

# SMME POLICY DIALOGUE REPORT – South Africa

Policy Dialogue “Small, Micro and Medium Enterprise  
(SMME) Development and Inclusive Business – Enabling  
Environment for Successful Entrepreneurship”

**Midrand  
May 20, 2013**

Supported by the Investment Climate & Business Environment (ICBE) Research Fund (a joint initiative of TrustAfrica and the International Development Research Centre IDRC).

## 1) Introduction

The Policy Dialogue took place at the National Youth Development Agency (NYDA) in Midrand, South Africa on May 20, 2013. It was attended by a total of 45 delegates, amongst them representatives from the South Africa Department for Trade and Industry; the Department of Economic Development; the Small Enterprise Development Agency (SEDA); the Afrikaanse Handelsinstituut; ILO; company representatives from Massmart and ABSA; research institutes such as the South African Institute of International Affairs (SAIIA) and Mhetente, the University of Pretoria and GIBS; as well as a large number of representatives from SMMEs and the host, NYDA. The workshop was organised and implemented by the Southern Africa Trust and Tushiyah Advisory Services.

The facilitator, **Thuli Magubane** welcomed the participants introducing the agenda and the underlying concept of the Policy Dialogue with regard to SMME development and inclusive business. She emphasized that SMMEs are the engine of a country and requested an intense and open dialogue between these SMMEs, the researchers, the government, larger companies and other present stakeholders.

**Siviwe Mkoka** from NYDA welcomed the participants and gave a brief overview on NYDA's activities, which is to make the South African society aware of the youth issues and give grants to very small enterprises but also support young entrepreneurs in a non-financial way.

## 2) Research concept and inclusive business

**Ullrich Klins** from the Southern Africa Trust briefly introduced the context of the research study, which is one of five studies that analyse the situation of SMMEs and the implementation of the inclusive business concept in the countries Malawi, Mauritius, Mozambique, South Africa and Zambia. TrustAfrica supported the studies and each of them was based on comprehensive desktop studies and interviews with representatives from SMMEs, larger firms and government. The policy dialogue in South Africa serves the purpose to inform policy makers and the private sector on the research results and discuss the relevant recommendations of the research study.

He further explained the concept of inclusive business and the work of the Southern Africa Trust. This work covers the development of the Business for Development (B4D) Pathfinder Tools, in particular the B4D Pathfinder Barometer and Toolkit. Companies that have already started or aim at starting the implementation of inclusive business activities can use these tools to assess their inclusive business performance and get guidance on how to implement their inclusive business practices on the ground. The tools are developed and tested jointly with the companies.

## 3) Keynote Speech

**Mathubi Modiba**, a board member from NYDA emphasized that the majority of start-ups are failing within the first five years of their existence. Although the development of SMMEs leads to job creation, the challenge is to sustain these new enterprises. For the global level, UNDP has identified five challenges for inclusive business practices, namely the lack of market information, skills, access to financial services and within the regulatory environment. In particular, young people make up a high percentage of the failing SMMEs in the country therefore the NYDA supports young people in enterprise development.

The government legislation, according to the latest Global Entrepreneurship Monitor (GEM) report (2012), ranked as the second most important contributing factor to the growth and development of SMMEs, first contributor being education. Thus, there are sufficient policies on enterprise development. However, the challenge lies in their implementation. Currently, there is a government commitment to improve the BBBEE scorecards; to foster entrepreneurship.<sup>1</sup> But still, retailers struggle to work together with SMMEs due to quality and quantity requirements. For instance, the retailers must guarantee food safety to the (final) consumers. SMMEs therefore might need some handholding to achieve the required standards and supply larger supermarket chains.

Recently, some regulations that affect SMME development have led to positive impact. For example, the government required from Massmart to source from small-scale farmers before they were given a concession.

The keynote speaker ended his presentation with the words: “We need an appropriate response to the challenges of SMMEs in a collective manner”.

The facilitator suggested that private sector needs to offer a platform for upcoming entrepreneurs to better implement inclusive business. This could lift SMMEs to a higher level and lead to more inclusive business practices. In the USA, for example, SMMEs are responsible for 92% of the economy and for about 60-80% of newly created jobs. Entrepreneurial thinking is already incorporated into teaching at school.

#### **4) Presentation of the research results and recommendation**

**Marisa Truter** from Tushiyah Advisory Services comprehensively presented the study on SMME development and inclusive business in South Africa. In the first part of that presentation, she described the legal framework for SMME development, the support structure in place and the hindering factors for SMME development. The enabling environment in South Africa is characterised by a robust but also complex network of political strategies, plans, policies and legislations. This, in some cases might even lead to confusion as there is a framework for (i) SMME development; (ii) industry sectors (charters, e.g. in the field of mining); and (iii) Broad Based Black Economic Empowerment (BBBEE). These frameworks are partly overlapping. In addition, South Africa’s regulatory costs relative to the GDP are more than double of comparable economies.

Since 1994 – legislation was drafted to support SMMEs – leading to a significant increase in small businesses being registered.

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<sup>1</sup> B-BBEE stands for Broad-Based Black Economic Empowerment. The objective of B-BBEE is to ensure that the majority of South Africans, whom are defined as being black people across all socio economic levels, are able to participate in the positive benefits of empowerment. The concept of Broad Based BEE was introduced by the Codes of the Practice. 7 B-BBEE Elements are now used to measure a company’s commitment to transformation. The B-BBEE Codes of Good Practice can be seen as the BEE rule book. The Codes provide universal standards for the implementation and measurement of BEE initiatives, with the view of providing consistency, transparency and clear direction on BEE. Through the use of a BEE Scorecard, the Codes have thus seen BEE become an objective discipline with quantifiable and defined criteria and rules.  
<https://www.bee123.co.za/Marketing/FAQs>

a) Government's strategies cover the:

- White Paper on the national strategy for the development and promotion of small business (1994), which paved the way for the establishment of the then called Small Business Development Agency taking on the responsibility to develop more small businesses.
- Accelerated and Shared Growth Initiative for South Africa (AsgiSA, 2006)<sup>2</sup>, which led to the development of government interventions to support small enterprise development, such as:
  - The competition policy;
  - Tax reforms;
  - Review of labour laws;
  - Improvement of the regulatory environment for SMMEs in municipalities; and
  - Sector specific departments to improve their regulations to support SMMEs.
- National Development Plan (2012) provides improvements on the existing regulatory and non-regulatory framework for SMME development through new plans and policies. It deals with the promotion of integrated and inclusive rural communities.
- National Growth Path (2011), which provides a framework for an increase in the ease of doing business, offering targeted support to SMMEs through microeconomic and macroeconomic interventions.

Specific strategies that focus on SMMEs are:

- Integrated Small Business Development Strategy (2003);
- Integrated strategy on the promotion of entrepreneurship and small enterprises (2005).

b) Government's frameworks and action plans cover the:

- Industrial Policy Framework (2011) - a framework for incentives, markets, trade tariffs and initiatives for SMMEs.
- Industrial Policy Action Plan (IPAP 5, 2013) that focuses on developing comprehensive interventions, which will include, where applicable, trade measures, support for local procurement, financial assistance for productivity-enhancing investments, financial assistance for the development of competitive 'clusters' and appropriate infrastructure development. Specifically relating to agriculture, the outcome of the plan will be accelerated growth in the food-processing sector, opening up opportunities for small scale farmers and SMME manufacturers.
- National Local Economic Development (LED) Policy and Strategy Framework (2006)

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<sup>2</sup> ASGISA lead to promoting affirmative procurement through programmes such as: Establishing set-asides, the department of public works' public works programme, integrating SMMEs in government infrastructure projects, persuading private sector to consider affirmative procurement; increased monitoring of timely payment from government to small enterprises.

c) Government's laws cover, for example the:

- National Small Business Act (1996), substituted by section 5 of Act 29 (2004);
- Skills Development Act (1998);
- National Empowerment Fund (NEF) Act (1998);
- The Industrial Development Act (1940) amended by the Amendment Act of 2001;
- The Companies Act (2008) and the Companies Amendment Act (2011);
- Preferential Procurement Policy Framework Act (2000) & BBBEE Act (2003, amended and substituted by the amendment Act of 2007): much progress has been made to establish a supportive policy and legislative environment for targeted preferential procurement, making South Africa one of only a few countries in the world to have procurement subject to its constitution.
- Sector specific charters (mining and others);
- Cooperatives Act (2005); etc.




This robust and complex regulatory framework also leads to confusion within companies, organisations and, in particular SMMEs. Organisations seem not to know which takes precedence. This confusion also seems to exist between the sector specific charters and the BBBEE codes. Some larger organisations feel the BBBEE codes are the most reliable.

Moreover, business feels left out and not being engaged to give input into its design and development and only a minority of SMMEs are aware of the current legislation and also do not know how and where to access this information. On the other hand, the current BBBEE regulation focuses too much on the ownership by black people and too little on SMME development. It also needs to be noted that by-laws change from municipality to municipality

Still, most companies view SMME development as core to their own sustainability and government departments and agencies have an important role in developing SMMEs. Companies thus work complementary to existing programmes providing business support and access to markets.

Similar to the complex regulatory framework, there is a variety of governmental organisations, development agencies and private sector entities that are part of the South African support structure for SMME development (see figure 1 below).

Figure 1: SMME support structure in South Africa (not exhaustive list)

Government	Development agencies / organisations	Private sector
		

It was therefore recommended that support agencies can assist SMMEs at different *periods of the lifecycle* rather than all organisations focusing on the period of the start-up. There is a need to categorise SMMEs and to provide different support services/programmes to the different entrepreneurs. It needs to be considered that in South Africa there are more necessity-driven entrepreneurs than in many other countries.

There is a series of hindering factors based on the current regulatory framework and the given support structure. According to the Global Entrepreneurship Monitor (GEM) report of 2011, policies, financial support and education & training are regarded more critically as in other countries (see box below).

Constraining factor	South Africa	Other countries
Government policies	70.3%	46.6%
Financial support	59.5%	49.1%
Education & training	35.1%	27.1%

(GEM 2011)

The specific challenges of SMMEs are as follows: SMMEs do not know where to access marketing support and lack marketing and selling skills, whilst larger organisations lack of information and data on SMMEs' profiles. Moreover, SMMEs face the challenge of servicing more than one client. With regard to the lack of access to funding and the current high interest rates, SMMEs are seen as high risk and need surety to be provided with funding. Professional support is lacking from support structures. There is also a lack of operational funding and cash flow and in addition, SMMEs struggle to manage the cash-flow and money is spent on items not business-critical. Furthermore, SMMEs suffer from high import costs (e.g. in the field of manufacturing of textile) and are joining forces by buying in bulk (silo mentality).

As in the other target countries of the research project, the availability and affordability of skilled labour causes challenges for the SMMEs in South Africa, added by existing strict labour regulations, which are regarded as onerous by SMMEs as these limit their productivity. On the other hand SMMEs are unable to supply on-time, at the right price, delivering the required quality and quantity, which is accompanied by stock and raw material shortages, also caused by theft.

As in the other target countries of the research project, SMMEs face the challenge of lack of technical and business skills. Irrespective of support structures, SMMEs struggle with the:

- lack of entrepreneurial education;
- Lack of business planning;
- Lack of experience;
- Lack of innovative & creative thinking
- Slow progress in mind-set change;
- Difficulties to attend workshops (capacity); and
- Information not always reaching SMMEs.

Finally, there are specific challenges resulting in doing business in South Africa, such as the recent economic recession; inefficient government departments due to bureaucracy and corruption; existing (demanding) registration processes; and strict tax regulations. In South Africa, SMMEs have a developed a dependency and expectancy on government to provide and a mind-set that opportunities will fall onto their lap. On the other hand, SMMEs tend to apply for all available tenders of the government rather than focusing on real opportunities ("Tenderpreneurs"). It is also difficult for SMMEs to get access to affordable land close to the target market.

### ***Inclusive business***

With regard to inclusive business, larger companies still lack interest and a solid understanding of the possible opportunities. Many companies also emphasised their own lack of capacity (e.g. training of SMMEs) as well as internal barriers to developing inclusive business models e.g. initiatives are not sufficiently supported and led by top management. It is therefore also cited as an additional risk within companies and inclusive business models may be dismissed by business units because they are perceived as sole social cost centres, pointing to the fact that larger firms still have misperceptions about inclusive business, whilst inclusive business could in fact add business value and should not necessarily be seen as a business expense. This should be adequately illustrated and communicated to large companies, possibly through incentivising legislation, bearing in mind global best practices and lessons learnt from BRICS countries' experiences.

An additional obstacle is that supply chains at large firms are staffed by individual purchasing officers who are most often incentivised to minimise the cost and risk attached to the purchasing function. Some experts argue that smaller firms tend to be costlier, require more effort to develop a number of relationships and are often perceived as having a higher risk profile, neglecting functions and funds for supplier and enterprise development. Moreover, staff being allocated to implement this role, are also often fulfilling other roles within the company.

On the other hand, there is a lack of shared commitment to initiatives from the recipient communities and from other key partners, as well as a lack of shared goals. Poor management of partner NGOs as well as poorly equipped, trained or an illiterate community partners add to this.

Ms Truter therefore presented positive examples of companies doing inclusive business in South Africa, such as Nandos, Massmart, Pick 'n Pay, Peppadew and PEP Stores.

The presentation was stopped at that stage to allow a discussion in the plenary whilst the actual recommendations were illustrated in a second separated presentation.

## **5) Discussion of the results of the research project**

With regard to the involvement of companies in the policy development it was mentioned that SMMEs indeed are not aware when policies are developed, but on the other hand “policies is not developed every day”, it has a life span of e.g. 10 years. It is implemented after a longer stakeholder consultation process.

Thus, SMMEs need to know about the implementation as well. The Department of Trade and Industry (the dti) is aware that SMMEs lack awareness of existing support options, in particular as the key governmental support agency for SMMEs, the Small Enterprise Development Agency (SEDA) is not present in every community, but has established some 40 hubs. On the other hand it was argued that too many interferences by Government's cause challenges rather than solutions in the private sector. It was stated by the government that the attitude of the support structure in providing services towards SMMEs need to be changed (improved) and the services shall be better coordinated. Still government requests to be informed about clear examples of failures rather than being generally criticised.

It was questioned whether support organizations such as SEDA have understood the requirements of larger firms by themselves and whether they can translate these requirements properly to SMMEs.

In the field of agriculture, the initiative Making Markets Work for the Poor was regarded as very effective.

Apart from the government, companies were also requested to play a bigger role in SMME development and inclusive business. Currently, a company is already seen as successful when its activities go beyond the legal requirements. However, the economic and social potential of these activities is by far made higher than what is implemented now.



## 6) Recommendations of the research study

Ms Truter presented her recommendations addressing the key target groups (see table below).

**Table 1: Recommendation for key players in SMME development**

Government	Legislation	Support structures	Larger companies	SMMEs
<p>Address skills shortages in government &amp; improve implementation capacity.</p> <p>Address fraud &amp; corruption.</p> <p>Strengthen SEDA – responsible for aligning SMME development:</p> <ul style="list-style-type: none"> <li>○ Improve their budget.</li> <li>○ Improve staff retention and access to staff with skills &amp; experience.</li> <li>○ Extend SEDA's reach in rural communities.</li> </ul>	<p>Improve entrepreneurial education in schools - change mind-sets from being workers to being job creators.</p> <p>Involve business in the design and development of legislation.</p> <p>Communicate legislation more effectively.</p> <p>Provide a common platform where legislation can be accessed.</p> <p>Develop incentives for the BBBEE scorecard, i.e. tax incentives.</p> <p>Review legislation or the effectiveness of departments dealing with:</p> <ul style="list-style-type: none"> <li>○ Company registration.</li> <li>○ Application for tax clearance certificates and application for VAT registration.</li> <li>○ Tax regulations for SMMEs .</li> </ul>	<p>Coordinate efforts of supporting organisations – target SMMEs at different stages of growth.</p> <p>Avoid duplication of support - develop a shared portal where support provided to SMMEs, are documented.</p> <p>Communicate support more effectively:</p> <ul style="list-style-type: none"> <li>○ Provide a single platform where all the support is communicated.</li> <li>○ Do road shows in rural communities advertising opportunities.</li> </ul> <p>Deliver training and business support in local languages.</p> <p>Cluster industry specific training &amp; support together.</p> <p>Support services to be more accessible, especially in rural communities.</p> <p>Financial support:</p> <ul style="list-style-type: none"> <li>○ Reduce red tape in applying for finance.</li> <li>○ Reduce interest rates.</li> <li>○ Increase turn-around time with approval of loans.</li> <li>○ Provide a combination of grant and loan funding especially for start-ups.</li> <li>○ Payment of invoices on time (preferably 50% payment upfront or 7-day payment from date of invoice).</li> </ul>	<p>Rise to the challenge of incorporating SMMEs into your value chain:</p> <ul style="list-style-type: none"> <li>○ Make it top management's responsibility.</li> </ul> <p>Develop SMMEs especially in sectors where products/services are currently imported:</p> <ul style="list-style-type: none"> <li>○ Provide a secure access to markets.</li> <li>○ Allow time to break-even/achieve economies of scale.</li> <li>○ Provide flexible funding opportunities.</li> </ul>	<p>SMMEs must be encouraged to build enterprises in demand driven environments.</p> <p>Enterprises to be build on sound business models backed up by solid research, i.e. real opportunities.</p> <p>Improve options of SMMEs to buy in bulk and make use of bulk discounts.</p> <p>Cluster products and services together to deliver on large contracts, i.e. Nandos &amp; Massmart:</p> <ul style="list-style-type: none"> <li>○ A warning – cooperatives being established to play this role – money being received for establishment – no real joint effort exists.</li> </ul> <p>Business management skills and experience to be obtained:</p> <ul style="list-style-type: none"> <li>○ Better negotiations and sales.</li> <li>○ Better cash-flow and record keeping.</li> <li>○ Better technical skills and operational processes.</li> </ul>

In this context, Ms Truter also highlighted the key role of Public-Private Partnerships to improve the current situation.

## 7) Discussions of the recommendations of the research study

In the discussion, it was emphasised that there need to be a change of the mindset of larger companies to involve SMMEs into their core business and not only in the support functions of their value chain. The concept of inclusivity should also be more reflected in relation to the various development stages of the SMMEs and the type of entrepreneur. For example, there are entrepreneurs who will be successful without any assistance by the Government or the private sector. On the other hand, there are entrepreneurs who are “hospitalised”, i.e. they receive too many services (free of charge), such as for example business plans that are written for them (often copied and pasted, with faked figures and therefore useless).

It was mentioned that the South African government currently changes the BBBEE codes of good practice and should use this opportunity to stronger incorporate the concept of inclusive business.

## 8) Presentation of Mthente

**Andre Le Grange** from Mthente, a research and consulting services company presented findings on their research on support needs of SMMEs. The presentation included the gathered knowledge from various other Mthente studies done in the field of SMME development e.g. with regard to assistance from support agencies; the role of the private sector; and reducing the red tape. The challenges of SMMEs identified by Mthente were the same as in the above research study by Tushiyah Advisory Services.<sup>3</sup>

The general support required by of SMMEs would therefore need:

- Incubation that is more sector-specific,
- Assistance to improve the quality of products and services to meet recognised standards,
- Support to improve understanding of existing markets,
- Assistance to develop new, innovative product and service offerings,
- Support to build or strengthen relationships with large enterprises.

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- Lack of access to finance:
  - Unable to access credit facilities offered by formal financial institutions;
  - Lack knowledge and information on where to access finance.
- Difficulty accessing markets due, in part, to difficulty supplying products and services to the required standards;
- Lack of access to funding and equipment to improve product quality and make products more competitive;
- Lack of experience among owners and managers in enterprise management;
- Lack of sector-specific expertise:
  - Inconsistencies in cash flow;
  - Exacerbated by long payment cycles and delays in payment for completed work ;
- Lack of entrepreneurial skills and mindset as well as business acumen;
- Lack of business planning during start-up phases;
- Lack of understanding of market needs and a lack of capacity to undertake market research;
- Skills shortages, particularly with respect to technical skills and business skills;
- Fragmented support stemming from a lack of coordination of support provided by various entities;
- Lack of innovation and creativity, particularly with respect to product development;
- Difficulty accessing land or securing operating premises; and
- Red tape and regulatory processes and procedures that stifle business growth.

However, current information on upcoming training courses is communicated too late and not enough marketing is being made by support agencies. There are also concerns about the extent to which business plans that sometimes are provided to SMMEs are implementable in practice. A gap has been identified in the follow up support and mentorship by the support agencies after initial support has been provided. Too much focus is laid on *numbers* of SMMEs supported rather than on the *quality* of support. The length of time agencies take to respond to applications was assessed as being too long and products and services are pitched at a level that is too high for some SMMEs. Finally, there is an insufficient integration of support offerings within the existing support structure in South Africa (lack of coordination of efforts). Finally, there is a lack of sector-specific expertise, knowledge and experience among SMME advisors and trainers. Instead, the support agencies try to implement a 'one size fits all approach' to the provision of support to SMMEs.

Similar to the research recommendations made by Tushiyah Advisory Services (see above), Andre Le Grange suggested to:

- Improve the alignment of agency support strategies, in particular with regard to the context and needs of SMMEs operating in rural areas of the country. This includes the coordinated provision of services and follow-up support to SMMEs after initial support has been provided. Beyond a better alignment, the governmental support agencies shall also create partnerships with private sector support initiatives and sector-specific bodies (like Mintek and SASOL ChemCity) that are running incubators and innovative enterprise development programmes.
- Use other official languages, in addition to English, as mediums to communicate with SMMEs and provide support to them.
- Introduce sector-specific business advisors and trainers, with expertise in designated sectors.

The support agencies, such as SEDA shall move away from focusing on the quantity of SMMEs supported and towards fostering the quality and sustainability of support. In this context, it is crucial to introduce more stringent assessment and qualifying criteria for SMMEs seeking support with a view to 'picking winners' (screening). Moreover, and in concordance with the results that Tushiyah Advisory Services presented support agencies shall develop a more pro-active marketing strategy for SMME support programmes, products and service offerings. Finally, they shall promote the benefits of learnerships and apprenticeships for both large companies and SMMEs.

Andre Le Grange recommended to also allowing greater freedom for provincial offices to customise their support offerings to the specific circumstances and needs of SMMEs operating in their province.

## **9) Discussions of the results and recommendations of Mthente's studies**

In the discussion, it was highlighted that service provider of training should consider a needs assessment on how long it will take SMMEs to get integrated into the company's value chain.

It was also mentioned that the right selection of the SMMEs is important: "it's all about the correct timing and assessment of individuals." On the other hand, there was scepticism that support agencies have the capacity to implement this idea. In this context, there was a recommendation to first analyse the large company's needs (and thus the markets) rather than analysing and advise the entrepreneur first.

It was questioned whether the products delivered by SMMEs are the relevant products: as a positive impact on SMME development by delivering the current products is not perceived, the relevance of these products for SMME development shall be reviewed.

One representative of the government expressed three concerns:

- It needs to be made clear and distinct what is meant by S-M-E and S-M-M-E, these acronyms cover micro but also medium sized companies and the conditions for these two groups are different. Thus, it needs to be made explicit about what the presenters and participants are talking.
- The potential of inclusive business activities is seen however, this approach can also lead to bigger asymmetries of power and to exploration.
- Many participants and presenters talked about the change of mindset. However, the analysis should not be reduced to mindset issues; there are clear obstacles for SMMEs such as access to markets, finance and education. These are the “real issues”.

## 10) Presentation of ILO

After an introduction on ILO’s development objectives for SMMEs, Jens Dyring Christensen described a baseline study of entrepreneurial intentions and activity amongst young men and women called “The state of youth entrepreneurship in the Free State”. The objective of the study was to get more information on young peoples’ attitudes and perceptions of entrepreneurship, constraints they face, entrepreneurial intentions and activity. It revealed a positive attitude towards entrepreneurship and entrepreneurs in general:

	(%)	(%)
<b>Preferred career choice:</b>	<b>Men</b>	<b>Women</b>
“have my own business” <sup>4</sup>	52.3	45.1
“work in the government”	18.7	22.1
“work in medium/large business	10.1	9.9

Furthermore, a total of 37.3% of addressed young people believe they have the overall knowledge, skills and experience to start a business and there is a general optimism to come up with own business idea. However:

- 52.3% feel that becoming an entrepreneur would be “challenging” or “very challenging”;
- 29.7 % feel that becoming an entrepreneur would be “easy” or “very easy”;
- 61.9% “unable to get appropriate funding”;
- 42.6% “too great a financial risk”; and
- 5.6% “It is too much work”.

It was mentioned that the Total Early-Stage Entrepreneurial Activity (TEA) Index in South Africa is around 8.9% for adults and only 1% for young people – whilst TEA in Uganda is at 25%. Moreover, around 60% of the respondents do not see a business opportunity coming up in the next 6 months nor do they regard themselves as skilled to start a business.

Further statistics of that study show that 90.9% of the surveyed people take advantage of an opportunity, whilst only 25.5% of them operate a registered business (low levels of formality).

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<sup>4</sup> However the study does not give information whether the implications of being an entrepreneur are clear to the respondents.

Interestingly, 90.9% of them have never made use of a government support program, and 61.8% make enough money to survive and expect future growth of their business. In contrast to the current failure rate of SMMEs, 92.7% believe they will still be in business in 5 years time.

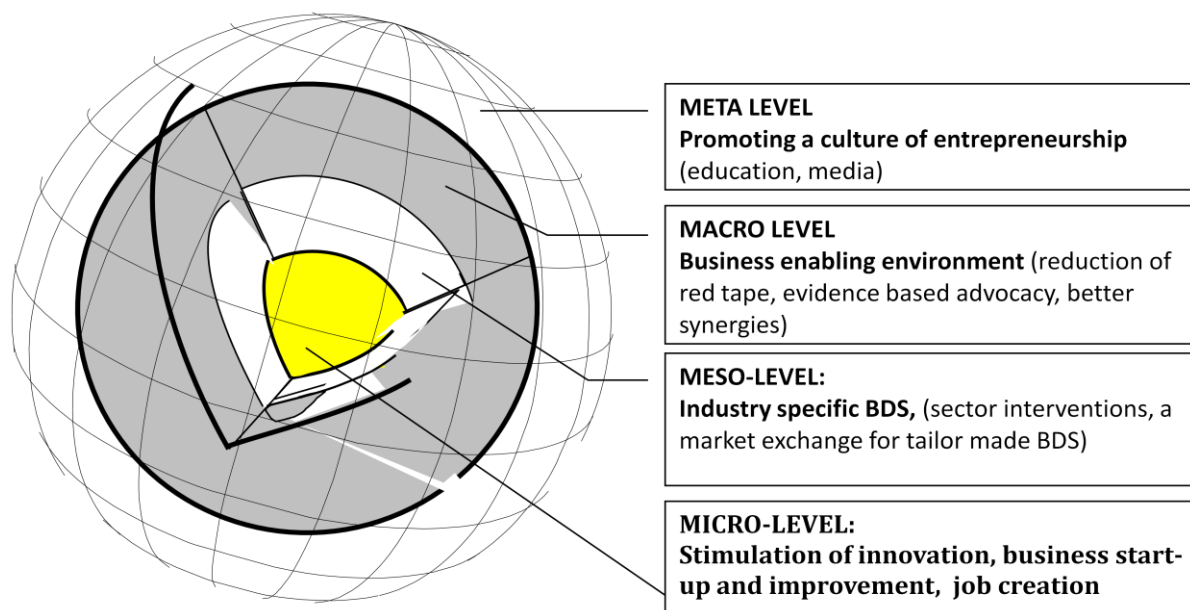
Mr. Christensen highlighted that the high failure rate of SMMEs in (South) Africa is not so much caused by the existing regulatory framework or the support structure. The failure happens earlier as business thinking is not part of the education system. The educational system should create more entrepreneurs.

In this context, potential entrepreneurs are those who perceive there to be good opportunities for starting a business in the next 6 to 12 months and believe they have the required skills. Although access to finance is frequently listed as the highest challenge for entrepreneurs the problems rather lay in (the lack of) skills and the unrealistic expectations of being an entrepreneur rather than the hard work that might cause success. Individuals who are confident that they possess the skills to start a business were 4 to 6 times more likely to engage in entrepreneurial activity whilst those who saw good business opportunities in their area were 3 times more likely to be involved in entrepreneurial activity.

The presenter gave the following recommendations:

- The introduction of entrepreneurship education as a compulsory subject in primary and secondary schools is important to inculcate a positive attitude towards entrepreneurship and self-employment as a viable future career choice.
- Business studies should include a stronger focus on entrepreneurship as a life skill to foster problem-solving skills and self-confidence.
- Provision of finance for start-up businesses must be coupled with continuous mentorship, training and access to support services.
- Government support programmes and initiatives must effectively target their markets as research has shown that many young entrepreneurs are unaware of the programmes available.
- Making entrepreneurship a more desirable and feasible choice for young people<sup>5</sup> will only be worthwhile if an entrepreneurial ecosystem is created (see figure below).

**Figure 2: Ecosystem for Sustainable Enterprise Development**



## **11) Presentation of the South African Institute of International Affairs (SAIIA)**

**Lesley Wentworth** from SAIIA then presented her thoughts on the enabling environment for successful entrepreneurship. She started with a description of Base at the Pyramid (BoP) models and defined the inclusive business from a business perspective focusing on the increasing economic opportunity at the Base of the Pyramid in:

- Sourcing from small scale producers;
- Distribution through small scale enterprises; and
- Selling to lower income segments.

These corporate concepts had been criticised for being short-term oriented and consumption-focused, and thus were not regarded as sustainable option. New corporate thinking, therefore should involve close, personal relationships with BoP communities, whilst civil society organisations could act as an informal bridge, levelling the field of communication in partnerships between business, government and the affected (low-income) communities. According to Mrs Wentworth companies such as FNB, SAB Miller and ABSA implemented some positive examples in the field of inclusive business.

Challenges for SMMEs can be seen in the different ways and thus confusing legislations that have an impact on SMME development (see above). Moreover, the lack of clear, accurate statistics presents a challenge to developing effective policies and support schemes for small enterprises. To achieve successful and profitable integration of SMMEs in the value chain of companies it is crucial to understand their needs and conditions on the ground.

The difficulty in accessing finance remains in the top three constraints in several surveys and SMME studies in South Africa. However, a significant number of entrepreneurs did not keep financial records, whilst cash flow difficulties can be significantly reduced by keeping a cashbook, a record of debtors, and practising active debtor management and controlled inventory. Consequently, a priority policy requirement in South Africa is the mentorship and training programmes addressing financial management challenges for SMMEs.

Points identified as success factors for SMMEs cover:

- Organised collaboration amongst communities, the government and the formal and informal SMME businesses;
- Appropriate financing and cost recovery systems;
- A reliable integrated business support system with an integrated information system to build capacity, drive action and monitor performance;
- Relevant incentives, not stifling protectionism;
- Project planning with built-in scalability for sustainable growth with support at community level; local - and national government level (and donor support).

## **12) Discussions of the results and recommendations of LIO's and SAIIA's studies**

In the discussion, it was confirmed that bringing entrepreneurial thinking into the school system is an important success factor for SMME development. It was however, requested to bring the given information more into the rural areas and into the municipalities. The representative of ABSA briefly introduced a procurement portal; a virtual market place that the company has developed for buyers and

suppliers. The Enterprise Development Unit of ABSA does the project and users do not need to be ABSA clients (<http://www.absa.co.za/Absacoza/Small-Business/Accessing/Procurement-Portal>).

### 13) Action Plan

Based on the recommendations of the research study by Tushiyah Advisory Services (see above), the following questions (based on recommendations) were selected and discussed in two groups. It needs to be noted that many participants had left the event at that stage.

<p><b>Group questions</b></p> <p><b>How can government or agencies improve coordination between the supporting agencies to avoid duplication?</b></p> <p><b>What else can government do to support companies?</b></p> <p><b>Who make an effort to conduct inclusive business?</b></p>
<p><b>Required Actions</b></p> <ul style="list-style-type: none"> <li>Analyse the gaps and infrastructure</li> <li>Involve the chambers</li> <li>Map/matrix (who what where when of supporting agencies)</li> <li>National coordinating platform</li> <li>One stop shop (Business Place, ILO etc), including all players after a diagnostic first check</li> <li>Clear communication between the support agencies and, in particular to SMMEs which agency is responsible for which support</li> <li>Providing service for SMME for life cycle, i.e. the involved agencies should not all focus on the start-up phase of SMMEs but some shall be responsible to do the follow up after different time intervals</li> <li>Two zone centers (SMME support in townships and villages) need to be analysed and stronger capacitated. The reach of the various support agencies need to be improved Improve the reach of various agencies</li> <li>Tertiary education better linked to supporting agencies</li> <li>Change measurement of SEDA e.g. that they are not measured against what they are not doing (currently fully detailed role not given)</li> </ul>
<p><b>Group questions</b></p> <p><b>How should a supplier development programme look-like?</b></p> <p><b>What are the key factors needed to make it successful?</b></p> <p><b>How can companies develop a mindset change with regards to inclusive business?</b></p>
<p><b>Required Actions</b></p> <p><u>Short-term:</u></p> <p>Develop an Electronic database in each region.</p> <p>Role of the chambers not fully utilised - Local procurement policy - strengthen initiatives at local level.</p> <p>Incentivise big business – incentives do not necessarily have to be monetary.</p> <p><u>Mid to long-term:</u></p> <p>Consolidated databases nationally, provincially and locally - custodians at local level.</p> <p>Allow chambers play a role in facilitating inclusive business and supplier development and support.</p>

After the group work, the teams were then given the opportunity to present back to the full delegation. The results of the break-away groups were briefly discussed. In terms of access to finance, it was suggested that funders should have a guideline

Constant dialogues will be required to jointly further develop SMMEs, increase inclusive business practices, strengthen the support organisations for SMME development. The Department of Economic Development therefore suggested to establishing a high-level discussion platform of agencies and key players to take the proposals forward, including the Presidency, the dti and the Department of Economic Development itself. In their “SMME Economic Society”, which is a colloquium of important players of SMME development they will identify partners for an ongoing policy dialogue. The following institutions and organisations volunteered to be involved: SEDA; the dti; NYDA; SEFA; ILO; Southern Africa Trust; Tushiyah Advisory Services; and Mthente.

The meeting was closed by Tushiyah Advisory Services.



## Appendix 1: List of Participants

Name	Surname	Company	Sector
Basani	Mametja	ABSA	Private
Christo	Van der Rheede	Afrikaanse Handels Instituut	Private
Lionel	Billings	Business Partners	Private
Leida	Schuman	DAI	Private
Alfred	Legoabe	Dept. of Co-op Governance	Government
Brian	Zondo	Dept. of Economic Development	Government
Refiloe	Ogude	Dept. of Economic Development	Government
Mapenane	Moseamo	Consultant - Free State fruit market	SMME
Korkor	Cudjoe	GIBS	Academic
Jens Dyring	Christensen	ILO	Non-Profit
George	Serokane	KG Jewellery Manufacturing	SMME
Ntebaleng	Mofokeng	Kudu Taxidermy Co-op	SMME
Fanafikile	Lephakha	Lamzaman Trading CC	SMME
MK	Sizwe	Land Bank	Private
Nozuko	Bula	Massmart	Private
Nokwazi	Mzobe	Matoyana	SMME
Thuli	Magubane	Mint Fresh	SMME
Andre	Le Grange	Mthenthe	SMME
Itumeleng	Mokhathi	n/a	SMME
Gladys	Chandia	Notable Beginnings	SMME
Conrad	Sebego	NYDA	Government
Dr.	Ntswaki	NYDA	Government
Siviwe	Mkoka	NYDA	Government
Mr Mothupi	Modiba	NYDA non executive board member	Government
Stephen	Mirero	NYDA	Government
Mamosebetsi	Nkalane	NYDA	Government
Calvin	Mkasi	NYDA	Government
Gladys	Moabelo	NYDA	Government
Tshepo	Morake	NYDA	Government
Mthokozisi	Tshuma	NYDA	Government
Ndivhuwo	Ramaliwa	Pick n Pay	Private
Thapelo	Maleke	SA Youth Chamber of Commerce	Private
Lesley	Wentworth	SAIIA	Non-Profit
Koenie	Slabbert	SEDA	Government
Mendu	Luhabe	SEDA	Government
Mildred	Dlamini	Sizo's Rugs CC	SMME
Thembinkosi	Mhlongo	Southern Africa Trust	Non-Profit
Tumiso	Chepape	Southern Africa Trust	Non-Profit
Ulrich	Klins	Southern Africa Trust	Non-Profit
Mahlomola	Mphosi	Tharollo Craftwork CC	SMME
Mzwanele	Memani	the dti	Government
Tshupane	Motaung	Tshwaranang, Agricultural Cooperative	SMME
Abigail	Mahlangu	Tushiyah	SMME
Marisa	Truter	Tushiyah	SMME
Jessica	Chepape	Tushiyah	SMME
Alex	Antonites	University of Pretoria	Academic
		Women Development Bank Investment	