

SMME FIRST PAPER

**Supporting Small Formal Owner-managed Enterprises
in the Western Cape Province**

John Orford

Eric Wood

Table of contents

Table of contents..... 1
List of figures..... 1
List of tables..... 1
1 Small businesses in South African and Western Cape Province2
 1.1 Introduction.....2
 1.2 What is a small business2
 1.3 Who are entrepreneurs3
 1.4 What kind of businesses do South Africa’s entrepreneurs operate?.....9
 1.5 The economic contribution of small businesses10
 1.6 International comparisons of owner-managed business activity14
 1.7 Supporting small businesses15
References.....17

List of figures

List of tables

1 Small businesses in South African and Western Cape Province

1.1 Introduction

The purpose of this paper is to provide context for the subsequent papers which form part of the microeconomic strategy for promoting small businesses in the Western Cape Province. This paper:

- Outlines the nature and characteristics of small businesses in South Africa and the Western Cape Province.
- Provides an overview of the role of small businesses in the economy South Africa and the Western Cape Province.

1.2 What is a small business

Classifying different businesses is clouded by the use of different terminology. The government's official system of classifying businesses is based primarily on the number of people they employ. Small businesses employ less than 50 people and medium businesses employ from 50 to 249 people. This microeconomic strategy only includes small and medium businesses in its definition of small businesses.

The official system of classifying businesses makes further distinctions between small businesses. It distinguishes: *survivalist businesses* (no employees; low turnover and not registered); *micro businesses* (less than five employees and are registered); *very small businesses* (less than ten employees and are registered) and *small businesses* (less than 50 employees and registered). As stipulated in the terms of reference this microeconomic strategy includes only formally registered businesses. It therefore considers all businesses with 0-249 employees that are registered.

In addition to the official distinctions between businesses based on their size, three other systems of distinguishing between different businesses are common in the South African literature on small and medium businesses. These are: the distinction between formal and informal businesses; the distinction between necessity and opportunity motivated businesses and the distinction between the stage of development of a business. These are briefly discussed below.

Formal versus informal businesses

Formal businesses are registered as a sole trader, close corporation, partnership or limited company. They pay taxes, perform other legal obligations and benefit from the protection of the law. Informal businesses are not registered, do not pay taxes and do not benefit from the protection of the law. However, the distinction is not purely a legalistic one. Foxcroft et al (2002) found important differences between formal and informal township businesses, which suggest that policy instruments to support informal and formal businesses need to differ. On average they found that formal township businesses employ seven times more people and have higher turnover and that the owners of formal businesses were much more likely to have completed matric. While the informal sector plays an important role in the South African economy the terms of reference for this report have stipulated that the primary focus be on formal businesses.

Necessity- versus opportunity-motivated businesses

The Global Entrepreneurship Monitor (GEM) measures the prevalence of owner-managers of businesses in participating countries. One of the distinctions it makes between businesses is based on the motivation of the owner-manager of the business.¹ The GEM study distinguishes between business owner-managers who “have no better work alternatives” and business owner-managers who “are pursuing a market opportunity”. The former are classified as necessity entrepreneurs and the latter as opportunity entrepreneurs. Based on data from the GEM survey a third of South Africa’s owner-managers are motivated by necessity. Although necessity businesses are not necessarily informal businesses it is likely that a significant proportion of necessity businesses in South Africa are also informal businesses. In South Africa as a whole necessity businesses employ only one person compared to opportunity businesses, which employ on average four people (excluding the owner-manager of the enterprise).

Stage of development of the business

The GEM study also distinguishes between businesses based on their stage of development. The GEM study defines three stages of development: start-up businesses (which have paid wages and salaries for less than three months); new businesses (which have paid wages and salaries for between 3 and 43 months) and established businesses (which have paid wages and salaries for more than 42 months). The employment characteristics of start-ups, new businesses and established businesses are very different. Only a small proportion of start-up businesses in South Africa employ any staff apart from the owner-managers. New businesses in South Africa employ on average 2.3 people and established businesses 4.5 people apart from the owner-manager.

1.3 Who are entrepreneurs

This report defines an entrepreneur as someone who is starting or running a business or enterprise that they own. In this sense the terms is interchangeable with “business owner-managers” and the self-employed. Entrepreneurs are a diverse group of people. This part of the report provides a basic profile of entrepreneurs in South Africa and the Western Cape. It is based primarily on the GEM surveys conducted in 2001, 2002 and 2003 and the Labour Force Survey (LFS) conducted by Statistics SA in September 2003. The advantage of these two surveys is that they are based representative surveys of the South African population. Furthermore the GEM study is concerned specifically with identifying owner-managers of businesses and therefore provides a detailed source of data on South African entrepreneurs.

Men are more likely than women to be self-employed

According to the LFS men in South Africa are 1.4 times more likely to be self-employed than women. The LFS reports that 6.8% of men between 15 and 65 are self-employed compared to 5.0% of women. However, the difference is far more marked amongst coloureds, Indians and whites than it is amongst black Africans. According to the LFS, coloured, Indian and white men are on average three times more likely to

¹ The Global Entrepreneurship Monitor is an annual survey of entrepreneurial activity. It provides a unique source of data on owner-managed business activity in over forty countries in the world. South Africa has participated in the GEM study since 2001. This report draws substantially on the data provided by the three GEM surveys conducted in South Africa in 2001, 2002 and 2003. For a discussion of the GEM study see Appendix 1.

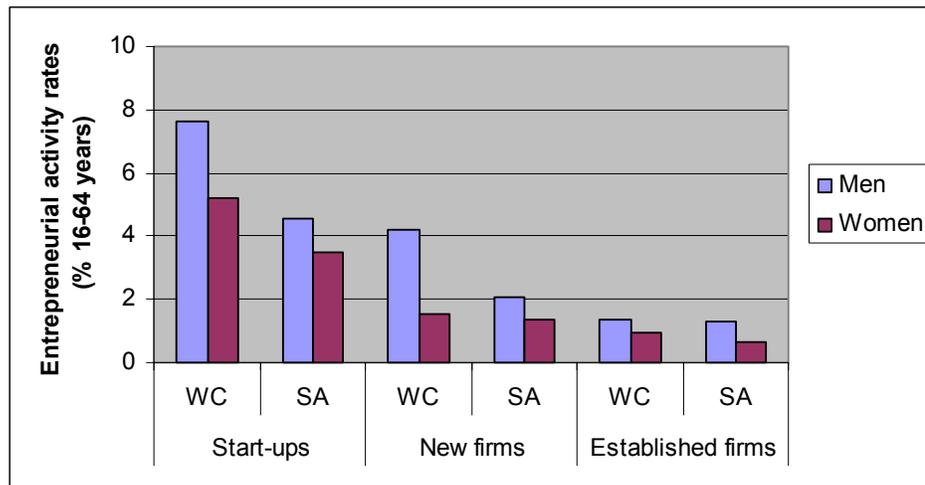
be self-employed than coloured, Indian and white women; however, black African women are as likely as black African women to be self-employed.

The GEM survey confirms that women are under-represented in starting or running their own businesses. According to the GEM survey 8.0% of men aged 16-64 years in South Africa are involved in starting or operating businesses compared to 5.5% of women. According to the GEM survey, therefore, men in South Africa are 1.5 times more likely than women to be owner-managers of businesses. This multiple is only slightly higher than the ratio obtained from the LFS (1.4). In the Western Cape the gap between male and female owner-manager activity rates is slightly higher, with men 1.7 times more likely than females to be owner-managers of businesses.

Gaps between men and women increase with the age of the business

Female under-representation increases with the age of the business. Figure 1 shows the proportion of men and women aged 16-64 years who are owner-managers of businesses in the Western Cape and South Africa. In South Africa men are 1.3 times more likely than women to be involved in start-ups, 1.5 times more likely to be involved in new business and 2.1 times more likely to be involved in established businesses. In the Western Cape men are 1.5 times more likely than women to be involved in start-ups and 2.7 times more likely to be involved in new business; however, they are only 1.4 times more likely to be involved in established businesses.

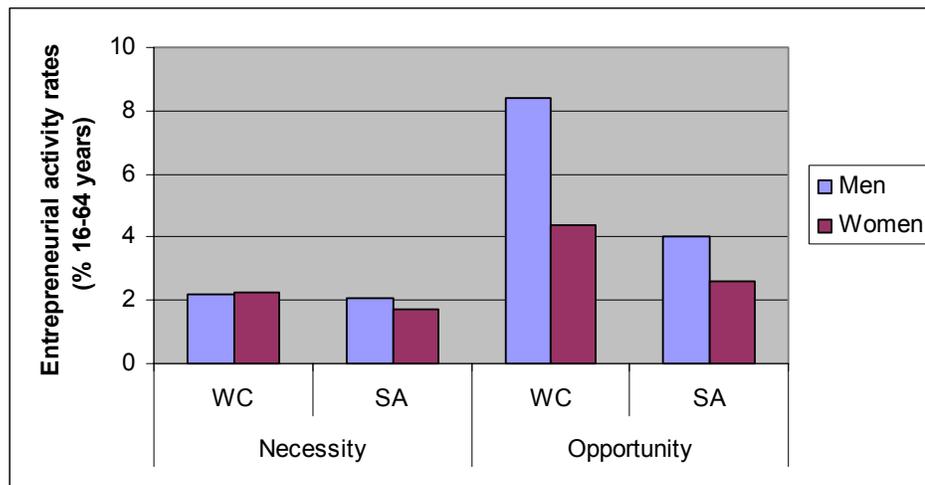
Figure 1 - Entrepreneurial activity rates by gender and age of the business (average 2001:3)



Female entrepreneurs more likely to be motivated by necessity than male entrepreneurs

Not only are women under-represented in the population of entrepreneurs in South Africa, they are more likely to be motivated by necessity than are men. In South Africa as a whole, women are less likely to be owner-managers of opportunity-based businesses. In contrast they are as likely as men to be owner-managers of necessity-based businesses. This finding is even more pronounced in the Western Cape where women are slightly more likely to be owner-managers of necessity based businesses, but are much less likely to owner-managers of opportunity based businesses. This implies that women in general are likely to experience lower returns on their businesses by comparison with their male counterparts.

Figure 2 – Entrepreneurial activity rates by gender and entrepreneur’s motivation (average 2001:3)



Blacks are under-represented in the self-employed

The LFS shows that whites are far more likely to be self-employed than black Africans, coloureds or Indians. According to the LFS, 14.8% of whites aged 16 to 64 years old are self-employed compared to 5.1% of black Africans, 2.6% of coloureds and 6.3% of Indians. The GEM 2001, 2002 and 2003 surveys confirm that blacks are much less likely to be business owner-managers than whites. According to the GEM survey in South Africa 5.1% of black Africans aged 16-64 are business owner-managers, compared to 8.2% of coloureds, and 13.5% of whites. In the Western Cape 5.7% of black Africans aged 16-64 are business owner-managers, compared to 8.9% of coloureds, and 16.1% of whites. Like women the under-representation of blacks is more noticeable as the age of the enterprise increases and in opportunity-based businesses.

Under-representation by blacks is more noticeable in older businesses

Figure 3 shows the proportion of black Africans, coloureds and whites aged 16 to 64 who are owner-managers of businesses in Western Cape and South Africa.² Whites are significantly more likely to be start-up, new or established business owner-managers than either coloureds or black Africans. However, the difference is much larger for established business and new businesses than it is for start-ups and is largest between whites and black Africans. In South Africa whites are 2.0 times more likely than black Africans to be involved in start-ups, 2.6 times more likely to be involved in new business and 7.0 times more likely to be involved in established businesses. In the Western Cape whites are 2.0 times more likely than black Africans to be involved in start-ups, 5.1 times more likely to be involved in new business and 5.7 times more likely to be involved in established businesses.

Necessity is an important driver of black business activity

Most white and coloured entrepreneurs are motivated by opportunity. In contrast, amongst black Africans necessity-based entrepreneurship is as important as

² GEM data on Indian participation rates in owner-managed business activity in the Western Cape is not statistically significant and are not reported here.

opportunity-based entrepreneurship. This implies that in general black Africans are likely to experience lower returns from their businesses than are either coloured or white business owner-managers.

Figure 3 – Entrepreneurial activity rates by race and age of the business (% 16-64 year olds, average 2001:3)

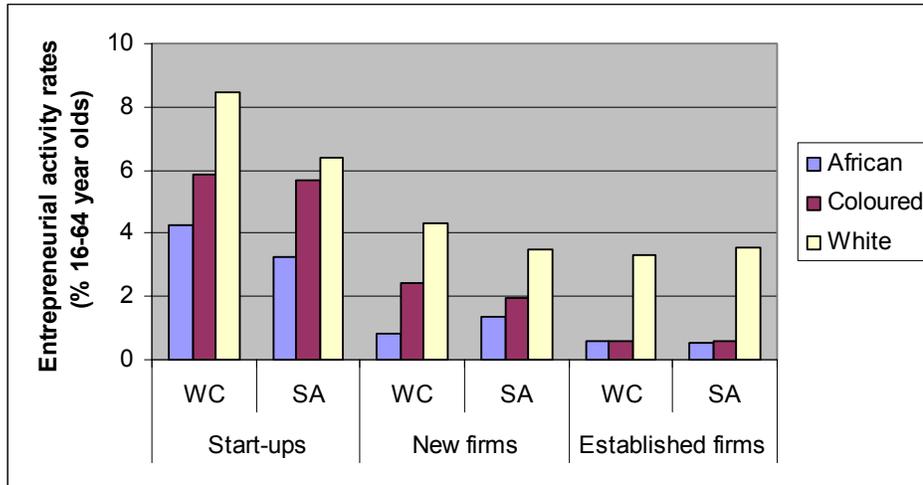
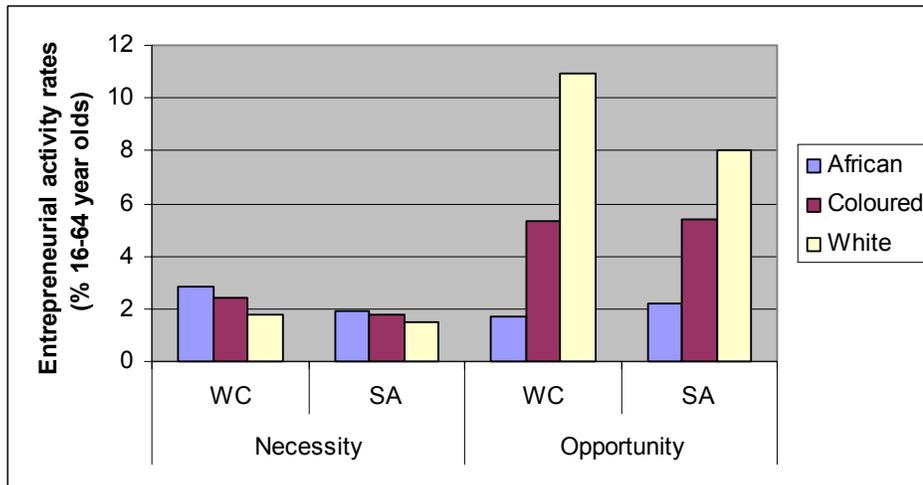


Figure 4 - Entrepreneurial activity rates by race and entrepreneur’s motivation (% 16-64 year olds, average 2001:3)



New business rates peak in 25-44 year olds, established business rates in 45-54 year-olds

Rates of participation in business owner-management vary with age. According to the GEM surveys start-up and new business prevalence rates peak in 25-44 year olds. However, established business activity rates only peak amongst 45-54 year olds. (Figure 5) The profile in the Western Cape is similar except that start-up and new business activity rates peak amongst 25-34 year olds in contrast to the whole of South Africa where they peak amongst 35-44 year olds. (Figure xxx)

Figure 5 – Entrepreneurial activity rates by age in SA (% 16-64 year olds, average 2001:3)

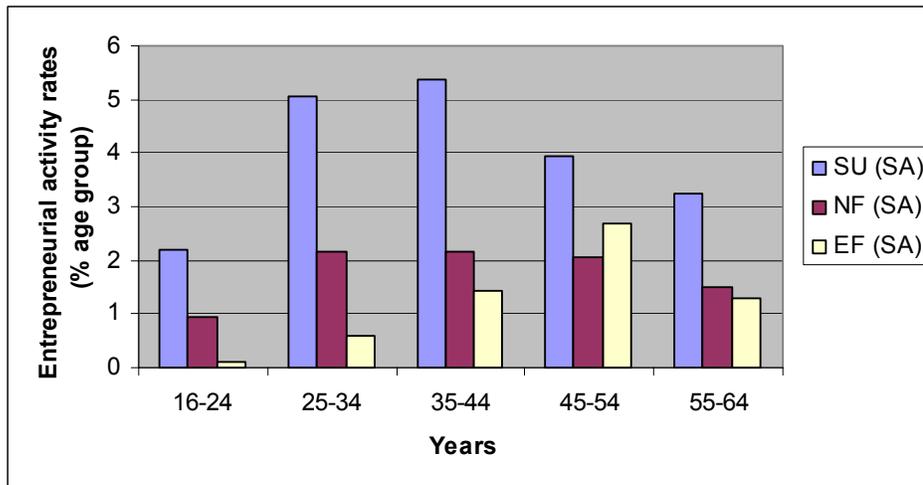
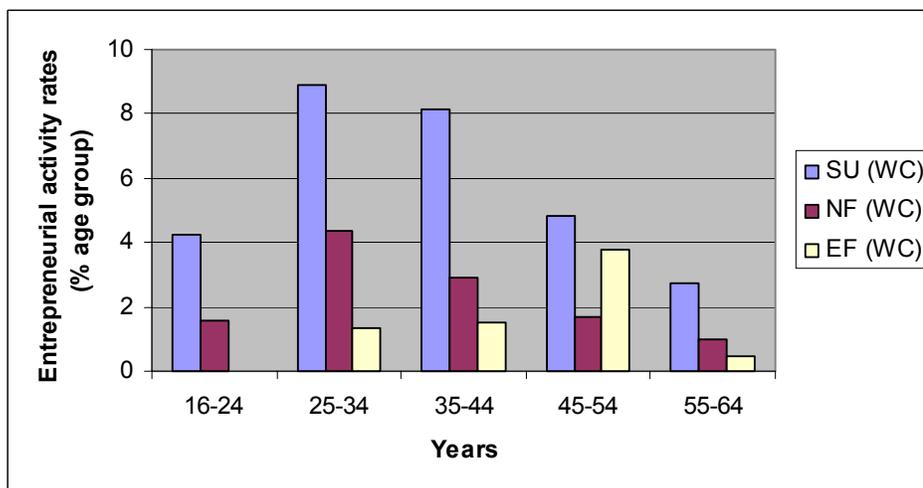


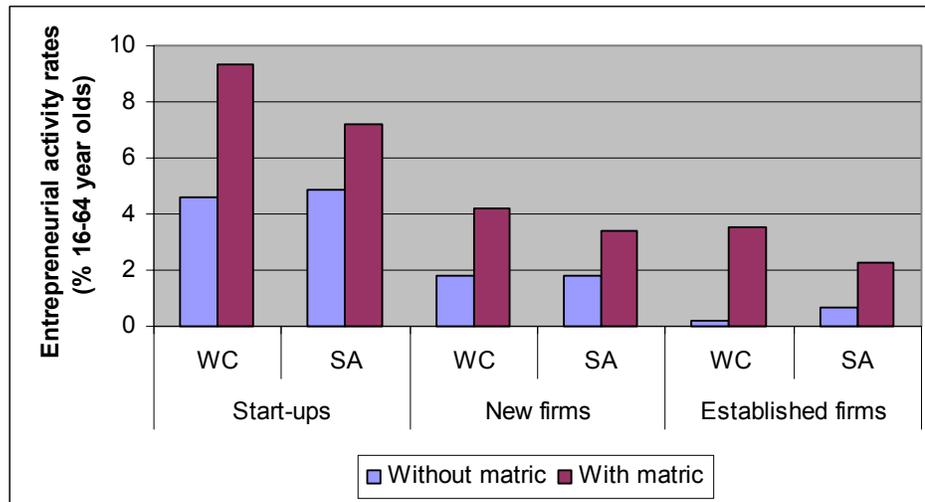
Figure 6 - Entrepreneurial activity rates by age in the Western Cape (% 16-64 year olds, average 2001:3)



People with matric are more likely to be entrepreneurs

People with matric are far more likely to be owner-managers of businesses than those with out matric. In South Africa as a whole 12.9% of people with matric are owner-managers of businesses compared to 7.3% of people without matric. However, the difference between owner-manager prevalence rates increases with the age of the business. In South Africa those with matric are 1.5 times more likely than those without matric to be involved in start-ups, 1.9 times more likely to be involved in new business and 3.6 times more likely to be involved in established businesses. This finding is even more pronounced in the Western Cape. In the Western Cape those with matric are 2.0 times more likely than those without matric to be involved in start-ups, 2.3 times more likely to be involved in new business and 20.7 times more likely to be involved in established businesses. This suggests generally higher quality entrepreneurial activity in the Western Cape and increased dependence on having completed secondary education.

Figure 7 – Entrepreneurial activity rates by education (% 16-64 year olds, average 2001:3)

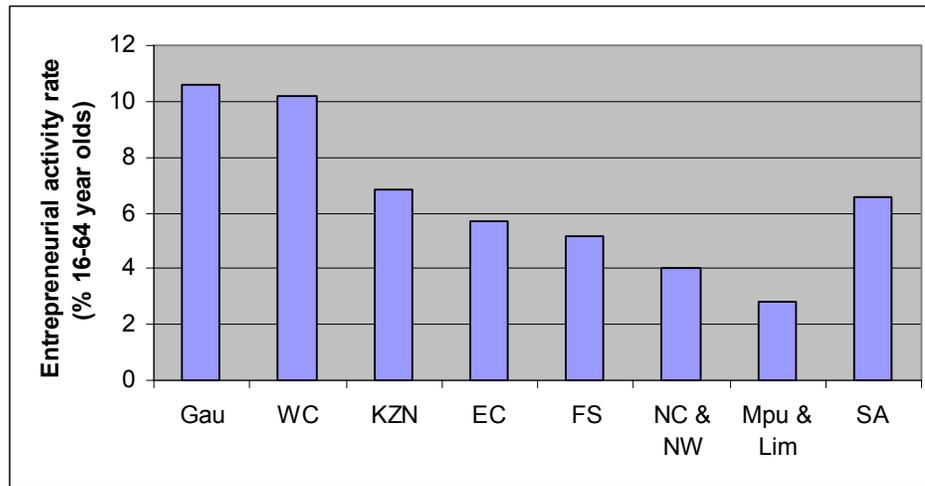


Entrepreneurial activity varies by province

The GEM data provides estimates of business owner-manager prevalence rates by province. (Figure 8) These vary considerably by province. Figure 8 reports the proportion of 16-64 year olds that are involved in either starting or running any owner-managed business (start-up, new or established). Gauteng and the Western Cape have the highest owner-managed business prevalence rates and they are considerably above the national average.

Variation between provinces needs to be interpreted cautiously. The evidence from the GEM data suggests that much of this variation appears to be due to the importance of metropolitan areas. Provinces like Gauteng and the Western Cape, which have predominantly urban and metropolitan based populations tend to have higher owner-manager business rates than those provinces with large rural populations (Eastern Cape and KwaZulu-Natal) or without any metropolitan areas (Mpumalanga, Limpopo, Northern Cape and North West). This is especially pronounced for opportunity based owner-managed businesses.

Figure 8 – Entrepreneurial activity (start-up, new and established) by province (% 16-64 year olds, average 2001:3)



1.4 What kind of businesses do South Africa's entrepreneurs operate?

Small businesses are heavily concentrated in the retail sector

The small business sector in South Africa is heavily concentrated in the retail, hotel and restaurant sector. 50% of established and new businesses and 48% of start-ups are in this sector. The next biggest sectors amongst the new and established businesses in South Africa are mining and construction and business services and manufacturing. Amongst start-ups the next biggest sectors are manufacturing and business services. The Western Cape has a very similar sectoral distribution of owner-managed businesses although the new and established businesses are less dominated by the retail, restaurant and hotel sector. Nevertheless 39% of established and new businesses and 47% of start-ups are in the retail, hotel and restaurant sector. The next biggest sectors are manufacturing (13% of start-ups and 7% of new and established businesses) and transport, communication and utilities (5% of start-ups and 15% of new and established businesses).

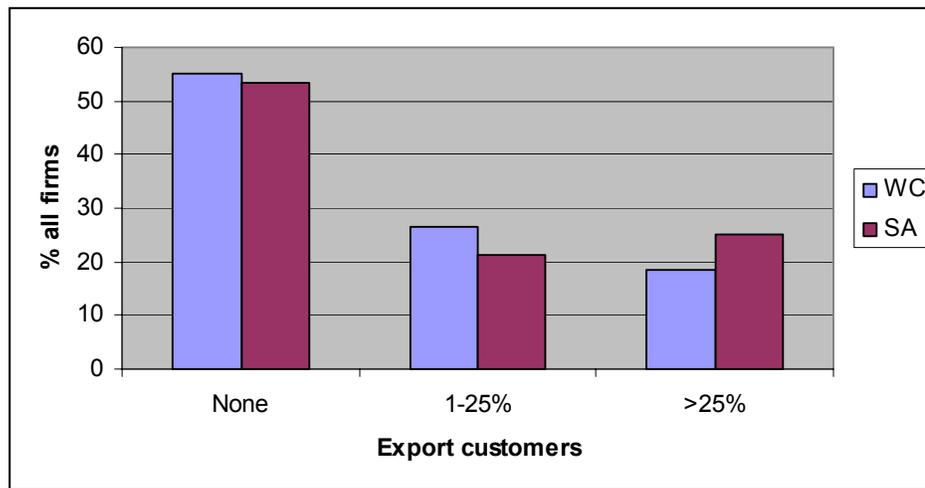
Table 1 – Sectoral composition of South Africa's owner-managed businesses

Percent of total	Start-ups		New & established businesses	
	WC	SA	WC	SA
Retail, hotel, restaurant	47	48	39	50
Mining and construction	7	4	4	10
Business services	10	10	20	10
Manufacturing	13	13	7	9
Motor vehicle sale and repair	3	6	4	9
Consumer services	7	8	7	5
Transport, communication, utilities	5	6	15	4
Agriculture, forestry, hunting, fishing	3	2	0	1
Finance, insurance, real estate	2	1	2	1
Health, education, social services	3	3	2	1
Total	100	100	100	100

Most small businesses focus on domestic markets

The GEM survey asks owner-managers how many of their customers are in export markets. Although this does not indicate what share of product is exported or what share of revenue is generated from export sales, it does provide a partial measure of the small business sector's export orientation. The overwhelming majority of South Africa's owner-managed businesses are domestically oriented. In South Africa 53% of owner-managed businesses (start-up, new and established) have no export customers and 75% have either no export customers or fewer than 26% of their customers are offshore. In the Western Cape 55% of owner-managed businesses have no export customers and 82% have either no or fewer than 26% of their customers in export markets.

Figure 9 – Share of customers that are offshore (% of all owner-managed enterprises, 2001:3)



1.5 The economic contribution of small businesses

This section examines the economic contribution of small businesses in South Africa and the Western Cape. It estimates the number of business owner-managers, the number of businesses they operate and the number of people these businesses employ.

Estimates of the number of businesses in South Africa vary considerably

Estimating the scale of the small business sector in South Africa is made difficult due to the absence of adequate data. No time series data is available and the individual estimates of the number and size of small businesses varies considerably. For example, Berry et al (2002) report six different estimates of the number of businesses in South Africa. These estimates range from less than 906 thousand (Ntsika 1999) to 3 million (Eskom survey, 1999). The average number of businesses (including large businesses) for the six estimates reported by Berry et al is 2.2 million. However, it is unclear whether the estimates reported by Berry et al refer to individual businesses or to business owner-managers. The distinction is important because the evidence from the GEM survey suggests that on average owner-managed businesses in South Africa have about 1.5 owner-managers.

The Labour Force Survey is the best official estimate of self-employment

Perhaps the most authoritative official estimate of the number of people involved in running their own businesses is available in Statistics South Africa's Labour Force

Survey. The LFS is a twice yearly, rotating household survey designed to measure the dynamics of employment and unemployment in the South Africa. It measures a variety of labour market issues, including employment, self-employment and unemployment according to standard definitions of the International Labour Organisation. According to the latest LFS (September 2003) out of a total of 29.9 million people aged between 16 and 64 years old, 16.2 million were economically active, and 13.7 were not economically active. Of those that were economically active, 11.6 million were employed and 4.6 million were unemployed.

The LFS estimates that 5.9% of 16-64 year olds are self-employed

Table xxx reports estimates from the 2003 Labour Force Survey. According to this estimate the labour force comprised 11.6 million people. Of these 71% were employed for a wage, salary, commission or payment in kind. 10% worked as domestic labour for a wage, salary or payment in kind. Less than 4% worked as unpaid help for a family business, worked in agriculture on their own or their family's land, or worked on construction on their own or their family's land. A further 15% of the labour force is self-employed in running or doing any kind of business big or small. According to the LFS, therefore, 5.9% of the population aged 16 to 64 years, or 1.8 million people, are running their own business. By comparison the GEM survey estimates that 6.6% of South Africans or 2.0 million people are owner-managers of their own businesses. This difference is not statistically significant. It is satisfying that the LFS survey and the GEM survey provide similar estimates of self-employment in owner-managed enterprises. This suggests that the GEM survey, which provides far more detailed information on entrepreneurs than the LFS, provides a useful tool for policy analysis.

2003 Labour force estimates	('000)	% of working population (16-64 years)	% of labour force
Work for wage, salary, commission, payment in kind	8,297	27.7	71.1
Run or do any kind of business, big, small, for self	1,758	5.9	15.1
Domestic work for wage, salary, payment in kind	1,162	3.9	10.0
Work on own/family land/plot/garden/tend cattle	289	1.0	2.5
Unpaid help for family business	99	0.3	0.8
Work on construction in own home/plot/farm/cattle post	59	0.2	0.5
Catch fish, hunt	<10		
Beg	<10		
Total	11,664	39	100

Source: 2003 Labour Force Survey, Statistics South Africa

GEM estimates of the scale of the small business sector

The disadvantage of the LFS survey is that it is not designed specifically to understand the owner-managed businesses. In contrast the GEM study is specifically designed to profile and understand owner-managed businesses. Using the GEM survey it is possible not only to estimate the number of owner-managers (or self-employed) but it is also possible to estimate the number of businesses that these people run and the number of people they employ in these businesses.

Estimating the number of people employed by small businesses involves a three step process:

1. GEM measures the number of people per 100 who are involved in either starting a business or running a new or established business that they own. The first step is therefore to estimate the number of owner-managers in South Africa using the GEM's start-up, new and established business owner-manager estimates and data from the population census.
2. Because more than one person may own and manage the same enterprise it is necessary to control for the average size of the ownership team. The second step is therefore to estimate the number of owner-managed businesses by dividing the number of owner-managers by the average size of the business owner-management team.
3. The final step is to multiply the number of owner-managed businesses by the average employment per business to estimate the number of people employed by owner-managed businesses in South Africa.

Table 2 reports the business owner-manager activity rates, average size of the owner-management teams and the average number of employees for start-ups, new business and established businesses in South Africa and the Western Cape.

Table 2 – Entrepreneurial activity rates, owners per business and employees per business (16-64 year olds, average 2001:3)

	Western Cape	South Africa
Owner-manager rates (% 16-64 year olds)		
Start-up businesses	6.4	3.9
New businesses	2.8	1.7
Established businesses	1.1	1.0
All start-up, new and established businesses	10.3	6.6
Owners per business (weighted average)		
Start-up businesses	2.1	1.9
New businesses	1.4	1.5
Established businesses	1.6	1.4
Employees per business (weighted average)		
Start-up businesses	0.2	0.1
New businesses	2.4	2.3
Established businesses	8.1	4.5

Source: Global Entrepreneurship Monitor

GEM estimates that 2 million people are operating 1.2 million businesses in SA
Based on the GEM data on average during 2001 to 2003 nearly two million people were involved in starting or managing businesses that they own. This figure is only slightly higher than the estimate of self-employed provided by the LFS. Given the average size of the owner-management teams it is estimated that these 2 million owner-managers were starting or operating 1.2 million businesses in South Africa. Of these 627 000 were start-ups, 339 000 new businesses and 208 000 established businesses. In the Western Cape 336 000 owner-managers were starting or running 189 000 businesses, of which 100 000 are start-ups, 67 000 are new businesses and 23 000 are established businesses.

Table 3 – The number of owner-managed businesses in South Africa and the Western Cape

(‘000)	Western Cape	South Africa
Start-up owner-managers	207	1,178
Start-up businesses	100	628
New business owner-managers	92	519
New businesses	67	340
Established businesses owner-managers	37	293
Established businesses	23	208
Total number of owner-managers	336	1,990
Total number of businesses	189	1,175

Source: Global Entrepreneurship Monitor

Employment provision is concentrated in new and established businesses

The average number of employees per business rises with the age of a business. (Table 2 above) Most start-ups do not employ anyone apart from the owner-managers. No doubt this reflects the reality that many start-ups are not yet viable businesses and many will never reach a point of earning revenue and employing staff. New businesses employ on average 2.3 people apart from the owner-managers (2.4 in the Western Cape). Established businesses employ on average 4.5 people apart from the owner-managers (8.1 people in the Western Cape). There are therefore significant gains in terms of employment from survival from start-up to new business and new to established business. These gains are larger in the Western Cape than in the rest of South Africa. They suggest that welfare gains will be maximised by increasing survival rates amongst businesses rather than by increasing the start-up rate.

Excluding owner-managers, small businesses employ 1.8 million people in SA

Table 4 reports estimates of total employment provided by start-ups, new and established owner-managed businesses. Owner-managed businesses employ and estimated 1.8 million people excluding the owner-managers. Established businesses employ 944 000 people or 52% of the 1.8 million employed by owner-managed businesses in South Africa. New businesses employ 782 000 people or 43% of the 1.8 million people employed by owner-managed businesses in South Africa. In contrast start-ups employ just 77 000 people or 4% of the 1.8 million people employed in owner-managed businesses in South Africa. In the Western Cape owner-managed businesses employ 362 000 people. Of these 362 000 people; 51% were employed in established businesses, 43% in new firms and 6% in start-ups.

...including owner-managers small businesses provide nearly 4 million jobs

To obtain a complete measure of job creation by owner-managed businesses it is necessary to include the owner-managers. According to the GEM estimates total employment including the owner-managers in owner-managed businesses is 4 million. Including the owner-managers, owner-managed businesses provided just less than 700 000 jobs in the Western Cape; approximately 230 000 in start-ups, 250 000 in new businesses and 220 000 in established businesses.

The estimates based on the GEM data appear to under-report employment compared to alternative statistics provided by the Department of Trade and Industry and other commentators. The CDE (2004) reports that the “45% of working South Africans are employed in the small business sector”. Given a labour force of 11.7 million this means that “the small business sector” employs about 5.2 million people. However,

they also report that small and medium businesses employ 6.5 million people (table 2, CDE, 2002). Some estimates of the number of people employed by small businesses might be exaggerated. If the estimate is derived from an estimate of the number of businesses which has not controlled for multiple owner-manager teams then the estimates will be exaggerated. However, it is also possible that the GEM estimates may under-report the number of medium to large sized businesses. It is also possible that the GEM estimates may under-report the prevalence of established businesses and or the prevalence of informal or survivalist businesses.

Table 4 – Employment provision by owner-managed businesses

(‘000)	Western Cape	South Africa
Start-up businesses excluding owner-managers	21	77
Start-up businesses <i>including</i> owner-managers	229	1,256
New businesses excluding owner-managers	157	782
New businesses <i>including</i> owner-managers	249	1,301
Established businesses excluding owner-managers	183	944
Established businesses <i>including</i> owner-managers	221	1,237
Total owner-managed businesses excluding owner-managers	362	1,803
Total owner-managed businesses <i>including</i> owner-managers	698	3,793

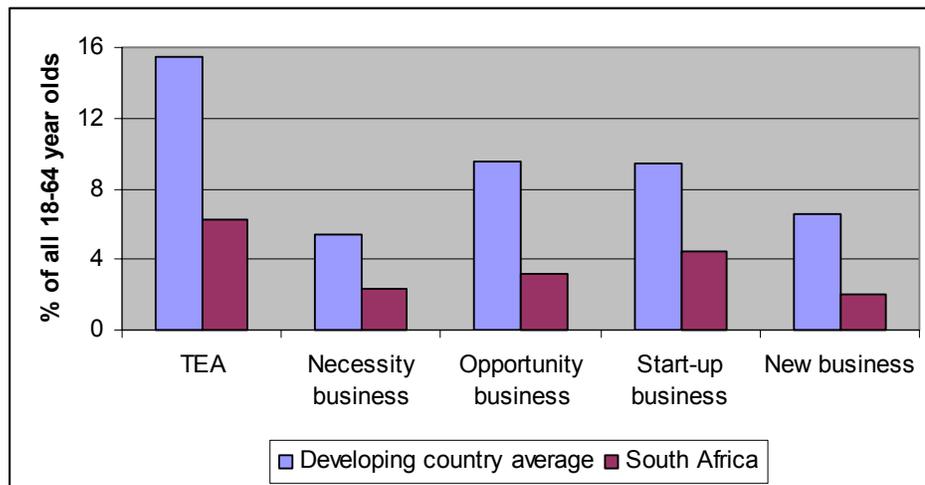
Source: Global Entrepreneurship Monitor

1.6 International comparisons of owner-managed business activity

Despite the significant contribution made by small businesses in South Africa, there is a significant gap between South Africa and other developing countries in terms of small business activity. The GEM survey is unique in that it provides a standardised measure of owner-managed business activity across over forty countries which together account for two thirds of the world’s population. GEM’s main measure of entrepreneurial activity is the Total Entrepreneurial Activity (TEA) index. The TEA index measures the proportion of adults aged 18-64 years who are either starting a business or operating a business that they own that is less than 3.5 years old. On this measure South Africa ranked 27th out of 40 countries included in the GEM survey during.

Since South Africa’s inclusion in the GEM survey it has consistently had entrepreneurial activity rates that are significantly and substantial lower than those in all the other developing countries included in the study. Figure 10 reports five entrepreneurial activity rates for 18 to 64 year olds in South Africa and the average for the other developing countries included in the GEM 2002 survey. In all measures of entrepreneurial activity the average rate in the other developing countries exceeds that in South Africa by at least 100% and in the case of opportunity and new business activity by 200% and 230%.

Figure 10 – Entrepreneurial activity rates for South Africa and other developing countries included in GEM (% 18-64 year olds who are owner-managers of businesses)



1.7 Supporting small businesses

This paper has reviewed the characteristics and scale of the small business sector. The small business sector makes an important contribution to the South African and Western Cape economy. However, international evidence shows that rates of entrepreneurial activity in South Africa and the Western Cape are significantly below equivalent rates in other developing countries. This suggests that there is considerable scope to increase the output of the small business sector in South Africa. Furthermore, there within South Africa blacks and women are under-represented amongst small business owner-managers. Participation by both women and blacks is also much more likely to be motivated by necessity and therefore experience lower returns than is the case of men and whites respectively. These findings suggest three objectives for policy:

- Firstly policy needs to support an increase in the rate of participation South Africans in starting and running small businesses;
- Secondly policy needs to support the survival growth of already established businesses; and
- Thirdly policy needs to support a narrowing of historical inequities in participation by blacks and women in owner-operated small businesses.

Achieving these three policy objectives implies four different kinds of intervention:

- Firstly measures to increase the overall rate of new business formation through increasing the long-term supply of people with the skills and mindsets needed to succeed in the owner-managed businesses. These kinds of interventions are related to building an enterprise culture.
- Secondly measures to support those people deciding whether or not to start businesses. These include measures to increase the information available to people thinking of starting business so that they are able to make informed rational decisions. They also include measures to directly support people who are in the process of starting a business. These kinds of interventions are related to building a dynamic start-up market.

- Thirdly measures to support existing businesses to grow their businesses. These measures include targeted capacity development, business linkages programmes, and measures to ensure access to financial support for growth and development.
- Finally measures that support specific start-up activity and business growth amongst specific groups in the population in order to narrow the gaps between men and women and between whites and blacks. These measures include aspects of the above three kinds of intervention but look to focus these interventions on specific population groups.

In the second and third papers of the microeconomic strategy on supporting small businesses strategies and programmes within these four types of intervention will be elaborated.

References

- Al Berry, Magali von Blottnitz, Rashad Cassim, Anna Kesper, Bala Rajaratnam and Dirk Ernst van Seventer. 2002. *The economics of SMMEs in South Africa*, Trade and Industrial Policy Strategies.
- Centre for Development and Enterprise, 2004, Key to Growth: Supporting South Africa's emerging entrepreneurs, Research Report no 12.
- Driver, A., Wood, E., Segal, N., Herrington, M. (2001)0 *GEM 2001 South Africa Executive Report*. Graduate School of Business, University of Cape Town.
- Finmark 2004. Unpublished draft report on financing of SMMEs in South Africa.
- Foxcroft, M., Wood, E., Kew, J., Herrington, M. and Segal, N. 2002. *Global Entrepreneurship Monitor: SA Executive Report 2002*. Graduate School of Business, University of Cape Town.
- Orford, J., Wood, E., Fischer, C., Herrington, M. and Segal, N. 2003. *Global Entrepreneurship Monitor: SA Executive Report 2003*, pp 1-56.
- Orford, J., and Wood, E. 2003. *Why are some developing countries more entrepreneurial than others?* Unpublished paper delivered at the GEM Research Conference, Berlin, 2004.
- Reynolds, P., Bygrave, W., and Autio, E. *Global Entrepreneurship Monitor 2003 Executive Report*. Babson College, Ewing Marion Kauffman Foundation and London Business School.
- Statistics South Africa. March 2004. *Labour Force Survey: September 2003*.