

5 Five key learnings from Brazil and India

What can South Africa learn from Brazil and India to boost support to small businesses? There are five key learnings that this report offers to policymakers, particularly those in South Africa, these are:

- Develop a national entrepreneurial vision with measurable targets, with backing from the president.
- Build more forums based on partnership between government and the private sector.
- Simplify the government's support architecture.
- Put effective real-time monitoring mechanisms in place.
- Improve the capacitation of government agencies.

5.1 Develop an entrepreneurial vision based on clear targets

Brazil's small business policies are built on clear and measurable targets set by its planning ministry. South Africa should adopt a similar approach, particularly with the setting up of the National Planning Commission in the Presidency in 2009 and the crafting by members of the planning commission of Vision 2025. Entrepreneurship and small business promotion must form a key part of this plan and vision which should be backed up the President if the country is to promote an entrepreneurial culture and boost support to small businesses.

Policymakers should base measurable targets (such as number of loans and amount of finance aimed at small businesses, number of small businesses registered as taxpayers, number of small firms exporting for example) using reliable but ongoing research, rather than *ad hoc* research (such as the Finscope's 2010 study). The government must set aside funding to develop and maintain such research, which would be best housed on an easily accessible website.

Added to this, and building on the success of Brazil's Global Entrepreneurship Week, there is a clear need for South Africa to embark on a massive, ongoing entrepreneurship campaign. Such a campaign should target all levels of society, particularly:

- Learners at schools who know nothing of the struggles of running ones own business.
- Experienced foremen or managers in factories or offices who yearn to start their own manufacturing business having gained valuable on-the-job experience and insight into the workings of a particular sector.
- Existing entrepreneurs, particularly black business owners who have overcome many obstacles to start and run their own business.
- Civil servants who have little appreciation for the fact that entrepreneurs that run smaller businesses face widely different problems to those running or managing a large business.
- Community members, who often view business owners as rich capitalists and have little understanding of the struggles entrepreneurs undergo and the role they can play in uplifting society.

5.2 Develop inclusive partnerships

The example of the two emerging economies (particularly Brazil) also shows just how weak the social compact is between the private sector and government. While the Brazil government has various forums which include private-sector organisations, the South African government appears to have very few of such forums.

The implications are that South Africa will need to widen the inclusion of private sector groups on all its agencies and initiatives targeting small businesses. It must reform its National Small Business Advisory

Council, which because of its relegation by the Department of Trade and Industry to serve as a backroom think tank has, in many business owners' and policymakers minds, ceased to exist.

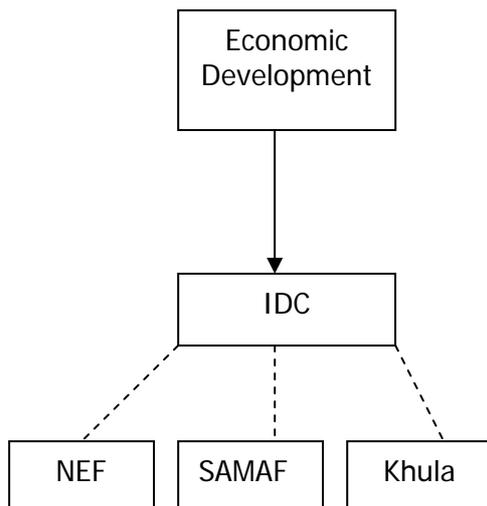
What the country really needs is a body such as Nedlac, made up of key members from the government (in particular Department of Trade and Industry, Department of Labour, Department of Science & Technology, the Department of Economic Development and the Presidency), government support agencies (Khula, Seda, NYDA, NEF, IDC), business associations as well as chamber bodies and universities. In this regard, the role universities play in funding and supporting incubators in Brazil is particularly instructive.

5.3 Simplify support architecture

More specifically, the experience of Brazil and India reveals that South Africa's principal small business support organisations – Seda and Khula Finance Limited – have made little impact in making a real and meaningful contribution to small businesses. South Africa needs to better capacitate its small business support organisations, simplify its support architecture and increase the budgets of these organisations by developing new and innovative funding streams.

Much of Brazil's lending to small businesses is channelled through its development corporation BNDES. In Brazil the state is not legislated to lend directly to businesses, so finance is on lent to state banks and then to business owners. As banks in South Africa are all privately-owned, the government has resorted to setting up a whole assortment of funds to lend to small businesses. There are at least five development finance institutions at a national level that lend to small businesses (IDC, Khula, NYDA, Samaf, NEF). In Brazil and India there is only one such organisation: BNDES and the Small Industries Development Bank of India (Sidbi), respectively. A question then is: would it be more effective if all the state development institutions aimed at small businesses were to fall under a single umbrella organisation? This is something that would be similar to the strategy followed by the Department of Science and Technology's Technology Innovation Agency as it has grouped together various programmes and funds under one roof.

For example, the South African government's various funds for businesses might be more strategically deployed if they were housed under the IDC (see diagram below). Presently Khula forms a separate fund which, together with Samaf falls under the Department of Economic Development, while the NEF falls under the Department of Trade and Industry (for a full diagram see Appendix 2).



5.4 Put effective monitoring systems in place

The experience of Brazil and India also re-emphasises the need for the South African government to put in place proper monitoring systems for its small business organisations and programmes. The Department of Trade and Industry does carry out reviews on its incentive programmes for example, but what the government really needs is an IT system which it can use to monitor clusters, individual and group support programmes and lending, in real time. This will help the government to recognise problems and react to them faster than if the department ran once-off reviews once a programme was coming up for renewal.

5.5 Capacitate government agencies

The example of Brazil's small business support agency Sebrae, shows how South Africa must not overlook the constant need to train up not only internal staff that interact with those that visit Seda and Khula's offices, but also to capacitate external business consultants.

Presently the government has responded to concerns about the quality of external consultants by cutting the number of consultants it relies on at Seda. But the private sector, through its wealth of experience, is the most equipped to deal with business owners. Rather than reduce the number of consultants the government should look at viable ways of upskilling and supporting these consultants. Added to this the government must look to recruit more experts and retired businessmen to advice and consult with businesses.

Finally, it is clear that more co-operation are needed through bodies such as the India Brazil South Africa (Ibsa) initiative and further information sharing through the existing agreements Seda, Brazil's Sebrae and India's NSIC have with one another. As the three countries have similar problems, one idea might be to conduct continuous benchmarking of the similar support programmes and organisations with one another. These could include:

- Credit guarantee schemes: Khula with India's CGTMSE and Brazil's credit guarantee scheme the Fundo de Aval às Micro e Pequenas Empresas (Fampe)
- Research grant funding: South Africa's Technology Innovation Innovation (TIA) agency, with Brazil's Programme First Innovative business (Prime), and India's Technopreneur Promotion Programme (TePP).

The study shows that while the South African government faces immense challenges in assisting small enterprises, it is not alone. The example of India shows that the South African government must endeavour to simplify its support architecture and focus on building up organisations such as Seda and Khula to turn them into recognisable brands that business owners will learn to trust.