TRADE & INDUSTRIAL POLICY STRATEGIES

SUMMARY REPORT

How South Africa can boost support to small businesses: Lessons from Brazil and India

Introduction

In its efforts to craft a new economic growth path and assist small businesses South Africa should look to emerging economies such as Brazil and India. These countries are attracting attention for their efforts to create greater and more equitable economic growth. While Brazil and India both have larger populations and land areas than South Africa, all three are grappling with similar development issues, including a lack of quality education, a shortage of quality infrastructure and a low share in international trade. The three countries are also part of the India Brazil South Africa (Ibsa) initiative, a forum set up in 2003 to share development and economic experiences.

Several key differences stand out, however. Brazil is ranked as the sixth most entrepreneurial country in the world, according to the 2009 Global Entrepreneurship Monitor (Gem) Report. South Africa is ranked 35th out of 54 countries with just one in 17 people involved nationally in starting or running a business, compared to one in seven in Brazil. In India about one in nine people are involved in starting or running a new business, according to the 2008 Gem Report when India was ranked 15 out of 43 countries.

The small business sector is significantly larger in both Brazil and India than in South Africa. Brazil's 16 million small and micro enterprises (SMEs) contribute about 20% of Brazil's Gross Domestic Product (GDP) and employ 60 million people, or 56% of the urban workforce in the formal sector, according to Brazil's small business support agency Sebrae. According to Sebrae there were 5.89 million registered small and micro enterprises and 10.34 million informal SMEs in Brazil in 2008.

In India the 26 million small enterprises that qualify as micro, small and medium enterprises (MSMEs) under the 2006 MSME Act, produce 8% of the country's GDP. Of these, 1.5 million are in the formal sector and 24.6 million in the informal sector. MSMEs employ 59.7 million people, of which 9.5 million are employed in small enterprises operating in the formal sector.

Figures in South Africa remain sketchy with no official repository for data on the number of small enterprises. Noting this constraint, FinScope's 2010 South Africa Small Business Survey claimed close to six million small businesses in the country and nearly 5.6 million small business owners. These enterprises are extremely small however: 67% employ no more than the owner themselves. In total, 300 000 businesses, or 6% of all entrepreneurs, employ five or more people. A further 1.5 million or 27% employ one to four people. And just 17% of small business owners run registered businesses.

According to the Department of Trade and Industry's (the dti's) Annual Review of Small Business 2006-2008, South Africa had 2.43 million small enterprises in 2007. Of these 595 000 were in the formal sector and 1.39 million in the informal sector. SMEs contribute between 27% and 34% of South Africa's GDP.

Entrepreneurs in Brazil face mountains of red tape, administrative barriers, constantly changing regulations and difficult regulations for employment conditions and wages. Starting a business takes about 16 procedures – more than double the six steps in South Africa and more than the 13 required in India. Despite this, Brazil produces entrepreneurs at a rate of almost double that of South Africa, according to the 2009 Gem Report. While South Africa may have an environment which appears to be more conducive to opening and running a business than India and Brazil, these two countries make up for it by having inhabitants that are more entrepreneurially minded than those of South Africa.

The information in this summary is extracted from a report prepared by Stephen Timm for TIPS. The full report is available on the TIPS website, www.tips.org.za. For more information contact Stephen Timm, stephentimm@telkomsa.net, +27 21 685 7915, or info@tips.org.za, +27 12 431 7900.

Key findings

Key findings from the study are that:

- The state needs to co-ordinate its support better by simplifying its architecture of government agencies and departments that support small businesses.
- The state needs to build more effective partnerships with the private sector to improve research, funding, business and market support and to carry out a massive entrepreneurship campaign.
- The South African government's finance agency Khula can put its ailing credit guarantee scheme back on track by learning from India's Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE).
- South Africa must get buy-in of businesses and banks if it indends to set up a credit rating subsidy scheme similar to that run by India's National Small Industries Corporation (NSIC).
- South Africa can learn from an innovative card implemented by Brazil's Development Bank and which helps improve access to finance for small businesses, while promoting local production.
- The National Treasury should reconsider set-asides for small businesses based on the experience of Brazil, it must also look at adopting IT systems to streamline the procurement system.
- Seda can learn a number of key things from Brazil's small business support agency Sebrae's innovative and professional practices.
- The experience of Brazil is evidence that incubators can play an important part in building innovative businesses and develop regions, but that their ability to drive job creation is limited.
- The South African government should not overlook the importance of focusing support on existing clusters rather than creating new ones. It should support these existing clusters by helping them to build strong business associations to drive these clusters and construct effective monitoring mechanisms to ensure cluster support delivers optimal business support to small businesses.

Policies in South Africa, India and Brazil

Policies and schemes to support small businesses appear to be working best in Brazil and less successfully in India and South Africa. These include better monitoring mechanisms, specific targets driven from the top, and a more simplified support architechure in Brazil.

Each of the countries has institutions to support small businesses. In comparison to Brazil, India and South Africa have extremely complex government support matrixes. In South Africa the government's main funds and agencies are distributed across four different departments. In Brazil one funding agency, Banco Nacional de Desenvolvimento Economico e Social (BNDES) supports small business, while South Africa has an array of funds – the National Empowerment Fund, Khula, National Youth Development Agency (NYDA), South African Micro Finance Apex Fund and the Industrial Development Corporation. This lack of a co-ordinated strategy is confusing for both business owners and government officials.

Awareness of government support is also limited. The FinScope Small Business Survey noted that only 3% of entrepreneurs had heard of Khula, 10% of the NYDA, and 4% of the Small Enterprise Development Agency (Seda). Only 1% of small businesses reported visiting a Seda or NYDA branch.

South Africa's small business policy is mainly informed by the 1995 "White Paper on national strategy on the development and promotion of small business in South Africa". The key focus has been on supporting black entrepreneurs. Two policies aimed at helping more black people to become active in the economy and to aid small business owners have been developed: the 2000 Preferential Procurement Policy Framework Act and the Black Economic Empowerment (BEE) codes of good conduct.[1]

To date there has been no study on the impact BEE or preferential procurement has had on small business promotion. At present the government hopes that large and medium firms will assist small businesses by adopting enterprise development as a means to score BEE points. While this would go some way to expanding support and finance for small businesses, one view is that the emphasis in the BBE codes on black ownership has inadvertently created a rent-seeking behaviour among skilled black business people, in effect curbing entrepreneurship among this group. Instead of using their skills or capital to start businesses, many have instead chosen to buy into existing large, often listed, companies.

[1] The Preferential Procurement Policy Framework Act of 2000 provides that, depending on the value of a government tender, 10% or 20% of the points awarded to a bidder be for the percentage of ownership in the bidding company of women, blacks or disabled people. The act is being aligned with the BEE codes of good conduct, which currently only apply to businesses bidding for work from the private sector.

In contrast, despite challenges specifically around the red tape small businesses face, Brazil's small business policies appear to have made some impact. The country's Presidency has set clear and measurable goals contained in the country's overarching development plan (Plano Plurianual) and regular reviews of these targets by Brazil's Presidency are undertaken. The targets in the overarching plan allow for a co-ordinated support system among the various government departments and small business support agencies. This is something both India and South Africa could do well to learn from.

South Africa's planning also needs a long-term vision about what the country wants its economic ownership to look like, as in Brazil which is already planning for a shift from wage-based employment to a more entrepreneurial-based system. There is a need to simplify the support for small businesses. Often, when complaints are made of insufficient support to small businesses, government sets up yet another agency or department, which makes it more difficult to co-ordinate policy and programmes.

In spite of Brazil's federal system – which means each of its 5 565 municipalities have to separately pass the relevant legislation – a strategy is in place to win municipalities over to sign the law. The success so far offers a promising lesson on how to gain the co-operation of municipalities in South Africa when it comes to promoting small business development and even using procurement set-asides.

South Africa can also learn from Brazil in the way the South American country prioritises the building of partnerships. Brazil has a number of groups that focus on small business policies: the Permanent Forum on Micro Enterprises and Small Businesses, the Working group on clusters and the presidential group on small businesses. These all contain members drawn from both the private sector and government. South Africa could learn from this to form a national consensus. Partnerships offer a plausible way to do this.

Business support

The most important assistance business owners can receive is quality, affordable business advice and support. To this end Seda could learn from Sebrae. Seda is well placed to do so as the agency already has a technical agreement in place with the Brazilian organisation to share best practices. The South American country's Global Entrepreneurship Week can also provide a key lesson on how to create a successful awareness campaign to promote entrepreneurship.

Boosting business support – What Seda can learn from Sebrae

Seda, which is mandated to support small enterprises, was formed out of a merger between Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre and the Community Public Private Partnership Programme. The agency was set up in terms of 2004's National Small Business Act. However, despite being set up as a one-stop shop, Seda has no control over the government's many small business support programmes and its impact on small businesses continues to be questioned.

While there have been signs that at least financially the agency is turning itself around (with unqualified audits from the Auditor General in 2009 and 2010), it continues to be hamstrung by a small, R430 million budget. Despite meeting more of its delivery targets in the 2009/10 financial year compared to previous financial years, it underperformed in a third, or 13 of its 39 targets in the 2010 financial year.

There is much Seda can learn from Sebrae, and the lessons can be simplified into the following areas

Use of innovative methods to widen reach: Sebrae uses a variety of channels, such as television, radio, print media, a competition and blogs, as well as its call centre, website and branch network to ensure it reaches a vast number of business owners. One interesting Sebrae programme is local innovation agents (Agentes Locais de Inovação). These agents make door-to-door visits to assess what support and capacitation programmes firms need to improve. The agents then develop a plan of action for the entrepreneur. Sebrae aims to assist 13 500 enterprises through these agents in 2010 and 2011.

Two Brazilian interventions that Seda is already looking to adopt in South Africa are: distance learning courses and mass classroom-based mentoring sessions.

Reduce government influence: According to José Marcelo Goulart Miranda, who oversees the Africa section in Sebrae's International Affairs unit, one lesson Brazil learnt was that it was not always good to run a wholly government-owned business support organisation as this made business su pport more open to political manipulation. Although Sebrae was set up in 1972 as a government agency, it is now a private not-profit organisation, funded by a special tax.

Build brand awareness: One of the biggest problems that government support organisations in South Africa face is their lack of visibility, a problem which India also shares. There is a need for Seda to increase its presence through a variety of means – this could easily be possible with a larger budget. An innovative new development in South Africa is the Seda information kiosks, launched in November 2010. The branded kiosks are self-service, electronic information units which have preloaded business information that can be downloaded to CD, DVD and USB flash drive.

Assist the right kind of clients: A key challenge that support organisations such as Seda and Sebrae face is whether to support more high-growth businesses which are traditionally run by more skilled and wealthy entrepreneurs, but which create many more jobs. Or to support micro enterprises which offer those without a job, the possibility of income, but which will either fail soon after starting out, or will amble along without creating more than one or two jobs.

Lean more on private-sector consultants' expertise: Sebrae continues to employ and train a large number of external consultants. Seda is slowly cutting back on the number of consultants it uses in favour of inhouse business advisors who have little or no business experience. A concern is that the very people who should be dispensing business advice will have no or next to no business experience. The head of Seda's training academy admitted that trying to assist 80% of businesses with inhouse business advisors was "unsustainable" but added that it was difficult for the agency to afford the high costs that consultants charged. He suggested looking to retired business executives for an affordable option.

Put in place an effective monitoring and evaluation system: If Seda is to implement quality training and consulting work to small businesses, it must also focus on setting up systems which will assist the agency not only in project management, but will also act as valuable tools to assess the impact of interventions. Much of Sebrae's success in carrying out projects lies with their innovative management system called Sigeor. By going to www.sigeor.sebrae.com.br any member of the public, consultant or business owner is able to view the details of any Sebrae-related business support project or track the progress of each project. The site also allows projects to post news, meeting agendas and training material. External partners initially argued that since they did not work for Sebrae why should they upload details to the agency's site? Getting people on board was handled through numerous workshops.

Global Entrepreneurship Week

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

The success of the campaign in Brazil was built on getting key partners involved such as media, community, training and business organisations which have a nationwide presence. Other innovations included online events, like blogs, webeneurs, video chats and even surveys. When Endeavor Brazil started 11 years ago a big challenge was how to change Brazilian's attitude towards entrepreneurship. This is slowly changing, with the buoyant economy helping to sustain the gradual change in attitude towards entrepreneurship from Brazilians, and the work of Endeavor is part of this success.

Market support

Using set-asides to facilitate access

Business owners not only need financial and business support to succeed, but also access to markets. South Africa could vamp up support to small businesses by setting aside certain types of procurement for SMEs, as a number of countries like South Korea, the US and Japan already do. Recent legislation in Brazil now also requires that certain contracts are set aside for small businesses.

So far, South Africa's efforts to procure more from small firms have largely failed. Some local and provincial governments have set targets for buying from small business – 40% of spend for the City of Cape Town and 60% for the Gauteng government – but these are targets, not set-asides backed by legislation. Efforts to put set-asides in place have also been torpedoed by the National Treasury over concern that they are unconstitutional. It's why a cabinet-approved plan to allocate 85% of the spend on

10 key goods and services to small businesses never took off and why the dti's plan to leverage more local procurement for its infrastructure programme has also stalled.

In India the government planned to set aside 20% of all public procurement for small businesses. But midway through 2010 it scrapped these plans with the relevant ministry saying the policy should be "more aspirational than mandatory". However the government still reserves the manufacture of certain goods for small firms. Since 1997 there has been a gradual move to dereservation, although it continues to be seen as one way to help small enterprises compete against large and multinational companies.

While set-asides have been put on hold in India, in Brazil set-asides have increased total federal government purchases more than sixfold in the three years from 2006 to 2009, channelling billions of reals to SMEs.

Access to raw materials

Business owners also need access to affordably priced raw materials and India's National Small Industries Corporation's (NCIS) raw material purchasing programme is one example South Africa could learn from. Small businesses often face problems competing against larger businesses, which with their sheer weight are able to undercut their smaller competitors by buying in bulk from suppliers and securing discounts. NSIC, the government support organisation, buys up raw materials such as steel aluminium zinc, copper and paraffin wax and stores these in 15 warehouses across the country. This allows business owners to procure goods for between 10% and 25% less than the ordinary wholesale price. Thousands of small businesses are using the NSIC's warehouses and demand is increasing. For those who cannot front the required cash, the NSIC also provides the raw materials on credit for up to 90 days, while keeping one-year security or a bank guarantee.

Three financial support systems

Khula Enterprise Finance Limited was set up in 1996 as the South African government's small business finance agency. Khula does not lend directly to business owners, but through banks and a network of retail finance intermediaries. The agency has various products, including its credit indemnity or guarantee scheme also launched in 1996. The scheme is aimed at business owners who lack sufficient collateral to access traditional bank finance. The agency's has requested that it lend direct to business owners through the Khula Direct scheme, which is expected to be rolled out this year.

India's **Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE)** guarantees up to Rs10 million (R1.5 million) covering between 75% and 85% of a loan. The first Rs5 million is covered by a 85% guarantee, while the second Rs5 million is covered by a guarantee of 50%. The initial ceiling of guaranteed loans was Rs2 million. This had been lifted to Rs5 million and then to Rs10 million on request from the World Bank. The CGTMSE uses only primary security such as a project or a contract.

Brazilian development bank **Banco Nacional de Desenvolvimento Econômico e Social (BNDES)** offers the **Cartão BNDES,** a card that combines the concept of a credit card with that of an e-commerce platform, to simplify the red tape associated with bank loans. To access finance for the goods listed by suppliers on Cartão BNDES's website business owners approach one of the scheme's five participating banks to which BNDES advances finance, which is then channelled through the card to business owners. The card promotes local production as BNDES vets suppliers and requires that products have a minimum of 60% local content to ensure that the domestic economy benefits.

The dti believes that there are various challenges to implementing such a card in rural areas in South Africa – although it could work in urban areas. Other stumbling blocks include the low level of literacy and lack of record keeping among many business owners would be stumbling blocks.

Learning from CGTMSE

In the 2009/2010 financial year Khula handed out a mere 53 credit guarantees through its Credit Indemnity Scheme, valued at R30.26 million. In the same financial year CGTMSE disbursed 149 867 guarantees, valued at Rs68.72 billion (about R10.7 billion in December 2010).

The CGTMSE is an example of how a credit guarantee scheme should operate – not only on how to drive up lending numbers, but also on how to settle claims quickly. A look at the Indian scheme's performance reveals how bad South African entrepreneurs are at paying back loans: Khula's default rate on its guarantee scheme between 2005/2006 and 2009/2010 came to 42.15% of the total loan amount, with

80.1% or 1 381 loans in those five financial years being defaulted on. In India the equivalent figure, in terms of the total value of loan defaulted on, was 2.5%.

CGTMSE has a number of lessons for South Africa:

Targeted lending can drive uptake and guarantees: A big driver for CGTMSE is the Indian government's priority lending policy which requires commercial banks to lend 40% of their net bank credit to priority sectors – of which small businesses form an integral part. Foreign banks are required to lend 32% to priority sectors, with 10% specifically earmarked for the small-scale sector.

The need for a strong IT system: All the branches of banks participating in the scheme have access to the CGTMSE's website using a user ID and password. Filing an application is easy: a banker accesses the website and feeds an application into the system. With the online system, business owners can apply for and receive a guarantee within 24 hours. The longest waiting period is two or three days, if the application falls on a weekend.

Better communication with banks to get buy-in: Getting buy-in from banks has long proved a headache for Khula. It may have prompted the cabinet to back the agency's request to lend direct to business owners. In India, workshops and meetings with member banks have helped drive up CGTMSE's lending rate, with the scheme roping ordinary bankers into workshops to explain to them the significance of guarantee lending. Last year the scheme conducted 1 384 seminars and meetings its 111 member lending institutions – 858 of these were workshops each attended by groups of about 25 bankers.

Improving timely claims: Probably one of the most important factors in the Indian scheme's ability to vamp up lending has been the rate at which it responds to paying out defaulting loans. For Khula, the time it takes for the agency to pay out defaults remains a big concern for banks. Khula requires a bank to first seek a default judgement against a business owner before it lodge a claim, which can take between one to three months to obtain or up to five years, according to one banker.

Sharpen the assessment process: While the CGTSME approves credit guarantees in under two days, it can takes days for banks to grant an approval for a Khula guarantee. The problem is complex, however, with only about one out of every 20 applications makes it past the initial screening stage, and that only a fraction of those selected ultimately approved.

Incubators

Business incubators provide protected environments for new enterprises along with a range of services. Research shows that the average mortality rate of companies that graduate from incubators stands at about 20%, compared to the general rate of 80% for those that have not been through incubation.

South Africa – a lack-lustre experience

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

In 2010 Seda had 29 incubators, up from 23 in 2007, representing various sectors from steel in Mpumalanga to seven furniture manufacturing incubators and a sugar-cane incubator in KwaZulu-Natal. The 29 incubators supported 243 new SMEs and 675 existing ones – 90% of which were black-owned — while creating or helping to sustain 6 778 jobs.

Seda believes that generally small businesses or start-ups fail at a rate of about nine in 10 in the first two years of operation. Within its incubators, the survival rates are in the region of 84% to 97% in the first two years of operation depending on which incubator the business is enrolled in. After graduating from a Seda incubator the survival rate hovers at just over 70%. Seda's incubators, however, still only reach a small number of entrepreneurs. Incubators also face funding constraints and none have in-house seed funds. According to Endeavor SA a more rigorous selection process needs to be put in place by incubators if they are to select the right kind of business to incubate.

The two privately-run incubators are Raizcorp and Shanduka Black Umbrellas. Raizcorp has two incubators in Johannesburg and one in Richards Bay with 200 incubatees, both based at the centres and outside, receiving support. Raizcorp takes an equity share of 33% in each of the businesses it helps incubate and businesses also have to pay monthly fees, as well as a rental fee of R1 100. Shanduka Black Umbrellas, a non-profit company which aims to support black entrepreneurs, is based in Cape Town and Johannesburg and has 51 member companies. For a monthly fee of R500 or R1 000, the programme provides member small businesses with a working environment and support services. Benefits include office space, computers, internet and telephones, vehicles with drivers, a reliable book-keeper service, and a structured mentorship programme with a business consultant or mentor.

Brazil – an incubator revolution

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

Driven by media attention, co-operation between government and the private sector and by Brazil's Innovation Law, the number of incubators has grown from 135 in 2000 to about 400 in 2010. The Innovation Law allows researchers at federal universities to work for a period of time for a private company and then return to the same university. Under the legislation, Finep, a government agency which falls under the Ministry of Science and Technology, provides grants to companies for specific research. The funding is provided for projects done in conjunction with a university or research institute. In total 3 140 enterprises had been supported through the grant by the end of its 2009 funding cycle.

What can South Africa learn from Brazil?

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

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

Clusters

Small businesses in outlying economic regions could soon benefit from added business and financial support through the dti's plans to set up economic clusters to assist the country's underperforming regions. Clusters are based on systemic relationships among firms in a common geographic area that share something in common – be it complementary products, production processes, core technologies, natural resource requirements, skill requirements, or distribution channels.

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

Added to this:

- The dti's Medium-term Strategic Framework 2010-2013 highlights a plan to roll out five clusters, special economic zones or science parks to support rural industrial development.
- The department's second Industry Policy Action Plan (IPAP), released in February 2010, highlights the support of clusters in a number of sectors.
- The department is also piloting a policy adapted from Japan, called "One municipality, One product", which aimed to promote key products and services in municipalities for support with the aim of getting small towns and rural areas to generate more from exports.

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

Clusters in India

Despite some successes, the following points summarise the cluster situation in India:

- Businesses in clusters are not yet sustainable after interventions.
- Clusters that produce goods, contain independent and old businesses and are spread out over small geographic area are more successful that other types of clusters.
- Clusters driven by strong industry associations are more successful than others.
- There is a need for an independent organisation to identify and assist clusters.
- Trust building is still a challenge.
- There is a need to monitor long-term, not short-term, impact of cluster programmes and have in place follow-up support.

While the performance of cluster support in India is questionable, a private sector cluster initiative by the Confederation of Indian Industries (CII) demonstrates that a focused approach on quality businesses can help small firms to increase their productivity.

Since the first CII cluster started in 1998 – an auto manufacturer cluster with 20 suppliers serving Maruti – 2 135 SMEs have benefited from support to become globally competitive by focusing on improving cost management, energy management and quality systems through 196 clusters.

Clusters in Brazil

Brazil has developed a cluster support policy which helps the private and public sector to partner together to identify existing support measures to target priority clusters. The government is hoping that by supporting existing clusters it can undo the country's significant regional economic disparities and promote small business development.

Support for clusters is divided into five areas: capacity building and governance, innovation, market access, productive capacity and finance. Thanks to the programme, 30 clothing companies saw their turnover grow by about 110% in just eight months after getting assistance in areas such as planning and production, marketing, trademark protections and design, through a cluster programme sponsored by Sebrae. Some of the firms grew from employing 30 people to 300.

Tax breaks can also help. Tax breaks and government funding have helped 130 information and technology (IT) businesses based at Porto Digital, and IT cluster, to increase their turnover tenfold between 2000 and 2009. Today the companies – 60% of which have less than 10 employees – generate a total turnover of US$500 million.

Way forward

It is important that South Africa benchmarks it support organisations, programmes and general architecture of support, against peer countries such as India and Brazil. Overall, there are five key learnings for South Africa from India and Brazil:

- 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 capacity of government agencies.

Finally, the study shows that while the South African government faces immense challenges in assisting small enterprises, it is not alone. More co-operations is needed through bodies such as Ibsa and further information sharing through the existing agreements Seda, Sebrae and NSIC have with each other.