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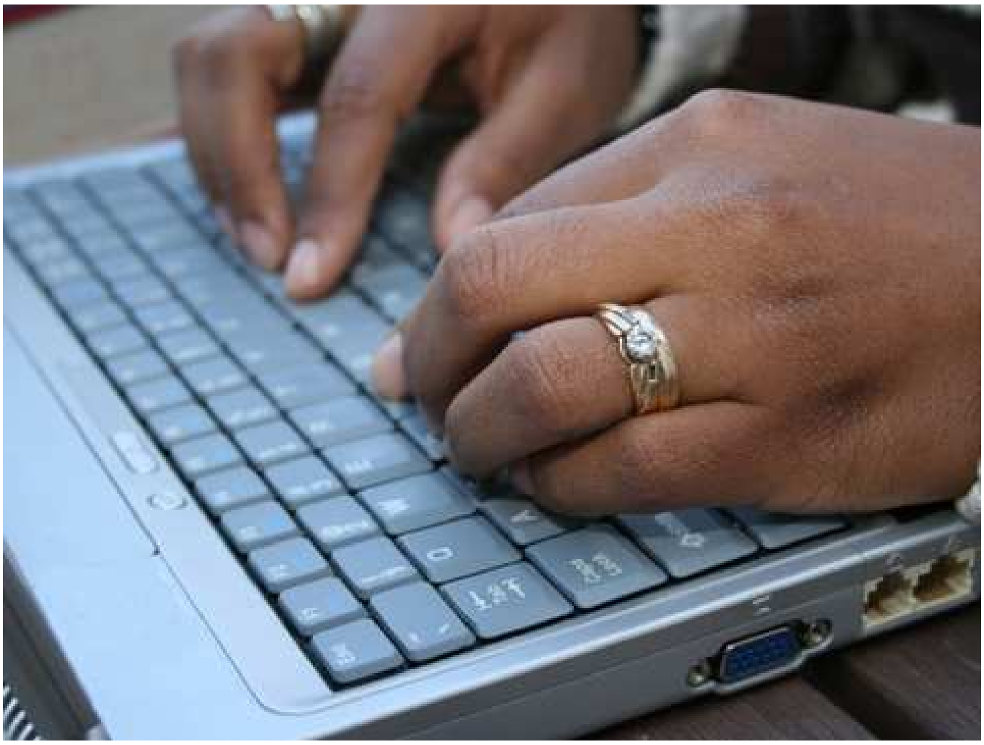

Missing the target: Business support to the second economy

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TRADE & INDUSTRIAL POLICY STRATEGIES

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ABOUT THIS RESEARCH

The 2007 Annual Report of the Accelerated Shared Growth Initiative of South Africa (AsgiSA) identified a need to focus on what was then called 'the second economy', and on mechanisms to ensure shared growth reaches the margins of the economy. The Second Economy Strategy Project was initiated in this context. It reported to the AsgiSA High Level Task Team in the Presidency, but was located outside government in TIPS.

A review of the performance of government programmes targeting the second economy was completed in early 2008. The project then commissioned research and engaged with practitioners and policymakers inside and outside government. A strategic framework and headline strategies arising from this process were approved by Cabinet in January 2009, and form part of the AsgiSA Annual Report tabled on 16 April 2009.

In South Africa, people with access to wealth experience the country as a developed modern economy, while the poorest still struggle to access even the most basic services. In this context of high inequality, the idea that South Africa has 'two economies' can seem intuitively correct, and has informed approaches that assume there is a structural disconnection between the two economies. The research and analysis conducted as part of the Second Economy Strategy Project highlighted instead the extent to which this high inequality is an outcome of common processes, with wealth and poverty in South Africa connected and interdependent in a range of complex ways. The different emphasis in this analysis leads to different strategic outcomes.

Instead of using the analytical prism of 'two economies', the strategy process placed the emphasis on the role of structural inequality in the South African economy, focused on three crucial legacies of history:

- The structure of the economy: its impacts on unemployment and local economic development, including competition issues, small enterprise, the informal sector, value chains and labour markets.
- Spatial inequality: the legacy of the 1913 Land Act, bantustans and apartheid cities, and the impacts of recent policies, looking at rural development, skewed agriculture patterns, and the scope for payment for environmental services to create rural employment.
- Inequality in the development of human capital: including education and health.

TIPS's work around inequality and economic marginalisation is built on the outcomes of this strategy process.

The research undertaken under the auspices of the Second Economy Strategy Project continues to be relevant today as government explores policy options to reduce inequality and bring people out of the margins of the economy. This report forms part of that research.

A list of the research completed is available at the end of this report. Copies are available on the TIPS website: www.tips.org.za.

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INTRODUCTION

Conceptualising the second economy

No detailed process will be followed in order to define the concept second economy'. The Second Economy Strategy Project (2008:2) probably summarises it best: "In sum, the concept of the 'second economy' is being used as a metaphor to focus policy attention on continued inequality, disadvantage and forms of marginalisation, and on how these limit economic opportunities and lock many people into poverty. The purpose is to understand how and why these conditions are still being reproduced, and to find ways to change that". The above definition emphasises the aspects of inequality and marginalisation. Yet, some definitions also emphasise the link between the formal (first) and the informal (second) economies. In this regard, Rogerson (2004:770) emphasises that "… the largest numbers of new SMME births occur as a result of failures in the formal economy, and as a result of people setting up informal and micro-enterprises in the absence of formal work opportunities". Dewar (2006) builds even further on this interrelationship when he argues that "It is misleading, from a policy perspective, to separate artificially informal, small-scale activities from larger, more formal ones. They do not operate in different economic circuits: indeed, they are inextricably interrelated, often with complex economic links" (Dewar, 2006). In considering the business support environment, which is central to this report, the following two basic assumptions are used as points of departure:

The second economy refers to the people who are in a marginalised relationship to the mainstream economy.

There is a complex but interrelated link between the second and the first economy which needs to be understood.

Background to the report

Much has been made of the potential of small medium and microenterprises (SMMEs)[1] both to contribute to the overall economy and to provide work in order to address the high rate of unemployment in South Africa. With a view to facilitating such development, business support programmes[2] have been implemented since 1994. At the same time, many local municipalities had to consider critical questions relating to the manner in which they "support" the informal economies within their areas of jurisdiction.

Against the above background, the following questions can be asked:

- How successful are business support services in South Africa with specific reference to the second economy and its functioning in urban economies?
- What is the focus of such services (approach and content)?
- What are the structural stumbling blocks experienced by business support services?
- Do urban governance and urban management actually support business support programmes in the second economy?
- What conflicts exist between business support programmes, urban management, and the potential in urban economies?

The National Small Business Development Act (1996) defines the SMME sector by means of the following criteria: it is independently owned; it has an asset base (fixed assets excluded) of less than R15 million; it has an annual turnover of less than R40 million; it has fewer than 200 employees. Yet, the focus of this report is to first provide an overview of business support mechanisms to SMMEs in general and then to consider the implications for the so-called second economy.

The following terms are used interchangeable in this report: business support programmes, business development programmes, non-financial business support, business support services, business development services. It is not the intention of this report to suggest that entrepreneurship and support programmes that support entrepreneurship are the only solutions to development programmes.

Aim and objective

The overall aim of the paper is to assess business development services and business support services with specific reference to the second economy in South Africa. The following specific objectives are set for the paper:

- To assess the lessons to be learned from business support services internationally;
- To evaluate the business support programmes that have been instituted since 1994; and
- On the basis of five case studies, to determine lessons to be learned from business support programmes in South Africa. The overall intention of the analysis is to identify strategic interventions around business support for the second economy.

In this paper, I should like to advance the following three arguments:

The overall approach toward the business support environment in South Africa is somewhat murky, of poor quality, not well defined, and it lacks leadership and appropriate institutional development. The consequence is that no institutional memory has been developed in respect of business support to the second economy.

The levels of integration between business support services, local economic development, and development projects are limited.

In some cases, the well-intended business support provided by business support organisations is not supported by the wider range of support from urban management.

CHANGES IN BUSINESS SUPPORT APPROACHES

This section considers the nature and change in business development services internationally. It starts off with a brief overview of the importance of business support services and then considers lessons from the developed world. The focus then moves to a review of shifts in business support services in developing countries. Finally, I ask what lessons one can learn for business development services in the second economy in South Africa.

International importance of business support

The development of business support centres has been a key strategy in many countries to support the development of small and medium enterprises (Atherton and Fairbanks, 2006; Mole and Bramley, 2006). Examples of programmes that have been implemented are network advice centres, the subsidisation of consultancy days to enterprises, the linking network advice centres to broader economic development, the provision of business support through franchises, the national supply of information, the provision of competitive grants, quality marks, industry-(sector)specific advice, start-up grants and mentoring, programme support for research and development, and mentoring by large firms (Mole and Bramley, 2006). Mole and Bramley (2006) list a range of countries in which business support services are prominent: Sweden, the United Kingdom, Finland, New Zealand, Ireland, Greece, Australia, Italy, United States of America, Norway, Belgium, and Germany. At the same time, business support services for small and medium enterprises have also become institutionalised in China (Atherton and Fairbanks, 2006).

Mole and Bramley (2006) further state that there has been a specific trend towards non-financial business support in many countries, coupled with an emphasis on setting objectives and a specific focus of business-support programmes as against an open-ended scenario.

Business support in developed countries: key lessons to be learned

Although this section is not intended to provide a comprehensive review of business-development services in developed countries, the literature review suggests a few crucial lessons broadly relevant to South Africa.

First, the intention to become involved in business support services is not only directed towards economic development. Many countries see it as a mechanism to reduce poverty (World Bank, 2002; Bear, 2004; Atherton and Fairbanks, 2006). In line with this, many of these programmes have inherent market failure as an essential part of the rationale for their existence (Atherton and Fairbanks, 2006). Second, there is an increasing realisation that business support cannot be driven from the supply side only, but should be able to link location with markets - nationally or internationally. Third, directly linked to the second aspect - and probably one of the most important lessons to be gleaned from the developed countries - is the fact that there is a growing realisation that business support services should be linked to the overall economic development of a specific area (see, for example, Baldock, 1998). Mole and Bramley (2006:905) thus summarise the intention to link business support services with local economic development in the following words: "Business support services are changing throughout the OECD countries to reflect the increasing importance of knowledge in competitiveness. This has required a blurring of the once distinctive roles of business support and economic development." As a consequence of the link between business support services and economic development, one can point out a few examples where business competitiveness, together with the support surrounding such competitiveness, has been the main operational route to urban renewal programmes (see for example Baldock, 1998). An increasing consensus seems to be growing that there must be an integrated policy focusing on business development services, employment creation, infrastructure, and rates and rents (Baldock, 1998). In practice, Finland, where business development services are central to economic development agencies, confirms this shift (Mole and Bramley, 2006). Business support programmes are also central to many inner-city renewal programmes and community development programmes in the United States of America (Vidal, 1995; Servon, 1998). In this regard, Benedict and Egan (1993: 4) argue that "Links that pair business development and community development can create more opportunities and generate greater payoffs than would pursuing each independently."

Furthermore, despite a drive toward a more business-like provision of business support services, not all business support services are driven in a cost-recovery manner (Mole and Bramley, 2006). In many cases, subsidies play a crucial role and there is an understanding that not all customers will be able to pay for such services at the point of service delivery.

Another example of the use of business support services is within the concept of the social economy in Europe. It is estimated that 10% of the population in Europe are employed in the social economy (Lukkarinen, 2005). Essentially, people employed in the social economy have lost their employment in the formal economy. They are then absorbed into a subsidised economy but, in the process, produce products or provide services relevant to the market or society3. In the process, these enterprises either become financially viable or the people in question develop a range of skills that enables them to become employable again. The last couple of years have also seen an increasing emphasis on enhancing the financial viability of these programmes, with basic business support and advice as its central features.

Finally, despite the rise of business support services over the past decade, there is no simple recipe. The ability to target well and be flexible in order to adjust programmes seems to be instrumental in providing business support programmes.

Key changes in business support in developing countries

An overview of business support services in developing countries having been provided, the emphasis now shifts to developing countries. Overall, business support services have been less effectively institutionalised compared to the situation in developing countries where business support services have largely been donor driven. Next, two interrelated aspects are assessed in more detail, namely the rise of the concept of 'making-markets-work-for-the-poor' and the changes in business support services in the international arena.

Making-markets-work-for-the-poor

The state's role in the economy, private enterprises, and privatisation has been part of international policy debate for years. Although many of these private-sector initiatives have played a crucial role in economic growth, they have not necessarily ensured greater access to the economy for the poor. The concept of 'making-markets-work-for-the-poor' has been popularized during the past few years (Harper and Tanburn, 2005). Donor agencies soon followed suit (Sida, 2003; DFID, 2000; UNDP, 2004; World Bank, 2005). Although much has been done to define and conceptualise the idea of making-markets-work-for-the-poor, the concept is still new and has not been fully explored in the academic sense of the word. In fact, Schrimer (2005) is of the opinion that only a limited amount of research is available on the topic. Many also use the concept uncritically - to denote a new means of solving poverty - and do not understand the possible pitfalls and stumbling blocks of this approach.

However, despite some initial work in this regard, it was not until the early 2000s that donor agencies (DFID, 2000; Sida, 2003; UNDP, 2004; World Bank, 2005) and academics (De Soto, 2000; Prahalad, 2005) started to expand their writings on the topic. This shift in thinking is based on a number of assumptions. Firstly, it is acknowledged that, despite the emphasis on the private sector, many poor people have not necessarily reaped the benefits of these initiatives. The new approach to making-markets-work-for-the-poor acknowledges the need for macroeconomic stability, while arguing that the approach should be supported by interventions and initiatives that provide the poor with more market opportunities. Secondly, the approach is based on what is known in the livelihoods approach as a "strength-based approach". In essence, it acknowledges that large numbers of the poor are already engaging in the market economy and that interventions are thus only required to assist them to access these markets more effectively. Thirdly, the approach also challenges the conventional wisdom that poor countries only need investment and resources - an assumption that is fundamentally challenged by De Soto (2000). De Soto's (2000) argument emphasises the importance of unleashing the assets that are available to benefit the poor - more specifically in terms of property assets - in order to formalise the economies of poor countries. In practice, this has led to an emphasis on studies of value chains and ways to impact positively on these value chains. Yet, at the same time, it seems as if the majority of studies on value chains and the practice thereof have been on primary sector producers with only limited examples from urban economies.

Business support changes

As part of this thinking on expanding the role of the private sector in development, on making-markets-work-for-the-poor, and on how this should benefit the poor, some significant changes have occurred in respect of business support (Harper and Tanburn, 2005). This section will reflect on these changes and the justification for these changes. Harper (2005:ix) identifies six main changes in the approach to business support:

A much greater emphasis was placed on the sustainability of the provision of business support services. This means that, in many cases, permanent government or donor funding was replaced by a mere start-up funding approach.

Second, historically, a limited range of services existed at high cost and these were extensively subsidised. This approach was replaced by a "larger range of market-driven and market-priced services, delivered at quality/price mix determined by end-users".

A far more targeted approach towards identifying the target clients was introduced. Historically, business support services managed by government only reached a few businesses effectively. This paradigm shift was intended to place an emphasis on service providers in the private-sector (see also Committee of Donors, 2001). The underlying assumption here is that "This approach emphasises the limited ability of the public sector and or donor organisation to deliver services to small enterprises effectively" (Orford, 2005:21).

The emphasis regarding poverty impact changed from one of "short-term benefits" to one of long-term benefits to providers and clients indirectly benefiting the poor through job creation.

The mainly male clientele was replaced by small-enterprise owners which included females.

Finally, there was a significant shift towards being demand driven in respect of the needs of enterprises. This meant both that the range of services was expanded and that they were mostly delivered on a cost-recovery basis.

In addition to these changes and in line with the approach of making-markets-work-for the-poor, a significant shift occurred towards linking small enterprises within existing markets rather than bombarding enterprises with training or other supply driven services. The underlying assumption in this approach is that once enterprises have accessed markets, they will reinvest in training and other services provided by the private sector.

Although this paradigm shift was significant and should be acknowledged, one should always keep in mind that the "old paradigm" also had positive aspects and that programmes linked to this paradigm have not all been failures. Yet, what the "new" paradigm does bring to the fore is a far more intensive consideration of the effectiveness of business support programmes.

What can we learn from business support internationally?

The section above assessed the role of business support services in the international context. The following lessons should be noted:

Internationally, the links between local economic development, urban renewal, community development, and business support programmes are direct and strategic. In practice, this means that urban renewal programmes and even community development programmes are often directly linked to business support services (financial and non-financial business support).

Subsequently, an effective business support programme focusing on small enterprises might be a much more effective approach towards poverty reduction than mere ill-directed poverty alleviation/reduction programmes or urban renewal programmes that do not focus on business support services.

A more specific focus should be placed on linking enterprises with markets in preference to initiatives overemphasising training and other supply-driven activities.

Despite an emphasis on a larger degree of cost recovery, there is also an acknowledgement that some services will never be financially viable.

Taking into account the specific international lesson outlined above, the following questions relevant to the South African context and the second economy can be asked:

To what extent is business support mainstreamed if one considers, for example, the urban renewal programmes, local economic development plans, and community development. Although a more thorough assessment will be conducted later in the report, it seems that these programmes overemphasise the provision of infrastructure and neglect considering business support to existing enterprises as a mainstream activity.

Poverty-alleviation programmes have been implemented extensively over the past ten to fifteen years, while lately the establishment of co-operatives has been prioritised. Many of these programmes had the intention of becoming financially viable by focusing on people who were not part of the formal (first) economy (Department of Social Welfare, 1997). Many of these programmes failed. One of the reasons for these failures can be related to the fact that they were not managed with business intent, while business support services were also not available to these programmes (Marais and Botes, 2007). Much support seems to be available for the establishment (mostly legal establishment) of such programmes, but with limited support regarding operational guidelines from business support programmes.

The second economy is in many cases directly linked to the formal economy. The Second Economy Review Project (2008) provides specific examples. For example, many street traders are selling brands of multinationals. The important point from the international evidence is that effective business support should effectively develop existing or create new ones that benefit the second economy. The Second Economy Review Project (2008:4) acknowledges this: “Success in doing so requires new forms of linkage and market organisation, with opportunities for co-operation in relation to access to inputs, marketing and mechanisms to access technical support.” Such an approach fits the making-markets-work-for-the-poor approach and emphasises the fact that business support should also focus on making-markets-work-for-the-poor.

A REVIEW OF BUSINESS SUPPORT IN SOUTH AFRICA: CURRENT APPROACHES CONTENT AND DILEMMAS

Having considered the international background and experience to business support, the focus shifts to a thorough assessment of business support since 1994.

Policy

It should be noted that SMMEs only came onto the radar screen of the apartheid government in the mid 1980s with the establishment of the Small Business Development Corporation. Yet, it was only since the transition in the mid-1990s that black-owned SMMEs became recognised in policy (South Africa, 1995). The White Paper on Small Business culminated in the National Small Business Development Act in 1996 (Rogerson, 2004) and resulted in a range of business support institutions. Overall, SMMEs were seen in the Act and the White Paper as plying a crucial role in respect of "employment promotion, redistribution and the improvement in global competitiveness" (Rogerson, 2004:766). In addition, the unofficial new White Paper on Small Business4 (South Africa, 2005) suggests three pillars for the future, namely creating motivated entrepreneurs, unlocking economic opportunities, and building the capacity of entrepreneurs. The pillars seem to be in line with the latest thinking on business support, especially considering the emphasis on the following aspects (Rogerson, 2005b):

- An emphasis on access to markets through public-sector procurement programmes, linking SMMEs to larger enterprises, and franchising;
- Improving access to information and technology; and
- An attempt to remove blockages and obstacles that prevent the forming of new enterprises.

Institutions created

A number of institutions were established after 1994 to implement business support This section focuses only on the institutions created to provide non-financial business support. The main support initiatives were business information, general business management advice and counselling, aftercare, and networking with other service providers. By 2003, approximately 90 such Local Business Support Centres were established (Rogerson, 2004). In addition, a number of additional organisations were established to provide services such as training (Dorfling, 2001). Furthermore, a number of tender advice offices were established to support enterprises wishing to access government contracts in terms of the new regime for public procurement. Finally, the National Manufacturing Advice Centres were established in order to improve the competitiveness of SMMEs involved in the manufacturing sector in South Africa (Boyd, 2002). By 2005, all these mechanisms for business support services have been combined into one institution, namely the Small Enterprise Development Agency (Seda).

Seda was officially launched in 2005. Seda's mandate is to design and implement a standard and common national delivery network for small business support which must be applied uniformly throughout South Africa. The Seda initiative should integrate all government-funded, small-enterprise agencies across all tiers of government. Seda's roll-out plan includes that each municipality will have at least one Business Advisor.

A critical reflection on services since 1994

Despite the range of institutions that were created after 1994 to support SMMEs, the outcomes have been rather dismal. Although the establishment of Seda has, institutionally, been an improvement, there is very little evidence that the overall quality of the service has improved.[5] This section provides an overview of the main points of criticism in this regard.

Prioritising conflicting objectives in policy

It seems that some scholars suggest that far too many objectives and programmes were initially envisaged and implemented, with very little attention given to prioritisation (Manning, 1996). Concern has been expressed that the same policy reflects on a wide range of objectives that include competitiveness, poverty reduction, and black empowerment objectives (CDE, 2004). The result has been that no clear selection criteria are available for these programmes (Rogerson, 1999).

Who benefitted?

Berry et al. (2002) suggest that, despite the overall low utilisation of business support services, larger SMMEs have been more likely to receive such services than smaller enterprises. Other attributes of SMMEs that have benefitted are those SMMEs that have exported, those located in urban agglomerations (more specifically in Gauteng, KwaZulu-Natal, and the Western Cape), and those involved in the clothing and textile industries. On the question whether empowerment objectives were achieved, the results seem to be conflicting. Berry et al. (2002) suggest that black entrepreneurs have utilised these services far more than have white entrepreneurs. Conversely, Rogerson (2004) suggests that the take-up by white entrepreneurs was more significant and that the take-up by microenterprises was the lowest. This obviously begs the question as to the reasons for this and as to the factors that are preventing enterprises from taking up such services.

Awareness

The existing literature seems to indicate that very few enterprises are actually aware of business support initiatives (Berry, et al., 2002; Rogerson, 2004).The African Institute for Community Driven Development (2005) noted that, despite an expressed desire from informal traders for training and business knowledge, very few had any idea where to access such training.

According to Orford (2005), evidence from the Small and Medium Enterprise survey suggests that:

- More than 60% of businesses were aware of the Sector Education and Training Authorities (SETAs).
- Approximately 45% of businesses were aware of the Role of Provincial Governments in Supporting Small Enterprise Development.
- Just below 20% of businesses were aware of the Industrial Development Corporation (IDC).
- Less than a third of businesses had heard of the Competitiveness Fund.
- Less than 15% of businesses had heard of any of the other government support structures.

What is more alarming is that the same survey indicated that only 1% of enterprises had used institutions such as Ntsika, National Manufacturing Centres (NAMACs), Khula, and Brain (Orford, 2005). Orford (2005) further suggests two reasons for the poor levels of take-up:

- Poor marketing and communication; and
- A suspicion that existing business support programmes are of a poor quality and neither useful nor accessible.

A lack of links to other government programmes

Although Rogerson (2004) is of the opinion that the role of these Local Business Support Centres has been linked to local economic development (at least in terms of policy intent), it seems that, in reality, these have not been effectively operationalised.

Quality of staff and poor quality of service

The competence of staff in business support programmes has been questioned in existing literature (Bloch and Daze, 2000; Berry et al., 2002; Orford, 2005). Overall, the quality of existing business support programmes has been poor (Rogerson, 2004; Orford, 2005). Berry et al. (2002), for example, found that the many programmes were characterised by cumbersome administrative requirements that were not conducive to creating confidence in the service.

A lack of business information

Orford (2005) identified a lack of basic business information as a stumbling block in respect of business support services. It should be noted that Seda seems to have made some progress in this regard.

A lack of monitoring and evaluation

Among the main dilemmas of business support programmes have been a lack of appropriate monitoring and evaluation (Rogerson, 2004; Orford, 2005). The nature of inappropriate systems varies from factors as seemingly insignificant as poor data to the fact that very few business support centres can either provide an account of services delivered or of the subsequent business change. The overall result is that limited memory has been built regarding programmes and initiatives that do bear fruit or that fail.

Concentration in main urban areas

The uneven geographical distribution of business support services was also mentioned. This resulted in an overconcentration in larger urban areas (Rogerson, 2004; Orford, 2005).

SMMEs and job creation

In his ten-year review of post-apartheid SMME policy, Rogerson (2004) concludes that the most significant evidence of job creation has been found among medium enterprises. At the same time, job creation among microenterprises is limited while growth in these enterprises also seems to be limited. Yet, Rogerson (2001:17) concludes that “the bulk of employment creation by South African SMMEs is likely to emerge from new microenterprise formations”.

Too much state involvement

A number of researchers have also mentioned that there is too much state involvement in business support programmes (CDE, 2004; Orford, 2005). Strategically, the problem is that government programmes are not sufficiently flexible to meet the demands of enterprises.

The success of NAMACs

Rogerson (2004) is of the opinion that despite severe criticism against the overall business support programmes, the evaluations by NAMAC were far more positive (see also Dorfling, 2001; Orford, 2005). Some of the reasons for success were:

- It was well managed and had quality personnel while a set of core competencies were developed. Orford (2005) argues that staff in general had extensive experience, while competitive salaries were also paid.
- The narrow focus on enterprises in the manufacturing sector ensured that a value- for-money service was delivered. The fact that a proven track record was established contributed in this respect and ensured customer buy-in.
- The NAMACs were run like businesses. This ensured a larger degree of efficiency and a management style to which enterprises could relate.
- Extensive links were built to other programmes of the Department of Trade and Industry.
- The availability of an appropriate diagnostic tool - with which to determine the status of the enterprise - played a significant role.

Despite these successes and the fact that the main service was directed towards black entrepreneurs, it should be mentioned that NAMACs did not focus on informal enterprises or microenterprises. Yet, the narrow focus, sectorally as well as at the enterprise level, was probably the main lesson to be learned from the NAMACs.

General aspects

The focus now shifts from an evaluation of business support programmes to a number of general concerns related to the second or informal economy.

Regulatory problems

Regulatory problems in respect of SMMEs are mostly related the cost of doing business as well as the cost of starting an enterprise. As it is to be expected, a number of concerns are naturally pre-eminent in this respect (CDE, 2004): value added tax, complex other tax issues, labour costs and labour administration, the cost of crime, and poor infrastructure.

Yet, as Rogerson (2004:771) rightfully points out “A critical factor in determining the positive contributions the SMME economy might make to poverty reduction, especially by micro- and informal enterprise, is the policy and support environment offered by local and national governments.” In this regard, reference is made to the fact that appropriate policies and a ‘less hostile attitude” from local authorities could play an important role in the development of microenterprises. Specific issues mentioned include the establishment of formal markets, appropriate policies towards land-use zoning, and improved infrastructure. A more detailed assessment of these aspects will be included in the case studies.

Structural problems inhibiting SMME growth

Rogerson (2004) has identified three structural problems inhibiting the creation and growth of employment under SMMEs:

- The first relates to the fact that many microenterprises are not functionally integrated into modern production structures. In fact, it seems that many of these enterprises want to compete with larger ones rather than linking with the value chain of these larger businesses.
- Most microenterprises will probably not develop beyond one-person operations as they are linked to the retail industry (see also Dewar, 2006).
- Indications of jobless growth seem to be evident in the SMME sector.

Inappropriate education

Research also indicates a number of other concerns in respect of microenterprise development (Orford, 2005):

- The low levels of basic education and sometimes inappropriate contents of education seem to be problematic.
- The basic entrepreneurial skills and attitudes are not always effective enough.

Generic versus sector-specific advice

The availability of NAMACs for the manufacturing sector and the relative success of these centres raised the question whether more sector-specific services are required. Support for such specific sectoral or geographic support came from authors in the tourism sector (Rogerson, 2005a) and those dealing with declining mining areas (Lotz and Marais, 2006). In this regard, Orford questions the approach of LBSCs in that he is of the opinion that these centres focused too heavily on providing generic support to a wide range of businesses.

Synthesis

This section provided an overview of business support institutions in the postapartheid era and the quality of the service that was rendered. Rogerson (2004:771) summarises his findings during a review of business support to microenterprises in the following words: “It has been argued that current national support programmes offer little in the way of support to survivalist enterprises, women entrepreneurs and rural SMMEs.” Rogerson (1999) is further of the opinion that support to microentrepreneurs should come from local government rather than from national government interventions.

In conclusion, a number of points should be noted in respect of business support services in South Africa:

- Official business support services in South Africa are of poor quality, with a lack of focus, and with little differentiation in respect of either the economic sector or the level of the enterprise.
- Business support services are hampered by the lack of skills in the business support environment.
- There is very little evidence that business support services are integrated across different government programmes.
- Business support programmes did not reach microenterprises effectively.

- There still seem to be major regulatory problems at both the business management level as well as the urban environment, and these inhibit
- In terms of the institutional setup, the establishment of Seda is a step in the right direction. Yet, the jury is probably still out on whether the institutional change in respect of business support has culminated in an improved service. Anecdotal evidence in this respect suggests this not to be the case although there are some exceptions.

Given these conclusions in respect of overall business support one might well ask: What then are the implications for enterprises in the second economy?

A realisation that opportunities for job creation within the second economy are limited but not totally out of the question might be a good starting point. This will ensure far more realistic expectations.

It seems that some differentiation is required in respect of both the sector and the nature of the enterprise. Assuming that all enterprises can and will benefit from generic business support programmes will simply not suffice.

Emphasising market access as an essential part of business support seems to be appropriate. Obviously, large parts of the second economy do not allow for market expansion in that they are in the retail sector, but for this reason, sectoral differentiation would be vital. For those enterprises for which market access is an appropriate possibility, the focus should be on linking these enterprises with larger industries rather than on competing with said industries.

The nature of enterprises in the second economy suggests that "mainstream" business advice and training will have only limited impact. Much more can be done with a view to becoming more demand driven in respect of service to enterprises in the second economy.

CASE STUDIES

This section utilises four case studies to consider the success and obstacles related to business support services in the second economy. The intention is to build a memory of approaches towards business support. The five case studies consist of examples where there is a direct approach to business support as well as examples where the emphasis is on facilitation of business support. It starts off with a summary of the Basic Entrepreneurial Skills Development (BESD) Approach of the Department of Labour implemented in association with GTZ.[6] This is followed by a discussion of the Umsobomvu Youth Fund (UYF) voucher system and The Business Place as examples of private-public partnerships in business support services.[7] The focus then shifts to a discussion of the urban renewal programmes[8], business support, and the second economy. Finally, the paper considers LED plans and the second economy at the municipal or urban management level.

The BESD approach

Background

Essentially, the programme provided basic entrepreneurial skills to entrepreneurs in the second economy. These skills were provided by well-trained9 coaches by means of a coaching process at the individual entrepreneurs' business sites. These basic entrepreneurial skills included the following aspects:

- Bookkeeping skills and basic financial management;
- Costing and pricing;
- Marketing;
- Customer care; and
- The development of a business plan.

Although this approach could easily be seen as a supply-driven training programme, it has since been developed as a demand-driven “training” (coaching) programme. The following evidence justifies this point:

- The coaching took place at the individual entrepreneur’s business site (the programme started off with 100 entrepreneurs) as apposed to a classroom training programme.
- The real business environment and business figures of the specific entrepreneur were used during the coaching process.
- The entrepreneur determined the pace of progress and where precise emphasis had to be placed.

All in all, ten coaches provided business skills coaching to 100 entrepreneurs in the second economy. The coaches visited and coached the entrepreneurs for an hour once a week. The coaching process was followed by two additional activities, namely business clubs and business mentoring. The aim of the business clubs was to link the entrepreneurs to market/procurement opportunities and to provide further detailed business information. The mentoring process included the involvement of an established business person with the emerging entrepreneur and preferably someone who could also provide technical assistance relevant to the emerging entrepreneur’s needs. For example, if the entrepreneur was involved in making furniture, the mentor would preferably have some technical background in the manufacturing of furniture - over and above considerable generic business background.

Main findings

The outcome of the programme after one year of coaching to the emerging entrepreneurs seems to be positive. The programme started with the coaching of 100 entrepreneurs. These entrepreneurs came from a range of economic sectors. During the course of the year, 22 entrepreneurs dropped out of the programme. Reasons for not completing the coaching period relate mostly to the fact that many entrepreneurs did not have time to participate. Other reasons included having found employment or having had to care for a sick person in the household. Despite the drop-outs, about 60% of the entrepreneurs increased their clientele, 65% increased their profits and turnovers in one year, 40% increased the range of goods and services they provided, 30% bought new equipment, 15% expanded their premises, and 45% employed extra people (even if most of the employment opportunities were either casual or part-time labour).

Other factors that contributed to success are the effectiveness and quality of the training provided to the coaches. The levels of formalisation were also high, with 55% registering with SARS and the same percentage opening a bank account.10 However, access to finance was low, with less than 10% of the entrepreneurs obtaining loans.

Marketing and customer care played a crucial role in increasing profits. Furthermore, the significant number of emerging entrepreneurs who attributed their increased profits to better financial management should be noted. The evaluation showed that the entrepreneurs who applied the aspects on which they were coached showed markedly better business results. Despite all the positive aspects, it does however seem that the lack of basic numeric skills was the main reason for the inability to apply basic financial procedures and to develop an appropriate business plan. The managerial contribution of GTZ played a crucial role in the positive outcomes of the programme. Supporting existing enterprises rather than trying to create new enterprises seems to build on existing strengths and therefore appears to be a more appropriate response. Labour laws and the subsequent administration related to these laws were mentioned as stumbling blocks by a few emerging entrepreneurs.

Despite the overall positive outcomes, there seem to be some concerns around aspects of land-use zoning and basic infrastructure that the BESD programme could not address. In fact, providing business support to entrepreneurs whose main concern is the location of their hawkers' sites does not address the entrepreneur's main concerns.

Lessons to be learned

Considering the above main findings, the question is: What lessons can we learn from this case study? The following should be noted:

As the basic entrepreneurial skills of people are limited, there is still room for some form of "supply-driven" approaches (training) to business support.

Yet, the nature of this training during this programme (coaching) suggests that the approach was different from the supply-driven classroom approach. To a large extent, the approach to training followed during the BESD approach suggests that a demand-driven coaching approach based on the needs of these entrepreneurs would be appropriate.

The fact that business clubs had to be established and that there was a need for technical mentoring suggests that business support programmes should consider the wide range of needs of entrepreneurs in the second economy.

Basic monitoring and evaluation in respect of business support are vital not only to create the basic information but also to build memory in respect of business support programmes.

Business support to the second economy cannot take place without considering the basic role of the relevant municipality in respect of land-use zoning and basic infrastructure provision.

A school system that produces numerate learners properly equipped with basic numeric skills is crucial to the ability of entrepreneurs to benefit from business support programmes.

The quality of training and management has been instrumental in the success of the programme. At the same time, neglecting these two aspects are the two main risks in replicating the programme.

The results suggest that despite the possibilities of successful replication, a small, but focused approach, not setting too elaborate goals, could well provide appropriate benefits to entrepreneurs in the second economy.

The BESD approach of coaching for an hour, once a week, also takes into account the fact that business support services to individuals in the second economy cannot expect people to leave their enterprises to attend training for a week (interestingly enough also a problem experienced in Britain – see, for example, Bryson and Daniels, 1998).

UYF voucher system

Background

In line with the new paradigm shift (see Section 2), the UYF voucher system involved private-sector role players in providing business development services to emerging entrepreneurs. In principle, the system entailed that a youth entrepreneur[11] could access a voucher from UYF. This voucher provided the entrepreneur with an opportunity to go to a registered service provider in the private sector to obtain a strategic plan (e.g. business plan, marketing plan, etc). The service provider then had to assess the current business or business idea in order to develop the appropriate plan.

Main findings

The main findings based on the evaluation of the UYF vouchers are:

Nearly 90% of enterprises used their voucher to access a business plan.

Only 3.2% of the enterprises noted that they were self-sufficient and successful while 21.3% recorded that they were making good progress after having received funding. A further 30% indicated that they had received assistance but were struggling while the remainder of the enterprises indicated that they had received assistance but that they had not yet started with their enterprise.

Accessing vouchers and good service providers seem to have been easy. Yet, the overall service while accessing the voucher was rated as fairly poor in that nearly two-thirds of the respondents indicated that this service was either poor or very poor.

The most positive aspect related to the voucher systems was the fact that the entrepreneur now had a business plan. The business plan enabled a small percentage (15%) to access finance and further assisted in providing an account of the strategic nature of the business.

The high cost related to appointing new staff was mentioned by a number of entrepreneurs as a main concern.

In general terms, the service of the providers was well accepted by entrepreneurs who cited a number of good aspects such as being satisfied with the services provided (55%) and with the professional help and image portrayed by consultants (37%).

The most problematic issue for entrepreneurs was 'the poor quality work due to the high workload of consultants'. Entrepreneurs quickly sensed that business plans were "cut-and-paste work".

Nearly 50% of entrepreneurs rated the value-for-money of the voucher system as being high or very high while only 17% rated the satisfaction with the end-product as very high or high.

Lessons to be learned

The following main lessons should be noted from this case study:

Creating new entrepreneurs is an extremely difficult exercise.

The service provided by the private sector is probably much better than what it would have been within the public sector, but there are major concerns about the quality of private-sector service providers. In addition, except for the entrepreneur - who will only be able to gauge the quality of the service in the initial phase of implementation - there is nobody that can perform basic quality control.

The cost related to appointing staff is a major concern for emerging enterprises in the second economy.

Providing a business plan without extensive follow-up support does not seem to be appropriate. The implication is that ongoing business support is a prerequisite.

The overall quality of service from UYF and service providers leaves much to be desired.

The Business Place

Background to the programme

The establishment of the Business Place by Investec is in line with the paradigm shift regarding business support services. The Business Place has managed to cluster a number of relevant business support services (private-sector services) within a business-friendly environment. To a large extent, the Business Place is a one-stop information site where the basic information is provided to entrepreneurs. The basic service that are provided by the Business Place (including the clusters of private-sector service providers) include business planning, access to finance, accounting services, legal services, computer and skills training, tender information and advice, import and export advice, and marketing (Orford, 2005). In an interview with one of the executive management members, he suggested that the information-sharing role linked with these private-sector role players is probably the main characteristic of the Business Place. The Business Place has also formed a number of partnerships, amongst others with the City of Johannesburg and the City of Cape Town.

Main findings

Independent evaluations of the customer satisfaction and impact of the Business Place have shown achievements beyond those historically available from Local Business Support Centres or of the current service provided by Seda. The following are significant evidence of success (The Business Place, 2008; Orford, 2005):

Customer surveys indicate that 79% of Business Place customers felt that they had been ‘helped a lot’ by the Business Place and 92% planned to return in the near future. It should be noted that this is in sharp contrast to the findings in respect of Local Business Support Centres.

Customers viewed information and resources as the most important services offered at the Business Place. In the period under review, the Business Place helped start 30 new businesses and helped 102 existing businesses.

The new businesses employed 311 people full time (including 25 of the owners) and 159 people part time.

The aggregate turnover of the businesses helped by Business Place Johannesburg was R4.3 million per month.

The Business Place represents a dynamic public-private sector solution to the need for basic information and business advice for micro and emerging small businesses by providing quality and efficient service.

Lessons to be learned

Orford identified the following critical success factors in respect of the Business Place:

The fact that the Business Place considers co-investors as partners in a partnership model adds value and provides especially local authorities with the opportunities to link business support with their local economic development goals.

The co-locations of a range of service providers under the Business Place umbrella ensures that customers' needs are mostly addressed in a one-stop shop. The co-location is also attractive to service providers.

One-on-one consultations are crucial to ensure that the programme is demand driven.

The role that qualified, friendly, and informative staff plays is also mentioned specifically.

The Business Place has the capacity to capture data and monitor its impact. This is not only valuable to showcase impact, but it also helps to build a memory of programmes that work and enable the institution to adjust in a flexible manner. In discussions with the Business Place, it was clear that large-scale investments have been made while hard lessons have been learned in the past.

The fact that it is possible to replicate the Business Place in franchise form is an added advantage.

The availability of computer facilities and business research materials further enforces the image of a facility that truly provides information.

Urban renewal programmes

Background

The Urban Renewal Programme, comprising of eight urban nodes, was announced in 2001. As no funds were made available specifically for these nodes, the emphasis in the main focus of development in these nodes lay in the fact that it wanted to showcase improved coordination between spheres of government while at the same time improving the living environments of areas that have historically been neglected.

Main findings

There is simply not enough space in this report to provide a comprehensive overview of the Urban Renewal Programme. The intention in this section is thus to consider a number of generic lessons in respect of the interface of the various urban renewal programmes with business support programmes.

First, it seems that too much emphasis was placed on the provision of physical infrastructure. Earlier, we alluded to the fact that business development is one of the main focuses in respect of similar programmes internationally. Although one cannot dispute the relevance of the provision of infrastructure (also because of it advantages to the second economy), the fact that these programmes do not always consider longer-term business development should be seen as a cause for concern. The available documentation, too, easily dismisses this exclusion of a business development approach from the urban renewal programme because of the fact that many of the areas are inherently residential areas and not commercial areas.

Second, even in cases where business development services were seen as a crucial aspect, the emphasis was mainly on the provision of basic business infrastructure (see for example the Galeshewe and Khayalitsha programmes). Once again, the provision of infrastructure to especially the informal traders is crucial, but very little evidence exists to suggest that non-financial business support programmes were mainstreamed to support infrastructure provision - with the exception, that is, of Alexandra. This is further confirmed by Morkel and Zach's (2006) summary of the situation in Galeshewe: "From an LED perspective the approach being adopted favours the development of trading spaces and facilities, rather than the provision of supportive programmes for businesses and entrepreneurs".

The disconnection between the urban renewal programmes and business support services is also a consequence of the fact that there is limited understanding of the role business support could and should play in urban economies. For example, in Alexandra, a business support centre was constructed but was dysfunctional12. This probably re-emphasises the overemphasis on the provision of infrastructure, but it also suggests that business development and the support for that development is not an essential part of urban renewal programmes in South Africa.

Fourth, many urban renewal programmes emphasise the importance of emerging contractors and entrepreneurs to deliver services during the respective programmes (for example Kwamashu and Kayelitsha). At the same time, though, concerns are expressed about the poor service and the inability of these contractors to adhere to contractual obligations and their inability to become independent enterprises. Yet, little mention is made of business support programmes being linked to such contracts. In cases where business support was provided, the quality of the business support was poor (similar to the findings in Section 3) or largely consisted of generic, supply-driven business training. Morkel and Zack (2006) cite one of the project managers in Alexandra who questions the relevance of the training for enterprises in the surrounding area.

Finally, the danger in respect of the urban renewal programmes is that they provide basic infrastructure to residents and enterprises. Yet, it might well be that, despite the provision of infrastructure, the overall regulatory framework of the municipality does not help to support informal enterprises/enterprises in the second economy. The lack of appropriate links between the urban renewal programme and LED efforts has been noted in Galeshewe.

On the positive side, it should be mentioned that the Alexandra support programme has, at least conceptually, considered the link between the enterprises in Alexandra and those more formal enterprises in the near vicinity.

Lessons to be learned

The following main lessons can be learned from the renewal programmes in urban nodes:

Despite the fact that the upgrading of urban services will have an important contribution in respect of enterprises in the second economy, the focus on infrastructure is unidimensional.

There seems to be no integrated approach to mainstream business support processes in the urban renewal programmes. Programmes either overemphasise providing infrastructure or contracting emerging entrepreneurs without considering the added advantage of business support or of an overall strategy to address informal trading.

The international literature has taught us the importance of links between urban renewal and business support. Although there is ample evidence that nodes attempted to improve private-sector involvement, what seems less obvious are attempts to focus on entrepreneurs in the second economy, located in these areas and, in the process, on integrating business support services. Although it should probably be admitted that the current quality of such services is inadequate, there is a visible lack of intention in this respect.

LED plans and the second economy

Background

Under apartheid, local governments were mainly administrative institutions. The 1996 Constitution, in line with a larger degree of decentralisation in planning, provided local government with the responsibility of local economic development. At the same time, the early 1990s also saw a relaxation of regulation in respect of street trading. This resulted in an increase in street trading while the larger exposure to the international economy also contributed to an increase in street trading. This case study briefly reflects on how local government reacted to their informal economies in respect of local economic development. In many cases (already suggested in the BESD approach), one finds an inherent conflict between business support programmes and the formal policies of municipalities in respect of informal trading. The Second Economy Strategy Project (2008:12) summarises this conflict in the following words: “To date, municipalities have all had separate programmes, some of which seem to reduce, rather than encourage, street trading.”

Main findings

Skinner (2000) has already indicated that Durban probably has one of the more accommodating policies in this respect. In addition to a facilitative policy, a strong management team was set up within the municipality while the City Health Department developed a division responsible for street trading and, more specifically, for training regarding trading in food. This approach was followed by large-scale investment in basic infrastructure for street trading which included shelters, storage, and water and ablution facilities. Sufficient funds were also allocated for long-term maintenance. It seems that the urban renewal programme in the vicinity of Warwick Junction has effectively integrated street trading into urban renewal. In 2000, an informal economic policy, which acknowledged the importance of the informal economy to economic growth, was accepted (Skinner and Valodia, 2003). It also seems that this policy recognises interventions and support to this sector as a form of economic development, as opposed to some kind of poverty alleviation strategy. The policy further accepts that a support service should be available through basic skills training, legal advice, health education, and assistance in accessing external finance. Yet, as Skinner and Valodia (2003) acknowledge, the current business support centre, the eThekweni Business Development Centre, has a totally different focus than street trading. Yet, a similar institution was also envisaged for street traders. The eThekweni policy goes further, suggesting stronger links between the formal and informal economies, as well as clustering sectors (Skinner and Valodia, 2003).

However, Skinner and Valodia (2003) are less optimistic about the policy approaches in Johannesburg and Cape Town. In Johannesburg, street traders were relocated in 1999 as a result of pressures from property owners while in Cape Town the management of street trading space was outsourced to trader organisations that mostly had some form of religious affiliation. It should at the same time be acknowledged that land-use management and law enforcement in Johannesburg is in total disarray, inconsistent, and philosophically confused (Silverman and Zack, 2007). Despite the existence of a policy approach accepting informal trading in Bloemfontein, many informal traders in this city still site storage, shelter, and basic infrastructure as problem areas (African Institute for Community Driven Development, 2005). The Second Economy Strategy Project (2008) suggests that much of the regulatory change that has taken place has impacted at the formal end of the spectrum. Many informal traders still need to cope with inappropriate municipal bylaws that inhibit their business progress.

Lessons to be learned

The following main lessons should be noted:

It seems that an approach that emphasises accommodation in a structured manner - rather than regulation - is an appropriate starting point. Dewar (2006) suggests that there is a middle-of-the-road option in which there is neither overregulation nor anarchy.

Despite the fact that street trading has been accepted, planned for and promoted in some urban areas, as yet very little tangible evidence is found of the integration of business support services into street trading programmes.

The positive approach toward street trading in Durban is a result of the healthy financial situation of the eThekweni Municipality. The question remains how cities/municipalities with less viable financial situations actually respond to informal trading.

Bearing in mind the lessons from both the international experience and from Durban, it is clear that a comprehensive approach is required in which the economic advantage of an effectively run policy for informal traders is accepted and supported by a demand-driven business support programme.

RECOMMENDATIONS

The report has synthesised the main findings of each section. The intent here is not to repeat these conclusions, but rather to focus on the main recommendations in respect of business support, the second economy, and urban management. Overall, it should be accepted that possibilities are slim that microentrepreneurs (survivalists, informal traders, the second economy) will create jobs. At the same time, the largest job creation will take place by the increasing number of new microentrepreneurs that will start an enterprise as a result of loosing their job. Business support programmes to entrepreneurs will mostly help to ensure that people involved in the second economy “are less poor” and are marginally more successful. It is therefore pivotal to create support to these entrepreneurs across a range of specific areas.

The following main recommendations are made:

The overall quality of business support mechanisms should be improved as a matter of urgency. One way of improving this is to partner with effective role players in the private sector such as the Business Place or other private-sector service providers in the field. At the same time, mechanisms should be put in place to ensure quality.

It seems that the framework used to conceptualise business support is not well defined.

Business support programmes should be mainstreamed in government programmes aiming to improve the viability of poverty relief and attempting to foster economic development. There is ample opportunity to extend business support services to poverty-relief programmes that intend to be “economically viable”. The same applies to the current drive to support co-operatives.

A far more detailed monitoring and evaluation system should be developed to be able not only to report back to government about successes but also to build a memory of initiatives that are successful or that fail.

Programmes that are more demand driven (one-on-one consultation; on-site coaching based on the needs of the entrepreneur; follow-up programmes; emphasising links with larger enterprises and opening markets for these enterprises; one-on-one mentoring) should be supported extensively as opposed to an exclusive focus on supply-driven programmes such as generic training programmes or business plan development.

Integrated policies and programmes that emphasise the relationship between business support programmes, LED policies, informal trading policies, and urban renewal programmes will have to be developed.

There is an urgent need for the review of all urban regulations and their impact on the informal economies of urban areas.

One could consider creating a focus area in Seda to consider the needs of the informal/second economy. Such focus should be accompanied by an effective working relationship with the respective municipalities and their policies. In addition, specific economic sectors of support within the second economy should be targeted. It simply does not make much sense to focus mainly on the retail sector.

The effectiveness of business support services in general and specifically to entrepreneurs in the second economy should be under constant review.

Although some cost recovery is unavoidable in the longer term, it does seem that some form of subsidisation will remain part and parcel of support programmes to entrepreneurs in the second economy. It should continuously be emphasised that an effective SMME sector is dependent on an effective basic education programme.

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