

4.3. Business Support

Arguably the most important assistance any business owner could receive, more so than access to markets or finance, is the availability of quality, affordable business advice and support. To this end Brazil offers a lesson to South Africa, through its business support agency Sebrae. The South American country's Global Entrepreneurship Week can also provide a key lesson to South Africa particularly, in how South Africa can create a successful awareness campaign to promote entrepreneurship. Brazil's incubation system also raises questions for South Africa on whether incubators will really drive job creation and whether they can create significant numbers of growth-orientated small businesses. Finally both India and Brazil provide important lessons for South Africa in the role clusters can play in growing small businesses.

CREATING AN ENTREPRENEURSHIP CAMPAIGN: BRAZIL'S GLOBAL ENTREPRENEURSHIP WEEK

South Africa is in dire need of a massive drive to galvanise support for small businesses and could do well to learn from a successful weeklong entrepreneurship campaign in Brazil, which in 2009 drew a record five million participants.

Global Entrepreneurship Week, which encourages participants to get involved in activities related to entrepreneurship for one week, is held in several countries around the world, including in South Africa. But it is Brazil that everyone is talking about. The South American country notched up the highest number of participants of any country in the week, after drawing 1.4 million participants in 2008 when it first ran the campaign. In comparison South Africa which in 2009 ran its first Global Entrepreneurship Week, hosted by Endeavor South Africa, secured a paltry 8 000 participants that year¹¹¹.

Brazil's campaign, run by Endeavor Brazil, will also be of particular interest to Khula, the government's small business agency, which in 2010 announced that it would run a small business campaign with ANC stalwart Andrew Mlangeni as the campaign's patron.

In South Africa there is a strong need for the country to create role models which will inspire others to take the risky path of becoming entrepreneurs.¹¹² Presently there is little respect for and recognition of the contribution entrepreneurs make to society, despite the existence of various government and private-sector initiatives. According to the 2009 Gem Report, entrepreneurship was not sufficiently reported on and celebrated by the media, this while sporting heroes received more coverage and adoration by the press. However, the report noted that Gem studies over the years have conclusively shown that the low rate of early stage entrepreneurial activity in South Africa is influenced by a low level of overall education, social and entrepreneurial factors that do not encourage entrepreneurship as a career path of choice, a lack of access to finance and a difficult regulatory environment.

Taking the above into account, Endeavor Brazil's managing director Rodrigo Teles wants the South American nation to become an example for other countries when it comes to entrepreneurship and promoting a culture of entrepreneurship: "If everybody starts talking about entrepreneurship, people who are related to access to capital will start finding more ways of giving capital to entrepreneurs. Because you have more entrepreneurs who are starting to run their business, they need more money so people will have to find more ways to give cheaper and better money," says Teles.¹¹³ And with better educated and informed entrepreneurs, banks will be more likely to lend out money he points out. The example is

¹¹¹ According to Malik Fal, managing director, Endeavor SA. Also, in the Brazilian event, seminars, presentations and debates accounted for 41% of the 1 735 activities which took place during the week, while workshops and courses made up a further 30% of the activities. Almost two thirds or 64% of participants were between 24 and 35 years old.

¹¹² "The Entrepreneurial Dialogues: State of Entrepreneurship in South Africa", Endeavor SA, 2010

¹¹³ Interview with Rodrigo Teles, São Paulo, August 2010

important given that Brazil is already one of the most entrepreneurial countries – ranked sixth in the 2009 Gem Report, compared to South Africa's 34th place.

If everyone talks about entrepreneurship during the same week a stronger message about starting and running your own business is sent out, maintains Ludmilla Figueiredo, who oversees Endeavor Brazil's Global Entrepreneurship Week. Figueirido said many entrepreneurs have reported to Endeavor Brazil that they started their own business after attending an event during the week.¹¹⁴

Lesson 1: Get partners involved

Figueiredo said the success of the campaign, which in 2009 took place under the slogan *Bota para fazer* (make it happen), is built on getting key partners involved such as media, community, training and business organisations which have a nationwide presence. In its first year Endeavor got 30 partners to agree to participate. This swelled to 560 in 2009, including 60 purely online partners.

Because radio and television channels dedicated prime-time slots to speak about entrepreneurship, partners were drawn to participate by the chance to promote their organisation or brand through the heightened news coverage during the week. The idea was then for each partner to register various activities – such as workshops, seminars and competitions, which it would run, or even end or start, during the week.

Lesson 2: Use the power of the web

Endeavor Brazil essentially took lessons from an event run by Endeavor UK known at the time as Enterprise Insight. But Brazil has since managed to outperform the UK with the inclusion last year of online events, like blogs, webinars, video chats and even surveys.

Endeavor's online community has also grown to 6 000 and many people phone in requesting to be part of the next event. Participants can also add or view events on Endeavor Brazil's website.

Lack of buy-in in South Africa

Commenting on Brazil's successful campaign, Malik Fal the managing director of Endeavor South Africa said media groups and corporates in South Africa that Endeavor had approached to take part in Global Entrepreneurship Week, had not shown the same commitment to joining the campaign as they had in Brazil. "I think people are very cynical (in South Africa)," said Fal, who pointed out that his interaction with potential partners had been "like pulling teeth", with most corporates only wanting to get involved if they were paid to do so. He pointed to the case of Brazil where newspapers agreed to run full-page advertisements promoting the week for free. A top graphic designer even offered their services free of charge to design the campaign's advert. "People in Brazil understand that if you don't have a country, you don't have a company," he said, pointing to their dire need to promote entrepreneurship if the country is to grow its tax base, create more jobs and stave off social unrest.¹¹⁵

Malose Kekana, chairman of Khula, said his agency's campaign which was being conducted in partnership with Business Unity South Africa (Busa), would in the future focus on three main areas, namely: offer recognition to those companies and organisations that were assisting entrepreneurs, fund certain initiatives with the help of the June and Andrew Mlangeni Foundation and build a knowledge repository to hold small business research. Kekana said business owners had been "let down for far too long" and had effectively been forgotten. "Things have not been happening and I am not going to sit around and wait for them to happen," said an adamant Kekana.¹¹⁶

¹¹⁴ Interview with Ludmilla Figueirido, São Paulo, August 2010.

¹¹⁵ Telephonic interview with Malik Fal, September 2010.

¹¹⁶ Telephonic interview with Malose Kekana, September 2010.

Endeavor forges entrepreneurial culture in Brazil

Teles points out that even though Brazil has a high regulatory environment many entrepreneurs are still making it in the South American country. He said Endeavor Brazil looked toward the OECD's 2006 report Entrepreneurship Indicators Programme which lists six main areas that can be targeted to improve support to small businesses. These are: decrease regulatory burdens, improve market conditions, improve access to technology and research, improve access to capital, improve education and promote a culture of entrepreneurship. It is in the two last areas that Endeavor Brazil has been focusing on to improve the quality of the entrepreneur in Brazil.¹¹⁷

When Endeavor Brazil started out 11 years ago a big challenge for the organisation was how to change Brazilian's attitude towards entrepreneurship. At the time there was no word for entrepreneurship and the closest word, *empresário* or employer had many negative associations, with many perceiving them to be mere thieves who robbed from others. "When you have a culture which does not support you as an entrepreneur, if you have people – friends and family – telling you that you are crazy, your confidence will get lower and lower," said Teles who believes that creating a culture of entrepreneurship can open doors for entrepreneurs. But today things are slowly changing, with the boyant economy helping to sustain the gradual change in attitude towards entrepreneurship from Brazilians.

Entrepreneurship courses at universities are now filling up and more people in the middle-class are now venturing out to start their own business: "It's getting better, it's getting more aspirational," says Teles. Yet still only about 5% to 10% of those who take entrepreneurship courses at universities will go onto start their own business.

BOOSTING BUSINESS SUPPORT: WHAT SEDA CAN LEARN FROM SEBRAE (BRAZIL)

South Africa's Small Enterprise Development Agency (Seda) can do well to take a leaf out of Brazil's small business support agency Sebrae's book if it is to reach more small business owners and entrepreneurs. Seda is well placed to do so as the agency has for some years already had a technical agreement in place with the Brazilian organisation to share best practices.

Seda, which is mandated to support small enterprises, was formed out of a merger between Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (Namac) and the Community Public Private Partnership Programme (CPPP). The agency was set up in terms of 2004's National Small Business Act. Seda aimed to better reconfigure the existing small business support infrastructure after the failure of Ntsika's wholesale support model.

Ntsika dispensed business support through a network of local business support centres (LBSCs) which made very little impact when it came to assisting small businesses.¹¹⁸ LBSCs were also often unsustainable as they often relied on funding from government to keep going. The result was that many closed down or proved less successful than expected in dispensing assistance to business owners.¹¹⁹

Yet since 2004, Seda too has faced a number of criticisms and its impact on small businesses continues to be questioned. Of these, chief is the firing of the agency's chief executive Wawa Damane in 2008 for

¹¹⁷ And to do this the organisation, founded in 2000, maintains a two-pronged strategy, creating role models for potential entrepreneurs and by running various marketing, communication and education programmes. It is already supporting a number of entrepreneurs who can act as role models for those looking to run their own businesses and has a private equity fund to assist these businesses. It screens hundreds of entrepreneurs to find the right one – those with scalable business models which can generate revenues of between \$1 million and \$30 million – focusing on firms with larger turnovers to ensure its support makes a big enough impact on society. It looks to take on between six to eight companies a year to help in this way and has 51 companies already.

¹¹⁸ For example, in 2004 just 5 725 businesses were assisted and 1 896 received training ("South Africa: Enhancing the Effectiveness of Government in Promoting Micro, Small and Medium Enterprise", World Bank, 2007).

¹¹⁹ DTI, Review of 10 Years of Small Business Support in South Africa 1994 – 2004, p33.

mismanagement of the agency's funds. Seda has also been criticised for its focus on unsophisticated, micro enterprises¹²⁰ and for offering generic, rather than sector-specific support.¹²¹ And despite being set up as a one-stop shop, Seda has no control over the government's many small business support programmes. This, says small business researcher Rob Smorfitt, has led to a "range of conflicting, overlapping objectives and initiatives, resulting in an enormous waste of resources, in particular people and capital".¹²²

Table 6. Recent performance of Seda across a range of indicators (2006/2009)

	2006/07	2007/08	2008/09
Number of clients accessing agency services per year	140 779	186 195	199 830
Number of people trained per year	1 539	22 893	15 000
Number of unique website visits a year	349 406	514 594	300 000
Number of clients assisted with business plans	-	3 661	1 638
Number of clients trained in starting a business	-	8 271	7 059
Number of business registrations*	-	10 635	5 643
Number of clients assisted with technology interventions	-	-	-
Number of clients assisted with access to finance	-	1 761	800
Number of clients assisted with mentoring	-	-	-

Note: *Decreased in 2008/09 as Seda changed focus to working over a longer period with clients

Source: Table 35.9 Small Enterprise Development Agency in the National Treasury's Estimates of National Expenditure, 2010.

While there have been signs that at least financially, the agency is turning itself around (with unqualified audits from the Auditor General in both 2009 and 2010 financial years)¹²³ the agency continues to be hamstrung by a small, R430 million budget. Despite meeting more of its delivery targets in the 2009/10 financial year when compared to previous financial years, it underperformed in a third, or 13 of its 39 targets in the 2010 financial year. To get around its limited budget Seda has in recent years been developing key partnerships with municipalities across the country¹²⁴ (The budget constraints have resulted in previous years in six-month moratoriums on service delivery¹²⁵). However, as a comparison below with Brazil's small business support agency Sebrae shows, Seda has had a very limited impact on the SME sector in South Africa.

¹²⁰ Small Business Development in SA: Time to Reassess, SB, 2009.

¹²¹ Glen Robbins interview, October 2010.

¹²² Smorfitt, Rob, 2008. "A critical assessment of the impact of interventions to stimulate the establishment and growth rates of SMEs in the formal sector in KwaZulu-Natal 1994 – 2008", Doctoral thesis, School of Management University of KwaZulu-Natal.

¹²³ "With finances sorted out maybe Seda can do its job", Business Report, October 1, 2010.

¹²⁴ For example Seda's Eastern Cape provincial office had negotiated with various municipalities to cover the rent and electricity of about three branches there. In Gauteng Seda was engaged in talks with the Tshwane Metro as well as the West Rand Development Agency around a similar deal, said Lupuwana. In total Seda has 21 co-location points at local municipalities (See "Seda gets around budget constraints", November 2009).

¹²⁵ "Seda gets around budget constraints", Bignews, November 2009.

Seda: Far behind Sebrae

A comparison between Sebrae and Seda's recent results show that, even when taking into consideration Brazil's larger population and the larger number of small businesses the South American country has, the Brazilian agency is outperforming the South African organisation on every front. Importantly the comparison shows the dramatic effects that an underfunded and under-skilled organisation can have on its ability to assist business owners.

Sebrae's management report for the 2009 year reveals that the 39-year-old Brazilian agency attended to at least 2.4 million individuals in 2009 – 2.02 million (up from 1.5 million the year before) through its call centre and a further 390 000 through the help of face-to-face assistance. In comparison, Seda in the 2009/10 financial year reached just 168 547 existing and potential entrepreneurs through its branches, events and training courses, down from the 199 830 individuals the previous financial year.¹²⁶ Most troubling was that Seda's call centre handled a mere 1 101 calls during the same financial year (Table 7).

Table 7. Sebrae vs Seda, basic indicators of performance (2009)

	Seda (2009/10)	Sebrae (2009)
Established	2004	1972
Budget	R485 million	R10.4 billion
Attended to through branches	168 547	390 000
Assisted with products, services	23 874	<i>NA</i>
Attended to over call centre	1 101	2.02 million
Hits on website	450 653	9.1 million
Workshops	81	52,121
Events	9	3 219

Seda's annual report also revealed that 23 874 clients received interventions from the agency, up from 14 373 in the 2008/09 financial year. In the last financial year Seda also held nine entrepreneurship awareness events and 81 workshops – 52 on franchise awareness and 29 on quality management – and trained 22 946 individuals – 18 271 clients in a business start-up course and 4 675 people in other courses. But, these figures are miniscule when compared to the number of entrepreneurs Sebrae supported in 2009.

Key to the Brazilian agency's approach is its use of multiple channels and ways to get to entrepreneurs – everything from television, radio, blogs and events and seminars. When these are factored in, the agency's reach extends to millions of Brazilians. In 2009:

- o Sebrae held 52 121 workshops and seminars, 31 969 group classes, 1 200 events and 2 019 festivals where 20 400 small business exhibitors were hosted.
- o The agency held 257 065 consultations.
- o It reached 282 300 participants in distance learning courses (up from 273 000 the year before).
- o A total of 131 000 (up from 92 000 the year before) university students from 2 339 institutions of learning took part in the agency's competition, Desafio Sebrae.
- o A further 17 million tuned into Sebrae's radio programme, while Sebrae's website raked up 9.1 million hits (up from 6.2 million the year before) – with about 30 000 videos shown every month through the agency's web TV and Sebrae's blogs recording a further 2.3 million hits. In comparison, Seda registered 450 653 hits on its website during the 2009/10 financial year¹²⁷.

Sebrae also has a major focus on business knowledge. For example Sebrae's Federal District office offers 20 free seminars a month. These run for about 1.5 hours and are each attended by on average 20

¹²⁶ "Seda figures tell their own story", Bignews, October 2010.

¹²⁷ "Seda figures tell their own story", Bignews, October 2010.

people, according to Ary Ferreira Júnior the superintendent for Sebrae District Federal.¹²⁸ The office is also equipped with a library containing 6 892 book titles and 1 167 DVD and VHS titles on business support. Sebrae also has 356 titles of publications that are sold through the internet.

One of Sebrae's state offices in the Federal District handles 50 400 walk-in enquiries, according to Ferreira Júnior. This figure represents 45% of the number that Seda handles in total, even though the federal district's population¹²⁹ is just five percent of the whole of South Africa!

Yet despite the seemingly sizeable support offered by Sebrae, José Marcelo Goulart Miranda who oversees the Africa section in Sebrae's International Affairs unit said the Brazilian agency was not without its critics.¹³⁰ Some, he said have called for Sebrae to close down, claiming that the agency's reach – which Goulart pointed out was presently to about 14% of the country's small and micro firms – was not wide enough even though the agency's aim (according to a study it undertook - entitled "Factors of Birth and Death of Micro and Small Enterprises") is for at least 33% of businesses to access Sebrae by 2010.

Noting the criticisms around the performance of the Brazilian agency, if Seda is to reach more entrepreneurs something must be done to solve its funding constraints. The agency is hamstrung by a budget of R485 million – a mere five percent of the R\$2.5bn (valued at about R10.4 billion in October 2010) Sebrae had at its disposal in 2009.¹³¹ However, even with more funding, Seda Chief Executive Hlonela Lupuwana said the number of businesses the agency attends to is unlikely to grow as the agency's main aim will be to focus more on assisting existing clients to grow rather than on taking on more new clients.¹³²

Similar client make-up

Both Sebrae and Seda have a similar client make up. In all 68% of entrepreneurs Seda assists run businesses with four or fewer employees, according to the agency's 2009/10 Annual Report (the annual report also revealed that a further 29% entrepreneurs supported by Seda have between five and 20 employees, with an additional 3% of clients employing between 21 and 50 people). About 85% of Sebrae's clients have four or fewer employees, according to the agency's former technical director Luiz Carlos Barbosa.¹³³ This information is reported below, in Table 8.

Table 8. Sebrae vs Seda – Client Make Up (2009)

	Seda	Sebrae
Clients with less than five employees	68%	85%
Women	50%	40%

Sources: Seda 2010 Annual report, "Factors of birth and death of small and micro enterprises", Sebrae, 2007 and Luiz Carlos Barbosa emailed response, 2009.

Absent from Seda's support profile are medium firms, despite the agency's often-made assertion that it focuses 20% of its support on these particular enterprises. Seda's focus on micro enterprises has been criticised by small business researchers SBP, who last year questioned the government's focus on these

¹²⁸ Interview with Ary Ferreira Júnior, Brasília, August 2010.

¹²⁹ The Federal District of Brasília has a population of 2.6m (2009) according to Brazil's statistics organisation IBGE.

¹³⁰ Interview with José Marcelo Goulart Miranda, Brasília, August 2010.

¹³¹ Unlike Seda, which derives almost all its funding from the National Treasury, the Brazilian agency is funded by a tax drawn from companies and amounts to one percent of the amount each company spends on employee's benefits.

¹³² Seda Annual Report 2009/10.

¹³³ Luiz Carlos Barbosa, emailed response 2009.

businesses above small businesses in the formal sector, saying there was little indication to suggest survivalist micro firms will create jobs.

A look at Sebrae's client profile¹³⁴ reveals that about 60% of entrepreneurs that it assists are male, who have an average age of 38 years old. These entrepreneurs are likely to be very skilled – with 79% having completed tertiary studies and 51% having previous experience in a private enterprise. There are no comparable figures from Seda in its annual report on the skills level of those it assists.

Seda's major challenge is how to balance the support it offers to those who have never run a business before and have no idea what running your own business entails, with the support it offers to those that have the skills, drive and know-how to start their own business but require some additional support.

Learnings from Sebrae

There is much Seda can learn from Sebrae and the learnings can be simplified into the following areas:

- Use innovative methods to widen reach.
- Reduce influence from government.
- Build awareness of the agency's brand.
- Lean more on private-sector consultants' expertise.
- Assist the right kind of client.
- Put in place an effective monitoring and evaluation system.

Lesson 1: Use innovative methods to widen agency's reach

Sebrae's strategy of aiming its support for business owners through a variety of channels – such as television, radio, print media, a competition, blogs – beyond just its call centre, website and branch network ensures that the agency is able to reach a vast number of business owners.

Two Brazilian interventions that Seda is already looking to adopt in South Africa are: distance learning courses and mass classroom-based mentoring sessions (see Box 4 below).¹³⁵

In 2009 Sebrae assisted 282 300 participants through 1 500 distance learning classes¹³⁶ and with this in mind the head of Seda's learning academy, John Francis, said Sebrae's distance learning university is looking to partner with Seda to develop programmes and pointed out that distance learning is an affordable way to impart business knowledge.¹³⁷

¹³⁴ "Factors of birth and death of small and micro enterprises", Sebrae, 2007

¹³⁵ Seda spokesperson Marius de Villiers said in September 2010 that the agency was currently looking at aspects of its in-house courses which lend themselves to distance education modules and added that it was being supported by Brazil's small business support agency Sebrae with technical assistance to roll out group mentoring classes nationally in the "near future".

¹³⁶ In all 97.2% of participants in these courses were satisfied or very satisfied with the courses, according to Sebrae's management report for the 2009 year.

¹³⁷ Interview with John Francis, July 2010.

Box 4: Applying Sebrae-style training in South Africa

Paul Hoffman, acting head of Seda's George branch, organised a group seminar in Mossel Bay in June 2010 for 300 unemployed people, after returning from a visit to Brazil in April that year where he witnessed a business skills training session organised by Sebrae for 400 people.¹³⁸ Such group sessions, which are now being introduced in South Africa, make up an important component of Sebrae's efforts to reach more entrepreneurs and potential entrepreneurs; of the entrepreneurs Sebrae assists only about a third are assisted through one-on-one visits or consulting sessions, the remainder obtain assistance through business networks, in incubators, producer chains and through other collective means.

Hoffman, who said he was impressed by the excitement he witnessed during the group seminar he attended in Natal, Brazil, explained that sessions would start at 6pm and run until 9pm or 10pm and touch on management, sales techniques, marketing and research. The city's mayor even turned up every night to show his support. Each session would start with a presenter briefing all 400 participants on one of the specific topics, before the participants broke away into smaller groups of 50 people spread around the hall. At the end of each session participants were requested to complete various assignments for the next day. They also had to brief one another about their products.

On returning from the eye-opening trip, Hoffman secured the involvement of the Mossel Bay municipality, the Western Cape provincial government's support agency Red Door and Prestigious Training and Manufacturing Services to hold the five-day seminar. Hoffman used the same techniques he drew from the Brazilian, but said the difficulty he experienced was that many of the participants dropped out, with only 100 graduating from the course in the end. However, "one of two" of those who attended had since started their own business and Seda advisors were assisting others who had formed groups to set up co-operatives in certain identified areas. Hoffman reported that Seda George would host another group session in the near future.

Since 2001, Sebrae has made significant progress in assisting consortia in various industry sectors, with some of these consortia made up of both big and small businesses. The agency is presently assisting around 3 000 such groups across Brazil through support interventions which run for on average between two to three years. At the heart of each intervention is a web-based collaborative management toolkit, which allows businesses and consultants to monitor the progress of each project.¹³⁹ Barboza, Sebrae's former technical director, admitted that the agency's assistance to individual businesses on a one-to-one basis had not proved as successful as its support to groups of entrepreneurs, particularly in the number of businesses that were assisted.

But Mojalefa Mohoto, the chief director of the enterprise development unit, at South Africa's Department of Trade and Industry, said that though his department was aware of India and Brazil's success with buying consortia, the government currently did not have the capacity to set up consortia.¹⁴⁰ He said setting up consortia of this type would prove to be something that would be "very difficult to manage". Mohoto said however that the government's programme on co-operatives did already cover some buying groups.¹⁴¹

Another interesting programme, which Sebrae started in 2009, is that of developing and using local innovation agents (Agentes Locais de Inovação – ALIs). The idea is that these agents make door-to-door visits (some of the businesses are sourced from business associations) of businesses to assess what support and capacitation programmes the firm needs to improve. The agents develop a plan of action for the entrepreneur concerned. The entrepreneur then chooses which support to implement. Some of the support tools are sourced from Sebrae and the agents can also refer consultants to the businesses.

¹³⁸ Interviews with Paul Hoffman, July, September 2010.

¹³⁹ Email, Luiz Carlos Barboza, former Sebrae technical director, 2009

¹⁴⁰ Telephonic interview with Mojalefa Mohoto, 2009.

¹⁴¹ "Consortia: A solution for SA?", Bignews: October 2009

Sebrae aims to assist 13 500 enterprises through these agents in 2010 and 2011.¹⁴² In 2009 the agency trained 388 consultants in eight states and 6 936 enterprises were reached, at cost of R\$1.2 million to Sebrae.¹⁴³

Lesson 2: Reduce government influence

José Marcelo Goulart Miranda, who oversees the Africa section in Sebrae's International Affairs unit, said one lesson Brazil had learnt was that it was not always good to run a wholly government-owned business support organisation as this made business support more open to political manipulation. Sebrae was set up as Centro Brasileiro de Assistência Gerencial à Pequena Empresa (Cebrae) in 1972 as a government agency, through an initiative of Brazilian development bank BNDES (then called BNDE) and the planning ministry. But under presidents José Sarney and Fernando Collor, from 1985-1990 during a period when it moved from the planning ministry to the Ministry of Industry and Commerce, Cebrae began falling to pieces and as its budget became more unstable many technical consultants left the institution. In 1990 alone, 110 professional or 40% of the staff left the agency. In 1990 Cebrae became Sebrae under decree 99.570. The institution became a private not-profit organisation, funded by a special tax. Since then Sebrae has been growing, increasing its branch structure to all states and supporting thousands of SMEs.¹⁴⁴

Lesson 3: Build Awareness of the brand

One of the biggest problems that face government support organisations in South Africa, is their lack of visibility, a problem which India also shares. For example in a 2007 report by Centre of Entrepreneurship at UCT's Graduate School of Business revealed that in Gauteng just 13.5% of entrepreneurs had heard of Seda and that just 1.3% had accessed the agency. In the Western Cape the figures were even lower, with an awareness of 10% of Seda and just 0.5% having accessed the agency there. In the recent FinScope 2010 South Africa Small Business Survey only four percent of business owners reported that they had heard of Seda, while just one percent of business owners said they had accessed Seda branches.

Seda has began focusing more on expanding its reach in the media through, and in the 2008/09 annual report, chief executive Hlonela Lupuwana noted that fewer calls were received by the national information centre, and that the queries the call centre handled were based on media coverage received. However there is a need for Seda to increase its presence through a variety of means – this could be easily possible with a larger budget. Sebrae for example makes use of well-placed billboards on roads and at train stations, appears regularly in a number of business magazines and on radio and television adverts. The wide reach of advertising also has the result of increasing the image and brand of the organisation.

An interesting and innovative development in South Africa is around the role of Seda information kiosks which were launched in November 2010. The kiosks are self-service, electronic information units which have preloaded business information for entrepreneurs and interested members of the public that can be downloaded to CD, DVD and USB flash drive. Because the units carry Seda branding and are installed in

¹⁴² Edson de Barros Carvalho, Nectar's director president, said his organisation as well as an engineer and a manager are overseeing various agents in the states of Bahia, of Pernambuco and of Maranhão. Each agent is required to attend to 50 entrepreneurs within two years and is remunerated R\$2 000 a month by Sebrae, who also gives agents a laptop and 3G card to carry out their work. After the completion of the first year 20 businesses were assisted in Pernambuco, 23 in Bahia and 15 in Maranhão.

¹⁴³ Sebrae management report, 2009.

¹⁴⁴ Sebrae website: <http://www.sebrae.com.br/customizado/sebrae/institucional/quem-somos/historico>

various partner agencies, municipal offices and libraries they can help to get the Seda brand out more effectively while doubling as an efficient business information supply service.¹⁴⁵

Lesson 4: Train up private-sector consultants and use more of them

While Sebrae makes use of some 9 500 private sector consultants¹⁴⁶, Seda has adopted a worrying approach of slowly cutting back on the number of consultants it uses, in favour of inhouse business advisors who have little or no business experience.

As of July 2010, Seda had 194 business advisors distributed across 42 branches¹⁴⁷. Seda has vamped up its internal training capacity from about three or four staff which manned its old learning centre to 16 individuals. The aim is for the academy, together with outside trainers, to capacitate the agency's business advisors and to produce training programmes for entrepreneurs. A concern however is that the very people who should be dispensing business advice to business owners will have no or next to no business experience. This will limit Seda from offering more sophisticated and focused support as well as support which is sector-specific, as no amount of training can substitute for real experience a consultant has gained in running his or her own business.

There is an obvious need to improve the quality of consultants in South Africa and the way they interact with business owners. An assessment in 2008 of over 500 mentors from various organisations¹⁴⁸ revealed that more than two thirds of mentors failed to score higher than 60% on basic financial literacy tests. Shockingly the assessment revealed that 90% of mentors were computer-illiterate.

Following community interactions by the then deputy minister of trade and industry, Bongzi Ntuli in 2009, the Minister of Trade and Industry, Rob Davies reported that Ntuli's interactions has revealed that business owners believed consultants were "too heavily involved" with business development and their involvement was "not beneficial in the way it should be". Since Ntuli's interactions Seda had scaled back on using consultants, limiting the use of consultants to 20% of all its services accessed by business owners.

There have long been attempts to professionalise the business consulting sector, but little has changed. There are now moves by the recently revived Institute of Business Advisors (IBA), to set up a statutory body for business mentors.¹⁴⁹

Even the head of Seda's training academy admitted that trying to assist 80% of businesses with inhouse business advisors was "unsustainable" but he added that it was very difficult for the agency to afford the high costs that consultants charged for rendering services to small businesses. He said one had to look to retired business executives if one wanted an affordable option.

In contrast Sebrae has a major focus on training internal staff and consultants through its Sebrae University which offers a range of training programmes to those that assist business owners based both inside and outside of the organisation. Sebrae also holds a national training week for all consultants and internal staff twice a year. It also has several distance-learning courses for advisors and consultants.¹⁵⁰

¹⁴⁵ The units utilise a computer-based system and the information is updated from a central point as and when needed by means of 3G technology. Users interact with the system via a touch screen. Once users have accessed the system, they can search for information about Seda, such as its offerings, products and services and training programmes available to entrepreneurs and small business owners. In all 38 of these kiosks were rolled out by November 2010, with two more to be installed by the end of that month (Seda press release, 12 November 2010).

¹⁴⁶ O Sebrae para Conselheiros, www.sebrae.com.br

¹⁴⁷ John Francis, Seda learning academy, interview, July 2010

¹⁴⁸ Such as South African Breweries (SAB), Business Partners, Khula and the Small Enterprise Development Agency (Seda). The assessment was carried out by the University of the North West's Small Business Advisory Bureau.

¹⁴⁹ "Rogue consultant concerns", Bignews, February 2010

¹⁵⁰ Interview with John Francis, July 2010.

Seda should rather get involved in initiatives that upskill private sector business consultants – such as the IBA's grading system or by hosting training programmes for consultants, which also incentivise them to work in a more ethical way.

Lesson 5: Target more sophisticated clients

Seda has been criticised for aiming most of its support at micro enterprises, as seen by the above. Seda's open door approach has meant that 40% of the nearly 200 000 people who visited the agency's branches in the 2008/2009 financial year never went further to even attempt to establish their own business.¹⁵¹

Sebrae faces similar criticism. Luiz Sakuda, professor of entrepreneurship and innovation at FEI university, São Paulo said Sebrae's open-door policy which meant it had to help any one who approached it, led to the agency helping many who weren't entrepreneurs, but rather students or unemployed people. Sakuda believes Sebrae should aim more of its support at entrepreneurs with existing businesses, but added: "It (Sebrae) could be a lot better, but it is what is possible these days".¹⁵²

Sebrae's Miranda admitted that a key challenge that support organisations face was whether to target the masses of informal or small enterprises or more sophisticated businesses. The latter, while fewer in number, offer higher job creation potential.

The dilemma that Seda, Sebrae as well as governments the world over face is whether to support more high-growth businesses which are traditionally run by more skilled and wealthy entrepreneurs, but which create many more jobs. Or to support micro enterprises which offer those without a job, the possibility of income, but which will either fail soon after starting out, or will amble along without creating more than one or two jobs.

Lesson 6: Monitor clients

If Seda is to implement quality training and consulting work to small businesses, it must also focus on setting up systems which will assist the agency not only in project management, but will also act as valuable tools to assess the impact of interventions. Such a system could also enable government organisations to incentivise consultants and internal staff to deepen the impact of their support to entrepreneurs, in that it will allow organisations to tie incentives to those whose interventions which perform well.

The 2009 Gem report suggests that remuneration in government programmes should be based on actual performance, for example not the actual number of business plans that have been completed or funded, but by the number of plans that translate into a business that is able to operate for more than three months, it says.¹⁵³

Seda has already developed a new customer relationship management system. The system will improve the quality of client data stored. An Improvement Assessment Tool was also developed.¹⁵⁴

Sebrae's Miranda says much of Sebrae's success in carrying out projects lies with their innovative project management system called Sigeor.¹⁵⁵ Miranda was part of the team that originally developed and rolled out the system across the country to all Sebrae offices. By going to www.sigeor.sebrae.com.br any member of the public, consultant or business owner is able to view the details of any Sebrae-related business support project or track the progress of each project. The site also allows for members of each project to post news, meeting agenda and training material.

¹⁵¹ "Noble purpose a key to success", Business Day, 24 November 2009

¹⁵² Interview with Luiz Sakuda, São Paulo, August 2010.

¹⁵³ "Report shows start-ups need support", Bignews, June 2010

¹⁵⁴ Seda's 2009/10 Annual Report

¹⁵⁵ Interview with José Marcelo Goulart Miranda, Brasília, August 2010.

Miranda said that between 2004 and 2007 Sebrae spent about R\$10 million on developing and testing the system. Apart from some technical glitches Sebrae faced when developing the site, the agency also ran up against resistance from some at the organisation towards the site. Some having to upload details to the site would waste time. External partners often argued that since they did not work for Sebrae why should they upload details to the agency's site? Miranda said it was only through numerous workshops – he himself held 30 or 40 workshops in two years in just four states – that partners were finally won over to using the system.

INCUBATORS

Business incubation is often touted by many as the solution to creating more sustainable high-growth companies in South Africa, but is it really?

South Africa: A luck-lustre experience

- Most incubators are funded by the government and there are just two privately funded incubators at present.
- A small number of businesses are incubated, but incubatees are less likely to fail than those have not passed through incubation.
- Lack of seed fund and skills and support from tertiary institutions to help incubate businesses.
- The adoption of incubators is constrained by the high skills needed by staff to run incubators.

Incubators in South Africa are largely government funded – either at a national or provincial level, with at least two privately-funded incubators. The challenge that faces the South African government now is whether or not to bolster efforts in setting up more incubators or not and if so, how to go about doing so, particularly as incubation is resource-intensive requiring support from highly-skilled mentors to assist a few, usually low-skilled incubatees.¹⁵⁶

The South African government is also faced with a number of questions when considering the role incubation can play in developing small businesses. These are:

- Will increasing the number of incubators necessarily lead to a higher creation of enterprises?
- Will it lead to a better quality of businesses that are able to contribute significantly to economic growth?
- Is incubation a solution to creating more jobs?

The South African government's main incubation programme falls under the Small Enterprise Development Agency's (Seda) technology programme, though there are also a few examples of incubators run by provincial government.¹⁵⁷ Seda's incubation programme sprung out of the Godisa Trust in 2000 and was incorporated into the agency as the Seda Technology Programme in 2006. In 2010 Seda had 29 incubators (up from 23 in 2007¹⁵⁸), representing various sectors from steel in Mpumalanga to seven furniture manufacturing incubators and a sugar-cane incubator in KwaZulu-Natal. Seda's incubators have so far helped to create 900 enterprises, sustain 6 000 jobs and support a further 1 500 enterprises, since the programme was set up in 2006.¹⁵⁹

¹⁵⁶ "The Entrepreneurial Dialogues: State of Entrepreneurship in South Africa", Endeavor SA, 2010

¹⁵⁷ There are also examples of incubators funded by provincial government initiatives, such as: The Maxum Business Incubator based at the Innovation Hub in Tshwane; Sedichem, funded by the the Gauteng government and the Bandwidth Barn: A Cape Town-based incubator and subsidiary of the Cape IT Initiative aimed at ICT start-ups (Bignews, February 2009).

¹⁵⁸ Presentation of 2006/2007 Annual Report by Wawa Damane, 10 October 2007.

¹⁵⁹ Charles Wyeth in "Global Practice in Incubation Policy Development and Implementation South Africa Case Study", InfoDev, 2010

In the 2010 financial year Seda's 29¹⁶⁰ incubators supported 243 new SMMEs and 675 existing small and micro enterprises were supported – 90% of which were black-owned —while creating or helping to sustain 6 778 jobs. This is an average of 10 jobs per enterprise.¹⁶¹ The 200 companies incubated by Seda in 2008 generated a total turnover in excess of R129 million. This translates to an average annual turnover of R645 000 per incubatee.¹⁶²

Seda believes that generally small businesses or start-ups fail at a rate of about nine in 10 in the first two years of operation. Within its incubators, the survival rates are in the region of 84% to 97% in the first two years of operation depending on which incubator the business is enrolled in. After graduating from a Seda incubator the survival rate hovers at just over 70%.

Seda's incubators however still only reach a small number of entrepreneurs. On top of this the "incubation" domain is limited by a lack of skills and real support from tertiary education institutions.¹⁶³ Incubators also face funding constraints and none have in-house seed funds.¹⁶⁴ According to Endeavor SA a more rigorous selection process needs to be put in place by incubators if they are to select the right kind of business to incubate.¹⁶⁵

The country's two privately-run incubators are Raizcorp and Shanduka Black Umbrellas, funded by former unionist Cyril Ramaphosa's Shanduka Trust. Raizcorp has two incubators in Johannesburg and recently opened a third one in Richards Bay. Presently Raizcorp has 200 incubatees, both based at the centres and outside, receiving support. Raizcorp takes an equity share of 33% in each of the businesses it helps incubate and businesses also have to pay certain monthly fees, as well as a rental fee of R1 100.¹⁶⁶ Shanduka Black Umbrellas, a non-profit company which aims to support black entrepreneurs, is based in Cape Town and Johannesburg and presently has 51 member companies. For a monthly fee of R500 or R1 000, the programme provides member small businesses with a working environment and the support services to enable them to thrive. Benefits include office space, computers, internet and telephones, vehicles with drivers, a good reliable book-keeper service, a structured mentorship programme with a business consultant or mentor.

Brazil: An incubator revolution

- The number of incubators has almost tripled in last 10 years.
- Funding from government for research as well as support from universities is in place.
- But much of funding for incubators is reliant on government, but a private-sector venture-capital model is being sought.
- Not a solution for job creation as only a few businesses have been incubated.
- However incubators are being used to boost underperforming regions and target the creation of high-growth businesses.

¹⁶⁰ Jayesh Ravjee, the executive manager of the Small Enterprise Development Agency's (Seda) technology programme said funding from the Department of Trade and Industry allowed Seda to set up an average of three new incubators a year.

¹⁶¹ Annual Report 2009/10, Department of Trade and Industry

¹⁶² "The Entrepreneurial Dialogues: State of Entrepreneurship in South Africa", Endeavor SA, 2010

¹⁶³ Charles Wyeth quoted in "Global Practice in Incubation Policy Development and Implementation South Africa Case Study", InfoDev, 2010, p29.

¹⁶⁴ Leon Lourens, chief executive of Softstart BTI in "Global Practice in Incubation Policy Development and Implementation South Africa Case Study", InfoDev, 2010, p29

¹⁶⁵ "The Entrepreneurial Dialogues: State of Entrepreneurship in South Africa", Endeavor SA, 2010

¹⁶⁶ "Joining an incubator eases worries and frees up business owners", Bignews, July 2007
<http://www.businessowner.co.za/Article.aspx?Page=23&type=29&Item=3332>

Incubation might be regarded as an expensive way to assist businesses, but in Brazil with the number of incubators having tripled in the last 10 years, incubated businesses contribute about US\$250 million annually in taxes in Brazil, multiples more than the US\$280 million in public funds spent building incubators and mentoring incubatees in the last 20 years, according to Ari Plonski, president of Brazil's Anprotec, a non-profit organisation started in 1987 and which represents incubators in Brazil.

Today about 5 500 businesses are being incubated in Brazil – including 1 500 receiving virtual support. A further 2 000 companies have since graduated from incubators since the first batch set up in the late 1980s. On average each incubator in Brazil incubates about 10 businesses.¹⁶⁷

Driven by media attention, co-operation between the government and the private sector and by Brazil's new Innovation Law, the number of incubators in Brazil has grown almost threefold in 10 years – from 135 incubators in 2000 to about 400 in 2010.¹⁶⁸ Brazil's new Innovation Law passed in 2005, allows researchers at federal universities to work for a period of time for a private company and then return to the same university if they desire to do so. Under the legislation, Finep, a government agency which falls under the Ministry of Science and Technology, provides federal grants to companies for specific research. The funding is provided for projects done in conjunction with a university or research institute.¹⁶⁹

Finep's Programme First Innovative business (Prime) launched in 2009, provides grants of about R\$120 000 to start-ups focused on innovation. Successful applicants are selected by 17 incubators acting as agents. For the 2009 year the programme aimed to disburse grants of R\$216 million and reach about 1 800 enterprises, which are no more than two-years-old. In total 3 140 enterprises were supported through the grant at the end of its 2009 funding cycle.¹⁷⁰

Finep also has a 0% interest rate funding programme to stimulate firm growth in early stages, which successful new enterprises can also request loans from – up to R\$120 000 in 100 instalments without being charged interest on the loan. Added to this, a venture-capital programme called Inovar, which disbursed its first funding tranche in 2000 with its second edition in 2008, is aimed at companies that are at least two-years old. Inovar's seed-capital programme also provides funding for early-stage growth. So far 50 SMEs have benefited (and two large companies). Most of the companies are in the IT sector.

Incubators emerged in Brazil at the end of the military regime in the mid 1980s in a grassroots movement that included individuals from several sectors of society, particularly from the university. After the military regime ended the focus of innovation shifted from a top-down, centrally-planned approach to a bottom-up grass roots approach, with the incubator playing a key role in facilitating new venture creation at a local or regional level. By 1986, Brazil's National Research Council (CNPq) had created five technology parks and two incubators, one in São Paulo with the state government and one with the Federal University of Santa Catarina.¹⁷¹

At the start of the incubator movement in Brazil, most incubatees were aged between 50 and 60 and close to retirement. Today the majority of entrepreneurs based at incubators are students. The key motivation driving local and state governments to fund incubators is the retention of local talent necessary to drive a regional economy. The case of Florianapolis provides a good example of this. Florianapolis is the capital city of the fairly well developed southern state of Santa Catarina where two incubators and a science park were developed to retain the city's talented IT graduates. The idea for

¹⁶⁷ Interview with Ari Plonski, São Paulo, August 2010.

¹⁶⁸ Plonski and "Approaches to Business Incubation: A Comparative Study of the United States, China and Brazil", Aruna Chandra, 2007

¹⁶⁹ "Approaches to Business Incubation: A Comparative Study of the United States", China and Brazil, Aruna Chandra, 2007

¹⁷⁰ Between 2009 and 2011, and through three rounds of finance, it hopes to reach about 5 000 entrepreneurs with R\$650m in grants, with a total of R\$1bn including additional capital and credit (See <http://www.finep.gov.br/programas/prime.asp>, <http://www.portal-inovacao.mct.gov.br/pi/prime/indicadores/>).

¹⁷¹ Hooser 2003, from: "Approaches to Business Incubation: A Comparative Study of the United States, China and Brazil", Aruna Chandra, 2007.

Recife's IT cluster Porto Digital also came about in an attempt by the state to retain its IT graduates which are among some of the most sought-after in the country.¹⁷²

Can incubation create more jobs?

Anprotec's Plonski believes incubation is not a short-term solution to job creation but should rather be viewed as an effective way to retain local talent and maintain a region's economic balance. Research, he said, shows that the average mortality rate of companies that graduate from incubators stands at about 20%, compared to the general rate of 80% for those that have not been through incubation. An average of about 90% of graduate companies are still in operation five years after graduating from incubators.

According to a 2008 study by Sebrae São Paulo¹⁷³ 39% of those enterprises based in incubators in the state increased their productivity, while 46% increased their turnover and 24% increased their staff compliment. These rates are about double those of enterprises that don't pass through incubation, according to the study.¹⁷⁴

Since 2008, Sebrae has set itself a target of doubling the number of businesses assisted by incubators in the less developed regions of the North, North-East and Central-West regions. Sebrae has already selected a number of incubators in these regions with the aim of doubling the turnover of each incubatee. The strategy will benefit 92 incubators encompassing about 600 businesses.¹⁷⁵

Plonski however emphasised that it was difficult to draw too much from these figures. He said this is because any comparison between companies inside an incubator and those that are outside, is already skewed by the fact that only the very best companies make it into incubators in Brazil, as incubators rely on strong selection criteria. "So they have a natural tendency to survive," points out Plonski.

Anprotec is currently engaged in getting incubators to target more support at fast-growing companies with the aim of increasing the survival rate of graduate firms. Plonski estimated that the 2 000 companies that have graduated from incubators have created, and were sustaining, about 35 000 jobs. This translates to an average of over 17 employees per graduate enterprise. Some companies were turning \$30 million upon graduating, with the annual turnover of the largest, a commercial automation business created by students in the southern and relatively developed state of Paraná, reaching \$160 million, he said.

A key challenge that incubators in Brazil are now facing is access to venture capital for at least the first five years. Plonski said the problem was that many incubatees were not receiving financing beyond the second round, which made it difficult to commercialise products developed in incubators.

José Dornelas of Empreende, which offers training and consulting to business owners, says Brazil has a shortage of high-growth start-ups. These kinds of businesses require a different kind of support, which he believed should not only be handled by incubators alone. He pointed out that in Brazil incubation did not offer a very scalable model for business support because of the small number of firms incubators housed. What was necessary was to develop an ecosystem for innovative businesses. Such support should not be limited to universities alone as was largely the case in Brazil, he added.¹⁷⁶

Luiz Sakuda, professor of entrepreneurship and innovation at FEI university, São Paulo points out that in Brazil, because many incubators are housed in universities, many try to turn researchers into entrepreneurs. He believes rather that universities would be more effective if they focused on setting up

¹⁷² Interview with Ari Plonski, São Paulo, August 2010.

¹⁷³ Sebrae National office spent R\$12 million on businesses in incubators in 2008. Sebrae São Paulo invested R\$9.85m in assisting 72 incubators with 1 469 businesses in total (an average of R\$136 800 per incubator and R\$6 700 per incubatee). This is up from 43 incubators and R\$4.96 in 2003 (R\$115 200 per incubator and R\$9 400 per incubatee). Sebrae, 2008.

¹⁷⁴ Sebrae, 2008

¹⁷⁵ Locus, Oct/Nov/Dec 2009, No 58, Ano XV

¹⁷⁶ Interview with José Dornelas, São Paulo, August 2010.

innovation agencies, where the university tries to find companies interested in buying patents and then determine if researchers would be interested.¹⁷⁷

Sakuda also believes that setting up clusters and incubators was not necessary the way to go for governments looking to support small businesses. The problem he says is that incubators and clusters are artificial creations. He questions what will happen when government one day withdraws its support for these types of interventions. Added to this incubators he points out, are expensive.¹⁷⁸

Innovative funding for incubators

Most of Brazil's incubators still depend on public money, which continues to put a strain on their future viability. In 2009, the Department of Science and Technology's Financing Agency for Projects and Studies, approved R\$14 million to assist with the formation of incubator networks. In total it was expected that 17 incubators would be supported through this funding. Of this R\$10.2 million was granted to 12 existing incubators which would help new incubators to set up. A further R\$3.5 million was granted to five projects in the social arena that incubators would tackle.¹⁷⁹

As of 2006 Sebrae had invested around US\$50 million to stimulate the creation, development and consolidation of incubators. Initially, Sebrae has provided infrastructure funding for many incubators in the first round but is now focused more on providing start-up funding and training to new ventures.¹⁸⁰

But there are now moves by some incubators to explore new funding models. In Recife in the state of Pernambuco, the Núcleo de Empreendimentos em Ciência, Tecnologia e Artes (Nectar) has been taking equity stakes in incubatees.¹⁸¹ These stakes range between five to 10%, depending on the kind of business, said Edson de Barros Carvalho Filho, the director president of Nectar.¹⁸²

Nectar, which has been in operation since 1991, has a close relationship with Recife's Federal University, but remains privately owned. The incubator offers both virtual support and consulting services to entrepreneurs based at its premises. The only public funding his incubator receives is a R\$50 000 annual grant from Sebrae.

De Barros Carvalho Filho believes that to rely on funding from state governments is not a viable model for incubators in Brazil. He said many incubators funded by state governments were closing down because they were often dependent on political support. A change in political leadership could easily see the end for some incubators.

Edson has taken 40% of Alexandre Maciel's¹⁸³ voice recognition business Vocal Lab. Maciel is completing a PhD through the Federal University Pernambuco and Edson is his supervisor. Maciel, was able to get a R\$120 000 grant from Finep, and has spent a year at Nectar already developing three products – a speech recognition, speaker recognition and product to produce an artificial voice.

¹⁷⁷ The Federal University of Sao Paulo (UniFeSP), the University of Sao Paulo (USP) and the Campinas University (Universitaria Campinas) already have such agencies, says Sakuda.

¹⁷⁸ Interview with Luiz Sakuda, São Paulo, August 2010.

¹⁷⁹ <http://www.mct.gov.br/index.php/content/view/314005.html>

¹⁸⁰ "Approaches to Business Incubation: A Comparative Study of the United States, China and Brazil", Aruna Chandra, 2007

¹⁸¹ Nectar is presently assisting five businesses housed at its premises, 12 outside its building through virtual and assistance and three in a new building in São Luis, Maranhão. Only nine firms have graduated from the incubator since it started, which Edson admits is a rather low number. A further 15 or more have been assisted through virtual support. With the purchase of neighbouring property Edson plans to house 10 more incubatees soon.

¹⁸² Interview with Edson de Barros Carvalho Filho, Recife, August 2010.

¹⁸³ Interview with Alexandre Maciel, Recife, August 2010.

Nectar is also assisting Jordano Bruno to launch and expand his IT company. Bruno runs Agilware¹⁸⁴ a public relations database which helps companies to store news, press releases and videos. Edson has a 34% stake in his company and takes a 15% royalty on all the products Bruno sells in the state.¹⁸⁵

In Rio de Janeiro, the Genesis Institute, set up by the Pontifical Catholic University (PUC) Rio University, has set up a fund to assist incubatees and also takes equity in incubatees, but has faced some problems in this regard. The incubator has incubated 129 companies since it launched in 1997 and is one of about 10 incubators based in the state of Rio de Janeiro. A total of 47 businesses have graduated from the incubator, with three more set to graduate at the end of this year.¹⁸⁶ The incubator currently assists 84 businesses – 20 based at the incubator and 64 based outside the incubator.¹⁸⁷

Incubatees have access to Venture1 a R\$30 million venture capital fund set up in July 2010. Fund managers aim to make investments of between R\$1 million and R\$2.4 million in each firm. The fund's corpus consists of 40% of funds drawn from government, 40% from a single investor and the remainder from angel investors.

Entrepreneurs currently pay a subsidised fee and the incubator takes a 5% share in companies. However the equity percentage was often diluted when the business begins to expand, as the incubator's 5% is based on the turnover of the incubatee on leaving the incubator. The incubator is now working with lawyers to correct this problem. The incubator also negotiates with an incubatee to take some royalties from companies that developed intellectual property using university funds.

Marcio Nunes, a former lecturer at the PUC-Rio university whose company Bitix develops applications for smartphones said Genesis had the option to take five percent in his company, up to three years after he leaves the incubator.¹⁸⁸

In Brazil entrepreneurs battle to commercialise intellectual property that is developed at universities. Entrepreneurialism is also stifled as big companies are buying up most of the new innovations developed by universities. It was because of this that the university decided to set up an incubator, using R\$500 000 of the university's funds and R\$200 000 in public money sourced from Electrobras and Faberj the state's research foundation and Citibank. Most of the incubatees are doctorate and masters students and 80% of incubatees have doctorates or masters.

Management system can ensure quality

There is currently a drive in Brazil to professionalise incubator management and the processes practitioners use in incubators, through a system used by Anprotec called O Centro de Referência para

¹⁸⁴ Bruno has been operating for four years and 20 companies have already bought his software, helping him double his turnover every year. He attributes most of the growth to the fact that by being based in the incubator he has next to no operating costs. He believes it would be very expensive if he had to run his business without the assistance of Nectar.

¹⁸⁵ Interview with Jordano Bruno, Recife, August 2010.

¹⁸⁶ According to Priscila Castro, the business incubation manager at the Instituto Genesis, interview, Rio de Janeiro, August 2010.

¹⁸⁷ The unit has three incubators, namely a technology incubator, social incubator to help develop technologies to support development (based in a favela in Rio) and a cultural incubator. It currently assists businesses involved in oil and gas, design, jewellery and architecture

¹⁸⁸ He said the incubator's innovative environment, where one could easily bounce ideas off one another, helped keep him inspired and motivated. He is set to almost treble the turnover of his IT company this year thanks to ongoing assistance from the cluster. In February Nunes released a software application he had developed for Iphones which allows clients of leading Brazilian fastfood chain Habib's to order food over their cellphone without making a call to the branches. Things are going so well that he is looking to expand from eight to 20 employees and move into a bigger room at the incubator's building. He is now working on allowing the same application to become available for Blackberry and phones and those cellphones with Google Android system. "I like to say they are almost like part of the team," he says. On top of this being associated to the Instituto Genesis also helps open doors for him. "If PUC accepts me then I must be good" (Interview with Marcio Nunes, Rio de Janeiro, August 2010).

Apoio a Novos Empreendimentos (Cerne). The system includes selection criteria for incubatees.¹⁸⁹ It also offers a certification system for incubatees.¹⁹⁰ Infodev has developed best practices for incubator managers and a model suited for Brazil is currently being developed. In 2007 work began on the project, which is based on the US's Small Business Development Centers (SBDC) and Europe's Business Innovation Centres (BIC). Anprotec decided to develop such a system after attending an international mission¹⁹¹.

What can South Africa learn from Brazil?

- Clear policies, driven from the top, to support incubation are necessary.
- Innovative funding models making use of such things as the enterprise development element of the BEE codes of good conduct and tax incentives, are needed.
- Incubators must adopt systems and monitoring tools to measure their impact.
- Better filtering systems for applicants are also needed.
- Target high-growth firms which offer better chances of upscaling, creating jobs.

Brazil has been able to increase the number of its incubators almost threefold, in just 10 years in what could be called something of an incubation revolution. How did it do it and can South Africa learn anything from Brazil in setting up incubators that can help boost support to small businesses and create more jobs?

From the outset it needs to be emphasised that in Brazil the setting up of incubators is driven by clear government policies which enable incubatees to benefit from grant funding, while incubators are funded by the government.

The case of Brazil also suggests the need for more involvement in incubation in South Africa by universities and tertiary institutions, research arms of large companies and private business consultants.

There is also a need for incubators in South Africa to explore funding models. The example of private sector incubator Raizcorp's use of enterprise development spend, as under the Black Economic Empowerment (BEE) scorecard, is one case in point. Another is the need for incubators to take royalties or equity, with the assistance of perhaps venture-capital funds. A private sector incubation association could assist in drafting and implanting an effective management and evaluation system system for incubators.

In South Africa there is also a need for incubators to adopt effective systems, policies and procedures such as a guiding documents and a code of conduct. Incubator boards need to be comprised of the right people who have relevant experience and who can add value to the incubator. Funders' expectations should also be managed, so that they retain realistic expectations of the kinds of outputs that can be achieved by their respective incubator.¹⁹²

The move by Anprotec to aim more of its incubator support at high-growth firm should also be something South Africa should take note of. Incubation is a highly resource intensive support demanding specific training. It would be wasted on the general mass of businesses, but high-growth firms which offer better chances to create high economic growth for South Africa and the opportunity to create higher numbers of jobs should be supported over ordinary run-of-the-mill-type small enterprises.

¹⁸⁹ Cerne makes use of four levels to describe the maturity of an incubator, namely: undertaking, incubation, network of partnerships and improvements. The initial stage of undertaking for example includes sensitisation to entrepreneurship, a selection system, a system of qualification of incubatees and students, the number and role of consultants, basic management of the incubator, number of businesses that have graduated, number of incubatees and evaluation.

¹⁹⁰ Interview with Plonski.

¹⁹¹ Locus, Oct/Nov/Dec 2009, No 58, Ano XV

¹⁹² Charles Wyeth in "Global Practice in Incubation Policy Development and Implementation South Africa Case Study", InfoDev, 2010

Tertiary students should also be exposed to incubators in their communities, thereby making them aware that help is available should they decide to start a business. This could go some way to address the problem of the poor quality of entrepreneurial skills training at schools.¹⁹³

Small business researchers SBP point out that though government-sponsored incubation programmes need to remain open to a wider range of aspirant small businesses, filtering criteria could and should be tightened, business plans should be evaluated more realistically, and incubator should significantly improve their capacity to provide practical support to small businesses. It points out that where programmes emphasise quantity over the quality of participants there are too many dropouts and resources are wasted.

Public-private partnerships in business incubation could also help to improve efficiency. Says SBP: "As far as possible the primary focus should be on supporting real entrepreneurs, who can grow their businesses and thereby create employment for others who are not temperamentally equipped for an entrepreneurial role. Private sector-driven models can provide more intensive support than government initiatives, working with businesses with real growth potential. In this context, government should play a much greater role as a facilitator, encouraging private sector companies to provide incubator services for a broader range of small businesses, through incentives such as tax breaks, or a voucher system enabling new businesses to access training and six months back-office services, for example." Black Economic Empowerment (BEE) requirements can also be used to encourage businesses to put money into enterprise development which can be scaled up through private sector investments.¹⁹⁴

Incubators will not necessarily create a high number of jobs, but they are useful in boosting certain types of small businesses, namely helping to nurture more sophisticated and high-growth firms. Used strategically, incubators can be useful in helping to develop certain underperforming regions by attracting and supporting high-quality entrepreneurs. And by teaming incubators up with tertiary universities South Africa can help create a better research and development (R&D) capacity in small, high-growth enterprises.

CLUSTER SUPPORT

Cluster Support in South Africa

Small businesses in outlying economic regions could soon benefit from added business and financial support through the Department of Trade and Industry's plans to set up economic clusters to assist the country's underperforming regions.

The department's efforts are slowly gathering steam since the approval of a draft regional industrial development strategy four years ago, which signals the department's return to cluster support after a more than 10-year hiatus. The draft strategy points out four different ways countries have carried out regional economic development, namely: through tax incentives, strategic projects, special privileges and export processing zones.

Added to this:

- The Department of Trade and Industry's Medium-term Strategic Framework 2010-2013 highlights a plan to roll out five clusters, special economic zones or science parks to support rural industrial development.
- The department's second Industry Policy Action Plan (IPAP), released in February 2010, highlights the support of clusters in a number of sectors (See Appendix 4).

¹⁹³ "The Entrepreneurial Dialogues: State of Entrepreneurship in South Africa", 2010, Endeavor SA

¹⁹⁴ "Accelerating small business growth in South Africa: A roundtable discussion", SBP, 2009

- The department is also piloting a policy adapted from Japan, called “One municipality, One product”, which aimed to promote key products and services in municipalities for support with the aim of getting small towns and rural areas to generate more from exports.

Support for clusters from a national level will put South Africa in line with many other countries around the world including Finland and Italy as well as India and Brazil, that have reaped the benefits of clusters, which among other things allow businesses to learn from one another and buy raw materials and other inputs as well as market and sell to buyers in a more cost-effective way.¹⁹⁵

Clusters are based on systemic relationships among firms in a common geographic area that share something in common – be it complementary products, production processes, core technologies, natural resource requirements, skill requirements, or distribution channels.¹⁹⁶

The UN Industrial Development Organisation (Unido) defines clusters as “sectoral and geographical concentrations of enterprises that produce and sell a range of related or complementary products and, thus, face common challenges and opportunities”.¹⁹⁷ Clusters involve the participation of various actors, from upstream and downstream firms, to financial institutions, government institutions on a local, regional and national level and academic institutions.¹⁹⁸

Alfred Tau, Chief Director of Regional Economic Development said the department hoped a policy on clusters would promote partnerships between the government, the private sector and academic institutions to support economic development. Clusters would benefit from support such as infrastructure development, staff training and interventions in quality and standards as well as productivity improvement, he said.

In the 2009/10 financial year the department completed a pilot project to identify unique opportunities for 10 underperforming regions. Tau said the cluster opportunities identified by the department were:

- A mining supply and linkages cluster in the Rustenburg area,
- The manufacturing of ceramics and small scale clay brick manufacturing around Kuruman in the Northern Cape (Kgalagadi triangle),
- A renewable energy manufacturing and assembly hub in East London,
- A multi-manufacturing facility in Coega to support the automotives sector,
- Poultry farming in King Williamstown and surrounding areas,
- Mohair expansion around Uitenhage, forestry in a corridor stretching from Mpumalanga to Eastern Cape,
- Agro-processing in the north of KwaZulu-Natal (the Umkhanyakude region),
- A farmer-to-pharma cluster in the south of KwaZulu-Natal.

Tau, who added that not all the country's regions had been covered by the pilot mapping phase, said the process revealed mixed results: “In some areas, the long-term potential of those regions were established while in others the opportunities were really not long-term opportunities upon which to anchor regional industrial clusters,” he said.

Presently, Tau said the department, together with the Department of Economic Development and with the support of Unido, was still studying various policy options on clusters. Tau said Special Economic Zones (SEZs) and initiatives such as Productivity SA's Workplace Challenge Programme would be some of the tools used to support industrial agglomerations through clustering.

¹⁹⁵ “The Development of Clusters and Networks of SMEs”, Unido, 2001, p7.

¹⁹⁶ Rosenfeld, Stuart A, 2002. “Creating Smart Systems: A guide to cluster strategies in less favoured regions, European Union-Regional Innovation Strategies”, Regional Technology Strategies Carrboro, North Carolina: p7-9.

¹⁹⁷ *Ibid.*, p8.

¹⁹⁸ Sölvell, Orjan: *Clusters: Balancing Evolutionary and Constructive Forces*, Ivory Tower Publishers, Karlavägen 70, Stockholm, www.cluster-research.org: p17

Workplace Challenge Programme

Presently the government's sole cluster programme is the Workplace Challenge Programme, which falls under Productivity SA. The programme, initiated in 1995 in an attempt to help meet the challenge of South Africa's re-entry into the global market, took many of its learnings from Japan and Finland. The programme aims to increase the productivity of businesses big and small, by getting them to work together in clusters and share learnings.

In the 2009/10 financial year 19 clusters were running, benefiting 187 enterprises.¹⁹⁹ Some enterprises acknowledged that they may have had to liquidate if it had not for the programme. Those businesses that join the programme become part of a cluster or user group located in a particular area, where they are then mentored by consultants for a three-year period. Because they rely on technical service provided by internal Productivity SA resources, user-groups offer member companies more affordable interventions.

According to Justice Tshifularo, the programme's Director, member companies with fewer than 50 employees, pay annual fees of between R5 000 and R30 000 a year, depending on the type of membership selected, with higher fees allowing for more intensive training, coaching, support and assistance by consultants. Businesses that participate in the programme record on average: 49% fewer rejects, 25% fewer instances of late delivery, while 69% of companies record cost reduction and 14% an improvement in attendance.

The programme has helped Melita Mapane, who runs Polokwane Chemical Supplies, cut her overheads by 60% by allowing the business to be restructured. Since joining the three-year programme in May 2009 consultants have helped her cut costs such as salaries, fuel and maintenance of her trucks, by assisting her to retrench six sales representatives and replacing them with a network of agents.

The number of small businesses that benefited in 2009 from the Workplace Challenge programme, which is run by Productivity SA, has almost doubled since 2004, when 57 businesses with fewer than 200 employees were assisted. Productivity SA is now targeting more rural areas for involvement in the programme and as of October 2009:

- o A memorandum with Limpopo province's Department for Economic Development had far resulted in a formation of a cluster with five businesses.
- o In North West 15 businesses have been through the programme.
- o In Mpumalanga, Productivity SA is in the process of signing a memorandum of understanding with the Department of Economic Development in order to launch a programme there.
- o Productivity SA was also looking at expanding the programme to businesses in the services and agriculture sectors and to this end it was carrying out a pilot project with black sugarcane farmers in KwaZulu-Natal.²⁰⁰

Cluster approach in IPAP

The Department of Trade and Industry's Industrial Policy Action Plan (IPAP), identifies key sectors for government support. In the plan the department also identifies cluster-type programmes under these sectors which it intends to support. These programmes are reported in Appendix 4.

Clusters in India

Clusters began emerging in India shortly after independence in 1947 when the country began to aggressively set up state parastatals on industrial parks. Small industries soon began to spring up around such points, in cities such as Pune, Chandigarh, Hyderabad and Bangalore and Mumbai.²⁰¹ Today clusters receive considerable financial and technical support from the Government of India through its Micro and

¹⁹⁹ Productivity SA 2010 annual report.

²⁰⁰ "Efficiency can cut you costs", Bignews December 2009.

²⁰¹ Interview with Anil Bhardwaj, New Delhi, March 2010.