

CHAPTER 10

RESEARCH RESULTS AND ANALYSIS

10.1 Introduction

In the previous chapter the research methodology was outlined and discussed. Particular emphasis was placed on outlining how the responses from the two phases of the study were analyzed to test the government's National Strategy's contribution to creating an enabling environment for the SMME sector.

In this chapter results and analyses of the two phases of the study will be outlined.

10.2 Research framework.

The literature review in this study led to the propositions as discussed in chapter eight. In this chapter the findings of the study i.e. the contents of responses of respondents in both phases of the study will be analyzed to determine as to whether the government's National Strategy for the development and promotion of the small business sector has or has not created an enabling environment for that sector in this country.

10.3 Research findings of the first phase of the study

10.3.1 Centre for Small Business Promotion

10.3.1.1 Analysis of mission and objectives of the CSBP

The government's National Strategy envisioned an integrated national approach to stimulate the development of the small business sector. Although composed of many different stakeholders with distinct objectives and work

agendas, the DTI, through its designated Centre for Small Business Promotion, was to take responsibility for the stewardship of the National Strategy.

The White Paper noted that the Chief Director for Small Business was, *“to be responsible for all matters related to the government’s support for small, medium, micro and emergent enterprises”*. In addition, the White Paper noted, *“cooperation between different government departments in matters relating to small business support will be monitored by the DTI”*. The White Paper continued that the *“DTI will maintain strict control over organizations receiving or channeling public sector funds for small business support”*.

The stated goals of the CSBP were two-fold; first to create an enabling environment for the growth and expansion of SMMEs and second, to develop and support institutions involved in delivering support services to SMMEs, including provincial and local authorities. As a result of these goals, the Centre has adapted three overriding operational objectives for itself:

To champion the SMME sector in South African economic development, by:

- Improving policy and legislation.
- Supporting institutions involved in SMME development.
- Lobbying for small business interests.
- Influencing public and private institutions to become involved with SMMEs.
- Creating awareness of SMME issues.

To implement critical programmes, including:

- Improving access to services.
- Undertaking needs assessment for developing sectoral strategies.
- Improving legislation affecting SMMEs.

To monitor and evaluate progress and problems, including:

- Informing decision makers of outcomes and results.
- Measuring impacts of the government's National Strategy on the target population.
- Identifying gaps and areas not adequately served.
- Establishing priorities.
- Measuring achievements against established benchmarks.
- Implementing budgetary planning and control systems.

Despite the breadth of these responsibilities, the CSBP has been granted a small staff and rely heavily on close cooperation with various groups. The intention was to avoid bureaucratization of the small business programmes by keeping most of the government functions in semi-autonomous organizations specialized in service delivery and keeping government departments out of direct involvement with SMMEs. The Centre's role was to be that of a central policy developer, coordinator, and evaluator but not a direct provider of services.

The resulting structure and activity was to lead to a chain of command beginning with the CSBP working directly with implementing (wholesale) agencies, such as Khula and Ntsika that would in turn provide services to delivery agencies such as NGOs, banks and private groups, who as “service retailers” would have direct interface with the end users, the SMMEs themselves.

10.3.1.2 Analysis of the structure and activities of the CSBP

With its lean staff, the CSBP is organized into three functions: policy research and legislation, programme management and administration, and finance and administration. This structure was established as a means to reach the objectives noted above. Since then, CSBP’s functions have been consolidated under two directors, one overseeing programme management and administration and the second dealing with policy regulatory review.

Programme management and administration division

The programme and administration division has divided its activities into the following three categories:

- **Market access and linkages**

Market access and linkages has four sub-components, two of a policy and coordination nature, and two of nonfunctional service character. The policy and coordinating projects deal with investigating franchising regulations to be proposed, as well as with institutional governance of Ntsika. On the other side of the service delivery, the division has been heavily involved in developing the Business Referral and Information Network (BRAIN) designed to deliver business information services more effectively.

- **Access to finance**

Access to finance involves three areas at various stages of development: firstly, institutional governance of Khula, secondly, efforts to work with Business Partners by selling off debentured properties and thirdly, policy work on micro finance.

- **Information and communications**

Information and communication is largely an internal support function for the CSBP.

Policy and Regulatory Review

Policy and regulatory review is the second directorate of the CSBP, focusing on two areas:

- Regulatory review of laws and regulations impacting on the SMME sector, also being coordinated with Ntsika's policy and research division.
- Development of a new monitoring and evaluation system designed to review the activities of both Ntsika and Khula.

10.3.1.3 Analysis of the performance of CSBP's activities

In view of the analysis, the mix of services (such as the BRAIN project and projects in government procurement) with policy coordination, and programme monitoring runs counter to the intended role assigned the CSBP in the government's National Strategy. In effect, it mirrors so much of the confusion and lack of definition that characterizes the activities of many of the organizations created under the National Strategy. There is little doubt that the CSBP is intended to be the policy and coordination centre for the National Strategy and remove itself from day-to-day service delivery.

To date, the Centre has been able to undertake only a few of its prescribed activities. As noted to the CSBP's operational objectives, there are a series of responsibilities which the Centre was intended to undertake. First, the CSBP was to play a role of "champion" of the SMME sector, but also by lobbying for small business interests, influencing public and private institutions to support the sector, and creating public awareness of SMME issues, namely a forceful communication strategy.

Communication strategy

This mandate clearly requires a pro-active communication strategy for the Centre to champion the SMME sector. However, to date this remains largely a dormant function. With the exception of speeches made by government leaders about the importance of the SMME sector, there is very little effort to advance the awareness of the public in general, and business groups in particular, of the opportunities of working with and promoting the SMME sector.

Throughout the study, it was noted that there is lack of awareness in the field of the government's National Strategy and the government's efforts to promote the SMME sector. Furthermore, the communications strategies of both Ntsika and Khula are aimed more towards the developed sectors of the economy (for example, their reliance on very professional, attractive English-language brochures) than for the less-developed sectors that are supposed to be targeted. Furthermore, the targets of the marketing programme are often unclear, as with Khula's poor efforts to market to the banking community.

Consistently, there has been confusion about the roles of government, Khula, and Ntsika, with the common perception that Khula and Ntsika were retailers of finance and services. Local bank branches themselves have little understanding of the services available to the small and medium-sized business community that would improve their ability to lend to small entrepreneurs.

It is clearly the responsibility of the CSBP to launch national communication initiatives in conjunction with these other institutions. To date, no coordinating committee has been established. A committee to formulate a communication strategy that is based on target audiences using the appropriate media needs to be formed to reach these groups.

The CBSP should be the nerve of this communication strategy, with Khula and Ntsika focusing on their specific markets. However these messages need to be coordinated by the CSBP to avoid confusion that currently exists.

Monitoring and Evaluation (M&E)

One of the overriding operational objectives of the CSBP is to monitor and evaluate progress and problems of the government's National Strategy. Several components were part of this objective, as noted, including measuring achievements against established benchmarks, identifying gaps in areas not adequately served, measuring impacts of the National Strategy on the target population, and budgetary planning and control systems. Of these various tasks envisioned for the M&E function, only the budgetary planning and control functions have actually been performed.

Until recently, the CSBP did not have a dedicated function to undertake this task. With its recent reorganization, the CSBP has just appointed a full-time position to oversee the monitoring and evaluation of results coming from Ntsika and Khula. This is meant to lead to a more complete capturing of data from these groups than has been done in the past. To date, the Centre has not fully performed this role, except on an ad hoc basis, or as part of the activity reports demanded before future budgetary requests are approved.

10.3.1.4 Related observations and findings

While the White Paper envisions that the CSBP should not be a large bureaucracy, the current level of the CSBP's resources and personnel are so

restricted that the Centre's mission can not be performed. The Centre has in effect been reduced to a budgetary watchdog for the organizations that depend on it. Outside political intervention has further eroded the role that the CSBP was intended to perform.

The CSBP was meant to be the policy centre of the entire National Strategy. It was meant to undertake the necessary policy analyses and coordinate all departments of government involved in the SMME sector. Currently, the Centre does not perform these missions effectively.

Rather than concentrating on its policy and coordination role, the Centre has become involved in services delivery projects, much as Khula and Ntsika do. For example, its current projects in business information and referral (BRAIN) and its project in government procurement belong in service delivery organizations, not in policy and coordination units.

10.3.1.5 The research proposition with regard to the CSBP

The research proposition with regard to the CSBP was formulated to test the responses given by the research subject in order to determine how effective the Centre is achieving its mandate with regard to the development and promotion of the small business sector as stipulated in the White Paper on National Strategy for the development and promotion of small businesses in South Africa.

The analysis and the related observation of the CSBP will be used to evaluate the following proposition:

Proposition One: The Centre for Small Business Promotion (CSBP) as a policy centre and custodian of the South African National Strategy for the development and promotion of the SMME sector has coordinated all institutions incorporated in the institutional framework of the National Strategy effectively.

10.3.1.6 Study findings with regard to the CSBP

The study has revealed that the CSBP's current level of resources and personnel are so restricted that the Centre's mission can not be performed effectively. The Centre has also in effect been reduced to a budgetary watchdog for the organizations that depend on it and political intervention has further eroded the role it was intended for.

The study also revealed that despite the CSBP being the centre of the entire National Strategy as it was meant to undertake the necessary policy analyses and coordinate all departments of government involved in the SMME sector it is currently not performing these missions effectively.

The study has further revealed that rather than the CSBP concentrating on its policy and coordination role, it has become involved in services delivery projects, much as Khula and Ntsika do, for example, its current projects in business information and referral (BRAIN) and its project in government procurement which is supposed to belong to service delivery organizations.

Proposition test

The proposition that the Centre for Small Business Promotion as a policy centre and custodian of the South African National Strategy for the development and promotion of the SMME sector has coordinated all institutions incorporated in the institutional framework of the National Strategy effectively (**Proposition One**), **is rejected** because the findings confirm that the CSBP as a policy centre and custodian for the National Strategy for the development and promotion of the small business sector has not managed to coordinate all departments of government involved in the SMME sector effectively.

10.3.2 Ntsika Enterprise Promotion Agency

10.3.2.1 Analysis of Ntsika's objectives and mission

The study determined the extent to which Ntsika has focused its programmes on meeting the objectives of the government's National Strategy.

The White Paper states that the government's National Strategy's objectives are:

- Creating an enabling environment for small enterprises.
- Facilitating greater equalization of income, wealth and earnings opportunities.
- Addressing the legacy of apartheid-based disempowerment of black businesses.
- Supporting the advancement of women in all business sectors.
- Creating long-term jobs.
- Stimulating sector-focused economic growth.
- Strengthening cohesion between small enterprises.
- Leveling the playing fields between bigger and small businesses as well as between rural and urban businesses.
- Preparing small businesses to comply with the changing of an internationally competitive economy.

Interpreting the government's National Strategy's requirements, Ntsika's charter directed it into the following programmatic activities:

- Creating an enabling legal framework.
- Streamlining regulatory conditions.
- Providing access to information and advice.
- Providing access to marketing and procurement.
- Training in entrepreneurship, skills and management.
- Providing access to appropriate technology.
- Encouraging joint ventures.
- Capacity-building and institutional strengthening.

In its extensive interviewing with Ntsika, the study confirmed that Ntsika has emphasized, and worked diligently, to address virtually all of these objectives. Indeed, it is also a concern that meeting all these objectives has led to a plethora of activities that have been difficult to integrate and coordinate.

In pursuit of these objectives, Ntsika's programming has become oriented largely towards the micro/survivalist sector. In its effort to promote empowerment of the previously disadvantaged, enhance the equalization of income, promote women in all business sectors, and work with rural businesses has produced a clear bias toward the smallest component of the SMME sector. The largest portion of Ntsika's budgetary allocation is directed towards these groups.

Nsika has also addressed the issue of job creation through its programmes offering tender advice and technological counseling. These activities have been oriented more toward the small and medium sector where job creation potential appears greatest. Notably absent among the objectives, however, has been a strong focus and strengthening of the cohesion among small businesses.

10.3.2.2 Analysis of the structure of Ntsika

Ntsika has been organized into divisions that focus on the different elements outlined in the government's National Strategy. The functional divisions that work on SMME development are:

Market access and business linkage division

This division runs the Tender Advice Centres (TACs), the Business Opportunities National Initiatives (BONIs) and the international competitive programme for SMMEs. The Tender Advice Centres have constituted the most promising element of this programme in view of the government's overall commitments to using public procurement to assist small businesses enter new markets. It is through the procurement system that Ntsika can link its activities with the many government departments able to offer market opportunities to small businesses and ultimately create new jobs. It is also one of the areas where Ntsika can begin to measure progress by tracking the success rate of companies that receive government tenders.

Targeted assistance division

This division is responsible for working with previously disadvantaged sectors, primarily women, youth, disabled people and the rural population.

Targeted assistance has a clear social and development focus by working with those elements of the population who are least easily served. The division is clearly focused on the objectives of assisting the Previously

Disadvantaged Individuals (PDIs) category, particularly rural women, and addressing the issue of disempowerment of these groups. The programme is also one that reaches deeper into rural areas than other Ntsika-sponsored initiatives. Its objectives are clearly social and developmental, with limited impact on larger scale job creation. As a result, it is particularly difficult to measure progress in this sector beyond calculating the number of individuals assisted.

Management and entrepreneur development division

The division runs the following programmes: Training and organizational capacity building, SMME contracted training programme, and Development/Sourcing of training materials. Entrepreneurial training constitutes an important, but also one of the most controversial of Ntsika's programmes. Its broad, largely unfocused, scope can lead to criticisms that it is a "one-shot" programme with little follow-up or repeat training available to trainees. The fact that it is only rarely focused on a specific market opportunity makes it unclear what its impact has been.

Finally its only real measurement of success is the number of people trained. Pressure on the division to show results lead to emphasis on these quantitative measures. In the field, the pressure on funded training groups to reach high qualitative targets is roundly criticized as short sighted, emphasizing numbers at the expense of quality. This also discourages repeat or more diversified, in-depth training of potentially promising entrepreneurs.

Technology division

This division runs the Technopreneur and Manufacturing Advisory Centres (TMAC). The Technopreneur programme has the most clearly integrated operation with complementary programmes and institutions outside Ntsika and provides the greatest amount of follow-through with individual companies through the incubator and cocoon programmes. The existing Manufacturing

Advisory Centres similarly focus on a more integrated assistance to companies than is typical in other Ntsika's operations.

The focus of the division tends to be on small to medium size firms where job creation potential is greater. The work of this division lends itself to more effective monitoring insofar as the numbers of participants are fewer.

Business development services division

This division manages the Service Provider Development programme, Service Provider Network Development programme, Empretec programme and the Local Business Services Centre (LBSC) programme. Operations of this division are among the most controversial in that the division makes costly decisions in its selection and institution building of Local Business Services Centres. The choice and location of these groups is frequently debated when the division rejects candidates that seek LBSC status and therefore Ntsika funding.

Policy, research and information division

This division runs the National small business data programme, Programme development and implementation support, National small business research programme and the National small business regulatory review. It is intended to be the policy arm of Ntsika. It is an open question, however, whether this activity should be in Ntsika, which is a provider of services, or in the CSBP, which was conceived as the policy centre of the government's National Strategy.

10.3.2.3 Ntsika's success in meeting its programme objectives

Ntsika's programs had very mixed results because of the skewed focus of most of its programmes. Without focus, it is difficult to measure results that are relevant to the objectives of the National Strategy. The organization has achieved some general success in improving "access" to services by type of

activity, but Ntsika has also not succeeded at many levels due to a variety of circumstances, for example, poor communication (both internal and external), difficult and poorly defined tasks, and definition of success.

One of Ntsika's problems, the study noted, has been the problem associated with assessing the successes and failures of non-financial assistance. While Khula has also had a difficult job in providing financial assistance to the SMME sector, quantifying the results of its work is more straightforward. Ntsika seems to provide quantitative information on how many people they and their retail institutions have trained, counseled, mentored, etc., but it is difficult to translate this information into meaningful results, like jobs created. The study also found out that non-financial assistance works much more slowly than financial assistance, and that the benefits are less tangible and harder to translate into actual impacts. Although Ntsika is often criticized in the field, it became clear during the study that the organization has done variable work in several areas, most notably tender advice, technology assistance, and several targeted assistance areas. It has not, however, done a good job in marketing itself and letting other organizations know about the successes it has had.

Ntsika is also starting to realize the importance of Ntsika's service providers working more closely with Khula's Retail Financial Intermediaries (RFIs). Local service providers understand that in order for both financial and non-financial service providers to be successful they need to work together. Financial and non-financial services need to be more linked to make certain that entrepreneurs can make a success of their new ventures.

Both Ntsika and Khula still struggle and suffer over the concept of wholesaling. During the study almost everyone interviewed expressed concerns about what exactly wholesaling is and how the SMME sector understands it. Many of Ntsika's programmes incorporate some retailing activities, as well as its mandated wholesaling activities. It seems that many of these retail activities were simply undertaken initially because there was no

viable retail alternative. However, increasingly, it appears that Ntsika (and even Khula) sees itself as retailing services directly to SMMEs.

Creating an enabling legal framework

Ntsika's Policy and Information division is the only division involved with the legal framework for SMMEs. The Policy, Research and Information (PRI) has been the major contributor to the small business regulatory review of the SMME environment being directed by the CSBP. The study investigated the following areas of regulatory reform:

- Finance – regulatory environment.
- Taxation – tax laws, VAT, customs.
- Labour – legislation on firing, etc.
- Business trade – commercial law and practices.
- Property and land ownership – land laws for small farmers.
- By-laws and regulations – provincial and local laws which prevent much activity.
- Procurement – tender legislation to simplify very complicated procedures.
- Women in rural development.

Access to information and advice

Access to information and advice has been universally acknowledged as vital to the development of the SMME sector and, as such, is one of Ntsika's main responsibilities. This element is probably the one Ntsika has focused on most

heavily. A number of Ntsika's programmes deliver services in these areas, including Market Access & Business Linkages, Targeted Assistance, Management and Entrepreneur Development, Technology and Business Development Services and Policy, Research and Information.

- **Market Access & Business Linkage**

This programme has substantially increased its service, particularly by expanding the number of Tender Advice Centres (TACs). The goal of the Tender Advice Centres is to capacitate SMME service providers to provide tender support to the local SMME sector. The TACs assist in the training of SMMEs tendering procedures and in completion of tender documents.

SMME access to markets is a key for the sector. During the study, complaints were raised about access to both government and private sector tendering by the SMME sector. There seems to be a need for a large number of tender advice centres to make an impact on SMME development and job creation. Ntsika seems to still be undecided as to whether the TACs should give tendering advice to large numbers of SMMEs or to work much more intensively on one-to-one with a smaller number of SMMEs to ensure their success.

The study found out that the TAC programme does not utilize enough existing service providers who are active in the area of government and private tendering. There are several non-Ntsika affiliated organizations that are successfully providing tender advice, which could reasonably be integrated into the TAC network.

In principal, it is easier to monitor results of the TACs than the results of other Ntsika activities. However, the study noted that Ntsika does not currently monitor its success rate, claiming that it is costly to track so many groups that have expressed interest in responding to tenders.

The TAC programme has the potential to improve access to information and advice. The program is well conceived, but the TAC strategy needs to be thought through more carefully (for example, large number of SMMEs with less in-depth advice versus smaller number of SMMEs with more direct counseling).

- **Targeted assistance**

Ntsika's targeted assistance works to provide support particularly for women, youth, the disabled and the rural population. This division has a traditional focus on the survivalist and micro sector, although it has recently made some inroads to the small/medium sector. The division gives support to LBSCs and other providers to offer targeted assistance to the abovementioned groups. It has been reasonably successful in choosing quality service providers with which to work because, for the most part, it chooses established and experienced providers. Since these groups are targeted and sector-specific, it automatically narrows down the number of service providers already working in this sector.

- **Management and entrepreneur development**

This programme is involved in the information and advice component of Ntsika's charter, along with the LBSCs and the TACs. The division runs Ntsika's mentoring programme. Ntsika is working with some provincial SMME desk officers to train them in the selection of mentors, such as retired executives, to provide mentoring assistance. These mentors are expected to fill a void by providing the in-depth information and advice to SMMEs.

- **Technology**

While the Technology division of Ntsika is involved in other elements of the National Strategy, both the Technopreneur and Manufacturing Advisory Centre (MAC) programme provide information and advice to the SMME

sector. The MAC seems to be struggling to find its niche, in particular defining its target group and how it wants to provide assistance, but its mandate is clearly to provide advice to small and medium manufacturing firms.

- **Business development services**

Ntsika's Business development services division runs the LBSC accreditation and development programme. The key element of the LBSC program is disseminating information and advice to the SMME sector.

Most LBSCs provide advice, especially counseling and after-care services to the SMME sector. These services vary from providing information to retrenched workers on how to open their own businesses to trying to foster some SMME-big business linkages. During the study it was found out that one of the most crucial and often overlooked services to SMMEs is aftercare.

- **Policy, research and information**

The Policy, research and information division is intended to run the National small business data programmes, the Programme development and implementation support, the National small business research programme, and the National business regulatory review.

PRI has been the major contributor to the small business regulatory review, identifying regulatory impediments and legislative constraints to SMME development. PRI claims it is working with the provincial SMME desk officers, but during the course of the study some provincial desk officers, denied being consulted.

The division investigates issues such as finance, taxation, and procurement. The results of this work are intended to be coordinated by the CSBP, which has the lead responsibility for reviewing the regulatory environment for SMMEs.

Access to marketing and procurement

The study found out that access to markets and assistance in tendering and procurement are some of the most critical areas in SMME development. Ntsika departments deal with marketing and procurement in different ways.

- **Market access and business linkages**

The Market Access and Business Linkage division is responsible for the Tender Advice Centre, which are working to provide SMMEs easier access to procurement contracts. The Tender Advice Centres work closely with SMMEs to counsel them on tendering and help them complete tender documents. Some TACs also provide marketing assistance to help them determine where best to sell their products.

- **Targeted assistance**

The Targeted Assistance division's service providers provide some marketing advice to SMMEs associated with women, rural, youth and disabled. The service providers, many of which are LBSCs, conduct market research for the SMMEs in order to provide them with information on the best ways and locations to sell their goods, and even which goods are more likely to sell than others. The division has been very active with this programme in the youth sector.

- **Management and entrepreneur development**

Much of the Management and Entrepreneur Development division's work focuses on training, which indirectly incorporates marketing and procurement, although so far most of the training that has occurred for entrepreneurs is still generic.

- **Technology**

The Technology division is responsible for the Manufacturing Advisory Centers, which incorporate marketing and procurement into the overall services that it offers. Both marketing and procurement are critical to the success of small/medium manufacturing firms, and the MACs try to provide this support.

- **Business development services**

The business development services of Ntsika provide marketing support through its LBSC program. Many LBSCs noted that the marketing services they provide to the SMMEs constitute their most valuable interventions. LBSC managers said that many of the SMMEs with whom they work produce quality goods or services, but do not know how or where to sell them, and have neither time nor resources to conduct market research because of the daily pressures of managing their small businesses.

Training in technical, management and financial skills

Ntsika is tasked with improving skills of SMME managers with regard to technical, management and financial skills. This is a large task that several of Ntsika's divisions are responsible for.

- **Targeted assistance**

The Targeted Assistance division works with service providers who provide access to technical, management and financial skills to the targeted groups: women, youth, rural, and disabled. Each of these skills is different, depending on the targeted groups, and the division works closely with service providers that offer these services.

- **Management and entrepreneur development**

The Management and Entrepreneur Development division, along with Business Development Services division, is primarily responsible for developing technical, management and financial skills. The MED division provides capacity building and training of trainers to service providers who then pass these skills along to SMMEs. The division has also worked with universities but has encountered problems in making a success of this collaboration. MED started out with generic training courses, but has increasingly diversified the level and specific nature of the training.

The MED division is working now to create partnership with other organizations to provide more capacity building to existing service providers, and to tackle the problem of what to do when there are no service providers in the area that expresses a need.

- **Technology**

The Technology division is responsible for the LBSC programme, which provides a wide variety of training and other services to SMMEs. LBSCs provide training, counseling, mentoring and other services to SMMEs in the areas of technical, management and financial skills.

- **Business to appropriate technology**

The BDS division is responsible for the LBSC programme, which provides a wide variety of training and other services to SMMEs. LBSCs provide training, counseling, mentoring and other services to SMMEs in the areas of technical, management and financial skills.

Access to appropriate technology

The *Technology* division is most responsible for improving access to appropriate technology in the SMME sector. In cooperation with Technikons, the Technoprenuer program provides access and training on appropriate technology to SMMEs. The MAC program also works to provide information, access and education to technology for SMMEs involved in the manufacturing sector.

- **Targeted assistance**

The division provides some technology improvement and information in some of its programs, especially its product improvement projects and its small-scale food processing projects.

Encouraging joint ventures

The only activity that Nsika has that encourages international activity is through the Market Access & Business Linkage division. This division has a project with the European Union providing international exposure to SMMEs that are involved in exporting, or who are poised to export.

Capacity-building and institutional strengthening

Ntsika is responsible for building capacity and strengthening non-financial service providers. Almost all of Ntsika's divisions are involved in this to some degree.

- **Market access and business linkages**

The Marketing Access & Business Linkage division is responsible for the Tender Advice Program. This division provides support to service providers who are involved in the procurement process. The division provides capacity

building and institutional strengthening to ensure that quality services are delivered to SMMEs who seek advice relating to procurement and tendering.

- **Targeted assistance**

The targeted Assistance division provides capacity-building and institutional strengthening to the Manufacturing Advisory Centers. This assistance will increase as the number of MACs increase.

- **Management and entrepreneur development**

The MED division provides capacity building in the form of training of trainers and training for counselors.

- **Technology**

The Technology division provides the capacity building and institutional strengthening to the manufacturing Advisory Centres. The assistance will increase as the number of MAC's increase.

- **Business development services**

The BDS division provides capacity-building and institutional strengthening to all LBSCs. The division supports training of trainers and counselors.

10.3.2.4 Ntsika's monitoring and evaluation

As noted by the study, monitoring of actual impacts of non-financial services is exceedingly difficult for Ntsika. It has developed indicators as to the number of jobs that have likely been created and businesses established as a result of the number of individuals trained and/or assisted in its programmes. For example, during the 2002/2003 budget year, Ntsika claims that 37,630 individuals were assisted. From this number, Ntsika estimates that 3,640 jobs

were created as a direct result of Ntsika activities, while over 67,000 were created indirectly as a result of Ntsika's activities. It also claims that upwards to 900 new businesses were established as a result of their interventions.

Ntsika's numbers are difficult to verify since they rely on reporting from the service organizations that are under pressure to show Ntsika that they are achieving the desired results. There is a constant debate whether these are new jobs created as such, or rather livelihoods sustained at the survivalist level. In view of the fact that 70% of Ntsika's assistance is directed towards the micro/survivalist sector, there is strong reason to believe that most assistance has the impact of providing sustenance to the poorest elements of the population.

Ntsika tries to monitor its impacts through its network of assisted groups using several quantitative indicators, according to the reporting entity:

- By service provider:
 - Number of people trained.
 - Number of people "generally assisted".
 - Number of organizations supported.
 - Number of organizations "generally assisted".

- By SMMEs themselves:
 - Number of businesses established.
 - Number of businesses counseled.
 - Number of businesses "generally" assisted.

- Number of people trained.
- Number of people “generally” assisted.

10.3.2.5 Related observations and findings

Under the National strategy for SMME development and promotion, Ntsika Enterprise Promotion Agency was given the mandate to provide a wide range of non-financial services to local service delivery groups on a “wholesale” basis, meaning delivery of resources to local providers that work directly with SMMEs. These services include institution building of these organizations, training programmes for entrepreneurs, mentoring of individual firms, marketing and procurement advice, technology assistance, among others. Given the sheer range of these activities, it is clear that Ntsika’s mandate is critical to the success of the government’s National Strategy.

Ntsika’s task has been a daunting one, one conducted without the benefit of a clear focus or prioritization from the National Strategy or from other government bodies. It was established as a quasi-independent organization under the terms of the National Small Business Act of 1996, outside of normal government bureaucracies, so as to be able to focus exclusively on the delivery of services. It has struggled to succeed at the tasks laid out for it, but has had mixed results.

The mixed record is due to several factors. First, it is an institution operating without the benefit of clear working precedents; therefore it had to develop its own internal procedures from the beginning. Second, there has been little consensus within the organization itself on its priorities and also very little assistance from the designated policy group within the DTI, the Centre for Small Business Promotion. Third, there are serious internal contradictions within the National Strategy itself, which have limited Ntsika’s potential.

In short, Ntsika has tried to be all things to all people, launching a flurry of programmes with little connection among them, weak follow-through, little leveraging of existing public and private initiatives, little coordination with provincial authorities, and virtually no coordination with its sister institution, Khula.

During the study, it was noted that there is a general view in the provinces that Ntsika has become wasteful bureaucracy in its own right, and in many areas out of touch with the SMME community.

Despite several successful programmes, Ntsika is generally perceived in the field to be a scattered, unfocussed, and inefficiently managed institution. The study leads to concur with this perception, even accepting that Ntsika's mandate is probably too ambitious and not clearly focused.

The study noted that many of the difficulties in Ntsika's performance relate to the breadth of its mandate, which charges it with undertaking distinctly difficult tasks as the following issues indicate:

- Ntsika's mandate requires the organization to be responsible for the entire gamut of non-financial services, but does not prioritize these according to sector or type of enterprise. Therefore, Ntsika is condemned to manage a very scattered portfolio of projects. Under the best of circumstances, therefore, Ntsika is criticized for not providing enough or of the right quality.
- Ntsika was founded as a "wholesale" institution intended to provide resources to local "retail" service providers. However, several of Ntsika's divisions are involved with retail services because of internal confusion over the organization's role as well as outside pressures from the government and SMMEs to make services available quickly. This has often forced Ntsika to play a role which it was not intended to undertake, namely, dealing directly with the SMME community. Its communications

policy has intensified this confusion by giving the SMME community the impression that Ntsika is a retail service delivery body.

- Ntsika was founded as an organization to support services providers in their effort to assist local SMMEs. These retail service providers are supposed to be self sustaining, even though they are delivering services to the poorest groups of the economy who, by and large, cannot pay for the full cost of the services they receive. This sets up the local service providers for failure unless they have other sources of revenue to cross-subsidize these services.

The study also noted the following as Ntsika's performance short falls:

- **Measuring results**

Part of Ntsika's mission is to track the results of its programmes. However, measuring the quality of its results in the SMME sector is inherently difficult. Trying to measure job creation, for example, from training and mentoring services is an exceedingly difficult task. The organization has not been given sufficient funds to do so, and even with these resources, methodologies are controversial and expensive to implement. Ntsika's current system principally tracks quantitative results, namely, how many people have been trained, as opposed to a combination of quantity and quality that would indicate how people benefited from Ntsika-funded services they received.

- **Sector focus and orientation**

Most of Ntsika's activities concentrate on the micro and survivalist sectors, not on the small and medium sectors. Assistance to the micro-survivalist is, by its very nature, developmental and social in orientation, a sector where the job creation potential, in terms of expanding the firms' workforce, is more limited than small and medium size firms. As such, Ntsika is evolved into playing more of a developmental role, requiring subsidization of its target population,

than a business development role, in which service providers are capable of becoming financially self-sustaining.

- **Information dissemination/communication strategies**

Much of Ntsika's information and marketing is inappropriate and ineffective for the population it is serving, i.e., the micro/survivalist sector. Significant funds are spent on sophisticated English-language brochures and presentation, ill-adapted for Ntsika's target population. Very little research has been undertaken on how to reach these populations most effectively. For example, the medium of radio, especially effective with the rural population, has been underutilized, and use of established local groups for dissemination information has rarely been explored. Ntsika's approach is also misleading, leaving the impression that it is a retail provider.

- **Working with existing service providers**

Many high-quality non-financial service providers have been ignored by Ntsika. Some of them do not want to be affiliated because of what they claim are Ntsika's centralized, prescriptive processes. Others, however, provide high-quality services and have long-standing relationships with local population, making them ideal delivery agents. In many cases, Ntsika chooses not to use such groups, creating instead new, or using inexperienced NGOs at substantially higher cost than working with existing organizations.

- **Cooperation with Khula in the field**

Most of Ntsika's managers admit that they do not have contact with Khula. This lack of interaction starts at the very top and continues down the management chain. In the field, there is rarely cooperation between Khula's RFIs and Ntsika's LBSCs, even when operating in the same geographical area with the same category of SMMEs

- **Cooperation with provincial SMME desks**

Ntsika seldom works closely with provincial authorities. This lack of cooperation has led closely to serious alienation between the provinces and Ntsika, leading to wasteful duplication and lack of constructive feedback from provinces.

10.3.2.6 Research proposition with regard to Ntsika

The research proposition with regard to the Ntsika was formulated to test the responses given by the research subject in order to determine how effective Ntsika is achieving its mandate with regard to the development and promotion of the Small Business sector as stipulated in the White Paper on National Strategy for the development and promotion of small business in South Africa.

The analysis and the related observation of Ntsika will be used to evaluate the following proposition:

Proposition Two: Ntsika Enterprise Promotion Agency has provided its wide range of non-financial services to local service delivery groups successfully thereby meeting the objectives of the government's National Strategy.

10.3.2.7 Study findings with regard to Ntsika

The study found out that, Ntsika has tried to be all things to all people, launching a flurry of programmes with little connection among them, weak follow-through, little leveraging of existing public and private initiatives, little coordination with provincial authorities, and virtually no coordination with its sister institution, Khula.

The study also noted that there is a general view in the provinces that Ntsika has become wasteful bureaucracy in its own right, and in many areas out of

touch with the SMME community. It is also generally perceived in the field to be a scattered, unfocussed, and inefficiently managed institution. The study leads to concur with this perception, that Ntsika's mandate is probably too ambitious and not clearly focused.

The study further noted the following difficulties in Ntsika's performance with regard to its breadth of its mandate:

Whereas Ntsika's mandate requires the organization to be responsible for the entire gamut of non-financial services, less is done to prioritize these according to sector or type of enterprise as a result of this Ntsika is not providing enough or of the right quality.

Whereas Ntsika was founded as a "wholesale" institution intended to provide resources to local "retail" service providers, several of Ntsika's divisions are involved with retail services because of internal confusion over the organization's role as well as outside pressures from the government and SMMEs to make services available quickly. This has often forced Ntsika to play a role which it was not intended to undertake, namely, dealing directly with the SMME community and its communications policy has intensified this confusion by giving the SMME community the impression that Ntsika is a retail service delivery body.

The study had also noted the following issues which Ntsika has fallen short of:

Measuring results.

Ntsika's current measuring of results system principally tracks quantitative results, as opposed to a combination of quantity and quality that would indicate how people benefited from Ntsika-funded services they receive.

Sector focus and orientation

Most of Ntsika's activities concentrate on the micro and survivalist sectors, not on the small and medium sectors. Assistance to the micro-survivalist is, by its very nature, developmental and social in orientation, a sector where the job creation potential, in terms of expanding the firms' workforce, is more limited than small and medium size firms. As such, Ntsika is evolved into playing more of a developmental role, requiring subsidization of its target population, than a business development role, in which service providers are capable of becoming financially self-sustaining.

Information dissemination/communication strategies

Much of Ntsika's information and marketing is inappropriate and ineffective for the population it is serving, i.e., the micro/survivalist sector. Significant funds are spent on sophisticated English-language brochures and presentation, ill-adapted for Ntsika's target population. Very little research has been undertaken on how to reach these populations most effectively. For example, the medium of radio, especially effective with the rural population, has been underutilized, and use of established local groups for dissemination information has rarely been explored. Ntsika's approach is also misleading, leaving the impression that it is a retail provider.

Working with existing service providers

Many high-quality non-financial service providers have been ignored by Ntsika. Some of them do not want to be affiliated because of what they claim are Ntsika's centralized, prescriptive processes. Others, however, provide high-quality services and have long-standing relationships with local population, making them ideal delivery agents. In many cases, Ntsika chooses not to use such groups, creating instead new, or using inexperienced, NGOs at substantially higher cost than working with existing organizations.

Cooperation with Khula in the field

Most of Ntsika's managers admit that they do not have contact with Khula. This lack of interaction starts at the very top and continues down the management chain. In the field, there is rarely cooperation between Khula's RFIs and Ntsika's LBSCs, even when operating in the same geographical area with the same category of SMMEs

Cooperation with provincial SMME desks

Ntsika seldom works closely with provincial SMME desks desks. This lack of cooperation has led closely to serious alienation between the provinces and Ntsika, leading to wasteful duplication and lack of constructive feedback from provinces.

Proposition test

The proposition that Ntsika Enterprise Promotion Agency has provided its wide range of non-financial services to local service delivery groups successfully thereby meeting the objectives of the government's National Strategy (**Proposition Two**), is **rejected** because the findings confirm that Ntsika Enterprise Promotion Agency has not provided its wide range of non-financial services to local service delivery groups effectively.

10.3.3 Khula Enterprise Finance Limited

Khula Enterprise Finance Limited was mandated to undertake an ambitious task for the country, namely, improving access to finance for the country's large SMMEs sector, with special emphasis on its previously disadvantaged population. Khula's mission is a critical composition of the National Strategy's long-term success.

Since its establishment in 1996, a number of loan schemes to increase access to finance SMMEs through Retail Financial Institutions (RFIs), which

are SMME departments for commercial banks or accredited NGOs, have been initiated. RFIs apply their own minimum lending criteria (the most basic is the provision of a business plan) as the responsibility of risk assessment lies entirely with the RFIs. This might explain why only four of every 300 applications had been granted a loan in 2003 (Khula Website report for 2003).

10.3.3.1 Analysis of Khula's mission and objectives

Statement of objectives

In its Corporate Plan and Business Strategy, Khula articulates its (1) “overriding” objective, (2) its “four main objectives”, and (3) its “general external and internal objectives”. These statements of purpose are critical in judging its overriding objective of providing “increased and affordable access to finance” for SMMEs. The overriding objective reflects the White Paper's requirement that the National Strategy should improve access to finance.

Khula's overriding objective can be broken down into four components which include the following:

- Increasing the level of banking lending to SMMEs.
- Improving the outreach of alternative financial institutions, particularly in un-served rural areas.
- Providing start-up and small scale equity products.
- Expanding the number of SMMEs with external equity participation.

As operational objectives, Khula has positioned both an external and an internal goal, summarized as follows:

External

- Facilitating the mobilization and flow of resources (both public and private) for SMME development.
- Increasing awareness of Khula.
- Promoting a favourable legislative environment.
- Cooperating closely with “sister organizations, such as Ntsika, LBSCs and provincial SMME desks.

Internal

- Maintaining a skilled, effective, and motivated professional staff.
- Maintaining Khula as a lean organization.
- Meeting the expectations of shareholders as defined in the mission statement.
- Effectively managing business risks of the organization.

Realism of the objectives

Khula has established itself as a self-sustaining institution designed to make business credit more accessible to the SMME sector. As a statement of purpose, Khula’s objectives closely reflect the role envisioned for it in the White Paper.

While these objectives are consistent with the intent of the White Paper, the reality of the small business lending, whether in South Africa or any other developing country, makes Khula’s objectives difficult to attain. In the view of

the study Khula will continue to find itself falling short of these objectives on several counts irrespective of how well it organizes its effort. The lack of differentiation among the various components of the SMME sector forces Khula to adhere to objectives that might well be realistic for one segment of the SMME, but not for others. Khula is forced to live with this conflict, presented to it in its charter, of satisfying the needs of two distinct sectors, one that is “commercial” and another that is “developmental”.

On one hand, Khula’s mandate is to stimulate and promote bank lending to the small business sector (as distinguished from the micro-survivalist category) by offering guarantees of up to 80% of the loan amount. By nature, banks are commercially disinclined to lend to this sector for several reasons. First, there is more money to be made elsewhere. Second, the sector by definition is high risk because small business management is typically inexperienced and unable to formulate sound business plans, and adequate asset collateral is difficult for these firms to produce. Third, transactions cost for such small loans is excessively high for banks to sustain in their increasingly competitive environment.

On the other hand, with respect to the micro-survivalist enterprises that Khula services mainly through Retail Financial Intermediaries, Khula requires these institutions to be self sustaining while their clients are largely unbankable. Khula’s charter effectively prohibits it from working in a “development” mode in which it would bear a far higher level of risk of loan non-repayment.

Khula supports and promotes financial intermediaries that are expected to be financially self-sustaining while lending to essentially “unbankable” borrowers. The objective of developing lending processes of this nature has been the break out of the traditional cycle of dependency and loan non-payment that has characterized much of the “development-oriented” lending in the small business sector. The expectations that most RFIs are able to operate according to strict banking principles and services, these special target groups, remains a difficult goal.

In short, in its charter, Khula has been given objectives that will be difficult to obtain even under the most favourable circumstances. There is a permanent tension between its goals of assisting a development sector of the economy and its requirement to be financially self-sufficient.

10.3.3.2 Analysis of Khula programmes and their performance

Khula's management philosophy

From its inception, Khula has strived towards the creation of a lean, well-disciplined organization that reflects the best practices of a commercial finance institution. Its philosophy has been to distance itself from the development finance organizations of the previous government that engaged in concessional lending to disadvantaged groups. These institutions, perceived largely as welfare-oriented non-governmental organizations with very low repayment rates, were seen as the model not to be replicated. Therefore, a key objective of the National Strategy has been to break out of the tradition of financial dependency that characterized small business support in the past.

Structure of Khula's operations

To meet its objectives, Khula has created three functional divisions to undertake its programmes:

- **Loan division**

In practice, the most active component of Khula's operations is the loan division with the responsibility of lending to Retail Finance Intermediaries for forward lending to the Strategy's target population. The RFIs are principally responsible for lending to micro/survivalist enterprises. To put these groups on a more business-like basis, Khula has established conditions for them before it will lend between R1 million to R100 million. For RFIs that have limited

experience, Khula typically restricts its business loans to less than R10 million.

Apart from business loans, Khula also provides seed loans to new RFIs of between R50 000 to R20 million to assist the start-up of new RFIs. These loans revert to grants if the RFI can meet Khula's performance targets. Finally, grants are provided to these groups for capacity building.

Lending through the RFIs has been intended to serve the previously disadvantaged population, namely blacks, women, youth, the disabled, and the rural areas in general.

The RFI system has been plagued by problems relating to the inexperience of their management, problem in management and financial control, and inability or refusal to comply with their agreement with Khula. Khula has strict criteria for the candidate RFIs to satisfy before they can be approved. For many RFIs, these criteria are too prescriptive and ultimately unrealistic, reflecting the basic problems faced by Khula. RFIs are expected to be self-sufficient by lending to the unbankable.

Nevertheless several RFIs have been able to claim good performance, usually due to their managerial and financial competence, but also the result of being focused on a specific sector or community. This latter factor has been critical, in that the RFI has a good knowledge of its borrowers and their sector, making monitoring more effective. Furthermore, the successful RFIs have been steadily shifting their loan portfolio into larger, more formal, more sustainable enterprises.

The mandate of the Loan division is to expand substantially the loan portfolio in terms of the number of SMME borrowers as well as loan amounts. Despite its difficulty in identifying qualified RFIs, developing their internal capacity, and maintaining acceptance levels of risk, Khula seeks to continue an expansion of its RFIs network. One path being followed is to attempt to engage more private sector financial groups that do not have the same capacity building

needs, to become part of Khula's network of financial providers. Khula's reliance heretofore on Section 21 companies is causing it, in its own view, to fall short of its goals of both broader outreach and acceptable risk.

The largest RFIs tend to be those that make the smallest loans (between R300-R600) since these loans are exempt from the Usury Act and therefore can carry higher interest rates. By contrast, loans between R50 000 to R100 000, which usually would be directed towards more formal enterprises with a specific market opportunity, are the least frequent. It is therefore assumed that most lending goes to sustaining people's livelihood rather than creating new jobs and little assistance is available to assisting in the conversion from survivalist mode to an enterprise activity.

- **Credit guarantee division**

The Credit Guarantee programme is the centrepiece of Khula's efforts to bring the commercial banking sector into SMME lending. The underlying concept of Khula was for it to act as a leverage agent, encouraging and enabling the banking sector to participate more actively in SMME finance. Khula has based its marketing programme on the argument that it is assisting the banks to increase their market share.

Khula took the credit guarantee from the former Small Business Development Corporation (now Business Partners). Even though Khula is a quasi-government organization, it decided to register under the Insurance Act for two reasons: First, to give credibility to Khula in the market place, and second, to permit Khula adequate protection for itself. However inasmuch as the Insurance Act strictly regulates credit guarantees, as a means to protect both guarantor and consumers, Khula felt the need to closely control its guarantees with the banks.

The Credit Guarantee programme has been disappointing for several reasons. Apart from the all-important market factors that have dissuaded most banks from actively participating in small business lending, Khula's own

surveillance requirements imposed on the distribution of the guarantees have been restricted by the banks as undue interference in how they make their loans. The process associated with the granting of credit guarantee has been seen by the banks as excessively bureaucratic, involving double approvals, both by the banks as well as by Khula.

Based on the study, however, it appears that banks are still fundamentally reluctant to lend to the SMME sector. This factor has serious implications for Khula's ultimate success in its mission. It is the banking sector that is the principal lender to small and medium business (as opposed to the micro/survivalist sector). Inasmuch as job creation potential is greatest in this category of enterprises, the banks' unwillingness to lend to these firms seriously compromises the National Strategy.

Banks have been slow to use Khula guarantees for a variety of reasons. Apart from the higher risk factors and high transactions costs associated with small scale lending, South Africa's banks themselves are undergoing fundamental restructuring to improve their competitiveness. Relationship banking through branches is being rapidly de-emphasized as banks centralize their operations in head office, computerized operations and standardized procedures. A new inflexibility in the lending process is the result. Furthermore, since security-based lending, as opposed to cash-flow lending, is the norm, small firms, even though submitting excellent business plans with good market prospects, are often disqualified due to their inability to produce adequate assets for security.

Apart from these factors, Khula has been slow, if not inactive, in developing a strong marketing and communication programme aimed at the banking sector. Very few banks concerted efforts have been undertaken to make Khula guarantees known to banks. Khula has not been effective in identifying its real market for the guarantees, which is the banking sector, not the enterprises themselves. Khula has marketed itself in a generic way to the public without focus on those groups that will determine the success of the credit guarantee programmes.

- **Institutional support services (ISS) division**

This division provides support to the Loan and Credit Guarantee divisions. This is in an effort for Khula to effectively deliver credit to SMMEs.

The ISS was established as a direct response to the lack of institutional infrastructure within the RFI network to conduct onward lending to SMMEs using Khula capital.

The ISS by contracting consultants delivers the following services to the RFIs: Strategy and board development; Loan officer training; Management information systems; Accounting and auditing; Legal issues and Human resources.

In addition, given the lack of RFIs, ISS created the KhulaStart programme designed to help new RFI organizations establish operations in order to begin to develop their lending activities. KhulaStart therefore helps with the essential set up costs needed to launch operations.

Khula's marketing communications strategy

Reference is frequently made among stakeholders that Khula's reputation varies widely from being totally invisible and unknown to being understood as retail source of finance. Khula's lack of marketing strategy of any form, other than sophisticated brochures and logos, makes this criticism warranted. Even among the staff of Khula, their failure to clarify to the SMME community what it does is widely recognized.

Making Khula known to the SMME community as a source of small business finance creates two problems. First, it misleads borrowers into thinking that they must deal directly with Khula. Second, it has the perverse effect of transmitting the idea to borrowers that Khula is a "government lender", which within the micro/survivalist sector often implies softer conditions and even tolerance of non-payment.

Khula should have two targets for its communication policy. First, the commercial banking system, in particular their branch network in the fields, needs to be persuaded to work with Khula credit guarantees. Second, Khula needs to market its RFIs, not itself, to the local SMME communities, so that serious borrowers will work directly with these groups. It would appear self-defeating for Khula to create widespread public image of itself.

Monitoring, evaluation and reporting

Unlike Ntsika, Khula faces a simpler task in monitoring its lending results. Tracking credit guarantees and activities with RFIs is a straightforward task. Indeed, the statistics show whether Khula is reaching its target population as a wholesaler.

Problems remain however with reporting from many of the RFIs which do not have solid systems in place. It is difficult for Khula to gauge the effects of lending by the RFIs themselves as the financial retailers. What is known is that the overwhelming percentage of their lending is to survivalist enterprises, particularly women. The extent to which such lending is used for productive purposes as opposed to personal consumption is difficult, if not impossible to track effectively.

Tracking the impacts of lending from banks using Khula credit guarantees is less difficult to undertake. Business plans are submitted with specific market objectives. Since Khula as a wholesaler is one step removed from these firms, it is difficult for Khula to track what the employment impacts of these loans might have been. Estimates are made, however, based on established ratios of funding to economic activity.

Khula's corporate governance

Khula has played a relatively passive governance role, limiting its attention primarily to its statutory commitments in terms of overseeing the financial

results of Khula's operations. Khula seems to be composed of individuals with only limited experience in either banking or SMME affairs, which has restricted the extent to which it has been able to oversee Khula's management of the results of its operations.

Human, financial and internal management

Khula's management has taken the pride in structuring and operating a lean organization, much in line with well-managed commercial banking institutions. However the internal co-ordination among divisions needs work. There appears to be inadequate co-ordination among divisions. The study noted a frequent lack of familiarity within divisions about what other divisions are doing.

Similarly, co-ordination with the CSBP and Ntsika was seen to be minimal. The study revealed strong complaints that Khula officials made little efforts to keep provincial desks informed, much less seek advice or cooperation in local activities. It also seems that Khula does not have specific assignments to maintain contact with the provinces.

10.3.3.3 Related observations and findings

Khula's potential for success has been compromised by several internal contradictions in the mission and structure of the organization, each of which limits Khula's ability to reach its stated goals.

Contradictions in Khula' mission

Khula contradictions with regard to its mission can be explained by the following facts:

- While Khula's mission is to facilitate the flow of credit to the high risk small business sector, it is simultaneously expected to operate according to

conservative banking principles, maintain high loan recovery rates, and achieve a favourable return on equity.

- The success of Khula's credit guarantee program depends almost entirely on the commercial banking sector's willingness to lend to small, previously disadvantaged businesses, which banks are, by nature, generally disinclined to do.
- Khula loan programme encourages its Retail Financial Intermediaries to lend to "unbankable" micro-enterprises while simultaneously remaining financially self-sustaining.
- Khula was conceived as a "wholesale" institution, yet is under constant pressure to act and market itself as a retail organization that offers financial services to businesses.

Findings and observations on Khula's performance

The following findings and observations were noted during the study:

- Khula seems to have fallen short of its long-term job creation objectives of providing broader access to finance for those companies most likely to stimulate job creation in South Africa, namely the "small" business category (as opposed to the "micro-survivalist" category).
- Khula's activities are disproportionately concentrated in the micro-survivalist sector through its Retail Intermediaries.
- In practice, Khula's credit guarantee programme has benefited white, male-owned businesses.

- Within the small and medium business sector, Khula is heavily dependent on commercial banks, yet it has not developed effective mechanisms for bringing the banking sector into small business lending as a partner.
- To date Khula has not yet launched an effective marketing programme, its communications with the commercial banking system and the public at large have been passive.
- Khula relies heavily on Section 21 (non-profit) companies as its financial service providers that typically have neither banking nor business experience.
- Many of Khula's RFI's are unsustainable. To reach viability these groups need to achieve huge volumes of lending turnover, targets that are beyond the reach of most of these Section 21 companies.
- Operationally, Khula's management has been more focused on financial results than development impacts of its lending operations. It remains a conservative, rules driven organization. It has mainly focused on its financial performance rather than long-terms results for the SMME sector.
- Khula has virtually no cooperation with Ntsika in offering services to SMME borrowers, neither at the headquarters nor field programmes.

10.3.3.4 Research proposition with regard to Khula

The research proposition with regard to Khula was formulated to test the responses given by the research subjects in order to determine how effective Khula is achieving its mandate with regard to the development and promotion of the small business sector as stipulated in the White Paper on National Strategy for the development and promotion of small business in South Africa.

The analysis and the related observation of Khula will be used to evaluate the following proposition:

Proposition Three: Khula has improved access to finance for the country's SMME sector with special emphasis on the previously disadvantaged population as mandated by the government's National Strategy successfully.

10.3.3.5 Study findings with regard to Khula

The study found out that whereas Khula's mission is a critical component of the government's National Strategy's long term success, its potential for success has been compromised by several internal contradictions in the mission and structure of the organization, each of which limits Khula's ability to reach its stated goals as the following issues demonstrate:

- While Khula's mission is to facilitate the flow of credit to the high risk small business sector, it is simultaneously expected to operate according to conservative banking principles, maintain high loan recovery rates, and achieve a favourable return on equity.
- The success of Khula's credit guarantee program depends almost entirely on the commercial banking sector's willingness to lend to small, previously disadvantaged businesses, which banks are, by nature, generally disinclined to do.
- Khula loan programme encourages its Retail Financial Intermediaries to lend to "unbankable" micro-enterprises while simultaneously remaining financially self-sustaining.

- Khula was conceived as a “wholesale” institution, yet is under constant pressure to act and market itself as a retail organization that offers financial services to businesses.

With regard to Khula’s performance the study found out the following:

- Khula has fallen short of its long-term job creation objectives of providing broader access to finance for those companies most likely to stimulate job creation in South Africa, namely the “small” business category (as opposed to the “micro-survivalist” category).
- Khula’s activities are disproportionately concentrated in the micro-survivalist sector through its Retail Financial Intermediaries.
- Within the small and medium business sector, Khula is heavily dependent on commercial banks, yet it has not developed effective mechanisms for bringing the banking sector into small business lending as a partner.
- To date Khula has not yet launched an effective marketing programme, its communications with the commercial banking system and the public at large have been passive.
- Khula relies heavily on Section 21 (non-profit) companies as its financial service providers that typically have neither banking nor business experience.
- Operationally, Khula’s management has been more focused on financial results than development impacts of its lending operations. It remains a conservative, rules driven organization. It has mainly focused on its financial performance rather than long-terms results for the SMME sector.
- Khula has virtually no cooperation with Ntsika in offering services to SMME borrowers, neither at the headquarters nor field programmes.

Proposition test

The proposition that Khula has improved access to finance for the country's SMME sector with special emphasis on the previously disadvantaged population as mandated by the government's National Strategy successfully **(Proposition Three)** is **rejected** because the findings confirm that with Khula's many technical and structural contradictions, Khula has not been able to effectively improve access to finance the country's SMME sector.

10.3.4 Analysis of the effectiveness of the National Strategy

A complaint overheard during this study was that the headquarters organizations (namely the CSBP, Ntsika and Khula) have little familiarity with what is actually happening on the ground in the regions. According to these critics, their preoccupation with institutional and programmatic issues and their lack of realistic monitoring systems have created a major disconnect between them and their retail services providers and ultimately the recipients of the assistance.

The study was structured in such a way that the analysis should focus on the services provided by both financial and non-financial service provider organizations and the perceptions of how successful these services are in meeting the objectives of their mandates. In the case of the SMMEs that have received their services, the study sought to understand what types of assistance were received from the service providers, how the assistance benefited their businesses, and what other types of assistance would be useful. Both providers and recipients were asked in detail their perception of successes and failures, and finally to make several recommendations on ways to change and improve the National Strategy's approach to promoting small business and creating jobs.

Based on the results of this study, the study identified several successes and failures of the National Strategy as perceived by those service providers and SMMEs surveyed in the four provinces.

10.3.4.1 Summary of the findings

The findings of the study could be summarized as follows:

Success factors in service delivery

The study revealed a number of success factors that have been experienced by service providers since the National Strategy was implemented. These success factors could be summarized as follows:

- **Clear focus on markets and goals**

Most of the service providers said that the focusing on identifiable targets and business goals are essential for successful intervention with SMMEs.

- **Information sharing**

Most service providers believe that when they communicate with other providers (e.g. non-financial and financial), they all benefit and create a more integrated community of services.

- **Combining financial and non-financial services**

Almost all service providers indicate that SMMEs are more likely to be successful when access to finance is combined with appropriate non-financial support.

- **Capacity building/training**

Most service providers agree that specific, targeted capacity building and training are essential for SMME development. The service providers also agree that if the services are generic and not specifically tailored to the targeted group, the activities will not be successful.

- **Aftercare services**

The service providers indicated that aftercare services are essential components of SMME services for ensuring that services are having the required effect.

- **Community participation**

Most service providers said that one of the key components to successful training or financial services is community participation. When the community knows about, and has invested in the services provided, assistance to the SMMEs is much more likely to be successful.

- **Skills transfer**

The service providers indicated that the services they provided are most successful when combined with skills transfers to SMMEs.

- **Response to market demand**

The service providers said their training is most successful when it is in response to what the market demands, i.e. what the SMMEs are looking for and need, as opposed to generic training.

Problems and failures in service delivery

The study also revealed a number of problems and failures that have been experienced by service providers since the National Strategy was implemented. These problems and failures could be summarized as follows:

- **Generic training**

Most service providers claim that there is too much training for training's sake. They argue that training needs to be specific and targeted to be successful, and that it has to incorporate business training, not just skills training.

- **Lack of awareness about Ntsika**

Most service providers find that Ntsika has ineffective communication strategies with all levels in the provinces (SMME desks, service providers and SMMEs). They indicated that most of the marketing material and educational materials are in English, not in local languages, and poorly adapted to the realities of most local, especially rural, SMMEs, therefore missing their target market.

- **Provincial government input**

Most services providers and SMMEs only approach the government when they have a problem, for example, when they need money. The service providers indicated that they need to establish better communication with provincial government officials, especially the SMME desks.

- **Cost recovery and sustainability**

The service providers expressed their frustrations at having to focus so heavily on cost recovery and sustainability in their organizations when they

are dealing with a population that is largely a welfare sector, with a “hand-out” mentality towards services, i.e. they do not expect to have to pay for services.

- **Centralization of Khula and Ntsika**

The service providers feel that both Khula and Ntsika could be much more effective if they were physically located in the provinces at the local level, adapting their programmes to local circumstances. Most service providers suggested that Khula and Ntsika should have provincial offices.

- **Khula and Ntsika do not cover operational expenses**

The service providers expressed frustration at having to target their services to the poorest of the poor (as indicated by Khula and Ntsika) while neither organization provides funding for operational expenses so that the service providers might retain the most qualified staff. Further more, Ntsika uses a “claim back” reimbursement system for programme costs, requiring the providers to finance the services upfront and then seek reimbursement from Ntsika, often with three months delay.

- **Restrictions and constraints on loan amounts to SMMEs**

The service providers said that there is not enough access to finance for SMMEs through RFIs, and even when SMMEs are successful in getting loans, the loans are often not adequate for borrowing firms to make a success of their projects.

- **Khula credit scheme does not work**

The banks do not want to lend to SMMEs, especially black SMMEs. The banks often use Khula loan guarantees for loans that would qualify regardless of the guarantees.

- **Banks do not know Khula**

Regional bank employees usually claim they do not know about the Khula guarantee scheme, or say have heard of it but it is not in place in their region.

- **Funding/financing “gap”**

Most service providers said that while there are RFIs to conduct micro lending and the banks to conduct lending for larger, even medium size businesses, there is a significant “gap” between the two. Small businesses, those needing between R30 000 and R200 000 are too big for Khula RFIs, yet too small for the banks. Frequently these small to medium businesses are the ones that have the greatest potential for job creation.

- **SMMEs are too small to qualify under DTI’s definition of “trade and industry”**

Even though DTI is the department tasked with assisting SMMEs, most SMMEs are still too small to benefit from many other DTI’s programmes, and get ignored by most of the groups within DTI.

- **Lack of business marketing strategies**

Most SMMEs are too small and too busy trying to survive to develop a clear marketing strategy for themselves. This is also true of service providers. Service providers try to be all things to all people, instead of trying to focus and be very successful in certain things.

- **Lack of role for provincial SMME desks**

The service providers feel that they do not get enough support from the provincial SMME desks, and that neither the service providers nor the SMME desks themselves know exactly what the SMME desks’ mandate is.

- **Lack of political voice for the SMME community**

Even before the NSBC and its structures, the PSBCs, folded, the services providers felt that they did not do their job well. They did not feel that it was a voice for them or that it represented small business issues effectively.

- **Culture of non-payment**

Most service providers agree that there is a definite culture of non-payment among poor people in South Africa. People being trained do not understand why they should pay for training services.

- **Lax financial controls for financial service providers**

Some of the financial providers were critical of Ntsika's funding. They want funding for their operational costs, with increased, appropriate monitoring, as well as more timely distribution of funds. The service providers said Ntsika funds take months to reach them.

Ntsika and Khula related issues

An analysis of Ntsika and Khula issues was a major part of this investigation as they are institutions directly involved in the National Strategy. The critical issues identified by the study in the two institutions are as follows:

Issues with regard to Ntsika

With regard to Ntsika, the study noted the following issues:

- **No sustainability of financial support**

The service providers were critical of Ntsika's funding. They want funding for their operational costs, with increased, appropriate monitoring, as well as more timely distribution of funds. The service providers said Ntsika's funds take months to reach them.

- **Cover operational costs**

Most service providers would like Ntsika to cover at least some of their operational costs so the service providers can focus more on delivering services to their target markets.

- **Changes to contractual requirements**

The service providers would like Ntsika to relax or change their contractual requirements for training and counseling because they are too constraining. They would like Ntsika to take into account repeat training and counseling sessions where a trainee is receiving more advanced services, instead of just first time visits.

- **Aftercare training should be established**

Both the financial and non-financial service providers agree that aftercare is a very important part of their services, yet Ntsika does not provide for this. Aftercare is one of the best ways to avoid defaulting on loans and to get the most out of previous training.

- **Satellite offices need to be established**

Ntsika is in a great rush to set up as many LBSCs as possible, yet for each LBSC accredited there is limited kilometer radius than can be serviced. The service providers would like to expand their kilometer radius or perhaps set up

satellite offices in locations where there is need for services, but perhaps not need for a full LBSC.

Issues with regard to Khula

With regard to Khula, the study noted the following issues:

- **Better financing options for small to medium businesses**

The service providers feel that while there is reasonable coverage for those who need micro loans, there is limited coverage for small to medium businesses. The service providers cite the need to fill that gap since these businesses are mostly the greatest job creators.

- **Should improve accreditation process**

The service providers find the Khula accreditation process time consuming and cumbersome, noting that there are long delays before decisions can be made.

- **Broaden lending scope to RFIs**

The service providers, especially the RFIs, feel that their ability to provide loans is stymied by Khula's strict procedures.

10.3.4.2 Research propositions with regard to the effectiveness of the government's National Strategy

The research propositions with regard to the effectiveness of the government's National Strategy were formulated to test the responses given by the research subjects in order to determine how effective the National Strategy is with regard to service delivery.

The responses of the research subjects will be used to evaluate the following propositions:

Proposition Four: Khula's financial service providers have provided their finance services to SMMEs effectively.

Proposition Five: Ntsika's non-financial service providers have provided their services to the SMME sector effectively.

Proposition Six: The sourcing of both financial and non-financial services by SMMES through the institutional framework of the government's National Strategy was effective.

10.3.4.3 Study findings with regard to the effectiveness of the government's National Strategy

The study found out that whereas there have been some success factors with regard to service delivery there also has been a great deal of problems and failures with regard to service provision as the following issues demonstrate:

- Much of the training is just for training's sake and that it is not targeted to specific needs for example incorporation of business training, not just skills training.
- Ntsika has ineffective communication strategies with all levels in the provinces (SMME desks, service providers and SMMEs) as most of the marketing material and educational materials are in English, not in local languages, and poorly adapted to the realities of most local, especially rural, SMMEs, therefore missing their target market.
- Services providers and SMMEs only approach the government when they have a problem, for example, when they need money. The study further

established that there is no better communication with provincial government officials, especially the SMME desks.

- Service providers are frustrated at having to focus so heavily on cost recovery and sustainability in their organizations when they are dealing with a population that is largely a welfare sector, with a “hand-out” mentality towards services, i.e. they do not expect to have to pay for services.
- Both Khula and Ntsika could be much more effective if they were physically located in the provinces at the local level, adapting their programmes to local circumstances.
- Services are targeted to the poorest of the poor, as indicated by Khula and Ntsika, while neither organization provides funding for operational expenses so that the service providers might retain the most qualified staff. Further more, Ntsika uses a “claim back” reimbursement system for programme costs, requiring the providers to finance the services upfront and then seek reimbursement from Ntsika, often with three months delay.
- There is not enough access to finance for SMMEs through RFIs, and even when SMMEs are successful in getting loans, the loans are often not adequate for borrowing firms to make a success of their projects.
- The banks do not want to lend to SMMEs, especially black SMMEs. The banks often use Khula loan guarantees for loans that would qualify regardless of the guarantees.
- Regional bank employees usually claim they do not know about the Khula guarantee scheme, or say have heard of it but it is not in place in their region.
- While there are RFIs to conduct micro lending and the banks to conduct lending for larger, even medium size businesses, there is a significant

“gap” between the two. Small businesses, those needing between R30 000 and R200 000 are too big for Khula RFIs, yet too small for the banks. Frequently these small to medium businesses are the ones that have the greatest potential for job creation.

- Even though DTI is the department tasked with assisting SMMEs, most SMMEs are still too small to benefit from many other DTI’s programmes, and get ignored by most of the groups within DTI.
- Most SMMEs are too small and too busy trying to survive to develop a clear marketing strategy for themselves. This is also true of service providers. Service providers try to be all things to all people, instead of trying to focus and be very successful in certain things.
- Service providers do not get enough support from the provincial SMME desks, and that neither the service providers nor the SMME desks themselves know exactly what the SMME desks’ mandate is.
- There is no political voice for the SMME community.
- There is a definite culture of non-payment among poor people in South Africa. People being trained do not understand why they should pay for training services.
- Ntsika takes a long time to pay for the service providers’ operational costs.

The study found the following issues which strongly came against Ntsika and Khula:

- Ntsika need to relax or change their contractual requirements for training and counseling because they are too constraining and it needs to take into account repeat training and counseling sessions where a trainee is receiving more advanced services, instead of just first time visits.

- Ntsika does not provide for after care service, yet it is one of the best ways to avoid defaulting on loans and to get the most out of previous training.
- While there is reasonable coverage for those who need micro loans, there is limited coverage for small to medium businesses. This gap needs to be filled as these businesses are mostly the greatest job creators.
- The Khula accreditation process is time consuming and cumbersome, and that there are long delays before decisions can be made.
- The ability of Khula's RFIs to provide loans is stymied by Khula's strict procedures.

Propositions test

The propositions with regard to the effectiveness of the National Strategy (**Propositions Four, Five and Six**) are **rejected** because according to the findings of the study, there was a great deal of problems and failures which confirms that both financial and non-financial service provision to SMMEs has not been effective.

10.3.5 Analysis of other institutions influencing small business development

10.3.5.1 Overall findings

A clear understanding of the contribution of the government's National Strategy in facilitating the development of South African SMMEs emerges when the Strategy is followed through its process of evolution. This can be seen in three inter-linked phases:

Pre-conceptualization phase

The study revealed that the strengths of the National Strategy diminished as it progressed through the three phases. The pre-conceptualization phase received considerable praise from a wide range of actors, who commended it mainly for its inclusivity. During this phase, there seemed to be a remarkable openness to ideas and input and considerable international input was sought and integrated into the strategy. This phase had a clear focal point in terms of leadership and guidance by the Department of Trade and Industry. Because of the involvement of the President as champion of the Strategy, the profile of the SMME sector was considerably raised nationally, inside and outside government. Thus, considerable goodwill towards, and level of interest in, SMME development was generated.

The stakeholder consultation process and assessment of the state of SMME development greatly assisted in providing a thorough understanding of the needs of SMMEs and shortfalls in service delivery. This provided a good basis to formulate a thorough and sufficiently grounded National Strategy and to develop a comprehensive support service mix.

Conceptualization and design phase

The study illustrated that there was a general agreement that the Strategy was a reasonable policy framework for the development of SMME. Based on a reasonably complete understanding of the needs of SMMEs and shortfalls in service delivery, the Strategy developed a comprehensive support service mix while emphasizing the importance of ensuring easy access by SMMEs to a range of services. Crucially, the Strategy clearly acknowledged that to achieve desirable results, government cannot be expected to do this alone.

The study also determined that there is a need for full involvement and participation by a wide range of actors including the business sector. The latter would play a critical role in key areas of support provision to SMMEs – facilitating access to markets and technology transfer. The Strategy also

acknowledges that for its long-term success in terms of facilitating the development of small business and entrepreneurship per se, there is a need to go beyond merely focusing on support provision to SMMEs, important though this is. To complement this focus and to lay the foundation for long-term success, a need exist to move towards “mainstreaming” enterprise development by integrating it into the country’s education system. Lastly, the Strategy also emphasizes the importance of government action to create an enterprise-friendly environment with minimum impediments to business formation, survival and growth.

However, without downplaying the importance of the above factors and, based on the strengths of the Strategy itself, certain weaknesses began to emerge during the conceptualization and design of the Strategy. Key among these was the focus on developing new institutions. While the rationale behind this approach may be clear and easy to understand, being the need to better co-ordinate and channel SMME support activities, its result was to marginalize already existing organizations, some of which were doing some good work in terms of providing services to SMMEs. In time, these organizations were to be starved of resources that they previously depended on to continue their activities as these were now channeled to government’s created institutions.

The task of setting up new institutions also proved long and complex, thus delaying the actual operation of these institutions. During this process there was considerable loss of momentum and goodwill among various actors. When the institutions had finally reached a stage where they actually began operations, problems were encountered with initial approaches, for instance the accreditation of LBSCs.

A further conceptual and design complication was the fact that Khula and Ntsika were given the wholesaler rather than the retailer status. This meant that although they bore full responsibility for facilitating access to all support services envisaged under the Strategy, they were one level removed from the SMMEs and therefore had limited direct interaction with them. They

depended on the capacity and the quality of a range of intermediaries to be able to deliver their services.

Implementation and management phase

As is commonly the case with similar large-scale interventions, this is where most problems in the entire National Strategy process have been experienced. At the highest level, that is, within government, there no longer exists a clear champion and focal point for the coordination of the Strategy. This task seems to have been left entirely to Khula and Ntsika, a situation that is found by many as inappropriate. As a result, although many government departments have initiated their own SMME programmes, there is little evidence of efforts to co-ordinate and integrate these. In fact, almost all departments interviewed singled lack of co-ordination as the most critical problem in the management of the Strategy. This opens up scope for duplication of programmes and activities and therefore wastage of resources.

While some departments have initiated collaborative mechanisms with Khula and Ntsika in the implementation of their programmes, some point out that they find the institutional set-up confusing and are therefore reluctant to work through government created institutions. One department, for instance, which is a key player of SMME development, said that it finds it unacceptable that it has to deal with extra-governmental institutions and insists on working with DTI. Another department has decided not to work through Khula but to deal directly with an RFI because Khula is “confusing”. These factors emphasize the importance of a clear initiative within government to foster good inter-departmental communication and understanding of government institutions, something that many departments currently see as lacking. They say they are not informed of developments in the implementation of the Strategy.

At the institutional level there are further difficulties. First of all, Khula and Ntsika are not communicating and collaborating as effectively as they should. Some have questioned the very physical separation, in location terms, between Khula and Ntsika, and argue that that these institutions should exist

side-by-side in order to strengthen communication and collaboration. Operationally, the institutions are seen not to have done enough to draw in the business sector in the delivery of their services, but to have relied too heavily on NGOs, many of which lack capacity and a business-like approach to SMME development.

Also, given their reliance on intermediaries for the delivery of their services, Ntsika and Khula have ran into other difficulties, at least in the early days of their operations, and, to some extent, up to now. Given that many of these intermediaries had either been disillusioned by the lengthy processes of establishing Ntsika and Khula, which kept them unclear for a long time as to what their extent future role would be, and that some had, in the meantime, experienced declines in capacity, Khula and Ntsika embarked with a few good institutions and a number of weak ones. This meant that a lot of focus had to go to developing new institutions and building the capacity of existing ones, rather than going straight to services delivery. This has caused further delays in service delivery.

Also, it had been noted by the study, that because of pressure to deliver and perhaps also lack of experience on the part of Khula and Ntsika, some of the initial capacity building programmes of these institutions were ill-conceived and therefore had a number of weaknesses which will take time to iron out. Khula's institutional support programme, for instance, is seen to have been a major failure, as evidenced by Khula's inability to spend most of its money allocated for this task. Some questioned whether this activity and its resources should not be transferred to other institutions outside Khula which have more experience in and are dedicated to undertaking this kind of activity.

There is a good deal of interest and varying levels of involvement in SMME development among business organizations and other actors. Firstly, a major, traditionally corporate-based business organization, has credited the Strategy with enabling the organization to develop a high degree of "sensitivity" towards SMMEs. Furthermore, some of its local affiliates have either started LBSCs or become LBSCs themselves. This is a new development within that

organization, which bears witness to the effect the Strategy had had on its thinking.

The major black business organization, the National Federated Chamber of Commerce (NAFCOC) is involved to a more or lesser degree in some activities under the National Strategy and it agrees that there is more involvement from the business sector. However there is a feeling that not enough is done by Ntsika and Khula, or even by government, to proactively draw in the business sector. For instance, the South African Chamber of Business (SACOB) pointed out that although it once took the initiative to invite Khula and Ntsika to make presentations on their programmes, there has been no subsequent follow-up on this contact on the part of either of the institutions.

Business organizations hold divergent views on one key aspect of the Strategy – the need to strengthen the voice of small business. Although there is unanimous agreement that small business needs to be represented better in policy-making, there are differences of opinion on how this should come by. One view holds that there was no need to come up with a new institution - the now defunct National Small Business Council (NSBC) – in order to do this. According to this view, the NSBC was an unnecessary institutional duplication, which led to the marginalization of existing small business representative bodies. This view cautions very strongly against any attempts to set up bodies such as the NSBC in future. Instead, efforts should be directed towards strengthening already existing bodies so that they can better represent small business.

Another view hails the establishment of the NSBC and attributes this to government's commitment to the elevation of small business and its interests. According to this view, the demise of the NSBC was a major loss to small business. An urgent need therefore exists, it is believed, to put something else in the place of the NSBC, charged with the same task as the NSBC that is, strengthening the voice of small business in the policy making. It is not clear where existing representative bodies feature within this frame of thinking.

10.3.5.2 Awareness of the government's National Strategy and its institutions

Awareness within government departments

Almost all government departments that were contacted during the study are aware of the National Strategy, as embodied in the SMME White Paper, and have sufficient understanding of its objective of fostering the country's small, medium and micro enterprises. The objective of the Strategy has been captured by various departments in the following terms:

- The creation of an enabling environment for small business to grow.
- To address the imbalances of the past by giving priority to small business development and creation.
- To capacitate small business and provide them with opportunities, which they never had before, by way of giving them access to training and finance.
- To provide holistic support to emerging SMMEs by way of providing financial and non-financial services to SMMEs.
- To transform small business into the driving force for job creation.
- The objective is to develop the SMME sector in South Africa with particular emphasis on assisting the previously disadvantaged groups.
- The objective is to enhance the competitiveness of SMMEs and to provide accessible advisory and training services on a cost-effective and sustainable basis.

These formulations indicate a generally good grasp of the essence of the National Strategy and its objectives by various government departments. In addition the departments reflect an adequate understanding of the nature (wholesale) and the level of operation (intermediate) of the key SMME support institutions falling under the national strategy – Khula and Ntsika. Departments also view the strategy as a good policy framework, which lays sufficient basis for the development of SMMEs.

This understanding of the National Strategy was gained in two different ways and times. Some departments became aware of the strategy during the very early days of its formulation when the Ministry of Trade and Industry led an extensive process of consulting with various stakeholders as a means of making the process as inclusive as possible. Various departments were involved in these consultations, hence many of them consider this inclusivity as one of the hallmarks of the National Strategy. Other departments came into contact with Khula and Ntsika in the course of implementing their own (departmental) SMME Support programmes. This led to an awareness of the National Strategy and its institutions.

Awareness within business organizations

The general awareness of the National Strategy and its institutions is even stronger among some business organizations. Virtually all organizations interviewed pre-date the National Strategy and its institutions in terms of existence and activities in the SMME support field. Many of these were involved in one way or the other in the processes of formulating the National Strategy – submitting input/position papers, participating in task teams and attending a series of workshops and the two Presidential conferences on small business. Generally, the Strategy is viewed as comprehensive, although some have pointed to some perceived weaknesses and inconsistencies within the Strategy.

10.3.5.3 Perceived strengths and weaknesses of the government's National Strategy and its institutions

Perceived strengths

Three aspects stand out as being the hallmarks of the National Strategy. The first of these is historical and relates to the comprehensive stakeholder consultation approach that was followed in the formulation of the Strategy. Most respondents view this as having been exemplary, ensuring that as wide a range of views as possible was taken into account in seeking to understand the challenge of SMME development in the country and formulating an appropriate strategy. Largely because of this approach, many describe the National Strategy as a good policy framework.

The second is the role played by the Strategy, both historically and at present, in elevating the profile and status of SMMEs as an important component of the economic development of the country. This moved the country from a situation where there was no unified policy on SMME development, which resulted in the implementation of ad hoc initiatives by various actors, to one where there is a comprehensive policy framework setting the vision and institutional infrastructure for SMME development. This had the effect of focusing attention on SMME and enterprise development within government and society as a whole.

To a certain degree, therefore, the current range of SMME initiatives within various government departments could be associated, even if remotely, with new awareness. There is a wide view that the National Strategy played an important role in this regard. The most direct acknowledgement that “the development of the strategy itself and focus on small business at government level did contribute to an increased sensitivity on the part of the South African Chamber of Business (SACOB) in its representational role to small business issues”.

Thirdly, although there is a certain degree of difference of opinion on this aspect, there is a view that the Strategy, being a result of widespread consultation and multi-stakeholder input, generally reflects a reasonable understanding of the problems and constraints facing SMMEs. As such, the Strategy is “grounded” in the operational realities of SMMEs. The support requirements of SMMEs as elaborated in the Strategy and the proposed support mix to meet these requirements reflects this understanding.

Perceived weaknesses

While the pre-conceptualization phase of the Strategy is seen as having played a critical role in mobilizing a wide range of SMME development stakeholders to participate in the formulation and implementation of the Strategy, most of its perceived weaknesses relate to its conceptualization, implementation and management.

The first of these has a historical basis and relates to the establishment of support institutions under the strategy. There is widespread view that the establishment of the National Small Business Council, Khula and Ntsika led to unnecessary duplication at institutional level. What should have happened, instead, was to strengthen existing institutions that were already involved in SMME development rather than “re-inventing the wheel” by setting up new institutions.

Some argue that the establishment of Khula and Ntsika and the fact that these institutions have grown into very large entities has had a displacement effect in as far as certain previously existing institutions are concerned. This is so because most of the resources for SMME development that were in the past channeled to previously existing institutions are now channeled to Khula and Ntsika, thus denying other institutions access to necessary resources and therefore weakening their capacity to service the SMMEs.

Secondly, the wholesale nature of Khula and Ntsika means that they are not able to deliver services directly to SMMEs. There are two problems in this

regard. Many of the retail institutions that Ntsika and Khula rely on for delivery of services are weak in terms of capacity. For instance, some view Local Business Service Centers as weak institutions staffed by people with insufficient knowledge of and experience in the SMME sector.

Designing these institutions as wholesalers was based on an erroneous assumption that there was sufficient capacity within existing institutions to deliver services to SMMEs. The reality identified through the study, however, shows otherwise. The second problem is that confusion is caused among SMMEs on whom to actually approach for services. SMMEs hear about Ntsika and Khula and approach these institutions for services only to be turned away and sent to some other organizations that they may not know of. The quality of service that they receive from retail institutions depends on the capacity and quality of the institutions themselves, which is limited in many cases.

Thirdly, the co-ordination of the Strategy within and outside of government is weak. There is limited, if any, communication of the Strategy. As a result, various government departments develop and embark on their SMME support programmes with little knowledge of what is currently happening within the National Strategy framework. This raises prospects for duplication of initiatives leading to wastage of resources and minimization of opportunities for integrating and leveraging various departments' initiatives and resources.

The Department of Trade and Industry (DTI), which bears the responsibility for co-ordinating initiatives around SMME development is not seen as being successful in playing this crucial role. One department has complained that when it approached DTI on SMME matters, they get referred to Ntsika and Khula, which causes problems because they know little about these institutions. This department says it prefers to work directly with other departments rather than with institutions based outside of governments. Another department has suggested that DTI should implement the National Strategy itself through an internal directorate.

Outside government, Ntsika and Khula are criticized for failing to work closely with each other. This has led to some even questioning the rationale behind physically separating the two institutions in locational terms. Some observers, the study found, have argued that the two institutions should be compelled by government to work together in order to provide a “one-stop” service facility to SMMEs.

Fourthly, the marketing of Khula and Ntsika and their services to SMME development stakeholders and SMMEs themselves, in particular, is considered poor. As a result, SMMEs do not know who to approach for services. The exact role of Ntsika and Khula is therefore not generally understood at SMME level. The problem of poor marketing and publicity is also attributed to the strategy itself. There is a strong view that the National Strategy needs to be aggressively promoted to various SMME development stakeholders and SMMEs themselves. This would help communicate the roles of various players both within and outside government.

The study also found out that the Strategy has been criticized by some departments and private bodies for failing to integrate all economic sectors into a single SMME support plan. One sector that has been singled out as a clear case is agriculture. The Department of Agriculture, the South African Agricultural Union and the National African Farmer’s union is unanimous in pointing out that the Strategy has failed to address the needs of emerging farmers.

At programme level, government departments have indicated a much lesser understanding of the developments and the current situation with regard to the implementation of the Strategy. This indicates that the initial momentum and level of interest and engagement that characterized the strategy formulation process was lost during the implementation process. Perhaps partly as a result of this, many departments run their own SMME programmes entirely on their own with little, if any, effort to integrate efforts with the DTI’s SMME support institutions. Also, most departments indicated that they were not

aware of any actual programmes emanating from the National Strategy and run under the auspices of the national SMME support institutions.

Given this situation, government departments have generally limited their assessment of the National Strategy to comment on its formulation and co-ordination within government. Thus, most of the comment on the appropriateness and efficacy of the Strategy and its institutions at programme level has come from organizations outside of government.

Business federations view national strategy-driven SMME support programmes as relevant to the needs of SMMEs. However, there is a view that in terms of outreach to SMMEs in general, current programmes still fall short, as the current focus on the part of both Ntsika and Khula is perceived to be on micro-enterprises, which means that the upper echelon of SMMEs are not effectively serviced. Moreover, the prospects for success and participation of other players could have been improved if there was a clear plan on how the objectives of the National Strategy were to be accomplished in the short, medium and long term. The absence of such a plan makes it difficult to determine exactly how the various programmes implemented by Ntsika and Khula fit together.

Ntsika's programmes are seen as too generic and inflexible in terms of accommodating the specific needs of SMMEs in various localities and stages of development. As such, these programmes have been characterized by some as not being sufficiently client-focused and demand-driven. There is need for strategies and programmes that are "opportunity focused" based on a thorough understanding of opportunities within various economic sectors.

Given the perceived weaknesses at programme level, a view has been expressed that the National Strategy has fallen short of its objectives in addressing the needs of SMMEs. Reasons for this are seen to include:

- A lack of recognition of the scale and intensity of support required by small businesses which result in resources being devoted to projects that are insufficient to ensure success.
- An excessively centralized and bureaucratic approach towards the management of projects and the development process.
- The adoption of projects that are not sufficiently targeted and which seek to achieve too wide an array of objectives, some of which may be in conflict with one another.

There has, however been a contrasting view in this regard, which attributes success to Khula in establishing Retail Financial Institutions (RFIs), providing a credit guarantee scheme and initiating a mentorship scheme for small entrepreneurs who have received financial support from retail institutions. Ntsika's own achievement is seen in the area of accrediting a number of community-based organizations at Local Business Service Centers however, the effect of these perceived successes on SMMEs themselves has not yet been determined.

10.3.5.4 Effects of the government's National Strategy on the operations of these organizations

Surprisingly, although various departments have initiated and run SMME support programmes initiated after the National Strategy came into being, the majority of them do not acknowledge any role for the National Strategy in inspiring these programmes. The only exception here is the Department of Public Works, which acknowledges that the National Strategy inspired the department's Programme "to a small extent" by enabling a greater level of awareness of SMME support needs.

Perhaps less surprisingly, given their existence prior to the formulation of the Strategy, none of the organizations outside the government attributes any role

to the National Strategy in inspiring their SMME programmes. One exception in this regard is a corporate sector group, the Corporate SMME Development Forum (CSDF), which says it came into existence for the sake of pursuing the aims and objectives of the National Strategy. Thus, the Forum acknowledges a direct role of the Strategy in inspiring its creation.

However, while the majority of organizations do not give strong credit to the National Strategy in terms of inspiring their own programmes, all of them view their programmes as fully complementary to those of the Strategy and its institutions. Moreover, there are indications that some National Strategy-driven programmes for instance, NAFCOOC, has established a Tender Advice Centre (TAC), modeled on Ntsika's Tender Advice Centre programme. Some of the local Chambers affiliated to NIC and SACOB have been accredited at Local Business Service Centers (LBSCs).

Based on this reality, these organizations have argued that there is a need to ensure greater collaboration between themselves and the National Strategy institutions to more closely align and integrate their programmes and activities in order to achieve greater impact. Collaboration is relatively weak at this stage.

10.3.5.5 Collaboration with the National Strategy institutions

The extent to which departments involve the SMME support institutions in their work varies from one department to the other. The department of the Minerals and Energy for example, has pioneered a programme to support the development of small-scale mining enterprises (the sector which will be studied in the second phase of this study). This facilitates the formulation and implementation of the programme, the department has established a National Steering Committee (NSC) of service providers, including Ntsika and Khula, to support the development and implementation of its programme on small-scale mining enterprise support and promotion. According to the department, Khula and Ntsika are playing a crucial role in this initiative, with the former handling the financial aspects whilst the latter advises the committee on small

enterprise development issues. At this stage, the department expresses satisfaction with the role played by each of the service providers represented in the NSC, including Khula and Ntsika.

The Department of Public Works, which runs, among others, the Contractor Entrepreneurship Training (CET), has involved Ntsika in its Training and Advisory Focus Group which co-ordinates the development of the CET programme. According to the department, the involvement of Ntsika in the Focus Group has been useful in terms of keeping group members informed about pertinent development in the implementation of the National Strategy.

On the other hand, the Department of Arts, Culture, Science and Technology has complained that Ntsika and Khula has done very little to help SMMEs within cultural industries, with the exception of crafts. Similarly, the department of Environmental Affairs and Tourism says it is easier to deal with retail financial institutions rather than Khula, which associates with longdrawn-out processes which delay implementation. For this reason the department is negotiating with Get Ahead (GA), a retail financial institution, in terms of which the department will provide funding to GA which will in turn provide loans to SMMEs in the tourism industry.

Within the organizations outside government, collaboration with Ntsika and Khula ranges from very limited to extensive. The Alliance of Micro-enterprise Development Practitioners, a national body representing about several organizations in the SMME development field, for instance reports virtually no collaboration of any kind between itself and both Khula and Ntsika. In fact, the organization reports very little success in its various attempts to link up with and collaborate with these institutions.

On the other hand the National Industrial Chamber and the South African Chamber of Business (SACOB) have had closer interaction with Ntsika in particular. Some of the former organization's satellite offices have been accredited by Ntsika as Local Business Service Centers and have been receiving funds to render Ntsika-sponsored services to SMMEs. Some of

SACOB's-affiliated local Chambers of commerce are either LBSCs themselves or have established LBSCs in conjunction with other organizations at regional or local level. Chambers also participate in the boards of Directors of Regional Manufacturing Advisory Centers, and Ntsika programmes.

10.3.5.6 Research propositions with regard to other institutions influencing small business development

The research propositions with regard to other government departments other than those affiliated with the Department of Trade and Industry, as well as other organizations outside government, specifically business organizations were formulated to test the responses given by the research subjects in order to assess their views and their current and future roles with regard to the National Strategy.

The responses of the research subjects will be used to evaluate the following propositions:

Proposition Seven: There is awareness within government departments of the National Strategy for the development and promotion of SMMEs.

Proposition Eight: There is awareness within business organizations of the National Strategy for the development and promotion of SMMEs.

Proposition Nine: There is collaboration between government's department and other business organizations with the institutions created under the National Strategy.

10.3.5.7 Study findings with regard to other institutions influencing Small Business development

With regard to government departments, the study found out that almost all government departments are aware of the National Strategy, as embodied in the SMME White Paper on National Strategy for the development and promotion of small business in South Africa, and have sufficient understanding of its objective of fostering the country's small, medium and micro enterprises. The study also found out that there is a generally good grasp of the essence of the National Strategy and its objectives by various government departments. In addition the departments reflect an adequate understanding of the nature and the level of operation of the key SMME support institutions falling under the government's National Strategy i.e. Khula and Ntsika.

The study further found that this understanding of the National Strategy was gained in two different ways and times. Some departments became aware of the Strategy during the very early days of its formulation when the Ministry of Trade and Industry led an extensive process of consulting with various stakeholders as a means of making the process as inclusive as possible while others came into contact with Khula and Ntsika in the course of implementing their own (departmental) SMME support programmes.

With regard to business organizations, there is a general awareness of the National Strategy and its institutions which is even stronger among some business organizations. Virtually the organizations interviewed pre-date the National Strategy and its institutions in terms of existence and activities in the SMME support field. Many of these were involved in one way or the other in the processes of formulating the National Strategy – submitting input to the position papers of the National Strategy, participating in task teams and attending a series of workshops and the two Presidential conferences on small business. Generally, the Strategy is viewed as comprehensive, although some perceived weaknesses and inconsistencies within the Strategy have been pointed out.

With regard to the collaboration with the institutions created under the National Strategy, government departments' involvement of the SMME support institutions in their work varies from one department to the other whilst business organizations' collaboration with institutions created under the National Strategy ranges from very limited to extensive.

Propositions test

The propositions with regard to the awareness and collaboration with governments' departments and other business organizations with institutions created under the National Strategy (**Proposition Seven, Eight and Nine**) are **accepted** because, according to the findings, there seems to be a great awareness from both the government departments and business organizations of the institutions created under the government's National Strategy. The study also revealed that there seems to be collaboration (though differing) between the governments' departments including the business organization with the institutions created under the National Strategy.

10.3.6 Analysis on the role of parastatal enterprises and provincial SMME desks on the National Strategy

Parastatal enterprises

Parastatals impact the government's National Strategy for small businesses in the following ways:

- Parastatals have developed programmes through their tender boards and other means to procure services from SMMEs. This is the principal means by which they impact on small business throughout the country.

- Some parastatals offer services that SMMEs use in their business processes. For example, parastatals offer training to SMMEs in order to build technical competence and skills in the SMMEs e.g. the South African Bureau of Standards (SABS) offer training to SMMEs on welding.
- Some parastatals offer training programmes to SMMEs on skills that will help them to effectively deliver services for which they have been contracted to supply, e.g. Transnet offers training to SMMEs who have been contracted to provide garments to them.
- Parastatals are also involved in the Strategy through their participation in other general business forums that address SMME issues, e.g. the NAFCOG, of which parastatals are members.

The direct involvement of parastatals with the institutions and programmes expressly established by the government's National Strategy can be described as follows:

- They interface with Ntsika services for information on foreign contacts when they go on trade missions overseas.
- They run SMME programs for which they require input from Ntsika and sometimes from Khula.
- The mandate of most parastatals, as government-related institutions, requires them to engage SMMEs in their day-to-day business activities. This has resulted in them setting up units to work with SMMEs.

In order to link the parastatals more close to the government's National Strategy, the parastatals, suggest that the following activities should be undertaken:

- A forum for the exchange of information on SMME Strategy programmes and other relevant aspects.
- Regular access to a CSBP representative that could provide them with information on how to work with SMMEs.
- Participation by Strategy institutions (e.g. Ntsika and Khula) in the parastatal SMME programmes.

10.3.6.1 Observations on parastatal enterprises

Interviews with the parastatals highlighted the following aspects in relation to the government's National Strategy:

Level of awareness of the government's National Strategy by the parastatal community can be described as follows:

- They view the Strategy as a long-term effort by the government to create jobs and alleviate poverty.
- Their knowledge of the Strategy is derived mainly from press articles.
- The Strategy is the government's attempt to include previously disadvantaged people in the economic growth process.

Parastatals have the following expectations of the government's National Strategy:

- The Strategy should guide their own initiatives that relate to SMME's by providing information and expertise.

- The Strategy, through its institutions and other infrastructure, should identify market and training opportunities to the SMME sector that emanate from the parastatal community.
- The Strategy should conduct research that will be used as inputs in the development of other parastatal programmes to assist SMMEs.

The study found that parastatals have experienced the government's National Strategy in the following different ways:

- The Strategy has not provided them with clear guidelines on how to design and implement their own SMME programmes.
- They have found that CSBP is not suitably staffed to be able to provide the required levels to support their needs.
- They have used Ntsika services to support their programmes, however they have not used Khula services. They have rather referred people to Khula directly.
- The Strategy's institutions have not been proactive in contacting and relating to the Parastatal organizations.

The lack of coordination of the Strategy has resulted in the parastatal community running their own SMME programmes:

- Parastatals run similar programmes, which should have been coordinated to eliminate duplication, e.g. the Land Bank runs a Step-up loan program that addresses agricultural sector needs, which could have been run through Khula.

- SMMEs working with parastatals have missed the opportunity for accessing Khula financial products because of lack of contact between Khula and parastatals.

Parastatals suggested the following initiatives to integrate them more effectively in the government's National Strategy:

- The Strategy institutions should provide information for parastatals to use in their procurement and other SMME programmes.
- Closer co-operation with the institutions that implement the Strategy in order to foster the alignment of programmes and a common understanding.
- The Strategy institutions through their own representatives should actively involve themselves in Parastatal SMME programmes.
- The Strategy institutions should create an information exchange to share experiences and opportunities.
- The Strategy institutions should develop products that will support the Parastatal procurement initiatives that support SMMEs.

Provincial SMME desks

The role of provincial SMME desks is to co-ordinate the National Strategy's initiatives at both provincial and local levels. The study covered the following scope in conducting the evaluation of the SMME programme in the provinces:

The provincial SMME desks are involved in the SMME strategy in the following ways:

- Provincial SMME desks are responsible for the co-ordination of the SMME strategy in the provincial and local levels.
- These provincial SMME desks also influence and create laws that will impact SMMEs at the levels where provincial governments have authority.
- The provincial SMME desks are intended to interact with the CSBP on how the Strategy is co-ordinated and the relevant policies are implemented.
- Provincial SMME desks also run local and provincial SMME programmes of their own. These programmes are mostly focused on meeting local needs that have been met by the Strategy's programmes.

The direct involvement of the provincial SMME desks in the government's National Strategy activities can be described as follows:

- In most instances they attend meetings at DTI to be briefed on the Strategy activities
- The provincial SMME desks also get involved through various committees.
- There is insufficient evidence to suggest that they provide any significant input into local strategies and programmes.
- They represent the interest of the CSBP at the local level. This is made difficult by the fact that the Strategy's institutions do not usually liaise with them directly. Their constituencies get confused about the role of these institutions that are operating on the ground.

In order to link the provincial SMME desks more closely to the government's National Strategy, the following are suggested:

- CSBP should provide information to these desks on SMME activities emanating from DTI. They would in turn utilize the information for developing their own programmes.
- The provincial SMME desks should be given the opportunity and authority to develop their own strategies and products that would suit local conditions. This will bridge the gap created by the lack of understanding by national institutions of local SMME issues and needs.
- The provinces where the interviews were conducted do not possess the requisite skills and expertise on some of the SMME development issues. They would need access to expertise from CSBP and other groups to assist them with their planning and related activities.
- The role and status of co-ordination of the SMME Strategy should be elevated to work across all the other government departments on matters related to the Strategy.
- The provincial SMME desks, together with the provincial development corporations, should be reconfigured to support the creation of a unified provincial and local SMME Strategy.

10.3.6.2 Observations on provincial SMME desks

The interviews in the four provincial SMME desks (Mpumalanga, Limpopo, Gauteng and North-West) highlighted the following:

The SMME desks have the following expectations of the SMME strategy:

- The government's National Strategy should be customized to suit local conditions e.g. in the agricultural Mpumalanga, the Khula finance products should be oriented towards agricultural businesses.
- The government's National Strategy should empower the provincial authorities to make decisions based on their unique local conditions.
- The government's National Strategy should provide guidelines to the provincial institutions on policies and strategies for SMME development.
- The government's National Strategy should be based on a higher level of risk taking if it is going to engage enterprises that are considered "non-bankable" by the banking sector.
- When products or services are being developed for SMMEs by the various strategy institutions, they should take cognizance of local conditions.

The study found that provincial SMME desks experience the SMME strategy in the following different ways:

- The government's National Strategy has not provided them with clear guidelines on how to design and implement their own SMME programmes.
- They have found that CSBP is not suitably staffed to be able to provide the required levels of support of their needs.
- They have used Ntsika services to support their programmes; however, they have not made extensive use of Khula services. They have rather referred people to Khula on their own.

- The government's National Strategy's institutions have not been proactive in contacting and relating to the various provincial desks.
- They believe that they have been instructed by DTI to work directly with various programmes from Khula or Ntsika.

The government's National Strategy has resulted in the provincial SMME desks and local government structures running their own SMME programmes, e.g.:

- Limpopo province has created a NGO to co-ordinate a LBSC that will incubate SMMEs.
- Mpumalanga is running the SMME programmes through its local metro structures.

Provincial SMME desks have suggested the following initiatives in order to involve them in the government's National Strategy

- CSBP should provide access to the information for the provincial authorities to use in their local SMME programmes.
- The provincial structure would like to be involved in research that is conducted on SMMEs at the local level. This would provide them with access to research funding from CSBP.
- The authorities see the need for creating an enabling SMME legislative environment that will encourage or support private sector involvement in the government's National Strategy.
- There is need for a reconfiguration of the provincial development corporations to support provincial SMME strategy development.

- The provincial or local strategy should be moved to the premier's office to send a message of its importance and urgency to achieve results.

10.3.6.3 Research propositions with regard to parastatal enterprises and provincial SMME desks

The research propositions with regard to the parastatal enterprises and the provincial SMME desks were formulated to test the responses given by the research subjects in order to assess their role in the government's National Strategy.

The responses of the research subjects will be used to evaluate the following propositions:

Proposition Ten: Parastatals are aware of the government's National Strategy for the development and promotion of SMMEs and are satisfied with the way the National Strategy has contributed to their own SMME initiatives.

Proposition Eleven: Provincial SMME desks are effectively and directly involved in the government's National Strategy's activities.

10.3.6.4 Study findings with regard to parastatal organizations and provincial SMME desks

With regard to parastatal organizations, the study found the following:

- The government's National Strategy, through its institutions and other infrastructure, should identify market and training opportunities to the SMME sector that emanate from the parastatal community.

- The government's National Strategy has not provided them with clear guidelines on how to design and implement their own SMME programmes.
- They have found that CSBP is not suitably staffed to be able to provide the required levels to support their needs.
- The government's National Strategy's institutions have not been proactive in contacting and relating to the parastatals.
- Parastatals run similar programmes, which should have been coordinated to eliminate duplication, e.g. the Land Bank runs a Step-up loan program that addresses agricultural sector needs, which could have been run through Khula.
- SMMEs working with parastatals have missed the opportunity for accessing Khula financial products because of lack of contact between Khula and parastatals.
- The government's National Strategy's institutions should provide information for parastatals to use in their procurement and other SMME programmes.
- There is no closer co-operation with the institutions that implement the government's National Strategy in order to foster programme alignment and a common understanding.

With regard to the provincial SMME desks, the study found the following:

- The government's National Strategy is not customized to suit local conditions and conditions.
- The government National Strategy does not empower the provincial SMMEs desks to make decisions based on their unique local conditions.

- The government's National Strategy does not provide guidelines to them on policies and strategies for SMME development.
- The government's National Strategy is not based on a higher level of risk taking to engage enterprises that are considered "non-bankable" by the banking sector.
- Products and or services do not take cognizance of local conditions when being developed for SMMEs.
- The government's National Strategy has not provided the provincial SMME desks with clear guidelines on how to design and implement their own SMME programmes.
- They have found that CSBP is not suitably staffed to be able to provide the required levels of support of their needs.
- The government's National Strategy institutions have not been proactive in contacting and relating to the various provincial desks.

Propositions test

The propositions with regard to the role of the parastatal enterprises and provincial SMME desks in the National Strategy (**Proposition Ten and Eleven**) are **rejected** because according to the findings of the study, parastatals are not satisfied with the way the government's National Strategy has contributed to their own SMME initiatives and provincial SMME desks are not effectively and directly involved in the National Strategy's activities.

10.4 Study of the small black economic empowerment mining companies

This study constituted phase two of the study and embarked on the evaluation of the awareness of the small black economic empowerment mining companies with regard to the government's National Strategy for the development and promotion of the SMME sector and as to whether the National Strategy has created an enabling environment for their businesses to succeed thereby contributing to the National Strategy's objectives of job creation and economic growth.

10.4.1 Study findings with regard to small black economic empowerment mining companies

The findings of this phase of the study are as follows:

- Fifty nine percent (59%) of the small black economic empowerment miners know of some programmes including the government's National Strategy for the development and promotion of Small Businesses. The remaining forty one percent (41%) though involved in the small scale mining operations have no idea of any programmes including the government's National Strategy for the development and promotion of Small Businesses.
- Out of the fifty nine percent of the respondents who know of some programs including the National Strategy, seventy percent did not know how the National Strategy go about its business and how to get access to it. They have had no contact at all with any of the institutions formulated within the framework of the National Strategy. The remaining thirty percent of those who knew the Strategy had a general idea of how the Strategy goes about its business, in fact only about fifteen percent knew precisely how the Strategy conducts its business and have at least been in contact with either Khula or Ntsika.

- With regard to the miners' satisfaction with the way the government has implemented the Strategy, eleven percent of the respondents who knew of the National Strategy were fairly dissatisfied with the way the government has implemented the National Strategy. A further eleven percent was very satisfied and the remaining seventy eight percent were fairly satisfied.

These findings could be interpreted as follows: Since only fifteen percent knew precisely how the National Strategy goes about its business, it is no surprise that the majority of the respondents could be unknowingly referring to the way the Department of Minerals and Energy is supporting them through the department's Broad Based Socio-Economic Empowerment (BBSEE) policy aimed at assisting small black economic empowerment mining companies to actively be involved in the South African mining industrial sector which is dominated by big companies predominately "white-owned".

- Almost all the respondents who knew National Strategy for the development of small businesses feel that the Strategy has created opportunities for them. This could partly be for the reason already mentioned above i.e. the DME's initiative with regard to the BBSEE policy. Lack of finance and competition, especially from the big players in the mining industry, were major weaknesses and threats mentioned by the respondents.
- With regard to training and training needs the study revealed that seventy three percent of the mine owners have not had any formal training in most business and management business disciplines. The need for business training with regard to the mine owners is huge; almost every one mentioned the need for formal business training to run their businesses successfully.

- With regard to whether the government has provided necessary support for their businesses successfully, the findings of the study could be summarized as in Table 10.1:

Table 10.1: Opinion on government’s provision of the necessary support for small business on a point 1 to 10 scale

| Scale | Frequency | Percentage | Weight |
|-------|-----------|------------|-------------|
| 1 | 4 | 18 | 0.18 |
| 2 | 3 | 14 | 0.28 |
| 3 | 3 | 14 | 0.42 |
| 4 | 6 | 27 | 1.08 |
| 5 | 3 | 14 | 0.70 |
| 6 | 0 | 0 | 0.00 |
| 7 | 0 | 0 | 0.00 |
| 8 | 1 | 4 | 0.32 |
| 9 | 0 | 0 | 0.00 |
| 10 | 2 | 9 | 0.90 |
| | 22 | 100 | 3.88 |

Referring to Table 10.1, it can clearly be concluded that the government has not done enough in the provision of the necessary support for the small business sector as the score of just below 4 by the respondents portrays, where a 1 indicated the lowest score and a 10 the highest score.

- With regard to when the miner owners started their businesses, the study showed that twenty five percent of the miners started their businesses between 1999 and 2000, ten percent started between 1994 and 1996, sixteen percent started in 1995, six percent started in 2001 and eight percent started in 2002. The study also noted that on average these small mining companies employ four people on a full time bases and eight people a part-time base. The study finally concluded that the small black economic empowerment companies average their annual turnover between three million to four million.

10.4.2 Research propositions with regard to small black economic empowerment mining companies

The research propositions with regard to the small black economic empowerment mining companies were formulated to test the responses given by the research subjects in order to assess as to whether the government's National Strategy for the development and promotion of the small business sector has created an enabling environment for that particular sector.

The responses of the research subjects will be used to evaluate the following propositions:

Proposition One: Small black economic empowerment mine owners know some programmes including the government's National Strategy for the development and promotion of Small Business.

Proposition Two: Small black economic empowerment mine owners know how the government's National Strategy go about its business, how to get access to it and they have had contact with the institutions formulated within its framework.

Proposition Three: Small black economic empowerment mine owners have been very satisfied with the way the government has implemented the National Strategy.

Proposition Four: The National Strategy has created opportunities for the small mining sector which in turn has minimized their weaknesses and barriers for growth thereby enhancing their strengths.

Proposition Five: Small black economic empowerment mine owners have had formal training and do not require any formal training in most business disciplines.

Proposition Six: Small black economic empowerment mine owners think that the government has succeeded in the provision of necessary support for their businesses.

Proposition Seven: Most small miners opened their businesses after 1994 and that there has been significant growth in their businesses with regard to the number of employees and their annual turnover.

10.4.3 Testing the propositions of the study with regard to small black economic empowerment mining companies

The study on the small black economic empowerment mining companies found the following:

- Fifty nine percent (59%) of the small black economic empowerment miners know of some programmes including the government's National Strategy for the development and promotion of Small Businesses. The remaining forty one percent (41%) though involved in the small scale mining have no idea of any programmes including the government's National Strategy for the development and promotion of Small Businesses.

According to this finding, **the proposition (Proposition One)** that small black economic miners know some programmes including the government's National Strategy for the development and promotion of Small Business is **rejected**.

- Out of the fifty nine percent of the respondents who know of some programs including the National Strategy, seventy percent did not know how the National Strategy go about its business and how to get access to it. They have had no contact at all with any of the institutions formulated within the framework of the National Strategy. The remaining thirty percent of those who knew the Strategy had a general idea of how the Strategy goes about its business, in fact only about fifteen percent knew precisely how the Strategy conducts its business and have at least been in contact with either Khula or Ntsika.

According to this finding, **the proposition (Proposition Two)** that small black economic miners know how the National Strategy goes about its business and how to get access to it and that they had contact with all the institutions formulated within the framework of the government's National Strategy is **rejected**.

- With regard to the miners' satisfaction with the way the government has implemented the Strategy, eleven percent of the respondents who knew of the National Strategy were fairly dissatisfied with the way the government has implemented the National Strategy. A further eleven percent was very satisfied and the remaining seventy eight percent were fairly satisfied.

According to this finding, **the proposition (Proposition Three)** that small black economic miners have been very satisfied with the way the government has implemented the National Strategy is **rejected**.

- Almost all the respondents who knew National Strategy for the development of small businesses feel that the Strategy has created opportunities for them.

According to this finding, **the proposition (Proposition Four)** that the government's National Strategy has created opportunities for the small black economic empowerment miners is **accepted**.

- With regard to training and training needs the study revealed that seventy three percent of the mine owners have not had any formal training in most business and management business disciplines. The need for business training with regard to the mine owners is huge; almost every one mentioned the need for formal business training to run their businesses successfully.

According to this finding, **the proposition (Proposition Five)** that small black economic empowerment mine owners have had formal training and do not require formal training in most business disciplines is **rejected**.

- With regard to whether the government has provided necessary support for their businesses successfully, the study found out the government has not done enough (well below average) in the provision of necessary support for the small miners.

According to this finding, **the proposition (Proposition Six)** that small black economic empowerment mine owners think that the government has succeeded in the provision of necessary support for their businesses is **rejected**.

- With regard to when the small miners started their businesses, the study showed that twenty five percent of the miners started their businesses in 1999 and 2000, ten percent started in 1994 and 1996, sixteen percent started in 1995, six percent started in 2001 and eight percent started in 2002. It was also illustrated that on average these companies employ four employees on a full time bases and eight employees on a part-time bases. The study finally concluded that the small black economic empowerment companies average their annual turnover between three million to four million.

According to this finding, **the proposition (Proposition Seven)** that most miners opened their businesses after 1994 and that there has not been any significant growth in their businesses with regard to the number of employees and their annual turnover is **accepted**.

10.5 Conclusion

In this chapter the research results and findings of both phases of the study were outlined.

A summary of findings, conclusions, recommendations and suggestions for future researches on the small business sector will be discussed in the following chapter.

CHAPTER 11

CONCLUSIONS AND RECOMMENDATIONS

11.1 Introduction

In the previous chapter the research results and findings were discussed. In this final chapter of this thesis the discussions focus on the conclusions and recommendations of the investigation. Final conclusions on findings of the study will be presented. Recommendations for further research will also be suggested.

The conclusions and recommendations of the entire study could be summarized as follows:

11.2 Centre for Small Business Promotion

11.2.1 Principal conclusion

The Centre for Small Business Promotion (CSBP) was conceived as the central policy making, co-ordinating and performance monitoring group of the government's National Strategy. Specifically, the White Paper states the following:

“Within the national government the DTI is the co-ordinating body for all policies responsible for all matters related to the small business sector and for all SMME-supported programmes directly or indirectly assisted by the government. It is also responsible for the co-ordination of small business strategies pursued by the provincial government within the national policy framework”.

The White Paper states that “a *Chief Directorate for Small Business will be responsible for all matters related to the government’s support for small, medium and micro and emergent enterprises*”. Thus, the White Paper gives the CSBP a large measure of authority to lead the entire government’s programme related to the National Strategy.

A principal and critical conclusion of the study is that the CSBP as currently structured, does not come close to performing the role that was intended for it in the White Paper. In practice, it has not been accorded the stature and authority needed to co-ordinate all policies within government related to small business sector. The CSBP remains a small entity, one of many Chief Directorates in one ministry of the government. In practice, it has little leverage over other parts of the government other than requesting consultations through interdepartmental committees.

Because of the inadequate role of the CSBP, the government’s National Strategy is largely leaderless. As a result, assistance to the SMMEs sector has become increasingly scattered and disconnected, marked by duplication and lack of co-ordination. Performance standards have generally not been established and where they have been they are not effectively monitored. There is, in effect, no strong, forceful stewardship of the National Strategy at the policy or the operational level.

Even within the DTI-family of organizations, namely Ntsika and Khula, the CSBP’s authority has been severely circumscribed. While the CSBP does have the final authority through its approval of budgetary allocations, its lack of personnel and financial resources, and the political pressures to maintain existing programmes, have meant that the Centre has been able to have little impact on the organization it is intended to oversee. In practice, it essentially operates as a rubber stamp for existing operations.

11.2.2 Principal recommendations

It is critical that government fill the leadership vacuum in the National Strategy. A critical body for policy, programme coordination and performance monitoring of *all* government activities in the SMME sector is needed for the National Strategy to succeed. Consideration should be given to elevating the status of the CSBP, or creating another coordinating mechanism, so as to ensure that it is recognized as such within all government departments.

Adequate resources should be accorded to the Centre to perform its functions as a policy and co-ordinating unit for the national government as well as with provincial governments. Qualified personnel should be assigned to full-time co-ordination of programmes with other ministries, provincial governments, and non-governmental organizations.

The Centre should redefine its role as focused strictly on policy research, co-ordination, and the monitoring and evaluation of results. It should exit from its current service delivery activities and assign these to organizations such as Ntsika, and other government departments, as appropriate.

Conversely, the policy and research functions that are currently being performed by Ntsika are misplaced in a service delivery institution and should be commissioned into the Centre.

The Centre should have professionals to liaise full time with Khula and Ntsika so as to ensure proper communication, co-ordination, and monitoring and evaluation. These individuals should also serve as policy advisors to these organizations and be in frequent working contact with all programmes and division heads. Similarly, others should be contracted to work with other SMME sectors in the same manner.

The Centre should be required to produce an annual report on the state of the National SMME Development Strategy, demonstrating progress that has been made at all levels of government.

The Centre should interact more directly with the governing boards of groups like Ntsika and Khula to ensure that the boards are fully informed of government policies, enabling them to play a more effective governance role.

11.3 Ntsika Enterprise Promotion Agency

11.3.1 Principal conclusion

Under the government's National Strategy for SMME development and promotion, Ntsika Enterprise Promotion Agency was given the mandate to provide a wide range of non-financial services to local service delivery groups on a "wholesale" basis, meaning delivery of resources to local providers that work directly with SMMEs. These services include institution building of these organizations, training programmes for entrepreneurs, mentoring of individual firms, marketing and procurement advice, technological assistance, among others. Given the sheer range of these activities, it is clear that Ntsika's mandate is critical to the success of the government's National Strategy.

Ntsika's task has been a daunting one, one conducted without the benefit of a clear focus of prioritization from the National Strategy or from government bodies. It was established as a quasi-independent organization under the National Small Business Act of 1996, outside of normal government bureaucracies, so as to be able to focus exclusively on the delivery of services. It has struggled to succeed at the tasks laid out for it, but has had mixed results.

This mixed record is due to several factors. First, it is an institution without the benefit of clear working precedents. It has had to develop its own internal procedures from the beginning. Second, there has been little consensus within the organization itself on its priorities and also very little assistance from the designated policy group within the DTI, the Center for Small Business Promotion. Third, there has been rapid turnover of personnel and internal dissention over the direction and management of the organization as well as

serious lack of direction from its own board. Fourth, there are serious internal contradictions within the National Strategy itself, which has limited Ntsika's potential.

In short, Ntsika has tried to be all things to all people, launching a flurry of programmes with little connection among them, weak follow-through, little leveraging of existing public and private initiatives, little co-ordination with provincial authorities, and virtually no co-ordination with its sister institution, Khula.

During the study, it was noted that the general view is that Ntsika has become a wasteful bureaucracy in its own right, and in many areas out of touch with the SMME community. Its board has taken a largely passive role in questioning the direction of the organization and has little familiarity with the actual results of Ntsika's operations. For its part, the CSBP, because of its own limitations has played the role of budget watchdog, leading to serious dissention and even animosity between the two groups.

Despite several successful programmes (such as Tender Advice Centers and its technology programmes), Ntsika is generally perceived to be a scattered, unfocussed, and inefficiently managed institution. The study leads it to concur with this perception, even accepting that Ntsika's mandate is probably too ambitious and not clearly focused.

11.3.2 Principal recommendations

Based on the findings of the study Ntsika's recommendations could be summarized as follows:

Ntsika's mandate

With regard to Ntsika's mandate, the following issues need to be considered:

- Ntsika should revisit its original mandate and restructure several of its programmes.
- Decentralization of its operations, and substantially lower budgetary allocations to headquarters-based programmes.
- Resident representatives should be established in each province to work closely with local groups, provincial authorities, and Khula's RFIs.
- De-emphasis on launching its own "retailing" of services.
- Substantially greater co-operation with existing regional and local service groups, both NGO and private profitable (Pty) groups.
- Linkages with Khula to service SMMEs in the field.
- Formal co-operation with provincial small business desks in the design and delivery of services in each province.

Composition of Ntsika programmes

Regarding the composition of Ntsika's programmes, the following issues need to be considered:

- There needs to be consensus and formal recognition among stakeholders on whether Ntsika should be more selective in its targeted assistance (more in-depth assistance with follow-up and mentoring) or whether Ntsika should continue to provide generic services to a large cross-section of SMMEs.
- Before creating new service delivery groups, Ntsika should first focus on supporting existing institutions in the regions with established delivery systems.

- Recognizing regional and sectoral differences, Ntsika should be less prescriptive/standardized in its assistance programmes, and support the direction of successful local service providers that have first hand knowledge of what services local SMMEs need.
- Ntsika must work much more closely with Khula so that SMMEs can receive the combined benefits of financial and non-financial support. Ntsika and Khula (with their LBSCs and RFIs) should be required to work more closely together in the regions, in some cases sharing common office space in the provinces. Serious consideration should be given to putting Ntsika and Khula headquarters under the same roof as well as to foster much closer co-operation.

Governance and management of Ntsika

With regard to governance and management of Ntsika, the following need to be considered:

- The Minister needs to appoint a more activist board, composed of individuals with business experience and with direct experience with SMMEs.
- The board of Ntsika needs to ensure that Ntsika's management is highly experienced in running complex organizations and programmes and make sure it hires competent divisional managers, many with business as opposed to academic or NGO backgrounds, who have demonstrated experience in small business issues.

11.4 Khula Enterprise Finance Limited

11.4.1 Principal conclusion

Khula Enterprise Finance Limited was mandated to undertake an ambitious task for the country, namely improving access to finance for the country's large SMME sector, with special emphasis on its previously disadvantaged population. Khula's mission is a critical component of the National Strategy's long-term success. However, Khula's potential for success has been compromised by several internal contradictions in the mission and structure of the organization, each of which limits Khula's ability to reach its stated goals.

Khula's contradictions with regard to its mission can be summarized as follows:

- While Khula's mission is to facilitate the flow of credit to the high risk small business sector, it is simultaneously expected to operate according to conservative banking principles, maintain high loan recovery rates, and achieve a favourable return on equity.
- The success of Khula's credit guarantee programme depends almost entirely on the commercial banking sector's willingness to lend to small, previously disadvantaged businesses, which banks are by nature, generally disinclined to do.
- Khula's loan programme encourages its Retail Financial Intermediaries (RFIs) to lend to "unbankable" micro-enterprises while simultaneously remaining financially self-sustaining.
- Khula was conceived as a "wholesale" institution, yet it is under constant pressure to act and market itself as a retail organization that offers financial services directly to businesses.

11.4.2 Principal recommendations

Khula needs to segment its market both strategically and operationally, making a clear distinction between purely commercial lending, oriented towards small and medium enterprise, and development-oriented lending for micro-survivalist enterprises requiring higher risk tolerance.

A major effort should be undertaken to work with the banking sector through mechanisms or institutions other than credit guarantees. Khula should take the lead in rallying the banking community to undertake joint efforts and develop lending mechanisms involving shared risk to support access to credit, particularly by the small business category.

Khula's charter should be altered so as to tolerate greater risk taking and lower loan repayment targets, permitting Khula to sustain a greater level of risk to meet its stated goals.

Khula should remain a "wholesale" organization, focusing its marketing programme at the banking community on behalf of its RFI network, as opposed to marketing to the general public.

Khula should work increasingly with profitable (Pty) groups that are already experienced and competent to undertake lending operations, as opposed to NGOs that do not possess the requisite skills and experience, or mentality.

Khula and the banking sector should jointly participate in and finance mentoring services for small business borrowers.

Mentoring should be attached to LBSCs or other service providers to assist potential borrowers with all necessary business plans and loan application preparations, complying with bank criteria, to be submitted to the banks. Application would be submitted to banks with 80% guarantees, whereupon the banks would undertake due diligence only.

Khula's monitoring and evaluation should be focused not only on financial results but also on lending results and impacts.

Khula and Ntsika need to operate together at the local level and at headquarters; strict separation of the two organizations is self-defeating for both. While they should obviously not be merged, they would benefit from being physically housed under the same roof.

11.5 Effectiveness of the National Strategy

11.5.1 Principal conclusion

Based on the results of the study with regard to the effectiveness of the National Strategy, the study clearly identified several successes and failures of the National Strategy as perceived by those service providers and small businesses surveyed. The study has also outlined issues emanating from Khula and Ntsika as already discussed.

11.5.2 Principal recommendation

Given the changes in the environment in the last ten years the following recommendations according to the findings of study need to be considered:

Ntsika and Khula must work more closely with the provincial SMME desks

Both Khula and Ntsika have limited contact with people in the provinces. The SMME desks are a key component to the development of SMMEs because they are more knowledgeable about local conditions and markets.

There must be increased communication between service providers

Service providers often do not communicate with other service providers on the most basic issues, leading them to miss many obvious synergies. Most of

the service providers surveyed indicated that they see the possibility of working together in the future on activities, like combining training and financing.

Better linkages between financial and non-financial service providers are crucial

If financial and non-financial services are not closely co-ordinated, many benefits are lost. It is extremely beneficial to combine financial and non-financial services – to conduct training and mentoring before and after an SMME owner receives a loan to make sure that the best and most appropriate use of the borrowed funds are made.

There must be changes in the banking laws

Changes in the banking laws need to occur to facilitate the banks to be more “SMME friendly” and willing to deal with the sector.

Provincial monitoring of Khula and Ntsika programmes is essential

Khula and Ntsika do not have a complete idea of what is happening on the ground. The quality of the training should be taken into account, as well as people who receive a second or third round of training on more advanced subjects.

Change in criteria for funding for service providers is necessary

Presently, a service provider must have been in business for a stipulated amount of time in order to be accredited by Ntsika. Service providers find it difficult to survive without Ntsika funding for very long. Also, those that are affiliated with other organizations are ineligible for Ntsika certification because of that affiliation.

Funding of some service providers' operating expenses must be provided

Service providers are trying to work with a very poor sector of the population that does not have resources to pay for services. Therefore these service providers have a difficult time sustaining themselves. They need Khula and Ntsika to fund some of their operating expenses in recognition of the realities of the population they are serving.

National voice for small business needed

There is a need for a voice for small business at the national level. The study pointed out that even while the NSBC was in operation, it did not represent effective representation. Similarly, there are doubts that NAFCOOC is able or motivated to represent the issues facing small business in this country.

11.6 Other institutions influencing Small Business development

11.6.1 Principal conclusion

All government, business organizations and other SMME development practitioner bodies who participated in this component of the study are aware of the National Strategy and the majority of them consider it a reasonable policy framework.

The pre-conceptualization phase of the National Strategy formulation process is commended for having played a key role in mobilizing a wide range of SMME stakeholders behind the Strategy and securing their early buy-in by giving them an opportunity to make input into the Strategy.

However, weaknesses in the National Strategy began to emerge as the process progressed from initial consultations to the actual design of the Strategy and its institutions to its implementation and management. These relate to the establishment of new institutions instead of utilizing existing ones,

perceived lack of a clear plan of action and focus on the part of Khula and Ntsika, poor overall communication around the Strategy, and lack of collaboration among various players.

Despite this lack of clarity and, in some cases disagreement on certain aspects of the Strategy, however, various government departments and organizations outside government have initiated and implemented their own SMME development programmes. Some of these are implemented in collaboration with Khula and Ntsika, albeit on a less than desired scale.

There is a need for the review and re-focusing of the Strategy and its objectives and redirecting of the operations of the National Strategy institutions. A need to broaden the outreach of current programmes to accommodate small and medium enterprises has been pointed out. There is a view that programmes currently reach micro-enterprises only to the exclusion of the rest.

11.6.2 Principal recommendations

There is a need to formulate inter-departmental mechanisms to facilitate co-ordination of departmental SMME programmes and the overall implementation of the SMME strategy.

The role of the DTI itself with regard to the co-ordination of the Strategy needs to be clarified and DTI needs to be more actively involved in monitoring the implementation of the Strategy.

The marketing and communication of the Strategy both within and outside of government needs to be considerably improved.

The focus of the two national support institutions needs to be reviewed and more narrowly defined. These organizations may need to be streamlined and reduced in size in order to be more focused. There is also need to foster

closer co-operation between the institutions. Duplication of programmes – such as a Mentorship Programme – and services should be eliminated.

SMME support institutions need to develop and implement mechanisms to interact and collaborate with existing institutions, especially business representatives' bodies which have a direct interest in the effective delivery of support services to SMMEs, especially their members.

The government's National Strategy needs to be reintegrated into the overall macro economic policy of the government (GEAR). SMME development should also be integrated into and clearly articulated in all local economic development initiatives. It is necessary to strike a careful balance between redistributive objectives and growth and efficiency objectives. The current focus on micro-enterprises is seen as addressing only redistributive objectives to the exclusion of growth and efficiency ones. It is proposed that the latter objectives can be more effectively addressed through a stronger focus on small and medium size enterprises, which do not feature strongly in current programmes.

In future the focus should be more on strengthening and working through existing institutions of various types than creating new ones.

Programmes should be tailored as much as possible to the needs of SMMEs in specific locations rather than generic and inflexible. Programmes should be based on clear understanding of sectoral opportunities and prospects and a thorough analysis of the support needs of SMMEs in various sectors of the economy.

The National Strategy should be reviewed regularly. Firm targets should be set and progress around these should be documented and communicated widely.

11.7 Parastatal Enterprises and provincial SMME desks

11.7.1 Principal conclusion on parastatal enterprises

Based on the interviews conducted on parastatal enterprises and its findings, the study has come up with the following conclusions:

- Parastatal's involvement in the National Strategy is primarily through procurement services.
- There is a need to create a method of sharing and providing information to parastatals by CSBP and its supporting institutions. A closer relationship between the Strategy's institutions and the parastatals is essential in order to maximize opportunities that are created through procurement and other parastatal programmes.

11.7.2 Principal conclusion on provincial SMME desks

Based on the interviews conducted with provincial SMME desks and its findings, the study has come up with the following conclusions:

- The level of awareness of the National Strategy and its implications is insufficient in order for these structures to effectively implement it at provincial level.
- Provincial structures are limited by their inability to get services and information from the core Strategy institutions.
- The current provincial development corporations are not well suited to implement the Strategy in their regions.
- The implementation structures need to report directly to the premier.

- There should be more information sharing to assist the provincial structures in implementing the Strategy at the provincial level.
- The National SMME Strategy should be revived to emphasize the unique local conditions for SMME development.

11.7.3 Principal recommendation on the parastatal enterprises

The study of parastatals has resulted in the following recommendations:

An information network that will assist parastatals on all matters that would be relevant to their mandates as well as assist SMME development

- A web site with information on matters that relate to the SMME Strategy needs to be instituted. This information should serve as a resource for their own research on SMME matters.
- An information exchange forum where the Para-statals could share experiences on working with SMMEs.
- An exchange of information with the CSBP to discuss constraints that the CSBP or other institutions could help to resolve.

Provision of expert information about SMME support opportunities, either through a DTI representative, other SMME institutions, or through access to recommended specialists.

- Provision of information on financing of SMMEs from Khula and Ntsika institutions.

- Some programmes require that they should liaise with other government departments on matters related to SMMEs. A DTI or relevant institution should provide them with relevant information.

A relationship between parastatals, CBSP and other relevant institutions should be developed. This will facilitate the involvement of the parastatals in the SMME Strategy

- A CSBP representative should be appointed to co-ordinate relationships with parastatals.
- The CSBP representative could act as a liaison between the other institutions within the SMME Strategy and the parastatals. This relationship could facilitate a better understanding of the mandate of the various institutions and how the Para-statals could contribute opportunities to the SMME sector as they arise.

Strategy institutions and the CSBP should actively participate in parastatal SMME programmes

- Their participation could link the para-statals' SMME activities to services that are offered by these institutions, such as Ntsika and Khula, e.g. access to bridging finance for SMMEs who have contracts with parastatals.
- The SMME programme seeks to identify market opportunities for SMMEs. The involvement of the Strategy's services providers would provide product development opportunities offered by the parastatal community.

11.7.4 Principal recommendation on the provincial SMME desks

The findings on the provincial SMME desks have resulted in the following recommendations:

The provincial management and co-ordination of the Strategy of the provincial level should be moved to report to the premier's office.

- The SMME desks should report to the premier's office to facilitate working across the various functions of the government that are implementing the Strategy.
- The transfer of this function to the premier's office should also indicate the seriousness of the SMME strategy.

The SMME desks and the provincial development institutions should be reconfigured into one local and provincial development service delivery corporation or agency.

- This reconfiguration would provide an opportunity to unify the Strategy. This would also eliminate duplications of programmes and resource applications.
- This consolidation of the SMME programmes would improve access to services that are offered by the national institutions, e.g. access to finance for SMMEs that have won contracts with parastatals.
- The reconfiguration would also facilitate the management of the provincial corporations. It would also facilitate access to physical resources that could be of value in the implementation of the Strategy, e.g. some provincial development corporations own infrastructure that could facilitate SMME growth.
- The CSBP should co-ordinate a forum for Parastatals with provincial SMME desks to exchange information on opportunities and constraints in the Strategy.

An information network that will provide access to information to assist provincial desks on all matters that would be relevant to their mandates and SMME related activities

- A web site with information on matters that relate to the SMME Strategy.
- Information exchange forum where provincial desks could share experiences on SMMEs with each other.
- The network should serve as a resource for their own research on SMME matters.
- Exchange information on constraints that CSBP and other institutions could address.

Provide expert information about SMME related aspects either through a DTI representative, Strategy service providers, or through access to recommended specialists.

- Provision of information on financing of SMMEs that are making use of Khula-based facilities.
- In the development of their own programmes, the provinces need advice on how best to achieve their goals, thereby needing information on these issues.

11.8 Small black economic empowerment mining companies

11.8.1 Principal conclusion

Almost half of the small black economic empowerment miners (i.e. 41%) do not know of any government programs including the National Strategy for the

development of Small Businesses. This finding negates our proposition number one that small black economic empowerment miners know of some programs including the government's National Strategy for the development and promotion of small business do not. This could directly point to the government's inability to promote the other programmes including the National Strategy to the target audience, for example the small miners.

Out of the fifty nine percent of the respondents who know of some programmes including the National Strategy, seventy percent did not know how the National Strategy goes about its business and how to get access to it. They have also had no contact at all with any of the institutions created within the framework of the National Strategy. Fifteen percent of those who know the National Strategy, a mere fifteen percent, knew precisely how the Strategy goes about its business and have been in contact with either Khula or Ntsika. This finding also sustains the claim that the government has not marketed the National Strategy to the target audience effectively i.e. there is no aggressive communication strategy.

Out of the respondents who knew the National Strategy eleven percent was fairly dissatisfied, a further eleven percent was very satisfied and the remaining seventy eight percent were fairly satisfied. The conclusion to these findings is controversial as it is not clearly known to what their satisfaction referred to between the BBSEE initiative by the Department of Minerals and Energy and the National Strategy itself. This controversy brings the conclusion that small black economic empowerment mine owners have not been very satisfied with the way the government through the Department of Trade and Industry has implemented the National Strategy specifically.

Almost all the respondents who knew National Strategy for the development of small businesses feel that the Strategy has created opportunities for them. This could partly be for the reason already mentioned above i.e. the DME's initiative with regard to the BBSEE. Lack of finance and the major competition especially from the big players in the mining industry were major weaknesses and threats mentioned by the respondents. Since it is not precisely clear as to

whether the small miners were referring to the BBSEE initiative and that finance and competition from bog players in the industry still remain an obstacle to their operation, it can be concluded that the National Strategy has not created opportunities for the small miners which in turn has minimized their weaknesses and barriers to growth in the mining industry.

Seventy three percent of the small miners have not had any formal training and they need formal training with regard to the success of their businesses. The finding clearly negates the proposition that small miners have had formal business training with regard to the success of their business ventures.

The statistical analysis and findings as to whether the government has succeeded in the provision of support for their businesses successfully shows that all small miners on average feel that the government has not provided the necessary support for their businesses. This is sustained by the average score of 4 on a 1 to 10 point scale where 1 is the lowest score and 10 the highest.

Finally, the study determined that twenty five percent of the miners started their businesses between 1999 and 2000, ten percent started in 1994 and 1996, sixteen percent started in 1995, six percent started in 2001 and eight percent started in 2002. The study also showed that on average these companies employ four employees on a full time bases and eight employees on a part-time bases. The study finally concluded that the small black economic empowerment companies average their annual turnover between three million to four million rands.

Considering the average employee and financial turnovers it clearly shows that these mines are stuck at the medium sized enterprises which clearly show that there has not been any significant growth in their business operations. From this finding, it can further be concluded that the small black economic empowerment mining companies have not sufficiently created jobs, which is the objective on the government's National Strategy.

There seems to be a very serious lack of coordination between the Department of Minerals and Energy and the Department of Trade and Industry who is the custodian of the government's National Strategy. There is indeed, one would conclude, a duplication of same tasks by the two government departments, all aimed at the same audience. This is a clear sign of lack of internal communication within government departments.

The findings of the second phase of the study clearly confirm the findings of the first phase of the study i.e. there are serious problems especially with the implementation of the National Strategy. The institutional framework of the National Strategy clearly needs to be revised (refer to the proposed institutional framework on appendix ten) and other strategic issues, for example, sector and size category (i.e. small, medium, micro) strategic orientation need to be seriously considered as all these differences create specific dynamics indifferent from each other. The "fit-all" characteristics and approach of the current government's National Strategy for the development of small, medium and micro enterprises seems not to be the right approach.

11.9 Overview conclusion of the study

11.9.1 Introduction

Ten years of SMME sector development and promotion in this country, the study has shown that South Africa's National Strategy for the development and promotion of the SMME sector has not been able to transform South Africa's SMME economy into a vibrant small business sector. This can be attributed in part to the fact that a small firm's growth depends to a large extent on the growth of the macro economy. Since macro-economic growth over the past years, has at best, been modest (though the Reserve bank has forecasted 6% economic growth, it has only averaged at 3%), it may be concluded that SMMEs have not been able to develop to their full growth potential. Nevertheless, the study clearly argues that the development and promotion of South Africa's SMME economy suffers from poor implementation of policy initiatives, which are in turn, woefully inadequate.

To date, a serious analysis of the impact of the government National Strategy on the SMME economy has been lacking, despite an abundance of policy literature of SMMEs in South Africa, which focuses on various aspects such as skills, entrepreneurship, finance and others. The problem seems to be the absence of an existing coherent framework on what all these different aspects collectively mean in the context of economic growth and the problem of unemployment. This study aimed to contribute to the building of the “bigger picture”. This concluding section simply aims to highlight – based on the findings of the study - the major gaps that still preclude making comprehensive policy recommendations, specifically in three areas: labour markets, capital markets and product markets.

All these factors are explanatory factors in the growth of SMMEs. Very little has been said about crime. Indeed, in South African context, it is one of the key factors contributing to a hostile environment of investment and SMME growth in particular.

11.9.2 SMME policies as a part of a wider framework

Important and specific though they may be, SMME growth and prosperity are clearly not “stand-alone” aims to be pursued in ignorance of the broader economic policy. In fact, it is easily understandable that SMME growth can be strongly affected by the macro-economic context. Nevertheless, it makes much sense to keep SMME policies within a separate and coherent institutional responsibility.

11.9.2.1 Macro-economic policy and its impact on SMME growth

It is generally difficult to arrive at solid conclusions about the impact of macro-economic policy on SMMEs. Globally, the relationship between SMME (or entrepreneurship) and economic growth is complex with “opportunity entrepreneurship” being stimulated by a growing economy, while “necessity entrepreneurship” is rather counter cyclical but creates very precarious

employment (Kesper, 200). Increases in the numbers of enterprises should therefore not necessarily be regarded as a positive effect on the economic context.

In South Africa, there is a lively debate on whether macro-economic policy in almost the past ten years has acted as a catalyst or deterrent to overall growth. Since the adoption of the GEAR strategy in 1996, the South African government has successfully reduced its fiscal deficit and contained inflation – albeit by means of raising the real interest rate. To what degree this hindered new investment in the SMME economy is less clear, for the following reasons:

- The impact of macro-economic policies on the private sector is often very intricate.
- Macro policies affect not just the SMME sector, but also the private sector as a whole.

Fiscal restraints, for example, appear to have an indirect impact on SMME growth by affecting levels of government expenditures on procurement and hence the demand side of SMME growth. Monetary policy has increased the cost of formal credit as a capital source for new investments. Fluctuation in the exchange rate impact negatively on SMMEs, which are highly dependent on imported input and equipment, while its depreciation was seemingly insufficient in making South African products more competitive in export markets. It is the differential impact on the spectrum of micro to medium firms and the sectors in which they operate which matters and needs to be investigated further.

This raises a whole set of questions which can only be dealt with through a comprehensive evaluation of the soundness of the SMME sector, and not just of the numbers.

11.9.3 The labour market and SMMEs

11.9.3.1 Labour regulation and employment dynamics

The promotion of SMMEs is seen as an instrument to foster the creation of employment. According to Kesper (2000), there is, however, little empirical evidence on how strong this effect might be in South Africa. Current research on SMMEs in South Africa is limited to the use of entrepreneurs' perceptions, which inevitably point to the constraining effects of labour market regulations, and in particular minimum wages. However, the study has not analytically investigated the functioning of the labour market, and this in turn impacts on growth in SMME employment.

The functioning of the labour market is likely to affect employment in SMMEs because small firms tend to be more labour intensive than their larger counterparts. Indeed, SMMEs are disproportionately found in labour-intensive industries like mining, and within a given industry they are more labour intensive than their larger counterparts. It is accordingly expected that high labour costs would deter new SMME formation and employment increases in existing firms.

As a middle-income economy country, South Africa has a largely heterogeneous labour force with a high dispersion of labour productivity (owing to a high variance in skills, which correlates with wage levels if left to the forces of the market). While the existence of a large supply of low-skilled labour should allow SMMEs to employ such labour at low wages, labour regulations may deter the skill-productivity-wage balance. There are indications that wages matter more to SMMEs than to larger firms, and that the application of too high a minimum wage makes SMMEs either exit, or become less labour intensive, i.e. to become more like larger firms. So far, however, the effect of wage levels on employment growth or decline in the SMME sector has not been rigorously analyzed and quantified.

11.9.3.2 Flexibility of labour

Another issue of concern is the flexibility of South Africa's labour force. The typical growing SMME does not expand smoothly or continuously. Instead, its employment often fluctuates, reflecting the arrival of competition into the niche it was the first to find, the resolution of internal problems or those of the SMME entrepreneur and so on. There are indications that regulations that limit the flexibility of "hiring and firing" cause some of the SMMEs that supply very volatile product markets to close down. Unfortunately, it is difficult to assess just how much merely provides a pretext for unfair dismissal. Likewise, the enforcement of basic conditions of employment such as paid maternity or sick leave especially burdens SMMEs because the monetary and labour replacement costs involved are not spread over a large enough work force.

One of the objectives of the dialogue with this respect is to clarify the difference between the area where there is a true trade-off between the welfare of existing employees and the potential to create more jobs vs. those other areas where no such trade-offs exist. This involvement of the state is to bear costs, which neither of the two parties should bear. There is a widespread tendency of the burden of labour reallocation of the firms, while at the same time avoiding a situation where the workers are forced to pick up that burden.

11.9.3.3 Future research on labour and SMMEs

In order to assess the impact of labour market dynamics and regulations on SMME growth, data on employment changes by size and sector and on wages differentials among different sizes of firms is needed to answer the following questions among others:

- Is South Africa's labour structure different from other middle-income countries, in particular with regards to self-employment in the micro-enterprise sector?

- Does measured open unemployment obscure survivalist or micro-enterprise activities?
- Are there large wage differentials between small and large firms, and are the associated wage/employment elasticities different (apart from variation across sectors?).
- To what degree does current market legislation negatively impact on actual (not planned) employment creation in SMMEs? To what extent do SMMEs (indirectly) generate employment through subcontracting as a response to labour regulation?
- What is the potential for a combined unemployment insurance retraining system that eases the burden of labour market adjustment for both the worker and the firm?

11.9.4 Capital markets and financial intermediation

11.9.4.1 Some policy framework guidelines

A major challenge facing the government is how best to use its finite resources to support SMMEs and how its overall support interfaces with access to finance and the role of private financial institutions in service provision.

At one level there are enterprises that present viability problems *per se*, and thus are a high risk. It appears that these enterprises, when they are able to borrow, are charged high interest rates by institutions to make up for the risks, but the cost of finance makes them even more vulnerable. It is argued that the support needed by these enterprises is primarily non-financial, although it makes sense to accompany, for example, marketing support by an enabling framework to accompany growth.

A major challenge is to ensure that if firms become viable entities on the (non-financial side) then the financial market should not prejudice them should they require finance. The predicament of financial intermediation only becomes a problem if there are enterprises that could make effective use of finance but cannot get it. There is a range of factors that explain the problem of financial intermediation.

First, general factors are linked with the size and risk of the firms, such as: risk ceilings of financial institutions; lack of information and credit records, making the credit assessment very difficult; high for the size of the loan. These factors are typical explanations for market failures on SMME financing.

Second, there are factors specific to previously disadvantaged communities, such as lack of valuable collateral, or the inability to provide adequate security/own contribution, as well as cultural barriers. Unfortunately, there are no known recipes for dealing with these factors. Removing interest rate ceilings to enable the development of high-risk lenders may be counter-productive if enterprises are too vulnerable to bear higher interest rates. Simplification of procedures and better control of costs are the responsibility of individual financial institutions, but pushing them into that direction raises the risk of an even more “blanket approach” and worse service quality. Subsidies are not likely to be sustainable.

11.9.4.2 Further research needs

More research is certainly needed to arrive at reasonable conclusions as to where the most pressing needs are, and how capital markets, or government intervention in the capita markets, can facilitate better access.

The central vision of a needed research output to deliver a better basis for policy-making would be a “map of demand and supply”, which would encompass the research of separate studies on a segmental approach. That project might involve the following steps:

- The identification of types of enterprises that are relevant for SME finance purposes (according to criteria of age, sector, location, size, background, growth potential), and the main types of finance to consider (equity, short-term and long-term debt, possibly asset-based vs. pure finance).
- For each type of enterprise, the identification of the average demand for various types of external capital, according to their growth potential, their current financial structure, and typical capital intensity. The desirable upgrade of a certain number of companies into the next higher category should also be considered in the model.
- Similarly, an attempt at identification and quantification of the main sources of finance on the market (including micro-lenders, buyer-advances, or supplier-credit, business angels and venture capitalists) and to break these amounts down between the types of enterprises, in order to have a first indication of where the capital supply overshoots, almost meets, or lies far behind demand.
- A critical review of the qualitative constraints facing supply and demand, i.e. the institutional and economic constraints affecting the ability of various financial institutions to operate on certain segments; and the credit worthiness and interest-bearing ability of SMMEs, per category. In addition, an attempt at providing some explanatory guidelines for these constraints (regulatory obstacles, main sources of costs and risk, and so on).

Such a “cartographic exercise” is a considerable challenge, especially for the types of finance that are very badly researched (such as trade credit and lease/installment finance) and even more for some under-researched types of enterprises (such as informal firms and rural enterprises). It probably needs to be fulfilled by the puzzle technique, i.e. investigating various samples in various settings and aggregating the various pictures obtained to a coherent representation of various (sub-) market equilibria.

Further useful research might also involve:

- A review of cultural barriers impeding the implementation of a working venture capital scheme. At present, venture capital is under-developed on the SMME segment because of both lack of interest of many venture capital firms, and lack of readiness of SMMEs. For example, entrepreneurs tend to be discouraged from when they consider the need to give up part of the control on what they consider to be their ownership. Whether these barriers are definitive or whether the strong economic case for equity may reverse the trend and increase the demand for capital should be investigated.
- An analysis of the flows of credit to SMMEs in South Africa, and the way the monetary policy has influenced such flows over the last decade.
- A more accurate analysis on South African banks' activities towards SMME including:
 - Comparison of South African bank's SMME loans (and repayment experience) with similar developing countries. Anecdotal evidence, indeed, suggests that the share of loans to SMMEs in South Africa is lower than some developing countries. This may or may not be the result of low density in the SMME sector, but to understand this better will require data from banks.
 - An investigation into the likely success of cost-reduction practices or higher competition among the banks, to encourage it to service the SMME sector better. If competition generates a shift in loan books of banks from large corporates to SMME clients, SMMEs are likely to benefit. (However certain SMMEs' dependence on larger firms, e.g. through subcontracting, may sometimes offset this effect).

- A review of the effects of bank regulation. Currently the regulatory system to which banks and other financial institutions must respond is becoming tighter, a trend which makes riskier types of business more and more capital-intensive. The need and justification of an innovative regulatory framework, which would allow “SMME banks” to function with lighter capital bases under certain conditions, should be investigated.

11.9.5 Trade and Market structures

Supply-side measures alone are not sufficient enough to make SMMEs grow if there is lack of access to potential markets. Indeed, falling demand levels are a core concern of South African SMMEs. Micro-enterprises largely complain about increased competition as a result of rising unemployment and lack of purchasing power in their immediate markets, while more established SMMEs maintain that their target markets are dominated by large firms or are shrinking. Identifying insufficient demand as a primary constraint is not surprising in South Africa where both small and large firms suffer from low aggregate demand. Nevertheless, small firms may be most prominent in sectors, industries and market segments that are more affected than those where large firms dominate.

Some sense of demand parameters may assist government in not creating overly high policy targets. More information would be needed on what SMMEs are producing and what market segments they occupy or target. One way in which the government could harness this kind of information is by linking SMME specialists to the sector directorates. Government’s ability to harness information on the SMME sector will depend less on generic SMME specialists but more on sector/economy-wide specialists with an SMME focus.

With slow economic growth, which has tampered the performance of the SMME sector, what initiatives can be taken by the DTI to boost their performance? Are there “growth pockets” in the SMME economy, where by virtue of their size and other attributes, are they able to grow even in the face

of overall stagnation? Published data, used as background by Ntsika (2001) for their *State of Small Business* report could be a useful starting point as it offers considerable sector detail in terms of manufacturing sectors over a long period, although it only offers those SMMEs that are captured by the various manufacturing census released by Stats SA. The Global Entrepreneurship Monitor (2002) report could provide additional insights to corroborate the findings of this urgently needed research.

11.10 Conclusion

The basic thrust of this conclusion section is that we are far from having sufficient knowledge of the supply and demand parameters/factors that impact on SMME growth in South Africa. This partly reflects the incomplete understanding of these issues in developing countries in general and also the short history of analysis of such issues in South Africa and major change of the context; hence the challenge since the new dispensation in 1994. What are the important priority areas where increased information for government decision-makers will be especially important if success is to be achieved in accelerating SMME growth?

South Africa's SMME sector is expected to fulfill a number of roles ranging from poverty alleviation and employment creation to international competitiveness. Not only are these very divergent policy objectives, but also the policy instruments introduced to meet these objectives can be equally different, ranging from literacy training to technological advice. Accordingly (and presumably for political reasons), determining clear priority groups is urgent, be it the targeting of more efficient promotion activities towards the more productive SMMEs, or to better assist survivalist, mainly black-run endeavours.

One of the greatest difficulties confronting policy makers is how best to develop an approach to SMMEs that achieves a sufficient degree of co-ordination between supply-side efforts and demand potential. Although there is the risk of investing resources of improving supply potential where demand

constraints are high (e.g. low growth in demand because of regional stagnation), a major question is whether supply-side incentives have frequently been ineffective because of such demand problems or whether mis-specified supply policies/deficient service delivery are the true causes of lack of success.

Ultimately, however, it is the generation of detailed information about the functioning and working of the SMME sector that determines, first and foremost, the success or failure of a redesigned SMME policy framework.

Small business performance seemingly depends not only on the removal of constraints by means of (supportive) public policies and regulations, but decisively on industrial and organizational structures, the adaptiveness of the businesses and, above all, the capabilities and aspirations of the entrepreneur.