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WHITE PAPER ON NATIONAL STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF SMALL BUSINESS IN SOUTH AFRICA

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NATIONAL STRATEGY  
FOR THE DEVELOPMENT AND PROMOTION OF  
SMALL BUSINESS IN SOUTH AFRICA

White Paper of the

DEPARTMENT OF TRADE AND INDUSTRY

20 March 1995

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Abbreviations

BNDC	Bophuthatswana National Development Corporation (North-West)
CBO	Community-based organisation
CSBC	Ciskei Small Business Corporation
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
DTI	Department of Trade and Industry
EMA	Export Marketing Assistance
FRD	Foundation for Research Development
GEIS	General Export Incentive Scheme
IBEC	Informal Business Enrichment Centre
IBTT	Informal Business Training Trust
IDC	Industrial Development Corporation
IDT	Independent Development Trust
IESC	International Executive Service Corps

KFC	kwaZulu Finance Corporation
LSCs	Local Service Centres
Nafcoc	National African Federation of Chambers of Commerce
Nedlac	National Economic Development and Labour Council
NGO	Non-governmental organisation
NPI	National Productivity Institute
NSBC	National Small Business Council
ODA	Overseas Development Administration
RDP	Reconstruction and Development Programme
RIDP	Regional Industrial Development Programme
RSC	Regional Services Council
Sacob	South African Chamber of Commerce
SADC	Southern African Development Community
Safto	South African Foreign Trade Organisation
SBDA	Small Business Development Agency
SBDC	Small Business Development Corporation
SMMEs	Small, medium and micro-enterprises
SRIDP	Small Enterprise Regional Industrial Development Programme
US-AID	United States Agency for International Development
VAT	Value-added tax

#### FOREWORD

Since the elections of April 1994 the issues of economic empowerment and growth have been placed high on the agenda of the Government of National Unity of South Africa. With millions of South Africans unemployed and underemployed, the government has no option but to give its full attention to the fundamental task of job creation, and generating sustainable and equitable growth.

Small, medium and micro-enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. Throughout the world one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. We are of the view that - with the appropriate enabling environment - SMMEs in this country can follow these examples and make an indelible mark on this economy. The stimulation of SMMEs must be seen as part of an integrated strategy to take this economy onto a higher road - one in which our economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes,

This White Paper represents government's thinking about what it can contribute to the process of stimulating small, medium and micro-enterprises. We believe that the real engine of sustainable and equitable growth in this country is the private sector. We are committed to doing all that we can to help create an environment in which businesses can get on with their job. We believe in the principle of working together with our partners in the private sector - big and small businesses - in realising our hopes and aspirations for this economy. We are under no illusion that we have all the answers to the problems of growth and redistribution in this country- Indeed, we are bound to make errors of judgement in the next few years. But we hope that our commitment to ongoing and serious consultation with all the major stakeholders will ensure that we are guided in the right direction.

This document is the result of an intensive process of consultation with key stakeholders in the SMME sector. Pressures to deliver dictated very tight schedules for this communication process. The feedback which we received on the issues raised in the Discussion Paper of October 1994 made an important contribution to government's thinking on small, medium and micro-enterprises.

We believe that the programmes and policies outlined here reflect the aspirations of many small-business people in our country. But we do not

intend to stop here. The White Paper will become a platform for even further consultations with stakeholders involved in small-business development. At the President's Conference on Small Business in March 1995, we intend to present our programmes for public discussion and debate.

May I express my personal thanks to the many individuals and organisations who have contributed to the development of this White Paper. Such tireless activity on the part of small-business entrepreneurs, the corporate sector, support institutions and all other players will prove to be invaluable for the policies and strategies in this White Paper to be translated into real progress in our economy and our nation.

Finally, I am honoured to have the opportunity to present the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa to the first democratically elected parliament in the history of this country.

Trevor A. Manuel, MP  
Minister of Trade and industry

## PART ONE

### Process and vision

The Reconstruction and Development Programme of the Government of National Unity addresses a wide range of social and economic development issues, each of which deserves detailed attention and concerted action. The promotion of the small-enterprise sector of our economy is one of these critical areas. Not only is it of great importance for the rate of job creation and income generation in our country, but it deserves particular attention since the sector has been greatly neglected in the past - in particular black-owned and -controlled small enterprises.

#### 1.1 The process of strategy formation

During the past few years several discussion papers and reports have been circulated among small-business support agencies in South Africa. Numerous conferences and workshops have been held to air the concerns of entrepreneurs and business associations, reflecting the full spectrum of small, medium, micro- and survivalist enterprises (SMMEs). All along there has been a search for consensus about support needs, feasible programmes and a consistent national strategy.

In October 1994 the Ministry of Trade and Industry released a Discussion Paper on Strategies for the Development of an Integrated Policy and Support Programme for Small, Medium and Micro-Enterprises in South Africa. This draft document outlined a strategy framework for discussion among all the stakeholders in the small-enterprise sphere. It already reflected inputs by many institutions active in this field, including government departments, business organisations, foreign donor agencies and policy experts.

Between October and the end of 1994 about sixty workshops were held in both rural and urban areas to explain the contents of the Discussion Paper and encourage critical comments as well as practical proposals for adjustments to the strategy. These sessions, which were well attended and which were supplemented by numerous press comments on the document, gave rise to a large number of written comments, including submissions from virtually all the major business associations, the provincial small, medium and micro-enterprise (SMME) coordinators and several central-government departments.

All of these comments have been taken into account in the revision of the document, to become this White Paper. The focus is now more specifically on the role and programmatic approach of government, with greater focus on the expected unfolding of the national strategy and the mobilisation of the

necessary resources.

The publication of the Discussion Paper occurred at a time when many of the SMME-support policies that evolved in the past were already in a process of transition. The document itself and its widespread discussion further accelerated the reform process and gave rise to new impulses and initiatives. Feedback from these reform processes also influenced the final shape of this White Paper. As such, it should be viewed as a further significant milestone in a long-run transformation process, rather than a rigid framework document.

## 1.2 After the White Paper

Once it is endorsed by cabinet and parliament, the White Paper has to be carried across to the full spectrum of the small-enterprise community, which includes close to a million enterprises. A first step in this process is the National Small Business Conference, to be held at the end of March 1995 in Durban and to be opened by President Mandela. The 2 000 invited delegates are to spearhead the further dissemination of this national strategy into all the corners of the country. During the conference, which will include a large number of guests from our major trading partners and invited experts, working groups will look in more detail at the main strategy elements and how these can be implemented.

The proceedings of the conference will be summarised in the first Handbook or Annual Review of South Africa's SMME sector, which is to be released in mid- 1995.

Parallel to this propagation process the small-enterprise desk in the Department of Trade and Industry (DTI) is to be expanded into a Chief Directorate for Small Business, and the Small Business Development Agency (SBDA) will be established as the main implementation instrument of the national strategy. The restructuring of other institutions, like the Small Business Development Corporation and the regional development corporations, is also making good progress, and negotiations should start soon about the sharing of responsibilities for SMME support between the DTI and the SBDA on the national level and the Departments of Economic Affairs and other regional agencies on the provincial level.

## 1.3 A broader vision

All of these efforts should be viewed within a broader vision of the South African economy, which includes all the business sectors - big business, multinationals, parastatals and also the small-enterprise sector - as part of an integrated, interdependent process. The small enterprise sector is neither a "junior partner" in that process, nor is it a separate sector that has to be treated according to different rules or principles, even though it has been neglected and disadvantaged in the past and therefore needs to be helped to take its rightful place among all the sectors.

The Government of National Unity is committed towards a strategy of high and sustainable economic development. To achieve this, the economy needs to move on a growth path of increased investment, enhanced productivity and expanding employment opportunities - and all of this within a mould of increasing general competitiveness.

While the better organised large enterprise sector should be able to move towards the envisaged growth path with relatively limited support and prodding from government, the transformation of the small-enterprise sector requires and justifies concerted policies of wider scope as well as the deliberate creation of an enabling environment. Such initiatives need effective inputs from all segments of the economy and close co-operation between government and the private sector. The ultimate goal is to make SMMEs equal partners in all the economic sectors, and to maximise the

sector's contribution to the Reconstruction and Development Programme.

In this transformation process government is a facilitator and not an implementor. In fact, small-business support programmes are best implemented by institutions that most closely reflect the entrepreneurship and risk characteristics of small businesses themselves. Such institutions are typically small localised non-governmental organisations (NGOs), private consultancies, partnerships and companies.

Finally, while government's role at the outset of this process is interventionist, it will be scaled down systematically after the first five to ten years.

#### 1.4 Structure of the document

This White Paper outlines a national strategy for SMME support, bearing in mind that a short document can only present the framework, with details having to be filled in by the implementing agencies.

To set the scene, Part Two of this document gives an overview of the small-business sector, its diversity, role and contribution to the economy and the main constraints facing the sector. It also reflects briefly on past support policies and support agencies as well as the role of foreign agencies and international experience in shaping a new strategy.

Against that background, Part Three presents key objectives and fundamental principles that underpin the national strategy and its different strategy elements. It also introduces the important aspect of targeted support which will guide much of the government's future involvement in this sphere, viz. that support should be focused on sectors or target groups that particularly need it or justify it in terms of job creation, Reconstruction and Development Programme (RDP) involvement or income generation.

Part Four of the White Paper covers all the elements considered necessary for a balanced and integrated 'national strategy". As shown in the sections of Part 4 the government's involvement differs in the various areas, with great emphasis placed on the responsibility falling upon other support agencies.

The different strategy elements have to be implemented through agencies at central, provincial or local level, with the private sector, business associations, NGOs and parastatals important implementation agencies, parallel to the three tiers of government. Part Five outlines the institutional reform process as it should evolve, with particular emphasis placed on key institutions, viz. the Chief Directorate in the DTI, the National Small Business Council (NSBC), the SBDA, provincial Departments of Economic Affairs and Local Service Centres (LSCs).

Based on that institutional framework and the range of strategy elements, Part Six outlines the possible evolution of this national strategy, as pursued by government. A distinction is made between short-term steps, dominating efforts over the next two years, and medium- to long-term goals and initiatives, which will gain their full momentum over the next three to five years.

Finally, Part Seven highlights different financial sources which can be mobilised to fund the national strategy, with the 1995/96 DTI budget merely the point of departure.

The challenge with respect to this strategy now lies in finding a co-operative approach to the massive implementation task, guided by the framework outlined in this White Paper.

The small-business sector in South Africa's economic development

## 2.1 Size and diversity of the sector

2.1.1 Although the statistical base of the SMMEs in South Africa is still poor, there can be little doubt about their relative significance. There are more than 800 000 small, medium and micro-enterprises in the country, absorbing about a quarter of the labour force of 15 million people. This is in addition to about 3,5 million people involved in some or other type of survivalist enterprise activities.

2.1.2 The small business sector is highly diverse, with structures, problems, growth potential and access to support differing widely between segments. These differences relate as much to the economic sectors - retailing, manufacturing, mining, etc. - as they relate to the stages of growth of enterprises, viz. start-up, expanding or stagnating.

From a broad strategy perspective the most important distinction is between survivalist activities, micro-enterprises, small enterprises and medium-sized enterprises, with the general term "small business" and the abbreviation "SMMEs" widely used to contrast this sector with big(ger) business. Due to the similarity of some of the obstacles facing them, survivalist and micro-enterprises are often lumped together, whereas many support agencies feel that medium-sized enterprises need not be viewed as a category warranting particular attention.

2.1.3 The following characteristics of the four categories should help to justify particular policy stances outlined in this White Paper.

Survivalist enterprises are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises. Support strategies should primarily help these people - a large percentage of whom are women to get out of this sector. Given the large number of people involved in survivalist activities, this constitutes a vast challenge, which has to be tackled within the broader context of the RDP (see section 3.5.7).

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

Small enterprises constitute the bulk of the established businesses, with employment ranging between five and about 50. The enterprises will usually be owner-managed or directly controlled by the owner-community. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.

Medium enterprises constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R5 million are often seen as the upper limit. In terms of this White Paper we are concerned with medium-sized enterprises which face obstacles and constraints which cannot be solved through normal market forces and private-sector action.

- 2.1.4 It follows from these distinctions and it is a fundamental principle of the government's SMME support strategy that the problems of each of these four categories need a somewhat different policy stance. Some of these differences will be outlined in the White Paper, but the bulk has to be reflected in the more specific implementation processes.
- 2.1.5 Equally important for the present phase of small business support in South Africa is the recognition of the particular problems and needs of enterprises initiated, owned or controlled by those who were disenfranchised and/or otherwise discriminated against in the past. Aside from the racial dimension, i.e. enterprises owned or controlled by black South Africans, we also refer to women and all other disadvantaged and marginalised groups, including those in remote rural areas as well as the disabled, elderly people and the youth. Such enterprises are found in all four of the above categories.

The government is committed, within given financial and organisational constraints, to structure its SMME support in such a way that special attention is given to the problems faced by these disadvantaged enterprises.

- 2.1.6 Since publicly funded support for small enterprises should only be granted to those really needing it, the objective definition and classification of different types of small enterprises is essential. The DTI, after consultation with the NSBC, will create the mechanism to identify different types of enterprises based on sectoral, size and developmental criteria.

## 2.2 Role and contribution of the sector

- 2.2.1 All over the world it has been recognised that the small business sector plays an important if not critical role in the economic and social development of a country. This also applies to South Africa, where the small business sector has been neglected during much of the century following the discovery of diamonds and gold, and the establishment of a modern, capitalist economy with almost exclusive white control.
- 2.2.2 While the importance of large industrial, mining and other enterprises for the growth of the economy cannot be denied, there is ample evidence that the labour absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation is vital for many of the challenges facing South Africa's economy.
- 2.2.3 Given South Africa's legacy of big business domination, constrained competition and unequal distribution of income and wealth, the small business sector is seen as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets (both internally and internationally), enhance productivity and technical change, and through all of this stimulate economic development.



2.2.4 Taking into account the very large micro-enterprise segment of the small business sector, as well as those struggling in survivalist activities it should be clear that the small business sector plays a crucial role in peoples' efforts to meet basic needs and help marginalised groups - like female heads of households, disabled people and rural families - to survive during the current phase of fundamental structural changes where the formal economy is unable to absorb the increasing labour supply, and social support systems are grossly inadequate.

2.2.5 Experience has shown that in the past black people have been able to make far greater progress in the micro- and small-enterprise segments of the economy than in medium-sized and larger enterprises. Thus, the SMME sector has - all its impediments notwithstanding - proven to be a highly significant vehicle for black economic empowerment.

### 2.3 Constraints facing the small-business sector

2.3.1 There can be no doubt that, compared to big business in South Africa and in other countries, small businesses face a wider range of constraints and problems and are less able to address the problems on their own, even in effectively functioning market economies. The constraints relate, among others, to the legal and regulatory environment confronting SMMEs, the access to markets, finance and business premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, the quality of the business infrastructure in poverty areas and, in some cases, the tax burden. In the South African context the constraints have been particularly hard on entrepreneurs in rural areas and on women.

2.3.2 Much has been written about these issues over the past few years and debated at public forums internationally as well as in South Africa. This White Paper is based on an understanding of these problems and their legitimacy, without restating the facts here. At the same time it has to be recognised that problems and constraints differ widely between the various segments of SMMEs and also the sectors as well as owner categories. Generally speaking, the micro- and survivalist enterprises are far less able to face constraints linked to finance, market access and the acquisition of skills. On the other hand, some sectors like agriculture, construction and manufacturing confront small enterprises with a particularly wide range of problems, thus preventing easy access to these sectors by new enterprises or increasing the risk of those already in the sectors. Even among medium-sized enterprises, problems like international competition, technology transfer and skills training can constitute major growth obstacles.

These differences are of critical importance for the national support strategy. They not only stress the need for some degree of public sector involvement, but also emphasise the need for explicit differentiation in the support framework.

2.3.3 In addition to sector-specific differences of constraints, the legacy of apartheid constitutes an important factor in the inability of black- owned or -controlled small enterprises to face business development constraints. For decades, if not centuries, the majority of South Africans were deprived of viable business opportunities in the following ways:

a) Bantu Education restricted opportunities for the acquisition of technical and professional skills by black people;

b) there was total absence of entrepreneurial education or sensitising for young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship;

c) apartheid confined the majority of the African people to homeland areas which were not only the poorest in terms of living standards and business opportunities, but also lacked a dynamic business environment;

d) even outside the homelands the system of apartheid made it impossible for black would-be-entrepreneurs to participate in business apprenticeships and partnerships with more established (non-black-owned/controlled) enterprises;

e) racially segregated residential areas, enforced through the Group Areas Act, not only uprooted millions from the places of residence and business, but also led to large capital losses and virtually destroyed the fabric of black small enterprises;

f) segregation increased the distance between black residential and working areas, thereby increasing the cost and risk of conducting business;

g) the drastic curtailment of property ownership rights of blacks made it impossible for them to acquire assets that could serve as collateral for loan financing; it also excluded blacks from the long-run process of capital accrual and growth through rising property values and share prices;

h) apartheid left no real space for the business involvement of black women; marriage laws reduced women to unions with no contractual capacity at all; even though marriage laws have changed, customary law remains intact and there are cultural, behavioural and attitudinal constraints which affect women's participation in business, particularly in rural areas. There are also restrictions in terms of access to land.

Due to these processes, small business-support policies will for a considerable time also have to focus on the particular needs of black enterprises and ways to overcome the remaining consequences of that legacy. This does not imply that policies should only focus on black-owned or -controlled enterprises or business-infrastructure facilities in formerly black-reserved towns, but that policy differentiation will have to include affirmative elements.

2.3.4 All over the world small business-support policies have become targets of active vested interest lobbying. All too often government is pressurised to help overcome constraints, even though enterprises - either individually or through joint action - could also resolve the problems. This applies in particular to segments of the small business community which are well-organised, well-articulated and skilful in the channelling of their request, thereby laying claim to a disproportionate part of the limited resources available for small business support.

This government will not allow the channelling of disproportionate shares of limited state resources - at both national and provincial levels - in directions that cannot be reconciled with national priorities as outlined in the RDP. This will be done through negotiation and by appropriate legal safeguards and guidelines.

## 2.4 Past support policies

2.4.1 A number of institutions have over decades developed a limited, often

fragmented range of small business-support policies and programmes, some operating in competition with each other, and virtually all of them racially and gender-biased. The parastatal institutions included the homeland-based development corporations and some specialised SMME-support agencies (like Transido); furthermore the Development Bank of Southern Africa (DBSA), the Small Business Development Corporation (SBDC) and the Industrial Development Corporation (IDC) as financiers, and some of the commercial banks.

At the level of central government there was little co-operation extended directly to the black business sector. For example, government procurement was largely channeled to white businesses. Most of the university-based small business units, while receiving financial support from the state, have until recently not succeeded in effectively addressing the needs of the black small business sector.

In the private and NGO sectors a wide range of small business support bodies have evolved over the last decade, often operating in competition with each other. While largely ineffective in their overall impact, this trend reflects the rise of attention to and support for small businesses among local stakeholders and donors, and it is also indicative of a growing stream of foreign aid earmarked for small business support.

2.4.2 It is mainly due to the diversity and uncoordinated nature of all these support agencies and efforts - which in themselves need not be undesirable - that the call for co-ordination, co-operation and a clear national strategy framework has increased over the past few years. Lack of legitimacy made it impossible for the previous government to fulfil such a role, whereas the new government is now in a position and committed to do so through this White Paper.

2.4.3 In the evolution of these different support agencies, both inside and outside the former homelands, many different policies and programmes have been designed and implemented. Some have proved successful, others have failed and most went through lengthy phases of experimentation and adaptation. In the context of this White Paper we have to note the existence of such programmes - including those related to micro-enterprise lending, interest-subsidised loans, industrial hives, small business training, mentoring and the subsidisation of consultants, and for many other problem areas - without assessing their merits or suggesting their (dis)continuation. It is only natural that in our forward planning we take into account experience gained and lessons learned in the past. At the same time future strategies cannot be based on the assumption that organisations active in certain fields in the past should necessarily continue with all their past programmes. A realignment of institutions and their responsibilities is inevitable within the context of the evolving national support strategy (see Part Five).

## 2.5 International input

2.5.1 Throughout the world the small-business sector has been gaining in significance, also with respect to government support. As far as specific policies are concerned most of those tried in other developed or semi-developed countries are also known in South Africa. On the whole, however, we have not yet effectively absorbed the rich experience and best practices built up elsewhere with respect to the operational details and refinements of specific policies and programmes. In particular, we have largely ignored areas like state procurement and subcontracting, specialised credit-guarantee schemes and sector-specific training programmes. The same applies to the facilitation of co-operative efforts by small enterprises in particular sectors or niches to strengthen their bargaining positions

or to overcome constraints. We also have to focus far more on countries with an economic structure more in line with ours, like our African neighbours as well as Asian, Latin American and Eastern European countries, rather than those reflecting North American or Western European structures.

- 2.5.2 During the past few years some foreign agencies - in particular the World Bank, the United States Agency for International Development (US-AID), the European Union, Overseas Development Administration (ODA) and the Friedrich Ebert Foundation - have given close attention to the needs of South Africa's black businesses and the design of an appropriate support strategy. These contributions have also made us more aware of the diversity of support policies implemented elsewhere and lessons to be learned.

In response to the Discussion Paper we have once again received valuable and constructive advice and technical as well as financial assistance from several agencies and international bodies, i.a. to facilitate strategy discussions and to help us set up some of the programmes. These include, in addition to the above, agencies from the Netherlands, Denmark, Australia, Singapore, Great Britain, Ireland, Germany and several other countries.

- 2.5.3 The government is committed to continue learning from best practices developed in other countries and suitable to be adapted to our South African strategy. This will be endeavoured through desk research, fact-finding missions, joint pilot projects and bilateral as well as multilateral support from foreign SMME support institutions. The effective integration of these inputs into the national strategy will be one of the vital concerns of the Chief Directorate for SMMEs. In this context, valuable contacts have already been established with the Southern African Development Community (SADC) commission responsible for small-business support in southern Africa.

On a more specific level it is noted that semi-developed (Asian) countries that have over the past decade attained high, sustainable and egalitarian growth share the following characteristics:

- high priority for the development of reliable statistics on the SMME sector
- high levels of human capital development
- a strong and broad-based small-scale manufacturing sector
- ready access to information technology
- consistent investment in research and development
- particular emphasis on women's enterprises, which have a strong orientation towards food security, health and children's education.

All of these aspects also have a high priority in our national SMME support strategy.

## 2.6 Research on SMMEs

- 2.6.1 During recent years research on the trends, problems and needs of small enterprises among South African universities, technikons and other research centres has increased significantly. Yet, the volume of research with a practical orientation and/or policy relevance is still limited, compared to the needs of this country and our overall research capacity. This relates in particular to the systematic development of base data and trend indicators on the SMME sector with

all its complexities. Such reliable data is critical for the assessment of policy efforts and the planning of policy reforms.

- 2.6.2 The government hopes that existing research agencies and local as well as foreign funders will adjust their priorities in order to generate more of such relevant research. In addition the Chief Directorate and the other institutions to be established for the implementation of the national strategy (in particular the SBDA) will actively support such research efforts. Particular emphasis will be placed on joint projects between local and foreign research bodies or teams and on co-operative research projects between different local institutions. There will also be need for comparative research on the needs for SMME support in the different provinces and in the different regions of southern Africa.

## PART THREE

### Objectives and principles

The need for a coherent national small-business strategy follows logically from the background problems and challenges outlined in Part Two. Most of all, there is urgent need for a systematic national framework, within which the different policies and programmes at national, regional and local level can be coordinated. Such a macro-framework is also a precondition for the setting of priorities and the appropriate allocation of scarce public funds. Furthermore, it should facilitate the delegation of tasks and responsibilities with respect to SMME support, the channelling of public as well as international donor funds to different institutions and the determination of accountability. Finally, a transparent framework should encourage greater rationalisation of resources and institutions.

This section summarises the broad objectives, goals and principles underlying the government's involvement in the support and promotion of small, medium, micro- and survivalist enterprises. Together they indicate how the central government intends to approach SMME-related policy issues and requests for financial and other support from the small business community. It also reveals how government would hope to interact with provincial governments, local authorities, parastatals and, most important of all, the private sector, in order to achieve coordinated and effective support all over the country.

#### 3.1 Objectives of the national small-business strategy

- 3.1.1 The primary objective of the national policy framework is to create an enabling environment for small enterprises. Given such an enabling environment it is expected that the hundreds of thousands of SMMEs will themselves accept responsibility for the operation, growth and progress of their enterprise.

Such a national framework will need to be complemented with programmes developed and implemented at regional and local level. Besides, small enterprises do not in themselves constitute an economic sector all on its own. Therefore, policies need to be in tune with national and regional as well as sectoral developments, taking into account differences between sectors like manufacturing, tourism or construction as well as differences between categories of SMMEs.

- 3.1.2 In addition to this basic objective of the national small business-policy framework five more specific objectives underlying the support framework can be mentioned here:

- Facilitating greater equalisation of income, wealth and economic

opportunities

This relates to a strengthening of the labour-absorptive process in the micro-enterprise and survivalist segments, the redressing of discrimination with respect to blacks' as well as women's access to economic opportunities and power, and the facilitation of growth in black and small enterprises in rural areas.

- Creating long-term jobs

While micro-enterprises and survivalist activities have absorbed large numbers of unemployed people, they are in themselves not always able to generate reasonably remunerated long-term jobs. Support for small businesses has to include steps to upgrade the skill level of SMME operators, strengthen the use of appropriate, modern technologies and boost the capacity to create long-term jobs.

- Stimulating economic growth

While small enterprises have the potential to generate economic growth, this does not always happen spontaneously. It is the task of a differentiated, sector-focused and growth-orientated small business-support strategy to address obstacles that prevent small enterprises from contributing to overall growth.

- Strengthening the cohesion between small enterprises

Public- as well as private-sector support for small enterprises has clear limitations, given resource constraints. Yet, individually SMMEs often lack the skills and resources to improve their own capabilities. It is thus essential that fragmented small enterprises within sectors, industries, sub-regions or other localities be helped to network more effectively in order to jointly address development obstacles, take up opportunities and to build collective efficiency.

Successful examples of strategies based on collective efficiency exist world-wide, for example in the Emilia Romagna in Italy, Baden-Württemberg in Germany and in some regions in Denmark. Through these interventions local governments have created conditions whereby small firms can - through co-operation networks, the provision of supportive services and infrastructure improvements - compete with the best of large international firms.

- Level the playing fields between bigger and small business

Market opportunities, regulations and competitive structures have in the past distinctly favoured larger enterprises and enterprises in urban areas; the support strategy will help to rectify the imbalance. At the same time it aims at the greatest possible co-operation and interaction of these segments of the economy.

3.1.3 Over and above these objectives, the national strategy also aims to enhance the capacity of small business to comply with the demands facing South Africa's modernising economy and the challenges of increasing international competition.

Table

Key objectives of the national small-business strategy

- Create an enabling environment for small enterprises
- Facilitate greater education of income, wealth and earning opportunities

- | - Address the legacy of apartheid-based disempowerment of black business |
- | - Support the advancement of women in all business sectors |
- | - Create long-term jobs |
- | - Stimulate sector-focused economic growth |
- | - Strengthen cohesion between small enterprises |
- | - Level the playing fields between bigger and small playing fields between |
- | bigger and small business as well as between rural and urban businesses |
- | - Prepare small businesses to comply with the challenges of an internationally |
- | competitive economy |

### 3.2 Stages of strategy formulation and implementation

Experience from other countries reveals a logical sequence in the establishment of a support framework. This applies in particular to the early part of the process, where the following distinct stages can be distinguished.

#### 3.2.1 Awareness building

The process of awareness building and commitment to goals should include politicians, labour leaders and public-sector officials at central, provincial and local government level, private and NGO sector decision makers, organised business, heads of research and training bodies and all small business support agencies. The purpose is to reinforce understanding for SMME support and its importance for the overall development of the country and to get acceptance of and commitment to the policy framework and the underlying goals. In this context the President's Conference on Small Business, planned for March 1995 in Durban, is an event of critical importance for awareness-building in South Africa.

#### 3.2.2 Needs identification and implementation planning

Once the goals and broad strategy have been accepted, it is necessary to evaluate and prioritise specific needs within the overall framework and resource constraints. This should also include the linking of needs, action plans and efficient delivery systems, the establishment of monitoring and feedback systems, the commitment of key actors to specific support areas and the strengthening of co-ordination and networking systems.

#### 3.2.3 Resource identification

This phase can start concurrently with the former and is likely to extend over a lengthy period. It includes surveys of resources available for SMME support in each of the nine provinces, the establishment of a national data bank for SMME-related statistics, an evaluation of the physical infrastructure presently available for SMMEs and an assessment of the capacity of existing SMME support agencies.

#### 3.2.4 Strengthening the business and entrepreneurial culture

While progress has already been made in this sphere over the past years, concerted efforts will greatly facilitate the implementation of the national strategy. This should include country-wide educational and sensitising efforts, increased co-operation between business and tertiary education institutions, and the further expansion of ownership participation of formerly disempowered people.

### 3.2.5 Training of support agency staff

This capacity-building process is critical for the success of the entire implementation process. To be effective it has to be pursued concurrently with the stages mentioned above, and it has to include all support agencies.

### 3.3 Setting goals for the national strategy

To become operationally significant, the objectives outlined in section 3.1 would have to be put into quantifiable, specific goals or targets. This is not possible within the framework of this White Paper, where provincial and local strategies still have to be worked out and all stakeholders are to be included in a goal-setting process. Such a task may, in fact, be tackled by the NSBC and facilitated by the DTI Directorate and the SBDA.

In Part Six of this White Paper some indication is given of the difference between short-, medium and longer-run goals and what the government regards as relevant under each.

### 3.4 Fundamental principles

This section brings us closer to the wide range of issues that need to be addressed by a partnership of government, NGOs, parastatals and the private sector in order to promote and support SMMEs. Before we review different elements of such a framework in Part Four, we have to state a number of general principles which underlie all these strategy elements and which will, in general, guide government involvement in this sphere. These principles should also help orientate the private sector, parastatals, NGOs and other stakeholders as to the role of government vis-à-vis those other players.

3.4.1 As indicated in Part One of this White Paper, the framework is based on a coherent, integrated vision of South Africa's economic development process. This vision sees the different segments of the SMME sector - medium and small enterprises, micro-enterprises and survivalist activities - as closely interconnected parts of the larger economy, which also includes big(ger) businesses, multinationals, parastatals, NGOs and other non-business activities. Relative to the other segments the small business sector has been neglected in the past, and this should now be redressed, where possible, in line with current political goals and the guidelines of the RDR. This vision of a dynamic, expanding small business sector has different dimensions; they encompass sector and industry perspectives, regional growth perspectives and local development perspectives. Most important, the vision is based on the acceptance of the market economic system, private entrepreneurship and a constructive partnership between the public and the private sector.

3.4.2 Government believes that it is necessary to break away from the traditional and static approach to small business development based narrowly on the provision of financial support. We instead are committed towards a dynamic, demand-driven and creative approach which in the first instance recognises the multiplicity of needs of SMMEs. The notion of "real services" is critical to this approach, i.e. that a wide range of services can be instrumental in enhancing the performance of small firms.

3.4.3 The need to instill a "fee for service culture" also applies to the small-business sector; wherever possible services received by enterprises should be paid for.

3.4.4 The government also feels strongly that small business support has to be linked to compliance with generally accepted standards of business behaviour. This relates as much to labour and managerial standards as



it should apply to taxation, sector registration and reasonable social standards as well as financial and costing disciplines of firms, both small and medium-sized. The strategy should enable SMMEs to comply with negotiated and broadly accepted, flexible standards, but it is also the objective of the strategy to encourage such compliance. This is felt to be the only way in which SMME support can, in the final instance, be linked to South Africa's quest for international competitiveness.

- 3.4.5 The government believes that small firms can become dynamic and highly competitive, while striving for socially acceptable labour standards, adopting new and more efficient technologies and effective work organisation techniques, and the government is committed to promote development on this basis. This can be achieved through a range of organisational practices which include increased co-operation, co-ordination and networking amongst smaller firms in specific sectors so that services such as marketing, research and development, skills acquisition and even production can be shared. Through such co-operation small firms can achieve, if not surpass economies-of-scale benefits enjoyed by large firms without having to become large in size.
- 3.4.6 It is accepted that the demand side of the small business sector can be an important factor in SMME growth and development. Thus, the national framework will include steps to improve access of small enterprises to state procurement, big business purchases and export markets.
- 3.4.7 Another important principle of the new national strategy is the emphasis placed on black advancement in the enterprise sphere, including in this context all the groups disempowered through the apartheid era. This is, however, not an exclusive goal, leaving considerable scope for other objectives as outlined earlier. Besides, it is realised from the experience in other countries and lessons from our own past that there are more effective and less effective ways to stimulate black business advancement. Thus, pursuing the fundamental goal of black advancement does not free us from the obligation of weighing up the merits and risks of alternative support policies.
- 3.4.8 The scarcity of public resources available for SMME support constitutes a fundamental constraint upon all support policies. It also forces us to constantly weigh up the public-sector cost of specific policies against the expected results of the support programmes. It is in this sphere where the need is greatest to learn from practices in other countries, to compare the experience gained by different institutions in these countries and to look for more efficient programmes.
- 3.4.9 Acceptance of the market orientation of our economic system and of the government's fundamental budget constraints also forces us to look at alternative funding, the leveraging of public funds, the effective use of foreign donor funds and technical assistance, the introduction of tax and other incentives to change private-sector attitudes, and self-help or local community efforts to support small enterprises.
- 3.4.10 While the inevitability of budget constraints is stressed here, it is also accepted as a fundamental principle that the overall share of budget support available for small enterprises - at central, provincial and local government level - is currently too low compared to the important role of this sector in the economy
- 3.4.11 Given the wide range of constraints or problems experienced by small enterprises and given their diversity, it follows logically that a national small business-support strategy will consist of a whole

range of policy areas and even more programmes. Internationally one also finds a steady increase of specialised support policies, in particular in the wealthy industrial countries. Such proliferation of policies also has dangers, like the high cost to the fiscus and the overlapping of programmes.

In the light of our limited public-sector resources it will thus be necessary - at least in the initial years - to curtail the range of support programmes. In fact, to counter the proliferation of programmes which might result from inter-provincial competition, the central government may have to set national guidelines for key policy areas. Preference will be given to policies which strengthen access to resources and steps to level the playing fields between established and emergent enterprises. In addition, sunset clauses will have to be built into programmes in order to prevent an escalation of cost over the years.

3.4.12 While there can be little doubt about the need to restructure the have to be gradual. This is necessary since implementation capacity cannot be created easily, but can be destroyed instantly if institutions are dissolved. With the implementation of small business support spread over many different bodies, and with the restructuring of support agencies coinciding with a restructuring of all the provincial development agencies, this process is likely to extend over at least the next two years. In this context the (re-)training of the staff of different small business-support bodies is quite critical, as is the evolving composition of staff at managerial level.

3.4.13 As far as the range of development support agencies is concerned, the government accepts the diversity, both at national and at regional/local levels. The following institutions are seen as vital for the promotion of the SMME sector, with some indication of current and expected reform processes given in Part Five of this White Paper.

- The private sector has to play the most important role, through the supply of commercialised services for small enterprises, co-operation and subcontracting between small and bigger enterprises, partnerships, joint ventures and franchises as well as social responsibility commitments of the corporate sector related to small business development.
- The government recognises the diversity of legal and organisational forms in which small enterprises can be structured. Co-operatives are one of these forms, distinct from single proprietorships, partnerships and closed corporations. The government is committed to facilitate co-operative ventures within the strategy framework outlined in this White Paper. If necessary, this will include legislative changes to fully recognise co-operatives as legal entities.
- At central government level the Department of Trade and Industry is the department primarily responsible for the formulation, co-ordination and monitoring of national policies related to small enterprise. In the provinces appropriate government departments as well as local agencies still have to evolve, in co-operation with the private and parastatal sectors.
- Parallel to the private, profit-orientated sector, non-governmental support organisations (NGOs) and business chambers as well as industry or sector associations are expected to play an increasingly important role in the implementation of support programmes and the shaping of policies.
- Foreign donors and multilateral aid as well as technical assistance agencies already play an influential role in the policy planning and

pilot programme phase. In future it will be important that their programme support fits into the national strategy and is effectively integrated with local efforts. Duplication of programmes or the mushrooming of new agencies, just to suit donor preferences, will be discouraged, in particular where the discontinuation of foreign support is likely to create new demands on the public sector.

- 3.4.14 It is taken as undisputed that an overall economic policy stance that facilitates high economic growth and fiscal as well as price stability, constitutes the most significant macro-economic "support policy" for an expanding small business sector.
- 3.4.15 South Africa's evolving small business-support strategy and its general approach towards small business promotion cannot be isolated from the broader southern African (SADC) scene. Most of our neighbouring countries currently also grapple with the shaping of a coherent, effective and feasible small business- support strategy. The government will actively communicate with neighbouring countries and/or the SADC about the basic structure of our small business-support framework and the needs, merits and challenges of joint support programmes.
- 3.4.16 Finally, the principles underlying this strategy are not static, nor is it possible to pursue each one fully right from the start. Gradualism is inevitable, being a consequence of financial and human resource capacity constraints. It furthermore follows from the need to design and negotiate effective, people-centred implementation processes and systems, which always takes time.

### 3.5 Targeting support

- 3.5.1 The vastness and complexity of the small business sector combined with serious financial and human resource constraints with respect to support programmes and policies make it essential to focus or target SMME support. This not only implies that publicly-funded support cannot be made available to every category of SMME that experiences problems or faces obstacles, but also that support policies should be sectorally and otherwise differentiated and packaged to suit the particular needs and circumstances. Such packages can consist of specific combinations of support policies of the types outlined in Part Four of this document.
- 3.5.2 All over the world it has become customary to develop differentiated, targeted support packages. The support can be financial in nature or related to controls, training, export facilitation, etc. In South Africa there has been a tendency during the 1980s to move away from complex support packages, on the grounds that they are difficult to design in a way acceptable to diverse pressure groups, and that their implementation demands effective organisation and good control systems, which may be difficult to establish. Yet, the government believes that on balance they help save scarce public funds and will be more effective in the targeted areas.

This approach implies not only different sets of support policies to address problems of medium, small and micro-enterprises as well as survivalists, but also adjustments for different industrial, services and primary subsectors. The same applies to the differentiation of support for women, rural enterprises, school leavers, physically handicapped people and other special target groups.

- 3.5.3 Such targeted support packages cannot be designed by the DTI or other government departments in isolation; they have to evolve out of preparatory research, close interaction between all the stakeholders in the target areas, and negotiations between the public sector and

implementation agencies about priorities and funding resources. Within its financial means the government is willing to consider motivated requests to assist subsectors or target groups, with the funding coming from existing support programmes and, if necessary and acceptable to government, additional direct financial support from government. Such differentiation places additional demands on the implementation agencies, yet it is necessary to save public funds, prevent the distribution of subsidies to those not in need and it can help to make policies more effective.

3.5.4 It would be futile to draw up a final list of sectors or target groups warranting support packages, since circumstances may change over time, funding constraints will influence the range that can be considered and needs vary between the different regions. The following areas and/or target groups seem particularly relevant, with emphasis furthermore on enterprises owned or controlled by entrepreneurs from formerly disadvantaged communities:

- agro-businesses and small-scale farming and fishing
- small-manufacturers - with focus on clothing, furniture/carpentry, metal works, arts and crafts, etc.
- small-builders/contractors
- transport-sector operators (taxis, freight carriers, tour operators)
- start-up and expanding enterprises owned by women and, in particular, women with children
- small-exporters revealing comparative advantages
- small-scale tourism-industry operators
- youth self-employment (with the focus on school leavers and unemployed youth)
- self-employment start-up efforts by retrenched people and those in resettlement areas
- rural business start-ups and expanding firms including the retail sector
- physically disabled people involved in self-employment
- small-scale mining
- small enterprises in disaster areas
- SMMEs in ecologically sensitive activities - small-scale hi-tech ventures with a strong catalytic role

3.5.5 Depending on the response to these support possibilities the government might allocate an increasing share of the resources made available for SMME support towards such integrated programmes. In all cases the government will, however, only contribute part of the required programme funds and in doing this will also consider the compliance of recipients with other principles embodied in this strategy framework. Detailed attention will also be given to the development of effective implementation machinery for such sector support programmes, and for strict controls in the use of funds.

3.5.6 Since the preparation of specific new programmes of targeted support may take considerable time the government will consider financially

supporting preparatory research and/or part of the cost of pilot projects in relevant areas. Where possible such applied research and project planning work should be integrated with programmes undertaken by foreign donors and other support agencies in the SMME sphere.

3.5.7 Within the context of support targeting the category survival enterprises deserves particular attention, given its vast size and the inability of most of the 'self-employed' people to improve their position. Support can come from basically three directions, viz.

- RDP-related health, education, housing and other social- development programmes
- efforts by formal (small as well as larger) businesses to draw these survival operators into the mainstream of business
- targeted SMME support packages related to one of the above categories

Since many of the survivalists would rather be in employment than self-employment, improvements in their literacy and skill levels will get priority in the government's support.

Table 2

Ten key principles underlying the government's national small-business strategy

- 1 The strategy is based on a joint vision for big, medium and small business in South Africa.
- 2 All the segments of the small business sector - survivalist, micro-, small and medium enterprises - need attention.
- 3 The business efficiency and competitiveness of the whole small enterprise sector has to be developed, with due recognition of social, financial and other compliance at standards relevant to an internationally competitive economy.
- 4 An integrated support strategy has to give attention to both the supply and demand side of small business activities.
- 5 Black advancement in the enterprise sector is a key factor in all spheres of the strategy; special emphasis also falls on other marginalised or disadvantaged groups.
- 6 The scarcity of public funds demands careful prioritisation of support programmes and the skilful matching of different resources.
- 7 Support policies will be sector-focused and targeted with application of public funds and full recognition of the market orientation of our economy.
- 8 The institutional framework for small business support has to be restructured in order to reflect the evolving institutional diversity, the provincial thrust of policy implementation and effective bottom-up and top-down co- operation and co-ordination.
- 9 Ultimate responsibility for the national strategy rests with the Department of Trade and Industry
- 10 The private enterprise sector, co-operatives, NGOs. business associations and foreign assistance programmes all have a critical role to play in an integrated small business strategy.

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## PART FOUR

### Elements of the support framework

The active promotion of SMMEs depends on the interaction of a wide range of actors in an equally wide range of support areas. It ranges from self-help activities of groups of small enterprises and the abolition of regulatory obstacles to the better co-operation between small and bigger enterprises with respect to subcontracting and the granting of direct financial or tax concessions by central or provincial governments.

In this section of the White Paper the focus is on support areas with a greater or lesser degree of government involvement. It largely excludes a more detailed discussion of the many steps that are - or could be - taken by the private sector, by NGOs or local authorities. This focus on the role of government can easily create the mistaken impression that government is determined to follow a top-down, interventionist strategy of SMME support, which would go against the principles outlined earlier. To prevent such impression, some reference will also be made to the role of non-governmental sectors or agencies in specific support areas, without thereby prescribing the nature of their support action.

The sequence in which the support areas are presented here does not imply a ranking of their significance. As explained earlier, effective support will often require a support package consisting of different policies, tailor-made for specific SMME target groups. Research and more detailed planning about such support packages and programmes will be the responsibility of the DTI, together with the SBDA, provincial governments and the support agencies; with the NSBC likely to comment on the outcome.

#### 4.1 Creating an enabling legal framework

In order to formally recognise the importance given to the small- enterprise sector in the process of economic reconstruction and development, and to facilitate policy implementation in different areas, the government is committed to pass a number of enabling acts. The experience from other (semi)developed countries in Europe, Asia and Latin America shows that properly designed acts can play a positive role, as long as the purpose and principles are clear and phasing-out dates are set for affirmative changes.

It is too early at this stage to detail the number of key acts needed to create an enabling legal framework. Besides, in some cases changing market behaviour in anticipation of legal steps may obviate formal legislation. The following areas, however, warrant serious attention.

##### 4.1.1 A national Small Business Act

This should give formal recognition to the government's involvement in small business support. It could constitute the statutory base for the SBDA and other statutory bodies in this sphere. In order to facilitate the differentiation of support, such an act should also define the main categories of SMMEs and it could introduce the principle of automatic phasing out of developmental support (also known as sunset clauses). The act will also have to address the principle of SMME membership of some (self-chosen) business association as precondition for their eligibility of state support.

This act could also incorporate an appropriate legal framework for those co-operatively organised small enterprises which currently fall outside existing legislation on co-operatives.

##### 4.1.2 A Transaction and Procurement Act

Market access for small enterprises is a major issue in South Africa as elsewhere in the world. Voluntary action by large enterprises, parastatals and government departments can go a far way towards better market access. Yet, progress may still be rather slow. Legislation laying down certain conditions and principles - about set-asides for small enterprises, producers, non-discriminatory public-sector procurement rules and incentives for big business subcontracting to small enterprises - could accelerate progress and lead to participation among all firms rather than only a few progressive ones. It could also highlight commitment needed from small enterprises and the supply of support services.

#### 4.1.3 A Small Business Finance Act

A new act, or the addition of relevant clauses to existing legislation, could address a number of fundamental issues regarding the access to finance by SMMEs. This could include steps to encourage existing financial institutions to become more active in the SMME-market segments, the facilitation of deposit-taking by lender-NGOs, the recognition of certain non-conventional collateral types and the widening of scope for more specialised lending and investment institutions focusing primarily on SMME needs.

These are possible steps in three important areas. The unfolding of support programmes may necessitate further enabling legislation, for example in areas related to LSCS, training, taxation and labour relations. At the same time the government is committed to keep the small-business environment as market-orientated and unfettered by burdensome legislation as it is practically possible.

#### 4.2 Streamlining regulatory conditions

Inappropriate or unduly restrictive legislative and regulatory conditions are often viewed as critical constraints on the access of small enterprises into the business sector and as obstacles to their growth. Since government - at central, provincial, sub-regional and local level - is responsible for the legislative and regulatory framework and its ongoing adjustment, it is also its role to assure the appropriateness of these rules and regulations for the small-business sector.

All over the world, and certainly also in South Africa, there is discussion and frequently disagreement about the proper degree of regulation and deregulation in the business scene. Unduly strict regulations often harm small and, in particular, emergent enterprises and benefit the larger, established ones, whereas less regulation may lead to aggressive competition between market entrants, to the neglect of worker interests, or to health hazards and environmental destruction.

4.2.1 Government is committed towards appropriate regulations, which are the result of transparent, consultative processes, with all the interest groups having a chance to state their interests and concerns, and with national economic growth and job creation within the RDP framework the overriding objective.

4.2.2 Based on this approach the DTI, in co-operation with the Competition Board, will closely monitor and, where possible or necessary, co-ordinate and assist the regulatory reform process, with particular emphasis on the following spheres:

- investigations by different central government departments and consultations with relevant stakeholders about the appropriateness of

existing and proposed legislation and regulations in the fields of taxation, labour (including Industrial Council agreements), zoning and building controls, tendering procedures, training requirements, health and occupational conditions, etc., and how they can be made more suitable for small enterprises;

- investigations by the Competition Board about possible small business constraints inherent in our present competitive structure and how these could be overcome, either through legislative changes or a more proactive enforcement of the board's recommendations; in addition to the matters raised in section 4.1, attention will be given to the possible need for legislation to strengthen small enterprises in their access to raw materials and other inputs controlled by monopolistic suppliers;
- steps taken by provincial and local governments to reduce restrictive legislative and regulatory conditions.

Through its support for Local Service Centres, the government will also assure that attention is given to these important issues at grassroots level and that close interaction is maintained between central government and grassroots needs. Furthermore, the DTI, in consultation with the SBDA and the Competition Board, will regularly review progress in this important sphere and its assessment by key players in the small business sector.

4.2.3 It is generally known that small enterprises often find it difficult, financially or for other reasons, to avail themselves of the due process of law in order to defend their interests. The government is committed to facilitate feasible avenues of legal assistance that could help level the legal playing fields for small enterprises, with particular attention to those disempowered in the past on the basis of race or gender.

4.2.4 The government will also support steps to reform the current small-claims-court system, with particular attention to

- increasing the number of court outlet points,
- raising the level of claims falling within its jurisdiction (to about R30 000),
- integrating it more closely with the legal framework, thereby (i.a.) providing access to interdict procedures,
- enabling members of closed corporations to utilise the services of the small claims court,
- strengthening co-operation with the Department of Justice.

4.2.5 Establishing a user-friendly environment also calls for the simplification and standardisation of documents. This includes:

- business registration and licensing;
- financial and loan applications;
- purchasing and sub-contracting (tender) document;
- export documentation and other commercial documents;
- registration of contracts at fair-trading boards;
- simplified tax return forms for small businesses;



- the collection of industrial data and other statistics.

A task group is to be appointed from among relevant government departments and concerned parties to study and make recommendations about the simplification of existing systems and to suggest improvements. Progress in this area will also be documented in the annual SMME review.

#### 4.3 Access to information and advice

Lack of access to appropriate, relevant and understandable information and advice is one of the most important problems of small enterprises, in particular micro-enterprises, survivalists and small start-up enterprises. Due to past discrimination and lack of opportunities this problem is most severe among black entrepreneurs.

The significance of this constraint is recognised all over the world. In many of the more developed countries the bulk of government-funded assistance to the small business sector centres almost exclusively around these needs. In South Africa some progress has been made with the preparation of information material relevant for small enterprises and the dissemination of information and advice. Yet, to date the number of enterprises effectively reached remains small, compared to the vast number of people involved in self-employment in both urban and rural areas.

- 4.3.1 As an operational principle, information and advice should be as focused and sector-orientated as possible and it should be supplied at grassroots level wherever this can be done. Responsibility for the preparation and dissemination of relevant material falls on all the agencies active in the SMME support sector, i.e. public, parastatal, private and NGO, operating at the national, provincial and in particular local as well as sectoral levels.
- 4.3.2 With the help of the national small business strategy, government wants to get business information and advice within reasonable distance to all enterprises and to those interested in self-employment.

The involvement of government will be guided by the following principles:

- The DTI accepts responsibility for the dissemination of both data and information related to the national small-business scene, the strategy framework and the availability of support services all over the country. This will be done through an Annual Small Business Report or Handbook, which is to be produced in co-operation with the SBDA.
- In order to facilitate the systematic spread of business-related information and advice, the establishment of a decentralised, country-wide network of Local Service Centres (LSCs) is envisaged. These will supply more than just information and advice, but that particular function will be included in virtually all of them (see 5.8 for more details).
- As a rule the government will not be directly involved in the preparation or dissemination of information and advice. The bulk of this should be undertaken by private institutions, NGOs and self-help or group initiatives, with financial support as far as possible within the constraints of the budget - largely limited to information seekers unable to meet the cost of such services. Such support will primarily be channelled via the LSCs.

4.3.3 In many cases the passive availability of information and advice is not sufficient for the effective transfer of experience. Individuals operating as mentors and interacting regularly with advice seekers can be very effective, especially if the advice is focused, the mentor has extensive experience and is able to communicate effectively with entrepreneurs. Several mentor advisory schemes are already in operation. Some are working on a voluntary basis, some are funded through parastatals, NGOs or local authorities while others are provided as part of corporate social responsibility. An increasing number are directly or indirectly linked to normal business relations, i.e. they are supplier-driven, consultancy-driven or bank-linked, to mention a few. It is expected and hoped that these mentoring relationships, which often evolve into more comprehensive partnerships, will further expand, without the need for substantial financial support by the state. Where assistance is still necessary to help emergent enterprises or the survivalist segment, it will also be channelled through LSCs.

4.3.4 Reliable statistical information is important for the small business sector, for small-enterprises support agencies and for the central as well as provincial governments to monitor policy effectiveness and facilitate forward planning. At present the statistical base is extremely poor with respect to most aspects of small-enterprise development in South Africa. The task to upgrade and regularly update relevant trends cannot be the responsibility of government alone. The most effective approach will need the co-operation of the following parties:

- The Department of Trade and Industry (Chief Directorate: Small Business), which - after consultation with all relevant parties - will determine the range of statistics to be prepared or monitored by central government;
- Central Statistical Services, who should collect as much of the relevant data as is possible within the framework of its resources and techniques;
- the SBDA, which should focus in particular on support programmes and related trends;
- provincial governments, development agencies and in particular the university-based small-business units, who will be encouraged to closely monitor regional and local trends, within the broad national framework set by the DTI;
- the Council for Scientific and Industrial Research (CSIR), which is to be actively involved in the development of the LSC network;
- the private sector, responding to market needs for data or supplying statistics on a contractual basis to public-sector organisations.

The envisaged Annual Report on Small Business will also contain a summary and analysis of current trend data.

#### 4.4 Access to marketing and procurement

Small-enterprises usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of businesses and growth beyond mere subsistence level. This perception is paralleled by many studies - in South Africa and internationally - which view market access as a critical factor in business growth, in particular in the case of entrepreneurs from disadvantaged communities.

Responsibility for steps to overcome this constraint falls upon many different groups: individual entrepreneurs and groups of small businesses, which have to compete with others for the same clients, local government and business associations, who should reconsider regulations hindering market access of newcomers, the established business community, who should practise what they preach by opening up competition rather than controlling markets, and public-sector departments as well as big enterprises, who should re-orientate procurement towards small-enterprise suppliers and subcontractors. The government is committed to facilitate this complex process in a number of ways:

- 4.4.1 Encourage the Competition Board to take the necessary reform steps to prevent restrictive practices vis-à-vis small enterprises and to make the Competition Board more accessible to SMMEs;
- 4.4.2 consider steps which could include tax incentives, procurement quotas, voluntary commitments, etc., to motivate the big-business sector to systematically expand its links with small enterprises. In this respect sector-specific and localised efforts are likely to bear better results and minimise confrontation, compared to national rules or guidelines;
- 4.4.3 propagate and encourage the simplification of tender procedures among all public-sector and parastatal tender authorities, in order to make it easier for small enterprises to compete and eliminate gender bias; several steps in this direction have recently been implemented;
- 4.4.4 further adjust public procurement practices at central, provincial and local government levels, and by parastatals, in order to facilitate the granting of some proportion of contracts to black-owned or -controlled enterprises, and encourage small-business tendering for such contracts. In this context the efforts undertaken by the Public Works Ministry and other government and/or provincial departments within the RDP framework, to address the unemployment problem through labour-intensive construction, are also of direct relevance to the small-enterprise sector. As outlined in the RDP, attention will be given, wherever practically possible, to the involvement of small and/or emergent (sub)contractors. The DTI will encourage co-operation between relevant departments as well as private-sector institutions and NGOs to reach SMMEs and to mobilise training and mentoring support for small contractors, so that they are able to tender successfully;
- 4.4.5 facilitate, where necessary the ability of small enterprises to meet the conditions of such contracts. This will be done primarily through the support of Local Service Centres and, in particular, business linkage programmes;
- 4.4.6 encourage the development of more appropriate small-enterprise export-support programmes, to either adapt, supplement or replace existing programmes which are largely tailored towards the needs of the bigger exporters. Such programmes could cover special finance schemes, exhibition facilities, new types of export trading houses, adjusted export credit-guarantee schemes, an expansion of the export marketing assistance scheme and special training efforts. They should be sector-specific and locally focused, wherever this is feasible.
- 4.4.7 All of the above steps will only be effective if small enterprises at the same time work hard to increase the quality of their goods and services, diversify their product range in response to changing market opportunities and commit themselves to the development principles embodied in this White Paper. Neither government nor bigger businesses can be expected to purchase products of poor quality or inferior to other locally produced or imported products. To overcome these problems it is necessary to integrate supply and demand side

efforts in the small-enterprise sector, i.e. link the above steps with policy proposals related to training, finance, technological assistance and sector-support programmes.

4.4.8 Closely linked to marketing and supply problems of SMMEs are issues related to reasonable access to raw materials and quality services at affordable prices. There are many ways of addressing these problems, including bulk purchases by clusters of firms or through sector associations, assistance to individual firms via extension networks and the discouragement of supplier monopolies. Government favours a diversity of approaches, adapted to sector as well as regional needs. Its support, if necessary, will be channelled through LSCs, business opportunity centres and other linkage agencies focusing on particular categories of enterprises.

#### 4.5 Access to finance

In surveys among small enterprises all over the world, access to finance comes out as one of the most urgently felt needs. This remains true even though other problem areas (like marketing, technical skills, poor product quality, weak management, etc.) often aggravate the financial position of small enterprises and hamper their access to funds.

The financial needs of different types of SMMEs vary widely, with access problems particularly severe in rural areas, among start-up micro-enterprises and among those owned or controlled by women as well as other formerly disempowered groups, and in certain higher-risk business categories.

The government is committed to strengthen the link between small enterprises and existing as well as evolving financial institutions, so that available funds are channelled to areas where they are most urgently needed. Areas for direct or indirect government and parastatal involvement in the financial sphere include the following.

##### 4.5.1 Commercial banks

Not unlike other developed countries, South Africa's commercial banks have in the past been reluctant to provide comprehensive services for the fragmented, risk-prone and geographically dispersed small-enterprise sector. This applies in particular to black emergent enterprises, where apartheid restrictions, forced removals, influx control, migrant labour and job reservation all militated against the gradual development of bank-client relations in both the urban and rural areas. It is only logical, therefore, that commercial banks have for long been reluctant to risk their clients' funds through loans to and investments in black-owned or -controlled enterprises.

During recent years there are welcome signs that commercial banks are giving increasing attention to the needs of SMMEs, with many innovative financing schemes having been introduced to assist particular types of SMME clients. Through the DTI and the SBDA proactive contact will be established with commercial banks to become aware of their longer-run strategy within the RDP framework of making banking services more accessible to township people and black enterprises. These contacts should reveal areas where government might consider more specific catalytic support or greater urge towards affirmative action, with a Small Business Finance Act one of the options.

##### 4.5.2 SMME-focused financing institutions

About a dozen former homeland development corporations (or their small business subsidiaries), the SBDC and a few other specialised lending institutions like Get Ahead, the Informal Business Enrichment Centre (IBEC), the Informal Business Training Trust (IBTT) and others, have over the years

tried to fill part of the vacuum in SMME funding, with traditional schemes like goodi-goois and stokvels also playing a significant role. These institutions are essential for the type of loans where the risk and transactional costs are still too high for conventional commercial banking practice.

While government firmly believes that the primary source of finance and related financial services for the small-enterprise sector should be the established and newly evolving banking and financial-services sector, and that taxpayers' funds cannot be used to fill any major gap in the supply of funds required by the small-business sector, some assistance seems necessary to fill certain of the funding gaps that still exist.

Support is envisaged along the following lines, with details still to be worked out in consultation with local institutions and foreign technical advisors:

- initial start-up equity and overhead cost of these specialised agencies has to come from local or foreign donors or through a government (marketing) grant
- concessionary (lower-interest) loan capital for on-lending has to be provided by local or international wholesale financing agencies (like the DBSA, the IDC or an evolving small- enterprise finance trust)
- commercial funding to supplement the other two sources, but at market-related interest rates
- ongoing subsidisation or matching grant finance for aftercare and other support services necessary to safeguard the portfolios and fulfil a developmental role.

It is the long-run vision of government that over the years the grant and concessionary funding share will decline and commercial funding of SMME-focused financing institutions will increase. In the meantime the scarcity of government resources demands careful targeting of such concessionary and grant funding.

#### 4.5.3 Micro-enterprise finance

In addition to the above institutions NGOs have over the past decade become increasingly involved in the supply of micro-loans and related services to micro- and survivalist enterprises. In the short run such schemes, which are highly significant for certain segments of the SMME sector (e.g. the rural and informal sector) are only sustainable with some grant funding and/or if the micro-loans are combined with other partially sponsored support services.

Within its own funding constraints and with due recognition of the goals and priorities stipulated in this White Paper, the government will continue to supplement other donor agencies' efforts to help micro-enterprise funding agencies. Much of this support is likely to be channelled along parastatal, provincial and local government levels and in interaction with the private sector. Major emphasis will also have to fall on capacity- building efforts and the supply of seed capital.

#### 4.5.4 Venture finance

The creation of equity funds to address the equity needs of SMMEs should be private-sector-driven. The public sector will, however, assist in capitalising some of the funds targeted at disempowered entrepreneurs with viable business propositions. This could best happen via SMME-focused financing institutions.

#### 4.5.5 Credit guarantees

In order to strengthen the commercialised funding of SMMEs, the government and relevant private institutions are developing an expanded and differentiated credit-guarantee system, which will be commercially run and jointly funded. Such a system also offers scope for targeted additional support to the disempowered, women and other categories of entrepreneurs.

#### 4.5.6 Deposit-taking by lending NGOs

In order to strengthen their ability to mobilise funds for micro-loans and other programmes, government will look into the feasibility of an expansion of deposit-taking facilities towards approved NGOs.

#### 4.5.7 Alternative collateral

Given the critical role collateral plays in the attraction of conventional bank credit, attention will be given to the recognition of other types of securities and collateral substitutes, especially in the rural areas where land is communally held and with respect to women entrepreneurs.

#### 4.5.8 Information on access to finance

In as far as lack of knowledge about available financing programmes or the process of application constrains access for individual small enterprises, the proposed national network of service centres can also play a significant role. LSCs could also facilitate the establishment of special local lending programmes as a form of joint action between financial institutions, parastatals, NGOs and local authorities or community groups.

### 4.6 The physical infrastructure

The development and financing of business and industrial premises (shops, offices, factories, market stands, hawker shelter, etc.) and infrastructure facilities, including the supply of electricity, water, telecommunication connections, sewage, street lights, parking facilities, etc., is usually seen as the responsibility of either the private sector or local authorities, rather than the government.

Yet, due to the past neglect of the needs of black townships and emergent enterprises a serious backlog of even basic facilities has emerged in both rural and urban area and has been identified in the RDP as one of the areas deserving special attention. Here we refer to the supply of electricity to businesses, basic services and the road infrastructure in commercial and industrial areas, facilities for fresh produce and other markets, industrial incubator structures, telecommunications, postal delivery services and appropriate business zoning and planning processes.

Recent political changes, the prospects of less violence and crime in the townships, and the gradual emergence of legitimate local authority structures have increased the chances for greater private-sector and local-authority involvement in the improvement of township business infrastructures. In addition, parastatals like Eskom and Transnet/Intersite and the regional development corporations are increasingly involved in this sphere, with funds solicited from wholesale financing institutions, regional governments or foreign sources. Nevertheless, it seems likely that requests and proposals in this sphere will figure prominently in local RDP committees, especially in the rural areas and in new urban townships. Government support will be guided by the following principles.

4.6.1 Given its limited budget, the DTI is not in a position to directly channel funds for such projects. Its role will be the monitoring of needs and gaps in the funding process and the encouragement of close co-operation between different government departments and levels of

government, wholesale financiers, parastatals and the private sector.

4.6.2 Much attention has recently been given to the need for industrial incubators (hives) and commercial premises at rentals affordable for emergent enterprises. These needs can be handled in different ways:

- The incubator (or industrial start-up premises), if not established through private enterprise, can be viewed as a variation of LSCs, for which structured support programmes can be developed.
- Existing suppliers of such accommodation, like the SBDC and the regional development corporations, have to consider the need for and justification of rental subsidies and the feasibility of such subsidisation within their own funding as well as other possible support programmes. The SBDC already has such a scheme, but this may need adjustments to strengthen its development impact.
- The DTI and/or provincial governments could investigate the scope for an affordable system of start-up rental subsidies with sliding scales of subsidisation for specific categories of emergent entrepreneurs (e.g. small manufacturers and rural hives). Such a scheme might also help motivate the private sector to construct more incubators and other small-business premises.

4.6.3 Special attention has to be given to the planning and physical infrastructure needs of women entrepreneurs. This includes a flexible planning approach towards home-based enterprises, the provision of crèche facilities close to businesses, and more public toilet facilities.

4.6.4 In the rural areas and many of the resettlement villages there is often a critical shortage of built-up work spaces, combined with the lack of access to electricity, water and telephones. Government matching-grant funding for physical infrastructure needs (mainly via the RDP) may have to focus very strongly on these basic needs, together with efforts to improve transport to remote places.

4.6.5 High crime rates and continuing violence are serious obstacles to small-business growth since they increase the risks for small enterprises and often cause major losses of stock, damage to buildings or reduced turnover. Attempts by central, provincial or local authorities and other agencies to help establish peace in the townships and decrease the crime rate should also be seen as important stimulants for SMME growth.

4.7 Training in entrepreneurship, skills and management

The acquisition of relevant vocational, technical and business skills is generally regarded as one of the critical factors for success in small enterprises. In addition, literacy and entrepreneurial awareness are seen as particularly important to enable people to advance from survivalist activities into larger and better earning enterprises. With the rapid expansion in the range and number of small enterprise all over the country, South Africa faces a daunting challenge in the sphere of small-business-orientated education and training.

Responsibility for education, training and experience transfers rests on a wide range of institutions, including the central and provincial tiers of government, NGOs, parastatals and the private sector. This also applies to the sphere of entrepreneurship sensitising, the training in skills relevant to small enterprises in different sectors and industries, and the acquisition of management experience by small-business owners and staff.

During the past few years the range of training programmes made available

for and relevant to small businesses has expanded considerably. In fact, a general lack of awareness about the spread of already existing facilities and what they offer the small-enterprise sector or those interested in a business career, constitutes one of the shortcomings of the whole training process.

Bearing in mind the diversity of SMMEs and the wide range of training suppliers, the governments sees the following challenges as core elements in a national training strategy for small enterprises.

4.7.1 Knowledge about presently available training programmes has to be disseminated more effectively to reach entrepreneurs all over the country. Such information should also help match particular needs and specific training programmes. The planned national grid of LSCs should play a significant role in this process.

4.7.2 School curricula and other school-related activities should give more scope for the inculcation of entrepreneurial attitudes and a general awareness about self-employment opportunities.

4.7.3 All suppliers of training have to reconsider the nature, content and effectiveness of their programmes, taking into account the small-business environment in the different sectors of the economy and working closely with the business sector. Thus, training has to become far more sector-specific, focusing on the particular needs and practical problems of small enterprises. Different programmes will have to be developed for i.a.

- survivalist entrepreneurs lacking even basic literacy
- micro-enterprises in rural areas, where language capabilities are critical for the absorption of experience
- women entrepreneurs wanting to focus on particular issues and problem areas and needing particular time considerations to match home duties and training
- business and skill needs in sectors like construction, manufacturing, small-scale agriculture, tourism, etc.
- self-employment problems experienced by the youth, where the emphasis will have to fall on awareness about opportunities and development paths

In addition, training should in general help to break with traditional gender roles in business and skill categories.

4.7.4 Training programmes have to be modular, so that trainees can combine training from different institutions. Linked to this is the need for some accreditation of smallbusiness-related programmes, in order to protect trainees and allow training paths. A two-pronged strategy will have to be considered by the relevant institutions, after broad-based consultation:

- greater concern for SMME-related training needs and programmes in the activities of established industry training boards and
- the establishment of a new Informal-Business Training Board to give particular attention to training issues related to micro- and survivalist enterprises which are unlikely to be addressed by the levy-funded Industry Training Boards. This would include issues like certification, accreditation, matching grants and better co-ordination of these training efforts.



- 4.7.5 Raining incentives of different government departments have to be coordinated more effectively. This will have to include the manpower training programmes funded by the Department of Labour for the unemployed, those linked to RDP-funded labour-based construction projects and others related to subcontracting preferences for emergent SMMEs.
- 4.7.6 Serious attention has to be given to the staff training needs of SMME-support agencies, in order to expand their capacity to handle the challenges emanating out of this White Paper. Responsibility for this task rests as much with the tertiary training institutions, including the small-business units attached to some universities, as it rests with the broader training community. Once again, the needs of rural areas and small, community-based NGOs trying to support micro- and survivalist enterprises have to be addressed proactively.
- 4.7.7 Parallel to more training efforts it is necessary to expand applied research about problems, needs and development trends in South Africa's SMME sector, and about developments in southern Africa. These efforts should occur in close co-operation with tertiary education institutions, the business sector and relevant parastatals and government departments. Given strong interest among foreign donor agencies and other institutions in this element of South Africa's development process, the mobilisation of research funds and the arrangement of joint projects should not be too difficult.
- 4.7.8 In tandem with increased training there is also need for the rapid expansion of business-mentorship systems of the type developed in the past by the SBDC and the International Executive Service Corps (IESC), but also new approaches like small-industry extension workers. These schemes should include general, volunteer-type mentorships as well as sector- or industry-focused technical and business mentoring, with the cost shared by different stakeholders. The government will channel its support primarily via LSCs.
- 4.7.9 Another important avenue for intensive experience exchange are business internships and traineeships for SMME managers at well-run enterprises. This approach, which is comparable to apprenticeships emphasised so much in other countries, also has to be expanded rapidly in South Africa, with particular focus on black and women entrepreneurs. Franchises, joint ventures and other types of partnership agreements can play a similar role and should also be expanded further in South Africa.
- 4.7.10 Although the main thrust in all these spheres has to come from the private sector, government accepts the need for some support. In order to help co-ordinate initiatives and work out a new approach towards limited financial support for SMME-focused training, an institution closely linked to the SBDA will be established as soon as possible.

#### 4.8 Industrial relations and the labour environment

The relationship between labour and small enterprise is complex and open to frequent misunderstanding. At one level - survivalist activities and the majority of micro-enterprises there is little difference between the worker and the enterprise; earnings generated by the enterprise, net of direct expenses for material and other inputs, are identical with the remuneration of the operator, who is usually also the owner and the only worker. In fact, the majority of these micro-enterprises employ no outside labour; at best they engage other family members and relatives, with individual rewards entirely dependent on earnings and the needs of the household. Any improvement in the business will improve net income and the earnings of the household.

With respect to small and medium enterprises there is widespread belief that the relationship between labour and enterprise is adversarial, i.e. owners/operators want to keep labour's remuneration as low as possible in order to be able to compete with larger enterprises. Linked to this perception is an antagonistic attitude vis-à-vis industrial councils, trade unions, the Department of Labour and other authorities, which are alleged to artificially increase the cost of labour - thereby endangering the competitiveness of these enterprises.

A view more in line with the RDP and modern international thinking holds that more egalitarian labour relations in SMMEs and a participatory style of management, combined with deliberate attempts to improve the skills base results in higher levels of productivity, which enhances the competitiveness of enterprises. Similarly, steps to safeguard the basic interests of workers should not be confined to the rigid enforcement of existing industrial council agreements but should seek to develop the industrial relations system in such a way as to take into account the needs and interests of small enterprises.

In working towards such a new dispensation for labour in small enterprises, government will support reforms in the following areas.

4.8.1 The particular needs and interests of small enterprises should be accommodated through greater flexibility and simplicity in the present system of collective bargaining. Rather than moving towards blanket exemptions from industrial council agreements, or a dual system of collective bargaining, industrial councils should become more representative of the different industries, including the small-enterprise segments. Agreements should be negotiated to make provision for the needs and interests of small enterprises.

4.8.2 Government will support initiatives for encouraging a greater degree of organisation of workers and employers in this sector as well as voluntary participation by employers in collective bargaining.

4.8.3 Where industrial councils do not exist, or collective bargaining is not feasible, government would like to see other appropriate ways evolving to safeguard minimum labour standards. In fact, adherence to certain basic standards may in future become a condition of eligibility for concessionary finance and other services. Attention will also be given to support programmes to address specific shortcomings in basic standards.

4.8.4 Where appropriate, survivalist enterprises should have beneficial access to the services provided by LSCs in the labour sphere.

#### 4.9 Access to appropriate technology

Just like training, finance and business premises, technology is often seen as an important factor influencing the success of small enterprises, but not always accessible to them. This applies to both ends of the technology spectrum, viz. sophisticated technology needed for the competitiveness of small enterprises in the modern manufacturing and services sectors, and "appropriate" technology for small enterprises operating in the labour-intensive, low-skill spheres. Both of these areas deserve more attention and may justify some government support.

4.9.1 Over the past few years a number of institutions have started to focus on the technology needs of small enterprises, with the CSIR the most important parastatal. The DTIs Support Programme for Industrial Innovation can also be used for this purpose, as could research sponsored by the Foundation for Research Development (FRD) and more proactive work by the National Productivity Institute (NPI).

Universities and technikons as well could give greater recognition to the SMME-related issues and technical research. In fact, the time seems ripe for a well propagated, multi-year programme, spearheaded by the CSIR, involving all the relevant bodies, both public and private, to systematically address small-enterprise needs in the field of appropriate technology. Much of this will, however, have to be implemented in the context of specific industry or sector programmes. Financial commitments of the state will have to await the preparation of detailed proposals based on broad consultation. Significant resources may also be forthcoming via foreign donor programmes and private-sector involvement.

4.9.2 At the grassroots level the proposed network of LSCs would seem to be the best channel to filter technology information through to individual small enterprises and to identify needs that warrant subsidised research. Even here the focus should, as far as possible, be sectoral, giving special attention to the particular economic structure and sector specialisation in each LSC neighbourhood. For example, in the rural areas a lot of emphasis will have to fall on product development and the introduction of low-cost state-of-the-art technology.

#### 4.10 Encouraging joint ventures

The needs of small and medium enterprises are often so complex that even a comprehensive range of support services cannot do justice to all the requirements. The most effective way to acquire experience and skills, enter new markets, structure additional financing and meet market competition is quite often the entering of a joint venture with an experienced local or foreign partner. This can happen among small numbers of co-operative partners, it can be a black/white partnership, a big business/small enterprise link-up, a franchise relationship or some three-pronged foreign/local venture. Lately, there has been increasing interest in black/white partnerships and joint ventures incorporating foreign trade or investment partners.

In other developed countries such joint ventures are far more prevalent than in South Africa, where racial segmentation, oligopolistic exclusiveness and sanctions as well as disinvestment have prevented such developments in the past. Lack of experience and the effect of economic stagnation have also strengthened distrust around joint ventures in the past.

Political changes and the dawn of a new economic strategy, with its emphasis on exports, international competitiveness and co-operation at all levels, are currently generating strong interest in joint ventures, with particular attention to black-owned or -controlled enterprises. This interest, and the active involvement of foreign donor agencies and larger investment groups in the facilitation of such ventures, suggests that there may be no specific need for public funds for that purpose. This, however, should not preclude parastatals, like the IDC, the SBDC and the regional development corporations, from taking up shares in joint ventures, either directly or in trust for local partners unable as yet to fund the purchase of shares, or from other types of supportive involvement.

Since there still exists considerable suspicion and fear about the risks and possible disadvantages of joint ventures and co-operative enterprises, Local Service Centres might be used to channel information about joint ventures and other types of partnerships, and facilitate networking at grassroots level. In addition, the government will explore the need and scope for an appropriate coordinating mechanism to ensure that foreign joint-venture initiatives give due attention to black partners, contribute effectively to capacity building among emergent enterprises and fit in generally with the RDP framework.

#### 4.11 Capacity-building and institutional strengthening

As in other areas of the socioeconomic development process organised business has an important role to play in the strengthening of small business interests. This relates as much to business organisations operating at national and sectoral level, as it applies to those focusing on the provincial and local level. Of particular concern are those organisations that represent the interests of emergent small, medium and micro-enterprises.

Compared to the more developed countries, South African business organisations are financially weak, and most of them have a very limited capacity to actually support and strengthen small businesses. A high degree of fragmentation further weakens these institutions, with the legacy of apartheid all-pervasive.

In some countries the government has brought about unity, more effective compliance to development policies and greater financial strength of organised business through compulsory membership of a national body and the delegation of certain statutory functions to these associations.

This government is very concerned about the fragmentation and relative weakness of existing small-business associations. At the same time it respects the autonomy of organised business, which looks back on a long tradition of voluntary membership and demand-driven services.

Against this background the government would like to consult with all relevant stakeholders about developments in, among others, the following directions.

- 4.11.1 Each SMME should be a member in at least one business-related association of their own choice.
- 4.11.2 There should be freedom of association, combined with the development of a system of voluntary accreditation (at provincial or national level) for business associations wanting to be eligible for any type of government support or involvement in the government's SMME- support strategy. Through such accreditation minimum standards would be set with respect to accountability and transparency.
- 4.11.3 Associations with significant support will be eligible for representation on the envisaged NSBC.
- 4.11.4 Accredited business associations can operate as LSCs, if they maintain the services related to different types of LSCs.
- 4.11.5 Accredited business associations can also supply other services which qualify for financial assistance, like training programmes for particular target groups, micro-enterprise support schemes, raw material acquisition schemes, etc.
- 4.11.6 The DTI, SBDA or provincial SMME desks can use accredited business associations to implement any of the support policies. This is more likely to occur in rural areas. Such involvement should make the associations eligible for capacity-building support.
- 4.11.7 Existing business associations should be encouraged to adjust their member base and member services, in order to become more representative and inclusive in terms of gender, race, size of business, degree of informality and controlling structure.
- 4.11.8 All accredited business associations should be actively involved in the planning, implementation and monitoring of SMME-related development strategies at local and provincial levels, with particular

emphasis on the needs and capacities of the different economic and business sectors.

- 4.11.9 Small enterprises should be effectively represented at all tripartite socioeconomic and RDP-related forums.

#### 4.12 Differential taxation and other financial incentives

Over many years representations have been made for the differential treatment of small enterprises in order to reduce their tax burden and facilitate the reinvestment of small- enterprise profits, which are often the only basis for new investments or the expansion of existing small enterprises.

South Africa's tax system is currently under investigation by the Katz Commission on Tax Reform, with several of the proposals contained in the Interim Report (dated 18 November 1994) applying to small enterprises. In rejecting several of the requests put forward to the commission, it argued that too wide a range of tax concessions or concessions offered to poorly defined segments of the business community will lead to large-scale tax avoidance and loss of state revenue.

Without committing government at this stage or entering a debate about the merits of different proposals the following list includes suggestions made to the DTI for consideration by the tax authorities at this or some later reform stage. Some of the proposals are alternatives to non-tax support policies, which could have been included in the respective earlier sections of this part of the White Paper. Concluding the list are a few other financial incentives that warrant reconsideration under the appropriate programmes.

- 4.12.1 For many years there have been representations for a lower rate of corporate taxes for small enterprises, comparable to the situation in the United States and in several other countries.
- 4.12.2 An alternative to the above is the exemption of a minimum amount of profit from taxation, in order to encourage reinvestment.
- 4.12.3 More generous depreciation allowances could have a similar effect to a tax-free profit level.
- 4.12.4 Exemptions to or rebates from import duties on manufacturing inputs and capital equipment could be important to re-exporting small businesses (like boat builders) where significant cashflow is tied up in import duties.
- 4.12.5 With the cost of tax compliance often quite substantial for small enterprises, it has been suggested that higher write-offs could be granted for expenses incurred, The same has been suggested for training, research, technology transfer and export marketing expenses.
- 4.12.6 To stimulate subcontracting by larger firms and greater volumes of loans to small enterprises by the banking sector, tax incentives have also been proposed. This could similarly apply to profit-orientated research, consultancy, training and technologytransfer institutions who are to be encouraged to shift their focus to SMME-related issues, even though those clients are not able to afford the same fees.
- 4.12.7 Tax incentives have also been suggested to help overcome the gender bias of larger firms and service establishments vis-à-vis SMMEs owned by women.
- 4.12.8 A different type of proposals relates to the normalisation of tax arrears of SMMEs, including those involved in VAT, income tax, import

duty and other tax non- payments. As in the case of bond and rental arrears such steps can only be undertaken in a concerted way, with full acceptance of all tax dues after the moratorium. If managed successfully, such a normalisation might open the gate to far higher future levels of tax compliance, especially if the transition happens during an upward phase of the business cycle and coincides with other SMME support action. To strengthen future compliance, eligibility for all public-sector support would be made conditional to such compliance.

- 4,12.9 At local authority and Regional Services Council (RSC) level the differentiation of rates and user charges could also be an instrument for the promotion of small enterprises.
- 4.12.10 In the industrial sector the industrial-development incentives granted under the Regional Industrial Development Programme (RIDP) have for many years largely excluded small enterprises. More recently an adjusted set of simplified incentives (Small Enterprise RIDP/SRIDP) has been made available to smaller enterprises, without attracting vast numbers of applications. Where the RIDP is as a whole under reconsideration, the particular needs of small-scale manufacturers may call for a totally different application of funds available for that sector. The DTI is currently negotiating the transfer of the SRIDP allocation to the Directorate for the targeted assistance programme.
- 4.12.11 The same remarks about the RIDP can apply to export incentives provided under GEIS and the EMA scheme to small-scale exporters. To reach a large number of SMMEs, a sector or niche-focused export-facilitation process may be far more economic than cash payments to a few applicants.
- 4.12.12 Finally, direct funding supplied to accredited training institutions under the Department of Labour's unemployed training programme has been criticised on the same grounds. If channelled through provincial SMME desks, sector associations, regional development corporations or other sector-focused channels more effective use may be made of those funds.

Government is interested to have all of these proposals and issues discussed in the relevant bodies, including the NSBC. As far as the Katz Commission's proposals in the Interim Report are concerned, the following two are particularly relevant to SMMEs:

- a non-compulsory once-off tax amnesty;
- further investigation should be undertaken on the possibility of initiating an incentive for investment in small firms, similar to the U.K. Business Expansion Scheme.

## PART FIVE

### Institutional reform

The responsibility for support and assistance to medium, small, micro- and survivalist enterprises falls upon a wide range of organisations, associations or agencies. They include all levels of government, a whole range of parastatals, a large number of NGOs and community-based organisations (CBOs), the full spectrum of business associations, an increasing number of private institutions and several foreign donor agencies. The commitment to this national strategy and the degree of co-operation between all these organisations largely determines the effectiveness of our national small business-support system, which was seen as being critical for the rapid unfolding of the South African small-enterprise sector.

The government has no intention to curtail this diversity of support agencies, but it has every intention to make sure that scarce public resources are channelled in the most effective way through this system. This section outlines an institutional framework designed to achieve these goals.

#### 5.1 The Department of Trade and Industry (DTI)

- 5.1.1 Within the national government the DTI is the coordinating body for all policies related to the small business sector and for all SMME-support programmes directly or indirectly assisted by the government. It is also responsible for the co-ordination of small business strategies pursued by the provincial governments within the national policy framework.
- 5.1.2 A Chief Directorate for Small Business will be established in the department, to incorporate the existing unit for small business and to be responsible for all matters related to the government's support for small, medium, micro- and emergent enterprises.
- 5.1.3 Co-operation between different government departments in matters relating to small business support will be monitored by the DTI, using appropriate channels and committees. An Interdepartmental Committee on Small Business has already been established.
- 5.1.4 Given the growing importance of foreign investment to South Africa - also to the small-business sector - the DTI Chief Directorate will maintain close links with the Investment Centre recently proposed by the department.
- 5.1.5 With only a small staff the Chief Directorate will rely on the close co-operation with the NSBC, the SBDA, the provincial SMME desks and regional development corporations to further detail, plan and implement the different support strategies outlined in this White Paper. This will always be done in close interaction with the SMME sector itself and its representative bodies.
- 5.1.6 The DTI will maintain strict control over organisations receiving or channelling public-sector funds for small business support. Each project's funding will be based on agreed upon Terms of Reference and a Memorandum of Understanding. Monitoring and evaluation on an input/output basis will be done at the end of specific project phases, and will be based on mutually agreed and objectively verifiable indicators. Recipients of financial support will be under contractual obligation to utilise the funds strictly within the framework of the respective programmes.
- 5.1.7 At the end of each financial year the DTI will conduct a detailed evaluation of 20 per cent of the organisations who receive financial support from the public sector. The organisations will be randomly selected. The evaluation will be conducted by the DTI itself or by an appointed agency. Sufficient funds will be allocated for the evaluation of programmes.
- 5.1.8 In Part Seven of this White Paper future funding options for the strategy outlined are briefly discussed. The bulk of the public funds are likely to be channelled through this department.
- 5.1.9 The department, in co-operation with the SBDA, will prepare an Annual Small Business Review, to be tabled at the NSBC and in parliament. This document will, among others, outline progress made over the year in the different problem areas and with all the support programmes. It will also set bench marks for progress in South Africa's SMME

sector and try to quantify macro trends. The first review will also contain a summary of the March 1995 conference and should appear by mid-1995.

## 5.2 The National Small Business Council (NSBC)

5.2.1 Given the wide diversity of support agencies, business associations and public-sector bodies involved in support of and assistance for small enterprises, and given the complexity of the small business sector, it has been agreed upon that an inclusive National Small Business Council be established as soon as practically possible, most likely within the broader ambit of the National Economic Development and Labour Advisory Committee (Nedlac). The NSBC will, in close co-operation with the DTI, sanction the national small business-support framework and become an effective national sounding board of small business interests and concerns.

5.2.2 Initial proposals for the role, functions and composition of the NSBC are currently under discussion with Nedlac and other relevant stakeholders. Based on the principle of stakeholder representation the council will be autonomous of government and consultative in nature, but it will operate in close interaction with relevant central as well as provincial government departments.

5.2.3 Organised business, NGOs active in the SMME sphere and parastatals involved in support for small enterprises will also be represented on the NSBC, which is likely to meet at quarterly intervals.

5.2.4 The SBDA will provide the secretariat for the NSBC.

5.2.5 The provincial governments will be represented on the NSBC; it will, however, be left to them to decide what other consultative bodies they establish at provincial level to co-ordinate and steer small business-support activities.

## 5.3 The Small Business Development Agency (SBDA)

5.3.1 In order to co-ordinate and facilitate the implementation of the different strategy areas that form part of the national small-enterprise strategy, the government will establish a new Small Business Development Agency, operating separate from the DTI though, closely linked to it.

5.3.2 The SBDA will consist of a number of autonomous operational units or subsidiaries, with each an executive director at the head. Some of these units will be located at the agency headquarters, whereas others could be located in other provinces or towns.

5.3.3 The agency will be a not-for-profit entity, with a board of directors not exceeding 16, including the chief executive officers of all the operational units as executive directors and a small number of external non-executive directors, including the Chief Director for small businesses of the DTI as well as directors representing key stakeholder groups.

5.3.4 While details about the SBDA are still being worked out and under consultation, the following operational units seem likely to evolve:

- a Property Trust (taking over some of SBDCs property assets)
- an SMME Finance Trust
- a co-ordination unit for Local Service Centres



- a credit-guarantee facility (taking over SBDCs credit-guarantee scheme)
- a unit to co-ordinate sector-support programmes
- an SMME export-support programme
- a Training and Information Unit
- a Programme Development and Administration Unit (the core unit, which also includes the NSBC secretariat)

5.3.5 Each of the SBDA units will be funded differently, in line with the nature of the activities. Initially, public-sector assets taken over from the SBDC will constitute the financial base of some of the units, with others funded by donor contributions or allocations from the DTI. The principle of differentiated funding and unit-autonomy will also be maintained in future, with only basic overheads and the core unit financed through the DTI. In this way each of the units will have to explore the full range of financial resources and adjust its activities according to its means.

#### 5.4 Wholesale funding agencies

A number of national development agencies have in the past played a significant role in the provision of capital and recurrent funding for small-enterprise support programmes. In some cases, like the IDC and the South African Foreign Trade Organisation (Safto), these programmes have been implemented directly by these bodies, whereas others, like the DBSA, the Independent Development Trust (IDT) and Kagiso Trust, channelled their funds through provincial or local implementation agencies which can be viewed as "retailers". The latter included regional development corporations (like Transido, KFC, BNDC, CSBC, etc.), NGOs and CBOs.

The Small Business Development Corporation operated both as wholesaler (channelling some of its funds to NGOs) and as retailer (at times even considering loan funds from the wholesalers).

While the government is keen to see some rationalisation and streamlining of the complex structure of national, regional and local funding and implementation bodies, the present structure can only change gradually. It is therefore foreseen that the wholesalers will continue to supply concessionary funds for implementation agencies at regional and local level. At the same time, close co-operations between the SBDA units and these wholesalers should help to bring about a gradual streamlining of the funding process.

#### 5.5 Restructuring the SBDC

Since the release of the Discussion Paper in October 1994, considerable progress has been made to restructure the SBDC on a basis acceptable to key shareholder groups, including the government. While details are being worked out, the likely changes most relevant for this White Paper can be summed up as follows:

- 5.5.1 The corporation will continue to exist as a private-sector-dominated partnership of government and the corporate sector.
- 5.5.2 The SBDC will narrow the focus of its activities to the financing of viable small enterprises.
- 5.5.3 Programme funds made available to the SBDC over the past decade (but not incorporated in its share capital) will be returned to government with the SBDA to be the main channel.

- 5.5.4 The SBDC will co-operate with the establishment of the different SBDA units, providing technical and other support and assisting in the operational running on an agency basis as long as this is required.
- 5.5.5 The government's shareholding of the SBDC will be held by the SMME Finance Trust, which will also be able to operate as a wholesaler for other SMME finance agencies.
- 5.5.6 The SBDC will continue as a national institution with a regional office network. The extent to which this network of six regional offices will expand to cover every province or be reduced in order to allow other regional development corporations to take over some of the functions, will be determined by developments at provincial and national level.
- 5.5.7 Regional committees will be transformed into regional boards, with the composition of the board to include provincial development agencies, the provincial government and the private sector.
- 5.5.8 The SBDC's organisational structure, finance policy and management culture will be reformed, in particular with respect to
- the composition and powers of various committees and board structures; the highest decision-making structure will have to reflect its target group;
  - the composition of the loan book; it has to move away from a 30/70 structure of black/white loan volumes;
  - the structure of the corporation's senior staff.

A compromise along these lines should safeguard the continuation of SBDC services, yet allow a new national and regional structure to evolve over the next two years. At the same time it should be clear that in future public-sector support funds will be channelled strictly in accordance with the principles established in this White Paper. Where appropriate, the SBDC will be used to implement such programmes, just as other organisations capable to do so will be used.

## 5.6 Small-business support at provincial level

- 5.6.1 This White Paper has outlined a national strategy to support small enterprises, based on the explicit understanding that responsibility for such support is shared between national and provincial governments. In fact, it has been stressed that the devolution of responsibilities goes much further, with attention falling increasingly on the local level of government and non-governmental agencies.
- 5.6.2 Responses to the Discussion Paper indicated that provincial governments, regional development corporations and organised business feel strong about their partnership role in the shaping of support policies and their adaptation to local and provincial needs and circumstances. Such differentiation is plausible and can be achieved, but it also has distinct risks and limitations. Thus,
- much of the funding for SMME support at provincial level, including the provision of share capital for development corporations, will have to come from central government;
  - certain of the publicly funded programmes - like export subsidies, credit guarantees and the subsidisation of core programmes - will have to be uniform for all the provinces in order to prevent confusion

and/or competitive "bidding" for higher incentives;

- not all the provinces have the capacity to develop "own" programmes and effectively control their implementation;
- costly overlaps of programmes and implementation staff should be prevented.

5.6.3 Thus, much of the policy implementation will be planned at national level (by the DTI or the SBDA units), with the active and continuous participation of provincial representatives, but it will be operationalised at grassroots level through a whole range of organisations. Regional development corporations and regional SBDC offices may be the most suitable bodies for some of the implementation tasks, whereas existing or new training bodies may be suitable for others, Local Service Centres for another few, and so on.

5.6.4 It follows from this approach that the provincial SMME desks, which have been proposed in the Discussion Paper and which are likely to evolve from now on, will remain small, with their main focus on the effective linking of national or sectoral programmes and local or regional implementation bodies. They should also facilitate forum-type contact between all the SMME stakeholders in the provinces and channel their grievances or proposals to relevant implementation or policy-making bodies. Through their representation on the NSBC the SMME desks are, in fact, playing a critical role in assuring the grassroots orientation of our national SMME strategy.

5.6.5 Each of the provinces has one or more development corporations focusing (i.a.) on the needs of small enterprises. The future relationship between these bodies has to evolve in the light of regional needs, the relative significance of each and the existence of other bodies, like the SBDC, IBEC, Get Ahead, etc. In several provinces the merger of existing development corporations is currently under consideration. Where all the shares are held by the state (formerly the homelands and now the provincial governments) such steps are logical, even though top-down mergers do not necessarily improve operational efficiency or strengthen the focus of operations. Thus, it is possible that other considerations - like the involvement of the private sector, the differentiation of functions in particular areas or the existence of other bodies - may soon lead to tendencies in the opposite direction, viz. a partial privatisation, unbundling and stronger geographic, sectoral or functional focusing of the corporations.

None of these processes should be prevented or accelerated unduly. It will probably take another two years for an efficient support structure to evolve in each region. In this process one or other organisation - the provincial SMME desk, one of the evolving corporations or a broadly-based NGO - may crystallise out as the most effective coordinating instrument for SMME support in the province.

## 5.7 Local authorities

5.7.1 All over the world there is increasing realisation that the most effective level for the promotion of SMMEs is the village, town, city or metropolitan area. Local authorities have direct "contact" with each enterprise, down to those involved in survival activities, and their administrative infrastructure could be useful for the implementation of support programmes.

5.7.2 In our past, local authorities have seldom played a significant supportive role with respect to SMMEs. More recently there is greater understanding and tolerance in matters like informal markets, hives

and incubators, flexible zoning, business- infrastructure facilities, etc. This trend is likely to increase rapidly, as the composition of elected local councils changes and new municipalities struggle to increase local job creation and rates-generating business activities.

- 5.7.3 Once again, this White Paper cannot prescribe to local authorities how they should structure their support for SMMEs. Many of the principles and programmes outlined here should be of direct relevance to local governments. Besides, NGOs, organised business, LSCs (assisted by the CSIR) and the development corporations are also important players at the local level. The real challenge actually lies in the effective orchestration of all the efforts of these bodies, together with the programmes implemented via the SBDA and other national agencies, in a way that local economic development is strengthened and small enterprises are supported.

Where local authorities - or other local institutions, like community development corporations or business chambers - play a proactive, facilitatory role in this co-ordination process, they can be of great help to the provincial desks as well as the SBDA (which will most probably establish a section or unit for local SMME- support programmes). Where no such inclination exists, the provincial desks, the SBDA and other local, regional or national agencies may have to play a more proactive role in those local areas, at least until attitudes change.

## 5.8 Local Service Centres

One of the most important instruments to spread support for small enterprises at local level is the envisaged nation-wide network of Local Service Centres (or, more appropriately, called Business Service Centres). Following on the strong positive response to this proposal in the Discussion Paper, a task team coordinated by the CSIR, which also includes foreign experts in this field, currently investigates the preconditions for the evolution of such a nation- wide network. Based on the already existing range of information or service centres established and run by a diversity of organisations, the strategy aims at its expansion towards a fairly dense national grid. The team will also prepare proposals for a support programme for LSCs and the structuring of a monitoring and co-ordination body to lead the whole initiative. The following points summarise the essence of the envisaged approach.

- 5.8.1 The LSC network should enable the government's small enterprise support, and that of other support agencies, to reach all corners of our country.
- 5.8.2 The LSCs should have as lowest common denominator the provision of information and advice services to small enterprises in their vicinity. To achieve operational efficiency and maintain acceptable standards of service, Local Service Centres have to be accredited with the SBDA (or an appointed agency) in order to be eligible for government support.
- 5.8.3 In addition to the common services of business-information centres, LSCs - which can be set up by any type of SMME-support agency or through any local initiative - can each expand their services to include (i.a.) training, mentoring, business plan preparation, marketing and subcontracting support (e.g. the Business Opportunity Centres), etc.
- 5.8.4 Each LSC has to have its own control structure, with accreditation likely to demand proof of accountability and transparency.
- 5.8.5 The government will not be responsible for the funding and/or

management of local service centres. It may, however, on the basis of criteria and guidelines still to be worked out, financially support some of the activities undertaken by certain of the centres. Such support will be conditional to the centres meeting specific conditions and remaining registered with the SBDA.

- 5.8.6 In order to make available support services of good quality, the LSCs will be encouraged to enter franchise-type relationships with the suppliers of information, advice, training and other services. The government (via the SBDA) may consider to financially assist these franchises with respect to programmes directly relevant for formerly disempowered entrepreneurs or LSCs in low-income urban or rural communities.
- 5.8.7 As far as practically possible, LSCs should encourage groups of small enterprises to strengthen their co-operation within particular sectors, industry niches or geographic regions. Training and mentoring efforts to strengthen such group action may also qualify for some support.
- 5.8.8 As soon as the LSC concept has been detailed and accepted, multi-year targets will be set. Ideally, LSCs should be located within easy access to SMMEs in every province and district. LSCs should also be able to link clients to other centres or information facilities in the country, using computerised exchange networks.
- 5.8.9 Compared to all the other policy areas forming part of the national strategy, the establishment, maintenance and gradual expansion of a national grid of LSCs will constitute the most important vehicle for small business support in the near future and it is likely to demand a substantial share of public sector funding for the small business field. It should, in fact, be the one programme that can best help to integrate services available for small enterprises at the local level.

#### 5.9 NGOs and small-business support

Many NGOs are actively involved in small business support, with their funding coming from local or foreign sponsors. While it is not foreseen that these NGOs will in future be fully funded by either the DTI or other government departments, they should be eligible for programme funding with respect to areas of their expertise. In addition, NGOs could function as LSCs, with some of their activities directly assisted by government. Those wanting to be eligible for support will have to be accredited with the SBDA.

#### 5.10 Organised business

Reference has been made earlier to the important role chambers of business and sector or industry associations play in the support of SMMEs. This trend is likely to increase further, in line with trends towards more inclusive membership structures. Business associations can also play a critical role in the planning and successful implementation of the LSC system. Where they directly supply services to their clients which are related to state-assisted programmes, these associations - if accredited - should also be eligible for support.

### PART SIX Action programme

We have so far outlined the different elements of the national SMME-support strategy and the evolving institutional framework through which the strategy should be implemented. We can now look at the process of strategy implementation based on a broad time framework.

#### 6.1 An integrated view

In order to put the strategy process into an overall perspective, the Diagram on page 50 illustrates the link between the enabling environment and the institutional support framework, the two aspects covered in Parts Four and Five of this White Paper. Guided by the overall vision of growth and development promotion (A) within the RDP, the hundreds of thousands of small enterprises (B) operating in the economy so far dominated by big business, multinationals and parastatals (C), should gradually face an improved business environment (D), due to the impact of the different support agencies (E).

While general support, like better access to finance, training, marketing, etc. would benefit all SMMEs in the particular sphere, it is a central part of the government's policy that, as far as practically feasible and financially possible, specific target areas should be supported on the basis of tailor-made support packages. The target areas (F) have been mentioned in section 3.5, and further references have been made in later sections. The elements of these packages will depend on the particular needs and problems of the target groups as well as resources available. As a rule, the package elements will consist of combinations of policies discussed in Part Four (D).

It should be clear that all these policies, institutions and systems cannot be developed overnight. Even with a vigorous approach by government, it will take a few years to address all the aspects in the enabling environment and to establish all the support agencies. A ten-year horizon will be needed to reach all the target groups through systematic programmes. By then it should be possible to start phasing out some of the targeted programmes and to reallocate resources.

Given the diversity and complexity of issues, policies and support agencies, it is not possible to spell out clearly how the government will go along to implement this framework. After all, much will depend on the co-operation of the private sector, NGOs and parastatals with their support action. Yet, within a broad time framework the following action programme summarises the government's commitment for the road ahead.

#### 6.2 Short-term: Action since mid-1994

The activities listed below have started after the change-over in government and they are likely to dominate the scene up to April 1995.

- Preparation of the Discussion Paper and analysis of grassroots feedback
- Initiation of institutional reform processes (e.g. SBDC)
- Preparation of the White Paper and confirmation by cabinet and parliament
- Interim Committee for the NSBC
- Preparations for the establishment of the SBDA
- Presidential Conference on Small Business with implementation proposals
- Establishment of Chief Directorate in the DTI
- Assessment of existing business-service facilities and planning of LSC strategy
- Start of re-orientation of state procurement toward small- enterprise suppliers

During this period no additional budget funds were available; most of the initiatives were funded via foreign support.

### 6.3 Short-term: Fiscal year 1995/96

The tentative budget is likely to cover R180 million including RDP allocations, supplemented by foreign donor funds. The following action is scheduled:

- Establishment of the NSBC within the Nedlac framework
- Establishment of the SBDA
- Establishment of the SMME Finance Trust
- Implementation of SBDC reforms negotiated early in 1995
- Preparation of legislative proposals (enabling acts)
- Negotiation with provinces about their role and resources in SMME support
- Preparation of the first SMME Annual Review (October 1995)
- Development of key support programmes (via the SBDA)
  - \* Black advancement
  - \* Local Service Centres (core grid)
  - \* Expand the credit-guarantee scheme (positioned outside the SBDC) \*  
Export-support strategies
  - \* Co-ordination and accreditation of training
- Focus on initial high-priority target areas (Phase I)
  - \* Women entrepreneurs
  - \* Youth self-employment
  - \* Planned rural infrastructure development, also focusing on the needs of SMMEs

### 6.4 Medium-term developments 1996/97 - 1997/98

These will be the first two budget years prepared after acceptance of the White Paper. This should enable a substantially higher budget allocation. The following priorities seem logical.

- Develop a systematic funding framework for SMME support
  - \* and communicate this to the SMME community and the NSBC
- Develop monitoring and evaluation systems for programme assistance
- Expand access to finance for micro-, survivalist and small enterprises
- Expand the LSC network grid
- Facilitate the development of further sector and target programmes (Phase II)
- Strengthen the capacity-building process, in particular for
  - \* provincial SMME support staff

\* business and sector/industry associations

- Expand links with the SADC countries in SMME support areas

#### 6.5 Medium-term developments 1998/99 - 1999/2000

At this stage the full spectrum of enabling policies should be in place and all the support agencies should function. It is now a question of reaching out to all parts of the country and strengthening existing programmes.

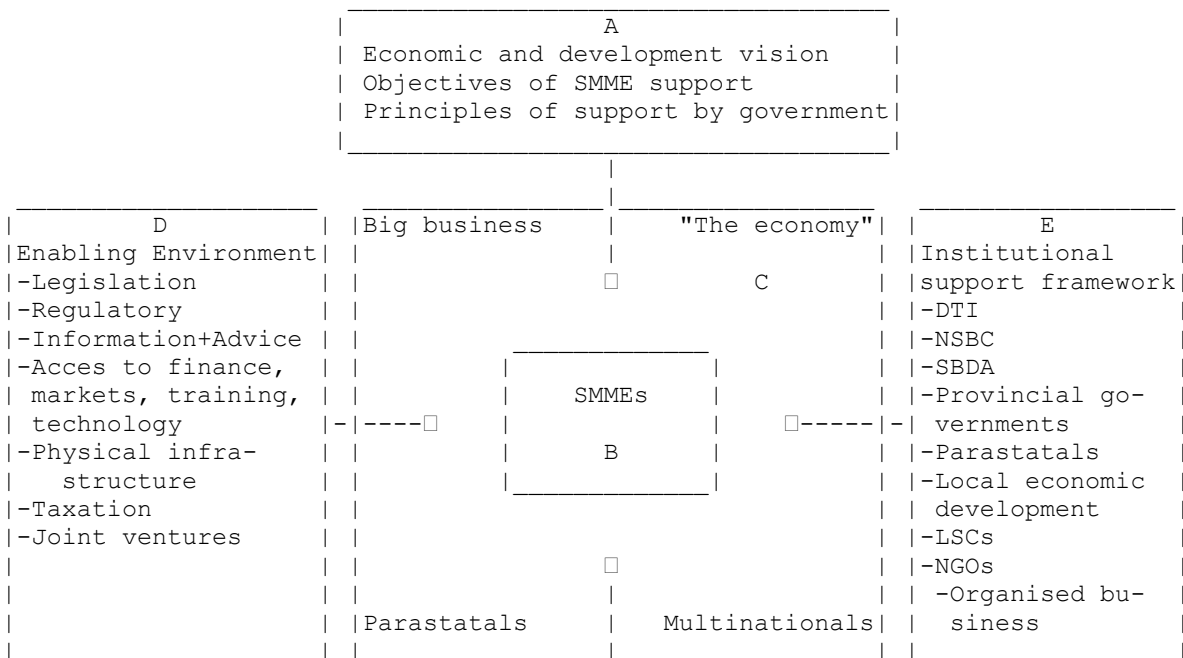
- Further expand financial resources for SMME support (especially joint funding)
- Broaden core programmes (access to finance, etc.) to reach all parts of South Africa
- Systematically expand sector/target programmes (Phase III)
- Start shifting emphasis in SMME support from central/provincial to local economic development
- Regularly monitor and adjust existing programmes
- Expand interaction with the SADC and other African countries as well as multilateral bodies

#### 6.6 Longer-term action 2000 to 2005

Much of the action will be determined by the progress made up to 2000, the unfolding of targeted programmes and the provision of resources.

- Further expansion of target programmes (Phase IV)
- Beginning of the phasing-out of some programmes (sunset clause to become effective))
- Ongoing streamlining of the institutional framework

Diagram: The national SMME-support strategy in perspective





|  
|  
|-----|  
| F |  
| Target areas for packaged support |  
| women, black people, rural areas, |  
| youth, small manufacturers, |  
farmers, traders, ect.

- Further decentralisation of support to local/sector levels
- Shift of the balance of support from government to private sector
- Expand efforts to assist survivalist enterprises to move into micro-enterprises or outside employment

The further detailing of this preliminary action programme will take place during the presidential conference at the end of March 1995. Systematic reviews and policy previews will also be contained in the Annual Small Business Reviews to appear during spring of each year.

## PART SEVEN Funding the national strategy

### 7.1 The challenge

This White Paper presents a comprehensive strategy for SMME support, including a wide range of possible programmes. Its goal is to reach small enterprises across the country, and to achieve a significant and lasting increase in the role of SMMEs in South Africa's growth and development.

Substantial financial resources will be needed to implement the proposed strategy - undoubtedly much more than the resources made available in the past, when SMME support reached only a small fraction of the small-business community.

This need arises at a stage when fiscal discipline is critical for the achievement of stable growth in South Africa, while strong competition between the financial demands of different RDP sectors - like education, health, housing, water supply, etc. - make it extremely difficult for government to respond to demands for disproportionately high increases in allocations.

There is ample evidence that public-sector funding for SMME support has been extremely low during the past decades. Direct spending via the Department of Trade and Industries has seldom been higher than about R60 to 80 million p.a., whereas total government and parastatal allocations for SMMEs all over the country (including the former homelands) may still have been less than about R700 million, or 0,6 per cent of gross budget spending in 1993/94. The situation was further aggravated by the fact that a relatively large part of the loan funding for SMMEs benefited entrepreneurs who could easily have been financed through normal commercial channels.

With DTI spending on SMME development in the 1995/96 fiscal year expected to reach R180 million, a major upward shift will have occurred in the state's commitment towards the sector. The increase reflects the combination of RDP allocations of R100 million and regular departmental funds of R80 million. Leaving aside departmental expenses, funds to operate the NSBC and an operational grant for the new SBDA, a total of about R140 million is earmarked for support programmes related to (i.a.) information centres, micro-finance and credit guarantees, targeted assistance programmes and institutional capacity building.

In order to mobilise all the available resources and co-ordinate programmes optimally, the department intends to closely monitor all the funding earmarked for small-enterprise support by different state departments. This also includes close co-operation with the provincial governments.

## 7.2 Funding sources

All too often are requests for SMME support equated with "government-funded" assistance, and is it expected that the central government has to somehow find the necessary funds. In the different strategy sections of Part Five, emphasis was already placed on the diversity of support programmes and an equally wide spread of possible funders. In order to get this diversity and its significance into perspective we briefly list the full range of funding sources for SMME support programmes and support action. To stress the fact that central government budget funding is only one of the sources, this category is shown last on the list and self-help programmes first.

7.2.1 Self-help activities by groups of small businesses, operating as co-operative or in loose associations (e.g. to facilitate marketing or experience exchange).

7.2.2 Community self-help programmes to facilitate self-employment or the start-up of enterprises (e.g. youth schemes in rural villages or urban neighbourhoods).

7.2.3 Private-sector-funded (profit-orientated) services to SMMEs, e.g.

- credit through commercial banks or specialised institutions
- joint ventures, franchises, partnerships
- corporate social responsibility programmes
- business link-ups (subcontracting from bigger businesses)
- consultancies for SMMEs, including voluntary mentoring

7.2.4 NGO involvement in support programmes, funded from own revolving funds or grants from other aid agencies

- e.g. mini-loan schemes, training schemes, marketing support, etc.

7.2.5 Services provided by business associations to SMMEs, either fully costed or subsidised from own funds (cross-subsidisation) or external support

- e.g. the South African Chamber of Commerce (Sacob), the National African Federation of Chambers of Commerce (Nafcoc), etc.

7.2.6 Local-authority services to or support for SMMEs, provided at cost, via rates and taxes, or in a subsidised form (cross-subsidisation or funded from external subsidies)

- e.g. hawker stands, municipal hives, open markets, information centres. The funding could also be pooled between several local authorities or subregions.

7.2.7 Parastatal or statutory bodies involved in SMME support (fully or ad hoc)

- use of own revolving funds/capital, e.g. the SBDC and regional development corporations
- functionally specialised associations offering services at cost or

on a subsidised base (with funding from external sources or cross-subsidisation) e.g. Safto (export support), universities (training for SMMEs), CSIR

#### 7.2.8 Wholesale funding agencies for SMME loans or other programmes

- concessionary loan finance (DBSA, IDC)
- grant funds (IDT, Kagiso Trust)

These agencies can tap government funds as well as capital-market sources and foreign donor funds.

#### 7.2.9 Provincial governments, funded from regional sources, loans or central-government transfers

- staffing of provincial SMME desks
- support for provincial/local development corporations
- provincial SMME-support programmes

#### 7.2.10 Foreign technical or financial assistance (grant or loan)

- government-to-government programmes or multilateral aid
- funding or assistance to other implementation agencies
- regional joint programmes (SADC)

#### 7.2.11 Central government funding of SMME-support programmes - DTI operating cost of Chief Directorate

- NSBC operating cost
- SBDA operating cost
  - \* Local Service Centre support
  - \* Finance Trust and Export support
  - \* Other programmes handled via SBDA
- Direct or indirect funding of provincial support
- Tax incentives
- Other incentives (e.g. RIDP, Department of Labour, GEIS/EMA)
- Special RDP funds

### 7.3 Leveraging programme funding

All over the world the shortage of public-sector funds to meet all the programme needs has led to innovative ways of leveraging available resources, i.e. mobilising other financial resources through the prudent use of state funds. Matching grants are the best-known examples. In that case state funds only become available if the implementing agency mobilises other financial sources. This could be direct contributions from the client entrepreneurs, cost-sharing contributions from other partners in the programme (e.g. big business in subcontracting support schemes) or joint sponsorship from other agencies. The range of combinations is virtually unlimited.

Aside from multiplying the resource input, matching grants and similar cost-sharing schemes have the advantage that they exert additional discipline on the programme managers; if others also have to contribute, state funds may be less easily misused.

#### 7.4 Meeting the challenge

The funding of support programmes in an economically responsible way constitutes the biggest challenge of the whole national strategy. Throughout the White Paper emphasis has been placed on ways to reduce the cost of support programmes or to spread it over a wider range of support agencies. Similarly, the benefits of support programmes have to be disseminated as widely as possible, in order to reach SMMEs in all the corners of the country. What is more, wherever feasible small enterprises should themselves contribute to the cost of support services. In this way the funding capacity should increase as the geographic coverage and comprehensiveness of the support programme expands.

It is not possible at this stage to put this process into specific quantitative terms, which also include expected claims on the fiscus. Yet, to conclude this section a few fundamental principles are put forward, which - if adhered to - could help us to meet the financing challenge.

Funds have to be mobilised from the widest possible range of sources, including local public and private sources as well as foreign assistance.

In order to achieve the type of breakthrough envisaged in this White Paper, allocations for SMME support in the central government's budget should increase to at least about one per cent of total budget spending for the next decade.

SMME support has to be closely integrated with all other development support programmes of the RDP.

- All the programmes have to be based on strict financial discipline and have to be structured in a way that self-help and own financial contributions by entrepreneurs are encouraged and gradually increased.

- All targeted assistance should include sunset clauses and safeguards against built-in cost escalation.

It is these challenges that constitute the basis of the task ahead for the implementation of the national strategy.

#### LIST OF WRITTEN SUBMISSIONS

Arm Scor, Pretoria

Centre for Developing Business, University of the Witwatersrand;  
Johannesburg

Chartered Association of Certified Accountants; Johannesburg

Consultative Business Forum (CBF), Taskgroup report; Ermelo

Council for Scientific and Industrial Research; Pretoria

Council of Southern African Bankers; Johannesburg

Danish Confederation of Trade Unions; Copenhagen/Denmark

Danish Technology Institute; Copenhagen/Denmark

Department of Trade and Industry, Departmental Working Group; Pretoria

Development Alternatives Inc.; Bethesda/USA Development Bank of Southern Africa; Midrand

Development Planning Research Unit, University of Cape Town; Cape Town

Eastern Cape Ministry of economic Affairs; Bisho

Eastern Transvaal SMME Workshop; Nelspruit

European Union, Delegation in South Africa; Pretoria

Foundation for African Business and Consumer services (Fabcos); Johannesburg

Foundation for Entrepreneurship, Durban

Free State Province, Workshop report; Bloemfontein

Gauteng; Ministry of Finance and Economic Affairs, Workshop report; Johannesburg

Gazankulu Development Corporation; Giyani

Get Ahead Foundation; Pretoria

Grace Entexprises; Braamfontein

Income-Generating Projects for South Africa (IGPSA); Baberton

International Executive Service

Johannesburg Chamber of Commerce an Industry (JCCI); Johannesburg kaNgwane

Economic Develovment Corporation Ltd; Kanyamazane

Manchu Consulting; Sandton

Ministry van Economische Zaken, Netherlands Government; The Hague/The Netherlands

Ministry of Environmental Affairs and Tourism; Pretoria

Ministry of Health; Pretoria

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Ministry of Provincial Affairs and Constitutional Development; Pretoria

Ministry for Public Enterprises; Pretoria

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National African Federated Chamber of Commerce and Industry (Nafcoc); Pretoria

National Association of Women Business Owners (Nawbo); Johannesburg

National Economic Initiative Transvaal; Sandton

National Industrial Chamber; Kempton Park

National Industry Associations, Workshop report; Cape Town

National Party, Pretoria region; Pretoria

North-West Development Corporation Ltd (formerly BNDC); Mmabatho  
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Northern Cape: Provincial Legislature; Kimberley  
Overseas Development Agency (ODA), British Division in Southern Africa;  
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South African Chamber of Business (Sacob); Johannesburg  
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