

Unlocking potential in an enterprising nation

*The Integrated Small Business Development
Strategy in South Africa
2004 - 2014*

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Abbreviations

AGOA	African Growth and Opportunities Act
BEE	Black economic empowerment
BEE.Com	Black Economic Empowerment Commission
BRAIN	Business Referral and Information Network
CBD	Central Business District
CBO	Community-based organisation
CCs	Close corporations
CGIC	Credit Guarantee and Insurance Corporation
CSIR	Council for Scientific and Industrial Research
D.G.	Director-General
DBSA	Development Bank of Southern Africa
DPLG	Department of Provincial and Local Government
DTI	Department of Trade and Industry
EMIA	Export Marketing and Investment Assistance Scheme
EU	European Union
FET	Further Education and Training
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit
HDI	Historically Disadvantaged Individuals
HRD	Human Resource Development
HSRC	Human Sciences Research Council
IDC	Industrial Development Corporation
ICT	Information and Communication Technology
LBSC	Local Business Service Centre
LED	Local Economic Development
LIP	Local Industrial Park
MAC	Manufacturing Advice Centre
NAFCOC	National African Chamber of Commerce
NAMAC	National Manufacturing Advice Centre
NGO	Non-governmental organisation
NPI	National Productivity Institute
NRF	National Research Foundation
NSBC	National Small business Council
PDI	Previously disadvantaged individual
RSA	Republic of South Africa
SABS	South African Bureau of Standards
SADC	Southern African Development Community
SARB	South African Reserve Bank
SAWEN	South African Women Entrepreneur Network
SB	Small business

SBDC	Small business Development Corporation
SETA	Sector Education and Training Agency
SMEDP	Small/Medium-Enterprise Development Programme
SMEs	Small and medium enterprises
SMME	Small, medium and micro-Enterprises
SPF	Sector Partnership Fund
SSA	Statistics South Africa
TAC	Tender Advice Centre
TIDP	Trade and Investment Development Programme
TIPS	Trade and Industrial Policy Strategies
UK	United Kingdom
USA	United States of America

Executive Summary

The Integrated Small Business Development Strategy (ISBDS) presents the way forward for small business development in South Africa over the next ten years (i.e., 2004-2010). It is the result of a thorough process of review, consultation, research and refinement. This process has built upon the successes of the Government in macro economic development and small business promotion, while responding to the concerns raised by stakeholders within Government, the private sector (especially the small business sector), organised labour and civil society.

Over the last decade the small business sector has played an increasingly important role in South Africa's economic growth and development. After the political transformation of 1994, Government adopted the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (1995). This White Paper created an enabling environment for the accelerated growth of small businesses following a history characterised by the dominance of large, capital-intensive firms and the continued neglect of small enterprises.

Since the adoption of the 1995 White Paper, Government has introduced a range of macro economic and sector-specific reforms and development programmes that influence the capacity of small businesses to operate competitively in national and international markets. There has also been a significant body of knowledge and experience compiled in recent years, which has improved the understanding of the small business sector and the roles Government and other stakeholders can perform in supporting, facilitating and regulating the development of the sector.

Through this strategy, the roles of small business in job creation, economic empowerment, and poverty reduction are recognised and enhanced. Regardless of whether they are found in urban centres or rural settlements; engaged in trading, manufacturing or services; run by men or women, small businesses are a representation of South Africa's entrepreneurial spirit. Thus The Integrated Small Business Development Strategy (ISBDS) presents the way forward for small business development in South Africa over the next ten years. It is the result of a thorough process of review, consultation, research and refinement. This process has built upon the successes of the Government in macro economic development and small business promotion, while responding to the concerns raised by stakeholders within government, the private sector (especially the small business sector), organised labour and civil society. Through this strategy, the role of small business in job creation, economic empowerment, and poverty reduction are recognised and enhanced. Regardless of whether they are found in urban centres or rural settlements; engaged in trading, manufacturing or services; run by men or women, small businesses are a representation of South Africa's entrepreneurial spirit.

The Small Business Act (1996) defines the small business sector. The Integrated Small Business Development Strategy has built upon this definition and embraces all micro, small and medium-sized enterprises. Thus, small businesses of all kinds will benefit from the directions and initiatives outlined in the strategy. An entrepreneurial nation is one in which people from all walks of life can seize initiative and become an active participant in the nation's economic and social development. Government will intensify its efforts to unlock the potential of the small business sector as a whole, by creating a business environment that is market-driven and conducive to the entrepreneurial endeavours of all South Africans. However, within the broad range of business promotion efforts Government will pay special attention to three key target groups.

The Integrated Small Business Development Strategy recognises that not all small businesses are the same. Small businesses have different development needs, capacities and opportunities. They contribute to the goals of growth, equity, job creation and poverty reduction in different ways. With this in mind, there are three categories of businesses identified by the Integrated Small Business Development Strategy, which deserve special support. These are:

- 1 Micro enterprises: These are very small businesses, often involving only the owner, some family members or with one or two paid employees. They usually lack 'formality' in terms of business licenses, value-added tax (VAT) registration, permanent business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills. For most people, the entry into the business world begins with a micro enterprise. Thus, the micro enterprise sector contains many black people, women, and young people. It is for this reason that the development of the micro enterprise sector offers so much to the development of the country. The Integrated Small Business Development Strategy promotes the development of micro enterprises into viable small businesses, where employment, earnings and profits are increased, along with job security and competitiveness in the marketplace.
- 2 Small business in high-growth sectors: Because some small businesses grow faster than others, the Integrated Small Business Development Strategy focuses on those operating in high-growth sectors. Regardless of whether these are micro, small or medium-sized enterprises, support for this category of enterprise centres on the delivery of integrated, sector specific development. Indeed, sector development will promote linkages between enterprises of all sizes. These initiatives will be linked to sector development initiatives such as the Government's integrated manufacturing strategy.
- 3 Black-owned and managed small and medium enterprises: This is the category of enterprise that can produce a high number of jobs through business expansion strategies. Public support for enterprises within this category will be of a generic nature, centring on business infrastructure, information and training facilities, as well as the maintenance of an appropriate regulatory framework and the rectification of market failures or inefficiencies. However, since black entrepreneurs are seriously under-represented in this category, black economic empowerment policies will be a critical part of programmes servicing this target group.

Over the period 2004-2014 the Integrated Small Business Development Strategy shall pursue the following objectives:

- 1 Increase the contribution of small business to the growth of the South African economy
- 2 Create an enabling environment for small enterprises, which levels the playing field between big business and small business, reduces the disparities between urban and rural businesses, and is conducive to entrepreneurship
- 3 Create sustainable long-term jobs for women and men in the small business sector
- 4 Ensure previously disadvantaged individuals, women, people with disabilities, and young women and men are equitably represented in the small business sector
- 5 Increase the competitiveness of the small businesses sector so that it is better able to take advantages of opportunities emerging in national, African and international markets
- 6 Improve communication between government and the small business community

There are three strategic directions followed by the Integrated Small Business Development Strategy in pursuit of its vision and objectives. Government will implement a series of concrete directions and actions within each of these strategy areas—as outlined below.

1 Promoting entrepreneurship

The Integrated Small Business Development Strategy (ISBDS) focuses on entrepreneurship by recognising the many entrepreneurs and entrepreneurial activities can be found across South Africa. Entrepreneurs are diverse, but within this diversity they share a common desire and attitude. They display a willingness to work on their own or with others to create new economic opportunities and introduce their ideas, products and services to the market, in the face of uncertainty and other

obstacles. Their efforts create new businesses or self-employment opportunities, but can also lead to the expansion of existing businesses.

Within this strategic direction, the Government will ensure that there is a policy framework and business environment established that is conducive to entrepreneurship. This will be done through the following actions:

- *National entrepreneurship promotion campaign:* Government will design a national entrepreneurship promotion campaign to bring to public attention the substantial resource that entrepreneurs offer South Africa, to recognise and celebrate entrepreneurs, as well as to encourage others to adopt enterprising attitudes. The aim of the national entrepreneurship promotion campaign is to raise awareness amongst all South Africans regarding the possibilities and opportunities for undertaking new initiatives.
- *Creating an inter-ministerial response to the development of entrepreneurs:* Government will mobilise its relevant departments, development agencies as well as provincial and local authorities, and the private sector, to provide integrated support to the development of entrepreneurs. This will be achieved through the launch of a well-focussed Entrepreneurship Programme.
- *Expanding franchise opportunities:* Government has already commenced work on the promotion of franchises as a mechanism for entrepreneurship promotion. It will continue this work through the adoption of a national Franchising Strategy for Small Business Development that promotes the contribution of franchising to job creation, income generation and the economic empowerment of historically disadvantaged entrepreneurs. This will include the promotion and regulation of ethical franchise practices.
- *Better access to information and advice:* Because entrepreneurs need access to relevant information and advice, the Government will enhance the design and delivery of package these supports to better address the needs, capacities and development opportunities of the target groups identified in the ISBDS.
- *Strengthening business associations:* Government will establish a Chamber Development Programme to maximise the potential of chambers of commerce in contributing to economic development by broadening the participation of small business owners and managers in local and provincial chambers. This will provide entrepreneurs with a venue for sharing ideas, needs and opportunities, as well as platform for representation at local, provincial and national levels.

2 Unlocking potential through better business environments

Small businesses need markets to work within and the potential of these markets—whether domestic or global—should be unlocked for all South Africans. Currently, many small businesses still face market conditions that exclude them or that work in favour of large enterprises. Government is committed to ensuring that markets work effectively for all, while recognising that there are times when intervention is required to achieve a desired public good, such as social equity.

Government regulations must become more sensitive to the influence they have on the small business sector. While laws and regulations are required to protect our society and the environment, they are also needed to protect small business customers, workers, and trading partners. Thus, business regulations need to be carefully designed and enforced, as do labour regulations and other policies, programmes and incentive schemes related to markets (e.g., improving access to public-sector procurement contracts, consumer markets, corporate procurement, and export markets). This will be done through the following actions:

- *Small business-sensitive regulations:* Government is committed to overcoming the hurdles to non-racial competition and a better understanding the impact the legal and regulatory framework has on small businesses and the capacity of the small business sector to generate new, good quality jobs. Government will intensify its assessment of the legal and

regulatory environment. This will include the establishment of the *Small Business Advisory Council* to monitor and review legal and regulatory issues affecting the small business sector.

- *Improving labour relations in small business:* While balancing the need for laws and regulations that protect small business workers with the desire to reduce the compliance costs incurred by business, Government will identify small business concerns and constraints in relation to labour through regular monitoring, research and consultation. It will initiate processes to simplify compliance procedures so that small business owner-managers are able to understand their labour obligations and comply with these in an efficient and cost-sensitive manner.
- *Access to markets:* Government will improve the access small businesses have to domestic and foreign markets by improving access to public and corporate procurement contracts, promoting small business participation in foreign trade programmes and strengthening market opportunities in high-growth sectors.
- *Increasing the effectiveness of incentives:* The Government's current range of financial incentives designed to help create opportunities for profitable business will be regularly reviewed and monitored by the Department of Trade and Industry (**the dti**) in association with the newly created *Small Business Advisory Council*.

3 Promoting more competitive small businesses

To become more competitive in national and global markets, South African small businesses need to access the inputs they require to provide their product or service. They need to be able to make use of infrastructure facilities that are reliable, affordable and up to standard. They need to be able to obtain the finance and technology they require, and they need good business management skills. Thus, the Government is committed to building the capacity of the small business sector to respond to new market opportunities by making the small business sector more competitive. This will be done through the following actions:

- *Infrastructure facilities:* Government will undertake a research and monitoring programme to assess the cost of inadequate infrastructure on the performance of the small business sector, so that Government departments and parastatal organisations responsible for infrastructure development can become more aware of the demand for small business infrastructure and its impact on national social and economic development. Existing cost-sharing incentive programmes will be continued and Khula Enterprise Finance Limited will become more active in finance property development in disadvantaged communities.
- *Technology transfer and incubation:* Government will build upon the successes achieved by the piloted Manufacturing Advice Centre, the Godisa Trust and other initiatives that integrate technology transfer processes with business support programmes.
- *Access to finance:* Because small businesses in South Africa continue to face obstacles in obtaining the finance they require to start-up or expand—especially micro enterprises, black-owned enterprises, and enterprises owned by women—Government will continue to pursue innovative schemes to mobilise more savings funds to small businesses. This includes the establishment of an APEX Fund for micro enterprises and the design of industry-specific small business financing schemes. An alternative stock exchange (AltX) is soon to be launched in collaboration with the JSE Securities Exchange South Africa to expand the financial options available to small and medium-sized enterprises.
- *Access to appropriate skills:* Government will improve the coordination and quality of business skills development so that it is more responsive to demand, business-oriented, and competitively focussed. Skills development through the Sector Education Training Authorities and the use of specialised learnerships will be more comprehensively promoted.

- *Increasing research capacities and improving the dissemination of results:* Government will continue to co-fund prioritised research and will create alliances and improve coordination among research agencies working in the small business sector within South Africa, as well as internationally. **The dti** will establish a centralised resource on the small business sector in South Africa and an annual Small Business Review will be published alongside the organization of an annual Small Business Summit.

The institutional framework for small business development will be streamlined and better focussed in the coming ten years. The lessons of fragmentation have been learned and the Government—through **the dti**—will take decisive steps to ensure all agencies work in a coordinated, accountable and well-focussed manner.

This will include three major new initiatives. Firstly, the establishment of an *Interdepartmental Committee on Small Business* that will be chaired by the Office of the President and supported by **the dti**. This Committee will ensure that all government departments (national and provincial) work together. In time, the mandate of this Committee will expand to include parastatal agencies working in the field of small business development.

Secondly, the Government will establish the *National Small Business Advisory Council* to advocate on issues of importance to the small business sector and advise the Government. The Council will consider the impact of small business development in relation to the national economy, and will comment on the effectiveness of small business development programmes.

Thirdly, Government will bring together all business development agencies under one delivery umbrella. The *Small Business Development Agency* will provide a coordinated, single brand of development services currently provided by agencies such as the Ntsika Enterprise Development Agency and the National Manufacturing Advice Centre. Initially, financing agencies such as Khula Enterprise Finance Limited, will be kept separate from the Small Enterprise Development Agency, but this issue will be investigated to ensure that both financial and non-financial services are provided in a seamless, demand-oriented manner.

The Integrated Small Business Development Strategy will be implemented through annually defined targets and reporting mechanisms. A mid-term review of the strategy will be undertaken in 2009.

Foreword

Strengthening the role small businesses can play in the economic and social development of South Africa is one of the most important challenges currently facing this country. Considerable progress has been made in the promotion of small businesses since the acceptance of the 1995 White Paper, which created a new institutional framework for public-sector support. However, nation-wide consultations over the last two years have shown the strategies contained in the 1995 White Paper have to be reviewed, adjusted and supplemented in order to benefit from lessons learnt and adapt to changing needs.

Effective strategies to promote small businesses must be embedded within the full spectrum of the country's economic development strategies. These include, among others, the Integrated Manufacturing Strategy, Skills Development Framework, the Integrated Sustainable Rural Development Strategy, local economic development frameworks, the Broad-Based Black Economic Empowerment strategy, and the Cooperative Development Strategy. Small business development can contribute significantly to the achievement of these strategies. Effective coordination of these different thrusts is critical to the success of implementing an integrated small business strategy.

Over the past decade, it has become clear that the vast number of small businesses can only be reached with appropriate support if national, provincial and local authorities, parastatals and the organised business community, as well as non-government organisations work together. As it is necessary to approach small businesses in each sector or industry and each region or location in a properly adapted way, support thrusts will have to contain inputs from each of these support agencies. National government establishes the overall framework and has put in place core institutions, with the other bodies and levels of government complementing through their support programmes.

This document should be seen as a guideline in the unfolding of South Africa's small business support. It provides a basis for a roadmap for state action and key indicators for progress. As such it should encourage all the players and stakeholders in this field to co-operate and to make our national small-business support process as rich and tailor-made as practically possible.

1 Introduction

The Integrated Small Business Development Strategy (ISBDS) presents the way forward for small business development in South Africa over the next ten years. It is the result of a thorough process of review, consultation, research and refinement. This process has built upon the successes of the Government in macro economic development and small business promotion, while responding to the concerns raised by stakeholders within government, the private sector (especially the small business sector), organised labour and civil society. Through this strategy, the role of small business in job creation, economic empowerment, and poverty reduction are recognised and enhanced. Regardless of whether they are found in urban centres or rural settlements; engaged in trading, manufacturing or services; run by men or women, small businesses are a representation of South Africa's entrepreneurial spirit.

1.1 The purpose of the integrated small business development strategy

This document lays out a strategy for the development of small businesses in South Africa over the next ten years (2004-2014). It provides a rationale for a strategic and integrated response to the needs, challenges and opportunities facing the small business sector.

Over the last decade the small business sector has played an increasingly important role in South Africa's economic growth and development. After the political transformation of 1994, Government adopted the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (1995). This White Paper created an enabling environment for the accelerated growth of small businesses following a history characterised by the dominance of large, capital-intensive firms and the continued neglect of small enterprises.

Since the adoption of the 1995 White Paper, Government has introduced a range of macro economic and sector specific reforms and development programmes that influence the capacity of small businesses to operate competitively in national and international markets. There has also been a significant body of knowledge and experience compiled since this time, which has improved the understanding of the small business sector and the roles Government and other stakeholders can perform in supporting, facilitating and regulating the development of the sector. Some of these experiences and lessons were captured in a review of the Government's strategy in 2001, which was undertaken by the Department of Trade and Industry (hereafter referred to as 'the dti').

Thus, the Integrated Small Business Development Strategy (2004-2014) endorses the directions set by Government in 1995 and applies the experiences and lessons of the last eight years. The Strategy embraces the broader initiatives and reforms of Government and integrates these into a ten-year development framework.

1.2 Defining the small business sector and setting targets for support

The term "small business" is a generic term used throughout this document to describe privately owned enterprises that are of a smaller class-size. The ISBDS recognises the definitions adopted by the National Small Business Act (1996). These class size definitions are divided into 'micro', 'small' and 'medium' sized enterprises (SMMEs).

The ISBDS distinguishes between a general definition used to describe the small business sector as a whole and specified targets. All small businesses in South Africa will benefit from the actions outlined in the Integrated Small Business Development Strategy, but within the broader framework a few categories of small business will receive special attention.

1.2.1 Definitions

Turning firstly to the issue of definition. The smallest class described by the National Small Business Act (1996) are micro enterprises and it is within this class that the terms 'survivalist enterprise' and 'very small enterprise' are sometimes applied. Thus, the Integrated Small Business Development Strategy adopts the following definitions:

Micro enterprises: These are the smallest enterprises in the small business sector. They can be found in both the formal and informal economies. Because of their size, they do not usually qualify for VAT registration. They have informal accounting and operation procedures. Typically, their compliance with labour legislation is weak. The vast majority of micro enterprises are owned and managed by black women and men.

Most metal workers, furniture makers, spaza-shops, home-based enterprises, and mini-taxis belong to the micro-enterprise category. However, there may also be artisans and professionals operating micro enterprises, although these are a small proportion of enterprises in this class size.

Sometimes, the term 'survivalist' is used when referring to enterprises within this class. These enterprises generate income that is less than the minimum income standard or the poverty line. Economic activity is directed at providing minimal means to keep the unemployed and their families alive. There are no paid employees and asset value is negligible. Examples of survivalist enterprises include hawkers, vendors and subsistence farmers.

The term "very small enterprise" has been used in the *National Small Business Act* (1996) to refer to enterprises with less than ten paid employees (except for the mining, electricity, manufacturing and construction sectors, where the limit is 20 employees). These enterprises operate in the formal economy and have access to modern technology.

Thus, in employment terms, the Integrated Small Business Development Strategy considers the class size known as 'micro enterprises' to cover self-employed with no employees up to an enterprise with ten workers.

Small enterprise: Small enterprises tend to be more established than micro enterprises and their business practices tend to be more complex. Most often the enterprise has outgrown direct supervision by the entrepreneur, and has developed a secondary co-ordinating mechanism distinguishing it from a micro enterprise. Growth into a medium-scale enterprise requires an accumulation of resources as well as the appropriate incentives for enterprise expansion.

There are fewer black people who own and manage small enterprises, compared with those in micro enterprises. In employment terms, a small enterprise employs from 11 to 50 paid workers.

Medium-sized enterprises: The maximum number of employees is 100, except for the mining, electricity, manufacturing and construction sectors, where it is 200 employees. Although these enterprises are still owner-manager controlled, the ownership and management structure is more

complex. Often, decentralisation of power to an additional management layer, division of labour, and functional differentiation, are characteristics that help distinguish between small and medium-sized enterprises. The separation of ownership and management is the natural barrier between medium and large enterprise. Black ownership in this size class is considerably less than in the others.

As will be described later in this document, the Integrated Small Business Development Strategy will deepen research conducted into the small business sector in South Africa in the coming ten years. This will ensure a better understanding of the dynamics, constraints and growth potential of the small business sector. However, it will also produce a clearer picture regarding the size of the small business sector and the sub-sectors identified above. Thus, this information will lead to a submission by **the dti** to amend the abovementioned definitions contained in the Small Business Act (1996) so that they reflect the profile of the small business sector.

1.2.2 Targets of development support

The Integrated Small Business Development Strategy has identified three categories of small business that require particular development supports. These are as follows:

1.2.2.1 Micro enterprises

The ISBDS recognises that the micro enterprise sector is an important base of entrepreneurship. Since 1994, there has been a surge of small business development in South Africa, most of which has occurred in the micro enterprise sector. For most people, the entry into the business world begins with a micro enterprise. Thus, the micro enterprise sector contains many black people, women, and young people. It is for this reason that the development of the micro enterprise sector offers so much to the development of the country.

1.2.2.2 Small business in high-growth sectors

Some small businesses grow faster than others. While the nature of entrepreneurship makes it impossible to predict which enterprises will grow faster than others, there are sectors within the South African economy that clearly have the potential for rapid growth. Thus, support for this category of enterprise will centre on the activation of sector-growth potential, within the broader context of South Africa's integrated manufacturing strategy. Black empowerment support should also apply to this category of small businesses ideally linked to other sector-support policies.

1.2.2.3 Black owned and managed small and medium enterprises

This is the category of enterprise that can produce a high number of jobs through business expansion strategies. Public support for enterprises within this category will be of a generic nature, centring on business infrastructure and information and training facilities, as well as the maintenance of an appropriate regulatory framework and the rectification of market failures or inefficiencies. However, since black entrepreneurs are seriously under-represented in this category, black economic empowerment policies will be a critical part of programmes in this category.

Further descriptions of these target categories and the development support that will be provided to them is outlined later in this document.

1.3 A vision for the South African small business sector

The Integrated Small Business Development Strategy envisions South Africa as an entrepreneurial nation that rewards and recognises those who see a business opportunity and pursue it. This vision encompasses a vibrant and competitive small business sector that contains enterprises of all sizes and in which there is growth from the micro to the small to the medium and to the large. Those who were once excluded from full participation on the economy will have had access to support

and development services to help them redress the deficits that stem from such exclusion and are now competitive participants in local, national, African and international markets.

There are three strategic directions followed by the ISBDS in pursuit of this vision. These are as follows:

1.3.1 Promoting entrepreneurship

The ISBDS focuses strongly on entrepreneurship by recognising the many entrepreneurs and entrepreneurial activity that can be found across South Africa. Entrepreneurs are diverse: they can be young or old, they can be setting up a business in a modern Johannesburg office block, or in the confines of their own home; they can be women or men; they can be black or white; they can be in rural settings or urban ones. However, within this diversity they share a common desire and attitude. They display a willingness to work on their own or with others to create new economic opportunities and introduce their ideas, products and services to the market, in the face of uncertainty and other obstacles. Their efforts create new businesses or self-employment opportunities, but can also lead to the expansion of existing businesses.

Within this strategic direction, the Government will ensure that there is a policy framework and business environment established that is conducive to entrepreneurship. By providing the right conditions, South Africa will maximise the benefits it can draw from the efforts of our entrepreneurs.

1.3.2 Unlocking potential through better business environments

The second of the policy thrusts focuses on responding to the demand side of the small business sector. It recognises that small businesses need markets to work within and that the potential of these markets—whether domestic or global—should be unlocked. Many small businesses are faced with market conditions that exclude them or that work in favour of large enterprises. Government is committed to ensuring that markets work effectively for all, but that there are times when intervention is required to achieve a desired public good, such as social equity.

Government regulations must become more sensitive to the influence they have on the small business sector. While laws and regulations are required to protect our society and the environment, they are also needed to protect small business customers, workers, and trading partners. Thus, business regulations need to be carefully designed and enforced, as do labour regulations and other policies, programmes and incentive schemes related to markets (e.g., improving access to public-sector procurement contracts, consumer markets, corporate procurement, and export markets).

1.3.3 Promoting more competitive small businesses

The third policy thrust focuses on enhancing the capacity of small businesses to respond to opportunities. Small businesses need to access the inputs they require to provide their product or service. They need to be able to make use of infrastructure facilities that are reliable, affordable and up to standard. They need to be able to obtain the finance and technology they require, and they need good business management skills. Thus, the Government is committed to building the capacity of the small business sector to respond to new market opportunities by making the small business sector more competitive.

2 The context of small business development in South Africa

2.1 The national contribution and challenge of small business development

The existence of a vibrant small business sector often indicates the presence of an entrepreneurial spirit and an economically healthy society. Although facing many structural difficulties, the small business sector is a significant contributor to the South African economy. According to the Ntsika Enterprise Development Agency (2000), small businesses represent 98 per cent of the total number of firms in South Africa. They employ 55 per cent of the country's labour force and contribute approximately 42 per cent to total remuneration. Small businesses collectively contribute 35 per cent towards South Africa's total GDP. However, they also contribute more than 40 per cent of GDP in four of the eight major economic sectors: agriculture, construction, trade, and transport. Trade, construction and transport are notably three of the largest and fastest growing sectors in which small business participate.

Of the approximately 1.7 million small business owner-managers, 41 per cent are women.

The key development challenges facing South Africa can be categorised into three:

- National development challenges
- South African small business and the New Partnership for African Development
- Development challenges of a globalised world-economy

The Integrated Small Business Development Strategy has been designed to address these challenges and has taken into consideration all opportunities.

2.1.1 Small business markets and the restructuring of state assets

Since 1994, there has been significant restructuring of public assets and the public sector. This has led to an increase in the size and scope of private sector activities. It has also increased the involvement of foreign firms and created greater opportunities for new types of cooperation between large and small businesses. Most of all, it has increased competition in the economy and enhanced the competitiveness of the South African economy. This requires the small business sector to become more competitive.

2.1.2 Changing labour relations and the small business sector

Over the last decade, South Africa has experienced an increasing transformation in its labour and industrial relations, which has also had a lasting impact on small business employment. More recently, a number of new laws have been introduced to safeguard workers' rights, which have indirectly increased the cost of labour. Because small businesses are major employment generators, they are in centre of this transformation process.

2.1.3 Small businesses and the ICT revolution

The wave of technological advances introduced by new information and communication technologies have a significant influence on the performance of small businesses. While this has helped small businesses to become more competitive, increase their exports, and strengthen their market position, it has also increased intensified competition—for which many small businesses have not been prepared. Thus, small businesses need to be able to make effective use of information communication technology and to gain access to new technologies.

2.1.4 Small businesses and HIV/AIDS

The HIV pandemic affects all segments of society and the economy. It impacts on small businesses through drastically increased labour turnover, higher health cost, and increased absenteeism. All of these effects contribute to an increase in the costs of doing business. In the short run, the greatest

challenge for all small businesses is to raise awareness about HIV/AIDS to counter the further spread. It also calls for more dedicated staff training in order to forestall skill gaps.

2.1.5 Wider objectives and thrusts of small business support

Public sector support for small business development is based on a number of core objectives. Awareness of these objectives is critical for the evolution of an effective small business support strategy. The following, derived from **the dti's** core objectives contained in the integrated manufacturing strategy, can be viewed as fundamental goals of small business support:

- Creation of sustainable jobs
- Stimulation of the competitiveness of the economy
- Increased contribution to economic growth
- Broad-based black economic empowerment
- More balanced spread of business, opportunities and personal wealth
- Higher levels of domestic and foreign investment as well as exports
- Support for women's enterprises

2.1.6 South African small business and the African continent

Regionalisation has important consequences for South Africa's economic and trade interaction with its neighbouring countries on the African continent. Evolving out of trade and other contacts small businesses have become investors and joint-venture partners in neighbouring countries.

Many South African firms (both large corporations and small businesses) are outsourcing some of their inputs to neighbouring countries. This trend is further stimulated by foreign-trade agreements like the US African Growth and Opportunities Act. In addition, a high proportion of small businesses are involved in southern African regional tourism. South African education and training facilities and programmes are widely used by people in neighbouring countries; this also applies to training for the small business spheres.

The New Partnership for Africa's Development (NEPAD) provides an important opportunity for the Government as well as for the development of South Africa's small business sector. NEPAD is a pledge by African leaders, based on a common vision and a firm and shared conviction, that they have a pressing duty to eradicate poverty and to place their countries on a path of sustainable growth and development, and at the same time to participate actively in the world economy and body politic. The Programme is anchored on the determination of Africans to extricate themselves and the continent from the malaise of underdevelopment and exclusion in a globalising world. The NEPAD initiative will further stimulate regional integration and should provide further opportunities for small business development in the context of intra Africa trade.

2.1.7 Development challenges of a globalised world-economy

The heart of globalisation is the massive extension of markets, due to the reduction in long-distance transport costs and the introduction of technological changes coupled with policy measures aimed at reducing barriers to the movement of goods and capital. Until 1994, South Africa was largely "protected" from these forces, due to its political, social and economic isolation. This had been preceded by decades of inward-orientated economic development. Today, South African small businesses are experiencing a more open economy in which foreign competition is closely entwined in the national economy.

Small businesses are exposed to world competition—both in the export and the import substitution spheres—more than ever before. This exposure means opportunities for more business and increased turnover, witnessed by the phenomenal growth of South Africa's automotive component sector, the agro-processing sector, and the tourism industry. However, increased competition means that small businesses that are unable to compete or unprepared to face market changes, are threatened by further marginalisation and, ultimately, business failure.

2.1.8 Responding to the current state of the small business sector

Despite the efforts contained in the 1995 White Paper, racial inequalities within the South African small business sector remain. In 1996, black entrepreneurs were concentrated at the lower end of the small business spectrum, and the overwhelming majority of survivalist entrepreneurs were black (87%). The presence of black entrepreneurs was found to decrease noticeably as the size of the enterprise increased. According to The Ntsika Enterprise Development Agency (1998), 'relatively few' very small and small enterprises are owned by individuals from previously disadvantaged groups. The 2001 Labour Force Survey found that white males are most likely to be entrepreneurs (19%) followed by Indian males (14%). African women are however, slightly more likely than African males to run any kind of business (11% compared with 8%).

The historical legacy of apartheid-based restrictions and control of access to entrepreneurial opportunities has dampened the entrepreneurial spirit of many and lessened their motivation towards self-employment and innovation. This has been exacerbated by the current lack of entrepreneurial and technical education. Historical limitations for black entrepreneurs to accumulate assets and capital are an additional constraint. Internationally as well as in South Africa, most start-ups use their own funds, as most financiers are reluctant to enter unknown and risky segments of the market.

Limited formal education and exposure to management experience also contributes to the limited business and management skills of black entrepreneurs. There is some indication that this is changing but will take more effort.

Business associations have very limited membership coverage, and most suffer from limited operational capacities, and this results in poor communication between government and small business community.

2.2 Evolution of the Government's response to the small business sector

The White Paper on the National Strategy for the Development and Promotion of Small business in South Africa (1995) was an initial attempt of the post-apartheid government to create an enabling environment for the growth of small business, following a history characterised by large, capital-intensive firms and the continuous neglect of the small business sector.

There were ten key principles underlying the Government's national small business strategy in 1995:

- A joint vision for big, medium and small business in South Africa
- All the segments of the small business sector required attention
- Improving the efficiency and competitiveness of all small businesses
- Attention must be given to both the supply and demand side of small business activities
- Black advancement in through small business development—special emphasis was also placed on other marginalised or disadvantaged groups
- Prioritisation of support programmes and the skilful matching of different resources
- Sector focused and targeted use of public funds
- Restructuring of the institutional framework for small business support
- Department of Trade and Industry has ultimate responsibility for small business development
- Recognition of the critical roles that different stakeholders play in small business development

These objectives remain unchallenged. The White Paper and the National Small business Act (1996) paved the way for public sector institution building, including the dti's Centre for Small business Promotion, Ntsika Enterprise Promotion Agency, Khula Enterprise Finance Limited, the National Small Business Council and Provincial Small Business Directorates.

During the past few years a number of reviews of these agencies and the overall level of support of small enterprises revealed implementation challenges that demonstrated strategies that need to be reviewed, revised and aligned with new developments. In particular the 1999 mid-term review and widespread consultations identified a number of weaknesses. The most significant of these were:

- The generic approach towards small business development proved ineffective, suggesting the need for differentiated services, instruments and delivery concepts adapted to the different segments of small, medium, and micro enterprises
- The dti co-ordination function through its Centre for the Promotion of Small Business was not effective and therefore requires championing
- Support institutions and programmes that have proliferated across Government need consolidation, while newly formed institutions revealed limited operational capacity and outreach but provide important implementation lessons (e.g., Ntsika Enterprise Development Agency, Khula Enterprise Finance Limited)
- Wide spread regional and local differences in policy absorption called for a more bottom-up approach
- The promotion of entrepreneurship in the context of basic formal and technical education needs special attention
- Business associations need to play a more significant role in the support process

Already, the Government has responded to these challenges in number of ways described in this document. It has reformed a number of public sector institutions servicing the small business sector and established a number of new support interventions to respond to the emerging new challenges of small business support. This document consolidates the efforts of the Government over recent years within an integrated support framework and sets a new course for government intervention.

2.3 Lessons learnt in small business development

2.3.1 Sharpening the focus of policy

The broad brush approach to small business development contained in the 1995 Strategy, while reflective of the demands of a nascent democracy has, in today's South Africa, run its course. Experience over the last eight years has shown that a more sharply defined strategy is required. Thus, small business promotion should be based on a greater degree of integration with national macro economic frameworks as well as on the specific needs, constraints and opportunities found among the diversity of small businesses.

With more than a million small businesses in the South African economy, and about two million "survival entrepreneurs" struggling for an income through some sort of "self-employment", it is essential to differentiate support strategies on the basis of broad target groups. Thus, we have to distinguish approaches catering for established small enterprises.

While ultimately both are contributing to goals like poverty alleviation and job creation, the former group will do so through economic growth and viable operations sustainable over time, whereas the latter category needs a closer interaction between poverty relief and self-employment. The strategic framework presented here makes a distinction between three categories of small business and a fine-tuning of support according to more detailed target groups.

2.3.2 Integrating small business development and black economic empowerment

Redressing the legacy of apartheid is one of the strategic objectives that can be achieved through small enterprise development. However, the results of small business development still show that very few black-owned enterprises have effectively accessed the resources required for their support. This is evident by the number of declined or the number of unsuccessful applications by black owned enterprise to either access finance or access procurement opportunities which have been designed

for their benefit. Therefore, it is clear that BEE still needs to be harnessed, supported and stimulated for better results than the country has seen so far.

2.3.3 Poverty Alleviation

Poverty alleviation can be a result of successful small business development. The experiences of the past few years have shown that poverty alleviation and enterprise development cannot be achieved through the same means. While poverty alleviation is a critical objective of small enterprise development, it requires interventions that are focussed on the dynamics of small businesses and the markets they operate within. Thus, small business development agencies face a great challenge to focus on business development while keeping the broader goal of poverty alleviation in sight.

Poverty alleviation generally requires the allocation of considerable amounts of resources to social functions without expecting immediate returns. The challenge is to respond to the general social and economic needs of poor people and their communities, while maintaining a clear focus on the specific development functions of small businesses. Not all poor people should be forced into self-employment. But, by working with entrepreneurs in poor communities, new sustainable jobs and household incomes can be created.

2.3.4 Streamlining the institutional framework for small business development

The number of small business development agencies has grown significantly over the past few years. These have been initiated by a wide variety of role players. Thus, there is a need to ensure that the institutional framework for small business development is integrated and streamlined.

Ensuring effective collaboration, integration and clarity of roles across all agencies requires vertical as well as horizontal integration. Vertical integration refers to coherence between national, provincial and local levels of business support, while horizontal integration refers to the connections between government and non-government agencies within each of these levels.

The **dti** has an essential role to play in the coordination and integration of small business support agencies. Through the **dti**, the Government will ensure that streamlining and coordination will:

- Eliminate or reduce duplication
- Achieve optimal use of existing resources
- Maximise the impact of small business development programmes
- Achieve a coherent and comprehensive response to the needs, capacities and opportunities of the small business sector
- Ensure the roles of all stakeholders are well defined

The Government is committed to ensuring that the small business support agencies it funds are governed in a professional, business-like and sustainable manner. It will constantly review the performance of these agencies and ensure that their mandates are relevant to the current and future state of the small business sector.

2.3.5 Differentiating between sectors

Small enterprises are found in all sectors and industries of the economy. However, as far as future economic growth and job creation are concerned, the scope for further small business involvement differs widely between sectors in the South African economy.

The sectors listed below, have been identified as either potential high-growth sectors or important input sectors that benefit small business development. Thus, these sectors warrant concerted attention over and above programmes already in place:

- Agriculture, especially high value-added products and the processing of agricultural products
- Retailing, especially in rural and low income areas
- Export-oriented industries
- Tourism and cultural industries

- Manufactured components, niche products and 'smart manufacturing'
- Business and professional services
- Construction and repair as well as maintenance services
- Transport services
- Textiles and clothing
- Information communication technology

Given the diversity of economic sectors and niches as well as resource limitations priority will be given to small business promotion within sectors that meet the following criteria:

- Growth sectors prioritised within the central government's industrial and other sector-growth strategies
- Sectors earmarked for growth stimulation at provincial or local levels

The obstacles and challenges confronting small businesses have also been found to differ significantly based on their location. Entirely different preconditions for small business success exist in established, well-developed urban centres when compared with small towns, rural villages, and remote rural areas. Similarly, there are rather dramatic differences in the small business environment of modern city centres and upper-income neighbourhoods, when compared with low-income "township" areas and informal settlements—most of which have little, if any, business facilities and only rudimentary business support services.

2.3.6 Small businesses and their local economies

An integrated approach towards small business support and local economic development has to combine efforts to upgrade local economic development facilities with small business support initiatives. In order to be effective, small business support policies or "packages" will be adapted to the local circumstances and the needs of specific sectors, industries or niches. Thus, small farmers, small-scale mining operators, construction contractors, manufacturers, retailers and service suppliers each receive differentiated localised support. Programmes of this nature already exist (e.g., the Emerging Contractor Development Programme, Tourism Enterprise Development Programme, and the Small Farmers Development Programme). Similarly, support policies and packages have to be adapted to meet the needs and circumstances of different regions and localities in the country, through "tailor-made" support programmes. Newly conceived, Local Economic Development Agencies are particularly appropriate for this challenge, with small business support an important element in these programmes.

2.3.7 Responding to entrepreneurs with special needs

Ever since the 1995 White Paper a range of very specific "target groups" have been identified as warranting specific support. They include women in business, rural entrepreneurs, the unemployed, the self-employment-seeking youth and people with disabilities, as well as previously disadvantaged people.

Conventional support programmes made available to mainstream small businesses will not be sufficient to adequately address the disadvantages faced by these target groups. Thus, there is need for supplementary support packages and instruments to improve the position of these groups.

2.3.8 The role of government

A conventional approach taken by many governments to the development of small businesses has been to provide financial and business development services, either directly through their own agencies, or through intermediary agencies that may be closer to the target group and more market-oriented. These efforts have generally sought to improve access to resources and management capabilities within small businesses so that they can grow and become more competitive. However, they have often fallen short in their delivery. This is mainly for two reasons: Firstly, because government programmes are finite and can only reach a limited number of enterprises—often a tiny

proportion of the total small business population. Secondly, because there are broader influences affecting the business environment in which small businesses operate, which can undermine the impact of specific government programmes.

There are three common roles that describe the relationship Governments have with the small business sector. These are as follows:

- Government as a *regulator*: Designing and implementing laws and regulations that govern the activities of small businesses.
- Government as a *facilitator*: Providing an environment that is conducive to business promotion and bringing key stakeholders together in the initiation and support of small businesses development efforts, mobilising civic, private and public sector resources.
- Government as a *promoter*: Intervening directly into small enterprise development projects and processes, making them explicit programmes of government. Allocating resources (i.e., human, financial or physical) through financial and business development services to achieve specific development outcomes.

In many instances, Government performs all three of these roles simultaneously. However, in recent years the facilitation role has become more prominent.

Through the Integrated Small Business Development Strategy, the Government commits itself to making the environment in which small business is conducted more enabling environment in order to encourage entrepreneurship, investment and innovation. The Government will facilitate joint action by key stakeholders in the delivery of financial and business development services and will review policies and laws to ensure that these are responsive to small businesses experiences, making compliance easier and more beneficial for business owner-managers.

Over the last eight years, local government authorities have emerged as important mechanisms for local democracy and development. Local governments play a central role in the promotion of integrated development plans and local economic development. Small business development features strongly in these activities. Local government also has a responsibility to put in place the necessary infrastructure and legal and regulatory environment for small business development. Thus, more attention needs to be put into assisting and collaborating with local government to play a meaningful role in small business development.

3 Objectives and principles

3.1 Objectives of the Integrated Small Business Development Strategy

Over the period 2004-2014 the Integrated Small Business Development Strategy shall pursue the following objectives:

- 3.1 Increase the contribution of small business to the growth of the South African economy
- 3.2 Create an enabling environment for small enterprises, which levels the playing field between big business and small business, reduces the disparities between urban and rural businesses, and is conducive to entrepreneurship
- 3.3 Create sustainable long-term jobs for women and men in the small business sector
- 3.4 Ensure previously disadvantaged individuals, women, people with disabilities, and young women and men are equitably represented in the small business sector
- 3.5 Increase the competitiveness of the small businesses sector so that it is better able to take advantages of opportunities emerging in national, African and international markets
- 3.6 Improve communication between government and the small business community

3.2 Fundamental principles

The Integrated Small Business Development Strategy has been designed according to the following principles. This section brings us closer to the wide range of issues that need to be addressed by a partnership of government, non-government organisations, parastatals and the private sector in order to promote and support small businesses. These principles should help to guide the private sector, parastatals, non-government organisations and other stakeholders.

3.2.1 Find a balance between the main roles of government

Small businesses rely three main functions of government. Firstly, small businesses are affected by government regulation. While small business may not like this function they can't operate without. Regulations protect businesses as well as their customers. They protect the environment, workers and the values our society cherishes. Secondly, government can provide a development function. It can intervene with markets fail and can help those who are most disadvantaged. Government can ensure that equity and growth are achieved through services and programmes that are carefully designed and delivered. Thirdly, governments can provide an enabling environment for small business development. They can ensure optimal conditions for business development and facilitate the creation of a vibrant and competitive business environment. Government sees its role in all three of these areas.

Through the Integrated Small Business Development Strategy the Government balances these roles. It focuses on the creation of a business environment that is conducive to small business development, while recognising the fundamental importance of good regulations and laws. Furthermore, the role of non-government and private sector agencies is recognised, and the

Government facilitates partnerships and mutually beneficial relationships between it and these other players. The Government shall intervene in the small business sector to provide strategic, time-bound and results-oriented development programmes.

3.2.2 Closely integrate small business development with the broader macro economic and development frameworks of government

This principle positions small business development within the broader development frameworks of government. The Government recognises that small business development contributes to the achievement of national economic and social development goals. Small business development should be linked to private sector development, black economic empowerment strategies, and a range of other key initiatives. It will support regional and local development initiatives, and complement poverty reduction measures. Entrepreneurship will become a theme in education and labour market interventions so that the enterprise dimensions of education, skills development and technology transfer are intertwined. Entrepreneurship and small business development will become a key empowerment thrust for individuals, local communities and disadvantaged groups.

3.2.3 Respond to the diverse needs, capacities and opportunities found in the small business sector with market-oriented and strategically focussed interventions

This principle recognises the need for segmentation in the provision of development support for small business. The needs, capacities and opportunities of businesses within the small business sector vary dramatically and the Integrated Small Business Development Strategy has been designed to accommodate these variations.

3.2.4 Connect national small business development interventions with those at provincial and local levels

The integration of national, provincial and local small business development supports is a fundamental principle underlying the design of the Integrated Small Business Development Strategy. This is consistent with the decentralisation of government services and the important roles played by local and provincial authorities in development planning. Small businesses are based in local communities and affected by the government policies, laws and regulations at local, provincial and national levels. They are also influenced by bigger business as well as civil society. Thus, integration across all levels of government is essential.

3.2.5 Holistic support services

Small business development requires a holistic approach. The Government believes it is necessary to break away from the traditional and static approach to small business development based narrowly on the provision of financial and business development services. We instead are committed towards a dynamic, demand-driven and creative approach that in the first instance recognises the multiplicity of needs of small businesses.

3.2.6 Small business as a vehicle for social development

The Government recognises the important contribution small business make to social development goals as well as economic ones. The creation of employment, the reduction of poverty, the increase of household incomes, as well as the satisfaction of vocational and personal aspirations can all be achieved through small business development. Youth development can be achieved through small business, as can women's empowerment. However, it is important to recognise that while social goals can be achieved, small business development requires a market-orientation. Developing small business is not a welfare activity; it is about stimulating a productive and profitable sector. Thus, the social development functions of small business are achieved through the promotion of economically viable and sustainable enterprises.

3.2.7 Small business as a mechanism for black economic empowerment

Consistent with the focus laid out in the 1995 White Paper, the Government's commitment to black economic empowerment has been taken further with the tabling of a broad-based strategy on black economic empowerment. Small business development is a powerful mechanism for broadening enterprise ownership and control and extending economic opportunities to black entrepreneurs.

3.2.8 Market-oriented small business development

Acceptance of the market orientation of our economic system and of the government's fundamental budget constraints also forces us to look at alternative funding, the leveraging of public funds, the effective use of foreign donor funds and technical assistance, the introduction of tax and other incentives to change private-sector attitudes, and self-help or local community efforts to support small enterprises.

Key to this approach is the importance of the need to instil a "fee for service culture" within the small business sector; wherever possible services received by enterprises should be paid for.

It is accepted that the demand side of the small business sector can be an important factor in small business growth and development. Thus, the national framework will include steps to improve access of small enterprises to state procurement, big business purchases and export markets.

3.2.9 Small businesses and the formal economy

Many micro enterprises in South Africa operate in an extra-legal capacity. They are not registered with any central government authorities or local municipalities. These enterprises seldom register for tax and often create insecure and poor quality employment. Small and medium-sized enterprises can also operate in the informal economy by failing to meet all the official requirements of running a business. While enterprises that operate in the informal economy face the prospect of fines, the Government recognises the importance of helping develop the small business sector through the use of good laws and regulations. By creating an enabling environment and reducing any unnecessary costs of compliance with laws and regulations, those enterprises operating in the informal economy can improve their prospects for growth and stand up to be counted as an important part of the national economy.

3.2.10 Inter-firm cooperation and collaboration

The government believes that small firms can become dynamic and highly competitive, while striving for socially acceptable labour standards, adopting new and more efficient technologies and effective work organisation techniques, and the government is committed to promote development on this basis. This can be achieved through a range of organisational practices which include increased co-operation, co-ordination and networking amongst smaller firms in specific sectors so that services such as marketing, research and development, skills acquisition and even production can be shared. Through such co-operation small firms can achieve, if not surpass economies-of-scale benefits enjoyed by large firms without having to become large in size.

3.2.11 Strategic public expenditure in the small business sector

The scarcity of public resources forces us to constantly weigh up the public-sector cost of specific policies against the expected results of the support programmes. The strategic use of public funds for small business development requires us to focus on priorities. These priorities may be informed by need (i.e., to fund development where the need is greatest) as well as by opportunities (i.e., to fund development that help the small business sector make the most from emerging opportunities). The legacy of apartheid and the tremendous range of social, economic and human needs found across the country often out-weigh these priorities, but the Government is committed to redressing inequity and increasing the capacity of disadvantaged groups to take meaningful development initiatives. By focussing on high-growth sectors and other emerging fields of business opportunity, the Government can also apply its resources to those areas where the benefits of small business development are amplified across many sectors.

The Government is also aware of the role it can play in leveraging financial resources from other sources. Public-private partnerships, for example, provide an effective mechanism for the mobilisation of private sector resources through the strategic use of public funds. The Integrated Small Business Development Strategy encourages the use of financial resources from all sectors (public, private, domestic, international) for the development of the small business sector.

3.2.12 The need for streamlined, market-oriented and sustainable institutions

Since the adoption of the 1995 White Paper, many new institutions engaged in small business development have emerged. The effectiveness, efficiency and long-term viability of these vary. Government recognises that the diversity of the small business sector is often reflected in the range of institutions that have emerged in the last eight years. These agencies have their own target groups, services and mandates.

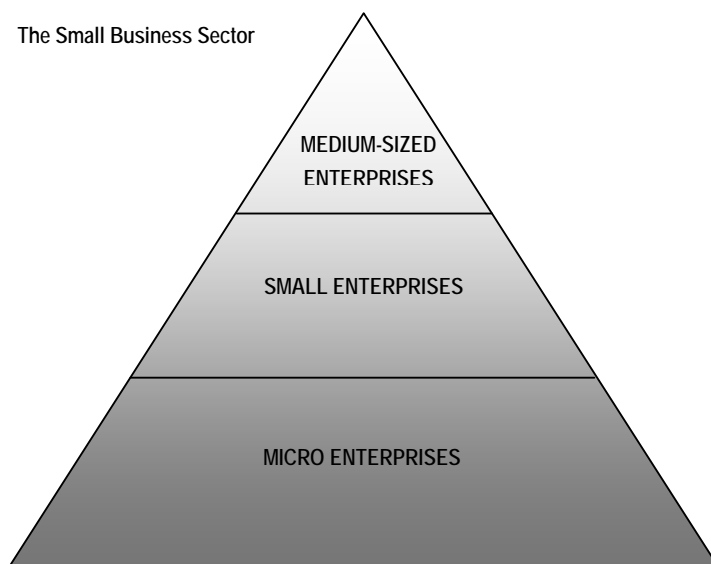
Government funding to specific small business development agencies is required if these agencies are to provide a developmental function. We cannot rely on the market alone to provide these functions. However, the strategic focus of this funding should be maintained. Government-funded agencies should work together more closely, avoiding the dangers of duplication and competition. They should work toward closer integration of their services and constantly monitor and evaluate the impact of their efforts.

The importance of the development of business support markets is recognised. While not all services can be delivered on a full cost recovery basis, many small business development agencies can undertake efforts that improve their long-term sustainability. They can cross-subsidise their commercial activities with development services. Where possible, small business development services should be offered through private sector providers, so that government-funded services and institutions can address the specified development priorities of the small business sector. This trend is already evident in the medium-sized enterprises.

3.3 Targeting support

The Integrated Small Business Development Strategy has been designed to address the needs and development potential of the whole small business sector. This includes, micro, small and medium enterprises, regardless of the markets they operate in or the profile of their owners. Thus, as the illustration of the small business sector shows, all businesses will benefit.

However, within this broad sector-wide approach, the Government recognises the need to sharpen its focus and provide development support to specific sub-sectors. South Africa is still burdened by a dual economy in which established, mostly white-owned businesses have greater access to resources and opportunities when compared to black-owned businesses. Indications are that this is changing, but small business markets are still not blind to these racial divides and often the smaller the business the more difficult it is to enter new markets. Thus, the dismantling of this dualism requires targeted support measures by the Government within the broader small business sector. This support reflects



the diversity of the small business sector (i.e., the variations found in terms of need, capacity and potential) and the importance of prioritising government interventions.

There are three categories of small business that the Government believes warrant special attention:

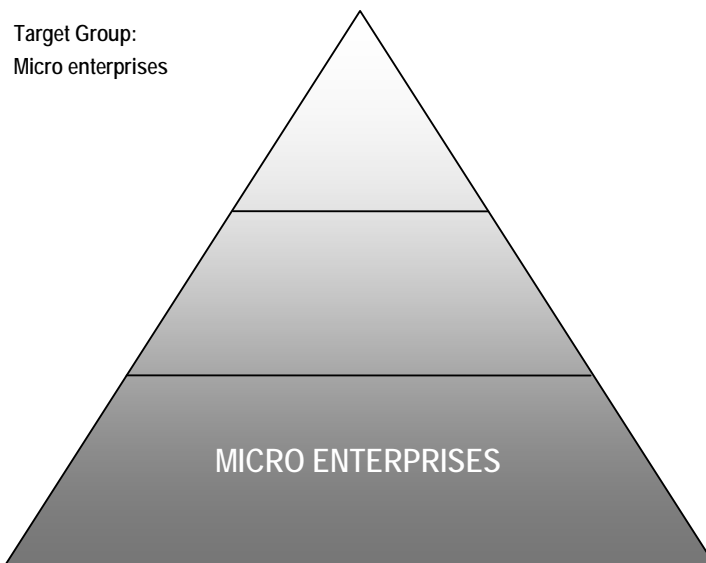
- Micro enterprises
- Small business in high-growth sectors
- Black owned and managed small and medium enterprises

These categories have very different characteristics and thus, require very different interventions.

3.3.1 Micro enterprises: Building the base of the small business sector

Since 1994, there has been a surge of small business development in South Africa. Most of this has occurred in the micro enterprise sector. The 1995 White Paper referred to many of these enterprises as 'survivalist enterprises' because people unable to find a paid job or get into an economic sector of their choice initiated them. Income generated from these activities was found to fall short of even a minimum income standard, with little capital invested, and virtually no skills training in their particular field. Based on this analysis, it was concluded that survivalist enterprises had only limited opportunities for growth into a viable business. While there are many enterprises of a survivalist nature to be found in South Africa, it has become clear that it is not possible to determine the future of even the smallest enterprise. Entrepreneurship is an ingredient that cannot be measured by any of these characteristics, and a survivalist enterprise may graduate beyond survival and into a profitable enterprise. Thus, the Integrated Small Business Development Strategy focuses on micro enterprises as an important, albeit needful, category of small business that deserves special attention.

Micro enterprises are very small businesses, often involving only the owner, some family member(s) and at the most one or two paid employees. They usually lack 'formality' in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro-enterprises advance into viable small businesses.



Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support.

For most people, the entry into the business world begins with a micro enterprise. Thus, the micro enterprise sector contains many black people, women, and young people. It is for this reason that the development of the micro enterprise sector offers so much to the development of the country.

3.3.1.1 The Integrated Small Business Development Strategy aims for developing the micro enterprise sector are to:

- Increase the long-term viability of micro enterprises and the jobs they create
- Enhance the prospects of micro enterprises graduating into the small enterprise sector

- Facilitate the movement of micro enterprise away from the informal economy and into the formal economy
- Better understand the dynamics of the micro enterprise sector and its potential for development

3.3.1.2 With these aims in mind, the Integrated Small Business Development Strategy will increase the access micro enterprises have to finance: Access to finance is a major concern to micro enterprises and a key constraint to development. Commercial banking institutions are rarely able to respond to the demand of this sector and, while there are some finance institutions, there is a need to search for new alternatives. To this end, the Integrated Small Business Development Strategy proposes the introduction of a new micro finance scheme as well as the enhancement of existing schemes so that micro enterprises have better access to finance.

Furthermore, the Integrated Small Business Development Strategy endeavours to improve the entrepreneurial and productivity skills of micro enterprises. Skills development is critical to enhancing the growth of micro enterprises. The low formal educational backgrounds of many micro enterprise owner-managers must be recognised, as well as the need for training that is business-oriented and delivered outside of normal business hours. The Integrated Small Business Development Strategy proposes the use of Sector Education and Training Agencies and other non-government organisations, the National Skills Development Fund, and an expansion of the National Productivity Institute's business and productivity training programme, which has become recognised as an effective skills development methodology for this sector.

The Integrated Small Business Development Strategy will also create mechanisms where micro enterprises can improve their access to the inputs they require for development. Micro enterprises can access the inputs they require through mechanisms that build solidarity and collaboration within the sector. The Government recognises the importance of cooperatives as critical mechanisms for the empowerment of disadvantaged people, including those in the micro enterprise sector. Financial cooperative and service cooperatives deserve greater support in this context, as does the promotion of micro enterprise associations that become affiliated with larger chamber of commerce.

The Integrated Small Business Development Strategy enhances the capacity of specific micro enterprise owner-managers to grow their business. Women and young people run many of the micro enterprises in South Africa today. Because of the needs of these owner-managers, programmes and services that specifically target these groups can be used to further develop the micro enterprise sector. There are already a number of agencies (government and non-government) providing tailor-made services to these groups. The Integrated Small Business Development Strategy supports the continuation and expansion of services that specifically target women and young people in the micro enterprise sector.

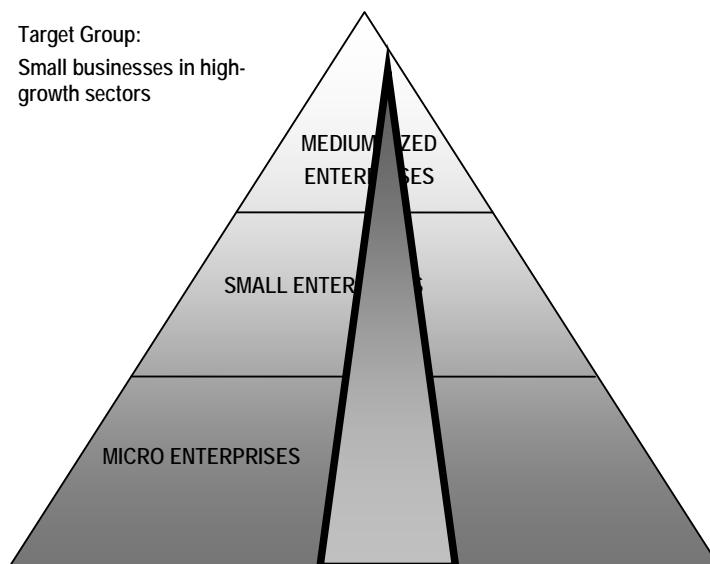
Further research on micro enterprises will be undertaken. **The dti** has an important role to play in coordinating, publishing and distributing research into the micro enterprise sector. The Integrated Small Business Development Strategy supports this role in the understanding that the dti will work with other government and non-government agencies, as well as academic and research institutions in carrying out these functions.

3.3.2 Small business in high-growth sectors

Global competition and local specialisation has given rise to world competitive small businesses in potential growth sectors. While small in size to begin with, businesses working in high-growth sectors have significant job-creation potential. To this end, the Government has targeted small businesses in high-growth sectors for special support.

It should be noted from the illustration provided that small businesses in high-growth sectors will include micro, small and medium-sized enterprises.

Target Group:
Small businesses in high-growth sectors



The commercial and support linkages that can be established between small businesses of different size classes is extremely important. Indeed, linkages between small businesses and large business are also fundamental to small business development in high-growth sectors.

Government support to small businesses in high-growth sectors will be provided within the broader context of South Africa's integrated manufacturing strategy. Black empowerment support will also apply to this category of small businesses ideally linked to other sector-support policies.

The selection of high-growth sectors is a continuous process. While it would be presumptuous to attempt to predict which sectors will be considered as 'high-growth' five to ten years from now, it is important that the Integrated Small Business Development Strategy begin to provide a focus on these issues. To this end, the sectors of microeconomic reform that have been identified as high-growth are relevant. Thus, the sectors that appear worthy of special attention immediately include export-oriented sectors, tourism, agriculture, cultural industries, and information communication technology.

3.3.2.1 The Integrated Small Business Development Strategy aims for developing small business in high-growth sectors are to:

- Focus on high-growth sectors in which small business participation can be maximised
- Promote vertical linkages within specific high-growth sectors so that micro enterprises, small enterprises, and medium-sized enterprises can trade with one another and share information
- Increase the competitiveness of small businesses within high-growth sectors
- Increase the potential for small businesses in high-growth sectors to graduate from micro, to small, to medium-sized enterprises

3.3.2.2 With these aims in mind, the Integrated Small Business Development Strategy provides the following development strategies, programmes and services:

- Sector based networks and linkages
- Skills development
- Market information related to high-growth sectors

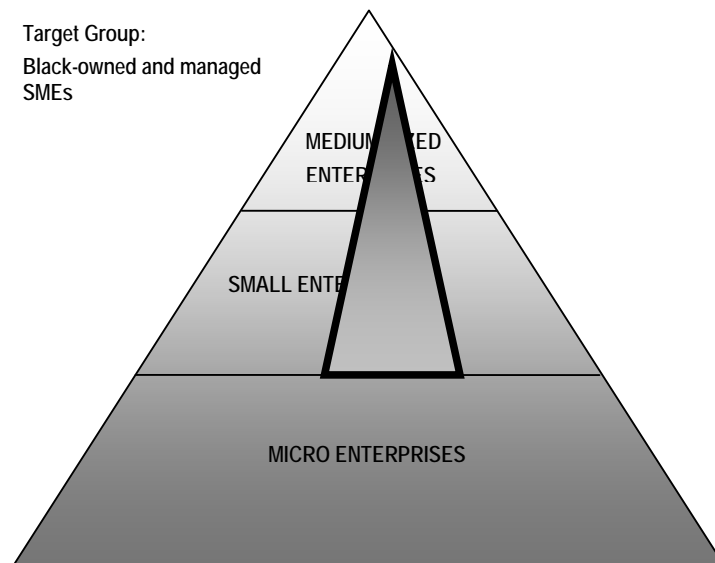
- Promoting public-private partnerships

3.3.3 Black owned and managed small and medium enterprises

This category includes formal small and medium-sized enterprises (SMEs). The majority of entrepreneurs in this category will start or operate their business by relying primarily on their own skills, efforts, capital and other resources, with a reasonable chance to make their enterprise a success—adapting it to the business structure and environment of particular sectors, places or regions. It is generally accepted that this is the category that provides the highest number of jobs and is driven by entrepreneurial activities of individuals with some skills, a minimum of high school education, some workplace exposure and some start-up funds.

The expansion of SMEs offers substantial benefits to South Africa as a whole. These enterprises have a great capacity to contribute to national development because of their maturity and understanding of markets.

Public support for enterprises falling within this category will be of a generic nature, centring around business infrastructure and information/training facilities, the maintenance of an appropriate regulatory framework and the rectification of market failures or inefficiencies. However, since black entrepreneurs are seriously under-represented in this category, black economic empowerment policies will be a critical part of programmes in this category. Similarly, policies related to local economic development in particular places or sub regions might also incorporate support for these “mainstream SMEs”.



The Integrated Small Business Development Strategy aims for developing the black owned and managed small and medium enterprises are to enhance the prospects for expansion of black owned and managed small and medium enterprises, and facilitate linkages between black economic empowerment strategies and small business development.

5 Support strategies for small business development

International best practice and South Africa's experience over the past decade suggest a broad range of interventions appropriate for the support of small businesses in this country. The quest for effectiveness in interventions calls for a strategic approach, where national, provincial and local authority programmes and private initiatives complement each other. What is more, these strategies have to be "tailored" to meet the particular needs of the three categories of small business identified earlier and should also be adapted to sector as well as locational circumstances.

Three strategic directions underlie the integrated small business development strategy:

- Promoting entrepreneurship
- Unlocking potential through better business environments
- Promoting more competitive small businesses

Each of these is described below.

5.1 Promoting entrepreneurship

The first of these three policy thrusts focuses on entrepreneurship. This involves processes that recognise and support existing entrepreneurs, as well as steps to increase South Africa's supply of entrepreneurs interested, able and willing to face the challenges and benefits of self-employment.

The dti's assessment of entrepreneurship has found that the general population's attitude toward business and industry is generally positive, with business being seen as having a positive role to play in society. On the other hand, some people feel that there is still a strong preference, particularly among young people, for paid employment rather than starting and running one's own business. Others feel that this is changing rapidly, with a strong preference for self-employment emerging among all population groups for different reasons. Previously disadvantaged groups often see self-employment as the only hope of generating an income in an environment where large numbers of jobs are being lost, while whites view self-employment as an escape from affirmative action in the corporate sector.

A significant number of small business owners in South Africa start their own businesses as a result of negative rather than positive factors; mostly to escape from something—mainly unemployment. While it is so that some individuals who were "pushed" into starting their own businesses have gone on to make a success of it and are today no different to the more entrepreneurial type, what the country needs more are those people that venture into their own businesses for positive rather than negative reasons.

The need to foster entrepreneurship has been accepted for some time in South Africa, with appropriate programmes initiated by schools, technical colleges, technikons and universities. In addition, the media, private training schemes and a whole range of non-government organisations have also promoted this issue from time to time. However, there is a need and considerable scope to further intensify, complement and spread these efforts, in particular in rural areas and black communities.

South Africa has considerable resources for the promotion of entrepreneurship. The country, however, also faces considerable challenges, particularly in the area of skills, access to available resources, and a positive motivation to venture into business.

The following support areas are relevant in this field:

5.1.1 National entrepreneurship promotion campaign

Government will design a national entrepreneurship promotion campaign to bring to public attention the substantial resource that entrepreneurs offer South Africa, to recognise and

celebrate entrepreneurs, as well as to encourage others to adopt enterprising attitudes. The aim of the national entrepreneurship promotion campaign is to raise awareness amongst all South Africans regarding the possibilities and opportunities for undertaking new initiatives. This aim can be pursued through the following objectives:

Government will achieve this by:

- A multi-media campaign that recognises entrepreneurs and encourages South Africans to take initiative in business, as well as in other spheres of life, such as in their work place and local community. This is likely to include television and radio profiles of entrepreneurs from all walks of life; press advertisements, profiles and information on training programmes and other support services
- An awards programme that promotes entrepreneurial South Africans as role models
- Special events that involve national and provincial organisations that promote the campaign theme (e.g., workshops on the promotion of local initiatives, competitions, information fairs and displays, and special exhibitions)
- Small business weeks
- Production of resource material for distribution by business support centres as well as education and training agencies.
- A local government competition that promotes the role of local governments in promoting and supporting entrepreneurial initiatives will be highlighted in this campaign. Local government can perform a valuable role in this field. This will involve an award for the municipality that has done the most to support initiative in its area.

5.1.2 Creating an inter-ministerial response to the development of entrepreneurs

Fostering entrepreneurial behaviour patterns in a systematic and comprehensive manner can have a dramatic impact on the mobilisation and expansion of start-up businesses. The public sector, through its Economic Cluster—and especially through the departments of labour, education, and trade and industry—as well as provincial and local authorities will, together with private agencies, support well-organised and sustainable entrepreneurship promotion programmes. If these programmes are to be effective they must focus on different sectors and categories of small business as well as entrepreneurs—or potential entrepreneurs—themselves.

Government will achieve this by establishing an inter-ministerial committee to oversee the preparation and implementation of an Entrepreneurship Programme.

An Entrepreneurship Strategy will be prepared to create a framework to guide Government in the promotion of entrepreneurship. The Entrepreneurship Programme will contain the following elements:

- Purpose of entrepreneurship promotion
- The educational, vocational and business relevance of entrepreneurship
- Promoting entrepreneurship as a rewarding career option
- Objectives and principles that underpin the strategy
- Detailed analysis of various factors pertinent to entrepreneurship development—including a better understanding of family owned enterprises and the ways that entrepreneurship can be inculcated in such settings and a better understanding of the enterprise life cycle from the entrepreneurs' point of view
- Marketing of existing support programmes
- Lead agency and other institutional stakeholders

- The role of local government
- Promoting entrepreneurship in the local community
- Effective co-ordination and evaluation of entrepreneurial development efforts

The Entrepreneurship Strategy will achieve the following results:

- The creation of an entrepreneurship culture in South Africa
- Growth of self-employment, profitable business activities particularly amongst historically disadvantaged groups
- Entrepreneurship development will be integrated into the education system, national macro-economic and industrial policies of government
- South Africa will be able to learn from international experience in entrepreneurship development
- The benchmark system will provide government with a basis for a monitoring and evaluation system for public programmes on entrepreneurship development
- The flow of information between economic agents will be improved
- The performance of other government initiatives such as the Industrial Restructuring Programme and small business development will be enhanced

5.1.3 Expanding franchise opportunities

Franchises can be highly effective tools in the spreading of established enterprises across emerging communities or developing areas. Over the past two decades, South Africa has experienced rapid growth in the range and spread of franchises – in particular in retailing and specialised services. The value of the franchise-path of entrepreneurial development lies primarily in the emphasis placed on training, mentoring and system building as steps towards entrepreneurial capacity building. In that way the pro-active diversification and geographic spread of entrepreneurship and business expertise can be accelerated. To achieve this, franchising legislation will be introduced to regulate this fast growing area. Public funds will also be channelled to franchise-support programmes, with the focus on cost reductions for those unable to afford regular fees for such services. The financing of franchise agreements via regular financial institutions will also be encouraged. The National Manufacturing Advice Centres already provide support to franchises through their Franchising Referral and Information Network and a franchising support programme. This programme will be intensified and expanded.

Government has convened a Franchise Steering Committee comprising representatives from the following agencies:

- Franchisors affiliated to the Franchise Association of Southern Africa
- Franchise Association of Southern Africa (FASA)
- Non-FASA Franchisors
- FASA Franchisees
- Non-FASA Franchisees
- Consumer Advocacy Groups
- Government

Government will finalise a national Franchising Strategy for Small Business Development that promotes the contribution of franchising to job creation, income generation and the economic empowerment of historically disadvantaged entrepreneurs, while also promoting ethical franchise practices in the industry by creating an appropriate and conducive regulatory environment that seeks to protect the interests of both franchisors and franchisees.

The Franchising Strategy will contain the following detailed proposals:

- Recommendations for comprehensive franchise-specific legal and regulatory framework
- Recommendation for the establishment of a statutory body to regulate the industry
- Recommendations for a comprehensive Franchise Support Programme

Furthermore, Government is piloting a Franchise Support Programme recommended within the Franchising Strategy (through NAMAC) that focuses on:

- Promoting increased access to finance through joint ventures involving government, franchisors, investment companies etc, to channel more investment capital into franchise business ventures and the establishment of a Franchise Development Fund
- Establishment of a nation-wide Database of Franchise Opportunities to be made widely available to prospective investors into franchising
- Establishment of Franchise Advice Desks to be located at local service points and other appropriate sites to improve access to advice and information to prospective entrants to the sector
- Launch of a National Educational and Promotional Campaign to increase awareness and information on Franchising
- Creation of a set of best practice standards to improve franchise infrastructure and increase the levels of professionalism
- Monitoring the Quality of Training on franchising offered by the various training providers and franchisors
- Gathering and Dissemination of Research Information on the franchise sector to increase information on the role of the sector in the economy as well as help inform policy making

5.1.4 Better access to information and advice

Parallel to the establishment of Local Business Service Centres, a range of institutions has fulfilled some of the information and advice needs of small businesses. This includes the following:

- Business chambers and sector associations, through their office staff, information sessions, publications and internal networking
- Education and training institutions, through their programmes and publications
- Community or neighbourhood information offices and other non-government organisations, which may, as part of their broader information-supply role also disseminate small business-related information or advice
- Libraries, through their selection of books, journals, videos, pamphlets, etc. with a business focus or through special small business initiatives
- Municipal advice offices and multi-purpose information centres, the developments of linking e-government services with multipurpose centres will be critical
- Private small business consultancies and business-service suppliers
- Parastatals, like the CSIR, NPI, SABS, who specialise on certain small business-support services, but who are also able to contribute towards broader information dissemination initiatives
- The media, including daily newspapers, radio stations and television
- Websites and internet-based programmes from foreign or local suppliers (e.g., BRAIN)
- Financial institutions issuing information material for prospective clients

National government's direct role in the production of information material and its dissemination has been expanded with the introduction of the call centre and **the dti** marketing division. Additional

support will in future rather focus on specific target groups (e.g., blacks, rural, women), with maximum use of multimedia channels in the dissemination of advice and guidance towards less accessible areas and with the co-ordination of different programmes and initiatives.

Thus, Government will package support services in an integrated manner to better address the needs, capacities and development opportunities of the target groups identified in the ISBDS.

Government will extend the services of the Business Referral and Information Network (BRAIN) to include an Internet portal from which active and potential entrepreneurs can obtain information on the following:

- Financial services for business establishment and expansion provided by government, non-government and private sector agents
- Entrepreneurship and business development training opportunities
- Publication and dissemination of research findings (national and international) relevant to the promotion and support of entrepreneurship

5.1.5 Strengthening business associations

Government is concerned about the fragmentation and lack of capacity of some business organisations and the slow progress made along the road to closer co-operation and towards a unified voice of the sector as well as an expanding supply of support services. For such an expansion to be effective, it is critical that business associations or chambers effectively represent all the relevant sectors and specific target groups – like black businesses, youth entrepreneurs and women. Subject to such conditions, government is developing a programme to support the upgrading of services of business associations to their members.

The 1995 White Paper created a mandate for the establishment of the National Small Business Council (NSBC). The NSBC was formed to become the “voice of small business” in the country. In this capacity the NSBC initiated programmes to spearhead the development of a unified, non-racial chamber movement. However, the collapse of the NSBC has led to the identification of a number of lessons for the Government. The most significant of these was the lack of a true partnership between the NSBC and small business organisations, particularly in terms of setting up operations in rural areas and small towns.

There is widespread agreement that if business is to emerge as a credible partner in the social and economic transformation of the country, it needs a unified, credible and stronger voice than it currently has. Thus, Government will establish a Chamber Development Programme that works with constituent small business organisations as much as possible and wherever feasible. This programme will be designed by the dti to maximise the potential of chambers of commerce in contributing to local and provincial economic development by broadening the participation of small business owners and managers in local and provincial chambers. The Government will utilise the provincial structures that are already established in each of the nine provinces to raise awareness and develop leadership amongst the chamber network. By co-ordinating and managing this national programme through the provincial structures, chambers will be better informed and more capable of playing an effective development role.

5.2 Unlocking potential through better business environments

The second of the policy thrusts focuses on strengthening the demand for small business as well as on improving the business environment within which small business operates. Three major areas of support are relevant for an expansion of opportunities for small business. They relate to the spheres of deregulation, the access to markets and the availability and effectiveness of incentives.

5.2.1 Small business-sensitive regulations

Efforts to deregulate control systems in favour of small business development have shown that the issues are complex, relating as much to national and regional as to local authority and sector-development responsibilities and actions. Government is committed to overcome the hurdles towards non-racial competition, using the Competition Board and related institutions as well as the Consumer and Company Regulations Division in **the dti**.

Understanding the impact the legal and regulatory framework has on small businesses and the capacity of the small business sector to generate new, sustainable jobs, while also contributing to the national accounts is a continuous process. Impact assessment and revision of the legal and regulatory framework cannot be effectively conducted as a once-off or sporadic exercise. Thus, Government will establish structures and processes with a mandate for ongoing assessment of the legal and regulatory environment, ensuring these are empowered with the authority to propose recommendations for change.

Important reforms are still in the pipeline and could be accelerated, e.g. at municipal level, where the drastic reduction in the number of local authorities eases the task of introducing systematic and uniform deregulatory steps. Some municipalities have started to address this area.

Progress in deregulation areas will be documented and periodically reviewed. Conclusions and key messages will be communicated towards all levels of authorities and all segments of business in easily accessible language.

In the globalisation process the pendulum has lately been shifting from mere deregulation to increasingly complex "re-regulations" in spheres like health regulations, quality controls, environmental controls and many other areas. The challenge becomes one of entrepreneurial training and staff sensitising "to live with the regulations" rather than the abolition of regulations. Simplification of regulations is also important in this regard.

Under the General Provisions (Section 18) of the Small Business Act (1996), the Minister may publish guidelines for organs of state in national, provincial and local spheres of government to promote small business. These guidelines include procedures for consultation with **the dti** on all proposed legislation that may have an effect on the small business.

Government will establish the Small Business Advisory Council (described later in this document) to monitor and review these fields of work and to provide a sounding board for Government on legal and regulatory issues affecting the small business sector.

Government will launch a range of initiatives to promote regulatory best practice in the small business sector. This will include research into the cost of compliance for small businesses and the introduction of processes that promote regulatory impact assessments, especially for newly introduced laws and regulations.

The Government, through **the dti**, will prepare a guide and resource material for national and provincial government departments that makes policy-makers and the drafters of laws and regulations more aware of the impact of these on small businesses and provides a process that can be followed to assess the potential impact and feasibility of newly drafted policies, laws and regulations

In addition, Government will initiate sectoral reform processes to assess and improve the regulatory environment for small businesses operating in nominated high-growth sectors (e.g., high value-added agriculture, export-oriented industries, tourism and cultural industries, manufactured components, and information communication technology).

5.2.2 Improving labour relations in small business

There are a number of labour laws and regulations affecting the small business sector. These include, the Skills Development Act, the Basic Conditions of Employment Act and the Employment

Equity Act. While the introduction of these laws and their accompanying regulations has been designed to protect workers and ensure skill development within the private sector, it is recognised that such measures impose additional costs on business. In many cases, these additional costs are unavoidable. However, Government is aware that it must constantly monitor the costs of compliance and make whatever changes are necessary to minimise these. At the same time, Government is concerned about inadequate employment conditions and job quality in the small business sector, and believes it is critical to diligently enforce and promote compliance with the relevant laws and regulations.

To ensure this balance is maintained, Government will identify small business concerns and constraints in relation to labour through a regular monitoring, research and consultation with the small business sector. The Small Business Advisory Council will perform an important function in this regard.

Furthermore, Government will initiate processes to simplify compliance procedures so that small business owner-managers are able to understand their labour obligations and comply with these in an efficient and cost-sensitive manner. Special efforts will be made to promote greater awareness within the small business sector of the need for decent working conditions, levels of remuneration and skill development. The Government will enlist the support of small business associations and chambers of commerce in the promotion of these key messages.

5.2.3 Access to markets

Because markets drive the process of small business development, it is essential to ensure that new markets opportunities are unlocked and that small business participation in existing markets is deepened. There are four main areas of interest in this field:

- Improving access to public-sector procurement contracts
- Improving access to consumer markets and corporate procurement opportunities
- Improving access to export markets
- Market opportunities in high-growth sectors

Government will unlock market opportunities in these areas through the effective implementation of affirmative procurement policies by the different levels of public-sector authorities (i.e., the application of new sets of principles through pro-active behaviour of thousands of buyers and other officials in the relevant procurement offices and the tender authorities). Support programmes such as the Procurement Support Programme and the Business Support Facility will continue to provide assistance in this field.

Government will also provide a facilitation services to promote joint ventures between black- and white-controlled enterprises, with genuine empowerment rather than “fronting” taking place. Government will continue to help set criteria for the objective evaluation of these joint ventures and procurement arrangements.

To help small enterprises increase their access to public sector procurement **the dti** subsidises a network of “Tender Advice Centres”, whereas some local authorities develop “local procurement desks” at or near municipal offices. In the longer run responsibilities associated with procurement support will be shared between:

- Public sector procurement agencies, with **the dti** coordinating co-operation between state departments, provincial economic-affairs departments fulfilling that task at the provincial level, and municipalities developing their own co-ordination mechanisms
- Corporate procurement departments—driven by legislative and other incentives linked to the BEE process

- Organised business, sector associations and specialised non-government organisations able to provide professional support in this sphere at a fee
- Private consultants facilitating linkages or assisting SMEs with the fulfilment of their contracts, also usually operating on a fee or commission base

In the export sphere, support programmes for small businesses have been initiated by **the dti** institutions, local business chambers and sector associations, export councils, the Industrial Development Corporation, and through the self-help efforts of exporters, with **the dti** incentives playing an important stimulatory role. The Government, through Trade and Investment South Africa (TISA), is eager to see increases in foreign direct investments into South Africa and into the small business sector in particular. International business-to-business linkages can also play a vital role in the development of the South African small business sector. These efforts will continue, with increasing efforts by the Government to smoothen co-operation between different suppliers of support services.

The Government will also ensure that Foreign Economic Representatives based on foreign offices around the world will be sensitised to the opportunities and capacities of the small business sector, so that their efforts in promoting South African export opportunities can also benefit the small business community, as well as large businesses.

Finally, Government will undertake a systematic and comprehensive analysis of selected high-growth sectors to identify market opportunities for small businesses and any constraints or barriers preventing access to these markets by small businesses.

5.2.4 Increasing the effectiveness of incentives

South Africa has over the past decade introduced a range of financial incentives to help create opportunities for profitable business by small and medium enterprises. **The dti** has also extended or adapted other incentives to be applicable to small(er) enterprises. Most of these incentives are aimed at improving access to finance, markets, export opportunities, technology, etc., or a reduction in cost or risk levels of small enterprises. **The dti** is strengthening its efforts to effectively disseminate information about these incentives and to address gaps in the overall structure of incentives especially in the areas of “business in distress” and black-owned enterprises.

Government will achieve this by constantly reviewing and monitoring of the range of incentives on offer to small business by **the dti** in association with the newly created Small Business Advisory Council.

5.3 Promoting more competitive small businesses

The third policy thrust focuses on the capacity of small enterprises to actually deliver, grow and meet tests of efficiency, cost-effectiveness, and quality. Access to finance, skills, technology and infrastructure facilities are critical factors, which have to be addressed in support programmes.

Assuming that entrepreneurs are motivated and business opportunities exist for them, small businesses often still face capacity problems. They may not be able to supply the right quantity of their products or services at the right time, in the right quality and at the right price. To address these complex, yet “typical” problems of small businesses, many steps have already been taken. Some of the more serious and typical problems in this sphere of the supply side of small businesses can be addressed by public sector intervention in five areas.

5.3.1 Infrastructure facilities

Small enterprises are highly sensitive to the availability, quality and cost of infrastructure facilities. This applies to physical infrastructure facilities and services, such as water and electricity, access roads, street lighting, refuse and sewage removal, crime prevention and transport access. It also

applies to community and administrative infrastructure services, such as health facilities, libraries, municipal offices, community halls, and business parks.

Over the past eight years, the infrastructure has improved in many parts of South Africa's metropolitan areas, cities, towns and rural villages. However, backlogs remain and in many areas initiatives have stagnated, or conditions have actually deteriorated. Primary responsibility for improvements in the business infrastructure of urban or rural areas rests with municipalities, district councils and, to a lesser extent, provincial authorities. However, the Government is equally concerned with these backlogs and bottlenecks.

Government will undertake a research and monitoring programme to assess the cost of inadequate infrastructure on the performance of the small business sector, so that Government departments and parastatal organisations responsible for infrastructure development can become more aware of the demand for small business infrastructure and its impact on national social and economic development. This information will help set priorities for the development of infrastructure that enhances small business development.

In addition, Government will continue the use of the Small and Medium Enterprise Development Programme to provide cost-sharing mechanisms between Government and SMEs in the construction of specific forms of infrastructure.

More focused local economic development support programmes are currently being developed by **the dti**. These include the co-funding of local industrial parks or "hives" as well as small business focused facilities in export processing zones, industrial development zones, spatial development initiatives and other special projects. **The dti** is currently identifying industrial parks that will be used to pilot an industrial park support programme in townships in consultation with provincial and local government.

In South Africa's low-income townships, where unemployment is high and job-creation of critical importance, improvements in the physical infrastructure is often one of the most important factors that determines whether grassroots initiatives take off or survivalist entrepreneurs merely linger on in a vicious circle of poverty. Thus, the channelling of sufficient funds and implementation capacities to these areas is high on the agenda of small business support at all tiers of government.

Government has provided Khula Enterprise Finance Limited with an additional mandate to finance property development that can be used for the purposes of small business development, especially in disadvantaged communities.

5.3.2 Technology transfer and incubation

South Africa has a fairly advanced technical institutional infrastructure in the areas of technology, standards and environment including productivity training. Small business development that encompasses technology transfer and incubation is largely handled by the evolving national grid of Manufacturing Advice Centres (MACs) who work in close co-operation with the CSIR, **the dti** and local non-government organisations, as well as training institutions. In addition the Department of Science and technology in collaboration with **the dti** and Technikons has played a critical role in this regard.

Government recognises the importance of technology transfer and innovation as a tool for expanding businesses and as a market for new business formation. To this end, Government will continue its support to technology transfer support centres and promote the integration of these services into other business support centres. Thus, Government will build upon the successes achieved by the piloted MACs. In addition, Government will work with these agencies, as well as with Technikons to provide business support services that integrate technology transfer processes with business support programmes.

Parallel to the role of the MACs, the goal of technology transfer is also pursued through the establishment of "local industrial parks", "small business hives" or "incubators". Proposals for such industrial cluster facilities can be found in every metropolitan area and in many towns, with local authorities expected to co-fund them as part of their local economic development commitments. Successful incubators require substantial funding, not so much for the physical infrastructure than for advice, mentoring, and other "soft" support services. Government will continue its support of local industrial parks and small business hives and incubators, ensuring these facilities become self-sustaining in the long-term and giving emphasis to the support of black- and women-owned businesses in these facilities. These initiatives could be linked to sector support programmes (e.g. a clothing export hive) or to particular township development initiatives.

Through a partnership between **the dti** and Department of Science and Technology, the Government will continue to give financial support for projects such as the Godisa Trust. The Godisa Trust has been formed to consolidate technology incubators covering different sectors, e.g. furniture, stainless steel and biotechnology. A venture capital fund in support of the incubator's tenants has been established and Government will be monitoring the success of this fund with a view to its possible replication.

5.3.3 Access to finance

Much of the vocal criticism about the inadequacy of support for small business in South Africa centres on the difficulties businesses experience in their efforts to obtain finance. This is especially a problem for black-owned and managed businesses. Access to finance for business establishment and expansion continues, despite the progress made over the past six years in the mobilisation of capital sources for small businesses.

Since the bulk of all business finance for small businesses comes from financial institutions, it is important to assess the need for government support in this field and to be aware of trends in the access small businesses have to private finance. The following are important developments:

- Commercial banks are slowly expanding their portfolios of business loans to black entrepreneurs. Special mentorship schemes to help entrepreneurs prepare loan applications have shown some success, though limited in numbers.
- Several of the larger banks have become involved in specialised financial institutions which focus on consumption loans for lower-income earners, with a very small but increasing number of these loans being utilised for business purposes.
- A process has been started by the Registrar of Micro-Finance Institutions to monitor the funding of micro-loans, of which a percentage is channelled to the small business sector.
- Specialised finance schemes, combining the services of commercial wholesalers or retailers with those of financial institutions have started to make a significant contribution to small business finance, especially for small traders.
- The number of non-governmental organisations and community-business organisations active in the micro-loan sphere has decreased, but a few have by now developed effective systems and methods to perform a more meaningful role in a segment of the micro-loan market.
- The steady expansion of home-ownership in South Africa and gradual increases in house prices has led to an expanding pool of bond finance, of which some is used for business purposes.
- The increase in small business corporate linkages and public sector procurement by small businesses increases the scope for bank guarantees from buyers to financial institutions (with the contract being the security), thereby facilitating access to working-capital loans.

- The number and range of venture capital firms is steadily increasing in South Africa, with a modest share of the allocations earmarked for small business.

Notwithstanding these important developments, there are clear indications that the rate of aggregate finance channelled to black-owned and managed small businesses have not increased significantly enough to meet demand. In order to further accelerate this process of increasing small business funding from a wide range of sources Government will continue to pursue innovative schemes to mobilise more savings funds to small businesses currently explored, including housing loan and credit co-operatives. Venture capital and equity financing for start-ups and black economic empowerment opportunities will also be addressed in conjunction with the new BEE strategy and the National Empowerment Fund.

The Johannesburg Stock Exchange (JSE) is a significant potential source of equity finance, mainly for small and medium-sized growth companies. However, the level of activity in the Development Capital Market and the Venture Capital Market of the JSE has been low. The JSE has attributed this to the fact that the large institutions generally only invest in corporations, and smaller investors equate these markets with unmanageable risk. Both turnover and price-earnings ratios are generally low. International experience has shown that two-tier stock exchange systems with differentiated listing requirements are sometimes successful in increasing access to equity for small firms. To this end, the Government has recently launched an alternative stock exchange (AltX) in collaboration with the JSE Securities Exchange South Africa to expand the financial options available to small and medium-sized enterprises.

The Government will also consider the option of introducing legislation that compels private banks to disclose their lending and investment patterns so that the extent of financial support being provided to small businesses can be accurately and regularly assessed.

It is recognised that more attention must be given to the design and negotiation of industry-specific small business financing schemes (e.g. for small clothing producers, taxis, small funeral parlours, and professional services). Khula Enterprise Finance Limited has a central role to play in this regard.

In South Africa's rural areas the availability of savings facilities, general banking services and credit facilities is even poorer than in urban (township) areas. These needs rank high on the Government's agenda of small business support with initial steps taken to establish joint funds to support enterprise development in line with local economic development initiatives.

Finally, Government will establish a micro credit facility that specifically addresses the needs of micro enterprises, especially those conducted by very poor households. Known as APEX, this fund will operate along the lines of a village bank in very poor communities. APEX will provide a boost to the poorer end of the micro enterprise spectrum. It will promote job creation, diversified livelihoods and new business formation in poor communities.

It is recognised that special attention must be given to co-operative or other grass-roots empowerment and micro-finance facilities for low-income people and enterprises operating in the informal economy. Special attention will be given to start-up capital, bridging finance (e.g., for exports or procurement contracts) and expansion capital for viable micro enterprises that cannot be accommodated by existing programmes. The bulk of the funding for these new initiatives will have to come from the private capital market, assisted by parastatals like Khula Enterprise Finance Limited, the Industrial Development Corporation, regional development corporations, and sector-finance agencies (e.g., Land Bank).

5.3.4 Access to appropriate skills

During the past eight years the supply of small business development services has increased dramatically. Ntsika Enterprise Development Agency (including the Local Business Service Centre network), the National Manufacturing Advice Centre, and a range of other government-support and

non-government agencies have been providing these services. Training in small business development and management has been a major feature of these programmes. More recently, the Sector Education and Training Agency (SETA) network has introduced small business focused technical, entrepreneurial and business training, which have also included skills development. While Government will continue to support skill development as a tool for small business growth, it will constantly review the quality, practical orientation and appropriateness of these training programmes, as well as their geographic spread. There Government believes there is scope for more diversification of these programme (e.g., programmes suitable for people with lower literacy levels, for those living in remote rural areas and for those largely dependent on the radio as their primary communications medium) and for the systematic expansion or adaptation of programmes so they reach a larger number of small businesses. Government recognises the efforts that have been undertaken by universities, technikons, technical and community colleges, the Umsobomvu Youth Fund, and even by private training suppliers, in developing small businesses skills, but believes that these efforts have to be redoubled if the magnitude of the need for small business training is to be met.

The Department of Labour and selected SETAs have also been active in developing learnership programmes that focus on self-employment and entrepreneurship. Government is committed to expanding these programmes and ensuring they are properly coordinated within the overall small business development framework.

Experience in skills development in the small business sector over the last eight years has shown that care must be taken to avoid supply-driven training. Careful use must be made of subsidies in this field, so that training can be a joint responsibility between the entrepreneur who has a need for training and the skills and capacities of the agencies and trainers who provide it. Thus, Government will pay more attention to small business training in an effort to promote training principles and practices that respond to demand and are market-oriented, appropriate to the needs of the target group, and results focussed. Special emphasis will be given to skills development programmes in which the Government partners with the private sector. In addition, Government recognises the need to continually enhance and replenish the skills of trainers and training agencies. Training of trainers and the improvement of business advisory and mentorship skills are extremely important. **The dti** will perform a central coordination role in these efforts.

Finally, international experience and successful South African practices that have emerged over the last eight years show that mentoring—as a complementary function to training—is critical for the long-term success of small business training programmes. **The dti** is currently working on institutionalising mentorships in partnership with other role players (e.g., the Sector Education and Training Agencies, Institute of Business Advisors, and other organisations). This will become a flagship programme to address the support needs of new and expanding businesses as well as businesses in distress.

5.3.5 Increasing research capacities and improving the dissemination of results

While the last eight years of Government efforts have focussed on the design and delivery of development services to the small business sector, it is clear that more attention should be given to understanding the small business sector better. A range of government, non-government, academic institutions, and international organisations have conducted research into the small business sector in South Africa, but much of this has been uncoordinated, poorly funded, and fragmented. Thus, the Integrated Small Business Development Strategy provides the opportunity for Government to undertake measures that address this situation.

Government will continue to co-fund prioritised research undertaken by research bodies, and will use appropriate channels to financially support the nation-wide dissemination of relevant research results. To this end, Government—through **the dti**—will create alliances and improve coordination

among research agencies working in the small business sector within South Africa, as well as internationally.

The dti will establish a centralised resource on the small business sector in South Africa. This will contain a comprehensive range of data, information, knowledge and practices on small business in South Africa and will be accessible through a well-publicised Internet portal. This will be supplemented by the preparation of regular profiles on the small business sector. Small business information will be disaggregated by province, sector, gender and class size. Combined, this information will inform revisions to the Schedule of the Small Business Act (1996) that defines the small business sector.

Finally, **the dti** will annually publish a Small Business Review that will provide an overview of the state of the small business sector. Publication of the Small Business Review will coincide with the organization of a Small Business Summit at which current findings and small business development themes will be discussed. The Small Business Summit will be held in different provinces on an annual rotation basis.

The Small Business Review will:

- Create awareness and deepen the understanding of progress made in small business development
- Combine regular features (e.g., key statistics and trends) with an in-depth analysis of selected issues or areas of support
- Be an independent publication prepared by a team of practitioners standing outside—but not remote from—the main implementation institutions
- Cover all the areas of support, albeit relatively briefly, in order to reflect on the rate of progress made in all important areas
- Be accessible and understandable for a wide cross-section of readers
- Be supplemented by a popular series of “quarterly booklets” aimed at a broad cross-section of small businesses as well as service suppliers

These initiatives will lead to a better understanding of the dynamics and growth potential of all small businesses. However, when setting the research agenda, special priority will be given to the research needs of micro enterprises, small businesses in high-growth sectors, and black-owned and managed SMEs.

Finally, **the dti** will consult with all relevant academic institutions in South Africa and in other countries to identify gaps and needs in the study of small business. Government is committed to building research and academic capabilities in the small business sector and recognises that this must involve close collaboration with these institutions.

6 The institutional framework for small business development

National small business development spans a wide cross-section of stakeholders in both the public and the private sector. In this context, it is essential that “bottom up” or grassroots business-development services (supplied at cost or on a voluntary basis by self-help initiatives, private sector service suppliers, non-government organisations, etc.) constitutes the broad basis of support, with public sector (or “top-down”) support viewed as facilitative, complementary and catalytic. Besides, it is essential that the roles and responsibilities are clearly defined. In this section these roles and responsibilities of the diversity of agencies or stakeholders in small business support are reviewed.

While the government does not intend to minimize the diversity of support agencies it upholds its responsibility to ensure coherence and ensure efficiency and effectiveness in the implementation of the strategy.

6.1 National Government

To be effective, small business support programmes have to be embedded in the full range of national development strategies. These programmes must work interdependently of one another so that while they have their own purposes and target groups, they can also complement and support one another. Such synergies require all Government departments to take into account the interests and needs of small businesses in their policies and programmes.

There has been a proliferation of new programmes and projects within Government affecting the small business sector. While the intention of these initiatives is applauded it is acknowledged that this has led to a degree of duplication of effort. To address this situation, Government has requested **the dti** to strengthen its co-ordination role by establishing an Interdepartmental Committee on Small Business.

The Interdepartmental Committee on Small Business was originally envisaged in the 1995 White Paper. However, it is only recently that the full value of a structure such as this has been realised. The Office of the President will chair the Interdepartmental Committee, with executive support functions provided by **the dti**. It will act as a clearinghouse for all new initiatives by Government in the field of small business development. The Interdepartmental Committee on Small Business will submit reports to the Director General of the Economic Cluster.

Government restates the coordination role of the Department of Trade and Industry for all policies related to the small business sector and all small business support programmes directly or indirectly assisted by all tiers of government. The Enterprise and Industry Development Division of **the dti**, and specifically the Enterprise Development Unit (EDU), replaces and further enhances the role played by the former Centre for the Promotion of Small Business as stated in the 1995 White Paper.

The Annual Small Business Review, referred to in the previous chapter, will provide a reporting mechanism for **the dti** to inform Government and other small business development stakeholders of the progress made in small business development. The Review will also identify current and emerging problem areas and trends. The first review will be tabled in 2004.

The Enterprise Organisation (TEO) and Trade and Investment South Africa (TISA) are key delivery agents for small business development within **the dti**. **The dti** will also maintain its oversight role for all organisations receiving funds for small business support. Funding will be based on agreed upon terms of reference and a shareholder compact and agreements based on verifiable indicators. The funding for small business support will continue to be channelled through **the dti**.

There are a number of parastatal agencies engaged in small business development. Some of these report directly to **the dti**, others have reporting responsibilities to other departments. These include the following:

- CSIR

- Development Bank of Southern Africa
- IDC
- Land Bank
- National Productivity Institute
- South African Bureau of Standards

These agencies were established before 1994. Since this time, they have been undergoing a substantial process of transformation. Initially, they had little or no interest in the small business sector. Today, however, they have all introduced programmes that target the small business sector. Government will continue to transform these institutions to ensure they are sensitive to the development needs, capacities and opportunities of small businesses. The enormous resource these agencies bring to small business development is recognised and there are many ways they can apply their competencies to the development of small businesses.

Government will continue to work with these agencies and to ensure they work within a common framework for small business development. To this end, the Interdepartmental Committee on Small Business may provide an opportunity for more effective coordination and collaboration.

6.1.1 The National Small Business Advisory Council

Following the demise of the National Small Business Council, Government will establish a new small business representative body. The National Small Business Advisory Council will be a statutory agency that advises the Minister on the following:

- Strategies to address identified market failures affecting the small business sector
- The impact of current and new legislation on small business
- National standards pertaining to small business infrastructure
- Skills development in the small business sector
- Steps to be taken to create access for small business into value chains
- Constraints affecting the viability of the small business sector
- Methods to liaise with the small business sector and to identify their needs
- Methods to monitor and influence the provision of support services to the small business sector

Thus, the National Small Business Advisory Council will advocate on issues of importance to the small business sector and advise the government on relevant issues. It will consider the impact of small business development in relation to the national economy, and will comment on the effectiveness of small business development programmes. A number of strategies outlined in the previous chapter are of direct relevance to the work of the Council. These include the review of the legal and regulatory framework for small business, the removal of other market obstacles and constraints, the research agenda, and the publication of the Annual Small Business Review.

The dti will provide executive support to the National Small Business Advisory Council.

6.1.2 Small business development service institutions

In addition to the parastatal agencies cited above, Government has established agencies responsible for the provision of financial and non-financial small business support services. While it is recognised that financial support services require a specific set of skills and competencies, when compared with non-financial (or business development) services, it is important that these two spheres of support are closely integrated.

The Ntsika Enterprise Development Agency was established under the 1995 White Paper to provide business development services to the small business sector. Specifically, Ntsika aims to:

- Expand, co-ordinate and monitor provision of training, advice and counselling to small business
- Support the service providers providing business development services
- Consult with any organ of government or a service provider to facilitate access by small businesses to:
 - Business advice and counselling services
 - Inputs such as raw materials and products
 - Outputs such as international and national markets
- Strengthen the capacity of small business service providers and small businesses to compete successfully in the economy

The NAMAC Trust was established in 1997 through collaborative efforts by **the dti**, CSIR and the NPI. It has three main programmes in support of small business development focussing on manufacturing and franchise support.

Other agencies and programmes have also emerged over the last six years and Government recognises the need to ensure these actors operate in a coordinated and integrated manner. The range of institutions and programmes of offer can easily confuse small businesses in need of business development services. Thus, Government will pull together these institutions under a single umbrella known as the Small Business Development Agency.

The 1995 White Paper envisaged the establishment of a Small Business Agency operating separately from **the dti** but closely linked to it. The agency would consist of autonomous operational units or subsidiaries each headed by a chief executive officer. The agency would be a non-profit organisation with a Board of Directors including the chief executive officers of all the operational units as executive directors and including a Chief Director from **the dti**. In the unfolding of the implementation of the White Paper Ntsika Enterprise Promotion Agency was established to play this role, but it has become clear that such functions are better managed at a higher, more strategic, level. Thus, the concept of the Small Enterprise Development Agency has been refined to respond to current experiences and institutional arrangements.

The Small Business Development Agency will be made up of the following operational units:

- A coordination unit for one stop enterprise service centres (National Manufacturing Advice Centre)
- A unit to coordinate sector support programmes (National Manufacturing Advice Centre)
- A small enterprise export support and procurement support programmes (Ntsika Enterprise Development Agency)
- A training and information Unit
- A local economic development Unit and
- A coordination unit for incubators (physical and virtual)
- A programme design and administration unit

Each of these units will be funded differently in line with its own business plans but the overall management responsibility will lie with the chief executive of the Agency and the Board. The preconditions for the unfolding of such an Agency exist now more than ever before. It is envisaged that this will take approximately one year to come to full operation.

It is initially proposed that financial support agencies, such as Khula Enterprise Finance Limited, will be kept separate from the Small Enterprise Development Agency, but this decision may be reviewed based on continued consultation and monitoring of the successful creation of the agency.

6.1.3 Small business finance institutions

Khula Enterprise Finance Limited was established by the 1995 White Paper. It acts as a wholesaler, supplying finance to banks and retail finance intermediaries (RFIs) for on-lending to small businesses, as well as micro lenders, non-government and community-based organisations. It also provides credit guarantees to private sector banks whereby Khula assumes a portion of the risk associated with lending in the small business sector.

Khula Enterprise Finance Limited aims to improve the outreach and efficacy of alternative financial institutions, especially in under-served rural areas by:

- Ensuring improved availability and sustainability of loan and equity capital to small businesses
- Increasing the level of bank lending at reasonable rates to historically disadvantaged individuals
- Stimulating the provision of start-up capital and small-scale equity products

Recently, Khula Enterprise Finance Limited has been instructed to establish a property unit that will take over some of the Business Partners property portfolio.

The Government recognises the importance of financial services to the small business sector. The introduction of an APEX for funding to micro enterprise (described in the previous chapter), and the establishment of the National Empowerment Fund are extremely important in this context.

6.3 Provincial government authorities

Since the mid-1990s all the provincial governments with a few exceptions have established small business directorates, with the emphasis falling on the co-ordination of private- and public-support programmes, the monitoring of provincial trends, the leveraging of local-authority efforts, and liaison with national departments such as **the dti**. In some provinces these directorates also play a significant role in the initiation or facilitation of reforms in regional and local small business-support efforts. Their capacity, therefore, needs strengthening. With this in mind **the dti** has established a committee of the COTTI institutions and provincial small business directorates to strengthen co-operation and improve information flow.

Some provincial government authorities have abandoned their support for small business in favour of large business promotion. While large-scale private sector development is important, the Government urges all provincial government authorities to ensure they have an appropriate focal point for small business development within their organisational structures.

6.4 Local government authorities

Most of their areas of involvement relate to the expansion of business-infrastructure facilities and "local economic development" programmes. Local authorities have to play an increasingly significant role in efforts to address poverty, which also includes the development of survival entrepreneurs. In these tasks they have been assisted by central government through technical and financial support.

Local government authorities are critical to the success of small business development. They create a local regulatory framework that directly affects the performance of small businesses. In addition, they are involved in local area planning, including the development of local economic development strategies. Through their Integrated Development Plans, local government can introduce a wide variety of initiatives that support local small business development.

The Integrated Small Business Development Strategy recognises the importance of local governments and promotes the development of more enterprising local communities.

Not all municipalities are the same. Small rural and disadvantaged municipalities require a great deal of support and guidance. Large urban metros, on the other hand, have begun to play a leading role in the development of local small businesses. Initiatives such as Trade Point, Empretech, the first phase of BRAIN and Small Business Weeks, are to be applauded.

Government, through the Department of Provincial and Local Government and **the dti**, is currently redesigning and rolling out a flagship pilot programme on local economic development to help strengthen implementation capacities of local authorities through tri-lateral initiatives focusing on capacity building and micro-finance (Loan range of R10000-R100000). A LED strategic framework is also being developed and urban-renewal programmes are designed to also address small business needs in project areas.

6.5 Non-government organisations and community-based organisations

Non-governmental and community-based organisations have in the recent past played an extremely important role in the pioneering of small business-support programmes, and their role is likely to remain important. Usually, their initial funding includes some public contributions, but funding in general remains a challenge. The National Development Agency has an important role to play in this area.

6.6 Education, training and research institutions

Through the inclusion of small business-focused training programmes in the portfolio of courses and subjects at FET and higher-education institutions, and through the inclusion of small business-related research topics, these institutions can play a most significant role in the support of small enterprises. Lately, the greater emphasis on adult or life-long education and the introduction of business-related topics into their programmes has further increased the significance of these bodies – which, incidentally, are spread all over the country, if we include technical and community colleges. Similarly, municipal libraries can also play a useful role, as shown in the BRAIN affiliations and the Library Business Corners pilot scheme in the Western Cape.

6.7 Business sector associations

Business chambers and sector associations are historically the most important bodies to help small businesses. At present, the scarcity of funds due to the voluntary nature of membership seriously limits the range of feasible support programmes.

Government recognises that business associations and chambers provide an important function to small businesses through the provision of membership and development services. Small businesses must be encouraged to join and actively participate in associations and chambers. The racial divides of the old chamber movements must be completely abolished and those who have been previously excluded should be encouraged and supported into chamber activities.

Government recognises its role in supporting chamber development and the provision of small business development services through chambers and business associations. However, it also places the responsibility of membership services firmly in the hands of chambers and associations themselves.

Government is willing to utilise these bodies as delivery mechanism for support services, on condition that they operate cost-effectively and – of critical importance – that they co-operate with other associations/chambers in an inclusive, non-discriminatory manner.

6.8 Private business service suppliers

In terms of numbers of service suppliers, private individuals or firms service by far the largest number of small businesses. In as far as their action lacks developmental focus or does not reach all the geographic areas and sectors in the country, there is scope and need for supportive, supplementary programmes co-funded by non-government organisations, community-based organisations and other types of public-private partnerships.

The establishment, strengthening and expansion of linkages between (larger) corporations and small enterprises constitute a further critical factor in the support of small enterprises. The same applies to social-investment projects of corporates aimed at particular small business needs.

Government is, in principle, keen to have these business-development services spread and deepened for the benefit of SME development in the country. The National Small business Review will document these efforts and periodically assess progress.

6.9 Towards effective partnerships

The diversity and complexity of support strategies, policies and programmes requires good co-ordination. As explained earlier, private sector associations, profit-making service suppliers, non-government organisations, and community-based organisations are the primary bodies to supply support to mainstream small enterprises. Local authorities are primarily responsible for the small business infrastructure and local regulatory frameworks, whereas national departments supply the broader regulatory and competitive framework as well as co-funding for basic information and research, and they are responsible for co-ordination and monitoring.

National government and sector associations – and, to a lesser extent also provincial, local and parastatal authorities – are the key funders of specialised services for the growth sectors/niches as well as those with a major job-creation or export impact. Finally, certain national departments, the Local Economic Development Agencies, and selected non-government organisations and community-based organisations should carry the thrust of survivalist support. It is the intention of government to make this evolution of tasks and responsibilities as transparent and practically efficient as possible, with sufficient leeway allowed for local, regional and national initiatives.

6.10 International co-operation

With most foreign donors' project funding channelled through one or other public sector institution, it has been necessary for government to strengthen the integration of international co-operation programmes with existing local programmes. In this regard international support for small business development currently focuses on technical and financial support within agreed priority areas within the framework of a Sector Wide Employment Empowerment and Equity Programme (SWEEEP).

7 Implementation, monitoring and review small business development

7.1 Resource mobilisation and allocation

Probably the most common underlying theme in discussions about current and desirable future support for small business in South Africa is the inadequacy of present funding. The plea for more funds becomes even more convincing if one looks at specific needs and programmes.

While the case for more public sector funding can certainly be made with respect to a number of new or up scaling programmes it should be accepted that public funds will be optimised through solid partnerships with other role players. Thus, the real challenge lies in the gradual, consistent expansion of the whole funding base of small business support, including all levels of public and parastatal sector as well as different private and public-private partnership sources.

7.1.1 National government as funder of small business support

Government provided funding to small business development through two sources. The first is through the dti and its affiliated agencies. These second is through other government departments.

The dti funds programmes and institutions involved in small business development. These include:

- Incentive schemes specifically targeting the small business sector
- Core small business development programmes:
 - Business development services (e.g., NAMAC, TACS, LBSCs)
 - Financial services (e.g., Khula, small-farmer loans, co-operative finance)
- Innovative new programmes, such as pilot programmes
- Research and training material development at academic and other research bodies (e.g., universities, National Research Foundation, CSIR)
- Transfer co-funding of programmes at provincial or local government levels, and at selected non-government and community-based organisations active in areas of national priority
- Regulatory and facilitatory activities
- Strategic planning, consultative and co-ordinating activities

7.1.2 Provincial authorities

Although provincial governments are ideally placed to fulfil a co-ordinating, gap-filling and bridge-building role in the supply of support services, their funding resources are extremely limited. Provincial authorities can, however, play a critical role in the establishment and seed funding of provincial or regional development agencies or corporations—many of which are active in the small business support sphere. This has been demonstrated in the establishment of the manufacturing Advice Centres.

7.1.3 Local authorities

Although the direct supply and funding of small business support programmes is a relatively recent practice of municipalities (if it happens at all), the funding for such support has increased steadily over recent years. With job creation ranked so highly by local leadership, one should expect a continued increase in such funding.

The level and quality of municipal small-business support differs radically between large (metropolitan/city) and small (town/village/rural cluster) settlements. What is more, support needs are actually greatest in the high-density (informal) rural settlements, where income from subsistence agriculture, transfer payments from migrant workers and social-security payments are insufficient to sustain households, and the need for self-employment is therefore great. Co-funding of relevant

business-support programmes will have to come from provincial, national or foreign donor-funded schemes.

7.1.4 Facilitating self-help and cost recovery

Self-help is a necessity for the majority of entrepreneurs in need of support. This can include the search for information (relying on electronic sources, newspapers, library facilities, entrepreneurial clubs, peer-group information transfers, etc.), the mobilisation of start-up or working capital (from relatives or the extended family), advice regarding exporting and many other needs. The same applies to the many ways to increase the cost recovery of privately or publicly provided support: It is possible to work out innovative schemes to reduce or share the costs.

7.1.5 Spreading financing responsibilities

The spread of small business to virtually all the sectors and places of the country opens up opportunities to also spread the cost of support services to the full spectrum of support agencies, public sector levels, etc.

Three distinct strategies have to be pursued in tandem:

- Increasing the funding of existing programmes in established institutions (e.g. increasing the capital base of Khula)
- Involving existing institutions, hitherto uninvolved in SMME support (e.g. spreading micro-finance to established banks)
- Establishing new specialised institutions and programmes for particular types of support (e.g. establishing rural micro-finance agencies)

7.1.6 Maximising overall resource inputs

The funding challenge can be summarised in three statements:

- To effectively implement and escalate South Africa's small-business revolution, substantially more resources have to be mobilised over the next five to ten years
- These resources have to come from a wide (and gradually broadening) range of agencies in order not to increase the burden of just a few funders
- Efforts to increase self-help and cost recovery for services provided to SMEs have to be intensified

7.2 Propagating the new approach

As in 1994/5 the first milestone now will be the communication of this approach to small business entrepreneurs, policy planners, support agents, small business consultants, the media and other important stakeholders all across the country. It will also be crucial to convey both the continuity and the change dimensions of the ISBDS. This should encompass the following key messages:

- The basic principles of national small business support still hold, and that the last seven years have been valuable with respect to the evolution of support policies and programmes
- Important changes have been built into the strategy

The most critical changes of the strategy can be summed up as follows:

- Greater emphasis on the conceptualisation of small businesses into three categories, viz. the broad group of mainstream small and medium-sized enterprises, the much smaller group of growth-orientated SMEs and the very large group of survival micro-enterprises
- Much stronger sector-focused differentiation of support programmes
- Equally stronger differentiation of location-determined support

- More pronounced support packages for special target groups (women, unemployed youths, disabled, rural enterprises and HDIs)
- Refinement, operational adjustment and greater integration of support strategies within a framework of three intervention areas (motivation, opportunity expansion and capacity enhancement)
- Further widening of the range of implementation mechanisms, with at the same time deliberate efforts to “package” or cluster support policies in a focused way
- Much stronger emphasis on the training and professionalisation of public as well as private sector staff involved in the implementation of support policies and programmes
- Closer integration of support efforts of national-, provincial- and local-authority levels as well as parastatals, statutory bodies and other public sector players
- Greater recognition of the critical role (to be) played by the private sector in supporting and facilitating small business development

7.3 Institutional realignment

Although most of the implementation bodies involved in small business support need some reform or realignment in order to handle expanding demands and a more differentiated range of programmes more effectively, this review proposes the following adjustments in the institutional framework.

- A restructured National Small business Advocacy Council to fill the place of the NSBC
- An Apex agency to serve rural clients, with branches in all the provinces, which have large rural self-employment groups
- An extension of the Khula Enterprise Finance Limited mandate to include a property portfolio
- A formal intergovernmental coordination structure
- A consolidation of National support programmes through a focal point in the form of a Small Enterprise Development Agency

Some of these changes will be channelled through an amendment of the National Small Business Act of 1996.

7.4 Setting performance indicators

The rationale and need for measurable goals and targets for key support strategies and programmes is clear. However, the identification and implementation of specific measurable targets will evolve as the programme and institutional realignments occur. Reliable, disaggregated time-bound data on the small business sector is necessary, but very difficult to obtain.

Consensus must be reached about the relative merits of quantitative as opposed to qualitative performance indicators and a lot more research is needed around causal links between support policies and the expansion of small enterprises.

It may thus be prudent to start with a limited number of broad quantitative indicators and a disaggregated range of qualitative ones (e.g. within sectors or individual towns). A first indicator could be the net increase in the number of small enterprises (openings less closures) in identified key sectors. Another would be the increase in investment in enterprises (if the data is available).

7.5 Mid-term review (2009)

A mid-term review will ensure the Integrated Small Business Development Strategy remains relevant to the needs, capacities and opportunities of the South African small business sector, and that its overall objectives and intensions stay inline with Government’s macro economic development

frameworks over the next ten years. This review will be undertaken by **the dti** and its findings will be reported to the Cabinet, through the Minister.