

# Review of Ten Years of Small Business Support in South Africa 1994 - 2004



Entrepreneurial empowerment, job creation  
and equity facilitated:  
An analysis of the evolution of public sector support  
for small enterprises in South Africa

November 2004



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## List of Acronyms

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BEE	Black Economic Empowerment
BRAIN	Business Referral and Information Network
CBO	Community-Based Organisation
CDE	Centre for Development and Enterprise
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
DPLG	Department of Provincial and Local Government
DTI	Department of Trade and Industry
FABCOS	Federation of Business and Consumer Organisations
FET	Further Education and Training
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
ISBDS	Integrated Small Business Development Strategy
JSE	Johannesburg Securities Exchange
LBSC	Local Business Service Centre
LED	Local Economic Development
MAC	Manufacturing Advice Centre
NAFCOC	National African Chamber of Commerce
NDA	National Department of Agriculture
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
NPI	National Productivity Institute
NSBC	National Small Business Council
PDI	Previously Disadvantaged Individual
PPP	Private-Public Partnership
SADC	Southern African Development Community
SBDC	Small Business Development Corporation (now "Business Partners")
SEDA	Small Enterprise Development Agency
SARS	South African Revenue Service
SME	Small and Medium Enterprises
SMME	Small, Medium and Micro Enterprises
TAC	Tender Advice Centre
TIPS	Trade and Industrial Policy Strategies
UCT	University of Cape Town

## Minister's Foreword

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### Minister of Trade and Industry – Mandisi Mpahlwa



It gives me great pleasure to present on behalf of the Department of Trade and Industry (**the dti**) the *Review of Ten Years of Small Business Support in South Africa 1994 – 2004*. In this review we assess public sector support for South Africa's small enterprise sector over the 10 years since the dawn of South Africa's democracy in 1994 and the 1995 White Paper, *The National Strategy for the Development and Promotion of Small Business in South Africa*.

The obstacles facing small enterprises in 1994, and in some cases still today, are grounded in the legacy of *apartheid* in the following ways:

- i. Bantu education restricted opportunities for the acquisition of technical and professional skills by black people;
- ii. There was total absence of entrepreneurial education or sensitising young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship;
- iii. *Apartheid* confined the majority of African people to homeland areas which were not only the poorest in terms of living standards and business opportunities but also lacked a dynamic business environment;
- iv. Even outside the homelands, the system of *apartheid* made it impossible for black would-be entrepreneurs to participate in business apprenticeships and partnerships with more established (non black-owned) enterprises;
- v. Racially segregated residential areas enforced through the Group Areas Act uprooted millions and led to large capital losses, thereby destroying the fabric of black small enterprises;
- vi. Segregation increased the distance between black residential and working areas, thereby increasing the cost and risk of conducting business;
- vii. The drastic curtailment of property ownership rights of blacks made it impossible for them to acquire assets that could serve as collateral for loan financing;
- viii. *Apartheid* left no real space for the business involvement of black women, while marriage laws reduced women to unions with no contractual capacity at all.

This then was the social, political and economic context within which **the dti** sought to marshal resources to drive the creation of a dynamic and growing small enterprise sector. The challenges were daunting, not least because the small business policy environment was already cluttered with racially-based institutions and policies, but also because of the enormous expectations of all South Africans desiring a better life for all. It is therefore no surprise that there are divergent views on the success or failure of Government's small enterprise policy.

We acknowledge and accept many of these criticisms – there is always room for improvement – but we believe that much good work has been done. A solid foundation of support services has been established, key institutions have been created and developed, policy co-ordination *within* government at all tiers and *between* government and the private sector has improved immensely, and the role and importance of black women entrepreneurs are now established as a crucial element of our economy. We remain undaunted by the scale of the challenge of providing

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support to the more than two million small enterprises currently active in our economy. Our institutions *will* function more effectively in the future, our increasingly ‘joined-up’ Government *will* co-ordinate initiatives better and our policy framework *will* be fine-tuned to remain responsive to the changing needs and context of small enterprise support. The new Integrated Small Business Development Strategy (ISBDS) to be launched shortly will ensure that these essential improvements become a reality.



**Minister of Trade and Industry**

## Executive Summary

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For South Africa's small enterprise sector, the last 10 years have been full of excitements, challenges, disappointments and transformations. The close interaction of political, social and economic changes is felt particularly strongly at the grass-roots level of small and micro enterprises – in the townships, in city centres, in the new upmarket shopping malls and in backyard industries. At the same time, small enterprises could not be shielded from the impact of global economic and technological transformations as well as the rise in competition in virtually all sectors, places and operational spheres which South Africa experienced after its reintegration into the global economy.

This report reviews public sector support for South Africa's small enterprise sector over the 10 years since the political change of 1994 and the 1995 White Paper, *The National Strategy for the Development and Promotion of Small Business in South Africa*. The goal of this report is to put the challenges and developments into perspective by relating them to a decade of institutional, policy-shaping and implementation *evolution*, which brought South Africa to its present 'integrated approach' for small enterprise support.

At the outset of any review of public sector support for small enterprise development, it is important to acknowledge that SA's first democratically elected government did not start with an uncluttered policy 'slate'. The small enterprise support (institutional) environment was already cluttered with a range of racially-based institutions, including the Coloured Development Corporation and a variety of 'homeland' equivalents. Thus the first few years after the release of the Small Business White Paper were characterised by mandate clarification and institution-building exercises, especially for the new institutions such as Ntsika Enterprise Promotion Agency, Khula Enterprise Finance Limited and the National Small Business Council (NSBC). Moreover, these exercises took place during a time of rapid policy development in areas such as the macroeconomy, trade reform (South Africa's accession to the World Trade Organisation and associated managed tariff liberalisation) and industrial policy, coupled with a slowdown of economic growth, particularly in the late 1990s.

Within this context, two key developments in South Africa's small enterprise sector stand out. First, the sector has grown strongly and probably doubled in size over the decade. Secondly, small enterprises have become increasingly sector-differentiated. Even in sub-sectors with traditionally strong small enterprise representation, the differentiation of activities has continued, with the focus of individual enterprises becoming more and more diverse. This trend has also spread into informal sector and survivalist activities, with the operational, technical and market challenges of each niche differing significantly from others.

This mushrooming of different sub-sectors with small enterprise involvement had, and indeed still has, a number of important implications for South Africa's small enterprise support efforts.

- It suggests that standardised or generic support strategies and programmes are increasingly insufficient. Sector-focused or adapted programmes are needed and have to be developed and implemented.
- Greater sector differentiation broadens the range of opportunities for emerging or start-up entrepreneurs. Thus three forces – black economic empowerment (BEE), economic growth and market differentiation – expand the range of small enterprises.

- It strengthens the need for comprehensive information about the full range of existing or evolving sectors with a strong small enterprise presence.
- Finally, it reinforces the need for public-private partnerships (PPPs) to give due attention to all the details and characteristics of new niches or sub-sectors. As such it also increases the need for Government to decentralise its support efforts in order to adapt them fully to sub-sector requirements, which often differ substantially in different places or parts of the country.

Once we realise fully just how large the existing number of small enterprises is, how many are started each year (and how many fail) and how diverse the sector structure is where small enterprises of different sizes are operational, we also start to appreciate the enormous challenges facing public sector efforts to support the small business sector effectively.

Thus, if public sector efforts do not reach or satisfy a particular firm or niche, it does not necessarily imply incompetence, inability or unwillingness on the side of service suppliers. In fact, we have to realise that even successful support programmes can only trigger positive effects – they will seldom be able to reach or ‘cover’ all those that need or might feel entitled to assistance. This again suggests a catalytic role for small enterprise support through the public sector, with broader private sector responses widening the momentum. This review suggests that just such a catalytic role for public support programmes (leading to much broader-based private sector initiatives and business development services) can already be identified in fields like improved access to finance, markets and training. Respect for the vast and increasingly diversified structure of the small business sector should also strengthen the realisation that an integrated, co-operative approach towards service delivery and public sector support is essential for a country as complex as South Africa.

In general, we find that the decade has been characterised by the systematic and profound expansion of small business support services through both private and public service suppliers. Ntsika and Khula have been the two bodies most directly involved in a certain range of financing and non-financial support programmes, but they only cover a limited range of support and a limited number of clients. Of greater importance has been the diversification of support agencies and programmes, as a result of which a far greater number of small enterprises can now be reached and a far wider range of services offered.

This mushrooming of bodies and support programmes has also had its shortcomings. These relate to the lack of co-operation, the duplication of services, insufficient depth and professionalism among the staff of support agencies, and an almost erratic spatial coverage of needs. These shortcomings are among the reasons for current attempts to establish tighter national, regional and local frameworks for the delivery of core services, so that they can reach and satisfy basic needs of entrepreneurs in all parts of the country.

The costs and sometimes unintended consequences of legal and regulatory compliance by small enterprises have recently become burning issues for policy-makers and practitioners alike. Public sector support in this area has been of a facilitative nature, with Ntsika undertaking an in-depth regulatory review in 1999 and **the dti** successfully implementing most of the recommendations and co-ordinating with other government departments to ensure that they, too, are aware of the impact of their regulations on the small enterprise sector. Looking back on a decade of increasingly wide-spread debate about these issues, there can be little doubt that progress is being made in finding

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compromises about sustainable levels of controls *and* deregulations. The range of participants in these negotiations is very broad, which makes the process slow, but there is no alternative that is likely to provide quicker *and* more acceptable compromises.

This review shows that 10 years of development of small enterprise support, guided by the framework of the 1995 White Paper, have led to a broad-based system of private, public and PPP programmes focusing on the wide range of needs of South Africa's approximately two million small, medium and micro enterprises. Sometimes this system of support has not evolved flexibly enough or on as great a scale as the need for these services, and this remains cause for concern. However, it is also clear that the broadly facilitative role played, and implementation space provided by, the public sector remain crucial for small enterprise development. A solid foundation has been laid, but ramping up support (through whatever channel) and focussing it more precisely are the challenges for the next decade.



## 1. Introduction

For South Africa's small enterprise sector the last 10 years have been full of excitements, challenges, disappointments and transformations. The close interaction of political, social and economic changes is felt particularly strongly at the grassroots level of small and micro enterprises – in the townships, in city centres, in the new upmarket shopping malls and in backyard industries. At the same time, small enterprises could not be shielded from the impact of global economic and technological transformations as well as the rise in competition in virtually all sectors, places and operational spheres which South Africa experienced after its reintegration into the global economy.

Against this background, public sector support for small enterprises (to facilitate their emergence, profitability and growth) takes an important place in the broader spectrum of the government's socioeconomic policies. What is more, the perceived "success" or "failure" of such support has significant political impact.

This report reviews public sector support for South Africa's small enterprise sector over the 10 years since the political change of 1994 and the 1995 White Paper on *The National Strategy for the Development and Promotion of Small Business in South Africa*, as a prelude to the 2004 restatement of South Africa's ISBDS, which is summarised in a separate document.

The goal of this report is to put challenges and developments into perspective by relating them to a decade of institutional, policy-shaping and implementation *evolution*, which brought South Africa to its present "integrated approach" for small enterprise support.

In this review, which is also complemented by the 2003 *Annual Review of Small Business in South Africa*, the main focus falls on support strategies of the national government. This, however, cannot be evaluated in the absence of an understanding of the evolving commitment of provincial and local authorities, as well as parastatals, to assist and support small enterprise development in South Africa. More importantly, the review is based on the understanding that private enterprises, interest groups and business-development service suppliers also play a crucial role in the overall facilitation of small enterprise development in the South African economy. In fact, the smooth interaction and complementarity of private and public support efforts stand out as one of the most important goals of our future small enterprise strategy.

The last few years have seen several "reviews" and assessments of South Africa's public sector support programmes and strategies, prepared by public authorities and by independent researchers (*Box 1 lists some of these*). In fact, a deeper understanding of particular programmes and their performance is necessary to reach an objective view of the evolution of the new integrated strategy.

## Box 1 Reports evaluating South Africa's small enterprise support strategy

During the past five years a number of studies have been commissioned by **the dti** and its partner organisations to assess progress with small business support. Lessons learnt from these reviews and their recommendations have been incorporated in this report. The following were the key reports:

- Mid-term Evaluation of the National Strategy for the Development and Promotion of Small Business in South Africa, September 1999
- Mid-term Review (Annex): Results of Provincial Consultations and Interviews, May to June 1999
- Fostering an Entrepreneurial Culture in South Africa, 1999
- Review Study: Access to Finance for SMMEs, **the dti**, February 1999
- The National Small-Business Regulatory Review, Ntsika, June 1999
- Economic Development and Employment Promotion in South Africa, GTZ, October 2000\*
- Incentive Schemes with Relevance to SMMEs in South Africa, GTZ, July 2001\*
- Trade and Development Programme for Small, Medium and Micro-Enterprises, Second Annual Report, EU/Ntsika, July 2000
- A National Integrated Black Economic Empowerment Strategy, BEE Commission, 2001
- The Economics of SMMEs in South Africa, Trade and Industrial Policy Strategies (TIPS) report, December 2002
- An Integrated Manufacturing Strategy for Competitiveness, Employment and Equity in a Global Economy, revised draft, March 2002
- Refocusing Development on the Poor: Local Economic Development (LED) policy paper, Department of Provincial and Local Government (DPLG), February 2002

*For summaries of some of the above see Ntsika's annual "State of Small Business in South Africa".*

\* Donor-agency-commissioned studies

## 2. Strengthening Legitimacy and Inclusiveness

Support for small enterprises existed in South Africa long before 1994, practised through the national Government Department of Trade and Industry as well as the Small Business Development Corporation (SBDC), the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC) and a whole range of regional development corporations. In a commissioned study, the Centre for Development and Enterprise (CDE) documents these efforts during the 45 years between 1949 and 1994, and critically reviews the effectiveness of key strategies, policies and programmes.\* In fact, some of the support action can even be traced back to the first part of the 20<sup>th</sup> century, when rapid urbanisation and the world depression put pressure on Government to step up job creation and poverty alleviation among its particular (white) constituency.

\* CDE, Small Business and Entrepreneurship Promotion in South Africa, 1949 to 1994, Cape Town: 1999

Since political legitimacy and unity of government were only achieved in 1994, it is logical to take that year as the start of South Africa's "national" strategy for small business support, even though many of the implementation agencies were already active before 1994. Some operated at national level, whereas others had evolved out of the racial fragmentation of South Africa's development strategy, including a whole range of "homeland" institutions, or African-, Coloured- and Asian-focussed support agencies. Thus, during the 1980s, the newly established SBDC incorporated ethnically structured bodies like the Coloured Development Corporation and its Indian equivalent, but it was initially not allowed to operate in the "black homeland areas".

It follows from the above that, as in so many other fields of public sector involvement, the decade of small enterprise support started with everything but a "clean slate". Even the White Paper issued in March 1995 had been preceded by a number of widely discussed position papers outlining the needs, goals, options and implementation challenges of a "new" small enterprise support strategy.

The strategy had postulated the establishment of a number of new (national) organisations – the National Small Business Council, a Small Business Development Agency (SBDA, later called Ntsika Enterprise Development Agency, or just Ntsika), a finance agency (later called Khula Enterprise Finance) and a national grid of "local service centres" (which became known as Local Business Service Centres or LBSCs), as well as a set of "Provincial Small Enterprise Desks" within the respective provincial governments.

The first two years after the release of the White Paper were overshadowed by institution-building exercises. Naturally, this meant a postponement of the delivery phase, which had been foremost in the minds of many South Africans. Besides, the transition from status quo to "new start" and "implementation" was further complicated by the necessary transformation of existing small enterprise support agencies – the SBDC, the "homeland" corporations and other bodies. Inevitably, this also affected the delivery of support services negatively.

In order to maintain the momentum and further strengthen the legitimacy of the new approach, "The Second National Conference on Small Business" was held in Durban during 1997. At that stage, the focus of proceedings fell on the role of local authorities in the support of small enterprises – a dimension covered only superficially in the White Paper. Against the background of the often tedious institution-building process during the mid-1990s, expectations at the second national conference were more subdued although full commitment was still evident towards the national strategy and the partnership between the different segments of the public and private sectors.

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Soon after the 1997 conference, delays in institutional adjustments, reports of rather unequal performance levels of (some of) the new support bodies, the slow spread of the national LBSC grid, and perceived capacity constraints at provincial and local authority levels led to a series of review processes and the release of some high-profile review reports during 1999/2000 (*listed in Box 1*).

Parallel to these reviews, the small business sector became increasingly affected by other far-reaching reform strategies of the new government. These included trade liberalisation, the integrated manufacturing strategy (as well as other sector strategies), and a new approach towards LED and BEE.

To further complicate the situation of South African small enterprises, economic growth slowed down during the mid-1990s and the national business environment turned less sympathetic towards small enterprises.

As the following sections will indicate, a more objective view of the last 10 years of implementation of the White Paper should include:

- Reflections on what actually happened to small enterprises in South Africa over the past 10 years – the quantitative dimension of “development”;
- An understanding of the evolving, often complicated, relationship between South Africa’s three tiers of government and how this shapes the process of small enterprise support, which falls squarely into all three spheres;
- Awareness of a world-wide shift from government-supplied support to government-facilitated business development services, without government shedding its responsibility to “drive” and co-fund the process;
- Some understanding of the extremely complex nature of South Africa’s small enterprise sector, with its stark geographic, sectoral, size and other differences; and
- A realisation of the often difficult challenges inherent in institutional changes, where service delivery has to reach all corners of the country and vastly differing types of enterprises.

The ISBDS, which constitutes the outcome of this decade of institutional, policy/programme and implementation evolution, and which is captured in a separate report, goes much further than the visionary White Paper of 1995. Yet, at the end of this decade, three of the most important principles of the new approach have been met:

- The process of strategy formation, institutional transformation and programme expansion is indisputably legitimate, being linked to political and other consultation processes at all three levels of government;

- The process now has a high degree of inclusiveness, in as far as all the different segments of the small enterprise sector have over the decade had the opportunity to highlight their concerns, have been able to make inputs into the planning process and have a voice in different consultation processes; and
- The policy evolution has been shaped increasingly by the prioritisation of BEE and affirmative action, job creation and poverty alleviation as the three underlying concerns of all support strategies.

### 3 Diversification and Growth

In line with modern thinking about the assessment of market interventions, the most critical question underlying this section and the review in general is the “pay off” in small enterprises established, jobs created and/or turnover generated through the funds channelled via public support programmes. Unfortunately, the fundamental problem of multi-causality, a general lack of consistent statistical time series on small enterprises and other measurement issues make this difficult. At the same time, a closer look at the different types and categories of small enterprises and at broadly discernible trends and development patterns make it possible to draw firm conclusions about the dynamics of a decade of small business growth in South Africa, viewed against the broader context of South Africa’s long-term economic growth and development.

Statistics underlying the following sub-sections have been derived from official Statistics South Africa releases, Department of Labour data, research reports compiled by Ntsika and TIPS, from the Global Entrepreneurship Monitor reports prepared by the Centre for Innovation and Entrepreneurship at the University of Cape Town and from *ad hoc* studies, as well as the 2003 *Annual Review of Small Business in South Africa*.

#### 3.1 Categorisation of small enterprises

The 1995 White Paper identified three main sub-groups within the small business sector, – micro enterprises, small enterprises and medium-sized (together usually abbreviated as SMMEs) – suggesting that there were (in the early 1990s) “more than 800,000 small, medium and micro enterprises in the country, absorbing about a quarter of the labour force of 15-million people” (White Paper, section 2.11). It also referred to *survivalist enterprises*, defining them as “activities by people unable to find a paid job or get into an economic sector of their choice”, that is, people whose activities cannot be viewed as sustainable micro enterprises, even though many of them may eventually achieve such a position. The approximately 3.5-million people “absorbed” in such activities (or about 1.4-million “enterprises”) would have to be added to the 800,000 SMMEs referred to earlier.

The National Small Business Act of 1996 further refined these categories by stipulating employment, investment and turnover bands for each category, as well as further differentiating for a whole range of economic sectors. This was felt to be necessary in order to limit the access of small enterprises to differentiated support programmes, although in practice these bands have seldom been used. (*For details see the 2003 Annual Review of Small Business in South Africa .*)

Later updates of these categories introduced a further category of *very small* between “micro” and “small business”, mainly on the basis of employment provided by these firms. A more general categorisation, which has over the years elicited intense debates, distinguishes between *formal* and *informal* businesses, with aspects such as registration of the business at local authority level, tax (VAT *et al.*) compliance, statistical capturing and use of formal business premises as differentiating criteria. Since official employment statistics usually cover only 40% to 50% of the labour supply (labour force) and “unemployment levels” of 40% or more seem quite unrealistic in world comparisons, we realise that hidden in the “informal sector” is a complex mix of business activities, many of which fit broad descriptions of small or micro enterprises. In fact, the recent introduction of the concept of “the Second Economy” may be a useful way of highlighting the significance of this segment and the urgent need to undertake more in-depth research into the size, structure and dynamics of these activities.

The “two economies” concept denotes a situation where one part of the population is included in the global economy and another part – through lack of education, relevant skills and other exploitable assets – is excluded.

The “First Economy” is modern, integrated with the global economy and produces the bulk of the country’s wealth. The “Second Economy” (or the marginalised economy) is characterised by underdevelopment, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the First and the global economy, and is incapable of self-generated growth and development. Its contribution to the growth domestic product (GDP) is also often “unseen”.

The “Second Economy” is also a condition of exclusion that tends, on its own, to be self-perpetuating, as parents often do not have the skills to elevate their children out of the “Second Economy”. However, being in the second economy is not defined in class terms – many members of the working class are fully part of the “First Economy”. Also, being part of the informal sector does not necessarily place one in the “Second Economy”, as many informal sector businesses are fully intergrated into the “First Economy”.

The two economies need different strategies but transforming the “Second Economy” requires transfers from the “First Economy”. Moreover, the “First Economy” is unsustainable without the integration of the “Second Economy”.

Given the scarcity of public sector resources with which to fund small enterprise support, it became increasingly clear in the years after 1994 that prioritisation of target categories was necessary. While the White Paper accepted all four of the identified small business categories as significant, only highlighting the need for particular attention to historically disadvantaged entrepreneurs, during the past decade the emphasis gradually shifted towards three particular categories:

- **Mainstream SMEs** include formal small and medium-sized enterprises (ranging from between two to five and about 200 employees) in sectors like retailing, manufacturing, agriculture, private transport services, construction, tourism and personal as well as professional and business services. Public support for these enterprises is to be limited to basic services and BEE efforts, unless there are specific justifiable reasons for additional support, linked to sector trends, locational disadvantages or job creation needs.
- **Small-scale operations** in (globally competitive) growth sectors have evolved as an important second category, since they are critical for economic development and growth. They include sub-sections like Information and Communication Technology, fashion wear, jewellery design and production, biotech processes, tourism services, and sophisticated professional and technical services. Although often small in size at the outset, success of these firms can lead to important multiplier or cluster effects in the growth process.
- **Survivalist micro enterprises**, which cover self-employment as well as enterprises with one to five employees, form the third category. The required support has to be a combination of poverty alleviation, efforts to create jobs and enterprise support.

It should be clear that the focus on these three segments of the vast “small business universe” significantly narrows the nature and prioritisation of support programmes, in fact, the whole evolving strategy. The review of support programmes in section 5 will reveal this in some detail.

### 3.2 Small enterprises in macro perspective

Based on the sources mentioned earlier, we can summarise a few significant ratios and trends about the current dynamics of the small enterprise sector in South Africa.

- Combining formal and informal sector activities, the small enterprise sector includes about 95% of all enterprises in South Africa, which is in line with international trends and which is unlikely to change significantly over time.

- On the basis of the most inclusive categorisation (covering non VAT-registered firms and those regularly operating in the informal sector) there are currently between 1.8-million and 2.5-million “small enterprises” in South Africa. This number probably doubled over the past 10 years, which is equivalent to a 7% increase in numbers per year. If we include rural subsistence agricultural activities, the size of this sector can grow by a further 1.5-million to 2.5-million, even though average income levels of that segment are very low.
- If we adjust gross domestic product (GDP) values to incorporate informal sector value-added, the small enterprise sector of South Africa contributes about 45% to 50% to the GDP, with the share probably rising very slowly. The other half is contributed by large enterprises and the public sector.
- On the employment side, small enterprises absorb between 50% and 60% of the formally employed labour force, and up to 75% if we include all informal activities and self-employment categories in the total. Due to far-reaching structural adjustments in the capital-intensive larger enterprises, the employment share of small enterprises has increased over the decade. In fact, the steady increase of the small enterprise share in order to reduce unemployment is one of the fundamental goals of all support efforts.
- The number of formal (and informal) businesses per 10,000 of the population ranges from a high of 2.1 (6.5) in Gauteng to a low of 0.2 (4.9) in Limpopo province, 0.3 (3.2) in the Eastern Cape and 0.3 (4.6) in the North West province, with the Western Cape relatively high at 1.6 per 10,000 in the formal sector and low at 2.3 in the informal sector.
- The number of new private companies (Ptys) and close corporations registered every year has increased steadily over the past 12 years, reaching about 20,000 Ptys and 100,000 close corporation during recent years. Indications are that up to 33% of these enterprises are not active.
- On the basis of recent Labour Force Survey data, about 66.7% of formal sector employers and self-employed in South Africa are white, compared to 21.3% been African, 5.2% Coloured and 6.9% Asian. In sharp contrast, the ratios are the opposite with respect to informal sector involvement (Africans 68.2%, Coloured 4.0%, Asians 3.2% and whites 24.4%). Although the imbalance with respect to formal sector African involvement is slowly decreasing, the immense challenge is clear.
- The gender imbalance is relatively less, with 74.7% of formal sector employers or self-employed and 46.2% in the informal sector being male. The latter low

ratio signals the important role of women in the informal sector. About 76.5% of informal enterprises run by women are in the trade sector, compared to 58.4% in the case of men.

- Available (limited) information on age-differentiated entrepreneurial activity rates suggests a relatively low rate for the age group 18 to 24 years, in particular if Gauteng and the Western Cape are excluded.

In as far as time series are available for (part of) the past decade, there can be little doubt that virtually all these ratios are moving “in the right direction”, that is, a higher GDP and employment share of small enterprises, an increase in African entrepreneurial participation in the formal sector, an increase in the participation of women, and an absolute increase in formal sector SMEs.

Information on other important trends is even more difficult to obtain, although the trends would seem to be non-disputable, for example small enterprises’ share in exports is rising steadily, and the same should apply to the tax ratio.

### **3.3 Long-run structural changes in South Africa’s small enterprise sector**

To get a proper perspective on structural changes during the past 10 years and on the next 10 to 15 years, it may be useful to reflect briefly on a number of even longer-term development trends in South Africa’s economy and its small business sector.

In the early decades of the 20<sup>th</sup> century, Afrikaner urbanisation also created major problems of unemployment, urban poverty and high small enterprise failure. An expanding public sector, expanding private enterprises and protective policies *vis-à-vis* the other racial groups helped Afrikaners to face economic challenges. It was really only after World War II and the achievement of political dominance that Afrikaner small enterprises increased in number and relative significance.

Similar trends are visible in South Africa’s African community. Absorption in the public sector and in larger enterprises has been rapid during the early phase of transition, while slower progress marked the start-up of new black-owned and managed-enterprises. After a decade of wide-spread income increases, a rapid expansion of the black middle class is likely to stimulate the formation of new black-owned enterprises in the years ahead. Several symptoms confirm such an expected acceleration of (black) business start-ups:

- South Africa’s “Second Economy” has been expanding rapidly during recent years, with many informal operators likely to advance into formally established, growing enterprises.

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- Many of those currently advancing as employees in the public as well as the corporate sectors are likely to want to shift towards self-employment once they have accumulated sufficient savings, established a solid standing with financial institutions, developed sufficient networks and contacts, and have gained expertise in particular sectors. All of these developments reduce the risk level of start-up enterprises, which is the main hurdle of faster small enterprise diversification.
  - The rapid expansion of black consumer spending creates a further incentive for the creation of new small-scale enterprises. Combining a number of trends, it is clear that an environment conducive to rapid increases in the number of enterprises in the following sectors is developing in South Africa:
    - The arts and craft sector;
    - Small-scale manufacturing for local as well as export markets;
    - Small-scale urban agriculture and rural small-scale farming;
    - Informal as well as black-owned formal tourism activities; and
    - Small-scale building contracting and renovations.

The meteoric rise in the taxi transport sector has been one of the demand-led development paths; several others are likely to expand rapidly over the next decade.

- The presently unfolding BEE process, elaborated and pushed through the sector charters, is also likely to spin off into faster small enterprise growth in a range of sectors. Naturally, much of the success will depend on the further unfolding of appropriate small enterprise support.

Thus, while the fundamental needs of small enterprises are unlikely to change much, the number of people wanting to start an enterprise or finding themselves in positions conducive to self-employment is likely to increase rapidly. If we combine this trend with a general, steady improvement in education and training standards and levels, we might soon witness the start of a long-run rise in South Africa's (hitherto low) level of entrepreneurship supply.

Such an increase may also help to change attitudes *vis-à-vis* seemingly "overpowering" foreign (African) small business operators in the country. While most of these are currently active in the "Second Economy", a better acceptance of their presence in our economy could lead towards new, highly competitive partnerships with local entrepreneurs.

### **3.4 The spread of sector involvement**

Shaped by a complex set of forces, South Africa's small business sector has become increasingly sector-differentiated over the past decade. This includes virtually all sectors

of the economy, with service establishments experiencing the greatest relative increase and the highest degree of sub-sector or niche differentiation. Even in sub-sectors with traditionally strong small enterprise representation, such as agriculture, trade and construction, the differentiation of activities has continued, with the focus of individual enterprises becoming more and more diverse. This trend has also spread into informal sector and survivalist activities, with the operational, technical and market challenges of each niche differing significantly from others.

This mushrooming of different sub-sectors with small enterprise involvement has a number of important implications for South Africa's small enterprise support efforts:

- It suggests that standardised or generic support strategies and programmes are insufficient. Sector-focused or adapted programmes are needed and have to be developed and implemented. This constitutes a challenge for the public sector, but also for private business service suppliers and training as well as research bodies.
- Greater sector differentiation broadens the range of opportunities for emerging or start-up entrepreneurs. Thus, three forces (BEE, economic growth and market differentiation) expand the range of small enterprises.
- It strengthens the need for comprehensive information about the full range of existing or evolving sectors with a strong small enterprise presence.
- Finally, it reinforces the need for PPPs in order to give the necessary attention to all the details and characteristics of new niches or sub-sectors. As such, it also increases the need for government to decentralise its support efforts in order to adapt them fully to sub-sector requirements, which often differ substantially in different places or parts of the country.

Once we realise fully just how large the existing number of small enterprises is, how many are started each year (and how many fail), and how diverse the sector structure is in which small enterprises of different sizes operate, we also start to appreciate the enormous challenges facing public sector efforts to effectively support the small business sector.

Thus, if public sector efforts do not reach or satisfy a particular firm or niche, it does not necessarily imply incompetence, inability or unwillingness on the side of service suppliers. In fact, we have to realise that even successful support programmes can only trigger positive effects – they will seldom be able to reach or “cover” all those that

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need or might feel entitled to assistance. This again suggests a catalytic role for small enterprise support through the public sector, with broader private sector responses widening the momentum. As shown in section 5 of this review, such a catalytic role of public support programmes (leading to much broader-based private sector initiatives and business development services) can be identified in fields such as improved access to finance, markets and training.

Respect for the vast and increasingly diversified structure of the small business sector should also strengthen the realisation that an integrated, co-operative approach towards service delivery and public sector support is essential for a country as complex as South Africa. We return to this aspect in section 7.

Against this background we can summarise the challenge facing South Africa's small business support initiatives. We have to:

- Prioritise the most important intervention goals, which have been identified as BEE in the small enterprise sector, the facilitation of job creation through small enterprise promotion, the alleviation of poverty, and the strengthening of globally competitive growth sectors or niches;
- Be a catalyst in the process of widening private and public sector-initiated business development services, which will eventually reach all corners of the country in a cost-effective, user-friendly way;
- Target and package interventions to fit the particular needs and operational environments of sub-groups of small enterprises; and
- Strengthen PPPs in these processes, which should include attention to the business environment and the conditions under which private service suppliers and small enterprises have to operate.

For this to succeed, it has been clear from the outset (with the release of the 1995 White Paper) that a well-structured institutional network is needed and clear, differentiated support programmes have to be developed. Sections 4 and 5 review the progress in these two critical areas over the past 10 years.

## 4 Institutional Broadening

### 4.1 The challenge: 1994

When the 1995 White Paper was prepared during the early 1990s, the small business support scene in South Africa was dominated by one national Government department (**the Department of Trade and Industry**), the SBDC (as a PPP founded in 1981) and a range of national parastatals (like the DBSA and the IDC), as well as regional authorities (including the former homeland development corporations) which had limited responsibilities in the small enterprise support sphere. In the private sector, an increasing number of non-governmental organisations (NGOs) and private consultants were becoming involved in aspects of small enterprise support and business development servicing, and organised business – though still racially fragmented – took an interest in small enterprise support strategies, encouraged by research undertaken at a few academic centres.

Best practice in other, more developed, countries suggested that developments were needed in a number of distinct areas:

- A broadening of public sector support to all levels of government (national, provincial and local) and a range of government departments impacting directly on small businesses;
- Sector differentiation in the design and implementation of focused support programmes;
- An expansion of privately supplied business development services;
- The spread of support services to all the regions and places of the country, both urban and rural; and
- A reasonable co-ordination of these efforts, notwithstanding limited financial and organisational (implementation) capacities.

This section reviews developments in these areas over the past 10 years, emphasizing the process of institutional diversification and the accommodation of South Africa's new socio-political realities.

### 4.2 National government and parastatals

When the new government was constituted in 1994, overall responsibility for the support of small enterprises (as part of South Africa's economic development, BEE and job creation/poverty alleviation strategy) fell upon the (new) Department of Trade and Industry.

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The Department at an early stage decided to follow a non-centralist approach towards the design and implementation of an expansive small enterprise support strategy.

To create the necessary enabling environment, the National Small Business Act of 1996 was promulgated, followed by later amendments to accommodate further institutional changes. Policy guidelines in support of small enterprises were also built into a whole range of further legislation, covering local authority responsibilities, public sector procurement, BEE and physical planning issues. Essentially, it was intended that all legislation should be sensitive towards its possible impact on small enterprises, its potential instrumentality in the support of small enterprises or the ability to overcome development obstacles.

This approach led to the following institutional developments:

- **Interactive consultations and the NSBC**

The NSBC was established on a national basis, with provincial “councils” established in some regions as well. Lack of professional expertise among the participants and an overlap of debates in the NSBC with those in parliamentary bodies limited the perceived outcome of this initiative, and led to its discontinuation. A new attempt at this function, based on an advisory council of support-policy experts, is now envisaged as part of the integrated strategy. The Council was supposed to provide ongoing feedback from small business constituencies to assist in shaping evolving strategies.

- **Overall control, co-ordination and leadership**

The Department of Trade and Industry decided against centralised control of the core support areas (both financial and non-financial support), creating two new parastatals – Ntsika Enterprise Promotion and Khula Enterprise Finance – to focus on critical aspects of these core functions. In the process, the Department (or rather the Centre for Small Enterprise Promotion, at the rank of a Chief Directorate) remained relatively small and had only limited implementation capacity. **the dti** restructuring has resulted in the mainstreaming of small enterprise support. However, the co-ordination capacity is still limited.

- **Parastatal support**

The small enterprise support provided by parastatals, such as the DBSA, the IDC, the Council for Scientific and Industrial Research (CSIR) and the National Productivity Institute (NPI), was encouraged and viewed as an important element of the evolving spectrum of services.

The renegotiations of national government involvement in the SBDC after 1994 reduced the State's capacity to reach small enterprises in all parts of the country – a goal which is only now being revisited through the integrated support strategy. In 1995, **the dti** reduced its 50% share holding to 20%, and the SBDC was transformed into a more narrowly-focused venture-financing organisation called “Business Partners”.

- **Ntsika Enterprise Promotion**

Ntsika was established as a new entity under the 1996 National Small Business Act, with its initial responsibilities focussed on the (“wholesale”) supply or facilitation of small enterprise support in the spheres of *information, marketing and procurement, export facilitation, research and training*. This was a vast task, with the relatively small staff expected to work through grass-roots bodies, local stakeholders and provincial as well as municipal partner organisations throughout the country. Box 2 summarises Ntsika's key involvement areas.

Given South Africa's complex small enterprise scene during 1995/6 when Ntsika was established, the high expectations created by the White Paper and its broad-based endorsement, the inexperience of most professional staff members in the small enterprise field and financial constraints, it is no surprise that Ntsika's “deliveries” often fell short of expectations at grass-roots level. More objectively seen, Ntsika has over the past eight years been successful in establishing an important niche in the spectrum of national small enterprise support agencies. This happened while several other bodies evolved and a number of the needs and expectations shifted. It seems only logical that Ntsika's role now has to be reassessed in the light of the evolving integrated strategy.

## Box 2 Ntsika Enterprise Promotion Agency: Core activities

Tender procurement support	→	Support decentralised Tender Advice Centres (TACs)
SMME promotion at exhibitions and inward as well as outward trade missions	→	Selection and preparation of participating SMMEs
Business linkage programme	→	Facilitate strategic alliances of established SMEs
Support for Local Business Service Centres (LBSCs) and other decentralised service providers	→	Financial support
	→	Support with board development
	→	Training of trainees, counsellors, officials
Training support (in co-operation with Setas)	→	Facilitate the design and development of sector-specific training material
	→	Capacity building for service providers
Awards	→	SMME excellence award for private support suppliers
	→	Innovative disabled entrepreneurs awards scheme (Ideas)
Monitoring and evaluation of SMME-support programmes	→	In-house tasks
SMME-focused Research and library service	→	Work by Ntsika team as well as outsourced and in partnership
Publications and website	→	Own publications and co-operation with other agencies

### • Khula Enterprise Finance

Khula was also established in 1996, initially with the primary role of taking over and expanding the credit-guarantee programme which the SBDC managed on behalf of the banking sector's loans-to-small-enterprises initiative. As a logical extension to this "wholesale" function, Khula soon started to fund micro finance-focused retail-finance institutions and (increasingly) developed other specialised small enterprise financing schemes.

Here again, lively criticism of Khula reflected more the complexities and dilemmas inherent in micro finance for small enterprises in a country like South Africa than necessarily a failure of strategies and programmes or the organisation as such. Box 3 summarises Khula's programmes as they have developed over the years.

- **National Manufacturing Advice Centre (Namac)**

Namac is a more recent addition to the national set of small enterprise support agencies, having been piloted by the CSIR and the NPI. Through its decentralised set of local centres, it has succeeded in bridging effectively the gap between national, provincial and local support efforts. It is therefore also logical that closer co-operation between Ntsika and Namac has become the foundation stone for the envisaged national Small Enterprise Development Agency (Seda) grid. Box 4 summarises the activities and the geographic spread of Namac affiliates.

### Box 3 Khula Enterprise Finance: Core activities

A Finance	
Loans for retail finance intermediaries for onlending	Loans of R1 to R100-million for a range of 12 to 15 intermediaries spread across South Africa
Khula-start	Group-lending scheme for micro-credit outlets
Emerging entrepreneur scheme	Credit-guarantee scheme for bank loans (max. 90% or R100,000)
Equity fund	Funding of individual business R250,000 to R2.5-million with 15% to 20% own equity
Individual guarantee scheme	Indemnity for bank finance up to R1-million (max. 80% and 5 years)
Empowerment scheme	Bank guarantees up to R5-million (max. 60% and 5 years)
Portfolio guarantee scheme	Up to 50% to 80% cover for bank loans to sector-related entrepreneurs
Institutional guarantee scheme	Guarantee for onlenders needing finance
Land-reform empowerment facility	Wholesale loans for onlending by banks to agricultural and eco-tourism clients
Loans for incubator units	Funds for the purchase of units in new or transformed incubators
B Khula Mentorships	
	Offices in Johannesburg, Cape Town, Durban, Port Elizabeth, East London, Midrand, Bloemfontein, Nelspruit and Rustenburg

## Box 4 National MACs in South Africa

Services provided by Namac	
• Manufacturing Advisory Centre Programme (Mac)	
• Business Referral and Information Network (Brain)	
• Franchise Advice and Information Network (Frain)	
• Support for local authorities in their SMME-facilitation efforts (Sain)	
• Small Enterprise Human Development Programme (SEHD)	
• Youth Enterprise Pilot Project	
Centres in the country	
Western Cape: Cape Mac	Cape Town, George
Gauteng: Gaumac	Central Johannesburg East Rand: Germiston West Rand: Krugersdorp Vaal Triangle: Vanderbijlpark
KwaZulu-Natal : KZN Mac	Durban, Greyville, Richard's Bay, Port Shepstone, Pietermaritzburg
Namac-Tech	CSIR campus, Durban-Humewood
Mpumalanga (Mpumac)	Witbank, Nelspruit
National: Namac	National head office, Pretoria
Northern Cape: Ncmac	Kimberley
North-West: West Mac	Mafikeng, Klerksdorp, Rustenburg
Limpopo: Limac	Polokwane (Pietersburg), Tzaneen

- **Intergovernmental co-ordination**

In order to co-ordinate and expand small enterprise support action by other national government departments, the White Paper recommended the establishment of an *interdepartmental co-ordinating committee*. This took some time to be implemented, given the highly complex process of realignment of all government departments and the sensitive nature of many small enterprise issues.

During the past few years, progress has been made in the alignment of departmental policies and programmes affecting small enterprises. Yet there is scope for more effective co-ordination of efforts and for greater sensitivity regarding the cost and discouragement effects of government legislation as well as other action on small enterprises and their competitive position in the economy.

This brief review confirms the diversified nature of national government support for small enterprises in South Africa. As such, it also explains why widely articulated dissatisfaction with the impact of (some of) the new organisations over the past few years resulted in a search for a more effective, better co-ordinated and more comprehensive institutional framework for public sector support to small enterprises. Details of these plans are outlined in the new strategy document.

### 4.3 Provincial support

While the White Paper recognised that provincial authorities would have to play *some* role in the small enterprise support mechanism, it only provided explicitly for “a small business desk” to be instituted in every provincial government. Virtually all provinces actually went much further than merely playing a passive role, with most provincial governments establishing at least a directorate for small business support, which focused on:

- Propagating national support programmes and functioning as channels for national implementation processes;
- Developing complementary support programmes with provincial funds, sometimes in co-operation with other donors/partners;
- Encouraging small enterprise support initiatives in the *platteland* areas and in the smaller towns which lack the capacity to develop their own programmes;
- Co-operating with local business organisations, NGOs, CBOs and other stakeholders in assessing progress with small enterprise support as well as the need and scope for further action.

Since an expanding small enterprise sector is viewed as an important instrument to alleviate poverty and high unemployment, provincial governments have over the years come under strong pressure to expand their supplementary services *and* to put pressure on national bodies to expand their services. At the same time, a small staff and limited funds at provincial level place distinct limitations on these provincial initiatives. In fact, the intermediary position of provincial governments (between central and local authorities) at the same time reduces and enhances their role. Lack of own funds and sufficient staff limit their capacity to play a proactive role, but their closer proximity to district and local authorities makes them essential for the more effective functioning of grass-roots programmes, even if they are funded by national agencies.

### 4.4 Support at local government level

Since municipalities are in most direct contact with small enterprises (including informal sector operators) in their respective areas, it is only logical that entrepreneurs and the public at large expect tangible support from their municipalities whenever small enterprise issues or problems arise. However, with the functions of municipalities only clarified during the past five years, there is currently little certainty about the primary and secondary responsibilities of local authorities for small enterprise needs and support.

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“Local economic development”, which encapsulates one of the core responsibilities of municipalities, is not yet clear – neither as a concept nor in its relationship to small enterprise support. Further, no certainty about the funding of small enterprise support intervention at local level has been reached.

This may not apply to the larger municipalities, most of which have comprehensive small enterprise support programmes, but it does apply to smaller towns with very limited funds and implementation capacities. What is even more challenging are steps to help small-scale farming enterprises in their efforts to transcend from survival, subsistence agriculture to profitable small-farming activities.

There is consensus that national government and provincial authorities should in future increase their assistance to local authorities for their small enterprise support efforts, yet the best format such assistance should take is still emerging. The envisaged integrated strategy will also incorporate this important challenge.

#### **4.5 Support through private and non-profit organisations**

Outside the public sector, two seemingly contradictory processes have picked up momentum during recent years. On the one hand, many of the NGOs and CBOs active in the small enterprise support sphere have faced declining public or foreign (donor) funding, which forced them to rationalise, scale down the range and spread of activities, merge with other bodies or close down altogether. At the same time there has been a rapid increase in the number and activity range of private, profit-based service suppliers focusing on particular needs of small enterprises. These include private persons helping entrepreneurs with the preparation of their business plans, mentors, marketing agents, and more generally, the suppliers of financial, business and property services as well as training and related consultancies. Some of these services are supplied as part of service packages of financial, marketing, insurance and human resources service suppliers, whereas others focus more narrowly on specific needs of small enterprises.

In many cases these private services are financially supported by public sector support programmes (for example, through vouchers), which means the private service supplier is only the implementing agency. This approach is highly recommended in international circles of small enterprise support agencies.

Also falling within this category is the steadily expanding trend of larger enterprises providing development services or outreach programmes for small enterprises – be it their clients, their suppliers or some other target group/s. This can be in the sphere of procurement, in training programmes or in the sponsoring of vouchers (for discounts on service charges).

We can also include education and training institutions here, since many have steadily expanded their offerings of training programmes or short courses for small enterprise managers or entrepreneurs.

Finally, reference has to be made to the attention given to small business concerns and support by (small) business organisations, whether they are linked to the national federations (Chambers of Commerce and Industry, Sakekamers, Nafcoc, Fabcos, etc.) or part of smaller regional, local or sectoral bodies like traders' associations and professional bodies. Once again, the organisational efficiency and capacity of most of these associations need further development, but their role in the mobilisation of support and the channelling of member concerns (business owner feed-back) is becoming increasingly important.

#### **4.6 International co-operation in small enterprise support**

Since the early 1990s, international organisations as well as small enterprise support agencies in donor countries (for example, Germany's Friedrich Ebert Foundation) have played some role in the funding, design and research of South African small enterprise support. Often their inputs have been critical in the development of new support programmes or the spread of programmes to less-developed areas.

During the past few years, this inward support has to some extent been matched by a slowly increasing involvement of South African expertise and funding in small enterprise support areas in SADC countries and elsewhere on the continent. South Africa's inputs are channelled through corporates with investments in African economies, through South African training and research bodies, South Africa's inputs to multilateral (Africa-focused) initiatives and direct NGO involvement. The total volume of such input is still small, but in the context of the New Partnership for Africa's Development (Nepad) its role is vital for African development and its annual increase could become substantial in the near future.

#### **4.7 The decade in perspective**

As we have shown, the decade has been characterised by the systematic expansion of small business support services through both private and public service suppliers. Ntsika and Khula have been the two bodies most directly involved in a certain range of financing and non-financial support programmes, but they only cover a limited range of support and a limited number of clients. Of far greater importance has been the diversification of support agencies and programmes, as a result of which a far greater number of small enterprises can now be reached and a far wider range of services is offered.

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This mushrooming of bodies and support programmes has also had its shortcomings. These relate to the lack of co-operation, the duplication of services, insufficient depth and professionalism among the staff of support agencies and an almost erratic spatial coverage of needs. These shortcomings are among the reasons for current attempts to establish tighter national, regional and local frameworks for the delivery of core services, so that they can reach and satisfy basic needs of entrepreneurs in all parts of the country.

## **5 Services Supplied to Small Enterprises**

The White Paper distinguished a dozen different elements in the national small enterprise support framework, and it seems appropriate to use these as basis for a review of progress made over the decade in support for small enterprises. In some of these areas the role of national government was very central, while in others it was more indirect as initiator or facilitator of policies or changes involving a wider range of players.

### **5.1 Access to information, advice and support networks**

Both practice and research confirm that easy access to relevant and appropriately packaged information, advice, guidance, referrals and contact networks is the most important need of almost every emerging, expanding or transforming small enterprise. Such access can come along different channels or processes: through experienced members of an extended (business) family, through sources studied in previous training or apprenticeships, through partnerships with other (more experienced) firms or community enterprises, through volunteer advisors or mentors or through specially established and equipped “business information centres”.

In highly developed countries a multitude of such access points or paths make it easy for entrepreneurs to find the most appropriate information and advice close-by and continuously updated. In less developed communities most of the channels mentioned above may be lacking or ineffective, with entrepreneurs trying in vain to get up-to-date information about even the most basic aspects of their businesses or business opportunities.

The White Paper stressed this diversity of channels along which information and advice could be disseminated, but it also emphasised the need for a countrywide grid of “business service centres” (later generally known as LBSCs) as the backbone for a gradually evolving and expanding, multidimensional and ever closer grid of information and advice points.

Once Ntsika was established it became one of its primary tasks to facilitate the establishment of such a countrywide grid of LBSCs. In order to make these centres community-driven, they had to be established as section-21 not-for-profit companies,

with locally-based boards and visible community involvement. During the first few years after 1995, over 140 such LBSCs were established across the country, with Ntsika expected to provide substantial funding to cover at least their initial running expenses, since the income-generating capacity of these new centres was limited, at least during their start-up phase. Box 5 lists all the Ntsika-cofunded LBSCs still in operation.

For reasons which, in retrospect, were quite logical, the LBSC programme turned out less successful than expected, resulting in funding cuts and a decline in the number of supported centres. Many of the centre staff were inexperienced in the task of advising entrepreneurs, appropriate information material was scarce, community leadership often complicated basic management tasks and the centres seldom obtained the practical support necessary from local authorities, business organisations, business consultants and training bodies.

Viewed within a broader perspective, the main shortcoming of the LBSC system is the inadequacy of its geographic coverage. Leaving aside the larger metropolitan centres, there is at best one LBSC in each of the larger towns, and in the majority of medium-sized as well as smaller towns there is none. Even in the metro areas there are suburbs (or townships) with 100,000 or more inhabitants which have no centre nearby. In the rural areas and small towns, coverage is even more erratic, although appropriate information and advice would be most urgently needed here.

Apart from the spatial coverage, the other fundamental shortcoming relates to the availability of easily understandable, “attractively packaged” information. With local circumstances differing widely across the country, such information would have to be adapted to local needs and local enterprise patterns, which is often beyond the capacity of existing LBSCs.

Progress along other information and advice channels is less visible but has added valuable capacity to local support systems. *Business and trade associations* have gradually expanded their information supply; some municipalities experimented with advice facilities or have subsidised LBSCs (as did other sponsors); in some provinces libraries started *Library Business Corners* as low-cost alternatives for better access to business information, and the number of commercial as well as volunteer “business advisors” and mentors has been increasing steadily.

With respect to the electronic supply of small enterprise-related information, Brain (Business Referral and Information Network), which was developed by the CSIR and Ntsika, fulfils an important role, while the supply of other processed material is steadily increasing. Yet, there is still a serious shortage of information relevant to and easily accessible by micro enterprise operators and informal sector businesses. Furthermore, information relating to existing opportunities at local and national Government level is inadequate.

### Box 5 LBSCs and other Ntsika-supported service suppliers (by province)

<b>Eastern Cape</b>	Ekuseni Youth Development Centre
Community Self-Employment Centre	Foundation for Entrepreneurial Development KZN
Cradock LBSC	Khuphuka Skills Training
Gcuwa Training Centre	KZN Training Centre
Khanya Centre	KZN Development Foundation
Kokstad DC	Maputoland Development and Information Centre
Libode BDC	Project Gateway
Mdantsane BSC	Swinton/Mobeni College
Mount Ayliff Development Agency	Sukuma Trainers Trust
SBU University of Port Elizabeth	Thekwini Business Development Centre
Stutterheim Business Advice Centre	Umlazi College
Tombo Enterprise Development Centre	Youth Enterprise Development Project
Uitenhage SEC	<b>Mpumalanga</b>
Xalanga EDC	Beehive EDC
<b>Free State</b>	Butterfly EDC Ermelo Business Trust
Education with Enterprise Trust	Highveld EDC
Foundation for Entrepreneurial Development	Highveld Ridge BDC
Mangaung Community Development Centre	Midveld Industrial Chamber Advice Centre
Mangaung University Community Partnership Programme	<b>Northern Cape</b>
Procurement Marketing Consultancy	Kalahari Development Agency
<b>Gauteng</b>	Kimberley BSC
Agri-Business Consultancy	Nambid
Afferidgeville College	Siyeda
Business Opportunities Centre	<b>Northern Province</b>
COD Gauteng	Akanani LBSC
Centre for Business Education and Training	Baobab Technology Holdings
Cenbis	Bushbuckridge LBSC
Kleco, Mamelodi College	COD Northern Province
Medunsa Organisation for Disabled Entrepreneurs	Northern Entrepreneur College
Soshanguwe College	Nicpac
Sedibeng Training Centre	Phalabora Business Linkage Centre
<b>KwaZulu-Natal</b>	Rivoni Society for the Blind
Albert Luthuli Community and Education Development Trust	University of Venda: Centre for Entrepreneurship
Altek & Partners	VP Development Consultancy
Bergville Business Advice Centre	<b>North-West Province</b>
Business Development Centre: Zululand	Brits Training and Entrepreneur Centre
Business Support Centre: Pietermaritzburg	Centre for Opportunity Development
C.U.R.S.A.	Greater Brits Investment Group

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Mogwase ESC	Isibane Resource Centre
SBAB Potchefsstroom University	MAG Training Centre
Tsholofelo Community College	Nicro BSC
<b>Western Cape</b>	Plettenberg Bay BSC
Atlantis BC	South Cape BSC
Cape Town Job Creation	Southern Cape Skills Centre
COD Western Cape	Stellenbosch Business Learning Centre
Clotex	West Coast BDC
EDU University of the Western Cape	Zenzele Enterprises

With the increase in sector-focused support initiatives, part of the more generic information needs is nowadays met through *sector-focused information*, advice or training facilities, for example, those (like Clotex) in the clothing industry, others in the tourism sector and some in the ICT field. In addition, the rapid spread of *franchising* in South Africa, in particular among township enterprises, constitutes another effective method of spreading information, business intelligence and other advice in a sector-focused way (boosted by the Frain service of Namac). Finally, we can mention the *manufacturing advice centres* (MACs), which have been spread all over the country. Their focus on specific types of enterprises and information needs has helped to make the centres function satisfactorily, yet have left unattended needs among other sector categories of local entrepreneurs.

The trend towards more differentiated, sector-focused information highlights the particular needs of those not covered, for example black entrepreneurs who are still uncertain about their business involvement, those in the informal sector, and those in rural or small-town (village) environments, where there is little chance for a proper LBSC (let alone a franchise) to be established.

These shortcomings and concerns expressed around Ntsika's LBSC-support programme are currently shaping further reform plans:

- Rationalizing and strengthening the brand and delivery channels through which government services are accessed by small enterprises.
- Ntsika's integration with other core service suppliers under the banner of Seda should increase the complementarity of services.
- Seda (and its provincial and local partners) will work towards a nation-wide network of properly equipped, staffed, managed and funded business information centres, with the number and local branding decided on a co-operative basis.
- More attention has to be given to the production and dissemination of appropriate material, the proper training of advisors and mentors and the researching of topical small enterprise issues. This challenge falls upon education, training and research centres across the country.

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- Liaison between sector support initiatives or associations and the network of (new) information centres will have to be strengthened. The same applies to liaison with other (NGO/CBO-driven or chamber-initiated) information or advice facilities.

Thus, at the end of a decade of “LBSC evolution” the situation at grass-roots level is much in line with the situation anticipated in the White Paper: developments take place along diverse channels, with an integrated and dense grid of demand-led facilities not yet reached, but certainly envisaged.

## **5.2 Access to markets, procurement and export opportunities**

Assistance to access competitive markets is another well-known and documented dimension of small enterprise support. Aside from the information side, which was covered in the previous section, we can, in the South African context, mention the following further reasons for support in this sphere:

- Small enterprise owners are often unaware of market opportunities or feel inhibited to explore new avenues. This calls for more than just the dissemination of general information. Special programmes, training workshops and group efforts are a few examples of initiatives prepared for specific target groups of small enterprises (for example, HDIs).
- Small enterprises often find it difficult to enter markets because their own production costs and prices are too high. This calls for support on the operational and training side rather than direct marketing support.
- Often small enterprises are located too far from (larger) markets or face prohibitive transport costs. This calls for creative steps among suppliers (to share transport facilities), improvements in the transport infrastructure (see section 5.4) or changes in the product mix.
- Suppliers may justify preferential procurement efforts or focused advice and other support to meet the demand from larger firms or public sector bodies. This applies in particular to black suppliers who are to be helped to overcome past discrimination. The support would focus on enhancing the capabilities of the enterprise to be competitive in the market.

These few examples suggest that difficulties with market access can be caused by a wide range of factors or underlying weaknesses. In a way, success with the marketing of a product is the result of the interaction between a number of competitive advantages *and* disadvantages in an enterprise. Each of these factors should be addressed, but *public sector support may only be able to make an impact in a few areas.*

### Preferential procurement

In the previous section we already stressed the information, advice and mentorship dimensions, which are also of critical importance for effective marketing. In this section the focus falls on the facilitation of corporate and public sector procurement from small enterprises. Later sections cover some of the other dimensions, like transport and other physical infrastructure facilities.

Steps to improve corporate and public sector procurement from small enterprises (in particular from those owned/managed by black entrepreneurs) have increased rapidly in South Africa over the past decade. In fact, this area may be the one where small enterprise support shows the greatest diversity and has had the biggest impact on small enterprise start-ups, growth, diversification and transformation. This is mainly due to the combination of several forces: BEE initiatives in larger firms, practical involvement of national, provincial and local governments, legislative changes and the impact of “charters”.

Within this broader, highly dynamic context, Ntsika has tackled the procurement challenge primarily through the establishment of a national grid of Tender Advice Centres (TACs) and the co-funding of their activities. Although generally useful and often effective, it was, however, clear from the outset that these advice facilities (which often were linked to other small business information or advice activities) would not satisfy all the procurement-related needs of small enterprises with access to tender advice centres. Besides, most municipalities and rural areas are still out of reach of a tender advice centre.

Comprehensive progress with small enterprise procurement from the public sector and from larger enterprises needs the interaction of several support efforts, and the spread of such facilities over all municipalities. These efforts have to include LBSCs or other information centres, but also training and consultancy facilities (to lower cost levels and improve qualities), mentorship services and – where possible – sector-focused support. Public support can only contribute funds and leadership for a part of these requirements – the other support players also contribute and are gradually expanding their facilities and programmes.

It is, furthermore, expected that the envisaged integrated (national) grid of fully equipped information centres will include tender advice-related services.

Ntsika, Namac and other public sector initiatives have over the past few years initiated several support programmes with particular focus on emergent exporters and PDI-owned firms. This has included special trade missions, the sponsoring of PDI entrepreneurs in regular exporter missions, and assistance through trade and industry development programmes.

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To conclude, it would be near impossible to measure the explicit impact of all these market access support programmes, since measurable success is dependent on a whole range of factors and causalities. Yet, there can be no doubt that progress has been made over the past decade to more effectively integrate black small entrepreneurs into South Africa's markets. What is more, the success of these efforts has lately been strengthened by the rapid increase of black consumer spending, which acts as a powerful stimulant for emergent entrepreneurs looking for new markets.

### 5.3 Access to finance

Probably no other dimension of the government's small enterprise support strategy has over the past decade received as much attention (and criticism) as the access-to-finance issue. In South Africa, as in many other countries, there is still a wide-spread belief among entrepreneurs, though seriously questioned by researchers who analyse the reasons for access-to-finance difficulties, that the lack of access to finance is the biggest single obstacle along the start-up and expansion paths of small enterprises.

In as far as Khula Enterprise Finance was the only new financial institution established in the aftermath of the White Paper, much of the criticism around the apparent non-availability of small enterprise finance has focused on this institution, even though the bulk of business finance for small enterprises comes from established or new (private) financial institutions, for example, the IDC.

The financing environment of small enterprises has experienced significant changes since 1994, which is very briefly reviewed here .

- **Commercial banks** have over the decade significantly increased their exposure to small and medium-sized enterprises, with the black component of their clientele rising. This includes an increase in black middle- and upper-class account holders. Banks have also realised that, since many future holders of conventional accounts start as micro enterprises, greater attention to this relatively cost-intensive market segment will pay off in the longer run.

In this transformation process the changing ownership and board composition of banks also play a role. Similarly, the recently negotiated Financial Sector Charter is likely to accelerate transformation in future years.

While risk assessments about small enterprises may not have changed much among bankers, the increase in special funding schemes, often with sector or industry focus and some element of public sector support, have facilitated the expansion of SME funding.

In some contrast, Khula's general loan-guarantee programme has not gained much popularity over the years, although some banking groups are utilising it far more than others. In the final instance it is just one more tool to lower risk perceptions, which on their own should not be expected to play too great a role.

- In line with world-wide trends, **sector-focused and “tailored” financing** packages have fared better over recent years than standard banking loans to small enterprises. Since these packages usually include at least some mentoring and/or sector-specific screening of applicants, risk levels can be substantially reduced, which makes financial institutions more willing to extend finance. The spread of funding thus depends on the ability of sector stakeholders or bodies like Khula and other financial institutions to put together appropriate and sector-approved “packages” and arrange their implementation. Box 6 lists some of these sector-focused schemes. Reference can in this context also be made to Business Partners, the successor to the SBDC, which places much emphasis on sector-focused loan investigations and financing packages, including equity funding, mentoring and other support elements.

### Box 6 Sector-focused financing assistance

SM EDP	Up to R3-million p.a. for two year Focus on manufacturing, tourism, agro-processing, ICT, arts and crafts, aquaculture
Competitiveness Fund	Cost-sharing grant for manufacturers
Sector-Partnership Fund	Grant for 5+ firms to institute productivity-enhancing projects
Khula Finance	General as well as sector-focused programmes
Provincial governments	Regionally adapted, sector-focused support programmes with financing components
Department of Environment and Tourism	Tourism-focused support programmes; see also Tourism Enterprise programme (TEP) co-funded by the Tourism Business Council
Other government departments	Special schemes for small farmers, small-scale mining, small construction firms
BEE-support funds	Many of the negotiated “sector charters” contain financing schemes for emerging black entrepreneurs
Umsobomvu Youth Fund	Co-funding of development support for young entrepreneurs
Local-authority schemes	Several of the larger municipalities have started growth sector-focused support programmes (often in co-operation with provincial authorities)
Industrial Development Corporation	A range of sector-focused financing programmes (e.g. eco-tourism)

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The relative success of sector-focused financing and support packages confirms the contention that it is, in fact, not the lack of finance per se which throttles small enterprises, but rather the combination of deficiency factors like poor business planning, lack of financial controls, weak general management and insufficient market access.

- The non-availability of **micro finance** for informal, start-up and survivalist entrepreneurs has for long been another sensitive issue in the sphere of “access to finance”. During the early 1990s several NGOs and CBOs started to enter this field, in the hope that Khula would capitalise them and on an ongoing basis financially support these micro finance agencies. Unfortunately, a number of these agencies turned illiquid and Khula lost substantial funds, which tarnished both the sector and Khula. At the same time the number of private (for profit) micro finance agencies increased rapidly in South Africa, many of them turning out sizeable profits and a reasonable return on the investment. Admittedly, only a relatively small percentage of the vast number of new loans were for business finance, but even those aggregates were significant as an addition to the small enterprise funding supply. With the introduction of tight controls and oversights through the Micro-Finance Regulatory Council (MFRC), many of the harmful practices of these agencies have now been addressed, and the business finance component is likely to increase steadily. These steps will not “solve” the financing dilemma of thousands of emerging informal sector operators, but a “quantum leap” in this sphere will in any case need the combination of efforts in fields like education, social welfare, community and youth development as well as sector-development promotion and changing attitudes of conventional banking institutions.
- In addition to these three broad categories of small enterprise funding sources we can refer to a few further trends which indicate increased access to finance for well-prepared small and medium enterprises:
  - Venture finance opportunities and initiatives are spreading all over South Africa;
  - The JSE has opened its special small(er) enterprise window, which should gradually start playing a significant role for medium-sized enterprises in their search for expansion capital;
  - Khula has recently started to finance property improvements related to hives or incubators, which is likely to play a significant role in the spread of these facilities;

- More than 10 years of deracialisation of property ownership have seen a very significant increase in black property ownership in areas where property prices are steadily (if not dramatically) rising, which is easing the collateral bottleneck for many aspiring or expanding (black) entrepreneurs; and
- The decline in interest-rate levels and the eagerness of banks to find new loanees may also ease the conditions under which (small) business loans are considered.

Many of the trends and changes touched upon here are not yet “firm” or irreversible. Yet, on balance, there can be no doubt that the “access to finance environment” for South African small enterprises is improving and that this is having a positive impact on the small business development scene. Khula has played a significant, though distinctly limited, role in this process, which is essentially determined by the interaction of South Africa’s vast banking sector with government and the BEE process.

### 5.4 Infrastructure facilities

The competitiveness of small enterprises is affected very directly by the quality of the infrastructure facilities available to these firms. For example, the absence or frequent interruption of electricity or water supplies inevitably disadvantages small firms which have to compete with operators located in properly serviced areas. The same applies in both urban and rural areas to aspects like;

- Security in the residential and/or business areas where small enterprises operate
- Access to proper ablution facilities;
- The quality of streets, lighting, pavements and garbage collection;
- The availability (at reasonable cost) of micro enterprise premises (supplementing home- or street-based operating “space”), including hives or incubators;
- The proximity of open-air markets and the standard of services at those markets;
- Access to and cost of transport to more distant markets (a factor of particular importance in rural areas and more remote towns or villages); and
- Access to nearby postal services and other basic business services (for example fax, computer and banking facilities).

Since several of these infrastructure facilities fall within the responsibility of local authorities, these issues have started to figure prominently in plans and policies around “local economic development” and the Integrated Development Plans (IDPs) of local authorities. Significant progress has been made in some areas and particular places (see Box 7), although the general financial tightness of local authorities is dampening progress. Future progress will depend very much on the effective combination of national government-funded special local economic development, infrastructure and job creation programmes with local business development initiatives.

## 5.5 Streamlining legal and regulatory conditions

The “burden of red tape and bureaucracy” and “unintended negative impacts of new legislation and regulations” are two important grievance areas of small enterprises which were already highlighted in the White Paper and which have often been reiterated since.

Ntsika has captured valuable evidence about these impediments in its *National Small Business Regulatory Review* of 1999, and **the dti**, with other government departments, have implemented most of the recommendations, including the following:

- Simplification of regulations
- Identification of high priority regulations
- Setting up a mechanism for regulatory impact assessments

At the same time small enterprises also have to recognise that many regulations are essential for health reasons, for the improvement of product and service quality, for the international acceptance of our exports and for the steady improvement of the quality of life.

### Box 7 Local government-driven projects with a positive small business impact

*All of the support listed below has been implemented in some urban areas.*

1	Support for SMMEs through preferential procurement by local and district authorities
2	Co-funding of business information and advice centres in the municipal area (e.g. “The Business Place” in Johannesburg and Cape Town, and Library Business Corners)
3	Financing support for emerging film industry enterprises (Johannesburg and Cape Town)
4	Clothing- and fashion-industry support (Johannesburg CBD and Cape Town (Clotex))
5	Co-funding of business skills training for local informal traders and other SMME-skill needs
6	Support for urban agriculture (Johannesburg; Urban Agriculture Business Advisory Service)
7	Co-funding of local small business incubators
8	Establishment and maintenance of market infrastructures
9	Support for local small builders, in partnership with other service suppliers
10	Co-funding of craft “showcases” for tourists
11	Support for local small business awards and competitions
12	Co-funding of annual small enterprise-focused events (e.g. Small Business Week in Cape Town)
13	Discounts on fees levied on (select) SMME categories in municipal fee structures
14	Interaction with provincial and national government departments about joint (infrastructure) support programmes and strategy planning/co-ordination
15	Inclusion of selected small enterprises in municipal trade delegations

This apparent ambivalence about statutory and other “regulations” becomes clearest in the sphere of labour relations and minimum employment conditions, where entrepreneurs are often critical of minimum standards, since they are viewed as costly and a risk to their market competitiveness. At the same time, labour leaders and employees put pressure on Government to improve remuneration levels and general employment conditions.

Looking back on a decade of increasingly wide-spread debate about these issues, there can be little doubt that progress is being made in finding compromises about sustainable levels of controls *and* deregulations. The range of participants in these negotiations is very broad, which makes the process slow, but there is no alternative that is likely to give quicker *and* more acceptable compromises.

At national Government level the inter-departmental consultative committee focusing on small enterprise issues is helping to accelerate progress to assess the impact of new legislation on small enterprises. At the same time all the other players, both public and private sector-based, at national, regional, local and sectoral level, will have to do their part in this process.

### **5.6 Access to skills and technology**

Included under this heading are a number of issues and problem areas which deserve serious attention of a wide range of institutions, with national government, once again, primarily a facilitator. At the centre of these issues are the entrepreneurs or owner-managers of small enterprises, their entrepreneurial capacity, the education level of the core team of each enterprise, their access to the latest research results and technology, as well as the organisational interconnectedness of small enterprises. In virtually every one of these areas significant progress has been made during the past 10 years but, as in so many other areas, progress is in general unequal and differs widely between areas, institutions and particular challenges. Some of this progress is reviewed very briefly below:

- **Entrepreneurship**

Internationally, increasing attention has lately been given to the supply of *entrepreneurship* as a determinant of a “healthy” small enterprise sector and the ability of small(er) enterprises to master bottlenecks and resource deficiencies. Thus, it is often argued that rather than support-specific small enterprise functions, there is a primary need to *strengthen the supply of effective entrepreneurship* in a society.

Debates in the field of entrepreneurship promotion have stressed the need for national as well as local efforts to sensitise people on the importance of

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entrepreneurship and to launch well-structured entrepreneurship promotion programmes. Since *ad hoc* projects in this sphere have been in existence for years already, such national efforts could give much greater momentum to the whole process, especially if supplemented with more effective ways to tackle access deficiencies as well.

The *apartheid* policies and regulations suppressed entrepreneurs among black South Africans. In the past 10 years, there has been clear evidence of positive changes in this area, with more black South Africans, especially the youth, pursuing entrepreneurial opportunities.

- **Education**

At the levels of general education as well as further education and training (FET), the need for appropriate courses in entrepreneurship has been partially met during the past decade. These courses are either part of life-skills training or free-standing optional subjects. Yet, much effort is still needed to spread these programmes to more schools across the country, and to strengthen the ability of educators to effectively teach and supervise these learning programmes, where a strong practical orientation is vital for successful learning.

At the level of FET colleges and universities (including the former technikons) enterprise-focused courses have also increased steadily and have become common in some faculties. At the same time the new system of Seta-sponsored learnerships also provides ample scope for the inclusion of business and entrepreneurship principles and practises in the “learning outputs”.

Undoubtedly the rate of progress in all these areas could be accelerated, including a better spread of such training to schools and colleges in rural and more remote areas. Yet, a solid start has been made, and the momentum can now be increased through regular business support channels.

- **Technology**

In the more demanding field of *technology transfer* significant progress has also been made, largely due to the establishment of the MACs and a few other programmes (for example, Thrip). Since these are not narrowly focused on only (particular) industry technologies, the gradually expanding MACs network offers an ideal vehicle to generally support technology-transfer processes. Naturally, it is not the only channel, since research centres, higher education institutions and private bodies are also active in this field. In fact, the co-ordination of these services under a single umbrella to deal with technology needs of small enterprises will facilitate their visibility.

- **Research**

Small enterprise-focused research has steadily increased among South African higher education institutions over the last decade, having been publicised and in other ways promoted by Ntsika through its own research programmes and its publications. Much of the work happens at the relatively low-keyed levels of Honours, Masters and Ph.D. dissertations and research reports at higher education institutions. Even more research-type work underlies consultancy work commissioned by small enterprises or corporates and public sector institutions (including local authorities, provincial-government departments and national government departments). Most of the results of these studies still remain unpublicised. Besides, if released, it is often in a format that is inaccessible to the very small enterprises which should be informed or which should absorb the “lessons of experience” underlying the research.

The challenge for the future lies in the steady expansion of (sector, area and issue-focused) small enterprise research *and* in a more reader-friendly release of research results. Such research should also include the preparation of sector-focused training manuals suitable for entrepreneurship training and other relevant training modules.

- **Organised business**

Linked to the expansion of education, training and applied research should be policies, incentives and training programmes to strengthen *business associations, business chambers, community enterprises* and other types of lobbying and interest-group agencies. The experience of the past decade has shown that the public sector’s willingness to liaise with and consult the private sector, and to involve it in PPPs is seldom met with effective, well-organised and dynamic private sector responses. In the absence of compulsory membership of business organisations (as in parts of Europe) the negotiating power of most business associations depends crucially on their perceived effectiveness and trust among their members – which generally leaves much scope for improvement.

Thus, once again, although it is clear that a vast area exists for future action and involvement to strengthen the small enterprise sector, on balance significant progress in the unity of South African businesses has been made. However, challenges remain in strengthening these bodies to become vehicles of entrepreneur support.

### **5.7 Differential taxation and incentives**

The White Paper recommended the differentiation of South Africa’s tax rates and other incentives as an important tool to promote small enterprises. In some cases (like company tax rates) this has been done, with some pressure to further increase differential margins.

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On a practical level, differential tax and fee structures can create substantial implementation problems. These relate to difficulties in demarcating (different categories of) *small* enterprises and preventing “larger” enterprises from desegregating their activities into smaller units in order to reap these benefits. The same may apply to differentiations in fee structures for public sector services. The feasibility and merits of each case will have to be explored and negotiated.

In the case of preferential conditions provided to HDIs, as in the fulfilment of procurement conditions, such differentiation of conditions has been widely implemented and operates well. The issue of “fronting” can, however, be viewed as an example of the type of problems created by a differentiation of incentives.

### **5.8 A decade of progress in perspective**

These seven sections, which are based on the twelve elements outlined in the White Paper a decade ago, have revealed quite clearly that:

- In each of the postulated areas of small enterprise support *some* progress has been made along the lines suggested in the White Paper;
- The need for and scope of supportive action were more complex than anticipated;
- The rate of progress and the geographic and sector coverage of support have been highly unequal;
- The newly established core organisations (Ntsika and Khula) could only play a central role in some of the support areas; many of the issues had to be tackled by other institutions;
- In virtually every support area, developments over the decade have lead towards new perspectives about best practices and the scope for public sector involvement – and these evolutionary processes are far from concluded; and
- The impact of all the support areas combined has probably been most limited in the rural areas, in small towns and villages, and in the informal sector – which are exactly the areas where the need for at least some support is probably the greatest. This also applies to small-scale agriculture, ranging from subsistence farming to the new small-scale farming ventures brought about by land reform schemes.

On the road ahead, therefore, two fundamental challenges stand out:

- To spread existing support services more “densely” across the country and across all relevant sectors; and
- To further improve the nature of support programmes, the public-private mix and, in particular, the efficiency of implementation processes.

## 6 Funding Small Enterprise Support

The White Paper strongly recommended that the funding of small enterprise support programmes be spread over the widest range of potential funders, with small enterprises fully accepting the principle of “fee for services provided” and with national government accepting the need, at least for some years, to provide significantly more annual funds for the national programme. At the end of the decade these principles should still apply.

Trends in terms of each of the main funding components are briefly reviewed below.

### 6.1 User fees and direct-cost recovery

The extent to which individual small enterprises directly pay for services provided to them in support of their business is often ignored or underestimated. Aside from the more obvious (like bank interests and charges for overdraft facilities or loans, insurance premiums and local authority levies) we can specifically refer to:

- Payments for training programmes;
- Consultancy fees for assistance with business plan preparations, tax advice, marketing support, private mentoring, assistance with tendering and other outsourced business management tasks;
- Franchise fees and regular payments for business assistance through franchise agreements; and
- Profit shares negotiated for joint ventures and/or partnerships entered in order to get the benefit of an “experienced partner”.

With the rapid expansion in the number of small enterprises in South Africa, these payments have increased steadily over the past decade. There are, in fact, indications that medium-sized enterprises have increased their use of these services relatively faster than they have increased their output, and find them affordable. Yet, the extent to which these “private services” are being acquired still differs widely. Besides, the supply of such services is particularly limited in rural areas, small towns and remote parts of the country.

### 6.2 Co-operative ventures

In community and co-operative businesses, the costs of business services can be shared and individual members may save substantially. Since the early 1990s, the small enterprise support sphere it has endeavoured to streamline co-operative business structures (and related statutory conditions) to encourage this form of co-operative enterprise, which seems particularly suitable for poverty-stricken communities, women’s groups, crafters and other groups which have a strong cohesion factor.

### **6.3 Ad hoc (community) self-help programmes**

Evidence of self-help community initiatives to address particular small enterprise-related problems exists throughout South Africa. These initiatives take various forms, such as the establishment of market places (with or without the focus on tourists), the creation of a basic business accommodation cluster or “hive” (with or without joint services), the solving of transport problems (for example to get products to distant markets) or the lobbying of local or higher authorities for improved services.

The existence of such initiatives should not only be seen as a symptom of the failure of public sector support for small enterprises, but as the welcome sign of bottom-up community involvement, which should trigger and encourage complementary public sector support.

### **6.4 Corporate-funded support**

As part of corporate strategies and a response to the currently negotiated sector charters, larger enterprises have over the past few years shown increasing willingness to help cover the cost of certain support services benefiting small(er) enterprises. This includes:

- Services intended to streamline SME procurement and outsourcing activities;
- Support for small and micro enterprises who purchase from bigger suppliers (for example special credit cards and buyer credit facilities, specialised packaging, client training, etc.);
- Sponsorship of small enterprise development-related functions or NGO services;
- Affirmative action-related activities or preferential conditions, aimed at the fulfilment of charter conditions; and
- Involvement of mentors.

It is difficult to measure the cost equivalent of these services, but the aggregate could already be significant and its level is likely to increase rapidly.

### **6.5 NGOs providing services to small enterprises**

As mentioned already, the number of these bodies first increased in the early to mid-1990s but has in recent years declined substantially. Yet, many of them still exist, with the assistance of established larger (wholesale) funding suppliers (NDA, Ntsika, etc.) or grants provided by provincial or local authorities or a multitude of private sponsors and foreign partners.

This channel and its role as innovative partner in the broad small enterprise support scene should not be underrated, especially for the purpose of outreach to rural areas.

### **6.6 Business associations**

As observed earlier, the role and significance of sector-focused regional and general business associations should still increase substantially in South Africa, with the current difficult integration phase of the national chambers a necessary transition towards more dynamic business “chambers”.

In that process at least some of the costs of small enterprise support should be absorbed through membership fees and member initiatives. Yet, experience has also shown us that the scope for such funding and the initiation of new programmes is distinctly limited, given the voluntary nature of most association memberships.

### **6.7 Public-private partnerships**

In the longer term, the role of PPPs is likely to expand further, given government’s strong commitment towards PPPs in the economic development area and their positive track record in the implementation of support programmes. Yet, PPPs cannot be viewed as an alternative to public sector funding for basic services.

### **6.8 Parastatals and “wholesale” funders**

This category includes the most important larger funders of small enterprise programmes, like the National Development Agency (NDA), the IDC, the DBSA and other SOEs. While they have far wider responsibilities, they are unlikely to reduce their proportional involvement in the small business sphere.

These agencies will remain critical for the further unfolding of the national small enterprise support strategy, with the bulk of their resources coming from national government.

### **6.9 Foreign funding**

During the 1990s South Africa received significant foreign technical and financial support in the small business sphere. Much of this inflow of resources and professional expertise was used to experiment with new programmes or to start pilot schemes. Some of these programmes still continue and more are under consideration.

Notwithstanding this creative input made via foreign aid in the development of South Africa’s national framework of support, we have to accept that its relative significance will further decline in future. What is more, South Africa itself will soon have to start

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some supporting strategies and programmes in other African countries, in line with our Nepad commitments and following on South Africa's rapidly expanding direct investment flows into other African countries. In this context, co-operation with foreign donor nations may lead to a new phase of partnership initiatives across Africa.

Projects of this nature are starting to emerge for example in networking between institutions and entrepreneur associations in 7 African countries.

### **6.10 Government funding of small enterprise support**

This brief review of alternative funding sources for small enterprise support has reconfirmed the diversity of sources, which was already stressed in the White Paper. It has also indicated that small enterprises themselves are aware and willing to increasingly cover the costs of "business services" themselves. Nevertheless, the full range of sources also clearly indicates that national government still has to be the main funder of South Africa's support strategy. This applies to **the dti** programmes as much as to the wide range of sector programmes, the grants to parastatals, infrastructure-funding support for local authorities, the channelling of funds to provinces and support for BEE.

This conclusion has two important dimensions:

- Total government funding for small enterprise support through implementation agencies will have to be continued rather than reduced or phased out; and
- There needs to be new emphasis on co-ordination between small enterprise support funding channelled through different national government departments and other spheres of government.

## **7 Towards an integrated System of Deliverables**

This review has shown that 10 years of development of small enterprise support, guided by the framework of the 1995 White Paper have led to a broad-based system of private, public and PPP programmes focusing on a wide range of needs of South Africa's approximately two million small, medium and micro enterprises.

The evolving support structure can be likened to a very wide, solid base with three interconnected columns on top of it. The base contains what might be called "foundation services" for the small enterprise sector. Essentially, every small enterprise owner/manager (that is, every entrepreneur) should have access to these services within a reasonable distance from his or her business. These basic services should include the supply of relevant business information and market intelligence, advice facilities, mentoring facilities, accessible publications, information about rules and regulations,

scope for research work or the dissemination of research outputs, guidance towards entrepreneurship promotion facilities and details about local or nearby training opportunities.

Such services, which are usually associated with comprehensive, interactive information or business-service centres, should be available in at least each of South Africa's 248 newly consolidated municipalities, but preferably also in larger sub-municipalities like platteland towns within consolidated municipalities, and (black) suburbs/townships within the larger cities (thus, probably well over 300 nation-wide). Such centres could be established through a partnership model by local authorities, provincial government and the National Government, or by some other agencies like the envisaged Seda. Naturally, the establishment of such a service grid with country-wide coverage will demand substantial funds, far more than Ntsika's LBSC initiative in the past. Yet, such funding may be well justified, since it should (once the grid has been established and functions) dramatically improve the effectiveness of targeted support programmes as well as help solve much of the "access to finance" dilemmas and ease most BEE/affirmative action efforts related to small enterprises.

In addition to these basic services, four sets of specialised support needs have to be addressed:

- A The different dimensions of BEE, as they are integrated with the different small enterprise support programmes.
- B Targeted support for small enterprises initiated, owned or managed by particular groups (women, rural people, the youth, the disabled, "turnaround" candidates, exporters, etc.) or small enterprises in particular growth sectors (like tourism, the film sector, ICT firms, etc.) and locations (like small towns and rural areas).
- C Efforts to widen access to finance for small enterprises, especially where there are glaring market failures, i.e.
  - Provision of micro finance
  - Short-term financing needs to support procurement opportunities
  - Start-up funds
  - Financing black-owned entrepreneurs.
- D Efforts to bridge the gap between South Africa's "Second Economy" and the conventional "formal sector economy".

Looking ahead towards the next decade of small enterprise support and support needs, a few critical points can be raised in conclusion.

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- The gradual acceleration in South Africa's annual real growth rate, which is expected to stimulate consumer spending, investments and job creation, should also expand the scope for small enterprise start-ups and the growth of small enterprises in the country.
  - Higher growth, increased urbanisation levels, an expanding black middle class and improving educational standards are factors that improve the potentially positive impact of existing or further small enterprise support programmes. These are also factors likely to facilitate the transition of second-economy enterprises into mainstream enterprises.
  - With a wide range of support policies having evolved over the past decade, effective steps to improve the co-ordination and integration of these support programmes should soon lead to a significantly improved impact of these programmes.
  - Concerted BEE efforts, combined with new types of partnerships in the small enterprise sphere, should also lead to positive spin-offs.

Thus, looking at the macro level, it is expected that (comparable to trends in other developing countries like Malaysia and those in eastern Europe), years of deliberate and ever more focused small business support should soon lead to increased positive "returns" on these efforts. These positive results are likely to be further strengthened by the increase in private sector-driven business development services and the interaction between these public and private sector spheres of small enterprise support.