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EXECUTIVE SUMMARY

1. PURPOSE OF THE STUDY

This report presents the results of a study to inform the design a national strategy to foster entrepreneurship in South Africa. Its purpose was to conduct research on various aspects of entrepreneurship and approaches to its promotion and to formulate policy recommendations for a national strategy.

2. DEFINITION OF ENTREPRENEURSHIP

While there is no consensus on a single definition of entrepreneurship, for the purposes of this report, two definitions were followed:

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) (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 (Wennekers and Thurik, 1999);

And: "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" (Global Entrepreneurship Monitor Project, 1999).

3. ENTREPRENEURSHIP VERSUS SMALL BUSINESS

While acknowledging that there is a difference between entrepreneurship in a broader sense and small business, the report notes that there is an overlap between the two, with the latter being one important vehicle of entrepreneurship. Therefore, no major effort is made to distinguish one from the other for the purposes of this study. Indeed, the study notes the considerable overlap in efforts to stimulate entrepreneurship and small business in many parts of the world and recognises that the same situation will apply in the case of South Africa where a national small business development policy and a number of programmes for small business development already exist.

4. MEASURING ENTREPRENEURSHIP

The report acknowledges up front, based on international literature, that although the issue of measurement is crucial in the implementation and management of entrepreneurship policy, measuring entrepreneurship is somewhat difficult. This is so because no one measure is sufficient to account for the various and diverse characteristics of entrepreneurship. A number of measures have to be used, in combination, in order to best measure the emergence and growth of entrepreneurship. Literature shows, however, that the inclination is more towards measuring entrepreneurship at the individual (self-employment) and firm (firm creation) levels.

5. RATIONALE FOR A NATIONAL STRATEGY ON ENTREPRENEURSHIP DEVELOPMENT

It is internationally acknowledged that entrepreneurship plays a critical role in stimulating economic growth and thus job creation. Given the challenge of unemployment in South Africa and the poor performance of the economy in creating new jobs and sustaining existing ones, 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.

6. WHO BECOMES AN ENTREPRENEUR?

The inventor: someone who has developed a new innovation and has decided to make a career out of presenting that innovation to the market. *The unfulfilled manager:* a professional manager whose ambitions are stifled in his current occupation and embarks on an entrepreneurial career in order to realize these. *The displaced manager:* who has been 'right sized' out of his job and decides to pursue self-employment as a career alternative. *The young professional:* who is highly educated, often with formal management qualifications, decides to skip the experience of working for an established organisation and move directly to work on establishing his or her own venture. *The excluded:* who turn to an entrepreneurial career because nothing else is open to them.

7. CONDITIONS THAT ALLOW ENTREPRENEURSHIP TO FLOURISH

Conducive framework conditions: the institutional arrangements within which economic activity takes place, constitute the foundation of sound entrepreneurship policy. *Well-designed and well-targeted government programmes* complement framework conditions, to foster an environment conducive to entrepreneurship. *Supportive cultural attitudes:* an environment in which entrepreneurship is esteemed, and in which stigma does not

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automatically attach to business failure, will generally be more conducive to entrepreneurship.

At the individual level, a combination of positive “pull” and negative “push” factors interact to encourage entrepreneurship. ‘Pull’ factors include: 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. ‘Push’ factors include: 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.

8. INHIBITORS TO ENTREPRENEURSHIP

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, which prevent potential entrepreneurs from pursuing entrepreneurial activities, such as: 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.

9. CAN GOVERNMENT PROGRAMMES STIMULATE ENTREPRENEURSHIP?

An increasing recognition of the importance of increasing the number of entrepreneurs within the economy to stimulate growth, politicians and economic policy makers world over are increasingly placing at the top of their agenda efforts to unleash the entrepreneurial potential of their societies by eliminating the inhibitors to entrepreneurship. Many OECD countries have a wide range of programmes designed to assist business, with some of these 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.

10. SHOULD POLICIES AND PROGRAMMES BE UNDERTAKEN AT NATIONAL, PROVINCIAL OR LOCAL LEVEL?

There is no clear-cut answer. However, the OECD makes a strong case for programmes at local level:

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... 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.

10.1 Examples of international programmes

Cultural attitudes: awareness and appreciation of entrepreneurship

“Action Plan for Promoting a Culture of Entrepreneurship in Denmark: Entrepreneurship and Innovation” is a **Danish** Ministry of Education programme to promote entrepreneurship in the education system. 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. Teachers have received 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.

In the **USA**, the Kaufman Center for Entrepreneurial Leadership organises 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.

In **India**, 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 high achievement and enterprising values. 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. National Awards for Outstanding Entrepreneurs. With a view to promote a sense of excellence among the 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 backward 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.

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i.) Promotion of enterprise in the education system

The TOP programme of the University of Twente in the Netherlands supports students starting enterprises with facilities, mentoring and interest-free loans.

India's Center for Research in Entrepreneurship and Education (CREED) acts 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 initiate research into 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.

ii.) 'Train the trainer' programmes help teachers, academics and trainers to change their attitudes and approach to entrepreneurship and its promotion

In the **UK**, the Centre for Enterprise Leicestershire's 'Trading Places' project promotes interaction between educational institutions, the business community and business support organisations by offering academics the chance to change places with business people for part of the week. Entrepreneurs are given the opportunity to work within an academic institution and to share their experience of managing an SME with students. In this process case studies are being collected, to be used for teaching purposes and long-term collaborative partnerships are being fostered. In the long-term teaching programmes will be modified.

iii.) Coherent and practical training support is provided to start-ups

'Training for Business Start-up, Anytime, Anywhere', is a distance-learning programme offered by 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 Centre. 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 Entreprenre en France network. The training material is produced and marketed through the CNED and is available in paper and electronic formats.

iv.) Hand-holding support gets entrepreneurs started and keeps them going

Générale de Banque, Belgium, assists prospective entrepreneurs with a 'Starter' service, which includes drawing up a business plan and analysing the business project. 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

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from universities and the business world, who are responsible for recruiting consultants, training them and co-ordinating assistance programmes for those starting up in businesses.

v.) *Social policy fosters self-employment*

The **Dutch** government has initiated a social security policy that facilitates self-employment by freeing the 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.

vi.) *Provision of finance*

Financial liberalisation improves the efficiency of capital markets in allocating capital. However, start-ups still face some difficulties in finding capital. The Deutsche Ausgleichsbank promotes start-ups and enterprises in the early years of their operation by offering a comprehensive range of both financial and advisory services to potential entrepreneurs. Financial services range from promotional loans to equity finance, complemented with an increasingly diverse set of support services. Finnvera plc, **Finland**, provides micro-loans to small enterprises, regardless of their legal form, but especially to micro-enterprises and small business start-ups, which offer employment to not more than five people. 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.

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.

ACE-Net (Angel Capital Electronic Network)

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.

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ACE-Net (Angel Capital Electronic Network) – continued...

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.

In **India** the Foundation for Micro Credit seeks 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.

vii.) 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. 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. However, incentives can cause tax systems to become very complicated, resulting in non-compliance, high administrative burdens and high accountant bills for entrepreneurs.

viii.) Product market and competition regulation

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

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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.

ix.) 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 the **USA**, labour market conditions favour entrepreneurship – by maintaining high degrees of flexibility and mobility and little formal regulation of labour contracts and light-handed employment protection legislation.

x.) Other legislation

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. 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.

In the **USA**, establishment legislation makes it relatively easy to start a firm as 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, and a business can be created by telephone or by fax and at low cost. Legislation also allows easy exit from business - a bankrupt individual is given a “clean state” by way of discharge: he loses his assets to his creditors but cannot be pursued for any remaining claims which have not been met. This allows for considerable flexibility and may help to reduce any stigma attached to business failure. Patent protection is affordable to smaller firms - the cost of patent application is lower than in Europe and small businesses benefit from a 50% discount on patent fees. Antitrust legislation fosters competition as the most efficient means of allocating social resources.

President Clinton’s Executive Order 12866 of September 1993, “Regulatory Planning and Review” requires federal agencies to carefully analyse 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. The Small Business Regulatory Enforcement Fairness Act gives small businesses a

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powerful tool to ensure that agencies do consider the impact of their actions on small enterprises by allowing judicial review of an agency's compliance with the law. The Regulatory Flexibility Act (RFA) offers small businesses a unique opportunity to root out some of the institutional biases that work against the small entrepreneur by recognising 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. The RFA places 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.

xi.) Clusters of firms

Policy can consolidate some of the benefits of existing or embryonic clusters by ensuring suitable institutional conditions such as promoting the establishment of supplier associations and learning circles, and facilitating contacts among participants in the cluster, which can lead to an increase in the benefits to firms of belonging to a cluster.

xii.) Business incubators

IZET Innovation Centre, **Germany**, a programme of a non-profit company co-founded by the City of Itzehoe and the county of Steinburg, offers enterprises professional infrastructure, 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.

Finland's Travel Park Incubator Network helps 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.

xiii.) Technological development, R&D (transfer) and innovations

The **US 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.

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

India's 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 build 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.

xiv.) One-stop access to a wide range of assistance

In a few regions in the **Netherlands**, 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.

In **India**, 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 enquiries 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 filled for various industrial approvals.

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xv.) *Specific groups in society receive special support*

The **Portuguese** organisation GDO addresses the problem of accessing bank credit by women. 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.

The Minority Business Development Agency (MBDA), **USA**, 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. 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, operated by private firms, state and local government agencies and Native American tribes and educational institutions, offer a wide range of business services (such as one-on-one assistance in writing business plans, marketing, management & technical assistance and financial planning to ensure adequate financing for business ventures) to minority entrepreneurs. They are located in areas with the largest concentration of minority populations and the largest number of minority businesses and are staffed by business specialists who have the knowledge and practical experience needed to run successful and profitable businesses.

Minority Enterprise Development 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. 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).

Lack of information on the minority business community 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. 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,

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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.

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

In the **Netherlands**, 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. 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.

One of the priority tasks for the Economic Development Institute of **India** (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 per cent trainees have started their ventures with an average investment of Rs. 33,971 and employment of over 2 persons per venture. On an average, each MEDP generated an investment of Rs. 399457.63/-, at a direct cost of about Rs. 60,000/-, leading to Rs. 6.67/- investment for every rupee spent on training.

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.

11. THE ENTREPRENEURIAL ENVIRONMENT IN SOUTH AFRICA

The country's macro-economic environment is characterized as predictable, stable and improving over time. The country has well-developed physical infrastructure but access key infrastructure such as telecommunications and electricity is unevenly distributed across the country. Regulation is generally seen as favourable except aspects of labour legislation which are seen to be hostile to small business, in particular. Labour legislation is currently undergoing review by the Ministry of Labour, with a view to making it less onerous on small firms.

The majority of the population is young and the majority of the HDI have low educational and technical skills levels and highly limited managerial experience – one of the key challenges for entrepreneurial development among the HDI.

The education sector has traditionally not prepared its products for entrepreneurship by for wage employment. This situation is gradually beginning to change, with a number of entrepreneurship programmes for both in-school and out-of-school and out-of-work youth having emerged in recent years. Some entrepreneurship promotion initiatives have also emerged within the tertiary education sector in recent years but these are considered limited in number. Education policy, particularly funding policy, is seen as a constraint to the introduction of entrepreneurship with the education system.

Access to finance is still considered one of the key constraints to entrepreneurship development, particularly the stimulation of start-ups. Townships and rural areas, in particular, suffer the most from lack of capital. While various initiatives have been launched to address the problem, these are still too limited to meet the amount of demand and many lending NGOs, in particular, are facing serious capacity problems, with a few having had to cease operations recently. Rural areas suffer not only from inability to access credit but also lack of appropriate savings mechanisms. This inhibits capital formation in rural areas.

There are a myriad of support programmes aimed at businesses in general, and small business in particular, but the uptake by small business is not considered to be at desirable levels mainly due to limited marketing of programmes. Also, programmes are considered to be poorly co-ordinated both within government and among support agencies. The impact of programmes is also not systematically evaluated.

Although there is strong government commitment to entrepreneurship and small business promotion, there is no clear and authoritative champion to lead implementation. This needs urgent rectification.

12. GENERAL RECOMMENDATIONS

12.1 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.

12.2 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.

12.3 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.

12.4 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, factors accounting for the success of certain population groups in moving into the economic mainstream.

12.5 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 on sectors which provide entrepreneurial opportunities.

12.6 Broad Policy Guidelines

The **OECD** has developed useful guidelines to guide the development of effective entrepreneurship policies. The guidelines provide a good coverage of key areas to focus on in developing and implementing entrepreneurship policy. These are presented next.

- i.) *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

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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 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.

ii.) 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 evaluation of programmes, and ensure that evaluation findings are acted upon.

iii.) 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.

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iv.) 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 which meet pressing demands in economic and social development.

13. SPECIFIC POLICY RECOMMENDATIONS FOR A NATIONAL STRATEGY TO FOSTER ENTREPRENEURSHIP

Detailed recommendations covering a wide range of policy areas are presented in the main report. In this Executive Summary only those policy areas that are considered to be of a priority nature are covered.

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 	<p>Place entrepreneurship on the political agenda.</p> <p>Develop and stimulate entrepreneurship awards at all levels.</p> <p>Appoint (former) entrepreneurs into positions dealing with entrepreneurship policy.</p> <p>Involve key role players such as Churches, Civics, Trade Unions and Business Organisations in promoting entrepreneurship.</p>
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 	<p>Develop entrepreneurial spirit from low educational levels upwards</p> <p>Stimulate the development of entrepreneurship curriculum and its integration into education</p> <p>Train educators to teach entrepreneurship.</p> <p>Incorporate practical entrepreneurial experience into the curriculum</p> <p>Establish Entrepreneurship Chairs at universities and technikons.</p>

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SPECIFIC POLICY RECOMMENDATIONS, continued...

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 	<p>The Employment Equity Act will enable the HDI to gain managerial experience. These must subsequently be encouraged to start their own businesses.</p> <p>Transfer technical know-how from research institutes to SMMEs and start-ups by strengthening and expanding existing mechanisms to do this.</p> <p>Vocational training should emphasise a continuous search for improvement in products and processes.</p>
Finance	<ol style="list-style-type: none"> 1. Low savings rate inhibits accumulation of capital 2. Gap between financing levels of banks and MFIs 3. Inadequate collateral for loans 4. Risk of high debts in case of bankruptcy 	<p>Develop mechanisms to facilitate mobilisation of savings, especially in rural areas.</p> <p>Support viable private sector and NGO initiatives to provide access to funding, especially in rural areas.</p> <p>Permit NGOs to accept deposits without registering as banks under the Banks Act.</p> <p>Adapt the Bankruptcy Law to limit personal liability level.</p>
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 	<p>Improve access to facilities, e.g., by decentralising business registration.</p> <p>Improve access to the Commercial Justice System, especially the Small Claims Courts.</p> <p>Continue the National Regulatory Review, ensuring focus on both existing firms and start-ups.</p> <p>Set goals to mitigate compliance costs.</p>

13.1 Capacity building and the institutional framework

Capacity building needs to take the form of both building the entrepreneurial capacity of the population, particularly the HDI and strengthening the programme delivery capacity of support organisations. Various government departments including Trade & Industry, Labour, Arts, Culture, Science & Technology, and Education have a key role to play in building the general and entrepreneurial capacity of the population. Government entities such as the education and training system, the research councils and NRF, and the small

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business support agencies, also have a key role to play. The business sector can also provide opportunities to learnerships and internships to young people to enable them to acquire work skills.

The education and training system will have to play a leading role, with government support and funding, in developing the capacity of service providers. NGOs that specialise in strengthening the operational capacity of other NGOs should also be considered for partnership and support.

No recommendations are made for the creation of new institutions, except policy co-ordination mechanisms at senior government level. The tasks envisaged under the national entrepreneurship strategy will be undertaken by existing institutions, mainly by being more effective in what they do and co-ordinating better. Only in a few instances will institutions be expected to take on new roles. Various role players and their envisaged roles are covered in the main report.