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**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**

MAIN REPORT

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CHAPTER 1: PROJECT OVERVIEW

1.1 Project purpose

The objective of this project is to inform the design of a national strategy to foster entrepreneurship in South Africa. Its purpose was to conduct research on various aspects of entrepreneurship and approaches to the promotion of entrepreneurship and to formulate policy recommendations for a national strategy. Specifically, the project terms of reference directed the study to undertake the following activities:

- Evaluate entrepreneurship development programmes in three other countries to draw lessons for South Africa.
- Evaluate the current South African institutional framework on entrepreneurship development at all three tiers of Government and provide recommendations for an entrepreneurship strategy for South Africa, with specific attention being paid to historically disadvantaged persons, especially the disabled, women, rural population, the unemployed, and the youth.
- Develop a model for the integration of entrepreneurship development into the country's education system and the government's national macro-economic and industrial policies.
- Develop a monitoring and evaluation system that will be used for public programmes on entrepreneurship development.
- Develop a framework for institutionalization and implementation of a national entrepreneurship development strategy for South Africa.

1.2 Definition of entrepreneurship

The issue of definition of entrepreneurship is critical because it has a direct bearing on the indicators employed to measure the rate and level of entrepreneurship within an economy. However, literature shows that there exists no generally accepted definition of entrepreneurship (About 12 different definitions of entrepreneurship are presented in Appendix I).

This study follows a combination of two definitions that, although separate, overlap considerably and provide a broad coverage of various aspects of entrepreneurship encompassed in several other definitions. For this reason, the two definitions, taken together, were deemed sufficient for the purposes of the study. The two definitions have been formulated by Wennekers and Thurik¹. and the Global Entrepreneurship Monitor (GEM) Project.² The former define entrepreneurship as:

The manifest ability and willingness of individuals, on their own, in teams, within and outside existing organizations, to: perceive and create new economic opportunities (new products, new production methods, new organizational schemes and new product-market combinations)

¹ Sander Wennekers and Thurik, R., 'Linking Entrepreneurship and Economic Growth', in : Small business Economics 13, 27-55, 1999 , Kluwer Academic Publishers.

² Paul Reynolds, Jonathan Levie, Erkkio Autio, Michael Hay, and Bill Bygrave, "Global Entrepreneurship Monitor, - 1999 Research Report:Entrepreneurship and National Economic Well-Being"

(and) introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions.

GEM, on the other hand, offers the following definition:

Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, teams of individuals, or established businesses.

These definitions, when taken together, provide an opportunity to capture as broadly as possible the critical aspects of entrepreneurship. Although it is clear that the two definitions overlap to a considerable degree, they also differ in important ways, if only in the emphasis each favours. The GEM definition, for instance, explicitly recognises self-employment as one manifestation of entrepreneurship. This is only implied in the Wennekers & Thurik definition. Also, the GEM definition takes on board a critical aspect of entrepreneurship which has an important bearing on sustainable job creation, in particular - staying in business. This is implied in the definition by the phrase "or the expansion of an existing business." This point is relevant because staying in business is an important measure of entrepreneurship.

The final point to make with regards to the definition of entrepreneurship for the purposes of this project is that entrepreneurship extends beyond individuals and groups to organisations (as already indicated in the definition), society and culture.

In the narrow sense entrepreneurship relates to business entrepreneurialism, in a broad sense entrepreneurship is regarded as a set of qualities and competencies that enable individuals, organizations, communities, societies and cultures to be flexible, creative and adaptable in the face of, and as contributors to, rapid social and economic change^{1,3}.

1.3 Entrepreneurship promotion versus small business promotion

South Africa already has an elaborate strategy on small business promotion, which has been developed and implemented since the democratisation of the country in 1994. The question that arises then is: why a national strategy on entrepreneurship development?

The project terms of reference stated unequivocally: "the strategy must be unquestionably focused on entrepreneurship development as distinct from small business development." While it is acknowledged that the current policy framework on small business promotion, and other policies for that matter, do encompass several key components that have a direct bearing on entrepreneurship promotion, the project is guided by an understanding that entrepreneurship development is broader than small business development. Indeed, entrepreneurship literature makes a point of differentiating between entrepreneurship and small business promotion. It is, however, also acknowledged that small business formation is one of the key vehicles of entrepreneurship. This discussion is taken up later in the report.

³ 'Towards an Enterprising Culture – A challenge for Education and Training', OECD/CERI, Educational monograph, No. 4, 1989, as quoted by Bridge (1998).

1.4 Measuring entrepreneurship

It stands to reason that in order to determine whether progress is being made in fostering entrepreneurship through the implementation of the proposed national strategy, there has to be measurement of the emergence or otherwise of entrepreneurship.

However, measuring entrepreneurship is difficult (Wennekers and Thurik, 1999) as any one measure is insufficient to account for the various and diverse characteristics of entrepreneurship, for example, formation, ownership, continuation and growth (Gartner and Shane, 1995⁴). Literature reveals that a number of measures exist, each capturing a particular manifestation of entrepreneurship, and that there is no general agreement on the most appropriate measures. Gartner and Shane (1995) stress that no single measure can be taken as *the* appropriate measure but rather that the various measures should be used in combination rather than individually as all have both weaknesses and strengths.

Literature shows a strong focus on measuring entrepreneurship at the individual (self-employment) and firm (firm creation) levels (Gartner and Shane, 1995). Individual level measures focus on the number of individuals who engage in self-employment. It has been argued that this measure is important because of the link between self-employment and the rate of formation of firms.

Solo self-employment might, therefore, be a critical predictor of subsequent increases in firm formation rates. That is, as individuals who are solo self-employed gain experience in entrepreneurship, they consider expanding their businesses by hiring employees with other entrepreneurs (Gartner and Shane, 1995).

At the firm level, measurement captures the rate of firm formation and the “stock” of firms at any given point in time. It has been cautioned that measurement at this level should also take into account the rate of firm destruction (through mergers, acquisitions, and failures) and the ability of new firms to stay in business.

Gartner and Shane introduce a third, societal level measure; organisations per capita, which measures entrepreneurship over time. The measure shows the stock of organisations in the economy at any point in time. When the organisation per capita measure is high, there are more people in the economy who control organisations⁵ compared to when the measure is low. One of the key considerations in developing this measure was the need to measure entrepreneurship over longer periods of time than was done by individual and firm level measures. A long-term focus is necessitated by the fact that certain changes that impact on the level of entrepreneurship in society are long-term in nature and, thus, their effects cannot be captured by year-on-year measures. These changes are typically in the areas of technological developments, cultural values, “need for achievement” and immigration.

1.5 Rationale for a national strategy on entrepreneurship development

The challenge of unemployment in South Africa and the poor performance of the economy in creating new jobs and sustaining existing ones is generally acknowledged. Despite a major effort on the part of

⁴ William B. Gartner and Scott A. Shane, “Measuring Entrepreneurship Over Time”, Journal of Business Venturing, Volume 10 Number 4, July 1995.

⁵ The measure is based on Hawley’s theory of entrepreneurship as as ownership and control (as opposed to the view of an entrepreneur as co-ordinator rather than owner of productive resources).

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government to, amongst other measures, provide incentives to encourage industrial development and, hence stimulate job creation, results in terms of employment creation remain unsatisfactory. In its continuous search for solutions to this problem, the government is now turning its attention to looking at entrepreneurship development and the promotion of self-employment as strategies that can help to overcome the unemployment problem and propel the economy to higher rates of growth.

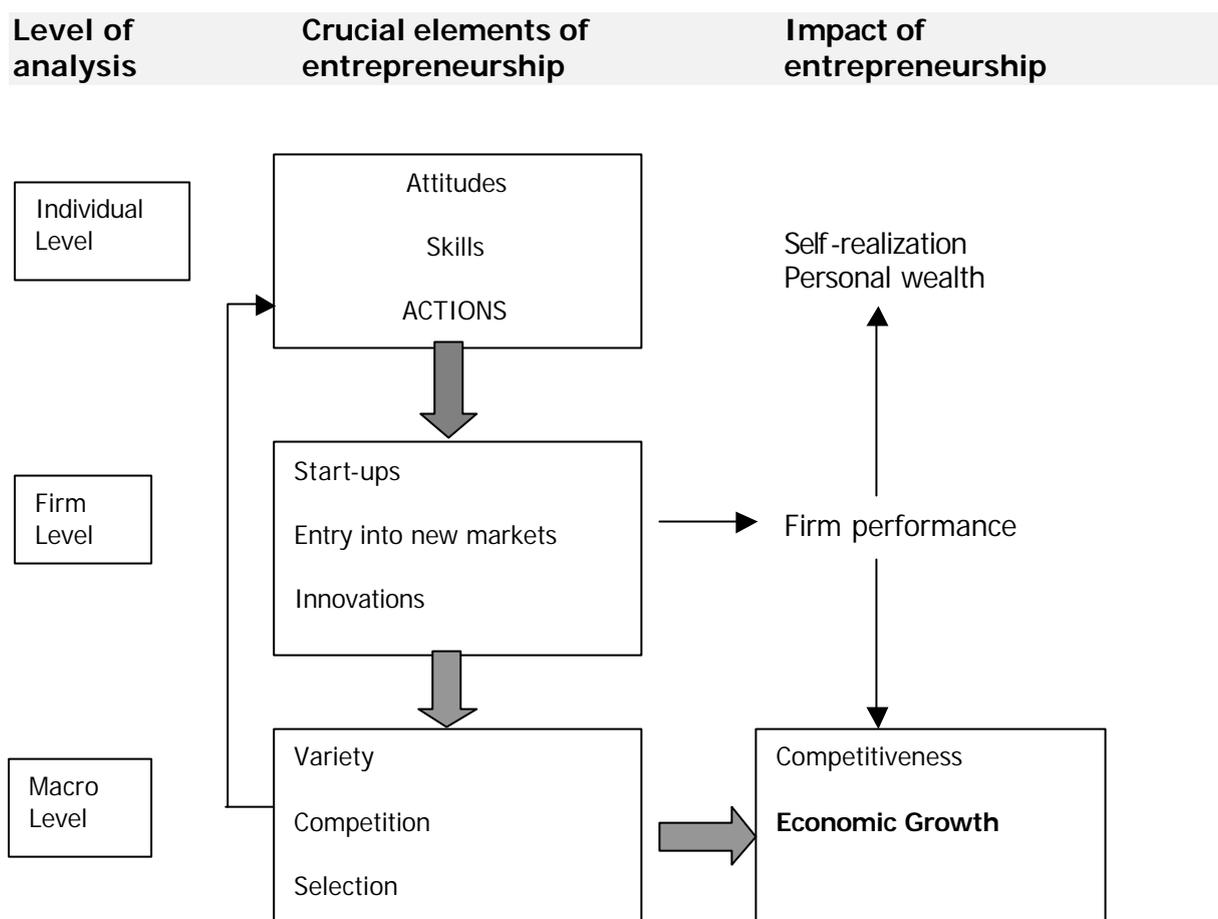
It is internationally acknowledged that entrepreneurship plays a critical role in stimulating economic growth and thus job creation. Zoltan Acs, for instance, claims that small firms play an important role in the economy serving as agents of change by their entrepreneurial activity. They are the source of considerable innovative activity, stimulate industrial evolution and create an important share of the newly generated jobs⁶. Besides the role of entrepreneurs as founders of new businesses, entrepreneurship plays a more general role in economic life through innovation. This innovativeness can be distinguished between product-market innovation and technological innovation. Wherever entrepreneurial employees reap the benefits of their abilities, within the firm or in a spin-off, their activities are likely to enhance growth at the macro-level.

Recently efforts have been made by various scholars and analysts to link entrepreneurship to economic growth. The Global Entrepreneurship Monitor project, cited earlier in this report, is one such initiative (see GEM model under the methodology section of this report). Wennekers and Thurik (1999) also make a similar effort. The authors have developed a model to illustrate the link between entrepreneurship and economic growth.

An adaptation of the model is presented on the following page.

⁶ Zoltan J. Acs, 'Small Business Economics: A Global Perspective', Challenge 35 (November/December, 38-44, 1992).

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Lastly, Birch (1986)⁷ identifies a number of benefits of entrepreneurship to the entrepreneur, the economy, and society at large (table 1).

Table 1: Benefits of entrepreneurship

<ul style="list-style-type: none"> • Economic growth • Job creation • Increased tax base • Technological development 	<ul style="list-style-type: none"> • Improved standard of living • Profit generation • Image • Investment opportunities
--	---

It is on this basis that government seeks to formulate and implement a national entrepreneurship development strategy. The stated objective of the proposed strategy, as per the project terms of reference, is to help to “accelerate growth and enhance the capacity of the economy to create jobs.”

⁷ John G. Birch, Entrepreneurship, 1986.

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It is anticipated that the implementation of a national entrepreneurship development strategy will yield a number of results (table 2).

Table 2: Expected entrepreneurship strategy results

- The inculcation of an entrepreneurship culture in South Africa.
- Growth of self-employment, profitable business activities particularly amongst historically disadvantaged groups.
- Entrepreneurship development will be integrated into the education system, national macro-economic and industrial policies of government.
- South Africa will be able to learn from international experience in entrepreneurship development.
- The benchmark system will provide government with a basis for a monitoring and evaluation system for public programmes on entrepreneurship development.
- The flow of information between economic agents will be improved
- The performance of other government initiatives such as the Industrial Restructuring Programme and SMME development will be enhanced.

1.6 Research methodology

The project largely follows a conceptual model developed by the Global Entrepreneurship Monitoring project titled “Detailed Conceptual Model: The Entrepreneurial Sector and Economic Growth”.⁸ The methodology incorporates both secondary and primary research and encompasses three main data collection methods. These various components are discussed in turn.

⁸ This model is used with written permission from Professor Paul Reynolds, GEM Co-ordinator.

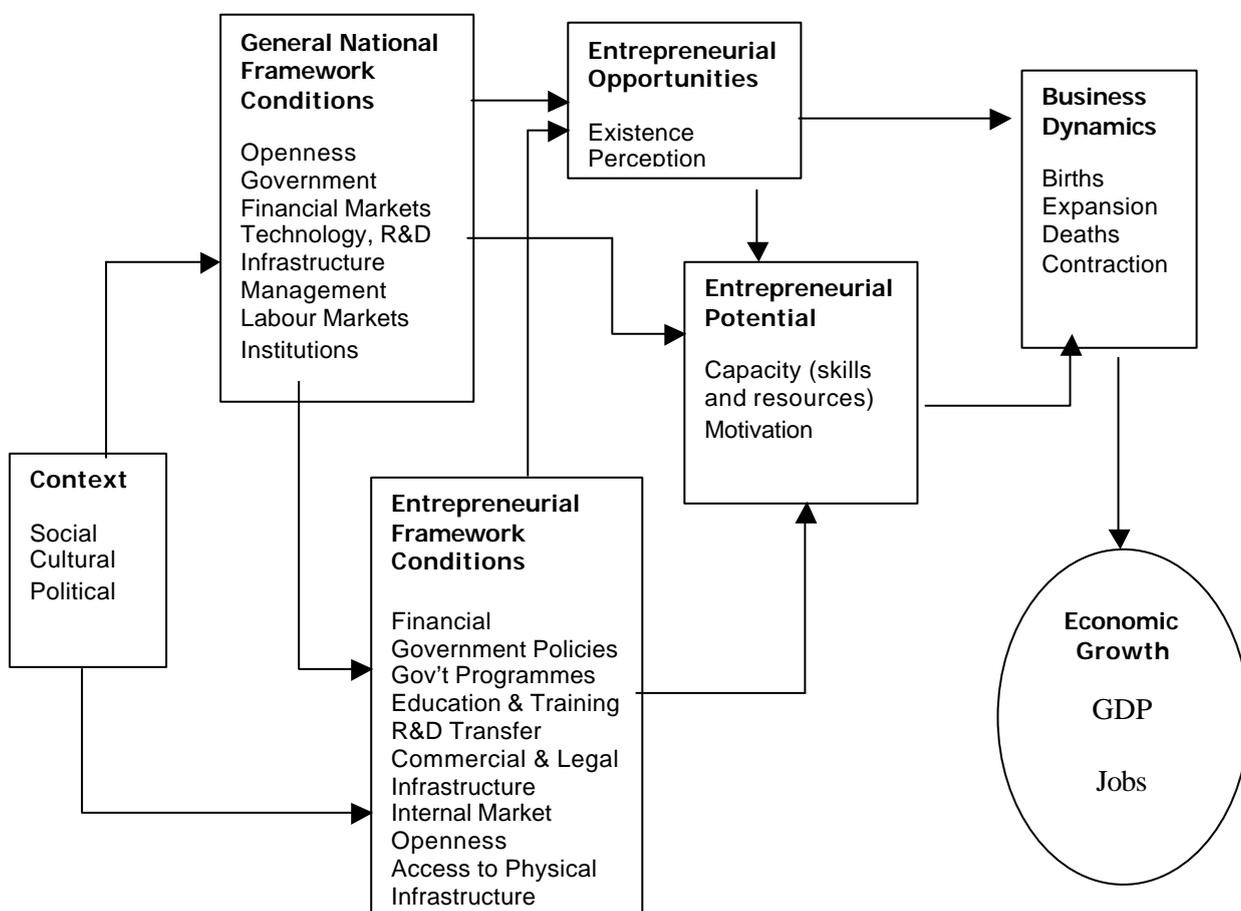
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1.6.1 Project Framework

There are a few models of entrepreneurship that bear relevance to the current study and could have been used as guiding frameworks for the study. The GEM model, presented below, has been selected for this purpose because it is considered to be the most relevant to the study for two key reasons:

- It is an elaborate model that incorporates the key aspects of the other models, albeit in a modified form. Thus, the important aspects of these models are not lost to the current study.
- More importantly, the model, and indeed the entire GEM project itself, seeks to address key questions that are, to a significant degree, of direct relevance to the current study:
 - how much impact does entrepreneurial activity have on national economic growth (justification for entrepreneurship promotion);
 - how does national entrepreneurial activity affect national economic well-being in terms of growth and job creation (justification for entrepreneurship promotion);
 - how does the national context affect national entrepreneurial activity (necessary conditions for the promotion of entrepreneurship);
 - what can be done to enhance national entrepreneurial activity (design of a national strategy to promote entrepreneurship).

GEM Model



1.6.2 Secondary Research

This took the form of an extensive **review of international literature** on entrepreneurship and entrepreneurship development, including models based on entrepreneurship development experiences of three countries selected to draw lessons for South Africa. The international literature review sought to answer questions and issues such as:

- What is entrepreneurship?
- The importance of entrepreneurship for the economy
- The importance of entrepreneurship for local communities
- Indicators/measures of entrepreneurial activity
- Barriers to and enablers of entrepreneurship
- Competition policy and entrepreneurship
- The (urban, suburban, and rural) environment and entrepreneurial behaviour
- Key factors in fostering entrepreneurship
- Exogenous technological changes and entrepreneurship
- Market (demand) changes and entrepreneurship
- Integration of entrepreneurship development into the education system
- Entrepreneurship development in three selected countries – design, application, and lessons learnt.

The **South African** component of **literature review** focused on the assessment of the current situation with regard to the country's macro-economic and industrial policy environment and policies and programmes relating to the promotion of entrepreneurship and small business in the country. The review covered the following aspects:

- Government policy and initiatives on entrepreneurship promotion, and policies impacting entrepreneurship promotion (small business promotion policy, labour policy, education policy, innovation and competitiveness support policies, competition policy, regulatory and administrative issues, etc.)
- The institutional set-up for entrepreneurship and small business promotion
- Private sector programmes on entrepreneurship development
- Assessments of current entrepreneurship and small business promotion programmes
- Broad understanding of economic opportunities in various sectors of the South African economy and critical success factors in each of these sectors
- Barriers to entry into various economic activities facing particularly historically disadvantaged communities

1.6.3 Primary Research

Primary research was only undertaken in South Africa. It took the form of a series of **key informant interviews** and a limited number of **focus groups**. Interviews focused on the assessment of:

- the general local environment (policy, legislative, regulatory, etc) for entrepreneurship promotion;
- factors inhibiting the emergence and spread of entrepreneurial activity, with particular reference to the creation of new ventures and the expansion of existing ones;
- the role of special interventions such as affirmative public procurement and black economic empowerment initiatives in fostering entrepreneurship;
- current entrepreneurship and enterprise development policies and programmes of national, provincial and local government and other key players such as international development agencies (such as the EU) and the business and non-governmental sectors;
- the current institutional set-up for entrepreneurship and enterprise development;

In-depth face-to-face interviews, using a “Key Informant Interview Schedule”, were conducted with key informants in:

- government (national, provincial, and local) and various (relevant) government-sponsored Commissions.
- the corporate sector (focusing on organised corporate-small enterprise development bodies and major corporate players in enterprise development);
- non-governmental enterprise and entrepreneurship development agencies (especially, but not exclusively, those whose programmes interface with the education system and/or address the needs of specific target groups);
- organised business bodies, especially those representing emerging enterprise;
- organisations providing various kinds of support services for enterprise development such as banks; and those representing and working with specific target groups;
- organisations representing various target groups such as women, youth, and the disabled;
- selected academic institutions.

Seven **focus groups** were conducted with participants drawn from various target groups to assess participants’ views on:

- economic opportunities and the entrepreneurship environment in the country;
- the perceived value of and disposition towards starting and owning a business;
- barriers to starting and growing a business;
- government’s entrepreneurship and enterprise development policies and programmes;
- appropriateness and adequacy of enterprise support institutions and their programmes, etc.

The focus groups were not intended to be statistically representative of the various target groups but rather to identify and explore issues relevant to the study and to formulate ideas for the national strategy on entrepreneurship development.

1.7 Motivation for choice of countries for case studies

The selection of countries to be used as case studies was agreed beforehand with the Project Reference Group convened by DTI. As per the terms of reference, three countries were selected.

❖ The Netherlands

The Netherlands has a long history of SME support, evidenced by the fact that EIM, the country's leading small business research institution has been in existence since 1930. Since then, a lot of changes have occurred in SME policy. The focus has moved from SME support to general entrepreneurship promotion, implying a more active role for government. SME policy is now fully integrated into the country's industrial and economic policies. Policy implementation is based on thorough socio-economic research. Each new policy measure of any government ministry is ex-ante assessed for its implications for SMEs. A national SME research programme is carried out annually to provide policy-makers with an ongoing flow of independent information.

In September 1999, the Government of the Netherlands published the paper 'De ondernemende Samenleving, meer kansen, minder belemmeringen voor ondernemerschap' (Ministry of Economic Affairs, the title may be translated as: The Entrepreneurial Society, more options and less bottlenecks for entrepreneurship). The basic assumption behind the paper is that the Netherlands as a whole is 'regaining' its entrepreneurial spirit. For many years it was felt that the level of entrepreneurship was insufficient.

For example, from an international perspective both the number of start-ups and the percentage of the population with a positive attitude towards entrepreneurship were considered to be low. The paper states that presently almost 90% of the population has a positive attitude towards entrepreneurship and the number of start-ups is high. This has led to a 50% increase of the number of enterprises over the last ten years. For the Dutch government the rationale behind supporting entrepreneurship lies in the beneficial effects on flexibility, innovation, job creation and individual fulfillment.

Furthermore, it can be a vehicle for emancipation and integration of specific groups with the population such as women and ethnic minorities (since 1986 the share of entrepreneurs in the non allochthonous (ethnic minorities) labor force has increased from 3.3% to 7.4%).

Therefore the case study of the Netherlands will contribute the following aspects:

- documentation of the change from supporting small business, to fostering entrepreneurship;
- a systematic overview of the field. Three basic elements distinguished in the recent paper by the Netherlands government may be used as guidelines: (i) market structure, (ii) regulations and public business services and (iii) creating new opportunities by means of a productive economic climate;
- the possibility to discuss the merits and the results of efforts to focus on target groups in formulating an entrepreneurship policy (women, ethnic minorities).

❖ **The United States**

Often the United States is considered the prime example of an entrepreneurial society. Various authors have identified differences between the United States and the Netherlands in this respect: "... These two countries developed in quite different contexts and this resulted in two quite different types of national cultural, political and economic systems. The Netherlands referred to as a 'distributive society', emphasizes stability, consultation of stakeholders ('social partners') and political mechanisms for the distribution of economic wealth. ... The United States system, referred to as 'enterprise economy', emphasizes flexibility, government supervision of economic adaptation – led by the entrepreneurial sector – and market mechanisms for distribution of economic wealth.

The case of the US is of interest because:

- it is used as a role model, i.e. in setting targets, in various countries developing an enterprise support policy;
- it differs in context from the first case study on the Netherlands;
- it provides the opportunity to study the extent to which an enterprise policy affects the participation of various ethnic groups in the economy such as blacks or hispanics;
- the enterprise support policy in place is composed of elements originating from various government levels: the federal government, the state and the local administration.

❖ **India**

India was included in accordance with a specific request from DTI. The basis for this request was that there was a need to include among the three case studies a country that was, in certain respects, comparable to South Africa. Key among these was the level of economic development. Other factors included focus on efforts to stimulate entrepreneurship among the poor in society and small enterprise development in general.

**CHAPTER 2: REVIEW OF INTERNATIONAL PRACTICE ON ENTREPRENEURSHIP
PROMOTION**

2.1 Introduction

This section of the report presents the results of an assessment of international practice in the promotion of entrepreneurship. The first part of the report presents a review of international literature on the phenomenon and the promotion of entrepreneurship focusing on factors that impede or facilitate the promotion of entrepreneurship. The second part presents case studies of three countries - the Netherlands, the USA and India (focusing on the state of Andhra Pradesh).

Given that this component of the project was based on desk research only, the results presented in this report are based on information from literature, the Internet and EIM experts. Because of the limited time available to complete this component of the research, and the focus of available literature, this component of the report has limitations that need to be noted:

- Providing an overview of international best practices covering all the possibly relevant aspects was not feasible. Although worldwide there is an enormous amount of literature concerning entrepreneurship and small business, almost all of it focuses on very specific subjects. Literature providing a broad view on the promotion of entrepreneurship and small business, and assessments of the effects thereof is scarce and unfortunately not very specific with regards to the contents of programs and policies.
- The large number of reports available and the vastness of information on entrepreneurship and small business worldwide made the search process cumbersome. Therefore some possibly relevant reports might not have been taken into account. Reliance was placed on already available knowledge, electronic literature search and the Internet. For example, the very moment this report was finished a possibly very interesting and relevant report was brought to attention: 'Evaluation of entrepreneurship development programmes', D. Awasthi and J. Sebastian, Sage India, New Delhi, 1996. According to the website description, this book assesses the efficacy, degree of success, and the contribution of entrepreneurship development programmes in India. Unfortunately, there was no time left to acquire this book and include it in the literature review.
- As previously stated, a generally accepted definition of entrepreneurship does not exist. A major part of the available literature focuses on small businesses, and not on entrepreneurship in the broader sense. As a result, this report focuses on small business as well.
- Another constraint is the apparent absence of well-coordinated and well-evaluated entrepreneurship and small business policy in (at least) a large part of the world, including the Netherlands, the USA and India. Policies, evaluations and literature all seem to be very fragmented.

Although the importance of entrepreneurship is generally considered high, it is only very recently that politicians and researchers appear to be interested in a more co-ordinated approach towards entrepreneurship and small business policy, and in the evaluation of policies in general. This has meant that the report cannot present any concrete lessons on results of entrepreneurship development policies based on systematic evaluations over time. This observation points to a key factor in the effective implementation of an entrepreneurship development strategy: the proposed national strategy should be well co-ordinated and

evaluated. Given the need for an efficient and effective strategy, this might well be the most important early lesson.

2.2 Promoting entrepreneurship – a review of international literature

Three aspects that are relevant to this component of the report have already been discussed. These are: definition of entrepreneurship, measurement of entrepreneurship and the justification for a national strategy for fostering entrepreneurship. These issues will therefore not be covered in this part of the report.

2.2.1 Who becomes an entrepreneur?

Philip A. Wickham⁹ cautions against trying to answer the question ‘who becomes an entrepreneur’ by looking for a certain type of personality or trying to identify innate characteristics. “In these terms, *anyone* can become an entrepreneur. A much more fruitful approach is to look at the broader life experience and events which encourage a person to make a move into entrepreneurship”, (p36).

Wickham identifies a number of general ‘biographies’ of those who become entrepreneurs:

The inventor. This is someone who has developed a new innovation and has decided to make a career out of presenting that innovation to the market. The innovation may be a new product or an idea for a new service. It may be high-tech, or based on a traditional technology. The inventor often draws on technical experience of a particular industry in order to make his or her invention. However, it may be derived from a technology quite unrelated to the industry the inventor works in. It may be based on technical expertise gained as a result of a hobby. Alternatively, the invention may result from a ‘grey’ research programme carried out unofficially within the inventor’s employer organisation or it may be the product of a private ‘garden shed’ development programme.

The unfulfilled manager. Life as a professional manager may bring many rewards but the organisation may not offer managers a vehicle for all their ambitions, for example, the desire to make a mark on the world, to leave a lasting achievement, to stretch their existing managerial talents to their limit and to develop new ones. It may simply not let them do things *their* way. Such managers, confident in their abilities and unsatisfied in their ambitions in their current occupation, may decide to embark on an entrepreneurial career.

The displaced manager. The increasing pace of technological and economic change means that managers are likely to make an increasing number of career changes during their professional lives. Restructuring trends such as ‘downsizing’ and ‘delaying’ means unemployment among professional groups is increasing in many parts of the world. This increases the pressure on managers to work for themselves and one possibility is to undertake an entrepreneurial route. The severance package, which may be offered by their organisations, can sometimes facilitate this possibility.

⁹ Philip A. Wickham, “Strategic Entrepreneurship: A Decision-Making Approach to New Venture Creation and Management”, 1998.

The young professional: Increasingly, young, highly educated people, often with formal management qualifications, are skipping the experience of working for an established organisation and moving directly to work on establishing their own ventures. Such entrepreneurs are often met with suspicion. There may be a concern that whatever their ‘theoretical’ knowledge, they lack experience in the realities of business life. While youthful enthusiasm may hide a lack of real acumen, the young entrepreneur should not be dismissed out of hand. Importantly, “Entrepreneurs may *have* to be younger if sufficient entrepreneurial talent is to be available to drive the economy’s growth” (p38).

The excluded: Some people turn to an entrepreneurial career because nothing else is open to them. Much has been documented on the dynamism and entrepreneurial vigour of displaced communities and ethnic and religious minorities. This is not because such people are ‘inherently’ entrepreneurial; rather it is because, for a variety of social, cultural, political and historical reasons, they have not been invited to join the wider economic community. They do not form part of the established network of individuals and organisations. As a result they may form their own internal networks, trading amongst themselves and, perhaps, with their ancestral countries.

2.2.2 What causes entrepreneurship to flourish?

Entrepreneurship is the result of three factors working together:

- **Conducive framework conditions.** Achieving proper framework conditions – the institutional arrangements within which economic activity takes place – should be the foundation of policy: there is little sense and much scope for waste in working against poorly functioning markets.
- **Well-designed government programmes.** Well-designed and well-targeted government programmes can complement framework conditions, especially in areas not directly influenced by framework conditions. For example, they can encourage and maximise the benefits of collaborative behaviour, augment the flow of information for financing entrepreneurship and provide a flexible response to location-specific factors affecting entrepreneurship.
- **Supportive cultural attitudes.** Supportive cultural attitudes also complement framework conditions. Other things being equal, an environment in which entrepreneurship is esteemed, and in which stigma does not automatically attach to business failure, will generally be more conducive to entrepreneurship. Indeed, efforts to improve framework conditions so as to bring about a closer relationship between risk and return, or between individual effort and reward, may be slow to show results unless cultural attitudes support risk-taking and individual reward.

Although there has been little systematic assessment of the impact of culture on entrepreneurship or its policy ramifications, new work suggests that education can help create positive attitudes towards entrepreneurship. And several statistical analyses have recently appeared that demonstrate the positive impact of “trust” on economic development. These studies point to possible new emphases in public policy.

At the individual level, a number of factors that encourage entrepreneurship have been identified. These are a combination of positive “pull” and negative “push” factors. See Table 3¹⁰ following.

¹⁰ Philip A. Wickham, 1998, p49.

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Table 3: Factors encouraging entrepreneurship

Positive (“pull”) factors	Negative (“push”) factors
<ul style="list-style-type: none"> ▪ Financial rewards of entrepreneurship ▪ Freedom to work for oneself ▪ Sense of achievement to be gained from running one’s own venture ▪ Freedom to pursue a personal innovation ▪ Desire to gain the social standing achieved by entrepreneurs 	<ul style="list-style-type: none"> ▪ Limitations of financial rewards from conventional jobs ▪ Being unemployed in the established economy ▪ Career limitations and setbacks in a conventional job ▪ Inability to pursue a personal innovation in a conventional job ▪ Being a ‘misfit’ in an established organisation.

“The number of entrepreneurs operating at any one time will depend on the strength of the pull and push forces. If they are strong, then a large number of entrepreneurs will emerge” (Wickham, p.49).

However, regardless of the strength of the push and pull factors and the general attractiveness of the entrepreneurship option, the supply of entrepreneurs will still be limited if there are strong inhibiting factors in operation, thus preventing potential entrepreneurs from pursuing entrepreneurial activities (Wickham, p50). These factors include:

- Inability to access start-up capital
- High costs of start-up capital
- High risks presented by the business environment
- Legal restrictions on business activity
- Lack of training for entrepreneurs
- Perception that the role of the entrepreneur has a poor image
- Lack of suitable human resources and personal inertia.

2.2.3 Can government programmes stimulate entrepreneurship?

The response to this question is in the affirmative. For instance, Wickham (1998) notes that: recognizing the importance of increasing the number of entrepreneurs within the economy to stimulate growth, “Politicians and economic policy makers increasingly put the elimination of inhibitors to entrepreneurship at the top of their agenda” (p.50).

Many OECD countries have a wide range of programmes designed to assist business, although not all of these programmes have as their primary objective the fostering of entrepreneurship. In some cases programmes are targeted at different types of businesses, for example, small businesses, high-tech enterprises or start-ups. Other programmes target finance, innovation, the development of business skills, and so on.

However, despite an increasing focus on fostering entrepreneurship in many parts of the world, programmes have generally evolved in a patchwork fashion over the years, although many countries, including Australia, the Netherlands and Spain, have made recent efforts to develop more coherent strategies. Spending on such programmes can be high. In the United States, for instance, the annual figure of US\$ 65 billion (close to 1 per cent of GDP) has been quoted as the total cost of all federal business support programmes.

Programmes to foster entrepreneurship can complement framework conditions in a variety of ways. They can do this, for example, by encouraging and maximising the benefits of collaborative behaviour; increasing the flow of information for financing entrepreneurship; encouraging awareness of entrepreneurship and improving skills formation. Some of these programmes are inexpensive and have the added virtue of not interfering with market incentives.

2.2.4 Should policies and programs be undertaken at national, provincial or local level?

There are two pertinent questions with regard to the implementation of policies and programmes. Firstly, at what level (national, provincial, or local) should implementation take place? Secondly, would it be better to have a private organization execute specific parts of a programme? Evidence does not show any clear-cut answers to these questions. Instead, one finds that different approaches are being used in countries all over the world. Unfortunately, not much literature appears to exist on the specific reasons for selecting one option over the other.

One explanation for the reason local initiatives can be useful and the circumstances under which that is so, has been advanced by the OECD:

Entrepreneurship is strongly affected by local and regional economic, social and institutional conditions. The nature of entrepreneurial activity often varies markedly across sub-national regions owing to differences in demography, wealth, education, occupational profiles, infrastructure endowments and other factors. Within the same country some regions have enterprise birth rates up to six times higher than others. In addition to conferring certain competitive advantages through economies of agglomeration, the geographic concentration of firms often provides an environment conducive to entrepreneurial activity. The transition economies also offer a striking contrast between large urban areas showing signs of dynamic entrepreneurial activity and most rural areas, which lag behind. Given the variety of location-specific factors which affect entrepreneurship and the opportunities for encouraging entrepreneurship through local measures, policies which fail to take account of regional and local differences are less likely to be successful. Local initiatives have advantages such as being able to better tailor activities to needs, to concentrate resources where most required and to mobilise a wide range of actors relevant to entrepreneurship. Many important programmes to support entrepreneurship are best designed and implemented by local authorities.¹¹

¹¹ OECD, "Fostering Entrepreneurship", 1998.

In many countries, the type of programs and policies executed at either a national or a provincial level appear to be much alike. The choice for one of those levels seems to depend mainly on the legal division of responsibilities between them. Besides this, the comparative size of the provinces plays a role¹².

It is obvious that private organisations are an important factor in the promotion of entrepreneurship. Besides being part of the economic environment, some elements of policy can be executed by private organisations as well. In many cases, they will be able to do so more efficiently.

2.2.5 The need for objectives, monitoring and evaluation

It has been shown that despite the vast amounts of money that are spent annually on entrepreneurship promotion and small business support programmes in many parts of the world, there is a lack of systematic evaluation of these efforts. David Storey¹³ stresses the importance of evaluation, “If public money is spent on SME support, then it is vital that evaluation of the impact of these initiatives takes place” and offers guidelines on how this should be approached.

The starting point is setting clear and measurable objectives.

Unfortunately, evaluation is not possible unless objectives that are clear and, in principle, measurable are specified. Too often objectives are either not specified or specified in a way that is overly vague and incapable of being used as the basis for deciding whether or not the policies are successful. In my judgment these objectives should be quantified and become explicit targets.

Secondly, a clear distinction should be made between monitoring and evaluation.

We view monitoring as collecting information about the firms in receipt of the scheme, together with financial information of monies expended. We also view monitoring as seeking only the opinions of recipients of the scheme. On the other hand, evaluation seeks to compare performance of recipients with other groups of individuals or enterprises. Unfortunately, most policy initiatives in OECD countries currently are merely monitored, rather than evaluated.

Storey outlines six steps in monitoring and evaluation (see Appendix 2 for detail).

- Step 1: Take-up of support schemes.
- Step 2: Recipients’ opinions.
- Step 3: Recipients’ view of the difference made by the assistance received.

¹² For instance, in the Netherlands, a small country that is divided into 12 provinces, there are almost only *ad hoc* activities undertaken on the provincial level.

¹³ David Storey, ‘Six steps to heaven: evaluating the impact of public policies to support small business in developed economies’, in The Blackwell Handbook of Entrepreneurship, 1999.

- Step 4: Comparison of the performance of ‘assisted’ with ‘typical’ firms.
- Step 5: Comparison with match firms.
- Step 6: Taking account of selection bias.

2.2.6 *International programme elements*

Worldwide there are an enormous amount of different programmes and policies that aim to promote entrepreneurship (or small businesses). In this section some elements of those that were found in a number of countries are presented¹⁴. A brief explanation per element is provided, along with some specific examples (good practices).

❖ Cultural attitudes: awareness and appreciation of entrepreneurship

The OECD states that:

Attitudes also matter, as it is widely accepted that more entrepreneurship will take place if it is valued and respected, and if a business failure is seen as a useful learning experience rather than as a source of stigma. Some programmes in this area have met with a degree of success. For example, in the UK, the Business Birth Rate Strategy run by Scottish Enterprise has employed a wide variety of promotional media to encourage potential entrepreneurs to start a business. And in Atlantic Canada in the early 1990s, extensive entrepreneurship awareness programmes were delivered through media campaigns and the education system, with a significant increase occurring in the share of the general population intending to start a business. Other important factors affecting business, such as a predisposition to collaborate among entrepreneurs, have been linked to broader social norms in the surrounding environment, and these may be amenable to policy.

The European Commission supports this view and states:

A culture of entrepreneurship needs to be encouraged, particularly among young people, by promoting enterprise in the school curriculum and encouraging a more positive perception of entrepreneurs, including those who do not succeed initially. This needs to be supported by appropriate teaching materials and educational facilities.¹⁵

¹⁴ The choice of elements can be a rather arbitrary one. For instance, promoting R&D is often considered an important aspect of entrepreneurship promotion. However, in this section it appears under the elements education, taxation, business incubators and clusters of firms. The elements are closely related to the framework conditions in the GEM model.

¹⁵ “Dissemination of good practice results: training and information for start-ups”, addition to the Final report of the Stockholm seminar, 4-5 May 1998, European Commission

Example from Practice

The Ministry of Education in Denmark has set up a programme to promote entrepreneurship in the education system. This programme is known as.... “Action Plan for Promoting a Culture of Entrepreneurship in Denmark: Entrepreneurship and Innovation”¹⁶. Over a 2-year period, 30-40% of young people have received training in entrepreneurship, ranging from primary and lower-secondary school to university and vocational levels. 200 projects have been implemented, which means that facilities and teaching materials have been developed for the whole education system. Teachers have received particular training in entrepreneurship. An evaluation of the programme shows that, after receiving the training, pupils and students have been much more motivated to start their own business or to work in an SME.’

❖ *Promotion of enterprise: the education system*

The education system at large has a major role to play in encouraging entrepreneurship among learners and students. In addition to playing a key role in stimulating a culture of enterprise and entrepreneurship among learners and students, the education system can contribute towards the accomplishment of a number of other entrepreneurship promotion objectives:

- Improve specific (technical) skills.
- Make people aware of alternative career choices.
- Provide individuals with a sense of autonomy, independence and self-confidence.
- Broaden horizons of individuals, thereby making people better equipped to perceive opportunities.
- Improve entrepreneurial (managerial) skills.
- Transfer R&D results from scientists to (new) businesses.

Example from Practice

The University of Twente in the Netherlands has developed an infrastructure for stimulating, nurturing and supporting the entrepreneurial spirit among its students. Its TOP programme¹⁷ directly supports students starting enterprises with facilities, mentoring and interest-free loans. But the University also tries to see that entrepreneurial attitudes play a part in its intellectual life, in the courses it offers and in its encouragement of experimentation with enterprising projects.’

In order to bring about a change of culture in the school system and in higher education, teachers, academics and trainers must themselves change their attitudes and approach. They can be assisted in making this change through the implementation of “Train the Trainer” programmes.

¹⁶ In Danish: “Handlingsprogram for dansk selvstaendighedskultur: Ivaerksaetteri og innovation”. Contact by e-mail: Joergen.Balling.Rasmussen@uvm.dk.

¹⁷ Contact by E-mail: j.w.l.vanbenthem@lg.utwente.nl. Report: An Infrastructure for Academic Entrepreneurship. Internet: <http://www.utwente.nl>.

Example from Practice

In the 'Trading Places' project, the Centre for Enterprise Leicestershire¹⁸ in the UK works to promote interaction between educational institutions, the business community and business support organisations. The scheme basically offers academics the chance to change places with business people for part of the week. They thus gain direct experience of adapting their academic knowledge to particular small business problems. Entrepreneurs are given the opportunity to work within an academic institution and to share their experience of managing an SME with students. The accumulated experience of many such exchanges is leading to a collection of case studies that will be available for teaching purposes across the region, to a long-term modification of teaching programmes, and to long-term collaborative partnership.

❖ *Coherent and practical training support*

Start-ups need a coherent and practical 'package' of training support that is easy to access.

Example from Practice

The 'package' of training measures 'Training for Business Start-up, Anytime, Anywhere', is a distance-learning programme, developed on the framework provided by the national 'Entreprendre en France' network. It is offered by the six Chambers of Commerce and Industry of Poitou-Charentes in France, in association with the CNED (National Centre for Distance Learning) the Agency for Enterprise Creation and CEPAC Atlantic Centre¹⁹. Training modules help the entrepreneurs to analyse their own capabilities, the project feasibility and the necessary steps for the initial development of the business. A business project dossier, including a business plan, is prepared and close support is provided by advisors from the Chambers of Commerce and Industry and the professional associations belonging to the Entreprendre en France network. The training material is produced and marketed through the CNED and is available in paper and electronic formats.

❖ *Presenting the entrepreneur's case*

There is a need on the part of some entrepreneurs to present themselves more effectively to banks, with better and more coherent information about their actual or prospective activities.

¹⁸ Contact by E-mail: centforent@webleicester.co.uk. Report: Trading Places - Academics in SMEs project. Internet: <http://www.centreforenterprise.co.uk> (under development).

¹⁹ No e-mail address is provided. Report: Training for Starting a Business, at Anytime, Anywhere. Internet: <http://www.cned.fr>.

Example from Practice

In Belgium, Générale de Banque assists prospective entrepreneurs with a 'Starter' service, which includes drawing up a business plan and analysing the business project²⁰. This basically involves the bank helping customers to present themselves. The target group is people with sufficient own funds who are considering starting up or taking over a company. Those selected for this scheme have to accept professional advice and assistance for the first three years. This advice is furnished by an approved consultant chosen by the customer from a list provided by the bank. In order to improve the organisation and management of this assistance, the bank has set up a group of advisors from universities and the business world - they are responsible for recruiting consultants, training them and co-ordinating assistance programmes for those starting up in businesses.

❖ *Finance*

An efficient capital market is essential to ensure that an adequate supply of finance flows to the most appropriate projects. Financial liberalisation has been a hallmark of all OECD economies, and has eased the task of finding financing for enterprises generally. In many OECD countries however, start-ups that require outside finance are likely to face some extra difficulties in finding it. By definition they have no track record and around half are likely to close within the first five years, and so present a considerable risk for banking institutions.

Although venture capital provides funding for a very small proportion of the business sector, and an even smaller proportion of start-ups, this form of financing is extremely important for larger projects with prospects of rapid growth. The formal venture capital market is more developed in some countries than others. Restrictions on institutional investors' holdings of unlisted equity are one explanation of why the growth of venture capital markets has lagged in some cases. Another is the difficulty of exit for venture capitalists, particularly when second-tier equity markets are underdeveloped.

An important source of informal equity capital is so-called "angel investment". Angel investors not only take a significant financial stake in a company but can also contribute specific skills and managerial advice. By its nature the size of the angel investor market is difficult to quantify, but studies in Australia and the Netherlands suggest this investment source may be at least as large as the formal venture capital market. In the United States it is thought to be significantly larger (OECD, 1998).

²⁰ No contact address by e-mail is provided. Report: Bank Finance. Internet: <http://startersfr.gbank.be>.

'There needs to be a financial agency whose prime responsibility is to ensure that start-ups have access to finance.'

Example from Practice

The Deutsche Ausgleichsbank concentrates on the promotion of start-ups and enterprises in the early years of their operation²¹. It offers a comprehensive range of both financial and advisory services to potential entrepreneurs. Financial services range from promotional loans to equity finance, but these are complemented with an increasingly diverse set of support services.

'A welcome development in the banking sector is the greater focus on the particular circumstances of SME clients. Customer-friendly practices, particularly 'relationship management', are in the interests of both banks and SME clients. For SMEs the advantage is in being assessed on the real strengths of the business rather than according to some abstract formula.'

Example from Practice

The Enterprise Support Unit of the Bank of Ireland has led the introduction of relationship management to the benefit of both the bank and clients²². This approach is complemented by a range of financial and advice services geared to the particular circumstances of start up and developing enterprises. They also include 'First Step' loans, which are interest-free for a 3-year period.

'The provision of micro-loans, for relatively small amounts, which often do not require collateral, needs to be increased.'

Example from Practice

In Finland, Finnvera plc (the risk financing expert) provides micro-loans especially for micro-enterprises and small business start-ups, which offer employment to not more than five people²³. This loan can be granted to all enterprises regardless of their legal form. A micro-loan cannot exceed FIM 100,000 (€ 16,800). The interest rate on a micro-loan is lower than on normal risk loans and that of a loan for women entrepreneurs is even a little lower.'

'Increasing the involvement of Business Angels in SME financing, particularly by more effective networking with SMEs with investment potential, should be encouraged.'

Example from Practice

National Business Angels Network²⁴ supports businesses with growth potential, which may benefit from equity funding and the management input of private investors. Similarly, the network provides a service to business angels (private investors) who are looking to invest their money and time in growth businesses. It has over 400 registered investors, offering funds and expertise and a nation-wide network of associates.

²¹ Contact by E-mail: dtabonn@t-online.de. Report: The Development of Financial Aid to the Benefit of New Business Start-ups. Internet: <http://www.dta.de>.

²² No contact address by e-mail is provided. Report: Recent Developments in SME Financing. Internet: <http://www.bankofireland.ie> (under business banking).

²³ Contact by e-mail: martin.ingman@euronet.be. Report: Bank Finance for Start-ups: An Outsider's View. Internet: <http://www.finnvera.fi>.

²⁴ Contact by E-mail: info@nationalbusangels.co.uk. Report: LINC (Local Investment Networking Company). Internet: <http://www.nationalbusangels.co.uk>.

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❖ *Taxation*

Taxation has significant influence on the level of entrepreneurship. Taxation often causes serious problems to entrepreneurs because of the amount of administrative burdens it implies.

The administrative costs and compliance burden of the tax system are a problem in some countries. For example, entrepreneurs in the United States point to the tax system's ambiguity, frequent changes, expiration clauses and layers of national and regional taxation. More generally, taxes play a particularly complex role in the climate for entrepreneurship. Ideally, taxes should have a minimal effect on the decisions that entrepreneurs make, but in practice there are many distortions within tax systems that do exert influence. For example, in some countries the tax system can favour investment in owner occupied housing rather than productive activities. The treatment of operational losses affords another example. In the Netherlands and the United States, losses can be carried forward for 15 or more years, whereas in Spain the limit is only five years (OECD, 1998).

Many governments use taxation as a key instrument in their entrepreneurship promotion policies. Often, tax incentives exist for start-ups, investing, innovation, hiring employees, and so on. Although the intentions are commendable, the incentives often cause taxation systems to become very complicated, resulting in non-compliance, high administrative burdens and high accountant bills for entrepreneurs.

❖ *Product market and competition regulation*

OECD work has repeatedly emphasized the important interaction between sound macroeconomic policies and structural policies designed to improve the functioning of markets. Entrepreneurial activity is significantly easier to carry out in a stable macroeconomic environment with low inflation and healthy government finances. Sound structural policies are essential to produce well-functioning markets for goods and services, capital and labour. Competitive product markets allow consumers to indicate clearly what they want and ensure that the entrepreneur receives clear feedback on how his enterprise is performing. Competition can be enhanced through import liberalisation, ending public monopolies and opening public services to private provision (OECD, 1998).

❖ *Labour market regulation*

Flexible labour markets enable firms to respond quickly and easily to changed circumstances. The willingness of firms to take risks and expand their workforce is likely to be affected by the ease with which they can lay off workers if their decision to expand turns out to have been wrong. Restructuring to obtain a more dynamic and entrepreneurial approach within well-established firms will also be hampered if employment protection legislation raises the costs of doing so. Flexible labour markets can also assist the development of innovative working arrangements.

In some cases features of the labour market and of social insurance combine to discourage people from launching a start up. For instance, a move from salaried employment to self-employment may require surrendering some or all acquired rights to severance payments, unemployment insurance and, in some cases, pensions. Programmes seeking to encourage

self-employment must be attentive to such risks and seek to mitigate them where appropriate, for example by extending the coverage of social insurance during a part of the entrepreneurial venture (OECD, 1998).

❖ *Other legislation*

Many government policies and actions can discourage entrepreneurship, and may need to be re-examined. For example, starting a business is more complex and time-consuming in some countries than others. In the United Kingdom, the paperwork involved in setting up a company takes about one week. In Australia, Japan and Sweden, too, it is a straightforward matter. In contrast, in Italy and Spain, administrative requirements can take months to complete. Ongoing costs of complying with government administrative, regulatory and reporting requirements can also be quite high, and may thus discourage entrepreneurial activity. A common framework that would allow comparison of compliance costs across countries does not exist, but individual country estimates indicate that these costs can be significant. A number of OECD governments have taken steps to reduce the compliance burden.

The closure of unsuccessful firms is a necessary, if unwelcome, part of the entrepreneurial process, allowing resources to move to more productive uses. Only a small proportion of closing firms are bankrupt, and most firm closures do not involve losses to creditors.

However, where bankruptcy is involved, an appropriate balance needs to be found between the rights and obligations of owners and creditors. Excessive personal bankruptcy costs can discourage potential entrepreneurs, but costs that are too low to encourage financial discipline may eventually limit the supply of funds for businesses (OECD, 1998).

Besides the type of legislation mentioned above by the OECD and in the previous sections, many other subjects of legislation are important in relation to entrepreneurship, e.g. procurement, patents and the transfer of business ownership (sale, succession).

❖ *Clusters of firms*

Most clusters of firms, especially large or region-wide agglomerations have occurred spontaneously rather than as an outcome of public policy. However, policy can consolidate some of the benefits of existing or embryonic clusters by ensuring suitable institutional conditions. For example, amongst other actions, promoting the establishment of supplier associations and learning circles, and facilitating contacts among participants in the cluster can all increase the benefits to firms of belonging to a cluster.

There are several types of corporate relationships that lead to increased levels of entrepreneurship. In most cases, these relationships involve various levels of commitment between large enterprises and smaller, entrepreneurial firms. One of the greatest potential areas for the development of entrepreneurship lies in geographically agglomerated industries. These are areas where businesses in like industries cluster, and as a result ideas, cooperation and competition abound.²⁵

²⁵ 'Determinants of Entrepreneurship: the influence of institutions', Verheul, I, S. Wennekers and R. Thurik, EIM, 2000.

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These types of environments foster entrepreneurship in many ways. In particular, agglomeration effects often spawn research and development (R&D) climates, which lead to new ideas and innovations. In turn, these climates produce spin-off firms looking to market these new ideas and products. This is particularly commonplace in high technology industries. Because larger companies rarely take risks on investing in and marketing innovative products, as these ventures can be costly and often bureaucratically challenging for these organizations, entrepreneurial initiative is often the only way these products reach consumer markets. Persons involved in R&D for a large firm or cooperation of firms, government agencies, and/or universities can take knowledge learned, but not fully developed or pursued in these R&D environments and generate an entrepreneurial business from this information.²⁶

In addition to direct R&D co-operation, informal networking and relationships determine the presence of much entrepreneurial activity (OECD, 1998). By simply having like-minded industries in close proximity to one another or in contact through trade fairs and conferences, this type of interaction becomes possible. Like formal co-operation, entrepreneurship stems from networking through the sharing of knowledge and further, the development of this knowledge into marketable, for-profit products. Although these types of relationships are much harder to quantify, they have considerable power to induce entrepreneurship.

❖ *Business incubators*

Business incubators play a major role in nurturing new start-ups and bringing them to a level where they can survive and grow on their own. Incubators meet one of the key needs for young and small firms – access to suitable and affordable premises and support infrastructure.

²⁶ 'R&D Spillovers and the Geography of Innovation and Production', Audretsch, David B. and Maryann P. Feldman, in *American Economic Review*, Vol. 86, No. 3, 630 – 640, June 1996.

'It is now clear that if incubators are to be successful in promoting highly innovative enterprises, there must be the right package of services on offer. These must include good basic facilities, working closely with research Centres and technology institutes, well-structured access to risk capital and scope for networking at all levels from the local to the international.

Example from Practice

IZET Innovation Centre in Germany is the activity of Gesellschaft für Technologieförderung Itzehoe mbH, a non-profit company co-founded by the City of Itzehoe and the county of Steinburg²⁷. It offers enterprises a professional infrastructure, a flexible support service and expert advice. Technology transfer is undertaken with the neighbouring Fraunhofer-Institute for Silicon Technology ISIT, as well as with other universities and research institutes. In 1998 IZET became a partner of the Centre of Competence in Electronic Commerce for Northern Germany. Training is provided in business planning, entrepreneurship, and appropriate financing strategies. This includes assistance for securing venture capital. IZET is active in a regional network of ten incubators in Schleswig-Holstein. The Centre also initiates and takes part in European research and development transfer projects and standardisation projects, in collaboration with other Technology Centres across the EU.

'Although incubators are often thought only to involve science-based companies, in fact, the model has a number of applications in other areas.

Example from Practice

The Travel Park Incubator Network²⁸ in Finland is a business incubator network dedicated to the Tourism sector. The aim of the Travel Park is to help some 60-80 enterprises each year to develop over a two-year period into functioning and profitable small companies capable of offering high quality and innovative services for tourists and other travelers. There is close and mutually beneficial co-operation between the Travel Park and major Finnish travel/tourism related companies.'

'For incubators to be cost-effective it is crucial that they are linked into local innovation networks, which encourage interaction between new and existing enterprises and enable incubators to exploit to the fullest possible extent co-operation in support services and areas such as high quality training.

Example from Practice

The 17 incubators in the Helsinki region, which since 1995 have created 760 new knowledge-based companies and 1300 jobs, work together as a network with groups of incubators developing

²⁷ Contact by e-mail: info@izet.de. Report: Innovation Support in Incubator Centres of Northern Germany. Internet: <http://www.izet.de>.

²⁸ Contact by e-mail: smak.helsinki@haaga.fi. Report: Theme Tourism and Services. Internet: <http://www.haaga.fi/smak/travelpark>.

training programmes, examining quality issues or finding better ways to identify potential entrepreneurs²⁹. This networking, involving the local community and medium and large-scale enterprises, is part of the reason for the cost-effectiveness of this policy initiative.

'In the early stages incubators suffer from many of the same problems as their clients. Like any start-up, an incubator at first has no customers, no cash flow and no critical mass. While private funding should be encouraged, it takes many years to achieve break-even and during this time there is a continuing need for public funding.'

Example from Practice

The Sophia Antipolis Science Park in France is Europe's largest with an area of 2,300 hectares, 1,200 companies and 20,000 employees³⁰. The International Centre for Advanced Communication (CICA), which now accounts for 52 of these companies and some 800 employees, was launched in 1987 with support from the local community. CICA is clearly a success in terms of its basic objectives of promoting IT-based companies. However, in spite of a steady increase in private-sector financing, CICA's reliance on its basic public funding is likely to continue for some years to come.'

2.2.7 Specific groups in society

There is general agreement that in most Western countries, working women show lower self-employment rates than working men³¹. This can be the result of the fact that women have a shorter employment history than men. Evans and Leighton³² have pointed out that people who become an entrepreneur in general have a long employment history. Because of family obligations most women tend to have a shorter employment history than men, and therefore tend to have less participation in entrepreneurial activities. In addition, self-employment often requires long working days, making it difficult for most women to be self-employed because of their family obligations. Moreover, most male entrepreneurs place women in support roles of unpaid family worker. Therefore female labour share will be negatively related to the self-employment rate.

In most countries, there are other groups within society that have a less than average share of entrepreneurial activities. Examples include people outside the 25-44 year age range, the unemployed and minorities. For policies to show quick results, it may prove useful to target them on one or more of these groups. In many countries this is the case.

Many OECD countries have programmes in place to encourage the unemployed to create their own jobs. As an alternative to income support, the unemployed are encouraged to formulate a business idea and receive financial assistance and counselling in order to create an enterprise.

²⁹ Contact by e-mail: taavetti.mutanen@te-keskus.fi. Report: Incubators in Helsinki region. Internet: <http://www.vrityshautomot.net>.

³⁰ Contact by e-mail: andre@cica.fr. Report: Incubator finance - case example from France. Internet: <http://www.cica.fr>.

³¹ 'Determinanten van zelfstandig ondernemerschap', Bais *et al*, OSA-werkdocument, Den Haag, 1995.

³² 'The determinants of changes in U.S. self-employment 1968-1987', Evans, D.S. and L.S. Leighton, in *Small Business Economics* 1, 1989.

Although take up rates are low, with less than five per cent of the unemployed typically choosing to become self-employed, these programmes have proven to be a cost-effective alternative to income support, even taking into account the fact that some of the unemployed would have created an enterprise anyway in the absence of the programme (OECD, 1998).

‘Certain groups of entrepreneurs, especially female entrepreneurs, face particular problems and require particular types of training.’

Example from Practice

Among the numerous examples of specific training support for women, the assistance provided by the Portuguese organisation GDO addresses the problem of accessing bank credit. Women are trained both to present their own case effectively to the bank, and to have a better appreciation of the banks' expectations. Assistance is also given with the negotiation of rates and guarantee conditions.³³

2.2.8 Conclusion

- Worldwide, there are a large variety of programs and policies that aim to promote entrepreneurship in general and small businesses in particular. The diversity in programs is a result of a variation in circumstances. Although there are major differences in the way countries appear to be stimulating entrepreneurship, there are many common elements in the various programs and policies as well.
- Achieving proper national framework conditions – the institutional arrangements within which economic activity takes place – should be the foundation of policy. Properly functioning markets are a prerequisite for successful implementation of entrepreneurship development schemes. Well-designed and well-targeted government programmes can complement national framework conditions.
- Many OECD countries have a wide range of programmes designed to assist businesses. These programmes have generally evolved in a patchwork fashion over a number of years. Recently, however, many countries have made efforts to develop more coherent strategies.
- Evidence shows that there is little systematic evaluation of the effects and implementation of programmes supporting entrepreneurship. If public money is spent on SME support, then it is vital that evaluation of the impact of these initiatives takes place. Based on the outcome of the evaluation, decisions have to be made periodically whether to continue, adapt or terminate a programme.
- Policies that fail to take account of regional and local differences are less likely to be successful. Local initiatives are able to better tailor activities to local needs, to concentrate

³³ No e-mail address or URL provided. Report: Training Women in Negotiations with Banks.

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resources where most required and to mobilise a wide range of actors relevant to entrepreneurship.

Major programmes to support entrepreneurship are best designed and implemented by local authorities. Furthermore, a number of acute social problems – such as distressed urban areas, and unemployment among minorities – are highly concentrated geographically and can greatly benefit from a local response to stimulate entrepreneurship.

- It is widely accepted that entrepreneurship will flourish more rapidly if entrepreneurial activities are valued and respected, and if a business failure is seen as a useful learning experience rather than as a source of stigma. Policies can stimulate positive attitudes towards entrepreneurship in a variety of ways.
- Besides the positive impact on cultural attitudes, education is a crucial element in entrepreneurship promotion.
- Entrepreneurial activity is significantly easier to carry out in a stable macroeconomic environment with low inflation and healthy government finances. Sound structural policies are essential to produce well-functioning markets for goods and services, capital and labour. Competitive product markets allow consumers to indicate clearly what they want and ensure that the entrepreneur receives clear feedback on how his enterprise is performing. Competition may be enhanced through import liberalisation, ending public monopolies and opening public services to private provision.
- Flexible labour markets enable firms to respond quickly and easily to changed circumstances. Flexible labour markets can also assist the development of innovative working arrangements. However, a balance should be struck between a flexible labour market and creating a stable and secure social environment.
- An efficient capital market is essential to ensure that an adequate supply of finance flows to the most appropriate projects. An important source of equity capital is the so-called "angel investment". Angel investors are those who not only take a significant financial stake in a company but also contribute specific skills and managerial advice. Increasing the involvement of Business Angels in SME financing, particularly through more effective networking with SMEs with investment potential, should be encouraged.
- A financial agency should be established whose prime responsibility is to ensure that start-ups have access to finance. The provision of micro-loans, i.e. finance for relatively small amounts that do not require collateral, needs to be increased.
- Taxation has considerable influence on the level of entrepreneurial activity. Many governments use taxation as an instrument in their policies to promote entrepreneurship. However, although the intentions are recommendable in principle, it should be kept in mind that they often cause taxation systems to become very complicated, resulting in non-compliance, high administrative burdens and high accounting bills for entrepreneurs.

- Incubators play an important role in nurturing young enterprises. If incubators are to be successful in promoting highly innovative enterprises, the right package of services must be on offer. Like any start-up, an incubator at first has no customers, no cash flow and no critical mass. While private funding should be encouraged, it takes many years to achieve break-even and during this time there is a continuing need for public funding.

2.3 Case studies on entrepreneurship development

2.3.1 The United States of America

The United States of America (USA) is often regarded as *the* example of an entrepreneurial society. The number of start-ups and fast growing firms is high, business failure is regarded as a ‘nice try’, and trying again is relatively easy. Strangely enough, it appears to be unknown exactly why the USA is doing so well in the field of entrepreneurship. The country has no single large programme to foster entrepreneurship. Policies seem to focus on promoting competition. However, there are many small programs and policies that aim at promoting small business, rather than entrepreneurship specifically. As is the experience elsewhere, not many of these programmes are subjected to systematic evaluation.

2.3.1.1 The entrepreneurial climate in the United States

In the United States, large firms (over 500 employees) account for a high share of employment compared with most other OECD countries. This suggests either that firm size is not sufficient as a proxy for entrepreneurial activity, or, that it is relatively easy for U.S. firms to start small, prosper and become large firms. The latter point suggests that indicators based on the performance of ‘gazelles’ or fast-growing firms, may provide a better proxy for the degree of entrepreneurial activity. These firms appear to account for a disproportionate fraction of net job growth.

About 21 million Americans – 17 percent of all U.S. non-agricultural workers – are engaged in some entrepreneurial activity, including both full-time and part-time entrepreneurship. Almost two-thirds operate full-time, and the rest part-time³⁴. Firms with at least one employee, but with fewer than 500 employees, increased by 10.6 percent in 1996.

New business formation reached the fifth consecutive record level in 1998. An estimated 898,000 new firms with employees were started. About three quarters of new business owners are also employed in a wage-and-salary job at the startup. Sixty percent of new firms begin at home. US Small Business Administration (SBA) research shows that of every seven businesses that cease operations, only one actually fails, leaving unpaid obligations. The remainder closes for voluntary reasons, such as desire to enter a new field, or for personal or other reasons. Business bankruptcies declined by 17.9 percent in 1998 compared to 1997. The 1998 level represented a record low share of bankruptcies and the lowest number since 1981, when the total number of businesses was much smaller.

2.3.1.2 Conditions supporting entrepreneurship

³⁴ Source: International Revenue Service, Statistics of Income

❖ *Cultural awareness and appreciation of entrepreneurship*

The USA is often described as having a strong entrepreneurial culture. The focus on a free-market economy, a relatively small role for government and the social importance attached to self-reliance have made entrepreneurship a respectable, indeed admired, pursuit. A national poll of adult Americans showed that over 90% would approve of their children starting their own businesses³⁵. A more recent survey³⁶ estimated that almost a quarter of households were either starting a business, owned a business or was informally investing in someone else's business. There also appears to be no stigma attached to failure, and failure is not automatically assumed to be the owners' fault. Evidence suggests that many (successful) entrepreneurs have failed in the past: in one study of bankruptcy more than one-third of the entrepreneurs had owned another business before starting the bankrupt business³⁷. The strong pro-entrepreneurial culture has helped to shape institutional characteristics of the USA economy that facilitate business start-ups, reward firms based on their economic efficiency and allow rapid, low-cost exit for entrepreneurs who succeed, fail or simply want to move on to a new venture (OECD, 1998).

In the past, no specific policies were aimed at improving the cultural aspects of entrepreneurship. Only recently do politicians seem to have taken a keen interest in this. Most initiatives existing at the moment are aimed at specific groups (e.g. women and minorities). Zacharakis³⁸ advises: 'increasing the visibility of entrepreneurs could provide a way to encourage others. One example is the award (entrepreneur of the year) that Ernst & Young organize yearly.'

❖ *Openness of the economy, in particular the internal market*

According to Dennis³⁹, the United States has no small business or entrepreneurship policy, but a competition policy instead. The essential characteristic of that policy is to maintain government neutrality among competitors, regardless of size. Policies to reduce advantages of size only exist in order to remove the disadvantages of small business caused by government. Recently, competition policy has centered on the removal of entry-barriers.

Establishment legislation makes it relatively easy to start a firm in the USA. Compared with other countries, relatively few procedures must be carried out before and after the registration, and the registration process is not very time-consuming. Entrepreneurs can make use of private firms, which undertake registration on their behalf and, in this manner, a business entity can be created by telephone or by fax and at low cost. Enterprise creation in the USA also involves fewer regulations; in some European countries craft related activities require qualifications such as an apprenticeship or specific post-apprentice experience, which can take several years to acquire.

³⁵ 'The American Entrepreneurial and Small business Culture', Jackson, J.E., Institute for Enterprise Advancement, Washington D.C., 1986.

³⁶ 'Who starts new firms – preliminary explorations of firms-in-gestation', Reynolds, P., in *Small Business Economics* 7-5, 1997.

³⁷ 'State of small Business', SBA, 1996.

³⁸ Andrew Zacharakis *et al*, 'Global entrepreneurship monitor - National Entrepreneurship Assessment: United States of America, 1999 Executive Report'.

³⁹ 'Research mimicking policy; entrepreneurial/small business policy research in the United States', William J. Dennis, Jr., in 'The Blackwell Handbook of Entrepreneurship', Blackwell Publishing, 1999.

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Legislation also allows easy exit from business. Just as legislation exists to regulate firm creation, bankruptcy legislation regulates firm termination, or exit. The USA system offers the bankrupt individual a “clean state” by way of discharge: the entrepreneur loses his assets to his creditors but cannot be pursued for any remaining claims which have not been met. While this approach has some disadvantages, it does allow for considerable flexibility and may help to reduce any stigma attached to business failure. In other countries, by contrast, legislation places more emphasis on creditor protection and, in some cases, the absence of discharge clauses means that failed entrepreneurs can be pursued for several years, a situation which is not conducive to risk-taking activity (OECD, 1998).

Patent protection is affordable to smaller firms, but poses some problems. In the USA, the cost of patent application is lower than in Europe and small businesses benefit from a 50% discount on patent fees. However, the enforcement costs of intellectual property rights through litigation are considered extremely high in the USA. This is the result of a different system: in Europe usually the priority goes to the so-called ‘first-to-file’, whereas in the USA the system favors the ‘first-to-invent’. Although the USA system may seem more equitable, it has proven to be more litigation prone (OECD, 1998).

Antitrust legislation fosters competition. The country’s antitrust legislation fosters free competition as the most efficient means of allocating social resources. It is recognized that competition is more likely to occur in an industrial structure characterized by a large number of competing firms than in concentrated industries dominated by a few large competitors. Antitrust legislation creates the environment for this kind of industrial structure to develop and be maintained.

Labour market conditions favour entrepreneurship. Widely observed features of the USA labour market, such as high degrees of flexibility and mobility, assist the process of entrepreneurial activity. Little formal regulation of labour contracts and light-handed employment protection legislation facilitate the adjustment of labour inputs associated with high rates of turbulence. Moreover, decentralised wage agreements with limited union presence (except in a few sectors) make employee compensation flexible, and this trend is reinforced by a greater use of performance-based pay, particularly in new business ventures, where stock options are often offered (OECD, 1998).

❖ *Government programs and policies*

The US government has introduced several programmes aimed at facilitating enterprise start-ups and development. These include programmes administered by the Departments of Agriculture, Commerce, Defense, Energy, Transportation and independent agents such as the Export-Import Bank, the National Institutes of Health and the Small Business Administration. The goals of these various bodies tend to differ because the target groups are different. The Cato Institute has estimated that the federal government spends roughly \$65 billion each year (close to 1% of GDP) on more than 125 programmes that provide direct assistance to USA firms. However, little is known about the economic impact of these programs. Little of these programs are evaluated, in part because of the methodological difficulties involved.

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❖ *Institutions*⁴⁰

The most important of the agencies named above is the Small Business Administration (SBA). This Agency was primarily established to encourage and promote small business/entrepreneurship by eliminating government inflicted disadvantages (such as those relating to tax policy) and financing small business⁴¹. The SBA has identified the following as major concerns of the country's small businesses:

- Lack of equity capital for small business.
- low share of small business participation in government procurement opportunities.
- Inequitable burden of regulations such as tax issues.

The legal functions of the SBA are to:

- Examine the role of small business in the American economy and the contribution which small business can make in improving competition, encouraging economic and social mobility for all citizens, restraining inflation, spurring production, expanding employment opportunities, increasing productivity, promoting exports, stimulating innovation and entrepreneurship, and providing an avenue through which new and untested products and services can be brought to the marketplace;
- Assess the effectiveness of existing Federal subsidy and assistance programs for small business and the desirability of reducing the emphasis on such existing programs and increasing the emphasis on general assistance programs designed to benefit all small businesses;
- Measure the direct costs and other effects of government regulation on small businesses; and make legislative and non-legislative proposals for eliminating excessive or unnecessary regulations on small businesses;
- Determine the impact of the tax structure on small businesses and make legislative and other proposals for altering the tax structure to enable all small businesses to realize their potential for contributing to the improvement of the nation's economic well-being;
- Study the ability of financial markets and institutions to meet small business credit needs and determine the impact of government demands for credit on small businesses;
- Determine financial resource availability and recommend methods for delivery of financial assistance to minority enterprises, including methods for securing equity capital, for generating markets for goods and services, for providing effective business education, more effective management and technical assistance, and training, and for assistance in complying with Federal, State, and local law;
- Evaluate the efforts of Federal agencies, business and industry to assist minority enterprises;
- Make such other recommendations as may be appropriate to assist the development and strengthening of minority and other small business enterprises;

⁴⁰ Taken from the SBA website: www.sbaonline.sba.gov

⁴¹ For the financing function of the SBA refer to 3.3.7.

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- Recommend specific measures for creating an environment in which all businesses will have the opportunity to compete effectively and expand to their full potential, and to ascertain the common reasons, if any, for small business successes and failures.

❖ *Taxation and the regulatory burden*

Entrepreneurs in the USA benefit from a relatively low overall tax burden. Moreover, because of a generous carry forward and backward of losses some 40% of companies have no taxable profits. However, American entrepreneurs cite the tax burden and the complexity of the tax system among the most severe problems they face. However, although marginal corporate tax increased from 14,4 % in 1980 to 24% in 1990, the effective tax rate is still lower than in other major countries. Although the tax burden remains a concern, attention has turned to focus on the high compliance burden. Research by the SBA shows that, in 1992, the average annual cost of regulation, paperwork and tax compliance amounted to \$5000 per employee in firms with fewer than 500 employees and \$3400 per employee in large firms (OECD, 1998).

The paperwork burden of the Internal Revenue Services is the primary concern because preparing a regular payroll is a constant reminder of numerous rules and regulations dealing with the income tax and sales tax such as tax withholding and reporting. There are also problems of inadvertently failing to comply with some obscure rules.

On September 30, 1993, President Clinton initiated the administration's efforts to ease the regulatory burden on small firms by issuing Executive Order 12866, "Regulatory Planning and Review." This order requires federal agencies to analyze carefully their major regulatory undertakings and to take action to ensure that these regulations achieve the desired results with a minimum societal burden. A major objective of this executive order is to reduce the disproportionate share of the federal regulatory burden that falls on small businesses.

In addition to the 1993 executive order, there has been another effort by the federal government to eliminate institutional biases that work against small entrepreneurs. On March 29, 1996, President Clinton signed the Small Business Regulatory Enforcement Fairness Act, which, among other things, amends the Regulatory Flexibility Act of 1980 to allow judicial review of an agency's compliance with the law. This new provision gives small businesses a powerful tool to ensure that agencies do consider the impact of their actions on small enterprises.

The Regulatory Flexibility Act (RFA), first enacted in 1980, offers small businesses, working with federal regulators, a unique opportunity to root out some of the institutional biases that work against the small entrepreneur. The law recognizes that the size of a business, unit of government, or nonprofit organization frequently has a bearing on its ability to comply with a federal regulation. For example, the costs of complying with a particular regulation "measured in staff time, direct compliance costs, record-keeping, outside expertise and other costs" may be manageable for a business with 500 or more employees, or revenue in the millions of dollars.

On the other hand, a smaller company may not have the ability to absorb the expenses as easily, to set competitive prices, to devise innovations or even to continue as a viable entity. Whereas larger firms may take advantage of economies of scale, smaller entities have less output from which to recover a relatively larger percentage of expenses. The RFA was designed to place the burden on the government to review all regulations to ensure that, while accomplishing their intended purposes, they do not unduly inhibit the ability of small entities to compete.

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The major goals of the Act are to:

- Increase agency awareness and understanding of the impact of their regulations on small business.
- Require that agencies communicate and explain their findings to the public.
- Encourage agencies to use flexibility and to provide regulatory relief to small entities.

❖ *Finance*

Financing a (new) business is relatively easy in the USA. This is the result of SBA policy and the positive attitude of banks towards lending the capital needed. Furthermore, entrepreneurs that have experienced business failure do not have serious difficulties in acquiring financial support for starting a new business. Banks are almost inclined to prefer this group of entrepreneurs, as they have experience in dealing with the problems that accompany the start-up process.

Zacharakis (1999) observes that:

Formal sources of venture capital are limited, especially for use as start-up or seed capital. Informal investments provided from friends, family and work associates of those implementing new firms are a major source of funds. Other private investors (angel investors) are difficult to locate for entrepreneurs. Electronic forums where (potential) entrepreneurs can advertise their business opportunities and financial needs might overcome this.

ACE-Net (Angel Capital Electronic Network)⁴²

The ACE-Net project is an outcome of the recommendations of the delegates to the 1995 White House Conference on Small Business to improve access to capital and regulatory climate for small businesses. It provides a precedent-setting solution to the problem of raising equity capital for small companies seeking investments in the range of \$250,000 to \$5 million. Prior to ACE-Net, companies were limited in their ability to network with accredited investors (angels), and the costs of pursuing and closing these transactions were high. By working closely with the U.S. Securities and Exchange Commission (SEC), state securities regulators, and the North American Securities Administrators Association, the U.S. SBA's Office of Advocacy has developed an Internet forum for the listing of securities offerings of small companies. Companies will work with local university- and state- based non-profit organizations to:

- Develop their business plans and network with accredited investors (angels) using existing local networks.
 - List on the ACE-Net nationwide Internet home page notification of their securities offerings under "test the water documents," after complying with any necessary federal and state requirements. These listings will be accessible on a password basis only by accredited investors (angels). ACE-Net will permit local networks to be extended into a national system at very low cost.
 - Permit angels to select quickly and efficiently the companies of interest using such factors as: market/technology, investment size, stage of company development, geographic location, and minority- or women-owned status.
 - Reduce the cost of transactions by providing angels and entrepreneurs with model terms and conditions for securities transactions, which will also be included in the mentoring programs of the participating state and university systems.
-
- The processes for accessing small business loans at the SBA have been improved and expanded. Examples include the LowDoc loan program that reduced a thick multi-page loan application to a single double-sided sheet, the Micro-Loan program, the Defense Loan and Technical Assistance (DELTA) program (a joint effort of SBA and the Department of Defense) and the Women's and the Minority Pre-Qualification Pilot Loan Programs.
 - The total amount of capital under management by the venture capital funds has grown dramatically, from \$4.5 billion in 1980 to \$36 billion in 1990 and \$44 billion in 1995 according to the National Venture Capital Association (NVCA).
However, the total number of entrepreneurial companies receiving investment from institutional venture capital funds remains fairly small and relatively constant. In 1987, the NVCA venture funds invested in 1,737 companies; in 1991 the total was 791 companies; in 1993 it was 938 companies; and in 1995 it was 1,090 companies.
 - The SBA has licensed more private venture capital funding for SBICs (Small Business Investment Companies) in the last two years than in the previous 15 years combined. SBICs, licensed by the SBA, are privately organized and managed investment firms. With their own

⁴² Excerpt from Bosma *et al* (3).

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capital and with funds borrowed at favorable rates through the federal government, SBICs provide venture capital to small independent businesses.

- The Small Business Innovation Research (SBIR) program administered by the Office of Technology, will provide over \$1 billion in high-risk capital for the most advanced technology programs for small businesses. The SBIR program is funded by 11 federal government agencies and produces some of the highest quality research for the nation. A critical need identified by the SBIR winners is equity capital to bring their products to market.

❖ *Education and training*

Zacharakis (1999) has noted that:

According to experts, in the US the focus should be on primary and secondary level (education). The understanding of basic economics should improve. Besides, courses on tertiary level should have more depth. In most cases, only a small introduction to entrepreneurship is provided (on) how to create a business plan. An additional difficulty is the quality of the instructors. It proved hard to find the right balance between real-life and good pedagogical methods. As it is, students that have acquired the necessary engineering and technical skills have no idea how to bring innovations to the market.

Two specific projects are mentioned by Zacharakis that are specifically aimed at the young: The Kaufman Center for Entrepreneurial Leadership organizes the Mini Society, in which children learn to identify opportunities and establish their own business to provide goods and services. The National Foundation for Teaching Entrepreneurship organizes summer camps to teach low-income teens how to start their own businesses. (www.nfte.com)

❖ *Technological development, R&D (transfer) and innovations*

In comparison with other countries, the United States has one of the highest percentages of R&D expenditure as a percentage of national GDP, possibly a result of the large proportion of small businesses. Famous examples of successful (geographic) innovation networks are Silicon Valley and Route 128.

The *Small-Business Innovation Development Act of 1982* is a federal statute requiring federal agencies with large R&D budgets to allocate a certain percentage of these funds to small R&D firms. The program is designed to stimulate technological innovation and make greater use of small businesses in meeting national innovation needs.

The *Small Business Innovation Research (SBIR) program* is a program mandated by the Small Business Innovation Development Act of 1982, requiring federal agencies with \$100 million or more of extramural R&D obligations to set aside 1.25 percent of these funds for small business.

❖ *Commercial infrastructure*

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Clusters of firms. Silicon Valley in California is currently the most prominent cluster of computer related firms. Other clusters are found in industries as varied as financial services in New York, entertainment in Los Angeles, and carpet manufacturing in Dalton, Georgia (OECD, 1998).

Business services. Most companies in the US benefit from the well-developed business advisory service industry. The industry comprises management consultants, accountants, business lawyers and a whole range of government and non-profit bodies that cater to the needs of small businesses and start-ups. At the federal level alone there are 1000 *Small Business Development Centers* in 50 states, which offer training and counseling services as well as help small companies access various federal support programs. Offices, which provide similar services, exist at the state, county and city levels. There is also focus on specific groups such as women and African Americans (OECD, 1998).

Zacharakis (1999) makes two interesting remarks concerning business services. He notes that all of the 'big five' accounting firms have established small business practices. To attract potentially prospective growth firms deferred fees, reduced fees or equity in lieu of fees are accepted. Start-ups that contact assistance programs are more likely to implement new business. They also have a higher survival rate and higher growth levels. Entrepreneurs are uniformly positive and complimentary about the assistance. One element of advice that entrepreneurs find particularly useful concerns patent protection (OECD, 1998).

2.3.1.3 *Entrepreneurial development among special groups*

The Minority Business Development Agency (MBDA)⁴³ is part of the U.S. Department of Commerce, specifically created to encourage the creation, growth and expansion of minority-owned businesses in the United States. MBDA's headquarters is in Washington, D.C. where all activities are planned, developed, coordinated and evaluated. There are five Regional Offices and four District Offices where staff members oversee assistance services in multi-state regions. Assistance is provided to socially or economically disadvantaged individuals who own or wish to start a business. Target groups include: Asian Pacific Americans, Asian Indians, Black Americans, Eskimos/Aleuts, Hasidic Jews, Native Americans, Spanish Speaking Americans, and Puerto Ricans.

MBDA provides funding for *Minority Business Development Centers (MBDC)*, *Native American Business Development Centers (NABDC)*, *Business Resource Centers (BRC)* and *Minority Business Opportunity Committees (MBOC)* located throughout the country.

The Centers offer a wide range of business services to minority entrepreneurs. They are located in areas with the largest concentration of minority populations and the largest number of minority businesses.

The MBDCs, NABDCs, BRCs and MBOCs are centers operated by private firms, state and local government agencies and Native American tribes and educational institutions. The centers provide minority entrepreneurs with one-on-one assistance in writing business plans, marketing, management & technical assistance and financial planning to ensure adequate financing for business ventures. The centers are staffed by business specialists who have the knowledge and practical experience needed to run successful and profitable businesses.

⁴³ Based on the MBDA website (www.mbda.gov).

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The MBDA network offers assistance in identifying sources of financing and in the preparation of financial proposals. The Agency and its network, however, have no authority to make grant, loans or loan guarantees to any individual or organization wishing to purchase, start or expand a business. Business referral services are provided free of charge, generally charging nominal fees for specific management and technical assistance services.

Minority Enterprise Development Week - MED Week - is an annual celebration to honor the contributions of America's minority entrepreneurs and those individuals and organizations that actively support minority business development. Each year since 1983, the President has proclaimed the first full week in October as national MED Week, to honour the contributions of minority entrepreneurs, individuals and organizations that support minority business development. Regional MED Week activities are held in the weeks prior to the national celebration. MED Week activities are co-sponsored by the Department of Commerce's Minority Business Development Agency and the Small Business Administration (SBA).

In examining the issue of access to capital for minority businesses, the MBDA has become aware that there is a lack of quantitative information on the minority business community. This lack of information clearly impedes efforts to increase the amount of financing available to the minority business community from financial institutions, venture capital funds and sources of private equity. To address this, MBDA will provide seed funding, through a competitive solicitation, for a twelve-month award to plan, develop and establish the Minority Business Capital Access Policy Institute ("Institute"), a research and advocacy entity that will focus on increasing sources of financing for minority businesses. For-profit and non-profit organizations, state or local government entities, American Indian Tribes and colleges and universities are eligible to operate the Institute.

Funding for the twelve-month grant period will be \$350,000, with the possibility of additional funding to enhance the project during this period. The Institute is designed to become self-sustaining after the twelve-month grant is completed. The Institute's primary objectives will be: (1) to research and educate financial institutions and the capital markets about the financing needs of and investment and lending opportunities presented by minority businesses; and (2) to serve as a source of data and expertise concerning the capital needs of minority businesses. The Institute will be responsible for exploring and assessing new financial instruments and strategies for improving the flow of capital to minority business enterprises. In addition, the Institute will advocate for and promote the importance of increasing the capital available to minority business enterprises to the financial, general business and public sectors.

There are other organizations specifically addressing minority entrepreneurship as well. The SBA runs some programmes, and there appear to be a large number of business incubators, service centers, and business associations aimed at different minority groups.

The National Black Business Trade Association, Inc. (NBBTA), established in 1993 as a non-profit organization, was created to support, encourage and inspire entrepreneurship in the African American community. Also it was meant to help reverse the trends at that time of a low and even decreasing amount of black entrepreneurship. Since then, considerable progress has been made.⁴⁴

The National Center for American Indian Economic Development (NCAIED) offers services to Native Americans. Services include the provision of information on government programs, a tribal

⁴⁴ Bases on the NBBTA website (www.myfreeoffice.com/nbbta/nbbta3.html).

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business planning tool, management consulting services and a database of American Indian Businesses.⁴⁵

2.3.1.3 Conclusion

- The United States of America is often regarded as *the* example of an entrepreneurial society. The number of start-ups and fast growing firms is high, business failure is regarded as a ‘nice try’, and trying again is relatively easy. Although there is a large number of policies and programs aimed at entrepreneurship promotion, policy in general is mainly aimed at promoting competition.
- It is relatively easy to start a firm in the USA. Compared with other countries, relatively few procedures must be carried out before and after registration. The registration process itself is not very time-consuming. Also firm termination, or exit, is relatively easy.
- Widely observed features of the US labour market, such as high degrees of flexibility and mobility, assist the process of entrepreneurial activity.
- The US government has introduced several programmes aimed at facilitating enterprise start-ups and development. These programmes are administered by a large number of institutions. The most important of these agencies is the Small Business Administration (SBA), whose primary responsibility is to encourage and promote small business/entrepreneurship by eliminating government inflicted disadvantages (such as tax policy) and financing small business.
- Entrepreneurs in the USA benefit from a relatively low overall tax burden. Notwithstanding this, American entrepreneurs still cite the tax burden and the complexity of the tax system among the most severe problems they face.
- The Regulatory Flexibility Act was designed to place the burden on the government to review all regulations to ensure that, while accomplishing their intended purposes, they do not unduly inhibit the ability of small entities to compete
- Financing a (new) business is relatively easy in the USA. This is the result of SBA policy and the positive attitude of banks towards lending the capital needed.
- The ACE-Net project provides a precedent-setting solution to the problem of raising equity capital for small companies seeking investments.
- Most companies in the US benefit from the well-developed business advisory service industry. The industry comprises management consultants, accountants, business lawyers and a whole

⁴⁵ Bases on the NCAIED website (www.ncaied.org/).

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range of government and non-profit bodies that cater to the needs of small businesses and start-ups. All of the 'big five' accounting firms have established small business practices. To attract potential growth firms deferred fees, reduced fees or equity in lieu of fees are accepted. One element of advice that entrepreneurs find particularly useful concerns patent protection.

- A number of specific programmes to facilitate the promotion of entrepreneurship among ethnic minorities are in place.

2.3.2 *The Netherlands*

In the Netherlands, entrepreneurship has been an important factor in society for a long time. The Dutch economy depends largely on international trade ever since the 16th century. Still, entrepreneurship developed a rather negative image during the seventies. That situation is slowly changing for the better now.

Until recently, entrepreneurship policy comprised a collection of mainly uncoordinated measures. For the last decade, the Dutch Government has been trying to change that. In September 1999, the Government of the Netherlands published the paper 'De ondernemende Samenleving: Meer kansen, minder belemmeringen voor ondernemerschap'.⁴⁶ The basic rationale behind the paper is that the Netherlands as a whole is 'regaining' its entrepreneurial spirit. The paper outlines a framework for the future.

2.3.2.1 *The state of entrepreneurship in the Netherlands*

For many years it was felt that the level of entrepreneurship in the Netherlands was insufficient. For example, from an international perspective both the number of start-ups and the percentage of the population with a positive attitude towards entrepreneurship were considered to be low. But these have changed for the better: presently almost 90% of the population has a positive attitude towards entrepreneurship and the number of start-ups is high. This has led to a 50% increase of the number of enterprises over the last ten years. Still, there is room for improvement:

- The share of people having the ambition to start their own business is relatively low;
- As recently as 1996 the share of entrepreneurs in the labor force was still equal to the 1972 level;
- The level of entrepreneurship in the Netherlands is still relatively low compared to, for instance, the European Union and the United States.

For the Dutch government the rationale behind supporting entrepreneurship lies in the beneficial effects on flexibility, innovation, job creation and individual fulfillment. Furthermore, it can be a vehicle for emancipation and integration of specific groups within society, such as women and ethnic minorities (since 1986 the share of entrepreneurs in the non allochthonous (ethnic minorities) labor force has increased from 3.3% to 7.4%).

⁴⁶ Translates as 'The entrepreneurial Society, more opportunities, less bottlenecks for entrepreneurship', by the Dutch Ministry of Economic Affairs (roughly comparable to the South African DTI).

❖ *Cultural awareness and appreciation of entrepreneurship*

Entrepreneurship in the Netherlands had a negative image in the seventies^{47, 48}. The Netherlands could be described as a country with a complex system of social security and of labour interference. The system also bureaucratic, which is contrary to the innovative and socio-culturally attractive climate that is required to foster entrepreneurship⁴⁹. Previously, the existing culture was not conducive to entrepreneurship. But since the late 80s a change in mentality could be noticed. The labour-force has become more flexible and opportunistic. The labour market has opened up internationally. This new flexibility and openness is a very positive development for entrepreneurship. The Dutch government is trying to stimulate this change towards a positive attitude mainly through its financial policies that directly influence entrepreneurship. The Dutch government also uses TV-commercials to promote entrepreneurship, as a more direct approach to the changing of norms and values in society.

❖ *Openness of the economy, in particular the internal market*

As in most countries, liberalization and deregulation have been political hot items for some time now in the Netherlands. Recently, government has withdrawn itself from the market in favour of private initiatives. Laws and regulations are replaced by self-regulation by relevant parties in a specific area of operation. Important examples of this are the new establishment and competition legislation. Besides that, public organisations are being privatized.

Quality of legislation. With the “Marktwerking, Dereguleren en Wetgevingskwaliteit-II (MDW)”⁵⁰ operation, the government of the Netherlands is making an effort to improve the quality of legislation. All the ministries are involved in this operation, as are researchers and business representatives.

It is an ongoing process that has already shown some good results in the areas of establishment legislation (discussed below), obligatory closing times of shops, and simplifying environment legislation (specifically the forms involved).

Simplification of regulations. Another important part of this programme is the simplification of regulations that are aimed at entrepreneurs.

The reason for this is mainly that there are too many regulations, with many too complicated for entrepreneurs to understand without professional advice. Besides simplification, the relevant ministries cooperate with business representatives and professionals in a ‘road show’ during which entrepreneurs are provided with (free) advice and an overview of existing regulations.

⁴⁷ ‘The state of Small Business in the Netherlands 1995’, De Lind van Wijngaarden, Karin, EIM, 1996.

⁴⁸ The negative image of entrepreneurship can be illustrated by the lyrics of a Dutch song by Boudewijn de Groot, a famous singer during that period, in which he sings that he does not want his son to become a soccer player (because of possible injuries), but he would still rather his son become a soccer player than an entrepreneur (since that would turn his son into an evil person).

⁴⁹ ‘Entrepreneurship and Small Business Research in Europe’, During, W.E. *et al*, ECSB Survey, 1997.

⁵⁰ Translates as ‘Functioning of markets, deregulation and quality of legislation’.

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One-stop-shop. A third aspect of the operation that is worth mentioning is the current experiment with a 'one-stop-shop'. In a few regions, the three tiers of government, the revenue service, the social security organisations and the chambers of commerce cooperate to provide entrepreneurs with one contact point for all their affairs. Should this experiment prove successful, it will probably be set up in other regions as well, thus saving entrepreneurs (especially startups) a significant amount of time and money.

Establishment legislation requires certain skills or know-how from a potential entrepreneur when he or she wants to start a business. This legislation has existed since 1937. It came into existence in order to deal with an increase in the number of start-ups in the 1930's. The government wanted to protect the already existing entrepreneurs, the consumers and moneylenders from starters without the necessary knowledge. To protect these three groups the government made requirements that potential entrepreneurs must follow, like knowledge about management, finance and marketing, but also industrial and occupation-specific knowledge. By doing so, the government created a barrier for starters which resulted in a decrease in the amount of starters. On the other hand this legislation increased the quality of starters, they all had know-how about their business. However, the legislation slows down new start-ups, which means that it has a negative effect on entrepreneurship. Loosening the establishment requirements will have a positive impact on the number of start-ups in the Netherlands. The Dutch government decided that the establishment legislation should be stopped, in order to encourage the creation of more start-ups. The establishment legislation will cease in 2006.

❖ *Government policies and programs*

It is clear that if individualism, risk-taking or earning of high returns are discouraged by the legal framework or by public policies, then less risk taking and innovation is likely to occur. Current social attitudes in the Netherlands seem to reflect some shift towards less reliance on social programmes and more emphasis on self-reliance and reward for effort. This shift is reflected in many areas of public policy in recent years and has probably also been spurred by the exposure of Dutch markets to greater competition.

It is also clear that the overall business environment and the prevailing web of regulations and other institutional factors significantly affect entrepreneurship. Removing impediments to entrepreneurial activity and fostering a more favourable business environment would therefore form an important part of government efforts to stimulate entrepreneurship.

The overall policy mix in the Netherlands contributes to entrepreneurship by a strategy that combines efforts to improve the general institutional environment with specific measures targeted at new and growing enterprises. An important area of entrepreneurship promotion in the Netherlands is built on the interaction between *social and economic policies*. To substitute passive income support, policies have been designed that aim to help people to help themselves, for example through the promotion of self-employment.

The Netherlands is developing special programmes, aimed at targeted support, which are extending the frontiers of traditional entrepreneurship policies. One of these is the social security policy that facilitates self-employment by freeing those unemployed from job-searching duties up to one and a half years. Also, loans are available to this target group, as is income support during startup.

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Another initiative is the national expertise center that is being set up to provide regional counseling services to would-be entrepreneurs from specific ethnic groups⁵¹. During the policy design process, the Dutch Government often confers with most relevant parties in the field, including business representatives and academics. In a later stage, the public is informed. If substantial changes have been made, a public campaign (using TV commercials or pamphlets) to inform the relevant parties (e.g. entrepreneurs) about the consequences and the required actions is embarked upon.

❖ *Institutions*

An interesting approach to entrepreneurship promotion at a local level is the development of science parks. The TOP Institute in Twente, discussed earlier, is one example of this. The government has initiated a new advice network for SMEs – the Syntens. Previously, two types of institutions – Innovation Centres (ICs) and Institutes for SMEs (IMKs) - had partly the same function. There were 20 IC's, providing advice on technological matters (yearly budget f40 million - about R120 million). There were 12 IMKs - regional institutes providing advice and education related to 'doing business' (yearly budget f25 million). Besides this public function, the IMKs performed commercial activities (mostly education, worth of f33 million on yearly average).

In 1998, the ICs and IMKs merged their operations (excluding the commercial operations of the IMKs). The merger completes an integration process that started in 1992 with the shared housing of IC's, IMKs, Chambers of Commerce and some other institutes, thus building on a network. Although the ICs and IMKs were on speaking terms, it proved difficult to provide integrated advice, which was needed by entrepreneurs.

The new institute, called Syntens (Synergy and Intense), will have 15 regional operations. These will be steered by regional advice-committees, in which the business community has a voice. The objective of the new institute is to improve the innovative capacity of SMEs. The institution will be housed at the premises of the Chambers of Commerce, which will also perform desk-functions. It is expected that a small cost reduction (f5 million) can be gained through increased efficiency.

Yet another institution, the Export voorlichting dienst (EVD)⁵² forms a separate part of the Ministry of Economic Affairs. It has three functions:

- Provide information to Dutch business regarding foreign markets (per country).
- Matchmaking between Dutch and foreign businesses in order to promote cooperation.
- Promotion of Holland.

❖ *Fiscal incentives*

In the Netherlands, many policies that aim to promote entrepreneurship are in the form of tax incentives or other tax related policies. Some examples of these policies and their objectives are:

⁵¹ The above is based on OECD in (1).

⁵² Translates as export information service.

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- *Zelfstandigenaftrek* (self-employed deduction). This is a favourable tax deduction for the self-employed, meant to promote the number of self-employed in general, with an eye to the investment function of their taxable income.
- *Fiscale oudedag* reserve (fiscal old-age reservation), meant to remove the comparative disadvantage the self-employed experience with regards to pensions.
- *Investeringsaftrek* (investment deduction), meant to increase investment in business
- *Meewerkaftrek* (partner labour deduction), meant to provide a reward for persons working (for free) in the business owned by their partner.

All these means are designed in such a way as to enable the entrepreneur, or business owner, to divide the income into consumption, saving and investments. The importance of these reductions is proven by its share in the revenue/profit - approximately 20 per cent, which means 11,000 guilders per self-employed in 1993. During the period 1993 to 1996 these facilities increased further by 7 per cent a year on average, mainly because of the favourable tax reduction for the self-employed⁵³.

Besides the incentives above, there are tax measures that:

- Make a generous carry forward and backward of losses possible.
- Make it easier to end a business by selling it, specifically to family members.
- Provide the possibility to make reservations for large expenditures in the future an uninsurable risk.
- Promote education (of entrepreneurs and/or their employees).
- Promote R&D.
- Make it cheaper to invest in the environment.
- Make the hiring of specific groups of employees (unemployed, disabled, etc.) cheaper.
- Promote the supply of capital.

❖ *Administrative burdens and compliance costs*

As in many countries, legislation places a heavy burden on entrepreneurship and small business. A recent inquiry among entrepreneurs shows that providing information to Government (administrative burdens) is the number one problem of Dutch entrepreneurs⁵⁴. A major part of this is in the form of administrative burdens and compliance costs. Since 1993, the Dutch Government has been trying hard to reduce these costs. The MDW operation (discussed earlier) is one element of this effort, but more interesting actions have been undertaken. Recently, the Dutch Government formulated the following initiatives:

- Size and development of administrative burdens and compliance costs will be measured and monitored more precisely.

⁵³ 'Kleinschalig Ondernemen 1995', EIM, 1995.

⁵⁴ 'De papierberg te lijf, deel 1', Commissie Administratieve Lasten, 1999. (this roughly translates as 'fighting the paper mountain, part 1', by the commission administrative burdens)

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- Ministries are required to calculate administrative burdens and compliance costs that will be caused by legislation they are designing in an early stage. Specific attention must be given to small business (and, more generally, to impacts on the position in society of women and ethnic minorities).
- An independent advice committee will be formed to make assessments of the administrative burdens and the compliance costs that are likely to be imposed by new legislation (again in an early stage)⁵⁵.

❖ *Bankruptcy legislation*

Bankruptcy legislation has been recently revised. This revision is meant to increase the possibilities for entrepreneurs to try again after an earlier bankruptcy (although still under very strict conditions). Before, the entrepreneur was liable for his debts for the rest of his life. However, compared to the legislation in the USA, bankruptcy rules in the Netherlands are still very negative toward business failure.

More positive recent developments include the extra time entrepreneurs have been provided to solve their problems, and the establishment of the Nationale Faillissements Preventielijn⁵⁶. This service provides entrepreneurs that have previously gone bankrupt or are threatened with this in the near future with advice.

❖ *Finance*

An important instrument in the area of finance is the SME Credit Guarantees Decree (BBMKB). The scheme aims at giving guarantees to banks that make loans to new, small and medium-sized businesses with difficult access to bank credit under normal banking conditions, due to a lack of adequate collateral. Although the costs of this measure are very low (f12 million a year, for f825 million outstanding guarantees), the OECD has noted a number of possible disadvantages to this method of entrepreneurship promotion:

- Projects rarely fail (this explains the low costs), so most of them are not very risky. On average, they are rather small as well.
- Requiring funds without the guarantee should be possible under normal market conditions, so it is debatable whether the Decree puts more risk capital into the market place.
- Programmes such as this might strengthen the culture of debt rather than developing an equity culture.

In order to promote the market for informal capital the Dutch Government created a special tax allowance for investment in starting enterprises, the so-called 'Aunt Agatha' scheme. Within this scheme losses up to f50,000 can be written off against income tax.

In addition f5,000 in interest received on loans to enterprises is tax-exempt for eight years. This scheme was initially intended to activate family capital (OECD, 1998). Recently, the scheme has been enlarged to the whole range of informal investors, including intermediated informal funds. This

⁵⁵ This committee has been installed very recently, on 1 may 2000.

⁵⁶ Translates as 'National Bankruptcy Prevention Service'.

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appears to be very successful, but some doubts have risen. Banks are said to misuse the scheme, mainly providing capital to less risky projects they select carefully, thus raising profits for investors (and themselves).

❖ *Education and training*

A lot of effort is made in the education sphere to help entrepreneurs⁵⁷. It is directed toward removing barriers for founders, helping the entrepreneurs with writing a business plan and giving branch-directed entrepreneur education. This latter focus is mainly informed by the need to acquire a license before starting up a business.

Recently, many schools, universities and professional schools have started providing courses related to entrepreneurship. An example of these is a four-year course on small business at the Hoger Economisch en Administratief Onderwijs in Haarlem. Broader approaches including changes at lower education levels could boost entrepreneurial spirit more pervasively. To this end the Ministry of Economic Affairs is partly funding projects whereby students start so-called mini-enterprises within the framework of the Mini Onderneming⁵⁸ foundation. By providing these forms of education the government not only hopes to encourage start-ups, but also to lower the failure rate by providing accurate information on potential hurdles to entrepreneurs.

❖ *Technological development, R&D (transfer) and innovations*

Tax incentives are in place to increase investment in R&D. R&D subsidies form a major part of public assistance to small business, based on the assumption that there exist considerable externalities, so that without government intervention there would be under-investment in R&D. Such under spending can be more significant among small firms due to the high costs and the long lead times for development of a marketable product. The WBSO grants a tax reduction on the labour cost of R&D staff. In 1996 the total budget was f561 million (about R 1,7 billion), of which 60 per cent went to enterprises with 250 employees. Besides this, smaller amounts of grants and loans are provided.

Both formal and informal cooperation in R&D are found in the Netherlands. These relationships are prevalent between and in higher technology firms. Because of the investment in R&D, these firms out-perform other less research-intensive firms, especially in the case of start-ups.

It has been observed that the employment growth of these firms can be as high as 120% after two years in existence. For other firms, those that are not involved in R&D, employment growth over the same time period is closer to 20%.⁵⁹ Because the performance of these firms is typically very good, other like-minded entrepreneurs are starting high technology, research-intensive businesses as well.

❖ *Commercial infrastructure*

During the past years, a lot of universities and professional schools have created room and facilities for students where they can accommodate their own companies and receive (juridical) advice and coaching. Examples of this are the Zernike Science Park in Groningen and the University Student

⁵⁷ 'Entrepreneurship and Small Business Research in Europe', Durning, W.E. *et al*, ECSB Survey, 1997.

⁵⁸ Translates as Mini business.

⁵⁹ 'Entrepreneurship in the Netherlands', Snijders, J. and K. van Elk, EIM, 1998.

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Enterprise-building of the Universiteit Twente. In future the Dutch government plans to expand this policy by means of public private partnership between universities, technikons and companies.

An important initiative aimed towards improving the capital market for high-risk ICT entrepreneurs is the establishment of the so-called Twinning Centers. The objective of the Twinning Centers is to stimulate startups in the ICT sector and to improve their chances of being successful. The idea behind the initiative is to provide the entrepreneurs with an infrastructure of coaching, a physical infrastructure and a financial infrastructure, all in a single package.

2.3.2.2 Promotion of ethnic entrepreneurship

The Netherlands has very few specific policies to stimulate entrepreneurship among ethnic minorities. These initiatives are mainly local and either purely private or public-private initiatives. **MOTOR** (Migrant Entrepreneur, Talent, Education, Result) is a pilot project supported by the Ministry of Economic Affairs and implemented by institutions specialising in providing advice to start-ups and entrepreneurial training at local level. The objective of the pilot project is to improve entrepreneurship amongst migrants through advice and training, making use of existing institutions and facilities.

Another initiative involves the bringing together of Dutch franchise suppliers and entrepreneurs from minority groups in an attempt to promote franchising opportunities, facilitate transfer of know-how and management skills and to find better business locations and opportunities. The project is a private initiative undertaken by an advice bureau for ethnic entrepreneurs.

The Dutch ministry of Economic Affairs subsidizes 50 per cent of the costs of a training program for start-ups including a specific course for start-ups among foreign starters. A specialised office carried out the implementation.

STASON (Support to ethnic Starters Entrepreneurs Netherlands) was founded in 1992 to support ethnic start-up entrepreneurs by providing advice and access to loans. Shell Netherlands, Unilever, Rabobank Netherlands, SBMB Lagato and the Dutch Ministry of Economic Affairs have supported the initiative. STASON provides a loan of f50,000 or a loan-guarantee for the same amount. Among the 78 loan applications in 1996 and 1997 only 12 entrepreneurs were assisted.

2.3.2.3 Conclusion

- For many years it was felt that the level of entrepreneurship in the Netherlands was insufficient. For example, from an international perspective both the number of start-ups and the percentage of the population with a positive attitude towards entrepreneurship were considered to be low. That situation is slowly improving.
- Entrepreneurship policy used to consist of a collection of mainly incoherent measures. For the last decade, the Dutch Government has been trying to change this.
- The culture existing in the past was not conducive to fostering entrepreneurship. But since the late 80's a change in mentality can be noticed. The labour-force has become more flexible and opportunistic.

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- Recently, the government has made efforts to open the economy up by withdrawing from the market in favour of private initiatives. Laws and regulations were replaced by self-regulation by relevant parties in specific sectors. Another important part of this program is the simplification of regulations that are aimed at entrepreneurs. The 'one-stop-shop' service involving the three tiers of government, the revenue service, the social security organisations and the chambers of commerce will provide entrepreneurs with a single contact point for all their affairs.

- An important area of entrepreneurship promotion in the Netherlands is built on the interaction between *social and economic policies*. Substitute passive income support policies have been designed to help people to help themselves, for example through the promotion of self-employment.

- Many policies that aim to promote entrepreneurship are in the form of tax incentives or other tax related policies.

- A recent inquiry among entrepreneurs shows that providing information to Government (administrative burdens) is the number one problem of Dutch entrepreneurs. A major part of this comprises administrative burdens and compliance costs. Since 1993, the Dutch Government has been trying to reduce these costs.

- An important measure to promote entrepreneurship in the Netherlands is the SME Credit Guarantees Decree (BBMKB). The scheme aims at giving guarantees to banks that provide loans to new, small and medium-sized businesses who find access to bank credit difficult under normal banking conditions, due to a lack of adequate collateral. However, although the costs of this measure are very low, the OECD has pointed out possible disadvantages.

- In order to promote the market for informal capital the Dutch Government created a special tax allowance for investment in starting enterprises, the so-called 'Aunt Agatha' scheme.

- R&D subsidies form a major part of public assistance to small business. There is a tax reduction on the labour cost of R&D staff, and grants and loans can be provided.

- A number of universities and professional schools have created room and facilities for students where they can accommodate their own companies and receive (juridical) advice and coaching. The government plans to expand this policy by means of public private partnership between universities, technikons and companies.

- An important initiative aimed towards improving the capital market for high-risk ICT entrepreneurs is the set up of the so-called Twinning Centers. The objective of the Twinning Center's is to stimulate start-ups in the ICT sector and to improve their chances of being successful. The idea behind the initiative is to provide the entrepreneurs with an infrastructure of coaching, a physical infrastructure and a financial infrastructure, all in a single package.

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- The Netherlands in general has very limited specific programmes aimed at stimulating entrepreneurship among ethnic minorities.

2.3.3 *India*

Indian development plans have had a strong industrial bias. For the purposes of this research special attention will be paid to small-scale industry (SSI) and small-scale enterprises. Small-scale industries are the industrial units in which the investment in plant and machinery does not exceed R30 million. About 3.1 million such units, employing 17.2 million persons account for a share of 36% of India's exports and 40% of industrial manufacture.

The small-scale industry sector output contributes approximately 30% of the GDP, 45% of the total exports from India (direct as well as indirect exports) and is the second largest employer of human resources. The development of the Small Scale Sector has therefore been assigned an important role in India's national plans. (See: indmin.nic.in)

The total number of small-scale enterprises in India in 1998-99 was 3.121 lakh (10 lakh = 1 million), compared to 30.14 lakh in 1997-98. Value of production of small-scale units in 1998-99 aggregated to R 5,27,515 crore (R10 crore = R100 million). The volume of employment in small-scale sector stood at 171.6 lakh as of end-March 1999. Exports from the SSI sector accounted for about 35 per cent of the country's total exports. In 1998-99, SSI exports valued at R49,481 crore, represented an increase of 11.4 per cent over 1997-98.

2.3.3.1 *National policies and institutions*

❖ *Policy initiatives*

In order to protect, support and promote small enterprises as well as to help them to become self-supporting, a number of protective and promotional measures have been undertaken by the government of India.⁶⁰ The promotional measures cover the following aspects:

- industrial extension services,
- institutional support in respect of credit facilities and scarce raw materials,
- factory recommendations in industrial estates,
- provision of developed sites for construction of sheds,
- provision of training facilities,
- subsidised power tariffs,
- supply of machinery on hire-purchase terms,
- assistance for domestic marketing as well as exports,
- special incentive for setting up enterprises in undeveloped areas.

⁶⁰ For an overview of these policies and schemes pertaining to the small-scale sector please refer the Internet: www.laghu-udyog.com.

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In addition to these specific measures, attention is paid to entrepreneurship in more general policies, such as the Industrial Policy.⁶¹ There is no specific national policy to develop entrepreneurship.

Table 4. New policy initiatives for the small-scale sector in India

<ul style="list-style-type: none">❖ Announcement of a new Credit Insurance Scheme in the Budget (1999-2000) for providing adequate security to banks and improving flow of investment credit to SSI, particularly export oriented and micro industries.❖ The banks on the basis of 20 per cent of their annual turnover determine the working capital limit for SSI units. The turnover limit for this purpose has been enhanced from Rs. 4 crore to Rs. 5 crore.❖ To increase the reach of banks to the micro sector, lending by banks to non-banking financial companies (NBFCs) or other financial intermediaries for purposes of on lending to the tiny sector, has been included within the definition of priority sector for bank lending.❖ Exemption from excise duty, as given to SSI, will be extended to goods bearing a brand name of another manufacturer in rural areas.❖ A National Programme for Rural Industrialisation has been announced, with a mission to set up 100 rural clusters every year, to give a boost to rural industrialization.❖ To coordinate the latest development with regard to the World Trade Organization (WTO), a cell has been set up in the Office of DC (SSI) to disseminate information to SSI Associations and SMEs, regarding recent developments, prepare policies for SSIs in tune with the WTO agreements and organizing WTO Sensitization seminars, and workshops.❖ Cotton yarn has been included in the general excise exemption scheme for SSIs.❖ Small job workers, engaged in printing of glazed tiles, have been exempted from excise duty.❖ The investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crore to Rs. 1 crore.

Source: Ministry of Finance, Government of India, 2000.

In addition to these initiatives national institutions have been put in place to develop and stimulate entrepreneurship in various ways. A selection of these national institutions will be discussed below.

❖ *Secretariat for Industrial Assistance*

The Secretariat for Industrial Assistance (SIA) operates within the Department of Industrial Policy and Promotion in the Ministry of Commerce & Industry. It provides a single window for entrepreneurial assistance, investor facilitation, and receives and processes all applications which require Government approval, thereafter conveying Government decisions on applications filed, assisting entrepreneurs and

⁶¹ See website SIA <http://indmin.nic.in/>.

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investors in setting up projects (including liaison with other organizations and State Governments) and in monitoring implementation of projects.

The SIA provides information and assistance to Indian and foreign companies in setting up industry and making investments. It guides prospective entrepreneurs and disseminates information and data on a regular basis through its two monthly newsletters the "SIA Newsletter" and the "SIA Statistics".

It also assists potential investors in finding joint venture partners and provides complete information on relevant policies and procedures, including those that are specific to sectors and the State Governments.

The *Entrepreneurial Assistance Unit* functions under the Secretariat for Industrial Assistance and provides assistance to entrepreneurs on various aspects relating to investment decisions. The unit receives all applications related to industrial approvals and immediately issues a computerized acknowledgement, with an identity/reference number. The Unit extends this facility to all applications relating to IEMs, Industrial Licenses, Foreign Investment, Foreign Technology Agreements, 100 per cent EOUs, EHTP, STP Schemes, etc. In this way a central database with investment information and opportunities for entrepreneurs is created. The Unit also attends to inquiries from entrepreneurs relating to a wide range of subjects concerning investment decisions. It furnishes clarifications and arranges meetings with nodal officers in concerned Ministries or organizations. The Unit also provides information regarding the current status of applications filed for various industrial approvals.

❖ *Industrial Development Bank of India*

The Industrial Development Bank of India (IDBI), a government institution, was established in 1964. The creation of the IDBI in particular, and Financial Institutions (FIs) in general, was a response to the emergence of broad-based industrial development as an imperative of national policy. Development banking in the pre-reform era mainly entailed long term project lending in pursuit of broader development goals aligned to government's varied socio-economic objectives. These included balanced industrial growth through development of identified undeveloped areas, modernization of specified industries, employment creation, extension and support services in the field of entrepreneurship and capital market development.

IDBI's developmental activities have included a range of promotional services to build an institutional structure for entrepreneurship development, credit delivery and capital market development. To give focused attention to the needs of small-scale industry, IDBI set up the Small Industries Development Bank of India (SIDBI) in 1990 as a wholly owned subsidiary. IDBI furthermore took the lead in setting up the Entrepreneurship Development Institute of India (EDII) as a national institute to foster entrepreneurship development. Besides, IDBI was also closely associated with the establishment of a number of Institutes for Entrepreneurship Development in the industrially less developed states.

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❖ *Small Industries Development Bank of India*

The objective of the Small Industries Development Bank of India (SIDBI) is to serve as the principal financial institution for promotion, financing and development of industry in the small-scale sector and to co-ordinate the functions of the institutions engaged in promoting, financing or developing industry in the small-scale sector. The business domain of SIDBI consists of small-scale industrial units. These units contribute significantly to the national economy in terms of production, employment and exports. In addition, SIDBI's assistance flows to the transport, health care and tourism sectors and also to the professional and self-employed persons setting up small-sized professional ventures.

A major part of SIDBI's financial assistance, initially, was by way of refinancing of term loans and bills rediscounting. However, it has gradually diversified and expanded its lending operations by way of direct lending as well as support through the existing institutions and banks. Financial assistance by SIDBI covers:

- term loans - both by way of refinancing and by direct loans,
- rediscounting and direct discounting of bills,
- working capital financing,
- foreign currency loans,
- equity-type assistance on soft terms,
- venture capital support,
- equity support,
- lines of credit to other institutions for leasing,
- factoring and marketing.

Besides financial support, SIDBI has been extending promotional and developmental support to small scale industries with a regional/national focus, aimed at long term sustainability, institution building and closer ties with other development agencies and government at various levels. The promotional and developmental support extended by SIDBI aims at enhancing the capabilities of enterprises in the small-scale sector and is carried out through the involvement of institutions like Technical Consultancy Organizations (TCOs), Institutes of Entrepreneurship Development (IED), Technology Management Institutes, Industry Associations and Accredited Non-Governmental Organizations (NGOs). Technology upgrading, quality promotion, technology transfer, entrepreneurship development, skill upgrading, management development, marketing support including export promotion, environment management, rural industrialization and publication of project profiles are focused promotional and developmental activities supported by SIDBI.

❖ *Foundation for Micro Credit*

The last two decades have seen the massive expansion of a formal credit delivery network in India. However, there is a perceptible gap in financing genuine credit needs of the poor, especially in the remote rural areas. The high transaction costs for providing small loans, perceived high risk and low credit worthiness of poor borrowers act as deterrents. SIDBI has responded by canalizing small credit to the poor under its Micro Credit Scheme (MCS) through NGOs and Micro Finance Institutions (MFIs) with the objective of laying a firm foundation for micro finance activities.

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The informal arrangement for credit supply to the poor through the form of Self-Help Groups (SHGs) is fast emerging as a promising tool for job creation and income generation among the poor. These SHGs have come into existence spontaneously or with active involvement of Non-Governmental Organizations who provide supplementary financial services through operational flexibility.

Considering the satisfactory performance of MCS in the pilot phase and with a view to up-scaling the activities there-under, in November 1998, the Bank set up 'SIDBI Foundation for Micro Credit' with an initial corpus of R1 billion. This initiative gained international recognition when SIDBI was awarded the coveted 'Asian Banking Award 1999' in the Development Finance Product category.

The objective of the Foundation is to raise the standard of living of poor by meeting their genuine credit needs, with focus on women. Operations of SIDBI Foundation entail provision of financial support to well managed Micro Finance Institutions (MFIs) for on lending to poor (individuals / groups), with emphasis on women, for taking up industrial activities at a micro level. Support is also extended to MFIs for strengthening their financial, technical and managerial capabilities as well as for improving their credit absorption capacity.

Financial support is extended to NGOs for training interventions in the area of maintenance of accounts, bookkeeping, credit management, identification and selection of income generation activities and management of micro-enterprises. Besides, financial assistance is extended by way of grants to NGOs for meeting part of their administrative expenses and cost of management support services for effective implementation of the programme.

Up to March 1999, the cumulative net effective activities since inception of the Micro Credit Scheme aggregated R307.1 million canalized through 142 MFIs/ NGOs spread across 24 States/Union Territories. Besides 97 programmes have been supported for providing training to 1550 NGOs.

❖ *Entrepreneurship development programmes*

Training can develop entrepreneurship. Towards this end and also to make the Entrepreneurship Development Programmes (EDPs) result-oriented, SIDBI has been supporting suitable agencies to train and guide potential entrepreneurs to set up enterprises. EDPs aim at training various target groups so that they obtain adequate information, motivation and guidance in setting up their own enterprises. In order to maintain a homogeneous nature of participating groups, EDPs focus on rural entrepreneurs and women.

❖ *The Small Industries Development Organization*

The Small Industries Development Organization (SIDO) headed by the Additional Secretary & Development Commissioner (SSI) is an apex body for formulating policies for the development of small-scale industries. SIDO functions as an agent of change for small-scale industries through policy initiatives, technology-centric training and facilities, schemes and incentives, information services, and techno-commercial and managerial consultancy. A vast network of field organizations and institutes across the country operate according to the aims, objectives and guidelines laid down by SIDO. The aims and objectives of SIDO are to impart greater vitality and growth impetus to the small, tiny and village enterprises in terms of output, employment and exports and to instill a competitive culture

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based on heightened technology awareness. In order to reach entrepreneurs at a decentralized level, Small Industries Service Institutes (SISI) have been established.

Small Industries Service Institutes. There are 28 SISIs and 30 Branch SISIs set up in State capitals and other industrial cities in India. Their main activities are:

- Assistance/consulting to prospective entrepreneurs or existing units;
- Preparation of State Industrial Profiles and District Industrial Potential Surveys;
- Entrepreneurship development programmes;
- Motivational campaigns;
- Management development programmes;
- Skill development programmes.

SISIs and their branches have common facility workshops in various trades. There are at present 42 such common facility workshops attached to SISIs. Common Facility Workshops and laboratories render common facility services to small scale industrial units and provide technical training to their workers in various technical trades like machine shop practice, heat-treatment, glass and ceramics, sheet metal work, leather and footwear, food processing, preparation and testing of various chemicals etc.

The former production center Tiruvalla has been converted into the **Small Entrepreneur Promotion and Training Institute (SEPTI)** with the objective to provide technical-cum-entrepreneurship training to 1,000 persons per year and train 100 persons per year as barefoot managers to satisfy the needs of small-scale enterprises and the unemployed youths. In addition to these extension services, some Small Industries Service Institutes have mobile vans in disciplines like carpentry, black smithy, general engineering, glass and ceramics, leather and foot-wear etc. for giving demonstrations and imparting training to the artisans and entrepreneurs in the rural and interior areas.

Entrepreneurship Development Programme. SIDO organizes various Entrepreneurship Development Programmes through the Network of SISIs for different target groups such as educated unemployed; women; rural artisans; physically handicapped; students; and technocrats. Special preference in all these programmes has been given to women, Scheduled Castes/Scheduled Tribes (SC/ST) candidates and minority communities, with focus on rural and backward areas.

Women Entrepreneurs. To provide follow up support to women entrepreneurs, a Woman Entrepreneurs Cell has been set up. A National Level Standing Committee for Development of Women Entrepreneurs has been constituted under the Department of Women & Child Development.

Assistance to SC/ST Entrepreneurs. Special efforts have been made to induce greater motivation and encouragement to SC/ST persons to avail themselves of the benefits of the SIDO programmes in larger proportion. Specific steps have been taken in this regard. For instance, the Entrepreneurship Development Programmes are being organized by the SISIs exclusively for weaker sections including the persons belonging to SC/ST communities to motivate and equip them to set up small-scale industrial units. They have also been given special attention in the selection of candidates for training in various programmes organized by SISIs. The SIDO services are provided mostly free of cost. Wherever charges are levied the SC/ST entrepreneurs are given 50% concession. Under the Rural Artisans Programme guidelines were issued for the organization of promotional schemes and training

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programmes for rural SC/ST Artisans with a view to improving their techniques and tools in order to enable them to upgrade their level of skills and earnings.

National Awards for Outstanding Entrepreneurs. With a view to promoting a sense of excellence amongst first generation entrepreneurs, a scheme of National Awards for outstanding entrepreneurs was introduced in 1983. Since then 104 national awards have been given. Out of the 104 awards given so far 52 went to entrepreneurs/industries in the undeveloped areas and 10 to women entrepreneurs. Apart from the National-level Awards, State-level Special Recognition Awards are also given in this category to the entrepreneurs in each State.

❖ *Entrepreneurship Development Institute of India*

The Entrepreneurship Development Institute of India (EDII), which is a wholly autonomous and not-for-profit institution, set up in 1983, is sponsored by financial institutions, the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India (ICICI) and the State Bank of India (SBI). It is an international resource organization for training, teaching and research in entrepreneurship development.

The mission of EDII is to augment the supply of new entrepreneurs through educational training and improvement of the managerial capabilities of small-scale industries. The EDII also contributes to the dispersal of business ownership and thus expands the social base of the Indian entrepreneurial class. Furthermore, it creates and disseminates new knowledge and insights in entrepreneurial theory and practice through research. It augments the supply of trainer-motivators for entrepreneurship development and participates in institution building efforts. EDII seeks to promote micro-enterprises at rural level and inculcate the spirit of entrepreneurship in the younger generation. These objectives are operationalised through various initiatives.

❖ *Innovation Center: Science and Technology based entrepreneurial innovations*

The EDII, under the aegis of National Science & Technology Entrepreneurship Development Board (NSTEDB), has established a National Facility for Science and Technology based entrepreneurial innovations. The main objectives of the Center are to facilitate evolution of technology-driven enterprises by providing appropriate information on the process of technology-transfer. It extends support to entrepreneurship development organizations by way of providing information on technology-based business opportunities. The Center has also created a National Data Bank on Science & Technology (S&T) based opportunities and technologies. The basic thrust of the data is on technology/innovation based project information in the form of product notes, project profiles and feasibility reports to support potential, existing and growth-oriented entrepreneurs. Such a data bank helps in strengthening the capabilities of state-level institutions involved in promoting S&T entrepreneurs such as Institutes/Centers of Entrepreneurship Development (IEDs/CEDs), ED Cells, Science & Technology Entrepreneurship Parks (STEPS), Technical Consultancy Organizations (TCOs), etc. It will help building a network among state-level Entrepreneurship Development Organizations through dissemination of information and provides business opportunity guidance to new and existing entrepreneurs. It brings scientists and entrepreneurs on a common platform to pursue successful commercialization of innovations and links entrepreneurs with venture capital institutions to help them gain access to finance.

Diploma in Business Entrepreneurship & Management (DBEM). To develop new, committed entrepreneurs on a large scale, the EDII has conceptualized and launched an Entrepreneurship

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Development Programme through distance learning and personal counseling titled Diploma in Business Entrepreneurship & Management (DBEM). The study is focused on various aspects of starting and managing an enterprise.

Post-Graduate Diploma in Business Entrepreneurship and Management (PGDBEM). In addition to the above-mentioned initiative a one-year programme leading to Post-Graduate Diploma in Business Entrepreneurship and Management (PGDBEM) was started in 1998. In the course skills are developed to successfully initiate, expand, diversify and manage a business enterprise with a focus on understanding real life business situations and business practices. It inculcates among students entrepreneurial competencies, including self-confidence, goal setting, planning, information seeking, problem solving and planned risk taking.

Center for Research in Entrepreneurship (CREED). The Center for Research in Entrepreneurship and Education has been instituted with the mission of acting as a link between theoretical developments and practice in the field of entrepreneurship. Its focus is on applied research backed by solid theoretical insights. Some of the broad areas identified by CREED to investigate are entrepreneurship in education, innovation in training technology, impact of industrial policies, gender and enterprise development, rural entrepreneurship and innovative credit delivery systems. One of the major objectives of the center is to catalyze the process of building a network of researchers and institutions in the sphere of entrepreneurship.

Micro-Enterprise and Micro-Finance Development Division at EDII. One of the priority tasks for EDII is to identify, motivate, train and create micro and rural entrepreneurs through self-employment and small business development programmes. EDII undertook a three-year three-state experiment to develop a replicable model for Rural Entrepreneurship Development, during 1986-90. The training model for micro and rural enterprise development (MEDP) is presently being implemented by about 150 voluntary organizations. Out of the 4845 trainees trained under the 185 programmes, 52% of trainees have started their ventures with an average investment of R 33,971 and employment of over 2 persons per venture. On an average, each MEDP generated an investment of R 399457.63/-, at a direct cost of about R 60,000/-, leading to R 6.67/- investment for every rupee spent on training.

Besides MEDPs, the Division has also been working in the area of capacity building of NGOs and sensitizing environment and support systems. In various workshops for Chief Executives of NGOs, about 250 NGO Chiefs have been sensitized on the strategy for micro-enterprise development. In the programmes on micro-credit, about 100 professionals from NGO sector have been developed to manage the credit operations.

Youth Camps. EDII designed and has been organizing intensive youth camps to facilitate the development of the entrepreneurial capacity of the youth. The broad objective of the camp is to motivate the youth and foster entrepreneurial traits in them, thus providing them with an opportunity to develop values of high achievement and entrepreneurship. One of the means to foster entrepreneurial traits (including creativity, concern for excellence, leadership, problem solving, etc.) among the participants is to provide them with an opportunity to interact extensively, in formal and informal settings, with well-known entrepreneurs.

2.3.3.2 Conclusion

- Indian development policy reflects a strong industrial bias. Nonetheless, the development of entrepreneurial activities is seen as a valuable instrument towards further development. Due to the limited scope of this research it is not possible to make a full-scale assessment of the effects and success of the above mentioned policies, schemes, institutions and initiatives. However, a selection of promising initiatives and activities can be made.
- The development of a one-window information point for investment possibilities and policies for entrepreneurs is an important initiative. Bureaucracy can be a great impediment to the pursuit of business opportunities for future entrepreneurs. A single access point for policies and regulations can be a solution.
- For many small-scale ventures finance is a major obstacle. Development banks specifically aimed at small enterprises or specific groups with favorable conditions can help to provide initial start-up capital or capital for investments.
- There is a growing concern that micro-enterprise development programmes are not succeeding to a desired extent because of the lack of an adequate and timely availability of credit. The missing link is that micro-enterprise and micro-finance, more often than not, have been dealt with in isolation without any synergy between the two. One way to deal with this problem is to build the capacity of NGOs to enable them to adopt strategies to successfully implement micro-enterprise and micro-finance programmes.
- Bringing practical technological information and tools directly to the people is an important mechanism for developing the technological skills of entrepreneurs. Grass-root organizations and NGOs can play a significant role in the transfer of skills and techniques to rural areas.
- A national institute for education and research on the topic of entrepreneurship can be a driving force to heighten awareness and transfer entrepreneurship to the educational system. It can also provide a platform for further development of policies and initiatives.
- Raising cultural awareness and the appreciation of entrepreneurial successes through awards and youth camps will broaden the acceptance level in society for taking entrepreneurial risks. The success of first-generation entrepreneurs, especially from Historically Disadvantaged Groups, can form an important role model for future generations of entrepreneurs.
- While most of the institutional support services and some incentives are provided by the Central Government, others are offered by the state governments in varying degrees to attract investments and promote small industries with a view to enhancing industrial production and generating employment in their respective States.

2.3.4 State policy: Andhra Pradesh in India

India has a decentralized governmental system in which State Governments play a relatively autonomous role. In order to have a better understanding of the initiatives to develop entrepreneurship on state level the focus in this chapter will be on a single state: Andhra Pradesh. Andhra Pradesh is a State in the South East of India with a population of 7,34,33,000. The State has a 27 per cent urbanization rate and a literacy rate of 44%. The net state domestic product at current prices is R 78,705 crore in 1998. (Figures: Ministry of Finance, Government of India).

Small-scale industries form a significant part of Andhra Pradesh's economy. The sector contributes around 6 per cent of GSDP and employs close to 2.5 lakh people. Many of the growth engines selected for focused development, e.g. construction and pharmaceuticals, will give rise to opportunities for small-scale industries. The sector will be a major focus in the strategy to create growth in the State.

2.3.4.1 State strategy

The State has formulated a development strategy, "Vision 2020" to guide its development efforts for the next two decades.⁶² Some of the initiatives discussed in this section of the report have already materialised, while others are merely plans for the future. Therefore, it is difficult to make an assessment of the relative success of the various policies and programmes.

❖ Building skills and promoting technological development

To meet the growing need for skilled manpower in the small-scale industry sector, Andhra Pradesh invests, as well as attracts private investment, in vocational education and training. The State also tries to increase the number of Industrial Training Institutes, polytechnics, engineering colleges, and other skill-building institutions. The focus is on ensuring that training in these institutions is oriented towards the needs of industry. This will be achieved in many ways. Advisory committees with representation from industry are set up to advise on curricula, equipment, on-the-job training, and campus recruitment. Practicing entrepreneurs will be invited to teach or take some classes in training institutes. Finally, students will receive practical training in local industries.

Collaboration with research institutes. Small-scale industries will interact closely with research institutes such as the Indian Institute of Chemical Technology, the Center for Cellular and Molecular Biology, and the Institute of Tool Design, to upgrade their technology through the latest advances in knowledge in their sector. Since technology transfer to small enterprises is currently restricted by the 24 per cent limit on equity participation by large enterprises, the State will lobby the Government of India to increase this limit to at least 49 per cent.

Technology exchange. The Andhra Pradesh Technology Development Corporation will set up a technology exchange facility to provide information to small entrepreneurs on the latest technological developments worldwide, including the scope for technology transfer. The exchange will operate in close association with industry associations such as the Confederation of Indian Industry, consultants, and international organizations such as the World Assembly of Small and Medium Enterprises (WASME).

⁶² See www.andhrapradesh.com

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Technology development and modernization fund. The Small Industries Development Bank of India (SIDBI) set up this fund for Andhra Pradesh in 1995. So far, small-scale industries in Andhra Pradesh have received R 1.5 crore (app. US\$ 345,000/ R2 145 000) through this fund. In future, the Fund will be given wide publicity to encourage more small-scale enterprises to make use of this mechanism for securing funds.

❖ *Providing infrastructure and credit*

The envisaged initiatives to promote growth engines such as garments, knowledge-based services, and information technology will benefit small enterprises. Providing captive mini-power plants, industrial water supply, roads, street lighting, sanitation, etc., will be an integral part of this approach. Similarly, the provision of infrastructure, such as international airports, ports, warehouses, cold storage chains, cargo-handling facilities, and container services, will help to boost exports in the small-scale sector.

The Government will also encourage the setting up of private industrial estates to introduce competition in the provision of infrastructure services. Special facilities, such as clearances from the Pollution Control Board, Municipalities, the State Electricity Board, etc., will also be provided to these private estates.

A major impediment to the growth of small-scale industries is their lack of access to institutional credit. Faced with tighter capital adequacy requirements and pressure to improve profitability, commercial banks are reluctant to lend to this sector and try to hedge their risk by insisting on collateral to fully cover loans. Furthermore, there are long delays in approving and granting loans. The State Government will actively work with the Reserve Bank of India to ensure that small-scale enterprises get adequate and timely credit. The Government will also ensure that the specific needs of this sector are met. This includes ensuring credit for the tiny and cottage industries sector and providing mechanisms for ensuring payment to small-scale suppliers by defaulting large and medium enterprises.

❖ *Reforming policy and simplifying procedures*

Policy restrictions and complex procedures greatly hinder the growth of the small-scale sector. Reforming policy and simplifying regulation are thus preconditions to boosting the growth of this sector. The two major areas of reform would be fiscal concessions and labor law.

Fiscal concessions. In 1996, liberal fiscal concessions were provided to all new industries, large, medium or small. As a result, older enterprises are finding it hard to compete with newer ones. Moreover, these fiscal concessions are being misused in several ways. For instance, an enterprise coming to the end of a tax holiday period is declared sick and closed down. The same entrepreneur then registers a new enterprise merely to get the tax concession once again. Such fiscal incentives also lead to unhealthy competition between states, which offer all kinds of concessions to attract investment.

The Government of Andhra Pradesh is planning to revise its policy to remove these anomalies. In addition, to improve the competitiveness of the small-scale sector, it will seek a dialogue with other state governments, particularly those of the southern states, to rationalize fiscal incentives and curb unhealthy competition.

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Labor law. The strength of small-scale enterprises lies in their flexibility in production. The multiple labor laws, however, sometimes restrict this flexibility. The different laws need to be revised and combined into a single piece of legislation. The State Government has set up an Industrial Commission to study and recommend the consolidation of these laws.

Simplifying procedures. As for most industry in India, the setting up and operation of small-scale industries is severely hampered by the tangled web of procedures to be followed and clearances to be obtained. For small-scale industries, the most problematic procedures are the multiple registrations, certifications, and inspections required.

Some action at state level has already been taken to address these issues. The Central Documentation and Clearance Center (CDCC), set up in the Commission of Industries, helps entrepreneurs obtain all the necessary clearances within a specific time and attaches an 'escort officer' to every project to follow up with Government departments. A voice-mail system has also been installed through which entrepreneurs can get information about the status of their applications. In addition, the Industrial Commission will also work to simplify and consolidate procedures.

❖ *Providing assistance with marketing*

Small-scale industries need assistance to market themselves and their products. The Government will provide this assistance indirectly by providing supporting infrastructure and opportunities for trade exchanges. The Government will set up permanent exhibition-cum-convention centers in district headquarters and large industrial towns. While the Government will invest in the construction of these centers, their management will be handed over to associations of small-scale industries or professional agencies.

In addition, the Government will set up an International Trade Fair and a large Convention Hall in Hyderabad, the State capital. This center will organise international exhibitions, fairs and conferences to help local industries market their products in international markets. The Government will also help small-scale enterprises participate in foreign exhibitions and organise visits of foreign trade and industry delegations to Andhra Pradesh.

❖ *The development of Small-Scale Services*

The employment potential of small-scale services is important for Andhra Pradesh considering that, based on population growth and the worker participation rate, close to one million jobs have to be created annually for the next 20 years. More importantly, job opportunities will have to be created to absorb the large number of under-employed people in agriculture. Since the larger proportion of people in need of employment will be rural dwellers, livelihoods have to be found to suit people whose current background largely dictates their occupations and who have trade skills handed down over generations.

Opportunities must also be found for rural women, who constitute a large part of the rural workforce, and whose mobility is limited by their role as primary caregivers in the family. Small-scale services have great potential for providing such opportunities and will thus become a key vehicle for the transition from an agrarian to an industry- and services-led economy. To stimulate the growth of small-scale services, Andhra Pradesh will embark on a number of initiatives.

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Building human capital and infrastructure. Small-scale services will need people with specific skills such as carpentry, restaurant management, hairdressing, etc. These skills can best be developed through a proliferation of vocational training institutes or polytechnics that have already been developed in the State. Skills will be developed in a number of areas. In agriculture and horticulture, these will include manual skills such as producing hybrid seeds; sorting and grading fresh produce; repairing equipment; etc. For tourism and entertainment, they will include cookery, catering, housekeeping, lighting, etc. In more sophisticated areas such as business and financial services and software, the focus will be on data entry, sorting, filing, mailing, courier services, and so on. Furthermore, to ensure that its people can achieve the capability and productivity levels they will need to succeed in services jobs or businesses, Andhra Pradesh will promote access to primary healthcare and universal primary education. Scholarships for poor students and residential schools in remote areas will be emphasized to ensure that even disadvantaged groups can benefit from this important growth area.

Building infrastructure. The State plans to attract private investment in roads, bridges, low-income housing, warehouses, cold storage, etc. Investment will be promoted in areas such as rural-urban transportation, providing roads and bus services to facilitate worker mobility. Where necessary, the Government will itself invest in building infrastructure in rural and remote areas. In addition, the State will provide incentives to private investors to build hotels, hospitals, etc., that will foster small-scale service businesses or provide services jobs.

Promoting the development of small-scale services. The development of the small-scale services sector will also be actively promoted. The government of Andhra Pradesh will set up a Small Services Promotion Board (SSPB). The SSPB will proactively identify and promote 'small-scale services clusters' linked to other growth sectors. Examples include local transportation services in the logistics hub; person-to-person services such as restaurants and beauty salons in towns and cities; tour operators and retail outlets in key tourism centers; security services in locations with many large companies, such as the IT hub/Knowledge Corridor, etc. Entrepreneurs with basic skills will be trained on how to create a company, manage accounts, manage people, ensure quality control, undertake marketing, etc. The SSPB will develop entrepreneurship through events like a 'Business Plan Competition' and provide loans to selected entrepreneurs.

Finally, promotion will also mean spreading awareness about new possibilities. By creatively using public media and holding innovative events like a 'tool bazaar' in small towns and villages, the Government will spread the message that entrepreneurship in services can be lucrative and rewarding.

2.3.4.2 Focus on special target groups

In keeping with the general policy towards the development of the small-scale sector, and its policy to develop women and disadvantaged groups, entrepreneurship among these groups will be encouraged in several ways.

Firstly, emphasis will be placed on identifying industrial activity suitable to areas in which disadvantaged groups live, and to the creation of infrastructure, augmentation of credit, and capability building, for these groups. This will include helping them acquire technical and managerial skills through training programmes. To ensure access to credit, the State Government will encourage the

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setting up of local area banks and exclusive banks for women. Second, entrepreneurs from disadvantaged groups will be offered special fiscal concessions such as enhanced tax limits.

The Minorities Welfare Department was established by Andhra Pradesh in order to give exclusive attention to the problems of minorities and to find solutions to them in a coordinated fashion.

The Minorities Welfare Department has implementing a number of schemes with the aim of promoting entrepreneurship (under Anti-poverty and Self Employment Programmes), to provide escort services to minority entrepreneurs, to impart vocational skills to women, and to improve the classroom performance of Urdu medium school children.

2.3.4.3 Conclusion

- The State of Andhra Pradesh has formulated its development policies along the lines of national policies. Many of the key aspects of national policies can be found in the State policy.
- Nationally and in the State, the government and its financial institutions are active in promoting the development of the small-scale sector. This effort has however suffered from an excessive manufacturing bias, often in industries where small-scale manufacturing is counter-productive. The result is an uncompetitive small-scale manufacturing sector in some sectors and an underdeveloped small-scale services sector (see www.ediindia.org). Therefore, the State Government's focus on the development of the small-scale sector has shifted towards services.
- The State government has in the past embarked on a number of initiatives to promote small-scale enterprises. For example, District Industry Centers (DICs) were set up to promote small-scale industry. But many of these measures have had a limited positive effect. For instance, the DICs are more focused on control than on promotion.
- Special attention is given to the development of minority groups. The Vision 2020 document contains bold and far-reaching plans to develop entrepreneurship and thereby economic growth. However, it is difficult to assess the viability of the plans. A lot will depend on the translation of these broader plans into specific action plans. Initiatives to develop infrastructure, education and technology through the attraction of private-investments are important, but it is unclear how these objectives will be reached.

CHAPTER 3: CONDITIONS FOR ENTREPRENEURSHIP DEVELOPMENT IN SOUTH AFRICA

3.1 Introduction

This section of the report presents the results of an assessment of the current economic and entrepreneurial conditions in South Africa. The process leading to this report can be characterised as a “rapid appraisal”, which took place over a period of about three weeks. It is therefore not an in-depth analysis of the country’s economic and entrepreneurial conditions, their causes, and their impact on entrepreneurship development. Also, while the report makes reference to a number of small business support programmes currently being implemented throughout the country, it does not attempt to measure the impact of these on small business and the entrepreneurial environment in general. The purpose of the exercise was to assess, in general terms, whether and what conditions currently exist in South Africa, which would constitute the context for the proposed national strategy for fostering entrepreneurship in the country.

The report starts off with a presentation of the project framework, a component of the overall project methodology. This is followed by an assessment of the conditions as depicted in the project framework: social, cultural, and political; general national framework conditions; entrepreneurial framework conditions; entrepreneurial opportunities; entrepreneurial potential; and business dynamics. It finishes off by providing initial pointers to elements of a national strategy.

3.2 The social, cultural and political environment

3.2.1 Age structure of the population

The country’s most recent census results show that the majority of South Africa’s population falls between the ages of 20 – 39 (31.6% and 32.1% for females and males, respectively) and younger (42.8% and 45.6% for females and males, respectively). This has important implications for a national strategy on entrepreneurship promotion, in terms of the target group focus of the strategy. Some studies have shown that the most entrepreneurial group is in the 25 – 44 year age group.

3.2.2 Occupational breakdown across the population

The majority of the previously disadvantaged population groups, especially Africans and Coloureds, are employed in elementary and artisan/operator jobs. Very few of these groups are represented in the more professional occupations where whites and, to a lesser but relatively more significant degree, Indians dominate (see table 5, following page).

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Table 5: Occupational category by population group and gender

Group	Elementary	Artisan / Operator	Clerk / sales	Manager/ professional
MALE (%)				
African	25.2	48.9	15.1	10.8
Coloured	32.5	39.7	14.5	13.2
Indian	6.7	32.5	24.6	36.2
White	3.8	29.8	16.8	49.6
FEMALE (%)				
African	56.2	11.1	14.4	18.3
Coloured	41.0	15.0	25.3	18.7
Indian	6.0	18.1	40.5	35.5
White	2.8	4.1	44.7	48.4

Source: Statistics SA.

An analysis of the age profile of the employed and unemployed revealed high levels of youths in unemployment.⁶³ The lack of sufficient employment opportunities delays the entry of young people into the labour markets and therefore their ability to acquire skills and experience, which is one of the major barriers to youth entrepreneurship.

3.2.3 Quality of and general access to the educational system

International competitiveness studies have rated the country's education and training system very poorly in terms of its ability to prepare its products for a competitive, modern economy. South Africa has consistently been rated last among 46 countries on the quality of its human resources. More recently, the country was rated 47 out of 47 countries compared on skilled labour and the educational system. The level of illiteracy is also high, earning the country position 43 in recent international competitiveness rankings.⁶⁴

South Africa, however, does have world-class educational institutions, particularly at the tertiary level. The country also has a well-established private education system. It has also been shown that the country compares well with other developing countries in terms of public spending on education. In fiscal year 1983/84 education spending constituted 17.1 per cent of total government spending and 4.6 per cent of GDP, while in 1997/98 it increased to 21.2 cent of total expenditure and 6.6 per cent of GDP.⁶⁵

⁶³ Development Bank of Southern Africa, "South Africa: The Inter-Provincial Comparison", 1999

⁶⁴ Janette Bennett, "SA inches up the competitiveness ladder", Business Times, 23 April 2000, p.3

⁶⁵ J. du Toit, "The Structure of the South African Economy", 1998, p.8

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The main problem with the education system seems to be its strong bias towards academic rather than vocational education. General access to education and training, especially advanced education and certain educational disciplines, has also historically been problematic for the historically disadvantaged population groups. The table below indicates that the majority of the country's adult population with education have less than matriculation (standard 10), with 13 per cent of the population having no education whatsoever. Only 10 per cent attained diplomas and degrees (table 6).

Table 6. Educational level of population (age >20, 1995)

Level of education	Percentage
Degree	3%
Diplomas	7%
Matriculation	19%
Standard 6-9	34%
Grade 1 – Standard 5	24%
No education	13%

Source: Statistics South Africa

The breakdown of educational attainment by population group reveals that Africans and Coloureds have had very low educational attainments due to past segregationist state policies. Specifically, the historically disadvantaged groups were subjected to the inferior Bantu Education system (table 7).

Table 7. Percentage of the population aged 20 years or more in each educational category by population group.

Level of education	African	Coloured	Indian	White
Higher education	3.0	4.3	10.0	24.1
Standard 10	12.1	12.3	30.4	40.7
Some secondary	32.8	42.5	40.0	32.8
Some/complete primary	27.8	30.7	13.1	1.2
None	24.3	10.2	6.5	1.2

Source: Statistics South Africa

Some of the issues facing the country's education system, which need attention, have been identified as follows:⁶⁶

- The relatively low level of literacy among the broader population
- Maintaining and improving educational standards

⁶⁶ J. du Toit, 1998, p.8

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- A lack of basic facilities at schools, such as water, sanitation, electricity, libraries and sufficient classrooms
- The low output of technicians and science graduates at tertiary institutions (table 8)

Table 8. Types of degrees held (% of total, 1995)⁶⁷

Literature and philosophy	Just over 30%
Commerce	Under 15%
Natural sciences	Under 10%
Education	Under 10%
Engineering, Law, Accounting	Just over 5%
Medicine and optometry	5%

One of the biggest failures of the country's education and training system is its inability to develop entrepreneurial skills within the population generally. Learners were traditionally educated for employment, with entrepreneurship and self-employment barely featuring at all.

3.2.4 Openness to foreign technology and new ideas

South Africans in general do not appear to have problems at all with regard to openness to foreign technology and new ideas. Perhaps the best illustration of openness to foreign technology is the explosive growth of the cellular phone industry into a multi-billion rand industry within less than a decade. Also, South Africa is considered to have one of the highest rates of Internet use in the world and is certainly a leader in Internet use and cellular telephone technology throughout the whole of the African continent. The government is actively encouraging the extension of Internet access to all parts of the country and population groups. Cellular phone networks have a contractual obligation to extend cellular phone access throughout the country, especially to under-served areas.

There are, however, still problems with regard to the acceptance of foreigners, especially among the urban unemployed. This is an important issue to attend to, as it has to do with the critical factor of mobility of general skills and entrepreneurial talent into the country.

3.2.5 General attitudes towards business and business ownership

The general population's attitude toward business and industry is generally viewed as being positive, with business being seen as having a positive role to play in society, especially with regard to the provision of employment opportunities and contributing towards the economic advancement of the country. On the other hand, the responses on the issue of attitude towards business ownership were mixed. Some feel that there is still a strong preference, within the population at large but particularly among the youth, for employment rather than starting and running one's own business. Others feel that this is changing rapidly, with a strong preference for self-employment emerging among all population groups for different reasons.

⁶⁷ J. du Toit, 1998, p.8

The previously disadvantaged groups see self-employment as the only hope of generating an income in an environment where large numbers of jobs are being lost, while whites view self-employment as an escape from affirmative action in the corporate sector.

As the foregoing indicates, and as several studies have shown, a significant number of small business owners start their own businesses as a result of negative rather than positive factors; mostly to escape from something – mainly unemployment. While it is so that some individuals who were “pushed” into starting their own businesses have gone on to make a success of it and are today no different to the more entrepreneurial type, what the country needs more are those people that venture into their own businesses for positive rather than negative reasons. It is the latter that is associated with entrepreneurship.

South Africa has considerable resources for the promotion of entrepreneurship. The country, however, also faces considerable challenges, particularly in the area of skills, access to available resources, and a positive motivation to venture into business.

3.3 General national framework conditions

3.3.1 *Openness of the economy*

3.3.1.1 International investment environment

The South African economy has undergone rapid transformation since 1994. Prior to that, during the period 1970 to 1985, South Africa enjoyed a significant inflow of foreign savings, averaging about 2 per cent of GDP. However, the advent of sanctions, political conflict, introduction of exchange controls and the debt standstill contributed to a significant reversal of that trend, resulting in annual outflows of 2.5 per cent of GDP from 1985 to 1993.⁶⁸ For this reason, the economy inherited by the new government in 1994 was characterised by high protection and a crisis of investor confidence.⁶⁹

However, the relaxation of foreign exchange controls, which started with the scrapping of the financial rand in March 1995, and growing investor confidence based on changes in the economy and the country’s democratisation process, contributed to increased foreign investment. South Africa has received foreign savings averaging 1 per cent of GDP annually since 1994.

The relaxation of exchange controls on corporations, institutions and individuals has seen foreign portfolio holdings by South African institutions increase by approximately R60 billion since 1994. Corporations were able to restructure into focused international groupings. In 1999 several large South African corporations secured primary listings in overseas stock markets, a move that contributed significantly to the inflow of foreign funds.⁷⁰

⁶⁸ Department of Finance, “Budget Review 2000”, p.17.

⁶⁹ Minister Alec Erwin, 6 April 2000

⁷⁰ Department of Finance, “Budget Review 2000”

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It has been projected that over the next five years, foreign direct investment (FDI) will continue to strengthen through:

- New export-linked investment opportunities created by EU and SADC trade agreements
- Improved investment opportunities due to the restructuring of industries
- Accelerated privatisation of state enterprises

3.3.1.2 International trade environment

There have been significant changes on the international trade front as well. A June 1993 GATT Council review of South Africa's trade policy found the country's tariff structure to be "complex, unstable and far from transparent" because tariffs were constantly changing, making it difficult for exporters to the country to determine the duty that would apply to their goods. South Africa was also criticised for its use of non-tariff barriers, particularly those affecting agricultural imports. The country's GEIS scheme was deemed to be "inconsistent with the GATT".⁷¹

In 1995, the government embarked on a three-year programme aimed at eliminating GEIS by the end of 1997. GEIS came to an end in July 1997. The April 1998 WTO review of the country's trade policies and reform process concluded that South Africa had, since the previous review in 1995, made significant progress in reforming its trade policies and in moving away from its protectionist and inward-looking policies.⁷²

Historically, the South African economy was heavily dependent on primary and commodity exports. In the 1990s, exports started to diversify and exports and imports grew strongly. Exports grew at an average annual real rate of 7.4 per cent from 1994 to 1999. Imports increased, in real terms, at an annual average rate of more than 7.9 percent during the same period. The simple average tariff, which reflects the level of tariff protection, dropped from more than 30 per cent in 1990 to just above 14 per cent by 1998. The number of tariff lines was reduced from 13 000 in 1990 to around 8000 in 1998, while tariff bands decreased from 200 to 72. At present exports are estimated at about 30 per cent of the total production of the economy.⁷³

3.3.1.3 Impact on the economy and the entrepreneurial environment

The internationalisation of the South African economy has had both positive and negative effects on the domestic business environment. On the positive front, increasing foreign investment has led to higher capital market liquidity and improved capital allocation. Anticipated future growth in FDI will mean more capital, technology, and knowledge coming into the country, which will strengthen the domestic and international competitiveness of the economy.

The ongoing restructuring by local corporations into focused international groupings means that more opportunities will be opened to smaller, entrepreneurial firms, to take advantage of the corporate shedding of non-core functions to provide supplies and services to larger firms. This will contribute to the transfer not only of opportunity, but also of technology and knowledge from larger to small firms.

⁷¹ ITRISA, "International Trade Relations", 1999, p.180.

⁷² ITRISA, p.184.

⁷³ Department of Finance, "Budget Review 2000", p.19.

On the negative front, various industrialists and labour leaders have expressed concern that the government, in pursuing generally more ambitious tariff reduction targets than those required by WTO, has exposed SA businesses too quickly to foreign competition. Under these circumstances, although many companies are successfully rationalising their product lines and operations, others are finding it difficult to withstand the new competitive pressures.⁷⁴

3.3.1.4 Conclusion

The South African economy has made rapid progress from a highly protected, internationally isolated economy to a more open one that is increasingly integrating into the global economy.

This has increased competition in the economy but at the same time induced a growing number of local firms to become more strategically focused and competitive both domestically and globally. A more open and competitive economy is more conducive to entrepreneurship than a closed and heavily controlled one. Opening up the economy has also earned the country increasing investor confidence both domestically and abroad, and increasing foreign investment is flowing in. This increases investment resources in the economy and increases the potential for the introduction of foreign technology and know-how, all of which are necessary to underpin a more dynamic, growing, and opportunity generating economy.

3.3.2 Government policies and role in the economy

3.3.2.1 Overall thrust of macro-economic policy

Government has stated its economic goals as the reduction of the size of the public sector and refocusing its resources. New regulatory initiatives, competition policy and restructuring of state assets all constitute part of efforts to stimulate the economy and expand employment through gains in efficiency.⁷⁵

3.3.2.2 Perceived effect of macro-economic policy

Government's macroeconomic policy, as embodied in its Growth, Employment and Redistribution (GEAR) Strategy of 1996 is seen as playing a major role in offering more certainty and predictability in economic policy. The view of business on the strategy has been captured as follows:

One advantage that the business community sees in the macro-economic strategy is that, whether they agree with it or not, it offers more certainty and predictability in policy. This creates a more secure basis for investment and business decision-making. It resonates also with the broad thrust of economic policies found in successful market-driven economies.⁷⁶

The government's fiscal policies have also been characterised as positive. Inflation has consistently been held below 10 per cent since 1994, and even lower and steady inflation is projected for the next three years up to 2002.

⁷⁴ ITRISA, p.184.

⁷⁵ Department of Finance, "Budget Review 2000", p.21.

⁷⁶ Raymond Parsons, "The Mbeki Inheritance: South Africa's Economy 1994-2004", 1999.

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Inflation (CPI), 1994-98		Inflation projections, 1999-2002	
1994	9.0%	1999	5.2%
1995	8.7%	2000	5.0%
1996	7.4%	2001	5.3%
1997	8.6%	2002	4.8%
1998	7.7%		
Source: Deloitte & Touche, 1999		Source: Department of Finance, 2000	

The medium-term objective is to reduce dissaving by 1 per cent of GDP a year over the next three years. The reduction in dissaving has come by through containing expenditure and improved tax collection leading to a rising tax to GDP ratio. General government expenditure has remained at roughly 31 per cent of GDP while general government tax revenue increased from an average of 24 per cent between 1990 and 1995 to 26 per cent in 1998.⁷⁷

3.3.2.3 *What remains to be done?*

Despite this promising performance, government is perceived as moving too slowly on privatisation of state-owned assets. The offer for sale of public assets would help to attract foreign investment and lessen, in the short term, competition between the state and the private sector for a limited pool of domestic savings.⁷⁸

Also, up to 1995 South Africans were perceived as still having less economic freedom compared to certain countries in the world. Economic freedom indices, which measure the extent to which legally acquired property is protected and people are free to engage in transactions with others, including foreigners, published by the Fraser Institute, ranked South Africa poorly on almost all indicators. Overall, the country ranked 56 out of 102 countries compared (table 9).

Table 9. Ratings for components of economic freedom in SA⁷⁹ (10 indicates the best rating).

Factor	1975	1980	1985	1990	1993-5
Money and inflation (protection of money as a store of value and medium of exchange)	3.2	2.5	3.6	4.0	3.9
Government operations and regulations (freedom to decide what is produced and consumed)	5.0	4.8	4.5	3.8	4.4
Takings and discriminatory taxation (freedom to keep what is earned)	0.8	4.1	4.3	4.7	5.6
International transactions (freedom of exchange with foreigners)	6.0	6.3	5.5	5.5	5.8

⁷⁷ Department of Finance, "Budget Review 2000", p.23.

⁷⁸ Raymond Parsons, 1999, pp.47-48.

⁷⁹ J. du Toit, 1998, p64.

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Average rating	3.9	4.6	4.5	4.6	4.9
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It is highly likely, though that, given the recent developments in overall government policy and the reduction of controls in the economy, the country, which was ranked in the middle during the period 1993-95, would now obtain a much better rating on most of the indicators. More surprisingly, however, is the fact that as recently as 1998, after all the changes that have occurred in the area of macro-economic policy, South Africa still performed poorly in world competitiveness rankings in the area of government policy. Out of 46 countries compared, South Africa ranked 31, a marginally better showing compared to previous years (table 10).

Table 10. Competitiveness ranking by factor (46 countries compared, 1998)⁸⁰

Factor	1993	1994	1995	1996	1997	1998
Government (extent to which government policies are conducive to competitiveness)	43	38	35	37	34	31

This may indicate that although government's macro-economic policies have contributed significantly towards the creation of a more positive economic environment, other policies have worked against this effort. Labour policies, in particular, and more recently, but to a much lesser degree, competition policy, have been singled out for serious attack in this regard. Labour policies are perceived as creating rigidities in the labour market and raising the cost of labour, thus reducing South Africa's international competitiveness. (Please note though that recent International Labour Organisation Reports -1999, rank South Africa more positively in terms of labour rigidities.)

3.3.2.4 Conclusion

Significant progress has taken place in the macro-economic arena resulting in what is now considered to be a more stable and predictable economic environment. Further improvements are projected, which should produce a more entrepreneurship friendly environment. However, changes are needed in certain aspects of policy, particularly on the labour policy front. These changes are starting to be effected, especially with regard to ameliorating the negative effects of labour legislation on small firms.

3.3.3. Finance

3.3.3.1 Domestic saving

One area where South Africa seems to be facing an ongoing problem is in domestic savings. Statistics show that gross domestic saving (comprising personal saving, corporate saving, government saving and provision for depreciation) as a percentage of GDP was on average 23.5 per cent of GDP per annum during the 1960s, after which it increased to 25.4 per cent pa during the 1970s. During the 1980s a slight decline occurred, resulting in savings of 24.6 per cent of GDP per annum. A dramatic decline, to 17.3 per cent of GDP, occurred during the period 1990-97.

⁸⁰ J. du Toit, 1999, p.62.

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This declining trend since the 1980s has been attributed to substantially lower personal saving, as well as the dissaving by the general government since 1984. The personal saving rate (personal saving as a percentage of personal disposable income) decreased from 9.3 per cent per annum on average during the 1960s to 8.4 per cent per annum during the 1970s, 4.2 per cent per annum during the 1980s and 2.7 per cent per annum during 1990-97.⁸¹ Inadequate saving within the economy leads to inadequate sources of investment funding for the business sector. Particularly affected by the inadequate investment funding are new and growing firms, which require capital for start-up or expansion. Government has identified the need to increase the level of investment and saving in the economy as one of its key focus areas. “There is a need to encourage saving and to provide for easily accessible means of doing this.”⁸²

3.3.3.2 Domestic investment

South Africa has lost its 1970s domestic investment performance where its average gross domestic fixed investment (GDFI) to GDP ratio stood at 26.9% per annum. This ratio was higher than the generally accepted international standard for GDFI of about 25 per cent of GDP. The decline started in the 1980s, with a GDFI to GDP ratio of 23.5 per cent per annum. Thereafter an even more dramatic decline took place, resulting in a GDFI to GDP ratio of 17.1 per cent per annum during the 1990-97 period.

Net domestic fixed investment (GDFI minus provision for depreciation) as a percentage of GDP declined sharply from an average of 15.4 per cent per annum during the 1970s to 8.5 per cent per annum during the 1980s and 2.9 per cent per annum during the 1990-97 period. Such a decline in the growth rate of real fixed capital stock seriously threatens the ability of the country to strengthen its overall economic growth capacity.

3.3.3.3 Financial intermediation

Although South Africa is generally considered to have as one of its key strengths a well developed, sophisticated, and diversified financial services sector⁸³, certain problems in the area of financial intermediation still remain. This is evidenced by the fact that out of a comparison of 46 countries, South Africa was rated at position 31 in 1998 in terms of the performance of capital markets and the quality of financial services. While this rating was better than that of the previous year, it was significantly worse in comparison to the period 1993 to 1995 (table 11).

Table 11. Competitiveness ranking by factor (46 countries compared, 1998)⁸⁴

Factor	1993	1994	1995	1996	1997	1998
Finance (performance of capital markets and the quality of financial services)	23	26	27	31	36	31

⁸¹ J. du Toit, 1998, p.24

⁸² Minister Alec Erwin, 9 February 2000.

⁸³ J. du Toit, 1998, p.62

⁸⁴ J. du Toit, 1999, p.62

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Poor financial intermediation particularly affects new and growing firms, which struggle to raise debt and equity finance to start or expand their business operations. Government has recognised the need to improve financial intermediation in the economy.

To this end, the changing structures of the country's banking sector are being evaluated to assess ways to improve intermediation between small savers and small investors.⁸⁵

3.3.3.4 Conclusion

Serious challenges remain in the area of domestic saving and investment. Poor performance here weakens the growth capacity of the economy, thereby weakening its ability to generate entrepreneurial opportunities. Financial intermediation also remains a problem, with smaller firms and rural enterprises struggling to access capital for investment.

3.3.4 Technology

3.3.4.1 International rating of the country's technological capabilities

Although South Africa is considered to have among its strengths high-technology strategic industries and advanced research institutions, recent World Competitiveness Report rankings show that the country is rated rather poorly in science and technology terms. Out of 46 countries compared, South Africa was ranked in the 39th place in 1998, a marginal improvement on the previous year, which saw its worst ranking in this area since 1993 (table 12).

Table 12. Competitiveness ranking by factor (46 countries compared, 1998)⁸⁶

Factor	1993	1994	1995	1996	1997	1998
Science and technology (extent of scientific and technological capacity, together with the success of basic and applied research)	29	28	31	34	40	39

The need to develop technological capacity in the country is widely recognised. Indeed, the Department of Trade & Industry (DTI) has launched programmes to strengthen this capacity. The Department of Arts, Culture, Science, & Technology (DACST) also recently conducted a National Research and Technology Foresight Project whose aim was "to help identify those opportunities, technology themes and technology trends that will best improve the quality of life of all South Africans over the next 10 to 20 years."⁸⁷

⁸⁵ Alec Erwin, 9 February 2000

⁸⁶ J. du Toit, 1999, p.62

⁸⁷ DACST, "The National Research and Technology Foresight Project: Tourism", 1999, p.4.

Notwithstanding the above ratings and initiatives, worthwhile as they are, South Africa is locally considered to have relatively well-developed technological capabilities which would provide an reasonable adequate launching pad for meeting the technological needs of small and growing firms.

3.3.4.2 Conclusion

International ratings suggest that South Africa needs to do more to improve its science and technology capabilities. Indeed, various government initiatives have been launched to strengthen the country's technological capabilities. The country, however, does have relatively well-developed technological capabilities which could constitute sufficient underpinnings for the promotion of entrepreneurship.

3.3.5 Infrastructure

3.3.5.1 General state of infrastructure

The economic infrastructure of a country is the backbone of its industrial development and comprises all structures and systems, which facilitate economic activity.⁸⁸ The provision of well-planned and managed infrastructure creates economic opportunities. Overall, South Africa's infrastructure is considered to be one of its key strengths and to be far better in comparison to what is to be found in the rest of the African continent. The country boasts:

- A well developed physical infrastructure (considerable electricity generation capacity and extensive railroad and road networks)
- Well-developed industrial infrastructure
- Communications networks that are on par with world standards
- Efficient port facilities
- Tourist infrastructure
- Good medical facilities
- Low energy costs⁸⁹

3.3.5.2 Access to infrastructure

However, 1996 census statistics show that there is uneven access to key infrastructure across the country. Although there is, overall, higher access by households in all nine provinces to water and sanitation, there is lower overall access to telephones and electricity. Access to telephones (in the dwelling or to a cellular phone) is particularly problematic, with virtually all provinces showing very limited access to this key resource.

Overall, only 28.6 per cent of the country's households have access to telephone services, with all but three provinces showing rates of access below the national average. Access to telephones is a vital component of infrastructural development in the era of communication and information and is a critical business resource (table 13 below).

⁸⁸ J. du Toit, 1998, p.16

⁸⁹ Deloitte & Touche, "Investing in South Africa", 1999, p.8

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Table 13. Percentage of households with access to services, 1996

Province	% Access to Services				Composite Index
	Water	Sanitation	Telephones	Electricity	
Western Cape	96.8	90.5	55.2	84.9	43.1
Northern Cape	91.2	70.9	30.8	68.8	6.9
Free State	94.0	70.3	22.9	56.8	-4.5
Eastern Cape	53.5	64.1	15.6	31.2	-36.6
KwaZulu-Natal	66.3	83.3	26.9	53.2	-7.2
Mpumalanga	82.2	87.2	18.2	56.3	-7.3
Northern Province	75.5	77.8	7.4	36.2	-30.5
Gauteng	96.0	94.5	45.3	79.4	33.0
North West	81.4	86.8	16.8	43.7	-14.5
South Africa	79.8	82.5	28.6	57.3	0.0

Source: DBSA, 2000.

The lack of access to electricity has a detrimental influence on human development, particularly in the field of educational attainment, a critical area of weakness in South Africa. Access to electricity has also been positively associated with an increase in economic activity. Just over half (57.3 per cent) of the households in South Africa used electricity distributed by an authority. It is clear, therefore, that although much has been done since 1994 to improve the provision of services to households, backlogs still exist. Large variances exist in the spatial distribution of services, with variations between provinces and urban and rural areas.

There is generally a correlation between the percentage of access to services and the percentage of the urbanised population in a given province⁹⁰, with urban households usually having higher levels of access to services than rural ones. Therefore, the backlogs in access to services noted above mainly affect rural households, which, in most instances, still lack basic levels of services.

This uneven access to infrastructure has been captured succinctly as follows:

⁹⁰ Development Bank of Southern Africa, "South Africa: Inter-Provincial Comparative Report", 2000, p.43

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The urban economy is characterised by... good road, rail and communication networks. The banking sector is very sophisticated and provides a range of financial services to this urban economy. The rural areas of South Africa and the majority of the townships present a very different picture. These areas tend to be under-developed and under-served. The road and rail infrastructure is typical of the lesser-developed countries; the communication infrastructure is sparse and often unreliable; the banks tend to have very little if any presence.

It is only the Post office that maintains any real financial presence in the majority of the rural areas, while the townships, despite being on the edges of the urban economy, have virtually no financial infrastructure.⁹¹

These disparities in access to key infrastructure, and the uneven state of development of infrastructure across the country, could be the key reason behind a rather poor competitiveness rating of South Africa in terms of infrastructure. The latest ranking, at position 35 out of 46 countries, represents a worse off showing in comparison to most of the previous years, except 1995. Although this does not necessarily indicate that there is a decline domestically, it does indicate that other countries against which South Africa is compared are improving and therefore strengthening their competitiveness (table 14).

Table 14. Competitiveness ranking by factor (46 countries compared, 1998)⁹²

Factor	1993	1994	1995	1996	1997	1998
Infrastructure (adequacy of resources and systems to serve the needs of business)	32	37	30	32	33	35

3.3.5.3 Infrastructure development initiatives

A lot is being done in terms of developing industrial and transport infrastructure across the country. This has come mainly in the form of the initiation of a number of spatial development initiatives (SDI) countrywide and the airport upgrade programme of the Airports Company of South Africa (ACSA). About eight SDIs of different sizes and stages of development are currently underway countrywide.

Apart from upgrading and extending the country's infrastructure, SDIs offer various economic opportunities that could be exploited by entrepreneurs. In particular, because most SDIs are situated on the coast, or on a route leading to the coast, they provide major advantages for export-oriented enterprises. Taking into account the country's competitive advantages, that is, the cheapest electricity in the world, abundant minerals, and equi-distance from the world's major trading blocs, export oriented enterprises stand to benefit considerably from opportunities arising out of the SDIs.⁹³ Another infrastructure development initiative, which is currently at advanced planning stages is the proposed Industrial Development Zones (IDZ). A major IDZ will be developed as part of the Coega development initiative in the Eastern Cape province.

3.3.5.4 Conclusion

⁹¹ Peter Roussos and David Ferrand, "Review of the Micro-Finance Sector in South Africa", 1999, p.9

⁹² J. du Toit, 1998, p.62

⁹³ ITRISA, 1999, pp.158-161.

The biggest problem relating to infrastructure in South Africa is uneven access across the country. Whereas the country, overall, has extensive infrastructure of good quality, the distribution thereof across the country varies considerably. The rural areas are most affected by this uneven distribution. Because infrastructure is the backbone for economic development and a properly functioning economy, rapid development of rural infrastructure and improvement of access countrywide is an urgent need. Infrastructure development is one of the government's priorities and has received a lot of attention in recent years. Public-private partnerships have been initiated in order to fast-track progress.

3.3.6 Management

3.3.6.1 South Africa's international competitiveness ratings on management

South Africa has not performed well in competitiveness rankings in the area of management, although performance during the last two years has been slightly better than in 1996, the year in which the country received its lowest rating. South African enterprises are perceived as being managed in a comparatively non-innovative, unprofitable and less responsible manner (table15).

Table 15. Competitiveness ranking by factor (46 countries compared, 1998)⁹⁴

Factor	1993	1994	1995	1996	1997	1998
Management (management of enterprises in an innovative, profitable and responsible manner)	32	35	38	40	37	38

However, the country has a number of internationally respected professional management and governance, quality assurance and productivity enhancement institutions such as the SA Institute of Chartered Accountants, the Institute of Directors, the Institute of Marketing Management, the SA Bureau of Standards, and the National Productivity Institute. In addition, most of the internationally known management consulting firms have operations in South Africa. There are also various sector-specific bodies, which promote standards of practice in specific sectors of the economy, and well-established business representative and employer bodies.

It is, however, generally accepted that managerial capabilities and opportunities are not spread across all population groups, with previously disadvantaged groups featuring far less in managerial occupations.

3.3.6.2 Conclusion

South Africa does have well-established and respected management support institutions that provide quality services to its private sector. These services are in the areas of product development, strategy formulation, quality assurance systems, corporate governance and financial management, human resource practices and marketing techniques. Although the quasi-government institutions involved in this area have been servicing only the large established firms in the past, most of them have now started to develop mechanisms to respond to the needs of smaller firms. However, for the country to

⁹⁴ J. du Toit, 1998, p.62.

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strengthen its domestic and international competitiveness, there is an urgent need to develop managerial capabilities of all population groups and in all sizes of firms.

3.3.7 Labour markets

3.3.7.1 Workforce quality and industrial relations

A recent report published by the Development Bank of Southern Africa notes that all the country's nine provinces lack highly educated people. The proportion of employees with a tertiary level of education ranges between only 3% and 10%. Although all the provinces had large proportions of employees with at least secondary level of education, a major portion of this group had not attained a Grade 12 qualification. Provinces also employ high proportions of people who had only attained primary level of education or who had no schooling at all. The quality of the unemployed is also very low, with more than 50% of the unemployed in almost all the provinces having either just a primary level of education or no schooling at all. "This creates a situation that has a serious impact on the competitiveness of the provinces in South Africa and for South Africa as a whole."⁹⁵

Internationally, South Africa has consistently ranked at the very bottom when it comes to human resources. Although the country has an abundance of labour resources, the majority are unskilled and possess low educational qualifications (table 16).

Table 16. Competitiveness ranking by factor (46 countries, 1998; and 47 countries, 1999)⁹⁶

Factor	1993	1994	1995	1996	1997	1998	1999
People (availability and qualifications of human resources)	46	46	46	46	46	46	47

The system of industrial dispute resolution is institutionalised, with the newly created Commission for Conciliation, Mediation, and Arbitration (CCMA) being the key, front-line institution in terms of industrial dispute resolution. Strikes and general industrial action are governed by strict legislation which determines the legality or otherwise and therefore the protection or lack thereof of strikes. Bargaining takes place within the framework of sector-based bargaining councils and there are rules guiding the extension of bargaining council agreements to non-parties.

The Department of Trade and Industry operates a scheme – the Workplace Challenge – aimed at enhancing co-operation between workers and management to boost the country's competitiveness and employment creation by improving industrial performance and productivity.

⁹⁵ DBSA, 2000, p.25.

⁹⁶ J. du Toit, 1998, p.62 and Janette Bennett, 2000, p. 3

Notwithstanding, the country's labour market conditions are still characterised by a high number of strikes, low productivity, high unit labour cost, and labour legislation that has been blamed for increasing labour market rigidities and raising labour costs.

3.3.7.2 Labour legislation

Certain aspects of the new labour legislation are seen as being particularly hostile to small firms, which lack the resources to comply fully with certain provisions in the legislation. As a result of a continuing disquiet over the effects of labour legislation on small firms, the Ministry of Labour has embarked on a process of reviewing the affected provisions of the legislation with a view to, among others, accommodating the needs of small firms. In particular, it is anticipated that, in terms of the new amendments, government will propose that small business be exempted from bargaining council agreements. This is in addition to a Ministerial determination of last year, which entitled firms employing fewer than 10 workers to pay a lower overtime rate. Government is also reviewing basic conditions of employment and employment contracts.⁹⁷

3.3.7.3 Conclusion

A lot needs to be done to significantly improve the quality of the country's workforce. This will be a long-term process involving the education sector and training both within and outside employment. There are already government initiatives, spearheaded by the Department of Labour, to address the country's skills deficiencies. The education system is also being transformed with the introduction, a few years ago, of the outcomes-based education approach. Legislation needs to become a lot friendlier to smaller firms, which are major victims of tight labour legislation, without sacrificing the rights and protection of workers. A balance needs to be struck. The Ministry of Labour is already spearheading changes aimed at addressing the needs of small firms.

3.3.8 Institutions

3.3.8.1 Availability and quality of legal and social institutions

Many of the key institutions that underpin a sophisticated market economy are both present and functional in the South African economy.⁹⁸ Institutions cut across all spheres of society – the civil, business and public sectors. There is an institutionalised system of policy dialogue between all major players in the economy. A new, democracy-era institution, the National Economic Development and Labour Council (NEDLAC) plays a crucial role in this area.

There are also established legal institutions, such as the Law Review Commission, whose role is to ensure that all aspects of South African law are in line with the needs of a changing and more modern society and market economy. The country has a strong and independent judiciary system. South Africa

⁹⁷ S'thembiso Msomi, "Labour laws revamp no panacea for economy", Sunday Times Business Times, July 23 2000, p.7.

⁹⁸ Peter Roussos and David Ferrand, 1999, p.9.

adheres to the rule of law and has legislation protecting property rights such as patents, trademarks and copyrights. In this regard, the country is also a signatory to the Berne Copyright Convention. Patents are granted for a 20-year period and copyrights are valid for an initial period of 10 years and renewable indefinitely for further ten-year periods.⁹⁹

3.3.8.2 Corporate law

South Africa has a well-established corporate law system, which is subject to reviews from time to time. The country's corporate law provides for various corporate forms including companies (public, private and Section 21), business trusts, partnerships, and close corporations. The latter came as a result of a development in the country's corporate law which is seen to be "of historical significance" and embodying "several unique and innovative features", the Close Corporations Act 69 of 1984. With the introduction of this Act, "South African corporate law took a large step forward in providing for the reasonable needs of the typical small businessman." Because the only restrictions on the size of the corporation relate to the number and nature of its members, the business of a corporation may be very large and complex. This highly flexible form of business enterprise may also be suitable for sophisticated entrepreneurs. The aim of the Close Corporations Act is to provide a simpler and less expensive legal form for the single entrepreneur or few members. The Act is designed with a view to meeting the formal incorporation needs of these entrepreneurs without burdening them with legal requirements that are not meaningful in their circumstances.¹⁰⁰

3.3.8.3 Protection of consumer rights

The protection of consumer rights is also a key focus of government. The Minister of Trade & Industry recently announced that the government would be launching a wide-ranging policy process in the area of consumer protection. "The outcome of this process will be a comprehensive policy framework within which consumers are protected from unlawful or discriminatory business practices."¹⁰¹ Protection of consumer rights is an important component of a properly functioning economy, contributing towards boosting the confidence of consumers in engaging in commercial transactions, which, in turn, contributes to the growth of the economy.

3.3.8.4 Areas requiring attention

Questions have been raised about the extent to which the country's commercial justice system permits small transactions to be dealt with effectively.¹⁰² One area where this is the case relates to the access by smaller firms to the justice system, particularly the Small Claims Court system which, because of its simplicity and affordability, is the best vehicle for them to enforce their contracts.

In its White Paper on small business development, the government committed itself to reforming the Small Claims Court system, with particular attention to:

- Increasing the number of court outlet points

⁹⁹ Deloitte & Touche, 1999, p.27.

¹⁰⁰ HS Cillers, et al, "Entrepreneurial Law", 1993, p.289.

¹⁰¹ Minister Alec Erwin, 9 February 2000.

¹⁰² Peter Roussos and David Ferrand, 1999, p.35.

- Raising the level of claims falling within its jurisdiction (to about R30 000)
- Integrating it more closely with the legal framework, thereby (inter alia) providing access to interdict procedures
- Enabling members of closed corporations to utilise the services of the SCC¹⁰³

3.3.8.5 Conclusion

The country has a well-established legal system and legal and social institutions underpinning a modern economy that function reasonably well. However, there is a need to address the issue of access by smaller enterprises to the commercial justice system. Research has shown that these businesses lose money to unscrupulous customers without easy recourse to the law.¹⁰⁴ This is hardly a conducive environment for entrepreneurship to thrive in.

3.4 Entrepreneurial framework conditions

3.4.1 Financial support

3.4.1.1 Micro-enterprise finance

Access to finance is generally regarded as one of the key constraints facing entrepreneurs, especially during the start-up phase. South Africa is no exception to this. A number of studies have shown that access to finance remains a key stumbling block to many would-be entrepreneurs in the country. One of these is a recent review of the micro-finance sector in South Africa conducted on behalf of the UK Department for International Development (DFID). The review found, with regard to the availability of micro-finance, that:

... there is evidence that the supply of micro-finance falls far short of the demand across all areas of the sector and that it remains a significant constraint to the development of enterprise. The market for longer-term forms of finance seems barely serviced at all. Focusing on micro-enterprise finance (as opposed to finance for consumption, housing, etc), although there are a large number of organisations attempting to tackle the market, there is little evidence that demand is anywhere near being met.¹⁰⁵

A national credit guarantee scheme put in place by a DTI-created agency, Khula Finance Limited, which seeks to enable small firms to access financing through the formal banking sector has not met with the desired level of success. Khula has estimated that less than R150 million has been disbursed

¹⁰³ Department of Trade & Industry, "White Paper on National Strategy for the Development of Small Business in South Africa", 1995, p.27.

¹⁰⁴ Septi Bukula, et al, "Institutions and Services Supporting the SMME Economy in Gauteng" in the Study of the Small, Medium and Micro-Enterprise Economy in the Gauteng Province, 1999, p.52

¹⁰⁵ Peter Roussos and David Ferrand, 1999, p.ii

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to small enterprises in the form of loan finance through the formal financial sector.¹⁰⁶ Khula has also acknowledged that it has thus far not been able to reach the country's medium-size businesses.

It has been observed that the enterprises that are most critically starved of financial resources are the formal, mainly very small to small in size. The loans sizes that are demanded by this group of enterprises are in the R25 000 to R150 000 range. Given the critical role played by these enterprises in economic development, particularly among the previously disadvantaged, the lack of appropriate finance is a definite setback.

A new financing scheme spearheaded by the South African Banking Council, five major banks, and the Kellogg Foundation and which was launched a year ago, named Sizanani Advisory Services, seeks to assist small and start-up businesses that do not meet the normal lending criteria of commercial banks. The scheme will cover the costs of originating loans and mentoring services for already established small businesses as well as start-ups.

The scheme, started with initial grants of R500 000 from each of the banks and close to R1, 7 million from the Kellogg Foundation, provides loans in the R10 000 to R50 000 range. Given that all the applicants did not have security, a parallel scheme, the Sizabantu Guarantee Company, was established to provide guarantees against default.

To date, Sizanani has assisted about 40 'emergent' entrepreneurs in planning their businesses and applying for the necessary finance. A total of about R1, 35 million has been loaned to successful applicants. The Scheme recently found that in many cases, entrepreneurs needed more funding than the R10 000 to R50 000 it currently offers. Consideration is therefore being given to extending the loan and guarantee facilities to up to R100 000.¹⁰⁷

3.4 1.2 Venture capital and private equity

There has been major growth in the private equity industry in South Africa in the past few years. A recent survey¹⁰⁸ shows that the industry now has a capital base of an estimated R27.5 billion under management, with total private equity investments now standing at R21.6 billion, equivalent to 1.5 per cent of the country's GDP. This makes the country's private equity industry larger than that in Sweden, the Netherlands and Australia. In terms of size relative to GDP, the country's private equity industry is more significant than Australia's market and most of continental Europe's.

Unlike in countries like the USA and Europe where most private equity investment goes into information technology ventures, the largest portion of South Africa's private equity is invested in manufacturing and more traditional sectors such as services and retail. This places this source of funding potentially within reach of most local entrepreneurs who run the so-called lifestyle businesses (supermarkets, garages, professional services, etc) (table 17).

Table 17. Cumulative investment by sector	
Manufacturing	26%

¹⁰⁶ Peter Roussos and David Ferrand, 1999, p.8

¹⁰⁷ Bontle Headbush, "Sizanani helps small firms get funds", Business Report, Friday, July 21 2000, p.4.

¹⁰⁸ KPMG and the SA Venture Capital and Private Equity Association, "1999 Private Equity Survey", 1999.

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Information technology	19%*
Media, telecommunications, entertainment and leisure	15%
Banks, financial services and insurance	11%
Services	8%
Retail	7%
Other	14%
TOTAL	100%

* Comparative 1998 figures for the USA and Europe are 80% and 65%, respectively

In addition, a significant portion of the equity (20%) is invested in buy-outs, which provides an opportunity for financing for empowerment initiatives. However, very little funding is available for start-up and early stage financing.

This means that new enterprises, in general, will continue to struggle to access this source to finance their ventures. The industry's strong focus on expansion and development funding (60.9%) may mean that relatively few previously disadvantaged entrepreneurs stand to benefit as not many of them may have businesses that have reached this level of development. However, it is a positive development to have this kind of financing in place as it provides more long-term type financing, which appears to be somewhat difficult for most entrepreneurs to access (table 18).

Expansion or development	60.9%
Buy-outs	20.7%
Replacement capital (purchase of existing shares in a company from other shareholders through the stock market)	12.3%
Start-up and early stage	5.7%
Seed capital	0.4%

3.4.1.3 Financial services delivery infrastructure

The South African banking sector, which boasts an extensive countrywide service infrastructure, has largely been unable to meet the financing needs of small entrepreneurs, especially the micro and small ones. This has been the case even with the Khula guarantee facility in place.

Micro-enterprise financing programmes initiated by three of the major banks in the past few years were unsuccessful and were subsequently abandoned. Banks have largely been unable to meet the financing needs of township and rural-based entrepreneurs.

Other major players in the provision of, especially, micro-finance, a number of NGOs spread across the country, face severe capacity constraints of various kinds. For instance, Khula estimates that out of the 38 retail finance institutions (mainly NGOs) it has supported over the past three years, one third will collapse within the next year. Another third will survive only with support and/or intervention

from Khula, while the remaining one third will continue to do well. Based on its experience over the past few years, Khula has considered steering clear of the NGO retail finance institutions in future.¹⁰⁹

The area of financing for new and small entrepreneurs remains a major problem, not because of lack of funding, but because of lack of appropriate financial products and delivery systems. Considerable innovation is required in this area if the financing needs of new and small entrepreneurs are to be met.

Some new initiatives aimed at capacity building of RFIs (funded by donors) and improving delivery of financial services to rural areas (e.g. TEBA Cash), are currently underway. The Johannesburg Stock Exchange (JSE) has also recently launched a new initiative, Emerging Enterprise Zone (eez), aimed at assisting small enterprises to access equity capital. The government has also announced its plans to launch the Venture Capital component of the National Empowerment Fund during the current year. One of the proposed funds, the NewCape Equity Fund, was launched recently and more are being planned to be launched during the course of the year.

3.4.1.4 Conclusion

There is a strong view that the problem that faces South African entrepreneurs in the area of finance is not the shortage of capital in the country but lack of access to abundant available capital. This is a function of lack of appropriate finance products and weaknesses in the delivery system, which poorly services small enterprises especially those based in townships and rural areas.

Although the country's private equity industry has grown significantly in recent years, there is still a shortage of venture capital-type financing. Khula's credit guarantee scheme has not been particularly successful thus far because of a continuing failure by banks to provide financing even under the scheme. Both government and the private sector have launched new schemes recently, but demand remains pretty high and largely unmet. There is a need for a considerable effort to be put into developing innovative mechanisms to tackle the problem of lack of access to finance by small firms.

3.4.2 Government policies and regulations

3.4.2.1 Government commitment to entrepreneurship development

There is a very clear commitment from the side of government to foster entrepreneurship and small business development in the country. The Department of Trade and Industry's small business development strategy and support institutions and programmes are a clear testimony to this. Also, the Department has identified empowerment and entrepreneurship development as one of its key focus areas for the future, with a significant portion of its budget to be allocated to this area.

3.4.2.2 The regulatory environment

¹⁰⁹ Peter Roussos and David Ferrand, 1999, pp17-18.

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Although there is a need, and a commitment, to continue to improve the regulatory environment to make it friendlier to new and small enterprises, various studies have shown that this is not a key constraint to small firms.

The Businesses Act of 1991 has been hailed as a major step in the de-regulation of the local business environment, which resulted in most of the previously discriminatory regulations being scrapped.¹¹⁰

3.4.2.3 Public policies favouring small firms

The government's procurement policies favour small firms and those owned by previously disadvantaged individuals. The Department of Public Works, for instance, has initiated an affirmative procurement programme with the aim of benefiting small businesses owned and run by the previously disadvantaged.

The programme offers considerable potential to provide access to one of the largest markets in the economy – the public sector. However, the Department's Affirmative Procurement Legislation has, thus far, not been successful primarily because it has not been coupled with measures to overcome either the skills shortages on the part of the entrepreneur or lack of access to finance.¹¹¹

The country's 2000/1 budget proposes to introduce a graduated company tax rate structure for incorporated small and medium size enterprises. Qualifying small corporations will pay 15 per cent on the first R100 000 of taxable income and 30 per cent thereafter, applicable to tax years commencing on or after the 1 April 2000. Corporate tax has also previously been reduced from 35 per cent to 30 per cent. Government has identified the continuous improvement in the country's tax regime in order to support investment and saving as one of its key focus areas.¹¹² The financing and investment needs of small and medium enterprises are also being focused upon within government. To this end, the government has identified the process of managing the interest rate down as a key macro-environmental priority.

3.4.2.4 Conclusion

Government policy in the areas of small business development in general, public procurement, taxation, and monetary policy point to a strong commitment to creating an environment in which the country's small firms can thrive.

3.4.3 Government and other support programmes

3.4.3.1 General small business support programmes

¹¹⁰ See, for instance, Septi Bukula, "Business Licensing in South Africa: A Literature Review", 1999

¹¹¹ Peter Roussos and David Ferrand, 1999, p.9.

¹¹² Alec Erwin, 9 February 2000

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Government has developed a wide range of financial and non-financial support programmes aimed at providing assistance to small firms. More programmes are planned by the Department of Trade & Industry and will be launched during the course of this year and next year. These programmes constitute a key component of an environment for entrepreneurship development. The majority of the programmes are implemented and managed by various government institutions operating outside government – Council for Scientific & Industrial Research (CSIR), SA Bureau of Standards (SABS), Ntsika Enterprise Promotion Agency, Khula Enterprise Finance Limited, Industrial Development Corporation (IDC), and the National Productivity Institute (NPI). A smaller number is implemented directly by government departments such as Trade & Industry and Public Works. Some of the Department of Trade & Industry's small firm support programmes are discussed in various parts of this report.

3.4.3.2 Finance programmes for historically disadvantaged entrepreneurs

The Department of Trade & Industry also has specific funding programmes aimed at assisting emerging enterprises and black economic empowerment ventures. These programmes, which are managed by the IDC, include:

- Entrepreneurial Finance & Economic Empowerment Scheme – available, among others, to groups from historically disadvantaged communities that intend to start up or acquire manufacturing businesses
- Take-over and Acquisition Scheme – finances acquisition of a significant stake in an industrial concern
- The Consortium Finance - assists empowerment groups to increase their equity base
- Wholesale Finance Scheme – available for on lending to emerging entrepreneurs
- Low Interest Rate Empowerment Scheme – to finance new or additional production capacity by black owned/controlled enterprises
- Fish Harvesting Scheme – to finance acquisition of fishing vessels and equipment, and working capital

3.4.3.3 Provincial and local government support programmes

Certain provincial and local governments also have their own programmes aimed at stimulating small businesses within their jurisdictions. Examples include:

- The Millennium 2001 Fund of the North West Provincial government, which seeks to complement the provincial government's SMME development initiatives. The Fund has three objectives: (i) the establishment of capacity building infrastructure and management support for NGOs and CBOs and similar institutions which provide assistance to SMMEs in the province; (ii) the establishment of manufacturing co-operatives for the youth, women, and the disabled; and (iii) leveraging of resources from other development funds, donors and the private sector.
- The Rehabilitation Fund of the KwaZulu-Natal government, which provides financial assistance to revive township-based businesses that were destroyed as a result of political violence in the province.

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- The Cape Metropolitan Council is in the process of assisting the Cape Town-based Business Opportunities Network, which facilitates linkages between small suppliers and large buyers, to transform itself into the Cape Metropolitan Supply Office, based on the British model of Regional Supply Network. Part of the funding for the new CMSO will be provided by the metro.
- The Durban Metropolitan Council has prioritised small business and entrepreneurship development within its local economic development strategy, focusing on the provision of assistance to the Metro's Local Business Centre and allocation of a R5 million to fund SMME development projects.¹¹³
- The Pretoria Metropolitan Council runs an information and business support Centre targeted at small enterprises. A bigger initiative linked to the International Trade Centre (ITC), named BITTS, plays a key role in facilitating export promotion at metro level.

3.4.3.4 Support programmes of DTI small business support institutions

The small business support services rendered by CSIR and SABS are covered elsewhere in the report. The finance programmes discussed under section 5.4.2 and many more, including the Venture Capital Scheme, are managed by the IDC. The two key DTI institutions that focus specifically on small business support are Khula and Ntsika, which render finance and non-finance support services, respectively.

Khula provides finance products, including a credit guarantee scheme, that are channelled through commercial banks and NGO Retail Finance Institutions for on-lending to small businesses. Khula has also established its first equity scheme in Mpumalanga. The purpose of the scheme is to assist small and medium enterprises with a net value of up to R0,5million in their expansion and development plans. Enterprises that stand to benefit through the scheme are those that are involved in joint ventures or those that need to re-capitalise their enterprises or buy out existing shareholders. Khula also runs a national mentorship scheme.

Ntsika provides a range of training, research, and support services under its six divisions.¹¹⁴ Its services include:

- **Management and entrepreneurial skills training, counselling, and information provision** (Training of Trainers for Business Start Ups; Information Management training; Industrial Counselling Course; Small Business Promotion for Government Employees; Training for Small Business Counsellors; Enterprise Development Programme; Business Start-up Courses; Programme Development; and National Mentorship programme)
- **Creating and developing a network of service providers** (Service Provider Development Programme; Service Provider Network Development Programme; and Local Business Service Centre Programme)
- **Local and export marketing support, linkages and development** (Tender Advice Centre programme; Group Purchasing programme; Trade & Investment Development Programme; and Infrastructure Development – Local Industrial Parks; Business Opportunities National Initiatives)
- **Research for policy formulation, development and implementation** (National Small Business Data Programme; Programme Development and Implementation Support; National Small Business Research Programme; and National Small Business Regulatory Review)

¹¹³ Applied Fiscal Research Centre, "Guide to Institutional Arrangements in Local Economic Development, (undated), p.12

¹¹⁴ See Ntsika Enterprise Promotion Agency, "Programmes for 1998/99" for programme details

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- **Technology support** (Technopreneur; and Manufacturing Advisory Centres)

Programmes of the Targeted Assistance Division are covered under programmes for the support of specific groups.

3.4.3.5 Support programmes for specific groups

The IDC's programmes targeted specifically at the previously disadvantaged entrepreneurs are covered under 5.3.2. This section covers programmes targeted at the disabled, women, youth and rural sector, all of which are run by Ntsika's Targeted Assistance Division. The programmes are:

- Innovative Business Entrepreneurs with Disabilities (development of new products required to establish new innovative business opportunities for people with disabilities)
- Business Development for Entrepreneurs with Disabilities (business training for the expansion and establishment of small businesses for people with disabilities)
- Business Transformation for Entrepreneurs with Disabilities (transformation of sheltered workshops to more profitable, business orientated ventures)
- Small Scale Industry Promotion for Women Groups (encourages and facilitates access to training opportunities for unemployed women who want to learn a range of non-traditional skills in order to start their own businesses)
- Support Programme for Tourism Enterprises (establishment of local and sub-regional structures necessary for linking the tourism and crafts business to the SDIs and other macro-economic level interventions)
- Product Improvement Projects (technical and business training skills in product design and marketing advice with a particular focus on the production of crafts)
- Small Scale Food Processing Projects (targeted at the rural sector - promotes new enterprise opportunities for agricultural-based products)
- SLOT and Grime Busters (targeted at youth – SLOT provides business and vocational training to out-of-school youth living in rural and peri-urban areas. Grime Busters seeks to develop business opportunities for youth by teaching them ways of putting waste material to use through recycling).

3.4.3.6 Support programmes of other governmental departments

The Department of Arts, Culture, Science & Technology¹¹⁵, has initiated a two-year pilot programme to provide technological support to the SMME sector. The programme enables SMMEs in chemical

¹¹⁵ The is implemented in partnership with DTI, GTZ, NRF, CSIR, SABS, Ntsika, and national and regional business organisations and SMME Desks in the provinces concerned.

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formulation, electronics and electrical sector, and metal fabrication to access the technological capabilities of the four participating Technikons – Mangosuthu, North West, Pretoria and Free State.

3.4.3.7 Support programmes of extra-governmental institutions

In addition to governmental programmes, a number of extra-governmental institutions implement own programmes of support to small enterprises, mainly with funding from foreign donors. These programmes are also financial and non-financial in nature, the latter covering services such as mentorship; business training; linkage / tender facilitation; marketing support; and so on.

It has been pointed out by most interviewees that the major problem facing entrepreneurs in South Africa is not the absence of support – there are all kinds of established and new support programmes – but the lack of information on these. This has considerably limited access of entrepreneurs to available services. This affects entrepreneurs in outlying areas a lot more than those in major centres. There is also a problem of capacity on the part of entrepreneurs when it comes to accessing support services. For instance, the Competitiveness Fund has reported difficulties in securing well-prepared applications from many of the entrepreneurs it has interacted with. This is despite the fact that the Fund's application procedures are quite simple and uncomplicated. The development of the capacity of entrepreneurs needs to constitute a key component of the national entrepreneurship strategy. Associated with this, is the need to strengthen the quality of technical assistance providers dealing with small firms. As indicated under the discussion on finance, the majority of institutions rendering support to small firms lack capacity to render quality services. As these institutions constitute an important link between entrepreneurs and various support services, it is of critical importance that they have the capacity – skills and resources – to render effective services.

Lastly, there is an urgent need for better co-ordination of support provision within government and among its agencies. It has been pointed out time and again that one of the key problems in business support provision in the country is the fact that there is inadequate co-ordination. One example is the activities of DTI and DACST in developing technology capacity through their various programmes, Innovation Programme (DACST) and THRIP and SPII (under DTI) which need clear boundaries and interfaces. Another example is Khula and Ntsika. For instance, both Khula and Ntsika have national mentorship programmes. It is not clear what the line of demarcation between the two programmes is. These programmes are in addition to other mentorship schemes, run by various extra-governmental organisations and certain sector organisations. There is clearly a need for better co-ordination and streamlining of services in order to improve impact and utilise limited resources more effectively.

3.4.3.8 Conclusion

It has been pointed by many, and is evident from the above discussion, that South Africa has no shortage of support programmes for its business sector, and its small businesses, in particular. The myriad of available programmes provides a comprehensive support base that could considerably benefit the country's entrepreneurial firms. The effectiveness of some of these programmes is not known, with the Khula and Ntsika programmes having been singled out for scathing attack by many across the country as being ineffective and inaccessible to small firms they purport to help.¹¹⁶

¹¹⁶ Some of the negative criticism may be unjustified as it fails to recognise some of the more successful programmes implemented by these institutions, such as Ntsika's Tender Advice Centre and Manufacturing Advice Centre programmes.

The problem, many have pointed out, is that the majority of entrepreneurs and their service providers do not know about these support facilities and how to access them. This calls for extensive marketing of the programmes. On the other hand, programme administrators complain about the limited number of good quality proposals they receive from entrepreneurs.

Given the capacity problems of some of the SMME service providers themselves, it is unlikely that small firm owners can get quality assistance from these institutions. Capacity building on the part of both the entrepreneurs and their service providers is an urgent need.

3.4.4 Education and training

3.4.4.1 Lack of focus on entrepreneurship within the education and training system in the past

The country's education and training system is considered the weakest link in efforts to foster an entrepreneurial environment. This is one area where virtually everyone involved in small business development and entrepreneurship promotion across the country agrees there is an urgent need for intervention. The White Paper on small business development captures the problem succinctly:

Bantu Education restricted opportunities for the acquisition of technical and professional skills by black people. 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.

The country's education system has traditionally trained learners for secure jobs in the corporate and public sector. As one academic put it, tertiary institutions have traditionally been labour pools for big business. Educational institutions have traditionally been more academic in orientation and have largely not produced the kinds of skills required by a more entrepreneurial society. It is only lately that there is a gradual shift towards more technical rather than academic education.

3.4.4.2 Recent emergence of entrepreneurship activities in the broader education system

However, the past 6 to 10 years has seen a growing focus on entrepreneurship development within the country's education system. This has come about primarily as a result of the efforts of various non-governmental organisations that have pioneered a number of enterprise and entrepreneurship development programmes implemented at school level. Although the exact number of participating schools is unknown, it is believed that these could number in the region of one thousand or more. Although these programmes differ in content, approach and school level at which they are aimed, they all share a common objective – to produce more enterprising and entrepreneurial learners. Some of the programmes and the organisations implementing/supporting them are listed below.

Programme	Supporting Organisation
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Enterprise Dynamics Programme (EDP)	Junior Achievement, Johannesburg
Mini-Enterprise	Junior Achievement, Johannesburg
Entrepreneurship and Self-Employment Programme (EASE)	Business Advice Centre, Richards Bay
Youth Enterprise Society (YES)	Education With Enterprise Trust, Harrismith
Business Ventures	Institute for Development Services, Cape Town

Certain schools, such as Wykeham Collegiate in Pietermaritzburg, have their own internally developed programmes, in addition to utilising external programmes such as EDP.

In addition to programmes aimed at learners in schools, there are also a few programmes aimed at out-of-school youth. These tend to balance the development of pre-enterprise attitudes and behaviours and technical skills among their target groups. Some of these programmes are listed below.

<u>Programme</u>	<u>Supporting Organisation</u>
Business Establishment and Sustainability Programme	Junior Achievement, Johannesburg
Business Now Programme Harrismith	Education With Enterprise Trust, Harrismith
School Leavers Opportunity Training Programme (SLOT)	SLOT
The Manufacturing Skills Course	Triple Trust Organisation, Cape Town

Lastly, a growing number of tertiary institutions are also involved in initiating and implementing various entrepreneurship programmes. Whereas in the past universities, in particular, operated small business institutes whose focus was on providing support services, mainly training, to existing small businesses and aspiring entrepreneurs from local communities, the focus is now more of providing entrepreneurship education to students enrolled for the institution's academic programmes. Institutions pursuing this approach cover all types of tertiary institutions – universities, technikons, and education/teacher colleges.

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Some institutions are complementing their teaching programmes with community outreach programmes such as Small Business Clinics (e.g. Technikon Natal) aimed at giving their entrepreneurship students exposure to practical experience in interacting with small businesses and providing the small business community access to the institution's expertise.

One of the newest initiatives within the tertiary education sector is the International Chair in Entrepreneurship (ICE). ICE is a collaborative initiative involving two South African tertiary education institutions – Port Elizabeth Technikon and Rhodes University – and an overseas-based institution, the University of Limerick in Ireland; two corporate educational trust funds - Anglo Gold Fund Educational Trust and De Beers Fund Educational Trust and the National Research Foundation (NRF).

The International Chair in Entrepreneurship objectives are stated as follows:¹¹⁷

- To foster a culture of entrepreneurship in education in general, and specifically in Higher Education Institutions (HEIs) within the Eastern Cape Province
- To develop the highest quality theory of entrepreneurial activity
- To enable students in HEIs with and without a Science, Engineering and Technology (SET) background to establish entrepreneurial enterprises
- To enhance the involvement of Black and women entrepreneurs in general and technology based entrepreneurial small and medium size enterprises (SMEs)
- To advance co-operation between business, academia, government and foreign expertise in the development of an entrepreneurial-minded workforce in the Eastern Cape Province
- To transfer research, training and other expertise from the entrepreneurial programmes of leading countries to the developing world, with specific focus on Sub-Saharan Africa.

The establishment of entrepreneurship chairs is considered a positive move in establishing entrepreneurship development within the tertiary education system. This is because a chair legitimises the teaching of entrepreneurship and “creates mental and physical” space for it. Advanced academic programmes in entrepreneurship are also beginning to emerge. Two examples are the University of Pretoria's Masters degree in entrepreneurship and Technikon Natal's M Tech in entrepreneurship.

3.4.4.3 Transformation of the training system

The country's training system is also currently undergoing transformation with an increasing focus on skills development and life-long learning. The National Skills Fund, in particular, will play an important role in facilitating access to appropriate skills training by unemployed persons.

One of the groups that stand to benefit considerably from the new training regime is the youth. Statistics have shown that young people account for the largest proportion of the country's

¹¹⁷ GJP Maas, “Strategic Plan: International Chair in Entrepreneurship”

unemployed.¹¹⁸ Young people, even if they are positively disposed to start and run their own businesses, face a number of hurdles, one of which is limited life and work experiences.¹¹⁹

Young people stand to benefit considerably from the new system of learnerships and will, in the process, acquire much-needed skills. There are already new initiatives aimed at piloting youth learnership programmes within the small business sector. These initiatives will expose young people to small business operation and management and should, hopefully, introduce young people to new role models – small business owners and stimulate an interest in self-employment as a career option. In the long run, the new training system will play a major role in developing the much-needed technical skills in the economy as a whole.

3.4.4.4 Conclusion

The country's education and training system bears the major responsibility for developing the skills and competencies needed to sustain and propel our economy forward. In particular, education and training needs to play a major role in equipping all learners with entrepreneurial skills and encouraging them to engage in entrepreneurial activities in all their social and economic pursuits. Self-employment needs to be actively encouraged as a viable and worthwhile career option.

Although the country's education and training system has historically failed to do this and has, in certain instances, systematically dis-empowered certain sections of the South Africa population, changes at both policy level and within various education institutions which seek to encourage the development of relevant skills and the inculcation of entrepreneurial attitudes and behaviours are currently underway. The required change will take time to occur, but a start has been made.

3.4.5 Research and development, and technology transfer services

3.4.5.1 Existing SMME technology and technical support programmes

The White Paper on National Strategy for the Development of Small Business in South Africa notes that:

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 DTI's 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.

Major efforts have been made in the recent past to provide technology services to small firms. One major initiative, the Manufacturing Advice Centre (MAC) programme which completed its two-year pilot at the end of June 2000, and has established two regional centres in Port Elizabeth and Durban

¹¹⁸ Department of Labour, "Creating Jobs, Fighting Poverty: An Employment Strategy Framework", 1998,

¹¹⁹ National Youth Commission and Ntsika Enterprise Promotion Agency, "A National Strategy to Promote Economic Participation by Young People", 1999

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has been a major success. Based on its success, DTI has already taken the decision to roll the programme out nationally. MACs provide a number of services to their clients:

- advisory services to improve company growth and performance;
- technology support
- information support
- assistance in setting quality and product standards
- marketing advice
- finance and management access

Among other things, MACs have been particularly successful in linking their clients to other DTI support programmes such as the Competitiveness Fund. MACs also adopt a very strong regional partnership approach, involving a number of local stakeholders. This strong local partnership model has been strongly recommended for an effective entrepreneurship strategy. Lastly, the MAC Programme has cultivated very strong international networks so there is ongoing learning from and sharing of experiences with leading practitioners world over. Staff development is a strong focus and extensive staff training takes place locally and abroad.

Another agency that is playing a role in the provision of technology services to small firms is the CSIR, the country's foremost technology institution. The CSIR's Manufacturing SMME Development Centre, which is operational countrywide, provides a range of services aimed at strengthening the technological and competitiveness capabilities of small firms. Their interventions in the area of rural small business development include technology development and transfer for micro-enterprises and establishment of rural SMMEs. The Centre also provides skills training, experiential training, and business skills training.

3.4.5.2 New DTI technology support initiatives

In addition to these institutions and their programmes, the Minister of Trade & Industry recently announced more upcoming initiatives aimed at enhancing the technological capabilities of all South African firms, including small firms, especially in the area of research and development and technology transfer. The **Technology Venture Capital Fund** will be launched during the course of 2000. The fund will assist technology development agencies to develop their technology to commercialisation stage. Noting that many SMMEs lack the capacity to purchase technology, the Minister also announced that in an attempt to accelerate the development of the SMME sector, DTI and Khula will be launching the **Technology Guarantee Fund** next year. This fund will guarantee the financing costs of SMME technology procurement. Lastly, for those companies wishing to purchase technology rather than develop it themselves, DTI will be launching the **Technology Transfer Centre** to assist in undertaking patent searches. This will ensure that South African companies have access to leading edge technology at the best possible price.

3.4.5.3 Other existing technology support programmes

These new programmes are an addition to already existing technology support programmes. The **Technology and Human Resources for Industry Programme (THRIP)** seeks to enhance the competitiveness of South African industry through the development of appropriately skilled people

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and of technology and encourages long-term strategic partnerships between industry, research and educational institutions and government. THRIP operates in three ways:

- Firms and THRIP invest jointly in research projects where project leaders are on the academic staff of South Africa Higher Education Institutions (HEI).
- THRIP matches investment by industry in projects where SETI-based researchers/experts serve as project leaders and students are trained through the project.
- TIPTOP (Technology Innovation Promotion through the Transfer of People) schemes provide mechanisms to promote the mobility of researchers and students between the industrial participants within defined THRIP projects.¹²⁰

The programme supported a total of 1053 students in 1996/97, a massive increase from 200 students in 1995/96. 138 researchers were involved in THRIP projects in 1996/97, compared with just over 60 in the previous period. The programme's efforts in promoting technological and engineering careers among black and female students, through the provision of funding at a preferential rate for research projects that involve a substantial number of black or female students, has also achieved a certain degree of success. These projects accounted for 10 per cent of total research funding in 1996/97 compared with no black or female student representation at all during the previous year. The immediate term target was set at 20 per cent. The number of firms involved in THRIP projects almost doubled to 119 in 1996/97 compared with the previous year. THRIP has also played a key role in fostering joint-firm collaboration, an important aspect of the country's industrial policy. In 1996/97 almost 60 per cent of THRIP funding was invested in multi-company projects, compared with only 6 per cent the previous year.

An area that still required more attention within the programme was the promotion of technological know-how within the SMME sector. Funding leveraged by SMMEs into projects increased marginally to 6.7 per cent in 1996/97 compared to the previous year.

This is an area that will have to be significantly improved in the future, given the SMME sector's high priority in the wider framework of South Africa's industrial revitalisation. Efforts in this regard include a particular focus on SMME involvement within the TIPTOP initiative, and proposals to work more closely with the Ntsika Enterprise Promotion Agency.¹²¹

The **Support Programme for Industrial Innovation (SPII)** provides support for the development of products or processes that represent a significant technological advance and have potential to be successfully marketed. SPII provides for grants to selected technology innovation projects of 50% of the direct pre-competitive costs involved, up to a maximum of R1,5 million per project. However, an evaluation of the programme showed that this amount provided no incentive for large-scale innovation projects undertaken by large firms. In response to this, a new scheme, the **Partnership in Industrial Innovation (PII)** was mooted as an additional means to promote innovation amongst large firms.

The evaluation also showed that overly complex application criteria, particularly marketing, technical and financial projections, were seen as obstacles to increasing the proportion of SPII funding applications from SMMEs. To deal with this problem, a new scheme, the **Feasibility Study Support**

¹²⁰ DTI, "Industrial Policy and Programmes in South Africa", 1998, p.47.

¹²¹ Op cit, p.50.

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(FSS), was introduced to assist small firms in making an informed decision regarding technological innovation projects, through the provision of assistance in the form of a 50% grant of the direct cost incurred in carrying out a feasibility study, up to a maximum of R30 000 per project.

Notwithstanding these weaknesses, the programme showed some successes. The proportion of SPII-supported projects that succeeded and went on to make a profit was considered high by international standards for such programmes with 54 per cent of the projects deemed to have been a success. The programme also achieved a much higher success rate in terms of attracting SMMEs, with these enterprises representing 46 per cent of all applications received.¹²²

3.4.5.4 Conclusion

The Department of Trade and Industry's current and planned programmes represent an earnest effort to foster the technological advancement of all South African firms. A proposed programme, the Technology Guarantee Fund, will focus specifically on providing assistance to small firms.

3.4.6 Internal market openness and competition

3.4.6.1 Focus on small business in new competition policy

The stated purpose of the country's new Competition Act is to promote and maintain competition in the country. Among other things, the Act seeks to:

- ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy; and
- promote a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged persons.

3.4.6.2 Mechanisms to strengthen competitiveness of firms

In addition, the Department of Trade & Industry has put in place cost-share mechanisms to stimulate the internal competitiveness of South African firms of all sizes. Two such mechanisms are the Competitiveness Fund (CF) and the Sector Partnership Fund (SPF). The CF supports the introduction of technical and marketing know-how and expertise to local firms. The Bumble Bee program, which constitutes a sub-component of the CF, provides free consulting services to firms with less than 20 employees. The SPF is available to groups of five or more firms in the manufacturing and agro-processing industries seeking to prepare and execute marketing and production related projects with the aim of improving competitiveness and productivity.

Thus, as with virtually all its interventions, the government has adopted a two-pronged strategy to enhance the competitiveness of local firms, including small firms, the formulation and execution of enabling policies and the provision of support services that enable firms to strengthen their competitiveness and productivity.

¹²² Op cit, pp52-59.

3.4.6.3 Disquiet over certain aspects of competition policy

However, the Competition Act and certain specific aspects thereof have caused disquiet within business circles. Business South Africa has criticised the Act and its Regulations for being inappropriately complex and will create an unaffordable dependence on the part of small and medium sized businesses on a relatively few expensive specialised lawyers. “The Rules and regulations promulgated in terms of the Competition Act not only have a negative impact on investment, both foreign and local but also – unintendedly – prejudice small business and entrepreneurship.”¹²³

Another aspect of the Rules and Regulations that has come criticism by business is the issue of notification fees, especially in instances of filing for mergers. Business views the amount of fees to be paid in this instance (R50 000 to R500 000) as being too exorbitant. As such, they will discourage bigger companies and groups from buying businesses sold by entrepreneurs who want to move on to other things. “Restricting such an entrepreneur’s market to smaller buyers will discourage entrepreneurship and undermine the profitability of his company. In addition, if the company is not adequately capitalised, or bigger companies cannot acquire it, the net effect will be lower growth and a loss of jobs.”¹²⁴

3.4.6.3 Conclusion

Government has embarked on a policy and legislative initiative aimed at promoting competition with the economy. Among the express goals of the new Competition Act is ensuring that small and medium-sized enterprises have an equitable opportunity to participate in the economy; and promoting a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged persons. Its policy initiatives in this area are backed by support programmes aimed at enhancing the competitiveness of all South African firms. The Bumble Bee programme of the CF is aimed specifically at small firms, those employing less than 20 people. While there may still be problems with aspects of the Competition Act, it remains an indication of government’s intention to create an environment that is more conducive to entrepreneurship.

3.4.7 Access to physical infrastructure

3.4.7.1 Need to address infrastructure needs of firms

The problem of uneven access to physical infrastructure such as telecommunications and electricity across the country has already been discussed. It has been indicated that rural areas face even bigger problems when it comes to infrastructure, including service provision infrastructure such as financial and other support providers. Land ownership also plays a critical role in enabling entrepreneurs to possess collateral that is necessary for asset-based lending. There is a problem in this regard in most rural areas where the system of traditional common land ownership under which individual title cannot be obtained, prevents the use of land assets as collateral for borrowings. The provision of premises at affordable rentals, especially in urban areas, is seen as one of the areas where local authorities can play a critical role in fostering a conducive entrepreneurial and business environment. Local authorities can

¹²³ Business South Africa, Background Documentation on Urgent Problems Arising from Rules and Regulations Promulgated in terms of the Competition Act, 11 April 2000

¹²⁴ Ibid.

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also play a major role in developing and renting out appropriate trading facilities to local micro-enterprises.

3.4.7.2 Current initiatives to respond to infrastructure needs

Ntsika Enterprise Promotion Agency has embarked on an initiative leading to the development of Local Industrial Parks aimed at providing much-needed infrastructure for SMMEs. The initiative is being pursued in partnership with a number of other institutions – the Public Works Department, Development Bank, Khula Finance Limited, Industrial Development Corporation, Independent Development Trust, CSIR and the Department of Trade & Industry. Also, the CSIR's Manufacturing SMME Development Centre has an incubation component in its portfolio of services to small firms. However, these initiatives are still new and not widespread. Much remains to be done in this area countrywide.

3.4.7.3 Conclusion

The provision of infrastructure to small enterprises, especially those in outlying areas of the country, remains a key challenge. Access to adequate, affordable and suitably located infrastructure is one of the key requirements for a dynamic entrepreneurial environment. Although a number of efforts are being made to address this problem, it remains a challenge in developing a conducive entrepreneurial environment in South Africa. Local authorities are well-placed to play a key role in addressing this problem.

3.5 Entrepreneurial opportunities and capacity

3.5.1 Existence of entrepreneurial opportunities

3.5.1.1 Opportunities are perceived to exist

There is generally a perception that a number of entrepreneurial opportunities exist in South Africa. The country still faces numerous developmental needs that provide opportunities in the provision of developmental solutions in general.

More specifically, major opportunities are seen to exist in the area of public procurement and the development of tourism and agro-industries. Given the country's considerable housing and infrastructure development needs, construction is also seen to provide opportunities. The crafts and cultural industries, production of new agricultural crops, and small-scale mining are also perceived to have potential. Opportunities exist in self-help initiatives of various kinds particularly in rural areas. A growing movement of self-help co-operatives organised under the Sukuma Trainers Co-operative in KwaZulu-Natal is one example of rural initiatives to turn the meeting of community needs into viable business opportunities. These co-operatives are active in a number of business activities including crafts production, re-packaging and sale of food items, and farming.

Lastly, DACST's Foresight project has identified a number of future opportunities in various areas such as biotechnology, tourism, and environment management.

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At a broader level, black economic empowerment is seen to offer considerable opportunities for previously disadvantaged groups. As a result, DTI has prioritised BEE as one of its primary focus areas for the future. However, most recent experience in this area has not been very positive, with certain high-profile initiatives running into difficulties. To generate a more thorough understanding of the concept of black economic empowerment and constraints facing BEE initiatives and processes, the Black Economic Empowerment Commission has commissioned a study with the following terms of reference:

- Inquire into the structures and functions of the regulatory and legislative environment aimed at facilitating black economic empowerment in the context of national economic transformation
- Conduct research and evaluation of the nature, forms and outcomes of black economic empowerment in the public and private sector
- Examine in detail the nature and form of economic empowerment initiatives in the realm of business transactions
- Examine the “trickle-down” effects of empowerment initiatives in the private and public domain on the quality of life or ordinary disadvantaged South Africans
- Develop benchmarks and criteria on what constitutes meaningful and sustainable empowerment initiatives in the private and public domain
- Formulate pronouncements on the efficacy, long term consequences and beneficiation of empowerment initiatives and processes to date
- Formulate, popularise and implement monitoring and evaluation measures and mechanisms against which empowerment initiatives and transactions will be measured.

The results of the BEEC study will have an important contribution to make to the current study overall, in particular the aspect of black economic empowerment. It is not clear at this stage when the results of the BEEC study will be out. It has been suggested that this occur soon. In that event, the findings of that study will be utilised to inform the future processes of this study.

3.5.2 Entrepreneurial capacity and motivation

The general view is that, given the right conditions, such as access to appropriate support, there is no shortage of entrepreneurs eager to take advantage of available opportunities. What stands in the way of most entrepreneurs is lack of appropriate support that would provide an initial stimulus to start own businesses. Lack of support services, especially in rural areas, has a de-motivating effect on would-be entrepreneurs.

For instance, the majority of participants in a youth focus group in Richards Bay felt that while there were some opportunities in their communities, such as the provision of crèche services, sale of items of craft to tourists, and so on, lack of start-up capital was their biggest problem.

In an attempt to address the needs of rural communities, the Department of Trade & industry launched the **Community Public Private Partnerships Programme** to empower local communities through effective partnerships in order to develop economic opportunities by developing viable investment opportunities. These investment opportunities range from tea estates to eco-tourism sites to natural fibres for the clothing industry. The initiative was launched in 1999.

However, in general terms, it has been pointed out that the lack of technical skills and managerial capabilities and experience, particularly among the HDI, is a major constraint when it comes to developing dynamic growth-oriented enterprises. This limits the kinds of enterprises that can be started by the majority of the HDI to more traditional ones with limited growth prospects. Deficiencies in appropriate skills, capabilities and experience also constrain the ability of prospective entrepreneurs, particularly the youth, to access the necessary resources such as finance and business networks to develop a viable business.

3.5.1.2 Conclusion

There is a general perception that there is no shortage of opportunities to start and run viable businesses around the country. Some of these opportunities may offer no potential for growth and may indeed be only at subsistence level, but they provide scope for self-employment.

There is also no shortage of individuals who, in many cases having no other option, are willing to strike out on their own and turn these opportunities into self-employment opportunities. What is seen as a major constraint and serious de-motivating factor is lack of appropriate support that would provide the initial stimulus for individuals to start out on their own. This is the case throughout the country but more so in rural areas. Many of the existing support programmes have not been able to effectively reach rural communities. Rural communities require more focused and sustained approaches to meeting their support needs. This could be done in partnership with various institutions inter-acting with these communities, such as the growing co-operative movement in KwaZulu-Natal.

At a general level, the shortage of technical skills and managerial capabilities and experience, particularly, among the HDI, limits the prospects to start growth-oriented enterprises. These capabilities will require various sustained policy and programme interventions.

3.6 Business dynamics

3.6.1 Enterprise creation

Measuring the rate of enterprise creation across South Africa is a major challenge given the poor quality of available data. Therefore any attempt at presenting statistics on enterprise creation and destruction in the country should be approached with extreme caution.

According to the 1999 State of Small Business in South Africa report, published by Ntsika Enterprise Promotion Agency, a sharp increase in enterprise registration was recorded between 1990 and 1998. The number of Proprietary Limited (Pty Ltd) companies registered during this period increased from 6 369 in 1990 to 23 651 in 1998, representing a 2.7 per cent increase. During the same period, the number of Close Corporations (CC) increased from 28 008 in 1990 to 73 114 in 1998.¹²⁵ (table 19).

¹²⁵ Ntsika Enterprise Promotion Agency, "The State of Small Business in South Africa", 1999. Pp.61-64

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Table 19. Enterprise registrations, 1990 - 98

Year	Pty Ltd	CC
1990	6 369	28 008
1991	6 236	26 426
1992	6 550	27 570
1993	7 164	27 950
1994	9 356	39 170
1995	12 168	52 408
1996	16 151	61 884
1997	20 332	68 067
1998	23 651	73 114

Large increases in new registrations occurred in the trade, transport, finance and business services and construction sectors with the mining and manufacturing sectors lagging behind.

However, statistics on enterprise registrations alone do not give a full picture of business dynamics within the economy. For a more accurate picture of the state of affairs, it is necessary to capture enterprise terminations as well.

3.6.2 Enterprise termination

This is another area that is fraught with difficulties relating to problems of accuracy in terms of defining enterprise destruction. Given these difficulties, reliance will still be placed on Ntsika's statistics on enterprise de-registration, albeit itself an imperfect measure for this purpose (table 20).

Table 20. Registrations and De-registrations during 1990-98: Pty Ltds and CCs¹²⁶

Category	Pty Ltd	CC
Total number registered	107 977	404 597
Total number de-registered	37 066	62 933
Net change	70 911	341 664

¹²⁶ Op. Cit.

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De-registrations as % of new registrations	34%	16%
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3.6.3 Conclusion

Based on the above figures, it would appear that a lot more enterprises are being created than are being destroyed in our economy. Given that these are formal rather than informal businesses, it can be assumed that the majority of them are created by individuals and groups who willingly choose to start and run businesses rather than those who venture into self-employment as the only available alternative to unemployment and poverty. With the improvement in the entrepreneurial environment and a more concerted effort to promote entrepreneurship across all population groups, this trend can be expected to increase. This is the objective of the envisaged national entrepreneurship strategy.

CHAPTER 4: POLICY & GENERAL RECOMMENDATIONS

4.1 Introduction

The Recommendations presented here are not entirely new to the South African reader as some of them are based on existing policy documents such as the White Paper on small business promotion, Department of Labour Skills Development policy and National Youth Commission strategy for the promotion of economic participation by the youth. Indeed, there already exist a number of policy initiatives that will have a direct bearing on the national entrepreneurship strategy. By making reference to those policies in this report, the message that is being carried across is that the strategy should not seek to duplicate them but instead complement and seek synergies with them.

Also, there are aspects of other research initiatives that are relevant to the current project that will therefore inform parts of this project, including its recommendations, in time to come. These include the studies on R&D and Venture Capital commissioned by DTI independently of this project, and the Technology Foresight project of the Department of Arts, Culture, Science & Technology. As their topics indicate, these projects bear relevance to aspects of this report dealing with R&D, technology, and access to capital, particularly venture capital. It stands to reason, therefore, that these projects, focusing as they do on these specific aspects, will result in more elaborate recommendations than is the case here. Such recommendations will serve to complement and extend those made in this report.

Lastly, just to state the obvious, these recommendations do not constitute the strategy itself. The process of developing the strategy will be undertaken by DTI hereafter. Thus, the recommendations are not precise policy statements but provide a general premise for the strategy. Precise DTI strategy objectives, activities, and monitoring and evaluation systems will need to be formulated by the strategy formulation team.

4.2 General recommendations

Before presenting the policy recommendations arising out of this study, there are recommendations of a general/operational rather than a policy nature that are important to outline. Most of these recommendations emanate from the deliberations of the two workshops held with various stakeholders as part of the process of this project. These are:

4.2.1 Champion for the national strategy

The importance of having a clear national champion for the national strategy has been strongly emphasised. To succeed, the national strategy needs a strong political will to guide its implementation and measurement. The establishment of an effective champion at the highest level of government has been strongly underlined. Various possibilities have been raised, including a Cabinet Committee in entrepreneurship and a Minister or Commission on Entrepreneurship.

4.2.2 Effective co-ordination and evaluation of entrepreneurial development efforts

There are already a number of programmes and entrepreneurship development initiatives that are taking place around the country, undertaken by various government departments and their agencies, the private sector, and the non-governmental sector. Also, all government departments have a role to play in the promotion of small enterprises, and funding to do so. What is lacking is an effective co-ordination mechanism to guide the various efforts towards common objectives and to spread the learning that would improve practice. The majority of the programmes have no effective monitoring mechanisms and the majority are hardly ever subjected to rigorous evaluation.

Co-ordination needs to take place at various levels. Firstly, there is a need for strong and effective co-ordination within government itself – at national, provincial, and local level. Lack of co-ordination within government leads to duplication of efforts and, in some instances, working at cross-purposes. For instance, some government departments do not collaborate whatsoever with institutions such as Ntsika and Khula whose sole mandate is to implement important small enterprise development programmes. Local government is not receiving any clear guidance from national government, particularly DTI, on how to effect entrepreneurship development at local level. A clear framework for entrepreneurship development at local level, involving collaborative efforts among various stakeholders, needs to be developed.

Secondly, there needs to be co-ordination between government and its agencies. For instance, questions have been raised on how well DTI co-ordinates the efforts of its family of institutions and how it ensures that they foster collaboration among themselves.

Thirdly, co-ordination is needed among the various institutions that will play a key role in supporting entrepreneurship – Khula, Ntsika, CSIR, NRF, NPI, IDC, and so on. Co-ordination at this level is not strong at this stage.

Lastly, co-ordination with other role players outside government is critical. These include a range of actors such as educational institutions, NGOs, the business sector, donors, and so on.

4.2.3 The role of local government

Local government needs a clear framework spelling out its responsibility for entrepreneurship development at local level. Once this framework is in place, the promotion of entrepreneurship must be made a mandatory function of local government and constitute an important part of the performance measurement of local government. There is also a need to ensure ongoing sharing of experiences among local authorities countrywide on their entrepreneurship and small business development efforts. Organised local government, under the banner of national and provincial local government associations, needs to be engaged in formulating the required entrepreneurship and small business development framework and its measurement mechanisms. An important component of such measurement mechanism is to ensure that a uniform performance measurement system is developed at national, provincial and local government level.

4.2.4 Detailed analysis of various factors pertinent to entrepreneurship development

These include the social, cultural and political context, the attraction of skilled immigrants, education and literacy levels, particularly among the youth, trends in attitudes towards failure, and factors accounting for the success of certain population groups in moving into the economic mainstream.

4.2.5 Marketing of existing support programmes

There are a large number of support programmes available to all sizes of enterprises, including small ones. However, these programmes are not sufficiently marketed and therefore many small enterprises do not know about them and this translates to low levels of uptake and utilisation. There is a need for a focused and effective strategy to market these programmes countrywide, especially targeting small enterprises and those owned by HDI.

Marketing programmes should also prioritise the provision of information regarding sectors that provide entrepreneurial opportunities.

4.3 Broad policy guidelines

In this section, broad policy guidelines gleaned from international literature are presented as a precursor to the presentation of specific policy recommendations emanating from the study. These guidelines, developed by the OECD¹²⁷, cover a number of policy areas discussed in this report.

They provide a good summary of key areas to focus on in developing and implementing entrepreneurship policy. These are presented next.

4.3.1 Examine the overall institutional framework within which economic activity takes place to establish whether it provides maximum scope for entrepreneurship to flourish. In particular:

- Identify and dismantle remaining barriers to competition, which limit the incentive on enterprises to innovate and perform more dynamically. Promote competition in all sectors of the economy, including the provision of public services. Provide effective protection of intellectual property.
- Examine whether current regulations governing financial institutions and/or financial markets inhibit or facilitate the availability and optimal allocation of finance for entrepreneurial activities.
- Allow scope for flexible employment contracts to be negotiated, with remuneration arrangements and working conditions that are well adapted to the needs of dynamic

¹²⁷ OECD, "Fostering Entrepreneurship", 1998, pp. 28-30.

enterprises. Relax employment protection measures that inhibit restructuring or discourage entrepreneurs from taking on new workers.

- Examine the costs of complying with government imposed administrative or regulatory requirements and identify where reductions could be made, either by removing the requirement to comply or by reducing the administrative burden involved (including through better co-ordination between different government agencies).
- Examine the overall effects of the tax system on entrepreneurship, and identify any particular features, which act to discourage entrepreneurs or the financing of entrepreneurial activity. Ensure that the tax system is transparent and that compliance is straightforward.
- Review and simplify the registration procedures required to create a business. Ensure that firms are able to close quickly should they wish to do so.
- Ensure that personal bankruptcy legislation provides an appropriate balance between encouraging risk-taking and protecting creditors.
- Re-examine the effects that social insurance provisions may have on encouraging or discouraging would-be entrepreneurs.

4.3.2 *Ensure that specific programmes designed to foster entrepreneurship operate as part of an integrated and coherent strategy that complements the framework conditions. In particular:*

- Avoid policies that stem from a too-narrow definition of entrepreneurship (e.g., that entrepreneurship is only about start-ups or only about high-technology) and which may divert attention from getting the broader economic policy settings right.
- Widen the target population for entrepreneurship programmes, where possible, to attract the participation of women, the young and minorities.
- Undertake regular and comprehensive evaluations of programmes, and ensure that evaluation findings are acted upon.

4.3.3. *Improve the effectiveness of entrepreneurship programmes by drawing on the knowledge of sub-national levels of government. In particular:*

- Ensure that resources for programmes to foster entrepreneurship are decentralised where appropriate in order to better tailor programmes to the specific needs of an area and its businesses.
- Provide regular opportunities to exchange information at a national level on experiences of local authorities in designing and implementing entrepreneurship programmes.

4.3.4. *Seek to identify and implement low-cost and effective programmes with minimal distortionary effects on market incentives. For example:*

- Promote public awareness of entrepreneurship and examine the role the education system could play in developing entrepreneurial skills and attitudes.

- Increase opportunities for the unemployed to create their own jobs through self-employment schemes.
- Facilitate networking among firms in order to foster a culture of mutual co-operation and risk-taking.
- Promote the entrepreneurial non-profit sector by contracting-out where possible the delivery of public services that meet pressing demands in economic and social development.

4.4 Structure of the policy proposals

Firstly, this project has been guided by the GEM project framework which covers a number of framework conditions for entrepreneurship development. These are:

- Social, cultural and political context
- General framework conditions (openness, government, financial markets, technology and R&D, infrastructure, management, labour markets, institutions)
- Entrepreneurial framework conditions (financial, government policies and programmes, education and training, R&D transfer, commercial and legal infrastructure, internal market openness, access to physical infrastructure, cultural and social norms)
- Entrepreneurial opportunities (existence, perception)
- Entrepreneurial potential (capacity, skills)
- Business dynamics (births, expansion, deaths, contraction of firms)

Secondly, it has been shown earlier that entrepreneurship is the result of three dimensions working together:

- Conducive framework conditions
- Well-designed (and implemented) government programmes and
- Supportive cultural attitudes.

Perhaps at the risk of becoming too detailed, the policy proposals presented next attempt to take into account both the framework conditions (GEM model) and the three dimensions outlined above. Where possible, policy recommendations are made for each framework condition. Policy recommendations also cover the three dimensions discussed earlier. It is, however, accepted that a degree of prioritisation in policy formulation is necessary. For this purpose, without diminishing the importance of other policy areas, five areas would appear to present themselves as priority areas. These, together with a brief assessment of perceived bottlenecks and corresponding policy recommendations, are presented next.

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Policy area	Bottlenecks	Policy recommendations
Entrepreneurial culture	<ol style="list-style-type: none"> 1. Parental approval is necessary to stimulate venturing into business. 2. There is limited inclination among the youth to take risks to start a business. 3. Senior managers are hesitant to make a move into self-employment. 4. A high number of those who start their own businesses do so out of need rather than a clear entrepreneurial drive. 	<ul style="list-style-type: none"> ▪ Place entrepreneurship on the political agenda. ▪ Develop and stimulate entrepreneurship awards at all levels. ▪ Appoint (former) entrepreneurs into positions dealing with entrepreneurship policy. ▪ Involve key role players such as Churches, Civics, Trade Unions and Business Organisations in promoting entrepreneurship.
Education	<ol style="list-style-type: none"> 1. The education system trains for wage employment rather than self-employment. 2. Basic education levels are low, especially among the HDI. 3. There are few entrepreneurship courses. 	<ul style="list-style-type: none"> ▪ Develop entrepreneurial spirit from low educational levels upwards. ▪ Stimulate the development of entrepreneurship curriculum and its integration into education. ▪ Train educators to teach entrepreneurship. ▪ Incorporate practical entrepreneurial experience into the curriculum. ▪ Establish Entrepreneurship Chairs at universities and technikons.
Skills	<ol style="list-style-type: none"> 1. Lack of managerial skills especially among HDI. 2. Lack of technical skills. 3. Lack of technology and innovation skills. 	<ul style="list-style-type: none"> ▪ The Employment Equity Act will enable the HDI to gain managerial experience. These must subsequently be encouraged to start their own businesses. ▪ Transfer technical know-how from research institutes to SMMEs and start-ups by strengthening and expanding existing mechanisms to do this. ▪ Vocational training should emphasise a continuous search for improvement in products and processes.

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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Policy area	Bottlenecks	Policy recommendations
Finance	<ol style="list-style-type: none"> 1. Low savings rate inhibits accumulation of capital. 2. Gap between financing levels of banks and MFI's. 3. Inadequate collateral for loans. 4. Risk of high debts in case of bankruptcy. 	<ul style="list-style-type: none"> ▪ Develop mechanisms to facilitate mobilisation of savings, especially in rural areas. ▪ Support viable private sector and NGO initiatives to provide access to funding, especially in rural areas. ▪ Permit NGOs to accept deposits without registering as banks under the Banks Act. ▪ Adapt the Bankruptcy Law to limit the personal liability level.
Bureaucratic hindrances	<ol style="list-style-type: none"> 1. Prospective start-ups are deterred by red tape. 2. Existing and growing entrepreneurs face high compliance costs. 	<ul style="list-style-type: none"> ▪ Improve access to facilities, e.g., by decentralising business registration. ▪ Improve access to the Commercial Justice System, especially the Small Claims Courts. ▪ Continue the National Regulatory Review, ensuring focus on both existing firms and start-ups. ▪ Set goals to mitigate compliance costs.

Detailed policy recommendations are presented next...

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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SOCIAL, CULTURAL, POLITICAL CONTEXT				
ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Age structure of the population; nature of and access to the education system	<p>Population majority is younger than 39 years.</p> <p>Majority of African and Coloured, and, to a lesser degree Indian, men and women in elementary and operator occupations.</p> <p>High levels of youth unemployment.</p> <p>Significant number of the entire population has no education while 58% has only up to standard 9 education.</p> <p>24% of Africans have no education at all, while the majority of Africans, Coloureds & Indians have less than standard 10.</p>	<p>Entrepreneurial development needs to take into cognisance the low level and poor quality of education and low level of skills and experience among the majority of the population.</p> <p>Entrepreneurial development needs to focus on the youth who constitute the largest component of the population, and women & youth who are in the most need of economic upliftment.</p>	<p>To increase the rate of start-up, self-employment, and business growth among the youth and the historically disadvantaged members of the population</p> <p>To enable the youth and historically disadvantaged groups to acquire higher levels of education, skills, and experience to enable them to start, manage, and grow their own enterprises.</p>	<p>The National Youth Commission and Ntsika Enterprise Promotion Agency have formulated a comprehensive strategy and initiated some programmes in this regard. Support should be given to the implementation of the strategy and related programmes. The strategy should be integrated with the national entrepreneurship strategy.</p> <p>The Departments of Labour and Education, and the National Youth Commission have formulated specific policies to address this entrepreneurship condition. The implementation and effectiveness of these policies should be assessed on an ongoing basis. These policies should also be linked to the national entrepreneurship strategy.</p> <p>In both areas above, a number of NGO's are involved in implementing a range of programmes, especially those aimed at young people. Successful programmes should be supported and expanded.</p>

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GENERAL NATIONAL FRAMEWORK CONDITIONS				
ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Openness</p> <p>(Extent of integration into world economy in terms of outward orientation and degree of liberalisation in external trade and investment)</p>	<p>The economy is generally regarded as open and largely integrated into the world economy. Economic liberalisation (exchange controls, tariffs) continues. Investment inflows are increasing and export growth and diversification is taking place</p>	<p>Confidence in the economy has grown and availability of investment resources has improved, thus providing a relatively positive entrepreneurial environment.</p> <p>Opening up of the economy has increased the level of competition from foreign firms meaning that local firms (including new, small and growing firms) need to strengthen their competitiveness in order to survive.</p>	<p>To enable new, small and growing firms to benefit from investment inflows (e.g. through private equity) and promote their participation in export markets.</p> <p>To enhance the competitiveness of new, small and growing firms in order to improve their survival and growth.</p>	<p>Encourage foreign firms investing in South Africa to invest in or establish joint ventures with local small firms and ensure that local small firms benefit from existing export support programmes.</p> <p>Develop promotional programmes to inform small enterprises about available support to enhance their competitiveness (such as the Competitiveness Fund) and encourage uptake and utilisation of these support facilities.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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GENERAL NATIONAL FRAMEWORK CONDITIONS continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Government	<p>Government is increasingly reducing its role in the economy through restructuring of state enterprises, although progress is still seen as slow.</p> <p>Macro-economic policy has provided certainty and stability in economic policy thus contributing to positive entrepreneurial climate.</p> <p>Positive fiscal policies are being followed – inflation rate is low and projected to continue declining, government savings performance has improved (through containing expenditure and improved tax collection) and is projected to continue.</p>	<p>Restructuring of state enterprises will provide further entrepreneurial opportunities in the economy.</p> <p>Stimulation and growth of the economy will provide scope for initiation and growth of new enterprises.</p> <p>Increasing competition will put pressure on firms to focus on core business and hive off non-core activities. This will create new opportunities from corporate sector restructuring.</p>	<p>To make opportunities emanating from restructuring of state enterprises available to entrepreneurs, particularly those from historically disadvantaged groups.</p> <p>To continue to lower the risks in the economy and to enable new and small firms to have access to inputs and resources at reasonable cost.</p>	<p>DTI's National Empowerment Fund seeks to facilitate the achievement of this objective.</p> <p>Maintain a low-inflation environment in order to avoid increases in interest rates. Maintain a stable overall macro-economic policy environment.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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GENERAL NATIONAL FRAMEWORK CONDITIONS continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Government, continued...	Progress on privatisation is still seen as slow (however, government has committed itself to an acceleration of the process).	<p>A stable economic environment, decreasing inflation and low interest rates reduce the risk levels in the economy and the cost of resources, thus enabling new, small and growing firms to access inputs and investment resources at reasonable cost.</p> <p>Improved revenue collection and government savings performance will release resources for investment in promoting entrepreneurship.</p>		

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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GENERAL NATIONAL FRAMEWORK CONDITIONS continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Finance</p> <p>(role of financial markets in facilitating consumption & savings behaviour, and efficiency of financial intermediaries in channelling savings into productive investment)</p>	<p>Domestic saving levels are still too low, attributed mainly to low personal saving.</p> <p>Gross domestic fixed investment is low and net domestic fixed investment has declined sharply over the years.</p> <p>Financial intermediation is poor, meaning that investment resources are not sufficiently channelled to new and small firms and certain sectors of society, such as the rural areas, have very limited access to savings facilities.</p>	<p>Low savings and poor financial intermediation mean that there are limited resources available for investment and new and small firms are the biggest losers in the race for limited available resources. Lack of access to finance is thus one of the key obstacles to fostering entrepreneurship in the country.</p> <p>There is a need to encourage investment, particularly among small and growing firms in order to strengthen their competitiveness and sustainability.</p>		

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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GENERAL NATIONAL FRAMEWORK CONDITIONS continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Technology (R&D intensity, technology level, and stock of accumulated knowledge)</p>	<p>One of the country's strengths is its high-technology strategic industries and advanced research institutions. However, its international ratings in science and technology are still poor.</p> <p>DTI implements two support programmes focusing on the development of appropriate skills and technology, and long-term strategic partnerships between industry, educational institutions, and government (THRIP) and the development of products or processes that represent a significant technological advance and have potential to be successfully marketed (SPII).</p>	<p>There is a need to strengthen the technological capabilities of the population, especially the historically disadvantaged, and to facilitate technology transfer from research centres to small firms and industry in general.</p>	<p>To facilitate the development of technology skills and knowledge within the country.</p>	<p>[DTI's Technology Human Resource for Industry Programme (THRIP) seeks to partially fulfill this role.] It needs to be integrated further with the national strategy.</p> <p>Encourage and provide support for enrolments in technical disciplines in tertiary education institutions, especially by historically disadvantaged individuals.</p> <p>Collaborate with initiatives of private sector bodies such as the Black Information Technology Forum's information technology training programmes for the historically disadvantaged.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**

GENERAL NATIONAL FRAMEWORK CONDITIONS continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Infrastructure (quality and quantity of transportation system, telecommunication network, power supply and warehousing and distribution facilities)</p>	<p>The country is generally considered to have good and adequate infrastructure.</p> <p>Major industrial and transport infrastructure development projects led by government seek to improve the level of infrastructure in general.</p> <p>Land ownership systems, especially in rural areas, forbid alienation of land and thus limit the scope for using land as collateral.</p>	<p>Limited access to key infrastructure such as electricity, telecommunications, and affordable industrial premises has a negative effect on the development of entrepreneurial activities.</p> <p>The new infrastructure development initiatives provide opportunities for new entrepreneurial initiatives linked to tourism and export. They also provide opportunities for access to strategically located industrial facilities (such as Coega).</p>		

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**

GENERAL NATIONAL FRAMEWORK CONDITIONS continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Management (quality of general business management, including competitive strategies, product development, quality control, corporate financial operations, human resources and marketing)</p>	<p>Although rated low in international competitiveness in the area of management, the country has a number of internationally respected professional accounting, management, governance, quality assurance, and productivity bodies. Most local standards in each of these areas are internationally recognised.</p> <p>Marketing strategies are also advanced, and the country has well organised domestic and international exhibitions.</p>	<p>The shortage of professional and managerial skills among the historically disadvantaged limits the pool of potential entrepreneurs from these backgrounds.¹²⁸</p>	<p>To increase the participation of the historically disadvantaged in management levels so as to develop managerial skills within this group.</p>	<p>The Employment Equity Act deals with this aspect and progress needs to be carefully monitored and integrated with the national strategy.</p>

¹²⁸ Philip A. Wickham lists among people who become entrepreneurs the “unfulfilled” or “displaced” manager. These people can use their managerial skills to start new enterprises of their own.

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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GENERAL NATIONAL FRAMEWORK CONDITIONS continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Labour Markets (efficiency & flexibility of labour markets)</p>	<p>The country has an acute shortage of skilled workers.</p> <p>The institutionalised industrial dispute resolution mechanism attempts to resolve industrial disputes quickly and efficiently thus avoiding negative impact on productivity.</p> <p>Government programmes, such as the Workplace Challenge, seek to enhance co-operation between workers and management to improve industrial performance and productivity.</p> <p>However, productivity is still considered low and aspects of labour legislation are seen to impose labour market rigidities and appear particularly hostile to small firms.</p>	<p>Shortage of skills is an impediment to the development of entrepreneurship.</p> <p>Aspects of labour legislation impose huge costs on small firms, thus taking away resources for investment in the growth of the business.</p> <p>Labour market rigidities can undermine the very source of dynamism of small and entrepreneurial enterprises – their flexibility.</p> <p>Low productivity levels limit the competitiveness and therefore growth prospects of firms.</p>	<p>To reduce the negative effects of labour legislation on new, small and growing firms.</p>	<p>Exempt small firms from certain provisions of labour legislation and limit penalties payable by smaller enterprises arising out of labour disputes to a specified maximum (e.g. dismissal settlements should be limited to 2 months' salary).</p> <p>Assess potential and actual effects of labour and other legislation on small firms on an ongoing basis and make regular improvements.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**

GENERAL NATIONAL FRAMEWORK CONDITIONS continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Institutions (soundness of legal and social institutions, including the rule of law and protection of property rights)</p>	<p>The country has well-established and reasonably well-functioning legal and social institutions.</p> <p>It also has well-established corporate law system that provides for various legal forms of business. In particular, the Close Corporations Act is seen to have unique and innovative features, providing for the needs of smaller enterprises, including self-employment.</p> <p>Property rights are considered adequately protected through a range of legislation and recognition of international intellectual property conventions.</p>	<p>The legal system provides a firm basis for a sound entrepreneurial environment.</p> <p>Also, other legal forms such as co-operatives need to be attended to in order to facilitate the formation of group-type enterprises, particularly in rural areas.</p>		

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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ENTREPRENEURIAL FRAMEWORK CONDITIONS				
ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Financial Support (Availability of financial resources, equity and debt, including grants, collateral, and subsidies)</p>	<p>Access to finance, especially at start-up and early growth stage, is still a major problem. The recent growth in private equity funding has not adequately addressed the need for finance at these stages.</p> <p>The supply of micro-finance falls short of demand and most micro-finance institutions lack capacity and many closures have recently occurred.</p> <p>Khula's national credit guarantee scheme has not been as successful as desired.</p>	<p>Lack of access to appropriate finance stunts the emergence and growth of new and small enterprises. Rural areas are particularly affected.</p> <p>On the other hand, the availability of private equity and DTI schemes for business expansion and buy-outs provides an opportunity for previously disadvantaged individuals to increase their participation in these activities.</p> <p>DTI's special finance and export assistance schemes can play a major role in stimulating entrepreneurship and growth of smaller enterprises.</p>	<p>To increase access to appropriate finance by start-ups and smaller firms and firms owned by special target groups.</p> <p>To increase the rate of uptake and utilisation of available support by the relevant target groups.</p>	<p>Enable lending NGO's to gain access to private capital for on-lending by allowing them to accept deposits without a requirement for their registration as banks under the Banks Act.</p> <p>Develop and run capacity building programmes aimed at strengthening micro-lending institutions and improving the skill base of their employees, thus increasing their sustainability and effectiveness. Existing programmes, such as those developed and implemented by the Micro Enterprise Alliance, could be funded and expanded countrywide.</p> <p>Consider the feasibility of establishing and promoting community-level investment vehicles.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Financial Support, continued...</p>	<p>The initiative by the Johannesburg Stock Exchange to facilitate electronic channelling of funds to smaller enterprises has been stunted by lack of access to electronic facilities on the part of most smaller enterprises, particularly those owned by previously disadvantaged groups.</p> <p>DTI has launched a number of finance schemes targeted at new and smaller enterprises, designed to facilitate buy-outs and investment by previously disadvantaged entrepreneurs.</p> <p>DTI also provides export assistance facilities targeted at small firms.</p>			<p>Consider special fiscal concessions for people investing in enterprises owned by members of specific target groups e.g. tax exemption of profits from this source for a specified period of time or write-off of genuine losses against personal income.</p> <p>Develop strategies to improve the dissemination of information on all schemes to the target groups and encourage use of available support.</p> <p>Provide assistance (at a cost to the entrepreneur) in formulating project proposals for buy-outs and other investment opportunities.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Government Policies (extent to which policies - taxes, regulations, procurement- encourage new and growing firms)</p>	<p>There is strong commitment at national, provincial and local government levels to the promotion of entrepreneurship and small business. Various national and (in some instances) provincial policies (corporate tax, procurement, and competition policies) favour small firms, particularly those owned and managed by previously disadvantaged groups.</p>	<p>By and large, existing government policy provides a strong basis for the stimulation of entrepreneurship.</p> <p>However, there is a need for a specific policy to encourage start-ups and establishment of enterprises by target groups such as youth, disabled, rural people, and women.</p> <p>Certain aspects of the regulatory environment hinder the creation, survival and growth of new and small enterprises.</p>	<p>To increase the rate of business start-ups by specific target groups.</p> <p>To continuously improve the legal and regulatory environment in order to minimise its negative effects on enterprise creation, survival and growth.</p>	<p>Launch promotional campaigns targeted at specific groups encouraging and motivating them to start their own enterprises. This could include, among others, profiling of “role models” – successful entrepreneurs from the target groups to demonstrate that it can be done.</p> <p>Provide special incentives, such as tax exemption or reduced tax for a fixed time period for new enterprises started by individuals within specific target groups.¹²⁹</p> <p>Extend the newly introduced graduated tax rate (15% on the first R100 000) to all small enterprises rather than certain “qualifying” types only.</p> <p>Continuously assess the impact of new and existing legislation on smaller enterprises and effect the required changes.</p>

¹²⁹ For example, one of the reasons for reluctance by people with disabilities who receive a social grant to start their own businesses is that they lose their grants as soon as they start receiving income from other sources. To encourage business start-ups among this group, it may be necessary to allow them to continue receiving their grants for a certain specified period in order to allow them to develop their new businesses to sustainable levels.

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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Government Policies, continued...	<p>The business regulatory environment has also improved considerably since the advent of the Businesses Act of 1991, although there is still a need for further changes in specific areas of regulation.</p> <p>There are also a lack of specific policies to encourage start-ups and enterprise growth, such as specific tax provisions or subsidies.</p>			<p>Develop programmes to educate legislators and regulators on the effect of legislation and regulation, particularly on smaller enterprises.</p> <p>Bankruptcy legislation should be reviewed to protect the personal assets of entrepreneurs so that where a business fails, especially in the case of sole proprietorships, entrepreneurs do not lose their personal belongings and are enabled to start new businesses in future, should they elect to do so.</p>
<p>Government Programmes (presence of programmes of direct assistance to new & growing firms at all levels of government)</p>	<p>South Africa has a vast range of financial and non-financial support programmes offered and/or supported by government (national, provincial, and local) and its agencies, the corporate sector, the tertiary education sector, the non-governmental sector, and international donor agencies.</p>	<p>Available support services cover the entire spectrum of needs of firms and provide a generally sound support environment for firms, especially new, small and growing firms.</p>	<p>To improve access by smaller enterprises to and effectiveness of existing support programmes.</p>	<p>Disseminate information on available support programmes across the country through information booklets, road shows, advertisements and other suitable promotional mechanisms.</p> <p>Make information available at sources that are easily accessible to entrepreneurs, e.g. local support NGO's, business organisations, and rates offices of local municipalities.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**

ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Government Programmes, continued...	<p>The majority of the programmes target all small enterprises but some target specific groups such as women, the disabled, rural, and the youth.</p> <p>Programmes include finance, information, training, market access, quality and technology improvement, business planning and management, and international competitiveness enhancement.</p>	<p>Programmes targeted at specific groups and the previously disadvantaged provide a reasonable support basis for the promotion of entrepreneurship among these groups.</p> <p>There is, however, a strong need to improve the effectiveness of these programmes through co-ordination, facilitation of access by their target groups, and ongoing monitoring and evaluation.</p>		<p>Orient personnel of support organisations on procedures to apply for and utilise available support so they can render service to clients on a cost-recovery basis.</p> <p>Develop and implement mechanisms to ensure that national support organisations continuously align their support programmes with the specific and changing needs of entrepreneurs.</p> <p>Improve co-ordination and regular monitoring and evaluation of support programmes.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**

ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Education & Training</p> <p>(Extent of incorporation of training on creation or management of new, small or growing business within the education and training system at all levels.)</p>	<p>The education and training system has largely failed to foster a spirit of entrepreneurship in the country.</p> <p>Past education policies restricted opportunities for the acquisition of technical and professional skills by black people.</p> <p>Generally, the education system has traditionally trained learners for secure jobs in the corporate and public sectors.</p> <p>However, during the past 6 to 10 years there has been a growing focus on entrepreneurship development within the education system, particularly in schools.</p>	<p>The country's education and training system still constitutes the weakest link in efforts to promote enterprise and entrepreneurship in South Africa.</p>	<p>To utilise the country's education and training system as a vehicle to promote entrepreneurship, particularly among the youth.</p>	<p>Develop clear policy encouraging the incorporation of entrepreneurship within the school curriculum. Such policy should stipulate clear outcomes at each level covering the continuum from behavioural change and developing economic literacy at the lower level to enterprise creation and management at the tertiary level.</p> <p>Review the funding policy of the Education Department to create space for the funding of entrepreneurship as a subject in its own right. This will ensure that entrepreneurship is not seen as an add-on to existing subjects.</p> <p>Clarify the status of existing entrepreneurship education programmes within the National Qualifications Framework with regards to outcomes they produce.</p>

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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Education & Training, continued...</p>	<p>These initiatives are driven primarily by NGO's that have pioneered a number of enterprise and entrepreneurship development programmes.</p> <p>Certain tertiary institutions – colleges of education, technikons, and universities, have also started programmes on entrepreneurship and small business management.</p> <p>Certain private educational institutions (such as Damelin) offer programmes on small business management.</p> <p>Technical training institutions have generally not introduced entrepreneurship in their training programmes.</p>			<p>Provide funding for spreading entrepreneurship education into schools countrywide, especially in rural areas, and establishing Entrepreneurship Chairs in tertiary institutions, in conjunction with the corporate sector, this can be done on a “sunset” basis with institutions expected to carry the cost through their own means after a certain stipulated period of time. Funding criteria should encourage collaboration among various institutions – educational, community, and business.</p> <p>Provide training to educators to build their confidence and capacity to teach entrepreneurship.</p> <p>Promote the concept of life-long learning, emphasising ongoing search for new ideas and ways of doing things in one’s own field.</p> <p>Vocational training should inculcate an orientation towards ongoing improvement of processes and products.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Education & Training, continued...				<p>Develop appropriate entrepreneurship programmes and materials for incorporation into literacy and numeracy programmes.</p> <p>Promote collaboration in searching for better and more effective ways of teaching entrepreneurship (such as collaborative entrepreneurship research) and publicly recognise learning institutions that excel in this area.</p>
<p>R&D Transfer (extent to which national Research and Development will lead to new commercial opportunities and availability of these to new, small & growing firms)</p>	<p>Traditionally, the technology needs of smaller enterprises have been ignored, with the country's major technology and productivity institutes focusing almost exclusively on the needs of large firms. This situation has gradually started to change, and an increasing focus on the technology needs of smaller enterprises is beginning to emerge.</p>	<p>There is a major government-led effort to meet the technology needs of industry, including small firms, and to further develop appropriate technologies and skills. Efforts are also being made to encourage the commercialisation of technology projects from educational institutions, research institutions, industry and government.</p>	<p>To facilitate the transfer of technology to smaller enterprises.</p>	<p>Extend the outreach of the Manufacturing Advisory Centre (MAC) Programme nationally.</p> <p>Encourage ongoing analysis of the technology needs of small firms and the monitoring of their technological development.</p> <p>Provide for the immediate and full write-off against tax, of the costs of acquiring technology such as computers and specialised software by small enterprises.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**

ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>R&D Transfer, continued...</p>	<p>A major initiative, the National Manufacturing Advisory Programme, is the first of its kind focusing exclusively on the needs of smaller enterprises. This programme is now being rolled out countrywide.</p> <p>DTI is also planning to launch new initiatives to support the technology needs of smaller enterprises and to support commercialisation of technology projects. These include the Technology Venture Capital Fund, the Technology Guarantee Fund, and the Technology Transfer Centre programme.</p>	<p>These efforts augur well for the creation of an entrepreneurial environment underpinned by a strong base of appropriate technological capabilities.</p>	<p>To increase the rate of commercialisation of technology projects.</p>	<p>DTI's proposed Technology Venture Capital Fund seeks to address this. Once launched, its uptake and effectiveness should be monitored and assessed continuously and any necessary changes made.</p> <p>Provide financial and other support to independent initiatives such as the Technology Park project in Port Elizabeth and encourage similar projects elsewhere.</p>

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Commercial, Professional Infrastructure</p> <p>(presence of commercial, accounting, & other legal services and institutions that encourage & support new, small & growing enterprises)</p>	<p>Professional accounting, tax, information technology, business planning, and general business advisory services are available to small enterprises from professional accounting firms and a range of other service providers, including small enterprise development NGOs and business organisations.</p> <p>However, there is still no adequate provision for the enforcement of smaller commercial transactions, with the Small Claims Court not adequately addressing this need.</p>	<p>The general availability of a wide range of commercial and professional services contributes positively to the creation of a conducive entrepreneurial environment.</p> <p>There is, however, a need to make the commercial justice system more accessible to small enterprises both physically and in cost terms.</p>	<p>To facilitate increased acquisition and use of certain types of professional services by certain categories of small enterprises.</p> <p>To facilitate access by small enterprises to the commercial justice system.¹³⁰</p>	<p>Reduce the cost of acquisition of certain types of professional services by certain categories of small firms (these could be new enterprises, those with certain turnover levels, or those owned by specific target groups such as youth or rural entrepreneurs) by introducing cost-sharing financing schemes.</p> <p>Allow incorporated entities to utilise the Small Claims Court (SCC) System.</p> <p>Increase the number of SCC outlets countrywide.</p> <p>Increase the limit on the amount that can be recovered through the SCC to between R25 000 and R30 000 (from the present R3000).</p>

¹³⁰ The White Paper on small business development addresses this issue but nothing appears to have happened to effect the proposed changes.

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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Commercial, Professional Infrastructure, continued...	This lack of adequate provision for the enforcement of smaller commercial transactions has a negative effect on smaller firms that cannot afford expensive litigation costs to enforce commercial transactions.			
Internal Market Openness	The new Competition policy seeks to promote and maintain competition within the economy. The policy has a clearly stated focus on ensuring that small and medium-sized enterprises have an equitable opportunity to participate in the economy and promoting a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged persons.	By promoting internal competition, the new competition policy will play a major role in fostering a dynamic environment for entrepreneurship in the country and creating opportunities for new, small and growing firms.		

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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Internal Market Openness, continued...	Through its Competitiveness Fund and Sector Partnership Fund, DTI seeks to stimulate the competitiveness and productivity of local firms of all sizes.	<p>Competition policy should also enable entrepreneurs who decide to sell their businesses to do so with relative ease, thus creating a ready market for the sale of such businesses.</p> <p>Support for competitiveness and productivity of firms constitutes an important element in fostering an environment for entrepreneurship.</p>		
Access to Physical Infrastructure (Ease of access to available physical resources – communication, utilities, transportation, land or space - at an affordable price)	Access to key infrastructure (such as electricity and telecommunications) is unevenly distributed across the country. Rural areas are particularly affected by a lack of access to infrastructure.		To facilitate access by new and small enterprises to suitable infrastructure at affordable cost.	Encourage collaborative efforts at local level to develop and provide infrastructure, such as incubators, to local new and small enterprises. In particular, encourage local authorities and the local business and tertiary education sector to play a leading role in this regard.

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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Access to Physical Infrastructure, continued...	There are new but limited initiatives to establish Local Industrial Parks, and incubators.			Tertiary education institutions running entrepreneurship programmes can also provide physical facilities and other support to new enterprises started by their students.
Cultural, Social Norms (Encouragement of individual action that may lead to new ways of conducting business or economic activities)		Social norms that encourage individual action, risk-taking, and continuous search for new ways of doing things, and celebrate individual success and achievement constitute a solid cultural and social foundation for entrepreneurship to flourish.	To develop positive attitudes towards initiative and entrepreneurship within the family and society at large.	Initiate and run public campaigns to encourage families to actively encourage entrepreneurship within the family and to invest in businesses started by family members. These could take the form of programmes profiling successful family-owned businesses or general educational programmes on the role played by family background and support in stimulating entrepreneurial activities. Allow a certain level of deduction for unpaid family labour invested in a new family-owned business. Initiate and run society-level campaigns and programmes to develop positive social attitudes towards entrepreneurship and to overcome prejudice towards certain groups such as people with disabilities.

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ENTREPRENEURIAL FRAMEWORK CONDITIONS, continued...

ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Cultural, Social Norms, continued...</p>				<p>These programmes could take various forms, such as awards for the most enterprise-friendly town or city and public recognition of the contribution of certain specific groups towards the enhancement of the well being of their communities and business success.</p> <p>A national Entrepreneurship Excellence Award, (preferably the President's Award along the lines of the President's Export Award) should be considered.</p> <p>Prominent leaders in society such as Clerics, Community Leaders, Business Leaders, Politicians, Sports and Media Personalities should be enlisted to actively promote entrepreneurship and general initiative throughout society.</p> <p>Organisations representing or serving specific target groups such as youth organisations, women's organisations and organisations representing people with disabilities should be encouraged to take up the promotion of entrepreneurship as an important theme in their activities.</p>

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ENTREPRENEURIAL OPPORTUNITIES				
ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Existence (Presence or emergence of market opportunities suitable for entrepreneurial activities)</p>	<p>There is a general view that a range of opportunities exists in South Africa to start new businesses and to grow existing ones. For instance, the Foresight Project of DACST identifies a range of opportunities in tourism, biotechnology, environment, etc.</p>	<p>The presence of viable opportunities is an important condition for the emergence and growth of entrepreneurship.</p>	<p>To make opportunities available to prospective and existing entrepreneurs across the country.</p>	<p>Create opportunities for new and small enterprises in public and parastatal procurement by ensuring adherence to procurement policy and regulations in the public sector.</p> <p>Consider special incentives (could include public recognition) to encourage more corporate procurement of goods and services from small enterprises and to license some of their technologies to smaller enterprises to produce and supply goods and services to their corporate licensors.</p>
<p>Perception (Extent to which opportunities are perceived to exist by would-be entrepreneurs)</p>	<p>There is a view that the majority of start-ups, especially by historically disadvantaged individuals, are largely driven by need for survival rather than a clear perception of opportunities.</p>	<p>Awareness of opportunities can encourage more individuals and groups to start or expand their businesses to take advantage of such opportunities and expand entrepreneurial activity.</p>	<p>To assist existing and potential entrepreneurs to identify and exploit existing and new entrepreneurial opportunities.</p>	<p>Encourage sector-focused research to identify opportunities locally and regionally.</p> <p>Disseminate information on available local and regional opportunities extensively to entrepreneurs and their support agencies using a range of tools such as media, seminars, etc.</p>

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ENTREPRENEURIAL POTENTIAL				
ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
<p>Capacity & Motivation</p> <p>(Existence of individuals with potential and motivation to implement entrepreneurial initiatives)</p>	<p>Low education, skills and experience; limited access to physical resources and low self-confidence hinder many would-be entrepreneurs from starting up their own enterprises.</p>	<p>Even if opportunities exist, people with limited skills, resources, and self-confidence may fail to take advantage of such opportunities to start or grow their own enterprises.</p>	<p>To develop the capacity and motivation among certain target groups to start and run their own enterprises and to exploit available opportunities.</p>	<p>Launch educational and promotional programmes to encourage self-employment as a viable career option.</p> <p>Run training, motivational, and confidence-building programmes for certain target groups such as the youth and people with disabilities. Motivational and confidence-building programmes could take the form of profiling and recognising successful young or disabled entrepreneurs and providing mentorship support to young and disabled entrepreneurs.</p> <p>Link those who wish to start or are already running their own businesses to other available support services in their local area.</p>

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BUSINESS DYNAMICS				
ENTREPRENEURSHIP CONDITION	STUDY FINDINGS	STRATEGIC IMPLICATION	STRATEGIC OBJECTIVE	STRATEGY RECOMMENDATION
Enterprise births, expansions, closures, and contractions	Available data on enterprise creation, expansion, contraction, or closure is not considered to be adequate and reliable.	Poor data will make it difficult to measure the success or otherwise of the entrepreneurship strategy.	To improve the quantity and quality of data on enterprise start-ups, expansion, contraction and termination.	Encourage and support initiatives to develop comprehensive databases of existing small enterprises and improve the quality of data provided by the business registration office within DTI. Encourage ongoing collection of enterprise data at local, provincial, and national levels.

**CHAPTER 5: CAPACITY BUILDING AND INSTITUTIONAL FRAMEWORK
FOR ENTREPRENEURSHIP PROMOTION**

5.1. Capacity building

For the purposes of this report, the term “capacity” is given two meanings. Firstly, it refers to the capacities that need to be developed in people in order for them to engage in entrepreneurial activities. This covers the skills they need and the motivation to engage in entrepreneurial activities. We refer to this as “entrepreneurial capacity”. Secondly, it refers to the capacity of available support institutions, particularly educational institutions and non-governmental organisations, to develop the required capacities.

5.1.1 *Developing entrepreneurial capacity*

The development of entrepreneurial and overall capacity falls within the ambit of various government departments and their institutions; a range of non-governmental organisations (NGO's); and, perhaps to a lesser degree, private educational institutions. The key government departments are Labour, Trade & Industry, and Education.

(i) The Department of Labour

The Department of Labour is a key player in the development of skills in the country. The Department's Skills Development Act (SDA) lays out an institutional framework for implementing national, sector and workplace strategies to develop and improve the skills of the country's workforce. The SDA proposes two types of skills development programmes – learnerships and skills programmes. Learnership programmes comprise two components - structured learning and practical work – leading to recognised qualifications registered by the South African Qualifications Authority. Skills programmes are occupationally based, and upon their completion, a candidate receives credit toward a qualification registered under the National Qualifications Framework. Within the Department, the Skills Development Planning Unit (SDPU) has been created to promote the implementation of the Skills Development Act.

The Unit will conduct research and analyse the labour market to determine skills development needs; assist in the formulation of national policy and strategies for addressing these skills development needs; and provide this information to all levels of key stakeholders inside and outside the department. A National Skills Fund has been set up to finance skills development programmes. Skills development activities will fall under the ambit of the National Skills Authority (NSA) and the Sector Education & Training Authorities (SETA) at sector-level. SETAs will collect and distribute skills development levies. Lastly, Labour Centres will assist work seekers to enter special

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education and training programmes, find employment, start income generating projects, and participate in special employment programmes. The Department also promotes equity in the workplace through its Employment Equity legislation. This will ensure that, over time, there is an increase in the number of historically disadvantaged individuals who acquire managerial skills and experience, one of the key success factors in entrepreneurship.

From the foregoing, it is clear that the Department of Labour is a key player in the development of general skills in the economy. It should therefore be one of the key players in developing entrepreneurial capacity in the country. Learnerships and skills programmes should incorporate the development of entrepreneurial skills. It has also been suggested that in order to promote entrepreneurship within the workplace, companies should include entrepreneurship as one of their training areas and be allowed to access SETA funding for this purpose.

(ii) The Department of Trade & Industry

Through its agency, Ntsika Enterprise Development Agency, DTI already plays a major role in developing enterprise management skills and capacity within the country. Ntsika has a number of programmes aimed at building the enterprise capacity of prospective and existing small business owners across the country. DTI also promotes the development of technology skills through its Technology Human Resource for Industry Programme (THRIP) and capacity building programmes of its other agencies including the SABS, NPI and CSIR. These institutions should constitute a key component of the envisaged capacity building infrastructure.

(iii) The Department of Education

The Education Department, through the national education and training system, shoulders the bulk of the capacity building responsibility.

□ **The education and training system**

It is clear that the country's education and training system bears the most important responsibility for imparting entrepreneurial behaviour and attitudes to the country's population, particularly the youth. Entrepreneurship education should be incorporated into the education system from the lowest to the highest levels. At the lower levels, in the school system, entrepreneurship education should seek to impart economic literacy and develop life skills such as communication, problem solving, negotiation, relationship building, networking, money management, and so on. At the higher levels, within the tertiary education system, practical business creation and management skills should be developed. These should cover all the activities involved in setting up and operating a

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business. At this level, learners can be given practical support to actually start and run their own businesses.

- *The schooling system*

There are examples of these initiatives in South Africa right now. The Entrepreneurship Education Initiative, Triple Trust Organisation, Education With Enterprise Trust, and Junior Achievement have each developed entrepreneurship programmes that are implemented in schools across the country. While some of these programmes are only simulations, others entail the actual setting up and running of a real-life business. Wykeham Collegiate in Pietermaritzburg runs one such programme, which is considered one of the more successful in the country and goes as far organising successful market days for learners. Programmes such as this have a strong practical component, which involve learners in actually doing things rather than learning about them in theory only. Other programmes even endeavour to foster trading and general business relationships between their learner entrepreneurs and counterparts overseas via the Internet.

There remain some issues to resolve with regard to entrepreneurship education in schools. That entrepreneurship needs to be integrated into the education system is beyond question. As indicated, many initiatives have already gone beyond asking the question to actually doing it. The issues to be resolved are:

- ❖ It is still difficult to “mainstream” these programmes within the school system given that entrepreneurship is not as yet recognised as a subject on its own. As such, it is seen as an add-on, an extra-mural activity. Because it is not examined, its implementation depends on the availability of a willing champion within the school to drive the programme. The programme may or may not be included in the school timetable. Where it is included, there are better chances of it being given the necessary timeslot. Otherwise, it depends on the willingness of one or more educators and learners to utilise their own time after school to run the programme. Conditions therefore need to be created to mainstream entrepreneurship in the school system. This can only be brought about by a change in educational policy, recognising entrepreneurship as a legitimate school subject. This will create the necessary space for it within normal school learning activities.

- ❖ There is, as yet, no agreement among practitioners in the field as to exactly how entrepreneurship should be incorporated into the curriculum. There is a view that entrepreneurship should cut across all school subjects and can thus not be made a stand-alone subject. Programmes such as Enterprise Dynamics follow this approach. The rationale behind this approach is the view that the teaching of entrepreneurship lends itself to the development of a range of skills and qualities that are normally taught under different subjects within the school curriculum. For instance, communication is taught under the languages, economic literacy under business economics, and numeracy under mathematics. All these skills are

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important in the development of entrepreneurial behaviour. Thus, entrepreneurship should cut across all subjects. The other view is that entrepreneurship should be a separate, examinable subject. Only then will both educators and learners take it seriously. If entrepreneurship is to be mainstreamed within the school education system, this issue needs to be resolved.

- ❖ Entrepreneurship education is largely driven by non-governmental organisations with limited resources to spread their programmes throughout the education system. With funding support mainly from the corporate sector and donors, these NGO's have done an admirable amount of work. But their limited resources still constrain the spread of these programmes throughout the education system, especially in rural areas. There is therefore a clear need for adequate funding to spread entrepreneurship throughout the country's schooling system.

- ❖ A question arises as to whether the current situation, where there are a number of different programmes, all competing for space in schools, is acceptable, or whether there should be a single national programme that is recognised by educational authorities and implemented in all schools. It appears at this stage that the dominant view among role players in the field is that the current situation is more preferable to a single national programme. The reasons for this range from discomfort at the prospect of making entrepreneurship education "too rigid" by imposing a structure to it, to aspects relating to entrepreneurship itself – the promotion of initiative and competition.

- ❖ Another question relates to the assessment of the outcomes of entrepreneurship education. What is the relationship of current programmes to the NQF, first of all? What outcomes should they produce? Secondly, how should programmes be assessed? One view among current practitioners is that learners should start and run businesses and the success or failure of business constitutes the basis for assessment. Others argue that entrepreneurship has nothing to do with starting a business per se, although this is an important aspect thereof. As such, entrepreneurship should be defined more broadly and assessed accordingly. It is clear that a national strategy that promotes the incorporation of entrepreneurship into the education system will have to resolve this issue.

- *The tertiary education sector*

Within the tertiary education sector, entrepreneurship takes a more practical orientation, imparting skills on the actual creation and management of a business. Various approaches have begun to emerge within the country and these provide examples of what can be done.

Technikon Natal is one example. In addition to the teaching of entrepreneurship within its Entrepreneurial Studies division, the Technikon has established a Small Business Clinic

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that renders practical advisory services to local small businesses thus enabling students to gain exposure to and learn from practical small business management issues. This also provides an opportunity to research the needs of local small businesses and develop practical solutions to these. The division, with its three core services – teaching, research and business advice – promotes close interaction between the Technikon, local enterprise support NGO's, local communities, business, and local roleplayers such as local government. This approach is firmly grounded on the needs of local entrepreneurs and builds on locally available resources and expertise from various sources. Activities are informed by local needs and local opportunities.

Another example is the International Chair in Entrepreneurship (ICE), a collaborative initiative involving two local tertiary education institutions – PE Technikon and Rhodes University – and an international one – the Irish University of Limerick, the corporate sector (Anglo Gold and De Beers Educational Trusts) and the National Research Foundation (NRF). This initiative seeks to promote entrepreneurship in education generally; to link entrepreneurship theory to practical entrepreneurship activities; to promote the establishment of entrepreneurial enterprises by students from the SET and other backgrounds, with a special focus on black and women entrepreneurs; to promote co-operation between business, academia, government, and foreign expertise in developing an entrepreneurial-minded regional workforce; and to transfer research, training and other expertise from entrepreneurial programmes of leading countries to Sub-Saharan Africa. Students will be assisted to develop business ideas and qualifying ones will be provided with financial and technical assistance to launch their businesses. PE Technikon is also involved, together with a number of other local stakeholders, in the establishment of a Techno Park in Port Elizabeth.

Many other tertiary institutions have entrepreneurial studies incorporated into their commerce and management studies and others run entrepreneurship centres that conduct research and training, and provide business advisory services. Lastly, a slightly different approach has been adopted by Wits Business School, which runs a programme called the Professional Entrepreneur, and focuses on fostering entrepreneurship within the corporate sector and educates corporate sector employees on establishing their own businesses. From these examples, it is clear that the country has a whole range of approaches to entrepreneurship development within the education sector.

Within the tertiary education sector, the issues that need to be dealt with in order to effectively incorporate entrepreneurship into tertiary education are:

- ❖ Legitimising entrepreneurship as a learning area. The current education funding policy is such that presenting entrepreneurship under another subject, perhaps the most feasible route presently, has the effect of reducing “funding points” for the “host” subject, thus threatening its staff allocation. This leads to resistance from staff teaching the subject to the introduction of entrepreneurship under their subject. It therefore makes it difficult to introduce entrepreneurship.

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- ❖ The fact that the entrepreneurship programme is optional means that certain students do not take it seriously and many do not take entrepreneurship studies at all.
 - ❖ Given that there are no formal undergraduate studies in entrepreneurship (such as diplomas and degrees), it is not possible to introduce postgraduate studies in entrepreneurship. For instance, students cannot undergo Masters studies in entrepreneurship. This is the function of the current curriculum policy within the country.
 - ❖ There is a strong view that one of the key ways to legitimise entrepreneurship and create academic space for it within the tertiary education sector is through the establishment of Entrepreneurship Chairs. However, initiatives in this regard are stifled by lack of matching funding from government, even where the corporate sector is willing to provide some funding.
 - ❖ The other key role that needs to be played by the tertiary education sector is that of conducting research on entrepreneurship. This encompasses both entrepreneurship theory and applied research. One key area of focus in the latter area is the identification of entrepreneurial opportunities within the local economy so as to enable the development of appropriate entrepreneurship and enterprise policies and programmes.
 - ❖ Finally, tertiary education institutions have a major role in developing the skills required to exploit high-growth opportunities, such as Science, Engineering and Technology skills and developing the managerial capabilities of existing entrepreneurs, their employees and the employees of the corporate sector through the provision of short and advanced management programmes. For this to occur, there is a need for close relations between the education and business sectors in order for the former to understand the needs of the latter and respond with appropriate programmes.
- *Vocational training and further education and training institutions*

Lastly, there are a range of other education and training institutions, such as technical colleges and community colleges¹³¹, which provide vocational training and further

¹³¹ Community colleges will develop specific programmes for out-of-school youth, including those that failed matriculation. The emphasis of these programmes will be pre-employment training, vocational training, and skills development. Programmes will also provide remedial courses to assist out-of-school candidates to reintegrate themselves into formal educational establishments.

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education and training opportunities, that have no entrepreneurship programmes at all. These institutions need to be involved in efforts to promote entrepreneurship within the country's learning system.

(iv) The NGO sector

NGO's play a major role in building entrepreneurship capacity in the country. Through their interaction with the country's schooling system, various NGO's are playing a major role in developing entrepreneurship at lower levels of learning in the country.

Another key area of involvement for NGOs is enterprise development among the unemployed, out-of-school youth and other groups. Programmes targeting the unemployed, out-of school youth specifically, include: Business Establishment and Sustainability Programme; Business Now Programme; School Leavers Opportunity Training Programme; and The Manufacturing Skills Course. NGO provision covers:

- ❖ Career guidance
- ❖ Formal and informal education
- ❖ Technical or vocational skills
- ❖ Entrepreneurship and business management skills
- ❖ Agricultural skills
- ❖ Environment management skills
- ❖ Conflict management skills

The more enterprise-oriented programmes also include facilitation of access to finance and provision of counselling, after-care and mentorship services to new enterprise owners who went through the programme.

The major issues facing these initiatives are four-fold:

- ❖ Their dependence on donor funding mean that their long-term future is not secure.
- ❖ Because of their short-term nature, these programmes do not develop the behavioural aspects of entrepreneurship but focus mainly on imparting the skills to set up and run a business. This is understandable, given their focus on groups that urgently need to engage in some form of economic activity in order to earn a living, and the nature of their programme funding.

- ❖ The provision of services to unemployed and out-of-school youth is strongly biased in favour of urban-based youth. Once again, rural youth are largely left out of the picture.

- ❖ While programmes do considerable work in developing enterprise and self-employment skills, it has been observed that their products still prefer to seek jobs in the formal sector than initiate enterprises of their own. In other words, the motivation and confidence to start and run one's own enterprise is still lacking among those going through the programmes.

5.1.2 Developing capacity within the Education System And NGO sector

This is the second aspect of capacity building. It addresses the capacity development needs of the personnel of entrepreneurial capacity building organisations – educators and NGO staff. Within the education sector, particularly at school level, it has been found that one of the biggest obstacles to the teaching of entrepreneurship is the lack of confidence and knowledge of entrepreneurship among educators. As a result, many educators try to avoid getting involved in entrepreneurship development activities in their schools and others actively resist any such initiatives. This suggests that successful efforts to integrate entrepreneurship education within the school system will need to incorporate thorough training and confidence building activities directed at educators. The target should be both educators-in-training and practising educators.

With regards to the NGO sector, it has been observed that one of the key constraints experienced in efforts to develop enterprise and entrepreneurship is lack of appropriate skills. Many NGO personnel have no background in business and therefore lack the necessary knowledge and experience. There is therefore a need to invest in developing the requisite skills within this sector. The White Paper on small business promotion notes this need thus: “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.”¹³² In addition, the capacity of NGO's to analyse their local and regional economies in order to properly guide prospective entrepreneurs to areas of opportunity needs to be developed. At the moment, this capacity is largely lacking.

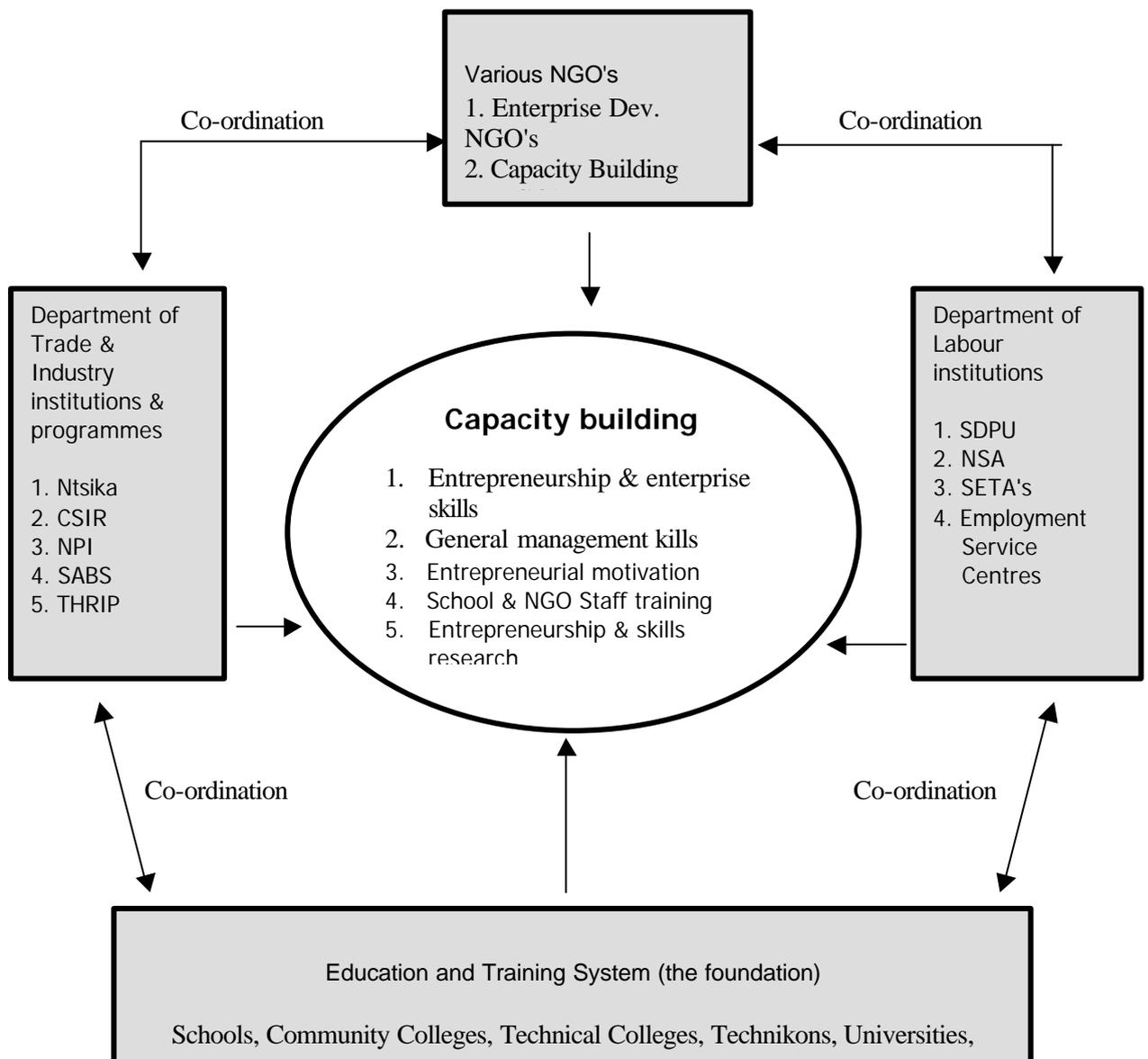
It must be obvious that the main responsibility for this role falls on the tertiary education sector. Indeed, the University of Port Elizabeth has started a new Bachelor of Commerce (SMME) programme that seeks to equip students with “essential theoretical knowledge and the hands-on skills to work as a development professional in the fast-growing Small, Medium and Micro Enterprise (SMME) sector.” Such programmes will play an important role in developing the professional capacity of entrepreneurship and enterprise development NGO's and other service providers.

¹³² Page 35.

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Within the NGO sector itself, there are organisations that focus on strengthening the capacity of other NGO's. One example of these, focusing on the micro-enterprise development sector, is the Micro Enterprise Alliance (MEA). The Alliance has developed a number of training programmes aimed at various staff levels within micro enterprise development NGO's. One of these programmes, aimed at Micro Loan Officers, is delivered and accredited by the University of Pretoria. Other programmes are in the process of development. The MEA is also evolving a framework for assisting NGO's to develop their capacity to, among others, analyse local and regional economies. Programmes such as these should be considered for funding so they can benefit all NGO's involved in enterprise development across the country.

The institutional infrastructure for capacity building should therefore comprise the following players:



5.2. The institutional framework

This section presents proposals on the institutional framework for the implementation of the national strategy. The kinds of interventions required for that purpose, as indicated throughout this report could be categorised into three areas:

- Creating an enabling macro-economic and socio-political environment
- Providing a range of programmes to support new, small and growing firms
- Fostering a positive culture towards entrepreneurship

The institutional framework should thus cover all these aspects and operate at national, provincial and local levels. The table below presents the envisaged institutional infrastructure, the level of operation of each institution, and their envisaged role.

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Level	Institution	Role
National	Department of Education	Formulate entrepreneurship education policy (within the overall education policy framework), which encompasses curriculum, and funding policy. Monitor progress in developing entrepreneurship within the education and training system.
	Department of Labour	Formulate policy relating to skills development and employment equity and facilitate entrepreneurship development within the workplace and through its skills and learnership programmes.
	Department of Trade & Industry ¹³³	Formulate and co-ordinate the implementation of policy on entrepreneurship development. Integrate the national strategy with industrial development and trade strategy. Monitor and evaluate the national strategy. Promote entrepreneurship nationally through various campaigns and award programmes.
	All other Government Departments	Utilise their SMME budgets to create procurement opportunities for small enterprises. DACST integrates its technology skills development programme/s into the national strategy. Public Works ensures the effectiveness of its Affirmative Procurement policy.
	DTI Support Agencies: Ntsika, Khula, IDC, CSIR, NPI, SABS, ISA.	Provide a range of financial and non-financial support services aimed at stimulating start-ups and expanding existing firms; developing technological and business management skills, strengthening the competitiveness of new, small and growing firms. Facilitate export market entry for smaller enterprises; fostering investment and technology transfer arrangements between foreign and local smaller enterprises.
	National Research Foundation (NRF)	Collaborate with tertiary institutions on and fund (and perhaps co-ordinate) national entrepreneurship research programmes. Facilitate linkages between local researchers and research institutions and their overseas counterparts.
	Statistics South Africa	Systematically collect data on enterprise formation, termination, and expansion. Disseminates data within government and to external role players.

¹³³ There is a view that the national strategy is best "championed" by the Office of the Presidency and its implementation driven, co-ordinated, monitored and evaluated by the Office of the DDG: Entrepreneurship & Enterprise within DTI.

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Level	Institution	Role
National, continued...	Business organisations (SACOB/NAFCOC, FABCOS, AHI, & Sectoral Bodies)	Provide input on policy issues and represent the needs and interests of their members. Provide input on the development and appropriateness of support programmes. Support promotional programmes such as business plan competitions, etc.
	National NGO's (e.g. the Micro Enterprise Alliance)	Provide input into and support policy formulation and implementation. Deliver capacity building programmes to local service providers. Facilitate networking and linkages between service providers.
	International donor agencies	Provide financial and technical assistance to policy formulation and implementation. Facilitate linkages and exchanges between local role players and their international counterparts.
	Organisations representing / serving specific target groups (e.g. NYC, SA Federal Council on Disability)	Ensure integration of own strategies targeting their target groups into national entrepreneurship strategy. Ensure support programmes adequately take into cognisance the needs of their target groups and are adequately accessed by these groups. Ensure promotional programmes reach target groups.
	Trade Unions	Influence policy on skills development generally and ensure incorporation of entrepreneurship skills into programmes benefiting members, such as literacy programmes. Education unions to make input into formulation of entrepreneurship education policy including capacity building of educators.
	Media	Run TV, radio and print media programmes promoting entrepreneurship and featuring successful entrepreneurial role models. Provide information on government support programmes.
Provincial	Relevant provincial government departments such as Economic Affairs	Work with provincial role players to develop provincial strategy – with provincial targets, initiatives, opportunities, etc.
	Provincial economic development agencies (GEDA, NPII, CIMEC, etc)	Incorporate aspects of entrepreneurship development into their overall programmes, in collaboration with other provincial role players.
	Tertiary educational institutions	Conduct research on local and regional opportunities and entrepreneurship; run entrepreneurship education programmes; collaborate with other role players in setting up infrastructure such as incubators to support new and smaller enterprises.

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Level	Institution	Role
Provincial, continued...	Local government	Collaborates with local role players to develop and implement local strategies to promote entrepreneurship – including regulatory improvements, publicity campaigns, and provision of infrastructure. Create business opportunities through local economic development initiatives. Entrepreneurship development programmes decentralised to local level and local government mandated to implement programmes and its performance rigorously measured.
Local	Business organisations	Provide information on available opportunities and offer support locally to encourage start-ups and expansion of existing businesses. Run motivational and other publicity programmes to encourage entrepreneurship. Influence local policy and regulations in favour of business in general. Serve as delivery agencies for some of the national support programmes and facilitate local access to national facilities, e.g. serving as local business registration offices.
	Business sector	Sponsor local entrepreneurship promotion and support programmes. Support teaching of entrepreneurship in schools and tertiary institutions. Forge links with new and smaller enterprise through procurement and technology licensing.
	Schools, community colleges, technical colleges,	Teach entrepreneurship and vocational skills.
	Local NGO's	Service as local delivery agencies for national support programmes to local entrepreneurs. Collaborate with other role players in formulating and implementing local strategies; promoting entrepreneurship and fostering a conducive environment.
	Churches	Participate in local campaigns to promote entrepreneurship among members.
	Civics	Promote entrepreneurship publicly, in collaboration with other role players.
	Trade Unions	Encourage the incorporation of entrepreneurship into company-level training programmes.
	Employment Service/ Career Guidance Centres	Encourage and motivate clients to consider pursuing entrepreneurship as a career and link them up with local support organisations.

CHAPTER 6: BENCHMARKING

In the interests of brevity, this section of the report does not cover the theoretical background of benchmarking but instead focuses on presenting examples of indicators that can be used to benchmark the performance of entrepreneurship promotion programmes. Detailed policy proposals have been provided in this report – covering framework conditions from the macro-economic environment to specific programmes. Policy interventions at each of these levels can be benchmarked against practices elsewhere.

It is important to recognize that benchmarking is not to be construed within the international context only, but that it can be equally usefully applied within the national context as well. Thus, in brief, benchmarking can be used for the following purposes:

Local level. Elements of the National Strategy will be executed at a ‘local’ level by organizations such as provinces, cities, regions, schools and business incubators. Since similar activities are performed in more than one place, benchmarking can be used to compare local performance across the country in order to enhance local achievements and through that the overall level of entrepreneurship.

International level. At international level, benchmarking must aim to learn from both successes and failures in the implementation of entrepreneurship promotion policies and programmes and generally the creation of conditions for the flourishing of entrepreneurship.

A point on monitoring and evaluation in general: the report does not provide the actual M&E system for the strategy but limits its input, as indicated earlier, to possible indicators that can be used for this purpose. The reason for this is quite simple – attempting to develop any M&E for the strategy, before the strategy itself has been formulated is pointless and defeats the very log frame approach which requires linking an M&E system to the objectives of the strategy itself and, importantly, involving stakeholders in its development. The function of developing the actual M&E system therefore belongs to the strategy development process itself rather than an exercise to inform the strategy that this project is.

Lastly, it must be pointed out that the indicators presented below serve only as guidelines and relate to the “priority” policy areas presented earlier in the report. Thus, the indicators do not cover all policy areas covered in the report. Once more, the development of actual indicators should constitute an integral part of the development of the M&E system for the strategy. The guideline indicators are presented in turn.

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Entrepreneurial culture	
Focus of strategy	Possible indicators
<p>General public attitude towards entrepreneurship.</p> <p>Place entrepreneurship on the political agenda. Key speeches by high level government officials and involvement at all levels.</p>	<ul style="list-style-type: none"> - Number of speeches on entrepreneurship. - Number of articles or items on entrepreneurship in the media. - Number and types of policy initiatives concerning entrepreneurship. - Number of HDI indicating interest in starting own businesses. - Societal attitudes towards profit and wealth.
<p>Develop and stimulate entrepreneurship awards at all levels</p>	<ul style="list-style-type: none"> - Number of awards concerning entrepreneurship on national, provincial and local level. - Attention by media to awards (number of articles etc.). - Appreciation and perception of awards by entrepreneurs. - Number of entrepreneurs entering the contest.
<p>Appoint (former) entrepreneurs in positions dealing with entrepreneurship policy</p>	<ul style="list-style-type: none"> - Number and percentage of (former) entrepreneurs in government positions. - Number of policy initiatives by these (former) entrepreneurs. - Perception of the public in general and entrepreneurs in particular of the actions of these (former) entrepreneurs.
<p>Involvement of key role players such as Churches, Civics, Trade Unions and Business Organisations in promoting entrepreneurship.</p>	<ul style="list-style-type: none"> - Number and type of role players attending meetings and workshops. - Number of articles on entrepreneurship in magazines and other publications by the role players. - Participation of role players in local campaigns to promote entrepreneurship. - Number, types, and success of initiatives of key role players either individually or in various groups to foster positive entrepreneurial attitudes and entrepreneurial action.

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Education	
Focus of strategy	Possible indicators
Develop entrepreneurial spirit from basic level onward.	<ul style="list-style-type: none"> - Number of courses related to entrepreneurship and their reach across the country, especially rural areas. - Number of practical assignments in curriculum. - Number of school leavers that opt for self-employment. - Number of students who regard entrepreneurship as a good alternative to wage-employment. - Attitude towards risk-taking. - Amount of budget allocated to entrepreneurship courses.
Stimulate entrepreneurship curriculum development	<ul style="list-style-type: none"> - Number and quality of research conducted in the field of curriculum development. - Number of schools or learning institutes involved with curriculum development. - Amount of budget allocated to curriculum development. - Number of (international) publications by South African scholars concerning curriculum development. - Number of graduates educated in managerial or entrepreneurial skills. - Number of chairs of entrepreneurship.
Training of educators	<ul style="list-style-type: none"> - General attitude of teachers towards entrepreneurship. - Number of teachers trained in entrepreneurship. - Number of teacher-trainer institutions with an entrepreneurship programme.

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Education, continued...

Focus of strategy	Possible indicators
Incorporate practical entrepreneurial experience in the curriculum.	<ul style="list-style-type: none"> - Number and types of businesses started by learners and students and number of these businesses continued after school. - Number of after-school activities organised by students. - Number of courses that include internships. - Number of vocational courses that combine work and study. - Number of businesses willing to cooperate in the education programme.
Entrepreneurship among managers and professionals	
Encourage managers in private sector employment (especially HDI) to start their own businesses.	<ul style="list-style-type: none"> - Number of HDI that become entrepreneurs from management positions - Technology-based start-ups and those in growth/ priority sectors.
Transfer technical know-how from research institutes to SMMEs and start-ups.	<ul style="list-style-type: none"> - Number of new enterprises started as a result of R&D projects and the commercialization rate. - Transfer of information from research centres to entrepreneurs. - Appreciation and perception by entrepreneurs of information obtained. - Number of start-ups within a specific technical field. - Competitiveness of businesses that used the information. - Collaboration between various players to facilitate transfer of technical know-how to SMME's.
Vocational training should stimulate a creation of new approaches, processes and products	<ul style="list-style-type: none"> - Number of patents. - Number of process innovations. - Number of entrepreneurs that enter into niche-markets. - Attitude towards risk-taking.

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Finance	
Focus of strategy	Possible indicators
Target availability of funds in rural areas.	<ul style="list-style-type: none"> - Number and type of institutions involved in lending in rural areas. - Amount of funds loaned to rural entrepreneurs. - Amount of funds available to HDI in rural areas - Number of loans to different target groups.
Develop mechanisms to facilitate mobilisation of savings, especially in rural areas.	<ul style="list-style-type: none"> - Amount of savings from rural areas (e.g. as percentage of GDP in rural areas).
Amend the Bank Law to mitigate the lending gap.	<ul style="list-style-type: none"> - Data on the size-distribution of loans. - Amount of funds transferred to SMME's. - Appreciation and perception of accessibility of funds by small entrepreneurs.
Amend the Bankruptcy Law to limit the liability level.	<ul style="list-style-type: none"> - Data on the high and length of private debts caused by bankruptcies. - Number of entrepreneurs that restart a business after bankruptcy. - Data on employment source (wage- or self-employed) after bankruptcy of an entrepreneur. - Attitude towards risk-taking.
Bureaucratic hindrances	
Improve access. Decentralize Business Registration.	<ul style="list-style-type: none"> - Number of enterprises registered as percentage of total number of enterprises (incl. informal). - Availability of government information on provincial and local level. - Number of contacts between (would be) entrepreneurs and decentralised government bodies. - Cost and availability of business services. - Cost and time required to establish a business.

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Bureaucratic hindrances, continued...

Focus of strategy	Possible indicators
Improve access to the Commercial Justice System, especially the Small Claims Court	<ul style="list-style-type: none"> - Number of cases filed by entrepreneurs. - Number of cases awarded to entrepreneurs. - Cost and time required to access the Commercial Justice System.
Continue the Regulatory review, not only for existing firms but also for the start-up and growth phases of firms	<ul style="list-style-type: none"> - Amount of laws and regulations covered by the regulatory review. - Frequency of the regulatory review. - Cost and time required to set up a business. - Cost and time required to hire an employee. - See also indicators for compliance costs.
Set goals to mitigate compliance costs	<ul style="list-style-type: none"> - Base-line survey of compliance costs. - Number of departments that calculate expected compliance costs. - Cost and time for entrepreneurs to comply with laws and regulations. - Opinion of entrepreneurs concerning regulatory environment.

APPENDIX I: EXAMPLES OF ENTREPRENEURSHIP DEFINITIONS¹³⁴

We think of entrepreneurship as the starting of new ventures. We avoid any implication of small or large. We view a new venture quite broadly. A new venture might be the buying of an old business: it is a new venture for the buyer. We prefer to stress the creation of new economic enterprises – the creation of wealth.

Entrepreneurs share financial risk, management risk, and, perhaps more importantly, put their whole career on the line in their pursuit of a new, independent enterprise. Essentially, they become inextricably intertwined with the new enterprise. In the early days of the new enterprise, the overall enterprise is not viable without the entrepreneur.... The enterprise should be a *for-profit* business. It should be a new venture although not necessarily a start-up. For example, a leveraged buy-out of a division of a large business is in most cases a new venture (even though no new products or services are created), and the lead entrepreneur meets the conditions of my “definition” of the entrepreneurial actor.

I most often define entrepreneurship as concerned with those activities associated with becoming an owner-manager of a new or small firm. This includes the starting of any firm, regardless of whether it is innovative. It also includes the purchasing of an established new or small firm.... Entrepreneurship can also be defined to include the starting of new and typically innovative ventures with established organizations. This includes the starting of innovative ventures within established corporations, as well as in non-profit or governmental organizations.

The definition of entrepreneurship is a difficult one to achieve consensus on. ... My definition is as follows: “An entrepreneur is a person who refines a creative idea and adapts it to a market opportunity, gathers resources to provide potentially for self-employment and/or profit.” ... I dispute the idea that it has to be a “successful” venture in order for one to be classified as an entrepreneur. ... Lastly I feel strongly that there is no profit motivation and at most perhaps the goal of self-employment. ... I do not necessarily feel comfortable with equating innovation with entrepreneurship since it does not always involve the same, or as many skills. ... The key word for me is initiation and implementation. I feel that a true entrepreneur is always the initiator and the implementor. He/she is the person who “puts it together and carries it off.”

Entrepreneurship: The creation of a new venture. The new venture strategy possesses one or both of the following characteristics: An orientation toward significant and rapid growth (and) innovative in product, service, technology, or market.

An entrepreneur is a leader who starts up his/her own profit or nonprofit enterprise. His/her most important personality trait is commitment, which is manifested as perseverance or persistence. The entrepreneur is a risk taker – moderate, he/she says. But

¹³⁴ William B. Gartner, “What are we talking about when we talk about entrepreneurship?”, *Journal of Business Venturing*, Volume 5, Number 1, January 1990, p19)

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he/she may view risk in an entirely different light (according to different criteria) from the manager who take “moderate” risks.

I prefer the traditional definition of an owner-managed business. It seems to me that ownership makes a difference in the motivation and interests of the manager. ... The “personality trait” approach to entrepreneurship is a hopeless direction for identification of successful entrepreneurs. Although we may eventually be able to identify traits appropriate to entrepreneurship, we will not be able to predict success based upon these traits. The reason is that human beings are capable of change in personality, and they do this when they are subjected to trauma. There is no trauma greater than income survival, so we can expect much personality change to occur in the process of entrepreneurship. ...

Entrepreneurs are typically risk takers who have a vision that their need for achievement, power, and control over their life and enterprise can be best accomplished in a new environment under their direction and control. A stubborn determination, belief, and perseverance that they can and will achieve their goals and objectives in the face of adversity seems to be a requirement for the successful entrepreneur; they must also have the ability to challenge the common wisdom of logical intelligent advisors, friends, and associates who indicate that they will not achieve their goals and objectives.

The act of innovation for commercial benefit within an autonomous organizational entity, be it a start-up, or an internal venture subsidiary.

Entrepreneurship is the sum of the qualities and activities of a person who establishes, and assumes the risk for, a new or innovative business venture. Entrepreneurs have special skills and talents, which include management skills and give them a “sixth sense” for business. ...

Innovative activity in combining resources to exploit a new technology, invention, source of supply, outlet, or consumer demand. The exercise of leadership to direct and inspire purposeful activity. The acceptance of personal responsibility for results and the risk of loss or gain of *personal capital*. The assumption of control over an enterprise as a whole.

Entrepreneurship is the process of designing and managing dynamic growth strategies for an organization.

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APPENDIX II: STOREY'S SIX STEPS TO HEAVEN

The six approaches to monitoring and evaluation that Storey has identified are summarized in the following table:

	Title	Description	Examples	Problems
<i>Monitoring</i>				
Step 1	Take-up of schemes	Procedure identifies the characteristics and nature of the take-up of the scheme.	How many firms participated? What sectors were they in? How much money was spent?	Tells almost nothing about policy effectiveness. Tells almost nothing about satisfying objectives.
Step 2	Recipients' opinions	Firms who participated in the schemes are asked for their opinions.	Course participants: did they like it? Firms: were there problems in applying? Were procedures too slow? Cumbersome?	Even if they like it, it does not tell you it is effective. All it can do is offer insight into policy delivery but that is not the key question.
Step 3	Recipients' view of the difference made by the assistance	Firms who participated in the schemes are asked whether they thought the policy made any difference to their firm's performance. Normally quantitative estimates are sought.	Did firms think it provided 'additionality'? Would firms have done it anyway? Does it cause displacement?	Provide answers they think you want to hear. No way of checking. Only snapshot of surviving firms.

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Storey's Six steps to Heaven, continued...

	Title	Description	Examples	Problems
<i>Evaluation</i>				
Step 4	Comparison of the performance of 'assisted' with 'typical' firms.	Estimate the impact of the policy by comparing the performance in firms assisted by the policy with those that have not been assisted.	Employment/sales growth of assisted firms compared with 'typical' firms. Survival of assisted firms compared with 'typical' firms.	Assisted firms are not typical (e.g. more aware and therefore better chances of survival). Any difference in performance between the groups can be attributed to the impact of the policy.
Step 5	Comparison with match firms	As step 4, but with a specific control group, with firms 'matched' on the basis of: age, sector, ownership, and geography.	As Step 4.	Perfect matching can be very difficult. Sample selection bias: more motivated firms apply; attribute differential performance to scheme and not to motivation.
Step 6	Taking account of selection bias.	As Step 5, but taking account of sample selection by using random panels or statistical techniques (like the Heckman two-step tester for testing and adjustment.	As Step 4.	Policy makers feel uneasy about statistical adjustment. Use of random panels could mean public money is given to firms and people who will not benefit.

Source: 'Six steps to heaven: evaluating the impact of public policies to support small business in developed economies', Storey, David, in 'The Blackwell Handbook of Entrepreneurship', Blackwell Publishing, 1999.

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