

**SMME SECOND PAPER**

**Supporting Small Businesses in the Western Cape**

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## **Executive Summary**

This report is the second phase report for the project to develop a microeconomic strategy for small business support. It follows the first phase report which provided an overview of the small business sector in South Africa and the Western Cape. This second phase report provides an assessment of current initiatives to support small businesses and outlines programmes to promote small businesses in the Western Cape.

The report reviews the considerable array of national and provincial small business support. Strong evidence suggests small businesses are either unaware of the government's programmes to support them or are sceptical about their quality and effectiveness. In response to the perceived failure of many government initiatives to deliver quality support both national and provincial government are initiating new structures to provide centrally administered support to small businesses (nationally via the Small Enterprise Development Agency and provincially via the Real Enterprise Development centres – Red Doors).

In addition to the public sector small business sector support programmes there are a considerable array of private and public-private partnerships providing small businesses with support. Public private partnerships in particular have achieved considerable success (e.g. Business Place and TEP). Private sector business development service providers are also extensively used by small businesses and current international best practice in small business support emphasises initiatives to support market provided business development services.

Based on this assessment it is argued that there are five key lessons to be learned in the provision of small business support:

- the importance of building reputation through using the right people to deliver support to small businesses;
- the importance of keeping programmes focused so that they can develop expertise, reputation and networks;
- the importance of utilising private business development service providers;
- the importance of public-private partnerships based on co-investment that leverages proven capacity and expertise in small business support programmes; and
- the importance of ensuring that customers buy-in to small business support programmes.

Within this context there are three clear roles for the provincial government in supporting small businesses:

- Channelling information from national government to local service providers.
- Supporting and leveraging private sector support delivery.
- Building public private partnerships.

Defining the provincial government's role in this way raises some questions about the provincial government's Real Enterprise Development strategy, in particular its commitment to establishing centrally administered Red Doors. While the overall

intention of the strategy is admirable the programme is very ambitious and it is unclear how the Red Door strategy will avoid the problems associated with many other government administered programmes of support. Therefore this strategy recommends that the overall RED Door strategy be reviewed with a view to ensuring its compatibility with the principles and programmes established in this report.

Having surveyed the existing array of support for small businesses the report details six areas in which the provincial government can play a role in supporting small businesses. These are:

1. Increasing the supply of entrepreneurs
2. Improving the flow of information to small businesses
3. Developing industry and area based networks of business development services
4. Industry based programmes to support small businesses
5. Financial support for small businesses
6. Empowering disadvantaged groups

In each of these six areas the role of the provincial government in supporting small businesses is considered. Based on this it is clear that the priorities for the provincial government with respect to small business promotion are:

1. Support entrepreneurship education in schools especially former black and rural schools;
2. Facilitate the flow of accessible user-friendly information to businesses via a variety of information access points;
3. Build and develop industry and area (chamber) based associations that are capable of developing initiatives to support small businesses and are able to initiate (government supported) programmes to stimulate growth of small businesses;
4. Provide limited but targeted financial support to businesses owned by historically disadvantaged individuals.

The report concludes by establishing criteria for monitoring the implementation of the programmes to support small businesses. This should be done annually by independent consultants and should be made public.

## **Introduction**

This is the second phase report for the Microeconomic Strategy for Small Business Promotion. The first phase report provided an overview of the small business sector. This report provides an overview of existing support offered to small businesses, identifies principles that should guide public sector support to small businesses and identifies the different ways in which the Provincial Government of the Western Cape (PGWC) can support small businesses. The strategies developed in this report will be elaborated and refined the third phase report.

This report has been prepared within a context in which most of the national and provincial strategies and public sector small business support structures are under review. The aim of these reviews is to take account and build on past decade's attempts to support small businesses but at the same time to address weaknesses. This report tries to take account of this process and rather than suggest a raft of new measures and programmes the report focuses attention on learning lessons of the past and concentrating effort on improving what is already delivered.

The remainder of this report is structured as follows. Sections one and two consider the array of public and private initiatives to support small businesses. Based on this section three establishes the role for the provincial government in supporting small businesses. Sections four through 9 consider specific programmes to support small businesses. Section four discusses the role of education in expanding the supply of potential small business owners. Section five considers the role of government in improving the information flow to small businesses. Section 6 considers how the provincial government can support the development of industry and area based private sector business development services for small businesses. Section 7 considers industry based programmes to support small businesses within specific industries. Section 8 considers a limited programme to provide finance to special groups. And section nine considers the integration of economic empowerment objectives into all aspects of the programmes to support small businesses. Section ten considers how the programmes to support small businesses can be monitored and evaluated. Finally appendix 1 presents specific projects that could be implemented to support aspects of the programmes to support small businesses.

## **1 Public sector support to small business**

Over the past ten years there has been a considerable public effort to support small businesses in South Africa and the Western Cape. This section describes the main elements of the support provided by the government, considers the effectiveness of this support and discusses the new directions emerging as the government attempts to improve the reach and quality of small business support.

### **1.1 Existing government support for small businesses**

#### *National initiatives to support small businesses*

To address the perceived market failing in the provision of appropriate business development and specialised services to small business, the Ntsika Enterprise Promotion Agency (Ntsika). Ntsika's mandate was implement the government's national strategy for promoting small medium and micro enterprises via a programme accessible through a network of retail service providers. These included:

- Local Business Service Centres (LBSCs): providing business advice and information via accredited service providers
- Tender Advice offices (TACs): providing assistance and training to SMMEs on public tendering
- Manufacturing Advice Centres (MACs): industry specific assessments and link small and medium businesses to specialised advice

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

The Department of Trade and Industry also provides a number of incentives directly. These include:

- Standard Leased Factory Building Scheme: rents space to small and medium businesses
- Small/Medium Manufacturing Development Programme tax-exempt establishment grant as % of investment for first two years
- Economic Empowerment Scheme
- Venture Capital Scheme
- Normal Finance Scheme
- Import Finance Scheme
- Short-term export finance guarantee facility
- Export marketing and investment assistance scheme

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

There are a range of departments within the Provincial Government Western Cape (PGWC) that support small businesses or have programmes which benefit small businesses. However, the overall mandate for small business promotion lies with the

Department of Economic Development and Tourism. At provincial level the first initiative to support small businesses were the provincial SMME desks. These aimed to link national and sectoral programmes with local or regional implementation bodies and establish comprehensive SMME database to inform national policy. In addition there the PGWC has implemented a range of programmes to support small businesses in the Western Cape. Many of these programmes have been implemented via public private partnerships. These have included:

- Business information, advice and support: (e.g. the Business Place, Business Beat, Big News, the Small Business Week, Library Business Corners, Start your own business book)
- Business planning and consulting (e.g. UCT Graduate School of Business, Peninsula Technikon)
- Training (University of the Western Cape)
- Financial support and mentoring: (e.g. CASIDRA, UCT Graduate School of Business)
- Linking businesses to opportunities with bigger businesses (e.g. South Cape Business Centre and Business Opportunities Network)
- Procurement (information tender opportunities via tender advice centres)
- Specialised business support: (Manufacturing Advice Centre)
- Industry specific support: (Tourism sector programmes, Cape craft and Design Institute supporting the craft industry; support to the film industry)

## **1.2 How effective is public sector support of small business**

### **1.2.1 What do small businesses think about public sector support**

#### *Small business is not aware of public support*

There is considerable evidence to suggest that one of the main problems associated with government programmes to support small businesses is lack of awareness about the programmes. 57% of small business in the Johannesburg and 70% of in the Western Cape had never heard of any support institution. (Berry et al 2002). In a survey of 792 formal small businesses in Johannesburg the majority of businesses had never heard services offered by the DTI, Khula or Ntsika. (Berry et al 2002). In a survey of 400 black businesses that had applied for finance 54% had never hear of Khula's products. (Foxcroft 2002) Low awareness and even lower usage of government support structures is confirmed by the 2004 SME Survey, a survey of over 2500 small and medium businesses. Table 1 reports the proportion of businesses surveyed that had heard and used different government structures. With the exception of the SETAs less than 10% of the businesses had used any of the structures. Awareness was not much better with less than 15% of businesses aware of Ntsika and less than 10% aware of either the Manufacturing Advisory Centres or Khula. (Goldstuck 2004)

**Table 1 – Small business awareness and use of government support**

Government initiative	Percent businesses aware of initiative	Percent business who have used initiative
Setas	61	32
IDC	45	7
Competitiveness Fund	32	11
Ntsika	13	1
Export incentives	12	2
Manufacturing advisory centres	11	1
Khula	9	1
Brain	9	1
Umsobomvu	4	1

*Small businesses is sceptical about public support*

Partly lack of awareness reflects poor marketing. The 2004 Small and Medium Enterprise Survey found, for example, that 70% of the small and medium businesses surveyed felt that government communicates its incentives poorly. For Ntsika and Khula this is compounded by the fact that their products have been delivered indirectly via third parties (LBSCs and retail finance intermediaries and banks).

However the problems run deeper than poor marketing. There is evidence of deep suspicion about the quality, usefulness and accessibility of government services amongst small businesses. For example, the 2004 SME survey found that 63% of small businesses think that the impact of general government incentives is negative and 54% of small businesses think that the impact of SME support structures is negative.

This is likely to have two consequences. Firstly small businesses who don't believe in the quality of government programmes are unlikely to spend valuable time searching for these services. Secondly even if they are aware of the services they are unlikely to see any value in accessing them. In a survey of 792 formal businesses, even when they were aware of the services provided by DTI, Khula and Ntsika, these businesses were very unlikely to use the services. On average less than 18% of the businesses that were aware of the services offered by DTI, Khula and Ntsika attempted to make use of these services. (Berry et al 2002)

**1.2.2 Why has government support of small businesses failed?**

There are a number of reasons for the failure of government support to small businesses. Berry et al (2002) identify several reasons. These include:

- Lack of awareness (outreach).
- Uneven distribution (concentration in metropolitan areas).
- The high cost of searching for support services which has not been mitigated by effective information on how and where to access support.
- Cumbersome administrative requirements of government programmes resulting in user fatigue and high levels of disappointment. (E.g. the Competitiveness Fund requires a detailed analysis of how the support will improve performance of the business. This requirement alone would no doubt exclude many businesses the government is trying to support.)

### *The failure of the Local Business Services Centres*

The performance of Ntsika's LBSC programme has been particularly poor. There are number of reasons for this. Berry et al (2002) suggest that the institution overestimated its capacity as well as the capacity of the local business service centres. Undoubtedly funding constraints played a major role too. Unable to access funding from Ntsika most LBSC had to devote resources to raising fund and/or rely heavily on service fees. Both were detrimental to their ability to service small business in the way initially envisaged. The LBSCs also tended to service a wide range of businesses and were generally unable to mobilise the necessary expertise to provide more than a generic service to these businesses. The need to maximise service fees also resulted in a reluctance to refer clients to qualified service providers as initially envisaged. In contrast the Manufacturing Advice Centres with a much more focussed role and utilise expert service providers were able to achieve much better results although with a more limited range of businesses.

### *Failure in delivery*

Evidence from the Global Entrepreneurship Monitor suggests that in addition to the factors mentioned above an important reason for the failure of government programme to support small businesses is due to poor deliver. (GEM Reports 2001, 2002, and 2003) Each year the GEM study interviews a carefully selected group of people knowledgeable about entrepreneurship and small business support. One of the areas that these experts are asked about is whether government policies and programmes are supportive of people starting and running new businesses. The experts in South Africa are relatively positive about the degree of emphasis placed by government on small business promotion. However, they are sceptical about:

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

## **1.3 New directions in public sector support for small business**

Two government initiatives are currently in planning that are aimed at changing and improving the quality of services delivered to start-up entrepreneurs. At the national level the government has initiated a merger between Ntsika and Namac to form the Small Enterprise Development Agency (SEDA). At the provincial level the Department of Economic Development and Tourism is currently launching a programme called Real Enterprise Development. These two programmes bear striking similarities. Both initiatives are responding to the failure of the LBSCs in general to provide a uniform service to start-ups and existing small businesses. In this section we outline the thinking behind these two initiatives. Later in the report we provide a critical review of these initiatives.

### **1.3.1 Creation of a national small enterprise development agency**

In response to the failure of the LBSC to deliver a uniform and high quality service nationally the government is currently restructuring its product offering to small businesses. This will see the merger of the National Manufacturing Advisory Centres (NAMAC) and NTSIKA and the creation of a Small Enterprise Development Agency (SEDA). The aim of this is to create a single agency capable of supporting small businesses nationally. Although operational details of SEDA are still under review it

is envisaged that the agency will incorporate all existing small enterprise support programmes as different product offerings under one organisation (e.g. tender advice, business advice, manufacturing advice).

A key aspect of the programme will be information sharing through a common information system which will enable tracking clients and developing good data on clients, performance and client satisfaction. There will also be shared business processes which will entail a common diagnosis of client problems and needs, an enterprise plan which designs appropriate interventions for the client, and identification of appropriate service providers. These services will be available at SEDA offices which will be distributed nationally in all of South Africa's districts. Approximately forty such SEDA offices are envisaged. These centres will be monitored on the basis of outputs such as the number of businesses supported. However, the information system envisaged will also allow for customer satisfaction feedback. Table 2 outlines the basic service offering of SEDA.

**Table 2 – The Small Enterprise Development Agency**

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

### 1.3.2 Real Enterprise Development in the Western Cape

Motivated by similar reasons as the merger of Namac and Ntsika (failure to deliver quality business development services to start-ups and small businesses) the PGWC has launched its own initiative to provide real enterprise development services. The RED initiative envisages six components.

- RED door;
- RED support network;
- RED finance;
- RED skills development;
- Access to opportunities; and
- Access to business sites

In essence the RED initiative is the same as the national initiative to create a Small Enterprise Development Agency (SEDA). The RED Door is seen as a “one-stop-shop” providing information, business advice, referral to accredited service providers and information on business opportunities. The RED Doors will be staffed by business advisors who will capture a profile of each person who visits the centre,

perform a basic diagnosis of their needs and develop a plan to address these needs. The plan will include provision of necessary information, referring to accredited service providers, linking the business to opportunities, skills training and where necessary provision of finance. The RED Doors do not envisage replacing private service providers but will have to play a catalytic role in developing a network of service providers. However, it is envisaged that the RED Door will play a role in managing the quality of the service provider. The funding of these services remains uncertain but DEDT expects to have to fund services. It is envisaged the fully operational a RED Door would service about 100 clients per year (existing and new start-ups).

**Table 3 – The RED Door**

Client	RED Door	Service provider
<ol style="list-style-type: none"> <li>1. Walk into RED Door</li> <li>2. Obtain information</li> <li>3. Obtains diagnosis</li> <li>4. Obtain a plan for support</li> </ol>	<ol style="list-style-type: none"> <li>1. Diagnosis of client needs</li> <li>2. Capture information in information system</li> <li>3. Plan for business aimed at addressing the businesses' needs</li> <li>4. Links business to service providers</li> <li>5. Accredits service providers</li> <li>6. Monitors programme</li> <li>7. Manages contracts with service providers</li> <li>8. Information on opportunities</li> <li>9. Skills development</li> <li>10. Financial support</li> </ol>	<ol style="list-style-type: none"> <li>1. Provides agreed service</li> </ol>

## **2 Private provision of support to small businesses**

The previous section reviewed public support to small businesses. However, a considerable amount of support to small businesses is delivered by private sector organizations or organizations working in partnership with the public sector. This section reviews some examples of private-public partnership and discusses the role of private sector business development service providers. The purpose is to identify lessons to guide the successful provision of small business support.

### **2.1 Public private partnerships in providing support to small businesses**

While the experience of Ntsika and the LBSCs has been unsatisfactory and there are clearly gaps in private sector provision of services to small businesses there have been notable successes in the provision of business development services. These should be built on the trying to develop appropriate support structures for small businesses. This report does not provide a comprehensive account of these types of initiatives but highlight three successful public-private partnerships in delivering support to small businesses. Each provides lessons for how to deliver effective support to small businesses.

#### *The Business Place*

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

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

The Business Place represents a dynamic public-private sector solution to the need for basic information and business advice for micro and emerging small businesses. Originally started by Investec the Business Place seeks to attract co-investors in each of its centres. Co-investors include the City of Johannesburg in the Business Place at Johannesburg, the City of Cape Town and the Provincial Government in the Business Place at Cape Town. Private sector companies also contribute by providing free services to Business Place customers; for example, legal and accounting services

provided by Weber Wentzel and Ernst and Young. The model has potential for specialised focus in particular areas (e.g. the Business Place in Philippi will have a focus on businesses located there). It solves a number of market failings in particular it reduces the search costs for people wanting information on how to start a business or needing access to services located in the Business Place. A key feature of its success is the ability to provide quality efficient service.

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

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

#### *Tourism Enterprise Programme*

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

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

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

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

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

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

#### *Manufacturing Advice Centres*

The Manufacturing Advice Centres provide specialised advice to small and medium manufacturing businesses. The businesses they support range employ between 5 and 200 people. They target businesses owned by historically disadvantaged people. The MAC's have achieved considerable success. The MAC model is one in which businesses undergo a diagnosis which includes a "readiness for change" test (judgement call by the industrial advisor), a diagnosis of the business (including operational, marketing, human resources and financial aspects of the business) and a backward and forward financial analysis of the business. Based on the diagnosis a plan is worked out for the businesses and MAC secures three quotes from business development service providers. The client business chooses the service provider. The service providers are paid market rates, with MAC subsidising the cost of the service provision. Subsidisation is based on a sliding scale from 65% to 95% of the cost of the service depending on a points system.

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

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

## **2.2 Private sector business development services**

The presumption underlying public intervention is that the service sector is unable to address the needs of small businesses, in particular the needs of emerging black micro and small businesses. Accurate information in the use of business development services by small businesses is limited with much research focussed on the supply rather than demand of business development services. To some extent therefore the government's attempts to deliver services to small businesses are not well informed by developments within the business services sector. Evidence from surveys of small business utilisation of business services funded by the GTZ does indicate some degree of market failure and points to some solutions. GTZ has conducted two surveys of small businesses in Nelspruit and King Williamstown. These are informing two pilot studies which are looking at developing business development service markets more responsive to the needs of small businesses.

### **2.2.1 What business development services are small businesses using?**

Results from the Nelspruit survey indicate the extent and nature of small business use of business development services. The GTZ study identifies sixteen different business development services. Table 4 shows the proportion of businesses using different business development services in Nelspruit. Outside of a core group, business development services are not commonly used by small businesses. Over half the small businesses used advertising and accounting services and over a quarter used computer (hardware and software) and legal services. Between 10 and 25% of the businesses used financial planning (including business plans for finance), quality training and management/business skills training. However, fewer than 10% of the businesses make use of over half the different services on offer.

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

- regulatory including starting a new business
- responding to customers
- skills development
- growth of the business
- responding to competition

Table 5 reports reasons for businesses not using businesses development services. Of those businesses that did not make use of the services provided the most important reason identified for not using the service was that the service was not relevant to the business. In most cases 50% to 60% of businesses indicated that the services were not relevant to them. The only exceptions were advertising and accounting where only 30% of businesses said that these services were not relevant to them. Price and quality of services is the second largest factor contributing to the low utilisation of business development services. A significant proportion of businesses do not use business development services because they are not aware of them. Unavailability of the service was generally not an important reason for the businesses not using a particular service.

**Table 4 – Use of business development services by small businesses in Nelspruit**

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

**Table 5 – Why small businesses did not use business development services**

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

**2.2.2 What can be done to stimulate business development service provision**

Although it is not valid to generalise the findings of the GTZ study to the rest of the country or to the Western Cape the study does provide important insights into how to develop business development services for small businesses. It also articulates more clearly how government can partner with private service providers to build more responsive service providers for small businesses. The GTZ study indicates that an extensive business service sector exists. However, while a core of services are used by a large proportion of businesses many services are not used by more than a handful of businesses. Three reasons are important for businesses not using business development services: lack of perceived relevance of the service to the business, the price and quality of the service and lack of awareness of the service. All three suggest three critical interventions are necessary.

*Building awareness and sharing information*

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

*Facilitated interventions*

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

*Completely new service design and creation:*

Where the demand for a service is wholly unmet and the benefit to businesses justifies the cost it may be necessary to establish provision of the service. Either this involves conceptualising new services or it involves attracting service providers from other areas to the area where it is not met. However, the expectation is that this is generally not required as service providers will exist. In most cases therefore the expectation is that introducing a new service will not be necessary or appropriate and could undermine existing service providers potentially worsening service provision.

### **3 The role of the provincial government in supporting small businesses**

The previous sections of this report have provided an overview and assessment of some of the main public and private initiatives to support small businesses. A number of key points emerge from this discussion. These “lessons of effective small business support” should inform the PGWC’s small business support strategy. In this section therefore we distil key lessons from the previous decade of small business support and clarify the PGWC’s role in supporting small businesses. Based on this we provide a critical review of the RED Door, the main initiative by the PGWC to support small businesses. In the sections that follow we elaborate specific programmes to support small businesses.

#### **3.1 Lessons learnt from a decade of support for small businesses**

There are a number of key lessons that have emerged from the past decade of small business support. Below we highlight a few key principles that should inform the way in which small business support programmes are conceptualised.

##### *Awareness and reputation is built on having the right people*

Government support structures and services suffer from a crisis of credibility. Most businesses are not aware of their services and those that are often not satisfied with the quality of the service they offer. The key to building effective small business support lies in creating focussed programmes which are delivered by professional and experienced people who understand the needs of businesses. Attracting these people into the delivery of small business support services is very important since most of the success or failure of the programmes rests on the people who deal directly with small business owners. The government’s (national and provincial) programmes have not paid sufficient attention to attracting the right people into the delivery of support to business owners. In contrast some very successful private-public partnerships have been able to attract the right people and consequently generate high levels of brand recognition and support. For example, the Business Place in Johannesburg which has close to 80% customer satisfaction ratings and has 5000 visitors per month. Another example is Cape MAC which pays market related salaries to recruit qualified and experienced personnel and utilises leading private sector service providers. In contrast Khula has attracted mentors with little or no business experience and limited capacity to support the business with which they work.

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

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

*The importance of private business development service provision*

Contrary to the view implicit in the creation of a range of public institutions to support small businesses there are a large variety of public business service providers. It is therefore important that government support to small businesses does not attempt to replicate existing private sector BDS. What would be more appropriate would be for the government to support attempts to develop and deepen private sector BDS provision. This could be done through working with a catalyst organisation to develop geographical or industry based clusters of service providers. For example GTZ is working with the Nelspruit Chamber of Commerce and the Eastern Cape MAC to develop geographical clusters of service providers. At an industry level it would be possible to work with sector organisations like Clotex to develop an appropriate cluster of service providers in the clothing sector.

*The importance of public-private partnership*

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

*The importance of customer commitment to service provision*

Most successful support programmes have a way of locking in client commitment. One of the most important ways is to ensure that the client pays for part of the service. This reduces moral hazard and ensures that the client actually wants the service.

### **3.2 The provincial government's role in supporting small businesses**

These “lessons” of small business support suggest that the provincial government's role in supporting small businesses should not be that of “main deliverer” of services. Rather the PGWC should focus its attention on:

- *Channelling information from national government to local service providers.* This is aimed building awareness amongst service providers and amongst businesses of the full range of service provided by the national government.
- *Supporting and leveraging private sector support delivery.* Public programmes need to recognise that private service providers are playing a major role in providing business development services and should look at supporting and leverage this rather than replacing or duplicating this.

- *Building public private partnerships.* Public private partnerships can play a key role in addressing some of the gaps in private business development service provision and at the same time can avoid the traditional failings associated with public service delivery.

### **3.3 The Red Door Strategy**

The provincial government is currently launching a major initiative to roll out a network of government administered small-business one stop advice centres. The details of this programme were outlined above. The Red Door strategy is born out of the very real need to improve the support provided by government to small businesses. However, this section has distilled a number of key lessons for supporting small businesses. In general, these lessons point to the provincial government having a relatively limited role in direct delivery of small business support. Within this context it is relevant to raise a number of questions about the nature of the Red Door strategy. Overall these questions suggest that it may be pertinent to review aspects of the Red Door strategy, with a view to seeing how the strategy so that it can be implemented in a way consistent with the ideas developed in this report. Key questions that need to be addressed include:

- Most government support structures with the exception of very tightly focussed ones like MAC have failed to develop a reputation for quality service leading to dissatisfaction amongst their target market. It is unclear how the Red Door Centres will avoid this problem. For example, it is unclear that the right people are likely to be attracted into working in Red Door centres.
- While the Red Door centres envisage being referral centres they also envisage a strong core competency. In particular they envisage that the staff of the Red Door centre will need to be able to develop a business improvement plan for clients. Will these centres have the capacity to deliver this service?
- The Red Door centres are based heavily on the Business Place model. Given the Business Place's accumulated knowledge and capacity the question needs to be raised as to why the Business Place model could not be replicated. Discussions with the Business Place indicate that this is a significant possibility which would allow the PGWC to partner with a proven private sector service provider, reducing costs and minimising risks.
- Will the formation of Red Doors result in competition with other similar service providers? For example, the PGWC is a co-investor in the Business Place and the Business Beat. Do they envisage their Red Door centres competing for clients with these organisations? Will the costs of establishing the Red Door centres mean that funds are diverted from the Business Place, Business Beat and other public private partnerships?
- There are a number of operational aspects of the Red Door which are unclear. For example, will the customers pay for services? If not what are the budgetary implications? How will service providers be accredited? What criteria will be used to support some clients and not others?

### **3.4 Programmes to support small businesses in the Western Cape**

Based on the key lessons that have emerged from our assessment of support to small businesses we have in this section defined a relatively limited role for the provincial government in supporting small businesses. Essentially this revolves around improving the flow of information and using its position to leverage private sector and industry based support for small businesses. In the remainder of this report we identify and discuss six areas where the provincial government can play a role in supporting small businesses. These are:

1. Increasing the supply of entrepreneurs
2. Improving the flow of information to small businesses
3. Developing industry and area based networks of business development services
4. Industry based programmes to support small businesses
5. Financial support for small businesses
6. Empowering disadvantaged groups

Specific projects associated with these programmes are presented in appendix one.

## **4 Education and training to increase the supply of entrepreneurs**

This section considers the role of the education system in expanding the supply of people who have the skills and attitudes necessary to become entrepreneurs. The section considers some of the evidence regarding education and entrepreneurship and reviews the current state of entrepreneurship teaching in South Africa.

### **4.1 Education and entrepreneurship – the evidence**

The Global Entrepreneurship Monitor has repeatedly highlighted South Africa's low rate of entrepreneurial activity, especially by young people, relative to other middle income developing countries like Argentina, Brazil and Mexico. The GEM study has linked this to the fact that South Africa has roughly half the proportion of young people who believe they have the skills necessary to start a business. An individual's belief in their own ability to start a business plays an extremely important part in their decision to start a business. People who believe they have the skills to start a business are five times more likely than others to actually attempt to start a business. (Orford et al 2003)

One of the primary public influences on individual attitudes toward entrepreneurship is the education system. The education system plays an important role in developing entrepreneurial skills and shaping attitudes in several different ways. Effective schooling should provide crucial skills in verbal and written communication and in numeracy. Depending on grade level and subject choices, schooling may also develop awareness and skills in areas more specifically related to business such as economics, accounting, and entrepreneurship. Schools also can play an important role in shaping learner attitudes in more subtle ways, for example, in the areas of work ethic, career expectations, and their outlook toward tertiary education.

GEM South Africa has consistently argued that schooling plays a vital role in entrepreneurial development and that improving the quality of school education and increasing the proportion of young people who complete schooling are crucial to increasing the prevalence and success of entrepreneurial activity in South Africa. However, although entrepreneurship has been introduced to the South Africa school curricula there have not been any comprehensive assessments of the extent to which it is actually taught in schools or the role and effectiveness of entrepreneurial education in developing the competencies and attitudes necessary to pursue self-employment or entrepreneurship as a career.

A limited study that does provide some evidence is a pilot study assessing the Business Ventures programme offered by the South African Institute for Entrepreneurship. The Business Ventures programme is offered in nearly 3000 classes in South Africa. Shay and Wood conducted a limited pilot study to determine the impact of the BV course on pupil's level of understanding of basic financial concepts; level of confidence in their ability to start a business and achievement orientation. Shay and Wood found that participation in the BV programme had a significant and positive impact across 11 out of the 12 variables measuring the three skill and attitudinal aspects mentioned. The study provides powerful evidence that participation in the BV programme has a highly positive impact on understanding of and attitudes towards entrepreneurship. The results of this study provide strong support for a wider

assessment of entrepreneurial education in South African schools as well as wider implementation of entrepreneurial education in South Africa schools.

#### **4.2 Entrepreneurial education in South Africa and the Western Cape**

Considerable progress has been made in introducing entrepreneurship teaching into the South African school curricula. Since 1997 entrepreneurship has formed part of the Grade 3 to 6 Economic and Management Sciences syllabus. And in 2005 entrepreneurship will be included in the Business studies syllabus for grades 10, 11 and 12. However, there is concern about the extent to which entrepreneurship modules are taught in schools particularly rural schools and there is also concern about the ability of teachers to implement the new material.

Friedrich et al (2004) conducted an assessment of entrepreneurial teaching in South Africa. In this study they conducted a limited analysis of the extent to which schools have implemented entrepreneurial teaching. Their methodology was based on identifying leading schools in urban and rural areas in each of South Africa's nine provinces. These were schools which have the highest pass rate and/or offer entrepreneurship programmes and/or are involved in outreach programmes. 39 leading schools in South Africa's nine provinces were interviewed about entrepreneurship teaching in their schools. 41% of these schools were rural schools and 59% were urban schools.

Based on these schools they found that almost 60% of schools in South Africa do not offer entrepreneurship training programmes. Far fewer of the rural schools offered entrepreneurship teaching. Only 19% of rural schools offered entrepreneurship teaching compared to 56% in urban areas. In the Western Cape both the urban schools offered entrepreneurship, but neither of the rural schools offered entrepreneurship. Considering that these were leading schools in the provinces it is likely that the actual proportion of schools offering entrepreneurship is much lower.

Schools gave a range of reasons for not offering entrepreneurship, including:

- Still following the curriculum of 1994;
- Do not have sufficient resources;
- Teachers are not equipped or trained to teach the subjects of Economic and Management Sciences, and Entrepreneurship;
- Receive little support from the Government;
- The syllabus on entrepreneurship is not available and/or the schools have very little information on what is required;
- Entrepreneurship is not considered a priority (laboratories and libraries are considered more important);
- Meaningful relationships with businesses are non-existent (i.e. the absence of a strong network for support);
- Businesses prefer supporting Mathematics and Science programmes; and
- In rural areas distance poses a problem, in that it presents challenges to service providers with regards to travelling to and from the school to the office.

Although the Western Cape has made much more progress than other provinces in implementing entrepreneurship teaching in schools there is evidence that rural schools

are still under-serviced. Furthermore progress in weaker urban schools is likely to lag behind that in the leading schools interviewed by Friedrich et al. Therefore there is strong evidence to support renewed efforts to implement and support entrepreneurship teaching in schools.

#### **4.3 Programmes to support entrepreneurship training in the Western Cape**

This report is primarily concerned with developing programmes to support small businesses. However, this section has identified that raising rates of entrepreneurial activity depends in the long term on expanding the supply of people who have the skills and attitudes congruent with self-employment and entrepreneurship. The education system can play a leading role in this regard. Evidence suggests that entrepreneurship programmes can positively influence student financial skills and entrepreneurial attitudes. However, schools in the Western Cape, especially in rural areas are failing to implement the entrepreneurial components of the curricula. This suggests that it is important to ensure that efforts to support schools in implementing entrepreneurship programmes, especially in rural areas are important. In addition there is a large group of young adults who have left school who could be targeted by outreach programmes delivered through schools and other community structures. The DEDT should therefore work closely with Department of Education, the Umsobomvu Youth Fund and leading entrepreneurial teaching services providers to deliver entrepreneurial teaching in the Western Cape. This should include in-school and out of school entrepreneurship programmes. The most effective form of delivering this kind of support would include making effective teaching materials available to schools and training teachers in the use of these materials.

## **5 Information for businesses**

This section develops a programme for creating a better informed small business sector. It discusses the information needs of small businesses and then considers how the provincial government can address these needs.

### **5.1 Information needs of small businesses**

We can distinguish between the information needs of people thinking about starting or actually engaged in starting businesses and those who already run small businesses.

#### *The need for a better informed start-up market*

The provincial government can play a role in stimulating a more dynamic start-up market. A more dynamic start-up market would be one in which more people, especially people from previously disadvantaged backgrounds, can make informed decisions about whether or not they should start their own business. In a dynamic start-up market such decisions would be made on the basis of an objective assessment of the risks and rewards of starting a business, the requirements of running a successful business, and the information and resources required to start a business. Within this context a key objective of the provincial government's efforts to support small businesses should be directed to ensuring that more people, especially those from previously disadvantaged backgrounds, are capable of answering the following questions:

- What does it take to run a successful business?
- Do I have a business idea that could be successful?
- Should I start my own business?
- How do I start my own business?
- What regulations do I need to comply with when starting a business?
- What public and private help is available to help me start my own business?

#### *The need for a better informed small business market*

One of the most important and widely recognised failures in market based economies is imperfect information. This is a particular problem in the small business sector. Given the many demands experienced by small business owners, searching for information about how to improve their business can be very costly. Furthermore, uncertainty about the quality of support is likely to increase business owners' willingness to search for and use business development services even when these exist. The provincial government can play a key role in ensuring that small businesses are well-informed on opportunities, regulations and support available to them. Key areas about which small businesses need information include:

- *Financial Support:* Who provides financial support to small businesses and how can this support be accessed?
- *Public procurement opportunities:* What public procurement opportunities are there and how can these be accessed by small businesses?
- *Opportunities from large corporations:* What opportunities are there for supplying large corporations and how can these be accessed by small businesses?
- *Business development services:* How can BDS add value to a small business, what BDS are available and how can they be accessed by small businesses?

- *Industry support for small business:* What industry support in the form of industry associations, small business forums etc exists to help small businesses and how can these be accessed?
- *Public support for small businesses:* What government programmes (national, provincial and local) exist and how can these be accessed by small businesses?
- *Exporting:* What does it take to export, what support is there for small businesses wanting to develop export markets and how can these be accessed?
- *Regulatory compliance:* What are the regulatory requirements (labour, tax, environment, local government) that small businesses must comply with and what support is available for complying with them?

## **5.2 The provincial government's role**

Two key roles can be identified for the provincial government in addressing the information needs of small businesses. The first involves compiling and preparing accurate user friendly information relevant to small businesses. The second involves facilitating the development of a network of information access points capable of delivering information, advice and referrals to people starting or running small businesses. We consider these two roles below.

### **5.2.1 Plain language guides to small business**

The key information requirements of small businesses have been outlined. Some of this information is only locally accessible (for example, who is a local service provider). However, there is a considerable amount of generic information and a considerable amount of information on national support services that could be provided to small businesses. The provincial government could therefore play a key role in compiling "plain language guides" to small business in the Western Cape. These plain language guides could be expertly produced and delivered in written, radio and internet form. Topics that could be addressed by these plain language guides include:

1. Plain language guide to starting a business
  - a. Should I start my own business?
  - b. How do I start my own business?
  - c. Who can help me start my own business?
2. Plain language guides to running a business
  - a. Plain guide to finding finance in the Western Cape
  - b. Plain guide to procurement in the Western Cape
  - c. Plain guide to public support for small businesses in the Western Cape
  - d. Plain guide to business development service provision in the Western Cape
  - e. Plain guide to exporting from the Western Cape
  - f. Plain guide to regulatory compliance in the Western Cape
2. Plain language internet information service for small businesses
3. Plain language radio programmes for small businesses

Specific projects related to the development of plain language guides to small business are presented in appendix one.

### **5.2.2 Developing a network of small business information access points**

The provincial government needs to develop a network of local information access points through which it is able to disseminate information and advice to small businesses. Currently the provincial government is embarking on a major initiative to create its own walk-in advice and referral centres, the Red Doors. Some concerns about this strategy have already been raised in this report. Chief amongst these are the capacity of the government to deliver such services and the failure of the Red Door strategy to leverage of existing service providers like the Business Place. In addition it seems unlikely that these centres will have sufficient geographic reach. Therefore it is important that the provincial government reconsider aspects of its Red Door Strategy. While Red Doors could play a useful role they should not be seen as a cure-all. Rather the provincial government should develop a strategy for using a multiplicity of information access points. These should include local government, library business corners, non-government organisations, private service providers like banks and accounting firms, and chambers and other industry associations. Within this Red Doors could be key centres of information and advice servicing a range of other information access points.

## **6 Developing networks of business development service providers**

This report has identified the key role that private business development service providers lay in supporting the small business sector. To support this, the provincial government should ensure that its approach to supporting small businesses is aimed at catalysing these service providers and increasing their relevance to small businesses rather than duplicating or competing with these services. One of the key ways in which the provincial government could support small businesses is by facilitating a process of developing clusters of small business service providers. These could be geographically based or they could be based within a specific industry (e.g. the clothing sector or the ICT sector).

The provincial government should therefore support industry and business associations that are capable of playing a role in developing an appropriate network of business development service providers. Such initiatives are aimed at: identifying the use of business development services in specific geographical areas and or industries; build awareness and share information about business development services; facilitate interventions to assist business development services providers to improve their product offerings and improve their marketing to small businesses; and to facilitate the provision of services where there appear to be gaps in the provision of business development services. The expertise of GTZ which is supporting similar initiatives in Mpumalanga and the Eastern Cape should be utilised in this area.

It is likely that one of the primary vehicles for developing these clusters of private business development service providers is likely to be via industry associations and business chambers. (The GTZ initiative in Mpumalanga has the Nelspruit Chamber of Business as the catalyst organisation.) Therefore one of the key ways in which this process can be facilitated is through the promotion and strengthening of industry associations and business chambers. The provincial government should therefore facilitate and support a process of strengthening these bodies ability to represent and service small businesses.

Appendix one includes a potential project to develop this approach to developing business development service clusters.

## **7 Industry based programmes to support high potential small businesses**

This report does not envisage an interventionist role for the provincial government. The reasons for this are twofold. First it makes no sense to try to duplicate the already existing non-public BDS infrastructure. The non-public BDS infrastructure includes public-private partnerships, private sector service providers and non-government service providers. Second, even where the non-public BDS infrastructure is inadequate or missing, limitations in the public sector's capacity for delivery mean that the best solution may be for the provincial government to use its influence to leverage increased or new BDS provision from existing service providers rather than to try and deliver the service itself.

Within this framework, however, there is a case to be made for supporting small businesses that demonstrate significant growth potential. A small business might demonstrate growth potential from two perspectives. First the business may be possessed of particular qualities (for example, a product innovation), which mean that the potential for penetrating new markets and experiencing rapid growth are high. Second the business may be located within a growth sector or a sector that is important in the Western Cape economy. In this case linking the business to sector development strategies may unlock growth potential in the business. In both cases the growth potential may not be realised if left to market forces.

### **7.1 Constraints on growth**

A number of factors may inhibit realisation of the business' growth potential. Specific interventions may therefore be warranted to address these factors:

- *Lack of access to opportunities:* A small business might have the capability to produce the goods and services required by large businesses, the public sector and export customers, but lack information about these opportunities or lack the knowledge and resources to access these opportunities. In this case marketing, networking and linkage programmes could unlock significant growth potential in small businesses.
- *Lack of awareness by large businesses of small businesses capable of supplying their needs:* Large businesses (and government and export customers) may not be aware of small businesses capable of supplying their needs. This suggests a need to market small businesses or proven quality to large businesses (government and export customers).
- *Weaknesses in operational capacity:* Operational weaknesses may result in a small business not being able to fulfil customers' needs in specific areas. Where these can be overcome significant growth could be realised.
- *Weaknesses in business management capacity:* Small businesses might have the operational capacity and have access to business opportunities but lack the business management expertise, especially the financial management expertise, to manage growth. Targeted interventions to address these business management deficits could therefore unlock significant growth potential within small businesses.
- *Financial support:* Financial support may be necessary to ensure that the business is able to realise of potential growth opportunities.

## 7.2 Developing industry based support programmes

In general the kind of advice offered by advice centres like the Business Place or the envisaged Red Doors will be too generic for these kinds of business. What these businesses need is industry specific programmes that simultaneously link them to growth opportunities and address operational, management and financial limitations. Therefore there is a strong case to be made for the provincial government supporting industry based programmes that address the constraints to growth for high potential businesses. These are likely to be particularly useful where provincial support can unlock further support from national government or industry associations. This kind of programme is not new. Successful examples of this kind of programme include the a number of programmes already cited in this report (TEP, MAC etc) as well as other programmes not discussed here (e.g. CBI, CITI, Acorn Technologies, Clotex).

The provincial government should support initiatives that assist industry based associations to develop programmes aimed at addressing the constraints to growth faced by high potential small businesses in their industry. Support for such programmes should be based on proposals developed by the industries. These should demonstrate significant capacity to stimulate value-adding linkages between small businesses and large businesses. Industries selected should display the following characteristics:

- They are characterised by a sufficiently large small business sector;
- They are characterised by high growth or have other strategic importance in the Western Cape economy;
- There exists an appropriate catalyst organisation that can lead the programme.

The “catalyst organisation” should be capable of:

- Identifying large businesses interested in sourcing from / outsourcing to small businesses.
- Identify small businesses capable of servicing these large businesses.
- Where necessary to identify an appropriate “business improvement plan” for the small businesses to address shortcomings in the operational and management expertise of the business that could limit their ability to fulfil the transactions secured under the programme.
- Facilitate a process of implementing the “business improvement plan” including assisting the businesses in finding appropriate business development service providers.
- Where necessary facilitating a process of supporting applications for bank finance backed by the new business transactions secured to finance the growth of the small businesses.

The scope of the provincial government’s support would be to facilitate and develop the capacity of the catalyst organisations to develop and initiate the programme. However, the provincial government’s support should be contingent on the industry being able to secure industry buy-in from both large and small businesses.

## **8 Financial support to historically disadvantaged businesses**

Access to financial support is commonly cited as a major problem for people starting businesses. The national and provincial governments have made considerable efforts to increase finance made available to small businesses, particularly businesses owned by historically disadvantaged individuals. This section considers some evidence about access to finance by small business owners, reviews provincial measures to provide financial support to small businesses and makes recommendations about how these can be strengthened.

### **8.1 Financial support - the evidence base**

Evidence from the Global Entrepreneurship Monitor suggests that access to formal financial support in South Africa is not worse than it is in other developing countries. According to the GEM study the most important sources of finance for people starting businesses in South Africa in 2002 were their own savings and loans from friends and family. Loans from formal financial institutions on the other hand were of limited importance. Only 27% of people starting businesses expected to receive loans from formal financial institutions. While this suggests that most people starting businesses struggle to secure finance from formal financial institutions, the pattern in other developing countries included in GEM is no different. In 2002 in the developing countries included in GEM only 26% of people starting businesses expected to receive loans from formal financial institutions.<sup>1</sup>

Evidence from surveys conducted by the GEM South Africa team also suggest that while many black owned businesses regard financial support as a major problem, some of their difficulty in accessing finance may be due to management capacity deficits rather than problems with the banking institutions. In a survey of 400 township businesses, Foxcroft et al (2002) found that less than 50% of formal businesses regarded access to finance as the main problem experienced by their business. In a survey of 240 formal black owned businesses in four metropolitan areas including Cape Town, Orford et al (2003) found that small businesses that implemented four basic financial management practices (keeping a cash book, keeping a record of stock, keeping a record of accounts receivable, and implementing a debtor management policy) were 61% less likely to experience cash flow difficulties and were 70% more likely to be successful in receiving bank finance. The priority with respect to these businesses is not to increase the amount of funds made available but to address financial management capacity deficits in these businesses. Not only would this improve the financial position of these businesses but it would automatically increase the probability of the banks lending to these businesses.

### **8.2 Provincial government financial support for small businesses**

*Should the provincial government provide financial support*

Although partial this evidence suggests that small businesses in South Africa, especially start-ups, face difficulties accessing finance but that these problems are not different to those experienced by small businesses throughout the world. Furthermore amongst formal small black owned businesses the critical issue does not appear to be

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<sup>1</sup> The developing countries included in the GEM 2002 survey were Argentina, Brazil, India, Mexico and South Africa.

access to finance but rather weak financial management. Therefore while there is a limited role for targeted financial support this should not be provided in isolation but rather should go hand in hand with measures to improve the management capacity of the businesses.

*What criteria should be used in providing financial support*

However, it needs to be recognised that the provincial government has limited capacity in extending finance to small businesses. Even if the provincial government is able to leverage banks to provide capitalise loan programmes it is unlikely that these will ever reach a significant share of small businesses. This means that the criteria for extending loans need to be carefully defined. Three criteria would appear to be important:

- *Businesses should not be able to access other formal finance.* The purpose of provincial government financial support should be to service businesses that are unable to secure bank loans.
- *Historically disadvantaged people should benefit.* With limited resources government financial support should benefit historically disadvantaged groups including blacks (especially black Africans), women (especially black African women) and rural entrepreneurs.
- *Businesses should have growth potential:* Businesses supported by provincial government loan programmes should have significant growth potential. The purpose of the loan programmes should be to unlock the potential for growth in revenue and employment of these businesses.

*What financial support does the provincial government provide*

The provincial government has piloted small loan programme in partnership with CASIDRA and the UCT Centre for Innovation and Entrepreneurship. These programmes incorporate a number of elements that seek to reduce the risks associated with lending to small businesses. Principal amongst these include: the preparation of a business plan, a site inspection and business assessment by a business adviser, loans are not disbursed in cash but are paid out to suppliers, the business is twinned with a mentor for a two year period, and in some cases businesses participate in training. The loans are for a 24 month period repayable at prime plus two percentage points.

The CASIDRA loan programme has extended R3.3 million to 30 businesses. R2.8 million is outstanding. These businesses employ 302 people. Out of the 30 loans extended there are three clients in default and one has been handed over to debt collection. The UCT CIE loan programme has extended over R4 million to 51 businesses. 23 of these businesses have repaid their loans. None of the companies have stopped trading or gone into liquidation but some have delayed payments. These programmes have had a small impact but their primary purpose has been to pilot models for lending to businesses not traditionally catered for by the financial markets.

Under the Real Enterprise Development strategy the provincial government has secured the participation of ABSA in a capitalising a fund of R7 million (half from the provincial government and half from ABSA) with additional commitments of R7 million per year for a further two years. Ultimately the provincial government aims to

capitalise the RED Finance fund at R50 million and hopes to secure additional co-investors. These funds will be available for lending to small businesses. In 2004/5 CASIDRA will be the government's implementing agency for this fund.

### **8.3 Lessons for extending finance to small businesses**

The experience at both the UCT CIE loan programme and the CASIDRA loan programme suggest a number of lessons that should guide provincial government programmes to extend finance to small businesses. These include:

- *The programme needs to support non-financial support.* Many of the businesses supported require significant inputs in addition to finance. Typically they require some basic business consulting to improve operational efficiency. In addition they require training in key areas especially financial management, marketing and operations. The loan programme needs to ensure that these elements are provided for to ensure that the business is capable of achieving growth and repaying the loans.
- *The importance of client buy-in.* There is a tendency for people to expect the government to provide loans. For example, under the CASIDRA programme people seeking loans typically ask for the maximum amount regardless of their business requirements. To ensure business buy-in it is important the business owners demonstrate commitment to improving their businesses. One indicator of this kind of commitment is whether business owners are willing and capable of preparing their own business plan. Under the CASIDRA loan there is some evidence that those businesses that have consultant prepare business plans perform worse than those that prepare their own business plans. Other ways of securing business buy-in used successfully in the TEP programme include part-contribution by the business owner. The TEP finances projects on a 50% TEP-50% business owner basis.
- *The importance of having the right mentors.* There are many mentor programmes in operation. However, there is compelling evidence that the kind of mentor matters. For example research by the UCT CIE has shown that the KHULA mentors fail to add value to the businesses they mentor because they lack business experience. In contrast the UCT CIE mentors have significant business experience and can play an ongoing role in supporting businesses they work with. However, in addition to business experience it is also important that mentors are able to establish a good working relationship with the business owners they mentor. The loan programme therefore needs to devote considerable attention and resources to the mentors, the recruitment, training and management.
- *The programme must focus on business performance not just loans disbursed.* The aim of the programmes should be to reduce the dependency of the business on the programmes. Therefore it is important that the programme be monitored by how well the businesses supported have performed not just by how many loans have been extended.

## **9 Economic empowerment**

A central objective of the national and provincial government is to achieve economic empowerment of historically disadvantaged groups. In the context of small business promotion this implies focusing government support on blacks (especially black Africans), women (especially black women) and people in rural areas (especially black people in rural areas). In general this does not require separate policies or programmes, but rather that programme objectives are set so that they target these groups.

### *Entrepreneurship training*

Efforts to improve the availability of teaching materials and to train teachers in delivering entrepreneurship teaching need to focus on schools in predominantly black areas especially rural areas which are currently not adequately provided for.

### *Information*

Efforts to improve the information flows to small businesses and to people starting small businesses must therefore ensure that this information is accessible to blacks, women and people in rural areas. This underlines the need to ensure that the provincial government relies on a network of dispersed information access points including libraries, non-governmental organizations, local municipalities, private sector initiatives and the proposed RED Door Centres.

### *Industry based programmes to support small businesses growth*

Industry based programmes should not be exclusively based around economic empowerment criteria. For example, initiatives to develop high growth technology businesses will be too severely limited if they concentrate only on empowerment businesses. However, some industry based plans are likely to focus on business linkages where a key focus will be on stimulating links between large businesses and small black/women owned businesses.

### *Financial support*

The provincial government's financial support programme should be primarily determined by economic empowerment objectives.

## **10 Monitoring and evaluation**

Monitoring the outcomes of government spending is vital for good governance and for assessing the benefit of government programmes. Ideally this requires strict output criteria against which programmes can be evaluated. In the small business sector measuring success is somewhat difficult because of the absence of adequate data. Nevertheless the programmes discussed in this report can be monitored using the following measures:

### *Increasing the supply of entrepreneurs*

1. An increase in the proportion of schools that have:
  - 1.1. adequate teaching material on entrepreneurship
  - 1.2. adequately trained teachers to deliver entrepreneurship teaching modules
  - 1.3. deliver entrepreneurship teaching modules
2. An increase in the proportion of young people who believe they have the skills, knowledge and experience to start a business

### *Improving the flow of information to small businesses*

1. An increase in the proportion of people who are aware of government small business support services
2. An increase in the number of people who use government small business support services

### *Catalysing clusters of small business development service providers*

1. In targeted areas an increase in the awareness and use by small businesses of business development services

### *Industry based small business support programmes*

1. In the targeted industry an increase in the value-adding relationships between small businesses and large businesses
2. Growth in the small businesses supported by the programme

### *Financial support*

1. Achievement of targeted disbursement rates
2. Achievement of targeted business performance rates
3. Reduction in dependency of businesses on the programme

### *Economic empowerment*

1. All the individual programmes can be evaluated against targeted empowerment objectives
2. Higher start-up and new business rates amongst specific target groups

### *Overall monitoring and evaluation*

The provincial government should commission an annual review of the performance of the provincial government in supporting small businesses. This should be conducted by independent consultants against agreed performance criteria (for example, those indicated above). The review should be publicly available.

**Appendix 1 – Potential projects to achieve the programme objectives**

<b>Project: Plain language guides to starting a business</b>			
<b>Project description</b>	<b>Rational for project</b>	<b>Actions</b>	<b>Delivery</b>
Printed plain language guide helping people to answer the question: “ <i>Should I start my own business?</i> ”	More people need information on whether or not they should start a business.	Produce and distribute a plain language guide in Afrikaans, English and Xhosa on: <ul style="list-style-type: none"> <li>• what is a successful business</li> <li>• the risks and rewards associated with starting a business</li> <li>• the skills and resources needed to run a successful business</li> <li>• should they start their own business or not</li> <li>• information on who can provide advice on starting a business</li> </ul> how to identify and evaluate a business idea	<b>Preparation outsourced to service provider.</b>  <b>Delivery to people starting businesses via a multiple information access points:</b> <ul style="list-style-type: none"> <li>• <b>schools</b></li> <li>• <b>local government</b></li> <li>• <b>libraries</b></li> <li>• <b>non-governmental service providers</b></li> <li>• <b>LBSCs</b></li> <li>• <b>accountants</b></li> <li>• <b>banks</b></li> <li>• <b>chambers</b></li> <li>• <b>industry associations</b></li> </ul>
Printed plain language guide helping people to answer the question: “ <i>How do I start my own business?</i> ”	More people need information on how to start a business.	Produce and distribute a plain language guide in Afrikaans, English and Xhosa on: <ul style="list-style-type: none"> <li>• how to do a business plan</li> <li>• how to start a business</li> </ul>	

<p><b>Printed plain language guide helping people to answer the question: “How do I get help to start my business?”</b></p>	<p><b>More people need information how to get help with starting a business.</b></p>	<p><b>Produce and distribute a plain language guide in Afrikaans, English and Xhosa on:</b></p> <ul style="list-style-type: none"> <li>• <b>who provides help to people starting businesses and how can they be contacted</b></li> <li>• <b>how to look for finance to start a business</b></li> <li>• <b>what to do if you cannot raise finance to start a business</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>RED Doors</b></li> </ul>
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**Project : Plain language internet guide to starting a business**

Project description	Rationale for project	Actions	Delivery
<p><b>Plain language internet site with comprehensive information on starting a business.</b></p>	<p><b>More people need information on starting a business. This information base needs to be regularly updated.</b></p>	<p><b>Design and maintain a user friendly website which has plain language advice and information on:</b></p> <ul style="list-style-type: none"> <li>• <b>Deciding whether to start a business</b></li> <li>• <b>How to start a business</b></li> <li>• <b>Who provides support to people starting businesses</b></li> <li>• <b>Profile successful and failed start-ups</b></li> <li>• <b>Links to other sites useful to people starting businesses</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Via the internet</b></li> <li>• <b>Outsourced to private company to manage and maintain according to agreed specifications</b></li> </ul>

**Project: Plain language radio guide to starting a business**

Project description	Rationale for project	Actions	Delivery
<p><b>Plain language radio</b></p>	<p><b>More people need information on starting a business. This information needs to be accessible.</b></p>	<p><b>Deliver plain language radio programmes on local radio programmes which discuss</b></p> <ul style="list-style-type: none"> <li>• <b>The risks and rewards of starting a business</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Delivered via private radio station</b></li> </ul>

<p><b>programmes on ho to start a business.</b></p>		<ul style="list-style-type: none"> <li>• <b>How to start a business</b></li> <li>• <b>Who provides support for people starting businesses</b></li> <li>• <b>Business opportunities</b></li> <li>• <b>Profile successful and failed start-ups</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Partnership between PGWC and local radio stations</b></li> <li>• <b>Programmes prepared by private company</b></li> </ul>
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<p><b>Project: Plain language guides for small businesses</b></p>			
<p>Project description</p>	<p>Project rationale</p>	<p>Actions</p>	<p>Delivery</p>
<p><b>Plain language guides for small businesses.</b></p>	<p><b>The opportunity cost of time spent searching for information for small business owner-managers is very high. The PGWC can therefore play a key role by facilitating the flow of quality information to small businesses. The information needs to be concise, accurate and user.</b></p>	<p><b>Plain language guides to the following areas need to be prepared:</b></p> <ol style="list-style-type: none"> <li><b>1. Finance</b> <ol style="list-style-type: none"> <li>a. <b>When should I seek finance</b></li> <li>b. <b>Who provides finance</b></li> <li>c. <b>What are the conditions are imposed</b></li> <li>d. <b>Who can help me apply for finance</b></li> </ol> </li> <li><b>2. Public procurement</b> <ol style="list-style-type: none"> <li>a. <b>What does government procure</b></li> <li>b. <b>What do I need to do to access procurement opportunities</b></li> </ol> </li> <li><b>3. Government support</b> <ol style="list-style-type: none"> <li>a. <b>What support does the government offer</b></li> <li>b. <b>Am I eligible for this support</b></li> <li>c. <b>How do I access this support</b></li> <li>d. <b>Who do I contact</b></li> </ol> </li> <li><b>4. Export</b></li> </ol>	<p><b>Preparation outsourced.</b></p> <p><b>Delivery to people starting businesses via a multiple information access points:</b></p> <ul style="list-style-type: none"> <li>• <b>local government</b></li> <li>• <b>libraries</b></li> <li>• <b>non-governmental service providers</b></li> <li>• <b>LBSCs</b></li> <li>• <b>accountants</b></li> <li>• <b>banks</b></li> <li>• <b>chambers</b></li> <li>• <b>industry associations</b></li> </ul>

		<ul style="list-style-type: none"> <li>a. What are the risks and rewards of exporting</li> <li>b. How do I explore export markets</li> <li>c. Who can help me developing an export strategy</li> <li>d. What industry associations are there that can assist me with exports (e.g. WOSA in wine industry)</li> </ul> <p>5. Regulatory compliance</p> <ul style="list-style-type: none"> <li>a. What regulations do I have to comply with</li> <li>b. Who can help me ensure that I am complying with government regulations</li> </ul>	<ul style="list-style-type: none"> <li>• RED Doors</li> </ul>
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Project: Plain language internet guide to small business			
Project description	Rationale for project	Actions	Delivery
Plain language internet site with comprehensive information on small businesses.	The internet is an increasingly important source of information for small businesses since it massively reduces the cost of searching for information. A visible, well designed, plain language small business website could play a key role in providing information to small businesses.	<p>Design and maintain a user friendly website which has plain language advice and information on small businesses, including information on:</p> <ul style="list-style-type: none"> <li>• Finance</li> <li>• Public procurement</li> <li>• Government support</li> <li>• Export</li> <li>• Regulatory compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Via the internet</li> <li>• Partnership between PGWC and small business organisations</li> </ul>

Project: Plain language radio guide to small business			
Project description	Rationale for project	Actions	Delivery
Plain	The radio provides an accessible vehicle for	Deliver plain language radio programmes on	• Delivered via

<b>language radio programmes on small business.</b>	<b>providing information on small businesses in areas not well serviced by other communications.</b>	<b>local radio programmes which discuss</b> <ul style="list-style-type: none"><li>• <b>Small businesses</b></li><li>• <b>Support for small businesses</b></li><li>• <b>Opportunities for small businesses</b></li><li>• <b>Profiles of small businesses</b></li></ul>	<b>private radio station</b> <ul style="list-style-type: none"><li>• <b>Partnership between PGWC and local radio stations</b></li><li>• <b>Programmes prepared by private company</b></li></ul>
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<b>Project: Pilot study to develop Business Development Service provision</b>			
<b>Project description</b>	<b>Project rationale</b>	<b>Actions</b>	<b>Delivery</b>
<b>Pilot programme to develop BDS provision for small businesses.</b>	<b>Effective use of BDS can improve the performance of small businesses. However, evidence suggests that use of BDS by small businesses is sub-optimal. Interventions to improve awareness of BDS by small businesses, to improve the appropriateness of BDS delivered and where necessary to initiate the provision of new BDS could substantially increase the quality and use of BDS.</b>	<p><b>Two pilot studies need to be done in selected areas. These would involve:</b></p> <ul style="list-style-type: none"> <li>• <b>A baseline survey of BDS use in the area</b></li> <li>• <b>Identification of a interventions that need to be made to improve BDS provision/use</b></li> <li>• <b>Identification of a local organisation/structure that can act as the catalyst to develop a richer variety of BDS in the area</b></li> <li>• <b>Implementation of interventions to improve BDS provision and use</b></li> <li>• <b>Lessons generated for PGWC, RED Doors and SEDA</b></li> </ul>	<b>Process financed by PGWC. Supported by GTZ. Local catalyst organisation.</b>

<b>Project: Industry focussed support to high potential small businesses</b>			
<b>Project description</b>	<b>Project rationale</b>	<b>Actions</b>	<b>Delivery</b>
<p><b>Industry programmes to support growth of small businesses</b></p>	<p><b>To provide targeted support to small businesses in selected industries by establishing value-adding relationships with large businesses in the industry. The programme will include a set of interventions to address weaknesses in the small businesses. Where necessary the programme could facilitate access to bank finance.</b></p>	<p><b>Candidate industries need to be selected based on their profile and the potential for small business development (e.g. clothing and textile, wine, tourism, fishing).</b></p> <p><b>Participation by industry associations needs to be secured so that they will drive the process within their industry.</b></p> <p><b>At the industry level a catalyst organisation needs to be identified (e.g. Clotex within the clothing and textile industry; TEP within the tourism industry).</b></p> <p><b>Criteria for small business participation need to be refined.</b></p> <p><b>At the industry level potential small businesses need to be identified.</b></p> <p><b>At the industry level potential opportunities need to be sourced.</b></p> <p><b>Industry business development service provider networks need to be established.</b></p>	<p><b>The programme needs to be facilitated by the PGWC.</b></p> <p><b>The industry associations need to indicate willingness to drive the programme at the industry level.</b></p> <p><b>Catalyst organisations need to implement the programme.</b></p>

## **People interviewed**

Dudley Adolph, Senior Manager: Economic Development DEDT, Department of Economic Development and Tourism, Provincial Government of Western Cape

Nigel Adriaanse, Business Beat, Cape Town

Mark Burke, Development at Work, Consultant to NAMAC and NTSIKA merger

Mel Butterworth, Manager of CAPE MAC

Chantal Christiansen, Assistant Manager Global Risk Management Solutions, Price WaterhouseCoopers, Consultant to ITESP

Shaun Cunningham, Expert on Business Development Services, GTZ

Denise Dookoo, Manager of Business Place in Cape Town

Pieter Fourie, Consultant to “Adopt a shop”, South African Employment Development Association and Linge Lethu

Craig Jennings, Manager Owner-managed businesses at KPMG

Rodney Knipe, African Equations (subcontracted to implement Tourism Enterprise Project in Western Cape)

Lisa Kropman, Investec, Corporate Social Responsibility. Established the Business Place

Vera Lawrence, SANTAM (“Adopt a shop”)

John Peters, Manager: Small Business Development, Department of Economic Development and Tourism, Provincial Government of Western Cape

Salwa Petersen, CASIDRA

Mr Siyago, Project Manager ITESP, DMO

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