

**SMME THIRD PAPER**

**Supporting small business in the Western Cape:  
Policies and Programmes to support small businesses**

**John Orford**

**Eric Wood**

## 1 Executive Summary

This paper is the third in three papers, which consider how the provincial government can support small businesses. The paper considers the implementation and budgetary consequences of the programmes identified in paper two. The table below summarises the core aspects of the programmes. Collectively these programmes address the following critical areas:

1. Expanding the supply of people with entrepreneurial capacity;
2. Increasing the information flow of information to small businesses;
3. Improving the performance of existing small businesses through
  - 3.1. improving the functioning of the market for (small) business development services
  - 3.2. initiating or deepening existing industry based programmes to support small businesses
  - 3.3. continued financial support for small businesses under the existing programme of financial support

Total expenditure under this set of programmes is envisaged to be in the order of R35-R55 million in year one (including R 15 million under the existing financial support programme. It is envisaged that provincial funds should be used to leverage expenditure by other partners. For example in the area of industry based small business programmes provincial funding should be used to leverage additional industry funding and national government funding. This will ensure that programmes can achieve an effective scale.

Programme	Brief description	Scale	Rand million per year (indicative)
Education for entrepreneurship	Provide entrepreneurship teaching materials and teacher training to all secondary schools	All secondary schools (240,000 learners)	R 5.4
Information for business	Plain language guides delivered in print media, internet and by radio	Information provided province wide. 2500 guides distributed via 50 outlets. 50 half hour radio programmes broadcast in one year. Internet site created and maintained	R 12.0
Information for small businesses	Network of small business information access points	Provincial network	
Better functioning business development service markets	Pilot programme on a programme for catalysing privately provided business development services	Limited initial impact but has potential for significant learning and is scaleable depending on results.	R 2.0
Industry based business support programmes	Industry programme to support small businesses growth	Targeting five industries and 100 small businesses per industry. Target 500 businesses.	R 15.0
Financial support for small business	Existing programme maintained.		R 15.0
Total			R 55.0

## **2 Introduction**

This is the third in three papers prepared for the Department of Economic Development and Tourism on promoting small enterprises in the Western Cape Province. The first paper reviewed the nature of the small business sector in South Africa and the Western Cape. The second paper reviewed government support to small businesses and developed key principles to support small businesses and outlined six programmes for supporting small businesses. This paper distils key lessons from these papers and for each of the suggested programmes provides a more detailed discussion of how the programme can be implemented.

## **3 Characteristics of the small business sector – policy implications**

The first paper reviewed the key characteristics of the small business sector in South Africa and the Western Cape. We do not repeat in detail findings of the first paper here, but we have summarised the key policy implications of the first paper. As defined in the terms of reference the focus of the microeconomic strategy for promoting small businesses is on small formal enterprises. The small business sector makes an important contribution to the South African and Western Cape economy. However, international evidence shows that rates of entrepreneurial activity in South Africa and the Western Cape are significantly below equivalent rates in other developing countries. There is therefore considerable scope to increase the output of the small business sector in South Africa. Furthermore, within South Africa blacks and women are under-represented amongst small business owner-managers. Participation by both women and blacks is also much more likely to be motivated by necessity and therefore experience lower returns than is the case of men and whites respectively. Therefore there is considerable scope to increase the rate of participation by blacks and by women in the small business sector.

These findings suggest three objectives for policy:

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

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

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

process of starting a business. These kinds of interventions are related to building a dynamic start-up market.

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

#### **4 Supporting small business – principles for action**

The second paper assessed the current efforts to support small businesses and delineated an appropriate role for the provincial government in supporting small businesses. The experience of providing support to small businesses in South Africa over the past ten years has not been particularly positive. There is overwhelming evidence that small businesses are either unaware or indifferent of government's support to them.

Independent surveys of small businesses show that with a few exceptions (Sector Education and Training Authorities, the Industrial Development Corporation and the Competitiveness Fund) awareness amongst small businesses is less than 15% for most government services. Furthermore, use of government support structures is much lower. In many cases less than two percent of small businesses actually use government services. Finally even when businesses are aware of or use government support structures they remain very negative of the effectiveness of the support provided by the government to small businesses.

In contrast to many of these failed public initiatives there are a number of private initiatives or public-private partnerships. Not only do these initiatives appear to have tangible benefits for small businesses but they also lock in private funding and expertise which reduces both cost and risk associated with public investment.

The experience in South Africa is consistent with the international experience in small enterprise promotion. Internationally (in developed and developing countries) the experience of donor organisations and governments has been that direct provision of support to small enterprises does not achieve its objectives. Within this context the Committee of Donor Agencies for Small Enterprise Development recently argued that support to small enterprises should be based on a clear commitment to a private sector market economy recognising the following principles (Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, 2001):

- A fundamental belief in the principles of a market economy, where the state has a role in providing an enabling environment, in correcting or compensating for market failures, and in provision of public goods, but not in the direct provision of private goods that can be more efficiently provided by the market.

- The assumption that the majority of business development services (training, consultancy, advisory services, marketing, information and technology services, and business linkages) are private goods and are thus similar in nature to any other services, so market rules apply.
- The expectation that with appropriate product design, delivery and payment mechanisms, business development services can be provided on a commercial basis even for the lowest-income segment of the entrepreneurial small enterprise sector.

Consistent with the experience in South Africa and the international view reflected by the Committee of Donor Agencies for Small Enterprise Development, the strategy proposed here emphasises a limited direct role for the government in providing support to small businesses. Rather, we propose that the government concentrates its efforts on facilitating the development of an efficient market for business development services through targeted efforts which draw on private sector expertise. Within this context the following principles for government support for small businesses were identified:

- Awareness and reputation is built on having the *right people* and these are often not located within the government bureaucracy.
- The importance of ensuring *customer commitment* to service provision by getting customer (i.e. the small business) buy-in suggesting that it is important that beneficiaries of services make a contribution to the cost of the service.
- *Focus* is important in delivering value-adding service suggesting that services need to be focussed on particular kinds of business, particular geographic areas or particular industries.
- The importance of *private business development service provision* suggesting that the primary role of government involvement in this area is to draw in proven service providers rather than to duplicate and compete with these where they exist.
- The importance of *public-private partnership* in which the primary role of the government is in financing and catalysing desired services rather than in delivering.

## **5 The Provincial Government's strategy to support small enterprises**

### **5.1 Real Economic Development**

The DEDT recognises that past efforts to support small businesses have not been effective. In particular they are concerned that, while small scale projects have succeeded, they have not been able to deliver support on a sufficiently widespread scale. In response, the DEDT has implemented an ambitious strategy called Real Economic Development (RED). RED has as its primary objective the desire to implement provincial wide comprehensive support for small enterprises.

A central component of the RED strategy is the implementation of up to thirty RED Doors across the province. RED doors are intended to be walk-in centres which

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

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

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

The RED Door Programme		
Client	RED Door	Service provider
<b>1. Walk into RED Door</b> <b>2. Obtain information</b> <b>3. Obtains diagnosis</b> <b>4. Obtain a plan for support</b>	<b>1. Diagnosis of client needs</b> <b>2. Capture information in information system</b> <b>3. Plan for business aimed at addressing the businesses' needs</b> <b>4. Links business to service providers</b> <b>5. Accredits service providers</b> <b>6. Monitors programme</b> <b>7. Manages contracts with service providers</b> <b>8. Information on opportunities</b> <b>9. Skills development</b> <b>10. Financial support</b>	<b>1. Provides agreed service</b>

## 5.2 Concerns about RED

The RED Door strategy is extremely ambitious and in part runs counter to the strategy proposed here. Consistent with the principles for supporting small enterprises we have identified a number of concerns regarding the RED Door strategy. These include:

- The first concern is that the past experience of direct provision of services by the government has been negative. To some extent this is addressed in the RED Door

model by the centrality of referral to private service providers and by the RED Doors recruiting suitably qualified people.

- The RED Door programme envisages being a referral agency. Nevertheless some services will be provided by the RED Door. In practice the balance between service provision and referral is likely to evolve as the RED Door Strategy is implemented. However, it is advisable that service provision by RED Doors is kept to a minimum so that the RED Doors contribute to developing efficient markets for business development services rather than distorting these markets. In this regard the international evidence suggests that subsidies paid to service providers are not the ideal solution since these distort the relationship between service providers and clients.
- There are significant differences in terms of the requirements of people wanting to start a business and existing business and it is unclear to what extent the RED Doors will be capable of servicing both these markets. It is possible that much of the advice offered in RED Doors will be too general to be of value to existing businesses. This said, however, the model of the RED Door is to refer businesses with more complex needs and if this works effectively then this problem will be overcome.

Despite these concerns the RED Door Strategy is currently being implemented. We also recognise that the strategy has been motivated by a strong desire to improve the scale and quality of services offered to small businesses in the Western Cape. We also recognise that the DEDT is interested in securing the participation of other service providers in RED Doors and this is certainly welcome. Overall therefore we recommend that the RED Door Strategy needs to be integrated into the approach suggested in these reports. This implies that the RED Doors be implemented on a gradual basis, in which initial experience is used to adapt the overall strategy. Furthermore, we would recommend that rather than implement the RED Doors directly the DEDT consider outsourcing the desired package of services to a proven service provider.

## **6 A strategy for supporting small enterprises in the Western Cape**

Based on the findings of the first and second papers and the above discussion we recommend that following key roles for the government in supporting small enterprises:

- *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.

Within this context the paper identifies a number of programmes that could be supported by the provincial government.

1. Education for entrepreneurship - increasing the supply of entrepreneurs
2. Information for small businesses – information on starting and running small businesses
3. Information for small businesses – network of information access points for small businesses
4. Business development service provision - developing industry and area based networks of business development services
5. Industry based small business support - industry based programmes to support small businesses
6. Financial support - financial support for small businesses

The remainder of this paper (the third paper) considers in more detail the following aspects for each programme:

1. The need addressed by the programme
2. What needs to be done to realise the programme
3. The delivery mechanism
4. Potential budgetary implications
5. Impact assessment
6. Priority

## **7 Education for entrepreneurship**

This programme aims to support the effective delivery of entrepreneurship teaching in secondary schools in the province. It aims to do this by working with leading service providers delivering entrepreneurship training in schools in South Africa to provide effective teaching materials and teacher support to all schools in the Western Cape. This programme is not fully developed in this paper because it is primarily the responsibility of the Department of Education.

### ***The need addressed***

The proportion of people in South Africa who believe that they have the skills experience and knowledge to start a business is very low relative to other developing countries. This is most noticeable amongst Africans and appears to be related to South Africa's low level of entrepreneurial activity. One of the ways in which this can be addressed is through improvements in the access to and quality of entrepreneurship teaching within secondary schools. Currently many schools, especially rural schools and former African schools are not implementing the entrepreneurship components of the national curriculum. This programme aims to improve the capacity of secondary schools to deliver effective entrepreneurship teaching.

### ***Principal partners***

The main partners in this programme are the Department of Education, the secondary schools and private not-for profit institutions providing entrepreneurship programmes and materials.

### ***Actions and delivery mechanisms***

The department of economic development and tourism needs to take the lead in working with the Department of Education in reaching agreement on this programme and in securing budgetary support for the programme. The extent to which

entrepreneurship is taught across secondary schools needs to be established by the department of education. Leading entrepreneurship training providers need to be contracted to provide entrepreneurship teaching materials and teacher training in selected secondary schools across the province. In a recent survey of leading SMME service providers by the University of Western Cape the South African Institute for Entrepreneurship (SAIE) and the Foundation for Economic and Business Development (FEBDEV) were identified as the two leading national entrepreneurship training service providers.

***Budgetary implications***

The budgetary implications are largely dependent on the extent to which secondary schools are already implementing entrepreneurship teaching. This needs to be assessed. The programme would be delivered in partnership with a leading service provider who would bear all administrative costs. Based on the SAIE Business Ventures programmes the following costs per school and per province would be entailed in providing teaching material and in providing teacher training. Provided no further training is required there are no future recurrent costs associated with the programme.

<b>Cost per school for teacher training and teaching material</b>	
Cost per school for SAIE teaching material (one programme)	R 12,500
Cost per school for training (share of training 30 teachers)	R 1,833
Other administrative costs and VAT	R 3,667
<b>Total cost per school</b>	<b>R 18,000</b>
<b>Costs per province for providing teaching material and trading to all secondary schools</b>	
Number of secondary schools in province	300
	R
<b>Cost per province (assuming required in all schools)</b>	<b>5,400,000</b>

***Impact assessment***

The impact of entrepreneurship can be assessed at provincial level by using the Global Entrepreneurship Survey to monitor the proportion of people (by age, race and gender) who believe they have the skills, knowledge and experience to start a business. This can be tracked through time. Additionally the impact of individual programmes can be monitored through independent evaluations. This would provide a useful basis for assessing the relevance and effectiveness of these programmes. The UCT Centre for Innovation and Entrepreneurship along with the South African Institute of Entrepreneurship is planning such a study in the Western Cape and Kwazulu Natal next year.

***Priority***

This is a high priority programme. At relatively little cost the government can have an important impact on learners. By improving access to effective teaching on entrepreneurship the government can play a role in raising the long-term supply of people with the skills and attitudes needed to build and entrepreneurial province.

## **8 Information for small businesses – Plain language guides**

This programme will use plain language guides in printed, internet and radio media to provide people thinking about starting a business and people already running a business with the information they need to make better decisions.

1. Printed plain language guides to starting and running a business
2. Internet plain language guide to starting and running a business
3. Radio plain language guide to starting and running a business

### ***The need addressed***

One of the most important needs faced by entrepreneurs is the need for more and better information. People thinking about starting a business need information to help them decide whether they should start a business; people starting a business need information on how to start a business and how to access support; and people already running a business need information on a range of issues such as access to finance, how to access export markets.

### ***Principal partners***

The provincial government, local government, representative business organisations, industry associations and local business service organisations including the Red Doors.

### ***Actions and delivery mechanisms***

There are two main stages in this programme. The first is preparation of the plain language guides and the second is delivery. Preparation is relatively simple. Private sector companies need to be commissioned to produce plain language printed, internet and radio guides. These need to build on existing material at both national and provincial government levels. They need to concentrate on being straightforward, accessible and useful. The following components are envisaged:

1. Plain language guide to starting a business
  - 1.1. Should I start my own business?
  - 1.2. How do I start my own business?
  - 1.3. Who can help me start my own business?

2. Plain language guides to running a business
  - 2.1. Plain language guide to finding finance in the Western Cape
  - 2.2. Plain language guide to procurement in the Western Cape
  - 2.3. Plain language guide to public support for small businesses in the Western Cape
  - 2.4. Plain language guide to business development service provision in the Western Cape
  - 2.5. Plain language guide to exporting from the Western Cape
  - 2.6. Plain language guide to regulatory compliance in the Western Cape
3. Plain language internet information service for small businesses
4. Plain language radio programmes for small businesses

The production of the printed guides is a once off event. However, the web site and the radio programmes have the potential to be ongoing, interactive forums in which government and other bodies servicing the needs of small businesses can interact with small businesses. The delivery of printed guides is a question of distribution. These guides if topical, relevant and interesting have the potential to reach thousands of people and to considerably increase the knowledge in the small business sector about what support is available to small businesses. The guides should be seen as a vehicle for engaging small businesses and entrepreneurs throughout the province. They need to be widely available through local government, business service organisations, libraries and the Red Door network. They represent a first source of information and a guide to further information sources and help for start-up and existing entrepreneurs. The website and radio programmes represent media with even greater potential for reaching small businesses. They can contain topical information on the issues covered in the printed guides but can also extend to regular information updates on for example tenders, government programmes, training etc.

To ensure flexibility and quality all aspects of the plain language guides should be prepared by private sector service providers on a competitive basis. It is very likely that a successful programme will be able to leverage participation by for example banks and other private sector organisations wishing to reach the small businesses market.

### ***Budgetary implications***

The budgetary costs in the first year for the printed guides, assuming ten guides are produced and 250,000 copies of each guide are printed, is R9 million. In future years the development costs would be minimised and printing would be determined by demand. The project would be entirely outsourced so that there would be no ongoing recurrent cost implications for the provincial government; however a management cost is included in the budget. The estimated cost for the development of the radio programmes (assuming 50 programmes per year) is R2.5 million. The cost for the internet site is R500, 000 in the initial year.

<b>Plain language guide to Small Business in the Western Cape</b>	
<b>Printed Plain language guide to Small Business Development Costs</b>	
Development and printing costs per guide (250,000 printed, distributed)	R 900,000
Ten guides (250,000 developed, printed, distributed)	R 9,000,000
<b>Plain language guide Radio Series</b>	
50 programmes per year	R 2,500,000
<b>Plain language guide internet site</b>	
Design construction and maintenance	R 500,000
<b>Total costs in year one</b>	<b>R 12,000,000</b>

### ***Impact assessment***

The aim of this programme is a better informed small business sector. Assessing whether this is being achieved will be difficult. Demand for the booklets, radio audiences and internet site hits will provide some indication of the reach of this programme if not the success of the programme.

### ***Priority***

This programme is of high importance. The information provided in the plain language guides could play a very useful role in improving small business knowledge and in improving awareness of the role played by government in supporting small businesses.

## **9 Information for small businesses – Network of information points**

This programme will utilise the existing network of agencies, institutions, individuals that already exists to provide a standardised information service to small businesses. This will utilise the plain language guides and other information available from the Provincial Government.

### ***The need addressed***

Small businesses and people thinking about starting small businesses are widely dispersed and need a network of points where they can access information. There exists a wide range of organisations from local government to local business service centres and other private sector initiatives that aim to fulfil this need. However, information available at these information points varies considerable. To address this the government is initiating the Red Door facilities. These need to form part of the information network.

### ***Principal partners***

The primary partners include the provincial government which can deliver the information available from national and provincial government and the local information access points.

### ***Actions and delivery mechanisms***

The provincial government needs to have a comprehensive knowledge of what information access points exist and how to service these with relevant information. This could be achieved via the Red Door facilities with these playing a role of servicing other information access points in the area that they service. The plain language guides could form an important component of the information that is

provided by provincial government to these information access points. With respect to the Red Door the provincial government needs to look seriously at the merits of establishing its own information access points rather than partnering with existing proven organisations. Against this is the question of the limited scale of many non-government and private operations. However, achieving scale at the expense of quality is not desirable and from at least some of the service providers that exist (e.g. Business Place and Business Beat) the possibility of their providing services in areas outside Cape Town exists if the Provincial Government were to provide funding and other support. Advantages to the government of partnering rather than setting up its own institutions include:

- Ability to leverage the expertise and learning of existing institutions;
- Ability to leverage financial resources and minimise costs to the government;
- Ability to leverage existing reputation of the partner organisations
- Flexibility in terms of being able to withdraw from the partnership
- Flexibility in being able to avoid the bureaucratic procedures of the government
- Ability to attract people with experience in the small business sector

#### ***Budgetary implications***

The budgetary implications of this programme have not been established but it is expected that it could be achieved at a substantial discount to the envisaged Red Door strategy since the government would not have to establish any new institutional capacity and would leverage co-funding from private sector and other organisations.

#### ***Impact assessment***

Increased awareness by small businesses of the services available to them and how to access them.

#### ***Priority***

Medium to high.

### **10 Developing private business development service provision**

This programme aims to test a new approach to developing efficient markets for small business development services. It will pilot this approach in two areas.

#### ***The need addressed***

The government has intervened considerably in the market for business service provision. However, results have been unsatisfactory. This mirrors international experience where direct interventions by donors and governments have failed to achieve results. International best practice now recognises the need to replace top down or externally driven interventions with a bottom up approach. This approach seeks to catalyse, expand and improve existing private business service providers so that they are better able to service the business development needs of small businesses in their area. Services envisaged include business planning, financial management and accounting, legal, marketing and new business development, IT, operations and quality control, import and export and so on. Ultimately the programme aims to improve the capacity of existing service providers to meet the needs of small businesses and also aims to improve the capacity of small businesses to effectively utilise service providers.

### ***Principal partners***

The principal partners in this programme include:

1. The provincial government which has a role in initiating and funding the programme.
2. A catalyst organisation which will implement the programme. This can be a chamber of commerce, a local government, an existing service provider or even a highly competent and locally connected individual. The emphasis must be on identifying and using an established organisation so that the programme focuses resources on the programme rather than on building a new institution.
3. Local government.
4. Small businesses.
5. Business development service providers.

### ***Actions and delivery mechanisms***

This programme recognises that direct interventions to provide business development services by government and or donor organisations have largely failed. However, gaps in the supply and demand of business development services persist and markets for these services are not always efficient. An alternative approach to the government directly providing business development services is to attempt an approach of catalysing a better functioning business development service market. This can be done by a catalyst organisation working with service providers to narrow the gap between what they provide and what small businesses desire. This should increase information flows, increase the suitability of service providers' product offering and increase the use of business development services by small businesses.

To some extent organisations like the Business Place and MAC are already doing this and the Red Door seeks to achieve some of these objectives by being a link between small businesses and service providers. However, the purpose of this programme is not to set up a service providing organisation but rather to facilitate a more efficient functioning of the service market. And while Business Place or a Red Door act as a point of contact for small businesses this programme aims to work with service providers so that they are better able to position themselves in relation to their target market in the small business sector. Working within a local area through a recognised and existing organisation this approach seeks to first quantify the full array of services available and then to narrow the gap between key service providers and service users. Core elements of the pilot programme include:

#### **1 Identify a catalyst organisation/facilitator to lead the pilot**

Identify catalyst organisation that can act as a facilitator in narrowing the gap between demand and supply of small business service provision. This should therefore be an organisation (or in some cases individual) which is rooted in the local small business community and has the capacity to work well with small businesses and small business service providers. In examples of pilots being implemented with the support of GTZ the local Chamber of Commerce in Nelspruit and the MAC in East London are playing the role of catalyst organisation.

## 2 Conduct a market assessment and identify interventions

The first phase of the pilot is to undertake a market assessment. This determines the profile of existing supply and demand for business development services in the area. The existing state of the business development services market is contrast to a desired or targeted market and gaps between the existing and desired market are identified. Thereafter interventions are developed to move from the targeted to the desired state.

## 3 Implement interventions

Interventions envisaged under the programme are aimed at supporting the ability of local service providers to effectively meet the needs of small businesses. They include three kinds of intervention:

### 3.1 Interventions around awareness building and information sharing

These interventions are aimed primarily at improving information flows and exchange between service providers and users. The purpose is to stimulate increased understanding amongst service providers of what small businesses need so that they are able to adapt their product offering to specific needs of businesses. Similarly the intervention aims to increase small businesses understanding of the service providers that are available and how to use them effectively. One way of achieving this is to take the information from the market assessment and package this into a story line (a story line takes the information relevant to a service and communicate this to specific target groups in a relevant format). These story-lines can then be distributed to groups of service providers so that they are able to adapt their services to the needs of the target market.

### 3.2 Facilitated interventions

In some cases it may be necessary to go beyond information sharing. Facilitated interventions may be necessary to narrow the gap between demand and supply. For a particular service (for example, export assistance) it may be necessary to bring service providers together in facilitated interventions aimed at identifying the needs of small businesses (using the market assessment). Based on this service providers can be assisted in redesigned or repackaging their product offering. Following testing on small businesses these services can then be launched and marketed to small businesses likely to use their services. These kinds of interventions are aimed primarily at making improvements to or differentiating services so that they meet the needs of small businesses more effectively.

### 3.3 Completely new service design and creation

In some cases conceptualisation of new services may be necessary where there is strong demand for a particular service that is wholly unmet by existing service providers.

### ***Budgetary implications***

The budgetary implications are uncertain since they depend largely on the way in which the pilots are implemented. The preferred model for implementation is a model

which relies on an existing organisation so that the budgetary consequences of new institution building are avoided. In one of the examples being pioneered in Nelspruit this route has been taken. There the Chamber of Commerce is leading the project and has re-oriented its existing programmes and activities towards building business development services. Therefore the budgetary implications are limited. This is the recommended approach since it minimises costs to the Provincial government and, in line with the principles established in this microeconomic strategy, locks in non-government expertise and resources.

Illustrative costs for one pilot are shown below. These estimates assume external consultants are used in delivering the programme. The estimates assume that four key services (as identified in the market assessment) are targeted in the first year. A significant reduction in costs could be achieved with the use of a suitable partner organisation with internal capacity. The model of partnering would allow these costs to be shared and it is envisaged that this project would secure donor support. A provincial government contribution of 50% or less could potentially secure investment by other partners. There are no ongoing recurrent implications for the provincial government since the programme is delivered by a non-government organisation.

**Business Development Service Provision (per pilot)**

Market assessment (development of current state, desired state, and story lines)	R 200,000
Awareness building (per service)	R 50,000
Facilitated intervention (per intervention)	R 150,000
Cost per service	R 200,000
Cost for four services	R 800,000
Total cost including market assessment	R 1,000,000

***Impact assessment***

The principal measure of impact will be on a narrowing in the gap between supply and demand of services. An indicator of this could be increased use of the services targeted under the programme.

***Priority***

High priority since the programme is a limited pilot programme which could contribute significantly to increased learning about how to develop local level business development service markets.

**11 Industry based small business support**

This programme aims to develop industry based support for small businesses with significant growth potential. Industry associations or initiatives will be supported by the provincial government in developing programmes to identify potentially successful small businesses, link these businesses to appropriate support and link these businesses to growth opportunities. There are already successful examples of this type of initiative in the Western Cape. Where these exist and are successful the provincial government will look to expand them to realise greater economic impact.

***The need addressed***

Many small businesses face limitations to growth. These include lack of business opportunities, lack of operational expertise, lack of management capacity and lack of

finance. This programme will seek to identify meaningful economic opportunities for small businesses and put in place measures to address obstacles that prevent these small businesses from realising these opportunities.

### ***Principal partners***

Within priority industries in the Western Cape the partners in this programme will include:

1. The Provincial government which has a role in financing these programmes
2. Industry based associations which need to drive the programme at an industry level
3. Chambers of commerce
4. Training institutions, especially industry based training institutions
5. Large businesses
6. Small businesses

### ***Actions and delivery mechanisms***

This programme needs to secure the buy in of industry associations and businesses within the industries. Consequently we envisage that this programme will be initiated by the provincial government but planned and implemented by industry based business associations. Initially we propose working in about five strategic industries (e.g. ITC, clothing and textiles, food processing). Within each industry associations or other relevant organisations will be asked to submit an industry approved programme which will contain the following common elements.

1. Identification of and industry specific models for promoting small businesses within the industry. This could take the form of business linkages in some industries (e.g. under the Tourism Enterprise Programme) promoting promising start-ups in some industries (e.g. in technology innovation intensive industries) and export cooperation in others (e.g. wine industry or clothing industry).
2. Identification of competent industry based association to drive the process.
3. Where no such industry programme / initiative exists, the industry needs to develop a programme which identifies how the industry intends developing a business led process of identifying and growing small businesses in the industry.
4. In many industries there are already successful initiatives. In these industries the scope exists for deepening and extending the reach of these programmes. These industries should develop programmes which identify how this can be achieved.
5. These programmes need to link small businesses with large businesses in mutually beneficial economic relationships. These can include outsourcing, supply chain development but could go beyond that. For example, in export oriented sectors like the clothing sector the scope exists for linking smaller and larger businesses into virtual networks to meet large orders. Not only does this assist large firms in meeting orders beyond their scope it could be extremely beneficial to the smaller firms in that it can play a major role in building networks, sharing information and knowledge and raising operational and management capacity. In other industries the focus could be on developing innovative entrepreneurial ventures. For example, in the ITC industry the Launchpad project has developed a successful

model of supporting black entrepreneurs through a programme of twinning them with experienced mentors from within the industry.

6. Industry programmes need to go beyond linkages to include training and mentoring. Typically to meet the requirements of supplying larger organisations small businesses need to raise operational and management standards. This may require targeted training and ongoing mentoring. Within industries the relevant expertise to provide this exists. The programme should therefore identify training and mentoring requirements associated with the programme.

***Budgetary implications***

The budgetary implications are uncertain as the scope of each programme will depend on the industry and its requirements. Initial Provincial government funding would be aimed at supporting the industry develop a coherent industry programme. The following table sets out very indicative costs for an industry based small business support programme which aims to support 50 businesses per year. The cost per industry is R3m. It is expected that the Provincial government would only fund a portion of this with other parties also contributing funding. For example the Tourism Enterprise Programme is funded by the Business Trust. In industries where such programmes already exist funding requirements would be different and would be aimed at scaling up and existing programme.

**Industry based small business support**

Initial industry assessment	R 300,000
Per business (R500 per hour, 15 hours per month, six months)	R 45,000
Management	R 5,000
Total per business	R 50,000
50 businesses	R 2,500,000
Other costs	R 200,000
<b>Total per industry</b>	<b>R 3,000,000</b>
<b>Total for five industries</b>	<b>R 15,000,000</b>

***Impact assessment***

The primary impact assessment would be based on businesses supported and growth achieved in these businesses.

***Priority***

This programme has the capacity to stimulate growth of existing businesses and can contribute to employment. It also has the advantage of generating industry linkages which will have additional positive benefits.

**12 Financial support for small businesses**

The provincial government has a successful programme to provide financial support to small businesses. This programme is administered by CASIDRA. Paper two discusses this programme in some detail and makes some recommendations about refining the programme. However, we do not propose a new programme here since this programme is well established.

### **13 Ensuring economic empowerment of target groups**

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.

### **14 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 paper 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***

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

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

5. Narrowing in the gap between supply and demand of business development services in targeted areas resulting in an increase in the use of business development services by small businesses.

***Industry based small business support programmes***

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

***Financial support***

8. Achievement of targeted disbursement rates
9. Achievement of targeted business performance rates
10. 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.

## **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 Brendon Roberts, Head of Department, Department of Economic Development and Tourism, Western Cape Provincial Government

Mr Siyago, Project Manager ITESP, DMO

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