating effectively what government is doing to support small enterprises and how small enterprises can access this support.

##### **3.1.2. Financial assistance**

- Clearly distinguish financial support from social welfare to ensure that the former is conditional in terms of the financial viability of the enterprise being supported.
- Personal savings are the primary means of start-up capital and therefore a key mechanism to encourage start-up activity is by facilitating personal savings. This requires that the reach of financial services be extended to the poor and those without the backing of banks.
- Financial institutions need to improve the way they interact with small enterprise owners and entrepreneurs. This means focussing on developing greater understanding in bank personnel of small enterprise needs and on developing a greater commitment to client service and efficiency.
- Banks need to find ways of reducing transaction costs and risks associated with lending to small enterprises so that they can increase their lending to the sector without necessarily increasing their risk profile.

### 3.1.3. Education and training

- The education system needs to integrate entrepreneurship at all levels of the school system. It needs to develop both business skills and entrepreneurial skills.
- The education system also needs to expose learners to real-life entrepreneurship through role-playing and role models.
- Outside of the school system it is important to develop and implement effective training and capacity development programmes including apprenticeship and mentorship schemes aimed at developing and improving business skills in existing and aspirant entrepreneurs and small enterprise owners.

### 3.1.4. Government regulation

- Although government regulation is important, there is a need to consider its potential adverse impact on small enterprise and entrepreneurship.

## 3.2. KwaZulu-Natal

The KZN provincial government is focussing on four areas with regard to small enterprise development:

- **Industry-specific programmes.** In KZN, government support for small enterprises is being aligned with the Integrated Development Strategy and small enterprise support is being aligned with sector or industry development strategies.
- **Local economic development.** The provincial government has secured funding from the EU to implement a local economic development programme, which seeks to identify local opportunities and identify the capacity of small enterprises to realise these opportunities. The programme focuses on capacity building.
- **Small enterprise knowledge centre.** The DEDT is developing a small enterprise knowledge centre to service small enterprises and those working in small enterprise development.
- **Black economic empowerment through procurement.** Small enterprise support is seen as a key component of broad-based black economic empowerment, with public procurement being seen as one of the key tools to achieve empowerment.

Within this context the KZN seminar identified four priorities:

- Education for entrepreneurship;
- Training and capacity development;
- Financial support linked to other support; and
- Ongoing dialogue between the government and other stakeholders

### 3.2.1. Education

Schools need to integrate entrepreneurship education into the curriculum. Although entrepreneurship is part of the curriculum it is not taught in many schools, especially rural and poor schools. This is largely due to lack of capacity and resources in these schools. Resources should be devoted to ensure that all schools deliver effective entrepreneurship education programmes.

### 3.2.2. Training and capacity development

One of the main requirements identified by the seminar was training and capacity development programmes aimed at existing small enterprise owners and entrepreneurs. Training particularly in financial and business management and marketing were identified as critical areas that needed to be addressed. One key mechanism that was identified was the use of effective mentorship programmes. This was seen as being especially useful if they could be used simultaneously to reduce risk and increase access to financial support.

### **3.2.3. Financial support**

The need to increase access to financial support was seen as important. However, this should not remove the need to ensure adequate risk management. Consequently, it was seen as important that providing finance was linked to other forms of support. In particular, finance should be included in a package of support that improved the ability of a business to grow and be profitable. Finance should therefore be linked directly to capacity development through mentorship programme training, especially in the areas of financial management.

### **3.2.4. Small enterprise forum**

The DEDT suggested that they convene a small enterprise forum which could meet periodically to consider how best to implement programmes to support small enterprise forums. The small enterprise forum should include representatives from the private sector, small enterprises, small enterprise service organisations, academics and the public sector. The DEDT agreed to convene a meeting of the small enterprise forum within the next few months (before the end of 2004).

## **3.3. Western Cape**

In the Western Cape the discussion with stakeholders and policy-makers took the form of one-on-one discussions with key informants. This was part of a process of reviewing existing and proposed small enterprise support provided by the provincial government.

### **3.3.1. Public support to small enterprises in the Western Cape**

The Western Cape Provincial Government is embarking on a very ambitious programme to support small enterprises. The DEDT has in the past supported a range of relatively small-scale projects to support small enterprises. These have included training and finance and general business development services. However, the view of the DEDT is that these programmes have failed to provide services throughout the province, and that they have failed to provide sufficient high-quality service. Consequently, the DEDT has launched a programme called the Real Economic Development, which aims to provide a comprehensive suite of services to small enterprises throughout the province. These will include non-financial support and where necessary financial support.

The centrepiece of the programme will be a provincial network of small enterprise walk-in-service centres, known as RED DOORS. Each RED DOOR will offer a standardised and branded package of services. Small enterprise owners or those people thinking about starting small enterprises will be able to walk through a RED DOOR and receive the following services:

- Obtain relevant information to help them decide whether to start a business or how to address the problems they experience in their existing business;
- Obtain a diagnosis from a business advisor about their needs;
- Develop a plan to address the needs they face; and
- Obtain referrals from approved service providers to implement the development plan (this could include business planning, business improvements, access to financial support, etc.).

The Western Cape Provincial Government envisages that the RED DOORS, aligned to the other services included under the real economic development programme, will overcome problems with previous measures to support small enterprises in the province by:

- Achieving scale by having 30 RED DOORS located throughout the province;
- Providing a single branded entry point to government support programmes;
- Providing the infrastructure needed to support to small enterprises; and
- Crowding in service providers but still ensuring quality control.

### 3.3.2. Concerns with the RED DOOR Strategy

In reviewing the Western Cape Provincial Government's support to small enterprises the consultant identified a number of concerns with the real economic development strategy and identified priorities for supporting small enterprises. Key concerns identified with the scope of the RED DOOR programme included:

- **Direct public support for small enterprises has a poor record – why will the RED DOOR be any different?** The next section of this paper reviews public-sector support to small enterprises. The experience suggests serious limitations in the state's ability to deliver quality services, especially at the level of the BDS transaction. This is recognised internationally with best practice in that small enterprise support has shifted towards an approach based on stimulating private markets for business development services. In this context there do need to be questions about the ability of the Western Cape Provincial Government to deliver a complex and ambitious suite of business development services.
- **What impact will the RED DOORS have on existing service providers?** It appears likely that the RED DOORS will compete with some service providers. This runs counter to the internationally accepted best practice that the role of government is primarily to provide the environment within which private-sector and other non-government service providers can operate. The extent to which RED DOORS will work to stimulate or compete with private-sector business development service providers still needs to be determined.
- **Financial sustainability of the model needs to be examined** It is unclear what the full cost of the centres and the cost of service delivery by third-party service providers will be and how these costs will be shared. It is also unclear to what extent the provincial government is expecting local government and/or small enterprises to pay for services provided. There does not appear to be a clear exit strategy.
- **Exit strategy is not articulated** The RED DOOR programme is contrary to international best practice. This suggests that government programmes need to avoid implementing permanent programmes. It is important that the RED DOOR programme develop a much clearer articulation of what its objectives are, how these will be measured and how the government will ultimately exit from providing services to small enterprises directly.

### 3.3.3. Priorities suggested by the consultant

Based on the review of public-sector support to small enterprises, including the proposed RED DOOR and a series of discussions with stakeholders in the Western Cape, the consultant identified the following key roles for the provincial government:

- **Channelling information from national government to local service providers and small enterprises** This is aimed at building awareness amongst service providers and amongst businesses of the full range of services provided by the national government, and providing information to small enterprises necessary for effective functioning.
- **Supporting and leveraging private-sector support delivery** Public programmes need to recognise that private service providers are playing a major role in providing business development services and should look at supporting and leveraging this rather than replacing or duplicating this.
- **Building PPPs** PPPs can play a key role in addressing some of the gaps in private business development service provision and at the same time can avoid the traditional failings associated with public service delivery.

Within this context five high-priority areas were identified:

- Education to increase the supply of people with the skills needed to enter the small enterprise sector;
- Information to small enterprises through various information access points;
- Business development service markets;
- Industry-based support to high-potential enterprises; and
- Financial support linked to mentorship programmes and capacity development.

### 3.4. Common themes from the three provinces

The three provincial processes varied in format. Nevertheless, common recommendations in how small enterprises should be supported came from the three provinces. Table 2 indicates key measures proposed. The column on the left indicates the recommendation. In the three columns on the right an X indicates whether that recommendation was made for Gauteng, KZN or the Western Cape. Key recommendations include:

- Education and training;
- Linking finance to improved business capacity;
- Improving the efficiency of government programmes;
- Industry-focussed support programmes;
- Regulatory review;
- Linking small enterprises to local economic development;
- Providing information to small enterprises and people wanting to start small enterprises; and
- Focussing on developing private-sector business development service markets.

**Table 2: Key small enterprise support measures proposed**

Priority area	Gauteng	KZN	WC
Education for entrepreneurship	X	X	X
Apprenticeships, mentoring and training	X	X	X
Link finance to capacity improvement	X	X	X
Improve efficiency of government programmes	X		
Industry focus	X	X	X
Regulatory review	X		
Small enterprise promotion linked to LED	X	X	X
Provision of information to small enterprises.	X	X	X
Develop business development service markets			X

The provincial discussions suggest a common framework for small enterprise development. One of the key roles of the provincial government is to deliver quality education effectively. Another is to ensure that the regulatory environment is supportive of small enterprises. Other areas identified in provincial discussions relate to the role played by government in supporting small enterprise development. Before one can clearly articulate what the role of the provincial government is in providing or supporting small enterprise development one needs to consider how effective existing public support for small enterprises is. The following section looks at this.

## **4. The effectiveness of small enterprise support**

Before we identify an appropriate role for provincial governments to support small enterprises, this section of the paper provides a brief assessment of the effectiveness of public support provided to small enterprises. This suggests that on balance public support to small enterprises, despite considerable effort, has failed to meet its objectives.

### **4.1. Existing government support for small businesses**

Berry provides a useful account of the public programme of small enterprise support (Berry, et. al.:2002). Since 1994 considerable resources have been devoted to support small enterprises. At a national level the three key agencies have been the Department of Trade and Industry (**the dti**), the Ntsika Enterprise Promotion Agency and Khula Enterprise Finance. The separation of Ntsika and Khula reflects an important decision to separate financial support from non-financial support. Both Ntsika and Khula were established as wholesale agencies operating through a network of retail-implementing agencies. In reality both have considerably increased the extent to which they directly support to small enterprises directly.

Ntsika was established to address perceived market failures in the provision of business development services to medium, small and micro enterprises. Its mandate was to implement the government's national strategy for promoting small enterprises through a network of retail service providers. These included:

- Local Business Service Centres (LBSCs) – providing business advice and information via accredited service providers.
- Tender Advice Offices (TACs) – providing assistance and training to small enterprises on public tendering.
- Manufacturing Advice Centres (MACs) – industry-specific assessments linking small and medium businesses to specialised advice.

Khula was established to address perceived market failing in providing finance to start-ups and small businesses, particularly amongst black-owned businesses. Khula was established to increase access to finance via retail financial intermediaries. There are a number of different schemes including business loan schemes providing credit-guarantee schemes and equity funds. Khula also runs a mentorship scheme which links entrepreneurs to a mentor.

**the dti** also provides a number of incentives directly. These include:

- Standard Leased Factory Building Scheme – rents space to small and medium businesses.
- Small/Medium Manufacturing Development Programme – a tax-exempt establishment grant as a percentage of investment for the first two years.
- Economic Empowerment Scheme.
- Venture Capital Scheme.
- Normal Finance Scheme.
- Import Finance Scheme.
- Short-term Export Finance Guarantee Facility.
- Export Marketing and Investment Assistance Scheme.

### **4.2. How effective is public sector support of small business?**

A variety of independent studies suggest that very few small enterprises are aware of government's initiatives to support small enterprises (Berry, et. al.: 2002; Foxcroft, et. al.: 2002). The most comprehensive survey of small businesses is the Small and Medium Enterprise Survey. The SME Survey is an annual survey of over 2,500 small and medium enterprises. The 2004 SME Survey focussed specifically on SME perceptions of government support. Table 3 shows the proportion of businesses surveyed who were firstly aware of specific government support structures and secondly had used one of these services. Over 60% of businesses were aware of the Sector Education and Training Authorities (SETAs), 45% of businesses were

aware of the Industrial Development Corporation (IDC) and less than a third of businesses surveyed had heard of the Competitiveness Fund. However, less than 15% of businesses had heard of any of the other government support structures. Use of government support structures is even lower. Only 1% of businesses had used any of Ntsika, the MACs, Khula, Brain and Umsobomvu. The only two structures that had been used by more than 10% of the businesses surveyed were the SETAs and the Competitiveness Fund.

A lack of awareness stems from poor marketing. The SME Survey found that 70% of the businesses surveyed felt that government communicates its incentives poorly. However, the problems run deeper than poor marketing. There is evidence of deep suspicion about the quality, usefulness and accessibility of government services amongst small businesses. The SME Survey found that 63% of small businesses think that the impact of general government incentives is either very bad or bad, and 54% think that the impact of support structures is either very bad or bad. In addition there is no evidence that use of a specific government service results in businesses being more likely to rate government support for small businesses as useful or very useful.

Overall evidence from a variety of sources, including anecdotal evidence from interviews conducted by the GEM team in SA, suggests that small businesses in general:

- Are not aware of most of the government's efforts to support small enterprises; and
- Even when they are aware of them are sceptical about their value to their business.

**Table 3: Small-business awareness and use of government support**

Government initiative	% of businesses which are aware of programme	% businesses which have used programme
SETAs	61	32
IDC	45	7
Competitiveness Fund	32	11
Ntsika	13	1
Export incentives	12	2
Manufacturing Advisory Centres	11	1
Khula	9	1
Brain	9	1
Umsobomvu	4	1

Source: SME Survey 2004

### 4.3. Why has government support of small businesses failed?

There are a number of reasons for the failure of government support to small businesses. Several reasons can be identified and these include:

- Lack of awareness (outreach);
- Uneven distribution (concentration in metropolitan areas);
- The high cost of searching for support services which has not been mitigated by effective information on how and where to access support; and
- Cumbersome administrative requirements of government programmes resulting in user fatigue and high levels of disappointment (Berry, et. al.: 2002).

#### 4.3.1. The failure of LBSCs

The performance of Ntsika's LBSC programme has been particularly poor. There are number of reasons for this. It is suggested that the institution overestimated its capacity as well as the capacity of the local business service centres (Berry, et. al.: 2002). Undoubtedly funding constraints played a major role too. Unable to access funding from Ntsika most LBSC programmes had to devote resources to raise funds and/or rely heavily on service fees. Both were detrimental to their ability to service small businesses in the way initially envisaged. The LBSCs also tended to service a wide range of businesses and were generally unable to mobilise the necessary expertise to provide more than a generic service to these businesses. The need to maximise service fees also resulted in a reluctance to refer clients to qualified

service providers as initially envisaged. In contrast the MACs which have a much more focussed role and which utilise expert service providers were able to achieve much better results although with a more limited range of businesses.

#### **4.3.2. Failure to deliver**

Evidence from the GEM suggests that in addition to the factors mentioned above an important reason for the failure of government programme to support small businesses is due to poor delivery (Orford, et. al.: 2005). Each year the GEM study interviews a carefully selected group of people knowledgeable about entrepreneurship and small business support. One of the areas that these experts are asked about is whether government policies and programmes are supportive of people starting and running new businesses. The experts in SA are relatively positive about the degree of emphasis placed by government on small-business promotion. However, they are sceptical about:

- Entrepreneurs being able to find support from the government;
- The prospect of finding a wide range of support from a single agency; and
- The competence of the people delivering government support.

An example is the Khula Mentorship programme. Evidence from research conducted by the UCT CIE suggests mentors can play a critical role in supporting small enterprises; indeed, the centrepiece of a highly successful loan programme run by the UCT CIE aligns loan recipients with mentors. However, the key to these mentors adding value to their clients lies in recruiting suitably experienced mentors. In the case of the Khula Mentorship Programme, however, many of the mentors used have little or no business experience, struggle to understand basic accounting concepts and are consequently not capable of adding value to their clients. The result is a highly expensive programme with little or no impact. (Unpublished review of Khula mentorship programme completed in 2003 by the UCT CIE.)

#### **4.4. New directions in public sector support for small business**

In response to perceived failings of the current small enterprise support infrastructure, the government has decided to merge Ntsika and Namac to form SEDA. The agency aims to provide a comprehensive package of services with uniform quality throughout the country. SEDA will incorporate all existing small enterprise support programmes as different product offerings under one organisation (e.g. tender advice, business advice, manufacturing advice). A key aspect of the programme will be information sharing through a common information system, which will enable tracking clients, and developing good data on clients, performance and client satisfaction.

SEDA will allow shared business processes, which will entail a common diagnosis of client problems and needs, an enterprise plan which designs appropriate interventions for the client, and identification of appropriate service providers. These services will be available at SEDA offices, which will be distributed nationally in all of SA's districts. Approximately forty such SEDA offices are envisaged. These centres will be monitored on the basis of outputs such as the number of businesses supported. However, the information system envisaged will also allow for customer satisfaction feedback. Table 4 outlines SEDA's basic service offering.

In a parallel but not related initiative, the Western Cape Provincial Government has also launched a network of walk-in small enterprise service centres. This initiative, known as the RED DOORS, as discussed earlier, has similar objectives to the SEDA and aims to provide a comprehensive network of information, diagnosis and referral centres throughout the Western Cape.

**Table 4: The Small Enterprise Development Agency**

Client	SEDA	Service provider
<ol style="list-style-type: none"> <li>1. Walk into SEDA</li> <li>2. Obtain information</li> <li>3. Obtains diagnosis</li> <li>4. Agrees on intervention plan</li> </ol>	<ol style="list-style-type: none"> <li>1. Diagnosis of client needs</li> <li>2. Capture information in information system</li> <li>3. Plan for business aimed at addressing the businesses' needs</li> <li>4. Links business to service providers</li> <li>5. Accredits service providers</li> <li>6. Monitors programme</li> <li>7. Manages contracts with service providers</li> </ol>	<ol style="list-style-type: none"> <li>1. Provides agreed service</li> </ol>

#### 4.5. Examples of successful provision of support to small enterprises

On balance the public initiatives to support small enterprises have not been very successful. However, there are a number of initiatives that have proved very successful in supporting small enterprises. Some examples of these are the Business Place, the Tourism Enterprise Programme and the MACs. All are examples of PPPs to achieve specific objectives. We briefly review these in order to distil lessons that could guide the implementation of provincial and national programmes to support small enterprises. This survey of success stories is not meant to be exhaustive but rather to provide an illustration of what kinds of interventions work so that these can inform initiatives such as SEDA nationally and the RED DOORS in the Western Cape.

##### 4.5.1. The Business Place

The Business Place provides a walk-in centre offering one-on-one advice to entrepreneurs who want to explore starting or expanding their small businesses. The first Business Place was launched by Investec in Johannesburg. There are now Business Places in Cape Town and King Williamstown with plans to open a further two in KZN and Philippi in the Western Cape. The core feature of the Business Place is that it locates several relevant services within one business-friendly environment. Services provided within Business Place are business planning, access to finance, accounting services, legal services, computer and skills training, tender information and advice, import and export advice, and marketing.

Independent assessments suggest that the Business Place in Johannesburg functions well above the average LBSC (Smith and Associates: 2003/2004). Customer surveys indicate that 79% of Business Place customers felt that they had been 'helped a lot' by the Business Place and 92% planned to return in the near future. Information and resources were regarded by the customers as the most important services offered at the Business Place. In the period under review (16-month period until end 2003) the Business Place helped start 30 new businesses and helped 102 existing businesses. The new businesses employed 80 people full-time (including 25 of the owners) and 17 people part time. The existing businesses employed 311 people full time and 159 people part time. Aggregate turnover of the businesses helped by Business Place Johannesburg was R1.5-million per month compared to the total budget for Business Place Johannesburg of R1.3m for the same period.

The Business Place represents a dynamic public-private sector solution to the need for basic information and business advice for micro and emerging small businesses. Originally started by Investec the Business Place seeks to attract co-investors in each of its centres. Co-investors include the City of Johannesburg in the Business Place in Johannesburg, the City of Cape Town and the provincial government in the Business Place in Cape Town. Private sector companies also contribute by providing free services to Business Place customers (e.g. legal and accounting services provided by Weber Wentzel and Ernst and Young). The model has potential for specialised focus in particular areas (e.g. the Business Place in Philippi will have a focus on businesses located there). It solves a number of market failings. In particular, it reduces search costs for people wanting information on how to start a business or needing access to services located in the Business Place. A key feature of its success is the ability to provide quality, efficient service.

Some of the critical factors in the success of the Business Place model include:

- **Co-investors:** The programme locks in co-investors in a mutually beneficial relationship.
- **Co-location of service providers:** Some key service providers are co-located in the Business Place solving search problems for Business Place customers and increasing visibility and attractiveness of service providers.
- **Friendly and informative staff:** The Business Place provides friendly, efficient and informative staff providing quality information and referral advice.
- **Capacity to monitor:** The Business Place has the capacity to capture data and monitor its impact.
- **A franchise capable of replication:** The Business Place model is a well-developed model with effective systems and management that is capable of being replicated in appropriate areas.

#### 4.5.2. Tourism Enterprise Programme

The Tourism Enterprise Programme (TEP) is a Business Trust project implemented by Ebony Consulting International (ECI) Africa. In the Western Cape (where the consultant is familiar with the programme), ECI subcontracts the implementation to African Equations. The purpose of the programme is to facilitate and foster commercially viable business transactions between established industry players and small businesses. The TEP contributes to small-business growth by assisting in cost sharing on activities that will secure transactions resulting in growth of the business.

Activities that TEP sponsors include marketing assistance for events, development of businesses and marketing plans, preparation and submission of tenders and proposals to become a supplier, training, exhibitions and conferences where appropriate, certification and licensing, and identification of service providers. TEP does not finance assets, operating capital, raise share capital or provide start-up capital. Businesses that qualify for the TEP programme are either directly involved in the tourism industry or are suppliers to formal tourism businesses.

The key objective of the programme is to grow the businesses they work with. In the Western Cape the TEP supported 60 businesses in the last year and over 200 since inception of the project. In the last year they estimated that the programme created 150,000 'job days' (equivalent of 610 annual jobs assuming an 8-hour day and 246-day year) and increased turnover by R45 million.

Key ingredients for the success of the programme include its ability to provide effective business support to small businesses enabling them to win new deals and grow their businesses. Critical to achieving this is the fact that the programme is delivered by people with business experience who understand and are sympathetic to the needs of small businesses operating in the tourism business. According to the programme manager it is important that before someone can support a small business they need experience in running a small business.

Some of the critical factors in the success of the TEP programme include:

- **Narrow focus** The programme focuses narrowly on small and medium businesses within the tourism sector. This enables the programme to develop expertise, networks and reputation. All are critical to the programme's success.
- **Focus on limited services** The programme focuses on value-adding services which contribute directly to growth in the businesses they support.
- **Client focus** The programme focuses on client needs and people with industry-specific knowledge and business experience deliver services to clients.
- **Clear objectives** The programme has clear and limited objectives. This enables it to focus on carefully selected businesses and to monitor and evaluate its performance.
- **Quality of personnel** The programme is delivered by the private sector and the people working with businesses have business and industry experience.
- **Customer buy-in** Customer buy-in is important and programme participants must contribute 50/50 to the cost of the support.

#### 4.5.3. Manufacturing Advice Centres

The MACs provide specialised advice to small and medium manufacturing businesses. Employment in these businesses ranges between five and 200 people. They target businesses owned by historically disadvantaged people. The MACs have achieved considerable success. The MAC model is one in which businesses undergo a diagnosis which includes a 'readiness for change' test (judgement call by the industrial advisor), a diagnosis of the business (including operational, marketing, human resources and financial aspects of the business) and a backward and forward financial analysis of the business. Based on the diagnosis a plan is worked out for the businesses and MAC secures three quotes from business development service providers. The client business chooses the service provider. The service providers are paid market rates, with MAC subsidising the cost of the service provision. Subsidies are based on a sliding scale from 65% to 95% of the cost of the service depending on a points system.

Some of the critical factors in the success of the MAC programme include:

- **Narrow focus** The programme focuses narrowly on small and medium businesses within the manufacturing sector. They do not deal with informal or micro businesses. The businesses are selected based on the likelihood of their succeeding on the programme – in other words there is no automatic right to participate in the programme.
- **Quality of personnel** The quality of the staff at the MACs is key to the success of the programme. MAC industrial advisors have relevant degrees and/or ten years of industrial experience. They are paid competitive wages.
- **Run like a business** The MACs are run like businesses. They perform to targets, deadlines and tight budgets. Their outcomes are measured against these.
- **Customer buy-in** Customer buy-in is important. Clients must be ready for change, must agree to the programme outlined by MAC, select their service provider and pay some of the cost of the service.
- **Diagnostic tool** The diagnostic tool used by MAC has been developed over a number of years and is vital to the success of the model.

#### 4.6. Lessons from successful small enterprise support initiatives

In designing measures to promote small enterprises at national, provincial or local level it is important that we focus on what works. Some of the critical ingredients in successful small enterprise promotion initiatives include:

- Ensuring that people who deliver services to small enterprises have business experience, understand small enterprises and empathise with their clients;
- Ensuring that programmes are focussed on particular objectives rather than trying to achieve a wide range of objectives;
- Ensuring private and non-government participation to share costs, lock in private sector capacity and reduce risk;
- Ensuring client 'buy-in' to the service being offered; and
- Ensuring that public interventions are designed to contribute towards efficient business development service markets (as opposed to interventions that distort markets).

##### 4.6.1. Awareness and reputation is built on having the right people

Government support structures and services suffer from a credibility crisis. Most businesses are not aware of their services and those that are, are often not satisfied with the quality of the services they offer. The key to building effective small-business support lies in creating focussed programmes, which are delivered by professional and experienced people who understand the needs of businesses. Attracting these people into the delivery of small-business support services is very important since most of the success or failure of the programmes rests with the people who deal with small-business owners directly. The government's (national and provincial) programmes have not paid sufficient attention to attracting the right people into the delivery of support to business owners. In contrast, some very successful PPPs have been able to attract the right people and consequently generate high levels of brand recognition and

support (e.g. the Business Place in Johannesburg which has close to 80% customer satisfaction ratings and has 5,000 visitors per month).

#### *4.6.2. Focus is important in delivering value-adding service*

A key reason for the failure of the LBSC was that with limited resources the LBSC were expected to be all things to everyone. In contrast programmes, which have more clearly defined objectives, tend to be more successful. A successful small-business support programme must therefore accept that the concept of a one-stop-shop for all business support services is unlikely to be successful. Many businesses require specialised expertise that one-stop shops are unlikely to be capable of delivering. Such specialised knowledge is far more likely to reside in specialist industry associations and private-sector service providers than in a one-stop shop. Some of the most successful programmes mentioned in this report have a very narrow focus enabling them to develop specialist expertise, networks and reputations. Examples include the MACs and the TEP.

#### *4.6.3. The importance of PPPs*

There are significant constraints on the capacity of the public service to deliver quality services to small businesses. These constraints include bureaucratic public-service procedures, funding constraints and a limited capacity to attract the right kind of people. All of these constraints limit the ability of government to provide many of the services required by small businesses directly. In contrast there are important examples that testify to the success of carefully considered PPPs. The MACs are a public programme but rely on a model of using private-sector service providers. The Business Place model unites government and the private sector in a successful model of providing business advice to people starting or running businesses. In its attempt to deepen and extend the network of business information and advice outlets the government should leverage this kind of capacity rather than duplicate it. One principle for ensuring this is that the government should commit to co-investment with strategic partners. This will reduce investment requirements on the public sector but will also ensure that additional capacity is locked in.

#### *4.6.4. The importance of customer commitment to service provision*

Successful small enterprise support programmes have a way of locking in client commitment. One of the most important ways is to ensure that the client pays for part of the service. In the MAC programme this is ensured through the client choosing their service provider and making part of the payment. This ensures that they identify a service provider that they think will add value. They are not simply getting a freebie. This reduces moral hazard and ensures that the client actually wants the service. Within the SEDA approach nationally and the RED DOOR approach in the Western Cape it is unclear exactly what the financing relationship between government, third-party service providers and small enterprises will be.

## **5. A new approach to support business development services**

The previous section reviewed public support to small enterprises. The key lesson learnt from this review is that despite significant investment public-sector support for small enterprises has, generally speaking, failed. However, where the public sector plays a strategic role in partnering with private or non-government agencies it is capable of facilitating effective support to small enterprises. This experience is in line with international experience, and the emerging best practice amongst international donors supporting small enterprises is to reduce direct support to small enterprises in favour of supporting the development of efficient BDS markets.

The Committee of Donor Agencies for Small Enterprise Development argues that support for small enterprises should be based on a private sector-led market economy framework (Committee for Donors: 2001). They argue that the guiding principles for this Business Development Services (BDS) approach include:

- A fundamental belief in the principles of a market economy, where the state has a role in providing an enabling environment, in correcting or compensating for market failures, and in provision of public goods, but not in the direct provision of private goods that can be more efficiently provided by the market.
- The assumption that the majority of business development services (training, consultancy, advisory services, marketing, information and technology services, and business linkages) are private goods and are thus similar in nature to any other services. Therefore market rules apply.
- The expectation that with appropriate product design, delivery and payment mechanisms, business development services can be provided on a commercial basis even for the lowest income segment of the entrepreneurial small enterprise sector.

Adoption of these principles implies a fairly major rethink of the government's role in supporting small enterprises. It implies that the government's role in providing services should be strictly limited. In principle private-sector companies operating on a commercial and entrepreneurial basis should be relied upon to provide services to small enterprises.

### **5.1. Actors and their roles in the BDS market**

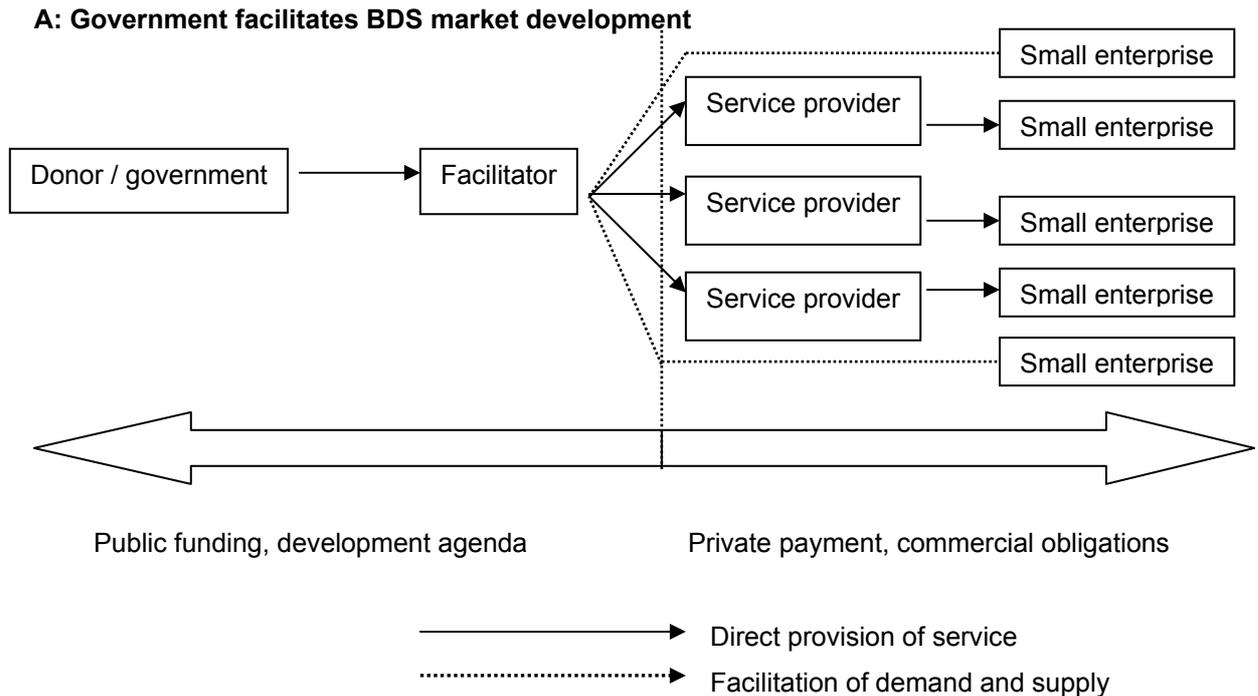
The Committee for Donors envisages the following actors and roles in the BDS market:

- **Small enterprises** constitute the demand side of the market for BDS. They include micro, small and medium enterprises that are primarily profit-oriented;
- **BDS providers** constitute the supply side of the BDS market. They are individuals, private commercial firms, and other agencies providing services to small enterprises;
- **BDS facilitators** support BDS providers by, for example, developing new services, promoting good practice, building service capacity and building market awareness amongst small enterprises. BDS facilitators are development-oriented institutions whose objective is BDS market development and typically include non-government organisations, industry and employer associations, government agencies and others.
- **Donors and the government** provide funding and can play a role in facilitating BDS. In the case of the government the key additional role is to provide the enabling policy, legal and regulatory environment within which BDS markets can flourish.

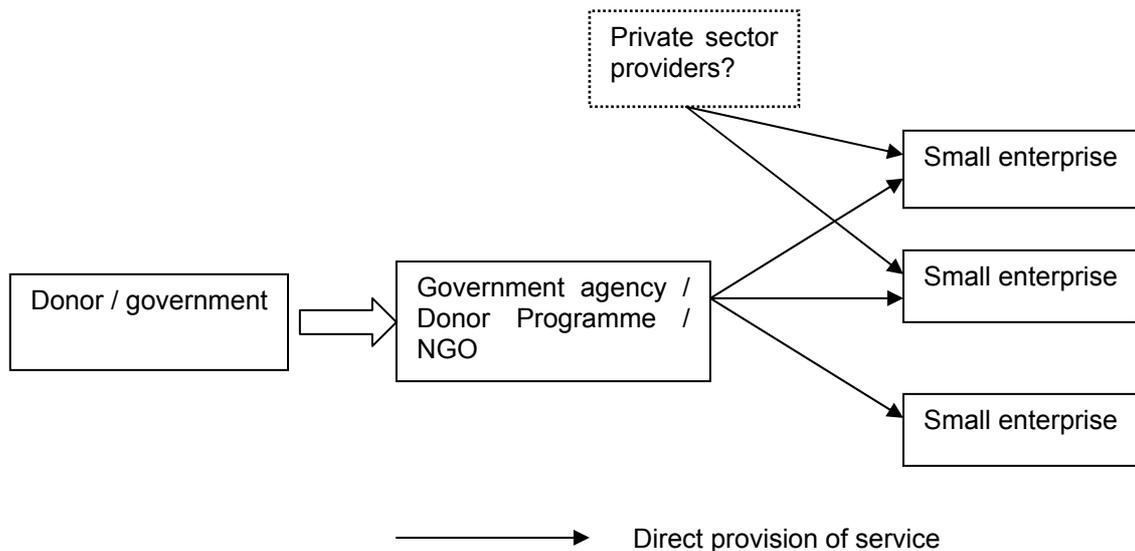
Figure 1A provides an overview of the BDS approach and shows, in relation to figure 1b, how this differs from the traditional approach to supporting small enterprises. In the traditional model of small enterprise support (figure 1B) donors and government have intervened at the level of the BDS transaction: providing services to small enterprises directly or permanently subsidising services provided to small enterprises. This was intended to substitute poorly developed BDS markets. Generally, however, it tended to crowd out existing or potential commercial providers of these services. At the same time the traditional approach achieved limited outreach and was often unsustainable due to limitations on public funds (as was the case in the decline in public funding to the LBSC programme).

The BDS market development approach (figure 1A) is “driven by the belief that the objectives of outreach and sustainability can only be achieved in well-developed markets for BDS, and not through direct provision by donors and the government” (Committee of Donors: 2001). This shifts the focus from the level of BDS transaction toward facilitation of a sustained increase in the demand and supply of BDS. Government or donor payment or subsidisation of BDS transactions in figure 1B is replaced by private payment for services in figure 1A. Similarly government or donor support is shifted from direct support of particular BDS providers towards facilitation functions that develop the market in a sustainable way.

**Figure 1: Developing BDS markets versus market substitution**



**B: Market substitution by government**



## 5.2. BDS approach in SA

Recent work in SA supported by the German Technical Co-operation (GTZ) suggests that private business development service markets do function but with certain limitations. This work suggests that support to small and medium enterprises should focus on identifying limitations in existing business development service markets and identifying ways in which these 'market failings' can be addressed within an overall framework of the market economy. To develop these ideas, the GTZ has embarked on two pilot studies in Mpumalanga and the Eastern Cape (BMI Foodpack: 2004). Below we consider evidence from the Nelspruit study.

### 5.2.1. What business development services are small businesses using?

Results from the Nelspruit survey indicate the extent and nature of small business use of business development services. The GTZ study identifies sixteen different business development services. Table 5 shows the proportion of businesses using different business development services in Nelspruit. Outside of a core group, business development services are not commonly used by small businesses. Over half of the small businesses used advertising and accounting services and over a quarter used computer (hardware and software) and legal services. Between 10% and 25% of the businesses used financial planning (including business plans for finance), quality training and management/business skills training. However, fewer than 10% of the businesses made use of over half of the various services on offer.

The five main reasons for using business development services identified by small businesses included:

- Regulatory reasons including starting a new business;
- Responding to customers;
- Skills development;
- Growth of the business; and
- Response to competition.

**Table 5: Use of business development services by small businesses in Nelspruit**

Service	% of small businesses using the service
Advertising	55
Accounting	54
Computer hardware and software	42
Legal services	38
Financial planning	21
Quality training and advisory services	19
Management and business skills training	14
Training on customer feedback to develop new markets	8
Advisory services in business planning/Management and mentoring	8
Providing information to meet standards and specifications	7
Identifying new markets including new market opportunities	7
Advisory services in production processes	7
Negotiation skills regarding contracts	4
Facilitation of business linkages	4
Assistance with tendering	4
Environmental management training and advisory services	3

Source: BMI Foodpack, Nelspruit

Table 6 reports reasons for businesses not using business development services. Of those businesses that did not make use of the services provided the most important reason identified for not using the service was that the service was not relevant to the business. In most cases 50% to 60% of businesses indicated that the services were not relevant to them. The only exceptions were advertising and accounting where only 30% of businesses said that these

services were not relevant to them. Price and quality of services is the second largest factor contributing to the low utilisation of business development services. A significant proportion of businesses do not use business development services because they are not aware of them. Unavailability of the service was generally not an important reason for the businesses not using a particular service. This suggests that one of the most important interventions to stimulate the BDS market is to increase the relevance and price-quality offering of business development services that are offered by service providers.

**Table 6: Why small businesses did not use business development services**

Service	% not using service	Not known	Not relevant	Price/ quality	Not supplied
Environmental management training	97	16	60	21	
Facilitation of business linkages	96	20	59	17	
Assistance with tendering	96	12	66	17	
Negotiation skills regarding contracts	96	13	61	16	
Advisory services in production processes	93	19	62	17	
Identifying new markets	93	18	57	23	
Providing information to meet standards / specifications	93	15	60	16	6
Training on customer feedback to develop new markets	92	17	51	21	8
Advisory services in business planning/mentoring	92	17	53	21	8
Management and business skills training	86	17	49	25	
Quality training and advisory services	81	14	58	20	
Financial planning/business plans for finance	79	15	53	23	
Legal support/Advisory in legal processes	62	12	55	30	
Computer hardware and software	58	17	50	28	
Accounting	46	23	30	25	11
Advertising services	45	12	36	34	10

Source: BMI Foodpack: 2004

### 5.2.2. What can be done to stimulate business development service provision?

Although preliminary in nature the GTZ survey of the Nelspruit market for business development services does suggest a way forward in building effective market-based solutions for small enterprises. The GTZ study indicates that an extensive business service sector exists. However, while a core of services are used by a large portion of businesses, many services are used by a very limited portion of businesses. There are two important reasons why businesses do not use some of the business development services offered:

- Perceived lack of relevance of the service to the business; and
- An unfavourable price-quality offering by the service provider.

The Nelspruit study identifies three measures to stimulate service provision to small enterprises. These are:

- First-level interventions to build awareness and share information;
- Second-level interventions to facilitate interaction between service providers and between service providers and small enterprises; and
- Third-level interventions to design and source new services where these are necessary.

### **5.2.3. *Building awareness and sharing information***

The first intervention addresses the gaps between service providers' knowledge of the needs of their customers and the customers' knowledge of the service providers. This addresses the large share of businesses that think that service providers are not relevant to them and/or that don't know about the availability of service providers in their area. The intervention here is to develop and package market information for the service providers so that they can develop and differentiate their product offering to small enterprises. While this can partly be addressed by better marketing it is likely that in many areas, especially where the business development service sector is less well developed, a catalyst organisation could play an important role in facilitating this process.

### **5.2.4. *Facilitated interventions***

Increased awareness may not be enough on its own. It may be necessary to facilitate one to one or one to many interactions with service providers to assist them in developing their product mix and in marketing it to small businesses. The aim of these interventions is to improve and/or differentiate existing offerings.

### **5.2.5. *Completely new service design and creation***

Where the demand for a service exists but no service of this kind is offered, it may be best to engage in designing and securing completely new services. These may simply be contracted in from other geographical areas or may be completely new services. Examples include quality requirements related to export to the European Union which did not previously exist.

### **5.2.6. *The importance of a catalyst organisation***

In all three interventions there is an important role to be played by a catalyst organisation that facilitates the development of the business development services market. This is the organisation that works with service providers and small enterprises in adapting and differentiating product offerings. In the two GTZ pilot studies the catalyst organisations involved were the Chamber of Commerce in Nelspruit and the Eastern Cape MAC.

## **5.3. Extending the BDS market-development approach in SA**

Poor performance achieved by public support to small enterprises in SA, international experience and the evidence from the GTZ pilot studies in SA all suggest that the BDS market-development approach represents a superior basis for providing business development services to small enterprises. The BDS market-development approach could therefore represent a basis for provincial governments implementing programmes to provide small enterprises with non-financial services. The Committee of International Donors suggests the following processes in developing BDS markets:

**Table 7: Steps in implementing a programme to support BDS markets**

Process	Actions and objectives
BDS market assessment	Conduct market assessment to: <ul style="list-style-type: none"> <li>▪ Gather information on use and supply of BDS</li> <li>▪ Analyse market problems (e.g. low awareness, low repeat usage)</li> <li>▪ Pinpoint supply weaknesses (inappropriate services, poor quality)</li> <li>▪ Pinpoint demand weaknesses (lack of awareness, payment difficulties)</li> <li>▪ Identify weaknesses, strengths, opportunities in BDS market</li> </ul>
Identifying and designing demand and supply-side interventions	Identify and choose between demand and supply-side interventions depending on market assessment. Demand-side interventions include awareness-raising measures as well as possible incentives to get small enterprises to use appropriate services. Supply-side interventions include developing new services, improving competence of service providers. Some interventions work on both supply and demand sides, for example, building business-to-business linkages.
Determine delivery and payment mechanisms	The focus here is on developing innovative payment mechanisms that reduce the risk and cash-flow burdens associated with using business development services. Examples include the use of commission and mark-ups rather than direct payment up front. BDS facilitators can work with BDS and small enterprises in identifying appropriate payment mechanisms. <p>A core element of the traditional approach to provide small enterprises with BDS involves subsidising the transaction. In general subsidies need to be avoided since they tend to distort the market for BDS. However, some subsidies may still be necessary. These need to be designed carefully so that they are specific, limited and are applied in such a way that they have a minimal effect at the level of the BDS transaction.</p> Subsidies therefore need to be designed with regard to: <ul style="list-style-type: none"> <li>▪ <i>Specificity</i>: subsidies should be designed to achieve specific measurable objectives usually identified in the market assessment process.</li> <li>▪ <i>Duration</i>: subsidies need to have definite objectives and limited duration.</li> <li>▪ <i>Point of application</i>: Subsidies at the point of transaction are more likely to distort BDS markets than pre- and post-transaction subsidies. Pre-transaction subsidies include subsidies to develop new BDS products, test marketing and product adaptation, capacity building, and awareness-raising measures. Post-transaction subsidies include subsidies used to monitor and evaluate the impact of BDS market development.</li> </ul>
Exit strategy	Consistent with the temporary nature of subsidies, BDS intervention should have a clear exit strategy defined from the beginning. The exit strategy should be linked to the achievement of the intervention's market-development objectives.
The role of government and donors	The government (and donor) focus should be on facilitation, technical assistance and incentives to encourage competitive performance of new and existing BDS providers, innovations, and the development of appropriate service products.
Selecting BDS service providers	Where BDS market-development interventions involve selecting BDS service providers these should be done in a way consistent with the development of competitive markets. Successful BDS service providers tend to be private, for profit enterprises that develop commercial relationships with small enterprises. BDS interventions need to build on the existing base of local BDS service providers not supplant them with imported models/service providers. BDS interventions should avoid selecting a few service providers since this is anti-competitive and distorts the market.

<b>Process</b>	<b>Actions and objectives</b>
BDS facilitation	BDS facilitation is often important in underdeveloped markets. However, this needs to be of limited duration and must be distinguished from service provision. The Nelspruit pilot study provides examples of the kinds of role that a BDS facilitator could provide.
Performance measurement and assessment	Performance measurement and evaluation is important. Three categories of performance measurement are relevant: <ul style="list-style-type: none"> <li>▪ <i>Client impact</i>: in terms of improved small enterprise performance</li> <li>▪ <i>Institutional performance</i>: according to indicators of outreach, cost effectiveness and sustainability</li> <li>▪ <i>Market development</i>: measured by indicators of price and quality of services available, the level of small enterprise awareness, trial, and repeat usage of BDS by small enterprises, small enterprise satisfaction with BDS supplied and the extent to which BDS service providers penetrate new markets.</li> </ul>

Source: Committee of Donors: 2001

## 6. The provincial government's role in supporting small businesses

In identifying the role for provincial government in promoting small enterprises this paper has considered four areas. The first is general lessons from the GEM study, which has conducted four annual surveys of entrepreneurial activity in SA since 2001. The second is the three processes of engaging policy-makers in KwaZulu-Natal, Gauteng, and the Western Cape. The third was an assessment of the effectiveness of support provided to small enterprises. The final aspect was international and SA experience with business development service market development. Based on these four areas it is possible to identify an appropriate role for provincial governments in supporting small enterprise development. In conclusion we summarise this role.

### 6.1. Policy priorities

The GEM study and the provincial discussions suggest the following priority areas in supporting small enterprise development:

- **Education** Improvements in the quality and accessibility of education and in particular the availability of effective entrepreneurial education programmes that develop business (e.g. an understanding of personal and small-business finance) and entrepreneurial skills (e.g. developing entrepreneurial self-confidence through participatory role-playing and interaction with entrepreneurs).
- **Regulatory reform** Regulatory reform to reduce the negative impact of regulation on small enterprise formation and growth. While this is partly a national priority, there is a key role that can be played by provincial governments in ensuring that provincial and local regulations are supportive of small enterprise formation.
- **Improving the efficiency, relevance and reach of public small enterprise support** The GEM study suggests that radical improvements are needed in public programmes to support small enterprises. It is heartening that at a provincial level there is a strong desire by policy-makers to implement changes that improve the reach and effectiveness of small enterprise support programmes.
- **Improving the financial management capacity of small enterprises** Both the GEM study and the provincial discussions have highlighted the importance of supporting improvements in the financial management capacity of small enterprises. In the GEM study improved financial management has been linked to better access to financial support from the banking system. Both the GEM study and the provincial discussions recommend the use of highly experienced mentors to assist emerging entrepreneurs.
- **Focus on industry and locally specific programmes** The provincial discussions suggest a focus on local and/or industry-specific programmes which are more likely to add value to small enterprises than general programmes.

### 6.2. How to implement support programmes

The second two areas considered (the assessment of public support provided to small enterprises and the review of international and local experience in the BDS market development approach) define what the provincial government should be doing to support small enterprises. The poor performance of public small enterprise support combined with the promise of the BDS market-development approach suggests that the provincial government should limit the direct role that it plays in supporting small enterprises. In this sense it should not provide finance and should not provide services directly to small enterprises. Rather it should see its role as primarily facilitating the following functions:

- **Information flow to owners and potential owners of small enterprises** An effective small enterprise market relies on good information. People need information to decide if they should start businesses, how to start businesses and how to run businesses. They also need information on opportunities offered by national programmes and on regulatory issues. The provincial governments could play a key role in facilitating this flow of information. While this role may appear limited to provincial governments desirous of an interventionist role it is

possibly one of the most important roles that provincial governments with limited resources and capacity can play.

- **Supporting and leveraging private-sector support delivery** Provincial governments should seek to support rather than supplant or compete with private sector and non-government programmes supporting small enterprises. Public-private partnerships can play a key role in addressing some of the gaps in private business development service provision and at the same time can avoid the traditional failings associated with public-service delivery.
- **Focus on BDS market development** International best practice suggests that the role of the government, in this case provincial government, should be on developing programmes that facilitate the development of BDS market development. In the Western Cape the RED DOOR programme could be adopted to play a BDS facilitating role. However, this is likely to require that, rather than directly implementing the RED DOORS and directly providing services to small enterprises, the Western Cape provincial government needs to partner with agencies capable of playing a BDS facilitator role. This may have similar implications for the national approach in the creation of SEDA.

### **6.3. Concluding comments**

There are clear priorities in developing a vibrant small enterprise sector in SA. The public sector has a key role to play in developing a supply of people capable of becoming successful entrepreneurs and or small enterprise managers. Essentially this involves ensuring that all people are afforded access to good quality basic education as well as education that develops business and entrepreneurial skills. The public sector also has a key role to play in ensuring that the enabling environment needed for small enterprises to flourish is created. This is more likely to require action by national and local government than provincial government. However, provincial governments could play a key role in encouraging both national and local governments to implement regulatory reform.

The provincial government also has a major role to play in facilitating a dynamic small enterprise market. This implies two things. Firstly, the provincial government could play a key role in ensuring a flow of information to small enterprises. In implementing this provincial governments need to develop a decentralised network of public and private information access points. Secondly, provincial government could play a major role in facilitating business development service market development. As discussed above this implies a rethinking of the role of government. Instead of delivering services the government (national, provincial and local) needs to support BDS market development at arms length. Its role is primarily a supporting one, through, for example, funding specialist non-government. Private organisations play the role of BDS facilitator.

## Appendix 1: Provincial Government Support for Small Enterprise

This appendix provides more detail on the three discussion processes undertaken with policy-makers and small enterprise stakeholders in Gauteng, KZN and the Western Cape.

In Gauteng Blue Catalyst, the Blue IQ project funded by local and provincial government, hosted a discussion involving a wide cross-section of people from the corporate, small business, small-business support, research and government sectors. This discussion focussed on a range of key questions concerning the promotion of entrepreneurship within the province. These included access to finance, the role of education, the nature and effectiveness of government support for entrepreneurs and the role of regulation.

In KZN the provincial head of the Department of Economic Development and Tourism, Mel Clark, enthusiastically supported the process of initiating and leading discussions on how best the provincial government could support entrepreneurship. In addition to individual discussions with the DEDT in KwaZulu-Natal, the primary component of this discussion was a seminar hosted and organised by the KZN DEDT.

In the Western Cape, although the provincial government was supportive of the idea of hosting a seminar to address the role of the provincial government in supporting entrepreneurship, it was not practical to arrange this because of time constraints. However, the author of this paper was involved as a consultant in preparing a microeconomic strategy on promoting small business in the Western Cape. Consequently this work provides a basis for discussing the existing and proposed measures to support small businesses in the Western Cape.

### **Gauteng**

The discussion in Gauteng took the form of a 'thought dinner' in which delegates from the private sector, government and research community divided into various discussion groups. These included:

- Government assistance to entrepreneurs;
- Finance for entrepreneurs;
- Education for entrepreneurship;
- Communication and research for entrepreneurship; and
- Regulation and entrepreneurship.

Key findings from these discussions are summarised in Table 8.

**Table 8: Key findings from the Gauteng forum**

<b>Government assistance to entrepreneurs</b>	
Awareness	Entrepreneurs are not aware of the assistance that is available nor are they aware of how to access it. Much better marketing of what government offers, which businesses can benefit from government support and how to access government support is needed. Although some organisations like BRAIN play an important role, lack of access to Internet limits many people's access to information about government programmes.
Staff	The interface between agencies supporting entrepreneurs and entrepreneurs is poor. Staff employed by agencies supporting entrepreneurs need to have the knowledge and experience to support entrepreneurs and need to be sensitive to entrepreneurs' needs. Training of these staff is important. Levels of service and efficiency in government agencies need to be improved.
Complexity	Support offered to entrepreneurs is complex and needs to be simplified.
Location	The location of support is important. Rather than being national, government support needs to be located where businesses are. Therefore support needs to be clustered at local levels around specific industries.
Incentives	Incentives such as land grants, incentives to employ labour (e.g. in Canada government contributed to new labour costs), tax incentives for immigrant entrepreneurs are necessary.
Mentoring	Mentors could play an important role. They need to have experience in the industries in which they are mentoring. Successful US and UK programmes use experienced business people to mentor new market entrants on a sector-specific basis. Retired people with appropriate skills need to be used as mentors with the aim of transferring skills to emerging entrepreneurs.
Co-ordination	The government offers various programmes but there is little coordination between them. Identifying which programmes apply to which (kinds) of business is difficult.
Rural reach	Government's support lacks rural reach. Although the Local Business Service Centres were a good initiative they lack the resources and capacity to deliver on their mandate. The government should consider using existing infrastructure like schools, etc. and establish mobile support clinics that follow predetermined routes and timetables and are staffed by people who can help local entrepreneurs.
<b>Key recommendations</b>	<ul style="list-style-type: none"> <li>▪ A co-ordinated and simplified set of programmes that is easily identifiable and easily accessible.</li> <li>▪ Improve the efficiency, understanding and service delivery by people in government agencies who deal with entrepreneurs.</li> <li>▪ National reach but focus on local and industry needs.</li> <li>▪ Use mentorship programmes to transfer skills to emerging businesses.</li> </ul>
<b>Financial assistance to entrepreneurs</b>	
No need for state finance institutions	SA has abundant private finance and therefore funding from donor organisations should not be necessary. Furthermore, many donor organisations are becoming reluctant to make payments to organisations in SA because of mismanagement of funds and a failure of the organisations to actually support small businesses.
Not every idea should be funded	There is pressure to finance ideas regardless of financial or commercial viability. This distorts the market, sends the wrong signal to would-be entrepreneurs and results in high failure rates. Commercial viability needs to be the primary criteria for lending to small businesses.
Distinguish between welfare and entrepreneurship	This is blurring the distinction between 'entrepreneurship' and 'welfare' and placing pressure on commercial banks to fund businesses that are not viable. Strategies for supporting small and medium enterprises must be distinct from those to support survivalist micro enterprises.
Facilitate saving	Accumulating savings as a first step to gaining access to finance is something that should be encouraged through the development of second- and third-tier banks such as co-operative banks.
Banks are poorly geared to deal with small / emerging businesses	Commercial banks are poorly equipped to deal with entrepreneurs and small businesses. They need to embark on change to ensure that they are better able to provide a service to entrepreneurs. This means developing new ways of assessing and taking on risk and lowering transaction costs.

The mind-set of banks needs to change.	Banks need to be encouraged to take on more risk in the small enterprise sector. To achieve this they will need to reduce transactions costs associated with dealing with small businesses. The government could look at subsidising transaction costs associated with small businesses, in particular costs associated with business support to small businesses benefiting from loans.
<b>Key recommendations</b>	<ul style="list-style-type: none"> <li>▪ Distinguish welfare from entrepreneurship and have separate strategies.</li> <li>▪ Ensure that commercial viability is the key criterion used in providing finance to small businesses.</li> <li>▪ Facilitate personal savings through the development of second- and third-tier banks.</li> <li>▪ Improve the capacity of banks to deal with small businesses by looking at reducing transaction costs associated with lending to the small-business sector.</li> </ul>
<b>Education and training</b>	
Education system	The whole education system needs to be reoriented to be less 'rote-learning' and more 'entrepreneurial' in orientation.
Entrepreneurship education	Entrepreneurship education should take place at all levels in schools, tertiary education and ongoing adult education.
What skills are required?	Entrepreneurship education needs to develop a mix of skills. Business skills include understanding trading, marketing, business management, and business economics. More general and entrepreneurial skills include creativity, problem solving, and an appetite for risk.
Integrate entrepreneurship into other courses	Entrepreneurship needs to be integrated into other courses so that everyone learns entrepreneurial skills and so that entrepreneurship is seen in the context of what people are studying (e.g. engineering).
Link education to real world	Theoretical training is useful but only goes so far. It is important that entrepreneurship education links to the real world. Ways of achieving this include: <ul style="list-style-type: none"> <li>▪ Drawing on family experience of entrepreneurship.</li> <li>▪ Drawing on role models to expose learners to real-world entrepreneurs.</li> <li>▪ Using role-playing/business games to allow learners to develop practical skills in starting and running a venture.</li> </ul>
Compliance	There is a need for education and training in terms of dealing with 'red tape' associated with running a business.
Mentorship programmes	Mentorship programmes can play an important role in developing entrepreneurial skills. One suggestion is to develop a group mentorship programme – where mentors work with a group of entrepreneurs solving common problems.
Technical skills	Entrepreneurial success requires strong technical competency. There is a strong expectation that the youth will take on a big role in starting businesses but no mechanism exists to enable access to skills (via mentors) or to develop skills (through an apprenticeship scheme). One way of addressing this would be through a national 'venture creation learnership' scheme. The initiative should be aimed at developing a culture of entrepreneurship supported by funding. It should embrace an attitude that allows people to fail without the stigma of failure.
<b>Key recommendations</b>	<ul style="list-style-type: none"> <li>▪ Education must: <ul style="list-style-type: none"> <li>○ integrate entrepreneurship into all levels of schooling;</li> <li>○ develop business management skills but also entrepreneurial skills; and</li> <li>○ expose learners to practical entrepreneurship through role models and role-playing.</li> </ul> </li> <li>▪ Develop effective mentorship schemes and apprentice schemes to provide people starting businesses with the skills needed to start and run businesses.</li> </ul>

<b>Communication and research</b>	
Research needs	The government needs to collect/disseminate data over time on: <ul style="list-style-type: none"> <li>▪ Number of patents being registered each year (currently collected)</li> <li>▪ Number of companies formed and liquidated (currently collected)</li> <li>▪ Value of imports/exports (currently collected)</li> <li>▪ Unemployment (currently collected)</li> <li>▪ Number of people obtaining degrees and other types of qualifications (collected?)</li> <li>▪ How long it takes for a start-up to become cash-flow positive (unknown – requires longitudinal study)</li> <li>▪ How many times an entrepreneur fails before he succeeds (requires longitudinal study)</li> </ul>
Research needs	The government needs to track data on turnover, employment, contribution to GDP, and the start-up rate for the following market segments: <ul style="list-style-type: none"> <li>▪ Informal vs. formal</li> <li>▪ Small, micro, medium defined by turnover</li> <li>▪ Industry</li> <li>▪ Region (urban/rural, provinces)</li> </ul>
Use of data	The government needs to use data to determine the effectiveness of its incentives/policies.
Use of data	The government needs to use this data and data collected by private organisations to determine the skills needs of entrepreneurs.
Communication by government	Entrepreneurs don't know where to find help. There is a need for effective communication of government's policies and programmes.
Communication by financial sector	Entrepreneurs are not aware of where or how to access financial assistance. Banks and other lending organisations need to focus on communicating to entrepreneurs how and where to access financial support.
Awareness of entrepreneurship	There is to create awareness in the public about entrepreneurship by: <ul style="list-style-type: none"> <li>• focussing on the real people making money; and</li> <li>• using the media to communicate success stories.</li> </ul>
Alignment of national, provincial and local government	There is a need for national, provincial and local governments to align their communication strategies – currently they are all doing their own thing and sometimes working against each other.
<b>Key recommendations</b> Research Communication	Effective dissemination and use of data to guide government policy is needed. An effective communication strategy is needed so that entrepreneurs are aware of how to access (government and financial sector) support for entrepreneurs. This needs to be aligned across the different levels of government.
<b>Government regulation</b>	
Legislation / Regulation mentioned	The following regulation/legislation were regarded as having a big impact on small enterprises: <ul style="list-style-type: none"> <li>▪ Labour Relations Act</li> <li>▪ Company Act</li> <li>▪ Taxation</li> <li>▪ Occupational Health</li> <li>▪ Employment Equity</li> <li>▪ Skills Development Levy</li> </ul>
Importance of regulation	It was recognised that the regulation was important and that stable regulations provided a stable investor environment, but it's a question of balance.
Particularly onerous	Labour legislation in particular makes hiring/firing people difficult and this restricts growth and employment in small businesses.
A question of scale	The impact of legislation on businesses of different sizes varies. Small businesses have much less capacity to comply with legislation. Possible regulatory reforms were proposed: <ul style="list-style-type: none"> <li>▪ Exempting certain businesses from certain regulations/legislation;</li> <li>▪ Standardising and simplifying legislation; and</li> <li>▪ Implementing the Regulatory Impact Assessment.</li> </ul>

## **Kwa-Zulu Natal**

Together with Mel Clark, Head of the Department of Economic Development and Tourism, the consultant initiated a seminar to discuss how best to support small enterprises in KwaZulu-Natal. The seminar was held on 3 August 2004 and was hosted by the Department of Economic Development and Tourism. It was attended by representatives from the provincial government, the private sector, the academic community, organisations working with small enterprises and financing organisations. The seminar included four presentations covering the following areas:

- An overview of entrepreneurial activity in SA (John Orford, UCT CIE);
- An overview of the DEDT's initiatives to support small enterprises (Mel Clark, DEDT);
- The role of finance in supporting small enterprises in KZN (Dana Moor, Ithala); and
- Providing effective support to emerging entrepreneurs (Protas Madlala, TBDC)

The following points emerged from the discussions:

### **Directions in DEDT support to small enterprises**

The provincial government's support for small enterprises has evolved from the early days when support was limited to a small-business desk. Provincial government support to small enterprises is now aligned with the Integrated Development Strategy. Within this strategy key sectors are being identified and small enterprises need to be supported within these sectors. Currently the DEDT has a programme funded by the EU which focuses on local economic development. This programme aims to identify opportunities at a local level and bring together stakeholders in realising these opportunities. The focus of this programme is to build capacity through partnerships rather than provide finance. Another key initiative being developed by the DEDT is a small-business knowledge centre which will be a comprehensive information centre for small enterprises. It aims to provide information and build effective networks between government, private sector, non-government agencies and small businesses. Black economic empowerment is also seen as a key driver of small-business support with procurement and other policies being used to support black-owned small enterprises.

### **Education**

The GEM study highlighted the importance of education in developing an appropriate skills base to develop successful entrepreneurs. Preliminary evidence presented at the seminar suggests that programmes like the Business Ventures Programme offered by the SA Institute for Entrepreneurship (SAIE) do have a positive influence on developing: entrepreneurial self-confidence, understanding of business skills and a commitment to continued education – all highly desirable outcomes. However, despite curricula reform many schools do not teach the entrepreneurship components of Economic Management Sciences (EMS). The main reason for the failure to implement the EMS syllabus is lack of capacity in schools, especially in rural areas and in poorer schools.

### **Capacity-building**

While effective school programmes are important in developing a better supply of people with the skills and attitudes needed to start and run businesses, there is a strong need to develop capacity within those who are already starting and running small businesses. Effective capacity development was seen as a key means of reducing financial risk associated with supporting small businesses. The GEM presentation suggested that financial support was less important than financial skills development in key areas such as cash-flow management. This was echoed by the presentation from Ithala and TBDC, both of which stressed the importance of skills development.

One key mechanism for effective skills development and risk reduction discussed and recommended by the seminar participants was the use of mentors. These need to be experienced and empathetic people, possibly retired business people, who are recruited to support small and emerging entrepreneurs. Aligning mentors and entrepreneurs was seen as a key way of reducing risk in programmes which included a loan/grant element. It was stressed that mentors need to be experienced and capable. Many mentor programmes have failed because they rely on mentors with little or no business acumen.

Key areas where training was needed were identified in the seminar – financial management; marketing; and 'how to' aspects of running a small business. Integration of capacity-building and financial support were recommended.

### **Financial support**

A number of speakers touched on the importance of financial support. The GEM findings suggest that financial support is an obstacle to starting businesses, but that SA does not appear to be worse off in this respect than other countries included in the GEM study. Perhaps then the finding that access to finance is a problem simply reflects the inability of formal financial institutions to quantify risk in start-ups and/or their unwillingness to carry the large transaction costs associated with lending to small and possibly low-potential enterprises. However, the GEM study also found that in a survey of black-owned small enterprises, financial management practices implemented in the firm were strongly associated with the degree of vulnerability of the firm and the firm's ability to access bank finance. Therefore, the GEM findings suggest that a key focus of financial support should be on developing the financial management capacity of small enterprises.

Other presentations endorsed this view. Ithala suggested that programmes to support small enterprises should not compromise on the importance of financing institutions implementing adequate risk management. The seminar therefore focussed on measures that could mitigate risk and thereby increase the potential for small enterprise owners to access financial support. Suggestions included: effective capacity-building to improve business performance, financial management training, the use of mentorship programmes, and integrating access to finance with other support that helps the business grow.

### **Small enterprise forum**

Mel Clark, the head of the DEDT, concluded the seminar by suggesting that the DEDT convene a forum of people with a strong interest in supporting small enterprises. The purpose of this forum would be to continue the discussion initiated in the seminar and to develop concrete actions to implement effective support for small enterprises. It was envisaged that this forum would include representatives from the business community, the business support community, the research community and provincial and local government. The DEDT agreed to convene this forum in the next three to four months to discuss how to proceed with implementing effective support for small enterprises.

### **Western Cape**

Although the Department of Economic Development and Tourism in the Western Cape were sympathetic towards the idea of hosting a seminar along the lines of the KZNseminar, time constraints on their part meant this was not possible. However, the consultant was involved in preparing a report on provincial support for small enterprises. This work therefore forms the basis of a brief discussion on measures being initiated by the provincial government to support small enterprise in the Western Cape.

As in other provinces public support for small enterprises in the Western Cape has evolved from a small-business desk with limited capacity to deliver support. Since then the DEDT has developed a range of initiatives to support small enterprises. These include training and capacity-building, mentorship programmes and financial support programmes.

### **Provincial measures to support small business**

There are a range of departments within the provincial government of the Western Cape (PGWC) that support small businesses or have programmes which benefit small businesses. However, the overall mandate for small business promotion lies with the Department of Economic Development and Tourism. At provincial level the first initiative to support small businesses were the provincial SMME desks. These aimed to link national and sector programmes with local or regional implementation bodies and establish a comprehensive SMME database to inform national policy. In addition the PGWC has implemented a range of programmes to support small businesses in the Western Cape. Many of these programmes have been implemented via PPPs. These have included:

- **Business information, advice and support** (e.g. the Business Place, Business Beat, Big News, the Small Business Week, Library Business Corners, *Start Your Own Business* book)

- **Business planning and consulting** (e.g. UCT Graduate School of Business, Peninsula Technikon)
- **Training** (University of the Western Cape)
- **Financial support and mentoring** (e.g. CASIDRA, UCT Graduate School of Business)
- **Linking businesses to opportunities with bigger businesses** (e.g. South Cape Business Centre and Business Opportunities Network)
- **Procurement** (e.g. information on tender opportunities via tender advice centres)
- **Specialised business support** (e.g. Manufacturing Advice Centre)
- **Industry-specific support** (e.g. tourism sector programmes, Cape Craft and Design Institute supporting the craft industry; support to the film industry)

However, while some of these programmes have achieved some success they remain limited in scale and reach. The DEDT is therefore leading an ambitious programme to deliver an integrated programme of support for small enterprises that will encompass a wide range of services and will be delivered across the province. This programme is known as the Real Economic Development (RED) programme and will have at its centre RED DOORS.

RED DOORS are intended to be walk-in centres which provide the first port of call for all small enterprise owners or potential small enterprise owners. The primary functions of the RED DOOR are outlined in the table below. The RED DOOR will provide advice, initial diagnostics of the businesses needs, referral to appropriate service providers, quality control of service provision and follow-up and monitoring of the business. The fundamental objectives of the RED strategy and the RED DOOR service centres are to:

- Achieve scale and reach via having clearly branded single entry points throughout the province (it is intended that there will ultimately be 30 RED DOORS across the province);
- Provide the infrastructure needed for delivering government services, products and advice to businesses;
- Be proactive in identifying local business opportunities;
- Crowd in other players but ensuring quality control; and
- Ensure efficiency and quality by ensuring that young, competent staff with a dedication to public service staff the RED initiative.

In many respects the RED DOOR strategy mirrors, but precedes developments at a national level where Ntsika and Namac are being merged to form the Small enterprise Development Agency (SEDA). Both RED and SEDA are aimed at addressing problems of reach and quality that exist in the current small enterprise infrastructure. In this respect the RED DOOR will provide a very useful learning experience, which could guide the process of forming SEDA. It is also very commendable that provincial government and national government are co-operating on the implementation of RED and SEDA.

**Table 9: The RED DOOR Programme**

Client	RED DOOR	Service provider
1. Walk into RED DOOR 2. Obtain information 3. Obtain diagnosis 4. Obtain a plan for support	1. Diagnosis of client needs 2. Capture information in information system 3. Action plan to address business' needs 4. Link business to service providers 5. Accredite service providers 6. Monitor programme 7. Manage contracts with service providers 8. Information on opportunities 9. Skills development 10. Financial support	1. Provides agreed service

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