

**AN EVALUATION OF BUSINESS SUPPORT SERVICES TO SMMEs IN THE  
FREE STATE**

*by*

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**AN EVALUATION OF BUSINESS SUPPORT SERVICES TO SMMEs IN THE  
FREE STATE**

**by**

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## **DECLARATION**

*I, the undersigned, Motshedisi Sina Mathibe, declare that this dissertation submitted for the Magister in Business management at the Business Management Department, University of the Free State, is my own independent work, and that I have not previously submitted this work for any qualification at another university or at another faculty of this university.*

*I further hereby cede copyright of this dissertation in favour of the University of the Free State.*

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***Motshedisi Sina Mathibe***

*Signed at Bloemfontein*

*On the 30<sup>th</sup> of November 2010*

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## **LIST OF ACRONYMS**

BBBEE	Broad Based Black Economic Empowerment
BCS	Business Consulting Services
BEE	Black economic empowerment
BESD	Basic Entrepreneurial Skills Development
BOSS	Business Opportunity Support Services
BRAIN	Business Referral and Information Network
BSS	Business Support Service
CBOs	Community based organizations
CCs	Close Corporations
CPPP	Community Public Private Partnership Programme
CSBP	Centre for Small Business Promotion
DFID	United Kingdom Department of International Development
DTI	Department of Trade and Industry
EDPs	Entrepreneurial Development Practitioners
FBOs	Faith Based Organisations
FDC	Free State Development Corporation
FRAIN	Franchise Referral and Information Network
FS GDS	Free State Provincial Growth and Development Strategy
IDCs	Industrial Development Corporation
ILO	International Labour Organisation
LBSCs	Local Business Support Centres
LED	Local economic development
MACs	Manufacturing Advisory Centres
MMWP	Making Markets Work for the Poor
MTEF	Medium Term Expenditure Framework
MUCPP	Mangaung University Community Partnership Programme
M&E	Monitoring and Evaluation systems
NACs	National Advice Centres

NAFCOC	National African Federated Chamber of Commerce & Industry
NAMACs	National Manufacturing Centres
NGOs	Non-governmental Organisations
NSBC	National Small Business Corporations
NYC	National Youth Commission
NYDA	National Youth development Agency
PDI	previously disadvantaged individuals
PP	Premier's Project
Pty (Ltd)	Proprietary Limited (refers to a private company)
RDC	Regional Development Corporation
SAYC	South African Youth Council
SAQA	South African Qualification Authority
SBDA	Small Business Development Agencies
SBDC	Small Business Development Corporation
SBSN	Small Business Support Networks
SEDA	Small Enterprise Development Agency
SMEs	Small and Medium Enterprises
SMMEs	Small Micro and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
UK	United Kingdom
UNDP	United Nations Development Programme
UYF	Umsobomvu Youth Fund
YEC	Youth entrepreneurship campaign for 2010

# **CHAPTER ONE: SETTING THE SCENE**

## **1.1. INTRODUCTION**

### **1.1.1 International background**

In the last twenty years the global economy has seen major change in the way business support services are rendered (Haper and Tanburn, 2005). Although the major shifts in business support can be related to the overall shift to more neo-liberal policies, these shifts have also brought new insights into the process of business support services. Harper (2005) identifies six main changes in the approach to business support. First, permanent government or donor funding was replaced by a mere start-up funding approach in order to provide sustainable business support services. Second, a larger range of market-driven and market-priced services that were delivered at a quality/price mix determined by end-users replaced the high costs of a limited range of services that used to be subsidised. Third, historically, literature shows that government and donors could not reach all small businesses but a limited number, and therefore a targeted client approach was introduced in order for the government and donors to reach them effectively (Orford, 2005:21). This paradigm shift was intended to place an emphasis on service providers in the private-sector (see also Committee of Donors, 2001). Fourth, the emphasis on the impact of poverty changed from one of short-term benefits to one of long-term benefits to providers and clients, indirectly benefiting the poor through job creation. Next, the mainly male clientele was replaced by small-enterprise owners which included females. Finally, there was a significant shift towards being demand-driven in respect of the needs of enterprises. This meant both that the range of services was expanded and that they were mostly delivered on a cost-recovery basis. It is against this background that South African Small Micro and Medium Enterprise (SMME) policy aims to address the issues of SMME support and development in the country.

The purpose of this study is to focus specifically on the Free State province, as to how the SMME policy intends to address the changes mentioned earlier (in the first paragraph) in the province and how the business support services assist in supporting and developing SMMEs in the province. This chapter begins by providing an overview of the SMME sector in the South African context. The chapter then gives a background of the SMMEs sector in the Free State, and problem statement follows thereafter. The chapter continues by providing the research

objectives and questions, then data collection as well as the data analysis. The conceptualisation and layout of the study follows thereafter.

### **1.1.2 The South African context**

Historically, support for SMMEs has received limited attention in South Africa (Rogerson, 2004). Only in the mid-1980s did the apartheid government realise the value of SMMEs for the economy. The end of apartheid and the transition to democracy required an SMME strategy that encouraged more SMMEs to be involved in the country's economy than were so under the apartheid's era (Phillips, 2002). Since 1994, South Africa has been faced with the challenge of reintegrating into the global economy, and positioning itself to realise the high expectations associated with the new democratic order. (Rogerson, 2004). Moreover, through the SMME policy of 1995, South Africa has focused its attention on the promotion of the SMME economy in order to attain the objectives of economic growth through competitiveness, employment generation, and income redistribution (DTI, 2005). For the support and development of SMMEs in the country, business support programmes have been established and implemented since 1994. In order to yield positive results, South Africa has adopted the international policy with regard to business support for the support and development of SMMEs.

As it has been mentioned earlier that the study focuses specifically in the Free State Province, the next section discusses various support mechanisms that have been put in place to support and develop SMMEs in the province. The next section also identifies and gives a brief explanation of the five business support programmes that are chosen for the study.

### **1.1.3 Free State context**

Various support mechanisms have been put in place to boost SMMEs in the Free State. These mechanisms are: Ntsika Enterprise promotion Agency, Khula Enterprise Finance Limited, Small Enterprise Development Agency (Seda), Umsobomvu Youth Fund (UYF), Premier's Project, the Basic Entrepreneurial Skill Development (BESD) Approach, and the Free State Development Corporation (FDC). The focus of this study is on the Seda, UYF, Premier's Project, the BESD Approach, and the FDC. The reason why these five institutions are part of the study is that they were established post- 2000; the three of them (BESD, Premier's project and the FDC) were

specifically established for the support and development of the Free State SMMEs. Seda and UYF are included in the study to compare and evaluate how are the three Free State business support programmes performing in comparison to Seda and UYF and vice versa. The main aim of these programmes is to support SMMEs by improving and decentralising access to information, training, markets, finance and technology, (DSA, 2004). This includes improving business infrastructure and market environment, and the strengthening of networks between enterprises. Despite some evaluations of business support programmes, very little is known about their impact in the Free State region. Another problem is that the monitoring and evaluation system approaches focus on once-off evaluations. These once-off approaches usually lack an impact approach over a time-line. An approach that considers a longitudinal evaluation of SMME support institutions might be more appropriate.

#### **1.1.4 Research problem and questions**

Part of the dilemma for the support programmes is that no overarching Monitoring and Evaluation system is available against which to check performance. A number of direct questions can be asked about the role of the chosen business support programmes in developing and supporting entrepreneurs from a previously disadvantaged background. The following are some of the research questions to be asked:

- What are the main lessons to be learned from the international experience about SMME support programmes and changes that have taken place in this respect?
- To what degree are South African business support institutions following international trends?
- How do these support systems assist in establishing and supporting enterprises owned by previously disadvantaged individuals?
- How does policy articulate business support?
- What are the ingredients of business support institutions that assist enterprises that succeed and grow?
- How do enterprises experience business support in South Africa, and specifically, in the Free State in the post apartheid era?

## **1.2. THE PRIMARY AND SECONDARY OBJECTIVES OF THE RESEARCH**

The primary objective of this research is to evaluate the business support institutions in the Free State. In order to achieve this aim, the following secondary objectives are set:

- To investigate existing literature on the paradigms, content shifts and lessons learned in respect of business support services internationally.
- To evaluate SMME policy and the policy approach to business support in South Africa.
- To compare the overall approach towards business support services by Seda, UYF, Premier's project, BESD approach, and the FDC on business support in the Free State;
- To assess the FDC's approach to business support services by means of an extensive survey;
- To recommend policies that can improve the business support services and the development of the SMMEs in the Free State.

These objectives will be informed by the knowledge, views and experiences of the participants who have benefited from the FDC and the respondents from the management of the five business support institutions chosen for this study in the Free State Province.

## **1.3 RESEARCH METHODOLOGY**

This section discusses the methodology that is employed in this study.

### **1.3.1 Study area**

The Free State is the second smallest province in the country and it is estimated to have a population of about 2 902 400 in 2009 (which is 5.9 % of the total population) as compared to 2 706 775 in 2001 (Statistics SA, 2001; 2009). The unemployment rate in this Province is estimated to be at 25.3% compared to 24.3% for the whole country during the last quarter of 2009, where at least 2.2% of people are in the second economy (Statistics SA, 2009). The business support institutions are dedicated to assist small businesses in the second economy in order to be sustainable and able to contribute to the economy of the Province and of the country at large.

### **1.3.2 Research design and methods**

Three main methodological procedures were followed in order to complete this study, namely a literature review, survey method and sampling method.

Firstly, an extensive literature review was conducted on the paradigm shift of business support services in both developed and developing countries. The focus was on how business support has changed in the past two decades in these countries. Moreover, the literature review provided relevant information regarding the background of business support services internationally as well as locally. In this regard, books, journal articles, government and relevant institutional documents with reference to the business support programmes were consulted.

Secondly, for the collection of the necessary data for this study, both quantitative and qualitative methods were applied. Two surveys were conducted. The first one was a qualitative survey in which five individual interviews were conducted with the management representatives of the five participating business support programmes. Firstly, an in-depth interview was conducted with Mr Morolo, the Manager in the small business unit of the FDC. This was done to form an in-depth understanding of the FDC's financial support of and non-financial support to SMMEs. Secondly, a personal interview was also conducted with Ms Moholo, who is a business advisor at Seda. The third interview was conducted with the Director of the Mangaung University of the Free State Community Partnership Programme (MUCPP), Mr Mokoena, in order to gain clarity regarding the BESD approach to SMMEs in the Free State. The fourth interview was conducted with the Manager in the business development unit of the UYF, Mr Ndlovu. Lastly, Mr Adonis, who is an assistant project manager in the Premier's office, was interviewed. Here the aim was to identify the impact of the Premier's project on SMMEs in the Free State. In this regard, semi-structured interviews were conducted to compare five business support programmes in terms of the trends identified in the international literature (McMillan & Schumacher, 2001). This helped to further clarify issues that could not be covered via the structured questionnaire method. For questionnaire administration, entrepreneurs who were financed by the FDC were used as the unit for analysis. A total number of 263 entrepreneurs were sourced from the FDC data base. About 175 questionnaires were distributed in all five districts of the Free State, namely the Motheo, Lejweleputswa, Thabo-Mofutsanyana, Xariep and Fezile-Dabi districts. Data was collected by

the researchers via telephonic interviews with the assistance of two fieldworkers. In total, a number of 127 questionnaires were collected.

However, there have been limitations regarding this study. Firstly, the study was conducted only in the Free State and thus excludes the other eight provinces of South Africa. The study focused on the business support programmes based in the Free State that supported the SMMEs, and did not take into account business support programmes from other provinces that assisted in developing and promoting SMMEs in the Free State. The study also focused on the 1995 and 2005 SMME policies and excluded other policies that had an impact on the development of SMMEs during the past ten years. Fourthly, even though the study focused on the five business support programmes in the Free State, the respondents (entrepreneurs) were sourced from the FDC database. Entrepreneurs funded by the UYF, BESD, Premier's Project and Seda were not included in the study. The reason for the exclusion is that the FDC funded the study and therefore wanted to identify their shortcomings in supporting and developing SMMEs in the Free State.

The population that represented the SMMEs was very small due to the fact that it was only sourced from the FDC. To the dismay of the researcher, 263 entrepreneurs were sourced from FDC database, but the FDC consultants confirmed that only 175 SMMEs were still in existence, of which, only 127 were interviewed. The 48 remaining entrepreneurs could not be reached for the following reasons: some entrepreneurs reported being very busy and having no time to answer the questions; some of them could not be reached telephonically as their phones were either on voice-mail or the numbers no longer existed. At the same time the researcher found that some of the businesses that were on the FDC database were no longer owned by the entrepreneurs who received finance from the FDC. For example, the father who had applied for the loan had passed away and the son had taken over.

### **1.3.3 Data analysis**

The data sourced from the five business support programmes and from the participating entrepreneurs who benefited from the FDC were collected and used both qualitatively and quantitatively. The qualitative method was used to obtain more information through the one-on-

one interviews about the impact of each of the five business support programmes on the support and development of the SMMEs in the Free State Province. In addition, the quantitative method was used to obtain information through the use of a questionnaire about the financial and the business support impact of the FDC on the entrepreneurs in the Free State Province. This helped to gain an understanding of the dynamics involved in the phenomenon so as to have an effective intervention mechanism (Wisniewski, 1994). The results of the survey were captured on a Microsoft-Excel programme and then transferred to SPSS (Statistical Package for the Social Sciences) software in order to put through a basic set of descriptive calculations. Cross tabulations and comparisons of means were also used to compare the support and development of SMMEs in the Province.

#### **1.4 CONCEPTUALISATION**

This section discusses the main concepts that are applied in this study. These concepts are discussed briefly.

A wide range of definitions exist in respect of Business Support Services and a more detailed discussion will be provided in Chapter Two. For the purpose of this study, *business support services* is defined as an approach by external agencies to assist, to improve and promote, and to give advice to small businesses (Mole, 2002).

A more detail discussion of definitions of small enterprises is provided in Chapter Two. According to Goss, (1991), *small enterprises* can be defined as businesses employing no more than 10 employees, and medium enterprises are businesses employing no more than 50 employees.

In the South African context, *SMEs* are extended to *SMMEs*, which are Small, Medium and Micro enterprises. Micro enterprises are enterprises that consist of one to three employees, according to Preston-Whyte and Rogerson (1991). This study focuses mainly on support to micro and small enterprises.

*Services providers*, in the context of this study, refer to the institutions that provide business support services directly to SMMEs. The providers may be private sector, NGOs, parastatals, government agencies and industry associations (ILO, 1997).

*Markets* are defined as a set of arrangements by which buyers and sellers meet in exchanging goods and services. In a market demand and supply interact in a business situation (Dorward and Poulton, 2005).

## **1.5 LAYOUT OF THE STUDY**

**In Chapter Two (Business support services: A literature review)** the study focuses on changing paradigms of SMME development and business support. It considers business support services in developed and developing countries. The chapter delves into the different ways these countries finance and support SMMEs, and the kind of assistance these countries provide to promote SMMEs. The level of government involvement in the promotion of SMMEs and the paradigm shift in these business support services are also discussed.

**In Chapter Three (SMME development and policy intervention in South Africa)** SMME support policy in South Africa is discussed. The study describes the South African policies on SMME development and compares the 1995 and the 2005 SMME policies to international SME policies.

In order to capture the essence of the business support programmes in the Free State, **Chapter Four (A comparison of business support programmes and approaches in the Free State)** compares the programmatic approach of five business support programmes, namely Seda, UYF, Premier's project, BESD approach and the FDC.

**Chapter Five (Business support programmes by the Free State Development Corporation)** provides an assessment of the FDC business and financial support services. The chapter discusses the FDC process during the loan application, the pre-finance and post-finance approach of the FDC. The chapter closes with an analysis of FDC business support and the financial support's negative and positive perceptions of the entrepreneurs regarding the financial support.

**Chapter Six (Principal findings of the research and policy recommendations)**, gives an overview of the main findings of the study and makes specific recommendations that could be utilised by the policy makers in the public sector in order to improve the quality of business support services in the Free State.

## **CHAPTER TWO: PARADIGM SHITF OF BUSINESS SUPPORT SERVICES**

### **2.1 INTRODUCTION**

Although business support services have become conventional wisdom in many countries across the globe, the precise definition of such services differs considerably amongst countries throughout the world (Harper, 2005). In one of the definitions Harper (2005) defines business support services as support services bought and used by the business, excluding finance. Mole (2002) is more specific in his conceptualisation of the term when he notes that business support services is an approach for the government to assist, to improve, to promote, and to provide training to small and micro enterprises (SMEs). For this study, business support services can be defined as assistance from the government as well as from other institutions to SMEs in the form of advice, training and mentoring in order to improve and develop them.

The aim of this chapter is to assess the role of business support services in developed and in developing countries. The chapter initially discusses business support services in developed countries. This is followed by a discussion of changes that have occurred in business support services in developing countries. Specific focus is placed on the paradigm shifts and analysis of the current paradigm.

### **2.2 BUSINESS SUPPORT IN DEVELOPED COUNTRIES**

#### **2.2.1 Rationale for business support in developed countries**

Having stated the definition of business support services in the introductory paragraph, the focus now shifts to the rationale and motivation for business support services. The establishment of business support services has been a key strategy in many countries to support the development of SMEs (Mole and Bramley, 2006). The rationale for small business support varies widely across countries. These motivations vary from an acknowledgement of increased competition, arguments about the balance of industrial power between larger and smaller firms, while in other cases it is seen as a source of innovation (O'Neill et al., 1987). Furthermore, Wren and Storey (2002) draw a distinction between two types of business support services, namely financial and non-financial support. Traditionally financial support is in the form of loan guarantee schemes, subsidised loans to SMEs and capital grants to smaller firms. However, the focus in this study is

mainly on non-financial support, although the link between financial and non-financial support cannot be ignored and will be dealt with later in Chapter Five. Non-financial support can take the form of advisory assistance, the dissemination of best practice and the encouragement of partnerships, which all recognise particular kinds of market failure facing SMEs (McQuaid, 2002; Thurlow and Wobst, 2004). The key component of non-financial business support is the provision of information and advice to enhance the capability of businesses in managing their own development (Mole and Bramley, 2006).

From the available literature the following three arguments in favour of business support service should be mentioned. Firstly, the literature suggests that the overall intention of business support services is directed toward economic development and poverty alleviation. Mole and Bramley (2006) argue, within the British context, that people who lose their jobs in the formal sector have the opportunity to become self-employed through business support services. The intention is that these businesses become financially viable and in the process create employment for others. On the one hand the action is indisputably to help improve the economic development of the country, while on the other it is to help in alleviating poverty.

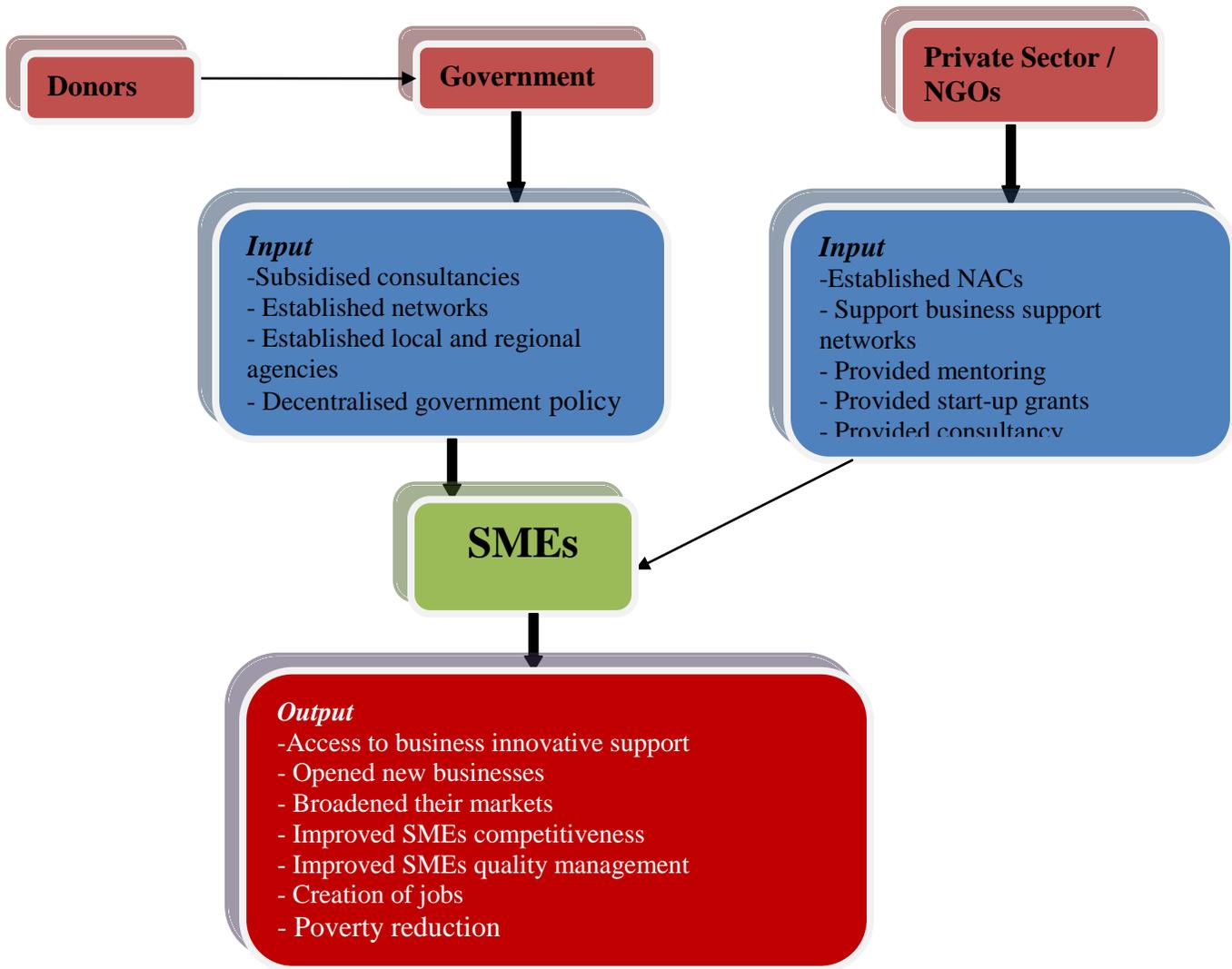
Secondly, the literature presents the realisation that business support services cannot only focus on the supply side of SMEs. As opposed to a supply-side mechanism, there is an increasing realisation that business support services should also be market-driven (demand-driven) (World Bank, 2002). Lastly, the literature emphasises targeted and the flexible programmes (Keeble and Wilkinson, 1999). There is consensus in literature that targeted and flexible programmes have better success rates. By offering help at a local level through these programmes, support services are best placed to understand specific requirements of SMEs (Keeble and Wilkinson, 1999).

### **2.2.2 The structure of support programmes for SMEs in developed countries**

Having provided an overview of the rationale and motivation for business support services, the focus in this section turns to the relationship between the state, the private sector and NGOs in business support programmes in developed countries.

The early 1990s saw government advice supplied by a mixture of central policy agents in the UK, with some local and regional agencies also present. However, by the late 1990s the emphasis was far more on decentralised institutions (Bennette and Robson, 2003). For example, many European governments supported partnerships between regional development agencies, regional government offices and business-support networks that had to be improved to ensure availability of funds to support SMEs (Shearlock, Hooper and Millington, 2001). In the process the state's role in business support programmes has been scaled down to the provision of the necessary funds.

In practice governments delegated SME support to NGOs, private sector donors and business support organisations in order to reduce regulations, improve access to markets and create a culture that supports SMEs through education and other programmes (Bennett, Robson and Bratton, 2000; McQuaid, 2002). Figure 2.1 provides a schematic overview of the changing role of government in respect of business support services.



**Figure 2.1 Business Support to SMEs in the Developed Countries**

In developed countries SMEs are mostly supported through indirect government assistance to support organisations. The government and the private sector established support networks, established local and regional agencies and mentoring programmes in order to support SMEs. In addition, the government subsidised the consultancies in order to be cost effective to SMEs, while at the same time decentralising the government policy on SMEs in order to reduce regulations and to improve SMEs' access to markets (Shearlock, 2001). However, private sector business support organisations are actively engaged in support to SMEs. Through support, private sector and business support organisations established different types of programmes in order to develop SMEs. These programmes are discussed in Section 2.2.3 below.

### **2.2.3 Types of business support programmes for SMEs in the developed countries**

The following list of programmes (although not exclusive) are the types of business support programmes that have been implemented in the developed world: Network Advice Centres, subsidisation of consultancy days to enterprises, Network Advice Centres for broader economic development, quality marks, industry-(sectors) specific advice, start-up grants and mentoring (Molenaar, 2006). Each programme will be discussed in detail below.

#### ***2.2.3.1 Network advice centres***

Business support services have what is called Network Advice Centres (NACs), which are commonly used across the globe for the purpose of developing SMEs. These NACs are divided into three categories, namely social, commercial and support networks. Many SMEs utilise social networks that include family, friends and relatives. The social network helps SMEs and emerging entrepreneurs to develop and grow by operating as a support structure. The second category is commercial networks, which consist of customers who are clients and buy SMEs' products and services (Gorman and McCarthy, 2006). Commercial networks also consist of suppliers from whom SMEs buy their products and services for the development of their businesses (Gorman and McCarthy, 2006). NACs link SMEs directly to these commercial networks in order to ensure adequate feedback to the SMEs. The last category involved is support networks, which have been identified in the existing literature as venture capital, universities, mentors and counsellors that serve the need for a single point of access by SMEs to an integrated range of services (Gorman and McCarthy 2006). The support networks represent a valuable source of outside expertise and resources, complemented by the next business support programme to SMEs in the form of subsidisation of consultancy.

#### ***2.2.3.2 Subsidisation of consultancy to SMEs***

In order for a business support service to eliminate financial and administrative constraints by appointing permanent staff, business support programmes commonly subsidise private sector consultants to perform business support functions on their behalf (Mole, 2002; Lambrecht and Pirnay, 2005). These consultants are assigned to a particular area to deliver support services to a group of new and existing SMEs (Turok and Raco, 2000). A number of services are provided. For example, consultants use their expertise to train SMEs in the field of management in order to

boost their competitiveness. In addition, consultants train and assist SMEs to write marketable business plans, design logos and choose products that SMEs wish to sell in the market. Consultants also provide financial and other information to SMEs. The overall advantage of this approach is that the funders pay for the direct cost (service) only and need not create huge infrastructures in order to deliver the appropriate services. NCAs were established along with the concept of subsidising the consultants. The aim of their establishment was to develop the economy of the developed countries in a broader context (see Section 2.2.3.3).

### ***2.2.3.3 NCAs for broader economic development***

Over the past few years, SMEs have been targeted by public policy in some of the developed countries, with the aim of creating suitable macroeconomic frameworks and environments for SMEs (Bennett, Bratton and Robson, 2000; Mole, 2002). The original focus was thus largely on SMEs only, but the role of SMEs in broader economic development through employment creation forced NCAs to broaden their scope to include aspects of the business environment (Hjalmarsson and Johansson, 2003; Biggs and Shah, 2004). One of the aspects of business environment included is quality marks and industry specific advice and this is dealt with in detail in Section 2.2.2.4 below.

### ***2.2.2.4 Quality marks and industry specific advice***

Quality marks became a prominent service provided to SMEs internationally as they are important in creating market access. Quality marks are awarded to SMEs by recognised institutions to measure the quality of products and services provided by SMEs (Bennett, Bratton and Robson 2000; 2001 and 2003). Quality marks refer directly to the product quality but can also include aspects of environmental quality during the production process (Greenan, Humphreys and McIvor, 1997). In many cases start-up grants are used by SMEs in order to introduce their quality marks to the market industry (Bennett, Bratton and Robson 2000).

### ***2.2.3.5 Start-up grants and mentoring programmes***

Although the focus of this study is on non-financial support services, the combined service of start-up grants and mentoring is commonly used. Business support services are thus provided in combination with provision of finance. These types of mentoring programmes commonly foster

support for research and development offers, business skills training workshops, and group mentoring sessions to SMEs. Face-to-face mentoring and networking opportunities help SMEs to better equip themselves and their employees (Weeks, 2000; Heilman and Chen, 2003; Davidson and Burke, 2004). The start-up grants are used to subsidise the cost of pitch training and presentation workshops for SMEs. These start-up grants also facilitate access to domestic and international forums where SMEs can pitch to potential investors and strategic partners. In addition, start-up grants are given to SMEs for growth costs such as market development, intellectual property protection and legal costs. Start-up grants are furthermore provided as financial assistance for research programmes and research projects for the development of SMEs in developed countries. Lastly, start-up grants are also used to provide an experienced business person or mentor to help SMEs in developing and improving their businesses, while large firms are also used in some instances to mentor emerging entrepreneurs regarding the development of their SMEs.

#### **2.2.4 Synthesis**

SMEs have been contributing to the economies of the developed countries related to this study for many years, yet have not been recognised by the governments of those times (Hisrich and Fulop, 1994; World Bank, 2001). Recently, government delegated some of the responsibilities to NGOs and the private sector since they realised that it was not easy to reach all SMEs. In the developed world, governments also established business support services at provincial and local levels, where they were able to identify SMEs. These business support services have been able to understand SMEs' specific needs and offered these SMEs an overview of the instruments, opportunities and legislation which were relevant to their businesses across developed countries (Keeble and Wilkinson, 1999).

The developing countries adopted the developed world policy and shifted their paradigm of business support services so that they could give subsidies to SMEs in order to build the economies of their own developing countries and help alleviate poverty. The next section deals with the paradigm shift of business support services in developing countries.

## **2.3 AN ASSESSMENT OF THE BUSINESS SUPPORT IN THE DEVELOPING WORLD: POLICY LESSONS**

In the past two to three decades there has been a major change in business support services to small businesses in developing countries (Haper and Tanburn, 2005). Donor foundations and multinational companies all had high expectations of SMEs as a means to build the economies of developing countries, and to provide employment to the poor (similar to the motivation in developed countries). Yet, the approach to business support services was undebated (Tanburn 2006). At the same time, there were also important gaps in the existing practice.

Three aspects require more intense discussion in this section. Firstly, this section discusses the criticism of the traditional approach of business support towards SMEs' development. Secondly, the paradigm shift of business support in developing countries is traced. Lastly, the changes in business support from the supply side to a demand-driven approach are tabulated and the impact of each on SMEs is discussed.

### **2.3.1 Criticism of the traditional approach to business support**

Although the importance of SMEs' development has grown over the past two decades, SME development and support programmes have not been without criticism. Schmitz (1998) identified six main points of criticism in respect of the traditional approach to business support. Firstly, the high level of subsidies requiring continuous public support was highlighted as one of the main problems. The insufficient outreach of the government to SMEs was identified as the second problem. Deficit spending as well as the improper handling of substantial inflows of foreign aid was identified as the third major problem leading to very few entrepreneurs being reached. Fourthly, the general support of interventions together with the personnel of these interventions was not designed to encourage partnership with the business sector or even to pursue customer satisfaction. Next, poor quality of services became common in the industry and low quality products were delivered at a low cost, or free of charge. Lastly, an increasing number of private competitors lead to highly subsidised rates of service delivery, and this resulted in market distortions and hampered the emergence of commercially viable service providers. Hence the non-financial support was too supply-oriented and rarely sustainable. However, in view of the above scenario, there was an urgent demand for a shift away from the traditional approach of

business support by the mid-1990s as this approach was not addressing the needs of SMEs (see for example Goldman 1996; McIntyre and Dallago, 2003; Gorman and McCarthy, 2006; Meyerstamer, 2006).

### **2.3.2 Changes in Business Support Services in the Developing Countries**

This section aims to highlight key changes in business support that contributed to the paradigm shift in the developing world. In the case of paradigm shift, Harper and Tanburn (2005) identifies seven changes in business support that have taken place over the past years in the international arena (especially in the developing world, but also in the developed world); namely, sustainability of provision, cost of services, client focus, poverty, gender impact, services provided, and the rise of the concept of ‘making markets work for the poor’. Each concept or change will be discussed in detail in the next section.

#### ***2.3.2.1 Sustainability of provision***

Historically, business support mechanisms were highly subsidised by donors, parastatals or governments (Kashyap, 1991). Taburn (2006) argues that one of the key aspects related to business support is that of providing such a service in a sustainable manner. One such manner was to extend business support to the development of SMEs and to get them to pay for specific services (World Bank, 2001). This contrasted with the old approaches that depended massively on support by donors and government subsidies for the sustainability of business support. Kashyap (1991) uses examples from India where training and marketing skills have played a crucial role and entrepreneurs have contributed financially to these services. Yet the question can be asked whether all SMEs in the developing context are able to pay for service rendered at cost.

#### ***2.3.2.2 Cost of service***

Although business support services were highly subsidised and SMEs seldom paid for such services, business support services were historically rendered at a high cost for the government and donor (Molenaar, 2006). As a result, the high-quality and high cost of services subsidised by government had to be replaced. The alternative was a large number of market-driven and market-priced services, delivered at a quality and price mix determined by business support

needs (see also World Bank, 2001). In addition, the larger emphasis on quality services meant that business support narrowed the range of business support service (Kashyap, 1991).

### ***2.3.2.3 Client focus***

Business support services managed by governments in developing countries could only reach a few SMEs effectively. Consequently a greater emphasis was placed on private sector providers – as was the case in the developed countries discussed earlier in this chapter (Committee of Donors, 2001). The paradigm shift has led to emphasis on service providers in the private sector, assuming that government and donor organisations have a limited ability to deliver services to large numbers of SMEs (Orford, 2005).

### ***2.3.2.4 Poverty impact***

According to the literature presented, the fast-growing poverty is determined by formal sector unemployment, resulting from privatisation and trade liberalisation (Thurlow and Wobst, 2004). Hence, the persistent microeconomic instability and political uncertainty make the possible impact of SMEs in terms of poverty alleviation become important.

For example, in countries like Ghana, Tanzania and Uganda, surplus labour has been directed into the informal sector in the form of self-employment in order to contribute to poverty alleviation (Sandefur, 2006; Tanburn 2006).

### ***2.3.2.5 Gender impact***

As much as self-employment in the informal sector was given attention as one of the instruments which could be used to alleviate poverty, gender has always been the main issue in some of the developing countries. For example, females were/ still are not considered capable of running businesses due to their family responsibilities. These responsibilities have so far prevented them from accessing resources that could assist them in terms of growing their businesses. So far women have seldom been given equitable support and granted opportunities to play their part as entrepreneurs in the developing countries (Walsh et al., 1991). It follows from the literature that, previously, business support programmes had a majority of male beneficiaries and that males benefited proportionally more through business support programmes than females (Pretorius,

Millar and Kruger, 2005). In line with the new paradigm, a Kenyan-based NGO established business training for females that would empowered them (female owners) and provide them with the skills needed to run their own businesses (Walsh, Kane and Nelson, 1991).

#### ***2.3.2.6 Services provided***

In the past, the focus of business support programmes was mainly on the supply-side of business support. In practice it meant that a limited number of businesses would offer services to SMEs without asking themselves questions such as where these SMEs will sell their products or who will buy from them. McQuaid (2002) identifies a major shift towards being demand-driven in respect of business support services. The shift resulted in a number of businesses with special consultants availing their skills and resources to train and facilitate SMEs through business support in order to develop and grow. The main objective of the shift was to look for markets and to try to open those markets for SMEs - so that these SMEs could be sustainable over a long period of time. The question as to how business support organisations open markets for SMEs will be answered in the following section.

#### ***2.3.2.7 Making Markets Work for the Poor (MMWP)***

In line with the emphasis on demand-driven business support programmes, the MMWP developed. The concept of 'MMWP' has only been popularised during the last decade or two (Harper and Tanburn, 2005). This concept is still new and there is not enough literature concerning it. In fact, Schrimmer (2005) argues that more research needs to be done regarding this issue or concept. As in many cases, poor people were left behind in terms of accessing the markets (Kashyap, 1991). In practice this could mean playing a specific regulatory role, for example through ensuring trade agreements with SMEs (Mfaume and Leonard, 2004).

However, in order to understand why markets work, or why they do more frequently in other countries but not in poor countries, it is essential to look not only at the markets themselves, but also at SMEs. One should ask whether these SMEs have the required skills and experience to run their businesses. One should also consider the involvement and the role of the government in ensuring that these SMEs obtain skills - in order to access markets (Sida, 2003; DFID, 2000; UNDP, 2004; World Bank, 2005). Regarding the seven changes of the business support services

in developing countries discussed above, a summary in a tabular form is provided in table 2.1. This summary gives a comparison of the old versus the new approaches of business support services in the developing countries.

**Table 2.1: A summary of the main changes in SME support services in developing countries**

<i>Changes</i>	<i>Old approaches</i>	<i>New approaches</i>
Sustainability of provision	Permanent subsidised official provisions	Temporary pre-existing indigenous provision leading to sustainability
Cost of services	High quality, high cost of services and subsidised delivery	Market-driven and market price services Delivery price determined by clients
Clients	Public sector providers reach limited SMEs	Private sector providers reach large number of SMEs through facilitation
Poverty impact	Minority of SMEs receive limited benefits	Long-term benefits to poor through employment opportunities
Gender impact	Male dominated industry	SMEs' owner population including female participants
Services provided	Limited number of business services	Number of businesses with special consultant to facilitate
Making-markets-work-for-the-poor	Supply-driven approach to SMEs – limited focus on markets	Market-driven approach to SMEs

### **2.3.3 The role of government in the development of SMEs in developing countries**

Recently, governments in developing countries and foreign donors offered services to SMEs, supplied industrial estates, training and extension services, raw material suppliers, common facility workshops, and new business incubators (Harper, 2005). Because of heavy subsidies, these services have generally been insufficient in quantity and of poor quality. As a result, governments in developing countries have had to invite the private sector to take control of the market in a way that benefits these countries (Meyer-stamer 2006). Secondly, governments in developing countries also had to ensure that there is a strategy for SMEs to keep in touch with global market trends even after the development sponsors were no longer there to assist. This

could only be done through the encouragement of the private sector and the involvement of business support. The focus of the governments was on the deterioration and need infrastructure, which was the major problem affecting SMEs' access to markets and accelerating pro-poor growth (McIntyre and Dallago, 2003; Thurlow and Wobst, 2006). However, the private sector, NGOs as well as business support (established by the government) working together as a team, would in the end assist SMEs to access markets and contribute to the economies of the developing countries.

## **2.4 SIMILARITIES AND DIFFERENCES IN RESPECT OF BUSINESS SUPPORT IN DEVELOPED AND DEVELOPING COUNTRIES**

### **2.4.1 Similarities**

In as much as the developed and developing countries have been discussed in section 2.2 and 2.3 above, this section deals with the similarities of both the countries in respect of business support services.

The literature presented in this study identified at least three similarities for both developed and developing countries. First of all, both developed and developing countries subsidise the consultancy for SME development through business support services. These consultants conduct workshops and seminars to train SMEs to develop their skills and to assist SMEs in writing business plans. Secondly, the common theme for these countries is that the government policy for SMEs development is decentralised. This is due to the fact that agencies at both local and regional levels should be able to reach SMEs effectively. Lastly, business support in both developed and developing countries subsidises the high cost of services provided to SMEs, because not all SMEs can afford to pay for them (Kashyap, 1991). However, these two worlds do not only show similarities, as a few differences have been identified in respect of business support services.

### **2.4.2 Differences**

This section emphasises the differences in respect of business support services for both developed and developing countries. In this regard, the literature also identified three differences in respect of business support services. Firstly, the study identified that business support

institutions in developed countries provide both financial and non-financial support to SMEs, while in developing countries business support institutions only provide non-financial support to SMEs with consultants' facilitation. Secondly, business support services in developed countries cater mostly for male entrepreneurs, while in developing countries business support institutions develop both male and female entrepreneurs. Lastly, it is more challenging for business support institutions in developed countries to assist SMEs to access markets, while in developing countries business support institutions try to expose SMEs to national and international markets. These business support institutions do so by taking SMEs to exhibitions and paying for the costs of the exhibitions.

## **2.5 CONCLUSION**

Business Support Services have become conventional wisdom in many countries. In this chapter, the exposition covered the aspect of business support services for SMEs in both developed and developing countries. Business support institutions were established to support SMEs as well as the stakeholders involved (government, private sector, NGOs and donors) in developed countries effectively.

In developing countries, business support services have experienced a remarkable change in the past decade. The stakeholders involved in supporting SMEs have brought about expectations of building the economies of developing countries while at the same time creating job opportunities through SME development. In this regard, Harper and Tanburn (2005) identify seven changes covering business support in the international arena with reference to the developing world. Furthermore, the overall perspective of the paradigm was directed towards developing the means to empower SMEs with skills and knowledge through business support programmes. Moreover, the purpose of the new paradigm was to get SMEs on board so as to address their specific needs, while also responding to market needs. The next chapter focuses on these seven changes in respect of business support institutions in developing countries. The chapter also deals specifically with these changes in relation to the South African policy on SMME support and development.

# **CHAPTER THREE: SMME DEVELOPMENT AND POLICY INTERVENTION IN SOUTH AFRICA**

## **3.1 INTRODUCTION**

Chapter Two emphasised the importance of business support mechanisms and the most prominent paradigm shifts in the international arena. It should be noted that other countries use the concept of Small and Medium Enterprise (SMEs), while in South Africa; the concept used changes to Small, Micro and Medium Enterprises (SMMEs). The promotion and support of the small, medium and micro enterprises (SMMEs) sector has become a major policy matter in the structure of business support agencies in post-apartheid South Africa (Kesper, 2001; Adams, 2003; Rogerson, 2004). It is important to note that the growing importance of business support during the post-apartheid period has gone hand in hand with the paradigm shifts discussed in Chapter Two. The question then is how the international policy shifts were reflected in or influenced the South African policy.

The rising importance of small business support and development during the post-apartheid period is in sharp contrast with the period under apartheid when the SMME economy was basically neglected by policy-makers (Rogerson, 2005; Chalera, 2007). During the same period, an arsenal of suppressive measures actively discouraged black-owned enterprises. The late 1980s saw new policy objectives, namely poverty alleviation, job creation and the development of national economic growth actively supporting the SMME economy (Rogerson, 2000; Adams, 2003).

The objective of this chapter is to sketch and evaluate the SMME policy framework in South Africa and the policy development towards promoting the SMME economy. Although there are several policies on SMME development, such as the 1995 framework strategy for SMME support and development in South Africa; the 2005 Integrated Small Business Strategy in South Africa; Human Resources policies and tax-related policies, to mention but a few. The emphasis of this chapter is on the 1995 framework strategy for SMME support and development in South Africa and the 2005 Integrated Small Business Strategy in South Africa. Most specifically, attention is given to key policy objectives towards SMME development, the support structure and current business support agencies that have been put in place by the post-apartheid government to promote SMMEs.

### 3.2 DEFINING THE SMME ECONOMY

The focus of this section is on analysing the South African SMME policy framework and the policy initiatives for improving SMME economy in South Africa. Firstly, the SMME economy is defined and then the types of SMMEs are identified, categorised and analysed.

The international literature on small business support refers to (SMEs) Small and Medium Enterprises (Goss, 1991). In the South African context, however, there is a reference to Small, Medium and Micro Enterprises (SMMEs), which include a large survivalist sector (see Rogerson, 1998). It is never easy to categorise small enterprises. Employment figures, assets and turnover vary between sectors such as manufacturing, retailing, professional services and construction. However, according to Rogerson (2006), the South African SMME economy has four sets of enterprises. Firstly, there are *survivalist* enterprises, which function in the informal economy or informal sector with limited opportunities for growth into viable businesses. Survivalist enterprises consist of unemployed people who do not have suitable and relevant skills to follow careers of their choice, and most of these people are female. The income generated is less than the capital invested and, therefore, it is very difficult and challenging to move out of this enterprise sector (See also Nieman, 2006).

The second sector is comprised of the *micro enterprises* in which the owner, some family member(s) and at least one to four paid employees work together. In a micro enterprise, the owner does not hire for formal premises and the business is not formally registered for tax. However, there is a possibility for the business to grow into a small enterprise. Most micro enterprises have a limited capital base and limited business skills among their owner and employees (Preston-Whyte and Rogerson, 1991, Rogerson, 1996; Ntsika, 2002).

Thirdly, the informal sector has *small enterprises* that are comprised established enterprises. In such enterprises, there is an owner-manager, and the employees are between five and a hundred in number. Unlike survivalist enterprises, small enterprises operate in a licensed business or industrial premises. These enterprises are registered for tax and meet other formal registration requirements (Rogerson, 1996; Ntsika, 2002).

The last sector of the second economy is a *medium enterprise* in which the decision-making is more decentralised as there is an increased division of labour with capital assets of about R15 million, excluding property. Employees in medium enterprises number between 100 and 200. These enterprises are usually owner-managed and the legal procedure does not normally have much impact on them (Preston-Whyte and Rogerson, 1991; Ntsika, 2002).

Against the above distinctive definitions and their fundamental principles the SMME support strategy of the government has to deal with the problems of each enterprise differently. In its policy stance, government has to take into account the importance of business support services for SMMEs in South Africa. This SMME support strategy has to recognise the problems and needs of SMMEs owned by previously disadvantaged entrepreneurs. The next section deals with the SMME policy under the former apartheid regime. The section also discusses the policies regarding SMMEs that were not (and still are not) given opportunities to survive and prove themselves - so that they could contribute to the economy of the country.

### **3.3 THE FIRST WAVE: HISTORY OF SMME POLICY UNDER APARTHEID**

Small businesses did operate during the era of the apartheid regime but were not given enough support and were not a priority. This was due to the competition between small and large enterprises (Adams, 2003; Rogerson, 2004). Before democratic transition, the South African government was mainly giving attention to large businesses as well as state-owned enterprises. It was only in the late 1970s and early 1980s that government realised the importance of the small enterprise sector and its contribution to the economy (Rogerson, 2006). It is against this background, and under some pressure from leading business people such as Anton Rupert, that the government established the Small Business Development Corporation (SBDC) in the early 1980s as the first initiative to support SMMEs (DTI, 2000; von Broembsen, 2003). This could be seen as the first wave of small business support. However, the establishment of the SBDC did very little to refocus business development away from a bias towards white-owned enterprise. It was only in the late 1980s and early 1990s that some attention was devoted to black-owned enterprises. The political shifts of the early 1990s contributed to an increasing research interest in SMME development and its contribution to the country's economy. A White Paper of 1995 came up with the strategy to promote and develop SMMEs in South Africa and to design an SMME

policy framework. The aim was to enable SMMEs to grow as a way of creating a balance in the economy (away from state-owned and large enterprises) (Framework strategy, 1995; Bloch and Kesper, 2000; Berry, von Blottnitz, Cassin, Kesper, Rajaratman and van Seventer, 2002).

The following section discusses the policy and policy changes in 1995 as well as the policy and practices of 2005. This section continues to evaluate the policy changes in 1995 and the practices of 2005 with reference to Chapter Two critically. The section also discusses the critical factors for the success of some of the business support agencies, and the implementation mechanism for the development and support of SMMEs in South Africa. Lastly, the business support agencies that were put in place to assist in developing SMMEs in the Free State context are also discussed.

### **3.4 THE SECOND WAVE: POLICY AND PRACTICE SINCE 1995**

This section highlights the implementation of the 1995 framework strategy for SMME support and development in South Africa. The section also discusses the post-apartheid business support programmes that were established and implemented for the development and support of SMMEs.

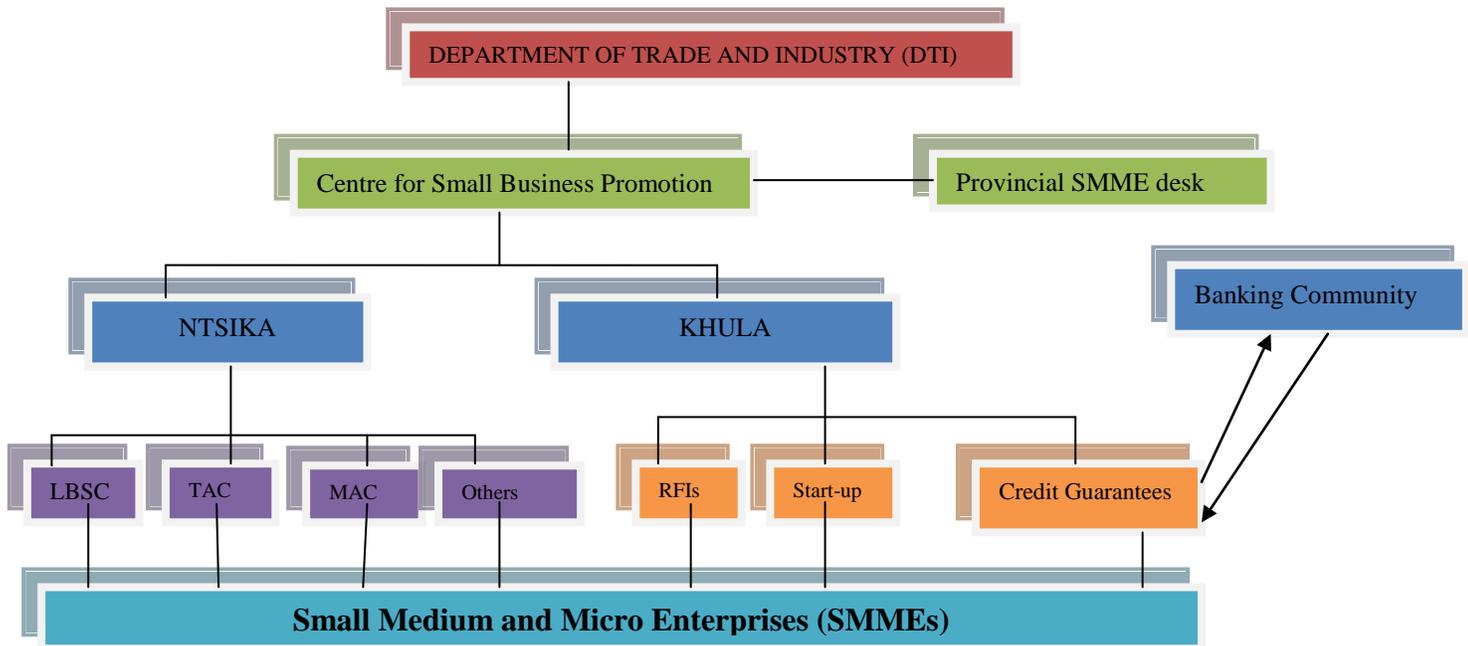
Since 1994 South Africa has faced challenges regarding reintegrating itself into the global economy and positioning itself towards a new democratic order (Rogerson, 2004:766). The post-apartheid changes refocused the policy attention on promoting the country's SMME economy. This refocus was necessitated by two factors. First, the inequality of income and wealth in the country had contributed to a rise in poverty and frustrated the economic growth potential of the country, and at the same time jeopardised the sustainability of the country's environmental well-being. For example, about 48.5% of the South African population currently falls below the national poverty line. This means that people are living on less than a dollar per day, and therefore cannot save or invest any money. Income distribution remains highly unequal and this has become more problematic in recent years (Kesper, 2001; South African Human Development Report, 2003:5; Rogerson, 2005). For example, the average annual income for a South African household is estimated to be R74 589 (Stats SA, 2005/2006). Second, the current strategies and policies for achieving growth have never been more crucial, and, as a result, the gap between economic growth and employment growth is widening due to the fact that poor people lack the skills to integrate into the current processes of economic growth (National Small

Business Enabling Act, 1996; Phillips, 2002; Berry et al., 2002; South African Human Development Report, 2003)

The change in respect of SMME policy was aimed at achieving the objectives of economic growth through competitiveness, employment generation and income redistribution. The national small business development strategy was also seeking to strengthen cohesion amongst small enterprises and to level the playing field between big and small business. In order to assist SMMEs to acquire the necessary skills, the government implemented the business support agencies (such as Khula and Ntsika) to support SMMEs. At a later stage NGOs, donors and private sector organisations also came on board.

The first two new agencies established by the post-apartheid government were Ntsika Enterprise Promotion Agency and Khula Enterprise Finance (Berry, et. al.,2002). These two business support agencies have been the key agencies used by the post-apartheid government to support and develop SMMEs in South Africa (White Paper, 2005). Government decided to separate Ntsika and Khula. This brought about a separation of financial and non-financial support to SMMEs, which extended the scope of business support agencies to provide support directly to SMMEs. With regard to separating Ntsika and Khula in respect of financial and non-financial support to SMMEs, South Africa was following international policy (see Chapter Two; Wren and Wren and Storey, 2002). Through this separation, the South African government wanted to ensure that business support agencies give full attention to advisory assistance for SMMEs, to promote the dissemination of best practices, and to encourage partnerships between SMMEs and the government (also see McQuaid, 2002; Thurlow and Wobst, 2004).

The institutional framework highlighting the SMME support network developed by the government under the National Small Business Act for the development, support and promotion of SMMEs is shown in Figure 3.2. The government established these agencies to assist in the development of SMMEs in post-apartheid South Africa. The remainder of this section provides a brief overview of each of these agencies.



**Figure 3.1: The institutional framework structure of the South African National Strategy for the development and promotion of SMME sector (Source: University of Pretoria etd- Chalera, C.S, 2007)**

### 3.4.1 Department of Trade and Industry (DTI)

The DTI, in collaboration with the government, coordinated all the SMME policies and business support agencies. The DTI's responsibility is the small business strategies pursued by provincial governments within the framework of a national policy (White Paper, 1995; Agupusi, 2007). The DTI, in partnership with the National Small Business Corporations (NSBC), Small Business Development Agencies (SBDA), the provincial SMMEs desk as well as the Regional Development Corporation (RDC), have planned and implemented support strategies for the development and support of SMMEs in the country. The DTI designed eight incentive schemes to support registered SMMEs in the country (DTI, 2004), namely the

- standard leased factory scheme,
- small/medium manufacturing development programme,
- economic empowerment scheme,
- venture capital scheme,
- normal finance scheme,
- import finance scheme,
- short-term export finance guarantee facility, and

- export marketing and investment assistance scheme (DTI, 2004; Chalera, 2007).

As was pointed out above, this study focuses largely on non-financial support for SMMEs. Therefore, due to the lesser role of these incentive schemes in this study, they will only be highlighted rather than discussed.

As stated, the main focus of this study is in line with the provision of business support for the development of SMMEs. One of the business support agencies developed under the umbrella of the DTI for the support of SMMEs, is the Centre for Small Business Promotion (CSBP) and it is, therefore, discussed below.

### **3.4.2 Centre for Small Business Promotion (CSBP)**

The CSBP was established by the DTI with the purpose of making central policy for SMME development. The CSBP coordinates and monitors the performance group of the national strategy for the government (DTI, 2004). The CSBP's main focus is on all the SMME policies and SMME support agencies that are being supported by the government both directly and indirectly. The CSBP leads these support agencies to align them with the national SMME strategy (White Paper, 1995; Chalera, 2007). After the establishment of the CSBP, the Provincial SMMEs desk followed.

### **3.4.3 Provincial SMMEs Desk**

The SMMEs desk represented SMMEs' interests by contributing to the implementation of the government's national strategy. The desk aimed at linking the national support agencies with the local or regional support agencies in order to support a SMMEs' database that could impact on the SMME policy changes (Chalera, 2007). The Provincial desk had an influence, through the national SMME strategy, on the establishment of the Ntsika and Khula enterprise promotion Agencies.

#### **3.4.4 Ntsika Enterprise Promotion Agency**

Ntsika was established after 1994 under the national SMME strategy. Ntsika rendered an efficient and effective promotion and support service to SMMEs in order to add value to South African economic growth. In partnership with relevant stakeholders that promoted the development of SMMEs, Ntsika was mainly focusing on identifying SMMEs' priorities and designing interventions that could assist in developing and promoting SMMEs. Ntsika could provide information to policy-makers, business-development practitioners and emerging entrepreneurs to create and develop SMMEs' enabling environment. Ntsika also established an effective Service Provider Network to implement and deliver efficient and appropriate services to SMMEs, while liaising with the SMMEs' stakeholders and entrepreneurs to achieve a co-ordinated approach to the implementation of the National Small Business Strategy. Moreover, Ntsika promoted the development of an entrepreneurial culture in South Africa and encouraged self-employment and business growth. Lastly, Ntsika continually developed the internal capabilities of the agency to enable it to render efficient and proactive services to the SMMEs (White Paper, 1995; DTI, 2002; National Small Business Amendment Bill, 2003; Chalera, 2007).

#### **3.4.5 Khula Enterprise Finance Limited**

In 1996, Khula was established as an independent agency of the DTI. Since 1996, Khula has been among the main agencies in South Africa that has been tasked to render financial and business support to SMMEs. However, Khula operated as a wholesale finance institution that supported a range of retail finance agencies that dealt directly with the SMMEs. Khula had financial channels collaborating with it, such as commercial banks, retail financial agencies, specialist funds and joint ventures. Khula achieved growth in the SMME sector as a result of adapting to prevailing market forces within the sector. It also changed its approach in order to meet the SMME sector demand (National Small Business Act, 1996; Berry, 2002; DTI, 2002; 2003; Institute of Risk Management of South Africa, 2006; Agupusi, 2007). As was mentioned earlier in Chapter Two and also in section 3.3 of this chapter the financial aspect play a lesser role in this study, so this also applies to Khula since it also supports SMMEs financially.

The focus of the second wave (the policy and policy changes of 1995) that is ‘to promote entrepreneurship in the country’ has brought to light the stark realities of apartheid in the small enterprise sector (White Paper, 1995). Over the past decade this situation has shaped many of the priorities on the small business support scene, such as giving previously disadvantaged SMMEs an opportunity to participate in the country’s economy. In the third wave of the policy, transformation and deracialisation opened business opportunities to previously disadvantaged SMMEs on a large scale (Mkhize, 2006). Now the government is strengthening entrepreneurship as one area to boost small enterprise growth and competitiveness in the country. In doing this, South Africa is in line with the very strong emphasis on promoting SMME development in many other countries, both developed and developing (DTI, 2006; Rogerson, 2007).

### **3.5 THE THIRD WAVE: POLICY CHANGES AND PRACTICES IN 2005**

By the mid-2000s, there was increasing pressure to evaluate and rethink the South African SMME policy. This culminated in the Integrated Small Business Strategy of 2006. The vision reflected in the Integrated Small Business Strategy is one of making South Africa “an entrepreneurial nation” providing reward to individuals seeking business opportunities; establishing a vibrant and competitive SMME sector, and providing business support programmes to previously disadvantaged individuals (DTI 2006). The strategy is based on three pillars of support that are aimed at empowering entrepreneurs in South Africa. These include promoting entrepreneurship, creating enabling environments and enhancing the competitiveness and capabilities of existing enterprises (White Paper, 2005; Mkhize, 2006). Although there are similarities with the 1995 White Paper, the new strategy re-emphasised a number of issues, for example, the seven SMME developmental support objectives that need strong commitment, leadership and regular monitoring and evaluation by the national, provincial and local governments (White Paper, 2005). These include the following:

- addressing business growth and transformation within the second economy;
- initiating a broad entrepreneurship drive and expanding education and training for small businesses;
- substantially strengthening support for SMME’s access to finance;
- the further expansion of market opportunities for targeted small enterprises;
- facilitating the systematic expansion of sector support for SMMEs;

- creating a national information network for SMMEs underpinned by comprehensive research; and
- co-funding the establishment of minimum business – infrastructure facilities

In addition, the strategy is also aiming to enhance the contribution of small enterprises to the growth of the national economy. This can be done through the creation of sustainable jobs in the small enterprise sector, and through an enabling environment for small enterprises with a level playing field for both big business and small enterprises that bridges the gap between urban and rural enterprises and is conducive to entrepreneurship (Pretorius and Millard, 2006; Rogerson, 2007:53).

The strategy also proposed the ten-year vision 2014. This 2014 vision envisages that South Africa will become an entrepreneurial nation that rewards and recognises SMMEs with business opportunity possibilities. According to this vision, South Africa has a vibrant and competitive small enterprise sector that will grow in both turnover and employment. However, the strategy, with its vision in mind, gives preference to disadvantaged SMMEs to fully participate in the economy and have access to support and development services, while being fully integrated into the different sectors of the South African economy. The targeted SMMEs are assisted in gaining access to local, national and international markets through seminars, workshops and exhibitions (White Paper, 2005; Mkhize, 2006; DTI, 2006; Rogerson, 2006a; 2006b; 2007; Agupusi, 2007).

After the implementation of the 2005 Integrated Small Enterprise Development Strategy, the DTI added a new institutional infrastructure to serve the SMMEs needs (Rogerson, 1998b). Through the DTI, the government then implemented a mechanism that identified the types of enterprises based on the sector, the size and the development criteria. The mechanisms that were established during the implementation of the 2005 framework strategy are Seda and UYF (nationally). These agencies will be dealt with in detail in Chapter Four.

### 3.6 CRITICAL EVALUATION OF THE POLICIES

The existing literature suggests that the outcomes of business support agencies have not been as successful as they could be. This section provides an overview of the existing criticism.

Firstly, very few SMMEs appear to have used business support services due to the fact that larger enterprises are favoured above smaller enterprises. Benefiting SMMEs are the ones that are involved in the export industry, and the ones that are situated in urban areas (mostly in the Provinces of Gauteng, Kwa-Zulu Natal and Western Cape). It also seems as that SMMEs in the clothing and textile industries have benefited more than those in other sectors of the economy (Berry et al, 2002).

Secondly, the existing literature suggests that not many enterprises are actually aware of business support agencies (Berry, *et al.*, 2002; Rogerson, 2004). Notwithstanding the need from the informal sector for training and business knowledge, very few SMMEs were informed as to where to access such training (The African Institute for Community Driven Development, 2005). For example, the following figures in a study by Orford (2005) reflect the awareness of business support programmes:

- 60% of the SMMEs were aware of the Sector Education and Training Authorities;
- 45% were aware of the role of provincial government in supporting SMME development;
- 20% were aware of the role of the Industrial Development Corporation (IDCs);
- 33% were aware of the competitive fund; and
- Lastly, 15% were aware of other government support structures.

What causes concern is the fact that the same survey showed that only 33% of enterprises had used agencies such as Ntsika, National Manufacturing Centres (NAMACs), Khula and Brain (Orford, 2005). Orford (2005) further suggests two reasons for the lack of utilisation of these agencies. These are poor marketing and lack of communication, and a suspicion that existing business support agencies are of a poor quality and difficult to access.

Thirdly, in terms of policy intent, Rogerson (2004) suggests that Local Business Support Centres (LBSCs) should be linked to local economic development. However, these Centres have not

been used efficiently. Fourthly, the existing literature raised some concerns about the incompetence of staff in business support agencies as well as their poor quality (Bloch and Daze, 2000; Berry *et al.*, 2002; Orford, 2005). For example, Berry *et al.* (2002) indicated that most business support agencies are plagued by cumbersome administrative requirements that are not favourable in terms of service assurance.

In addition, not enough basic business information has been provided to SMMEs. As a result, SMMEs have found it difficult to access business support services (Orford, 2005). There is some preliminary evidence that Seda has made huge strides in rectifying this situation.

Next, since the democratic transition, lack of an appropriate monitoring and evaluation system has been one of the main problems of business support agencies (Rogerson, 2004; Orford, 2005). The inappropriateness of this system varies from factors such as poor data on the impact evaluation of business support services to SMMEs. The overall result is that there is limited information regarding the successes and failures of the business support agencies.

Moreover, the existing literature indicated that business support agencies have given their attention mainly to SMMEs in urban areas. Hence SMMEs that receive business support services are generally in urban areas, and SMMEs in rural areas are still left behind (Rogerson, 2004; Orford, 2005).

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

Lastly, some scholars have indicated that the government is too involved in business support agencies, ignoring the fact that government agencies are not flexible enough to address and support SMMEs (CDE, 2004; Orford, 2005).

Further criticism was also raised concerning the achievements / lack of achievements in respect of empowerment objectives of these policies. More specifically, it does not seem as if these business support initiatives have addressed the vital role of SMMEs in BEE (Orford, 2005).

In short, it could be concluded that, according to Manning (1996), the implementation of business support service has been hampered by too many objectives and business support agencies in the government without any strategic direction being apparent.

### **3.7 THE SUCCESS OF NAMAC**

The National Manufacturing Advisory Centre (NAMAC) is an agency within the DTI group that supports SMME development in South Africa. NAMAC is recognised as one of the most successful SMME development and support agencies in the country. This agency has developed an extensive delivery structure in South Africa. The structure developed is used as an application for the new tools, information, products and projects. At the same time, the structure functions as a problem solver for the SMME sector. NAMAC focuses their attention on the previously disadvantaged individuals (PDIs) or businesses. Moreover, NAMAC has aligned its programmes with the national priorities such as SMME development, black economic empowerment, job creation, competitiveness, as well as geographic outreach, with special emphasis on rural areas.

There are three programmes under the management of the NAMAC, namely the Business Referral and Information Network (BRAIN), the Franchise Referral and Information Network (FRAIN) and the Manufacturing Advisory Centres (MACs). The BRAIN programme is a value-added information service aimed at the whole range of SMMEs. The FRAIN programme supplies high-quality information to individuals and SMMEs to ensure growth and improvement of new and existing franchising businesses, and the MAC programme supports and develops manufacturing SMMEs.

Despite the overall criticisms, NAMACs performed fairly well between 1995 and 2005. Rogerson (2004) emphasises that the positive evaluation of NAMACs is in sharp contrast with the overall criticisms of SMME policies (see also Dorfling, 2001; Orford, 2005). The success of NAMACs provides an illustration of the kind of interventions that work to inform other business support agencies provided provincially. The critical factors for the success of NAMACs are the following:

- NAMACs were well managed, and developed a set of core competencies, while having quality personnel. Orford (2005) argues that the advisors in general had more experience, while earning competitive salaries.
- The narrow focus on SMMEs in the manufacturing sector ensured that high-quality services were delivered. The fact that a proven track record was established contributed in this respect and ensured customer buy-in.
- NAMACs ensured a businesslike operation, and were designed in such a way that they would contribute towards efficient business support services.
- NAMACs established links with other agencies of the DTI.
- The use of a diagnostic tool for the success of the model played a significant role in determining the status of the SMMEs.

Even though NAMACs succeeded in their business support, it should be noted that their main focus was on the development and support of black entrepreneurs rather than on SMMEs as a whole. Yet, the main lesson to be learned from the NAMACs is their narrow focus on the sectors. It is also important to note that NAMAC is in the process of developing and identifying a range of other products and offerings in an effort to address various gaps identified with regard to service delivery to the South African SMME sector.

### 3.8 CONCLUSION

Table 3.1 summarises the changes in SMME policies (from apartheid, policy 1995, 2005 and beyond) that were being discussed earlier in this Chapter with reference to Chapter Two.

**Table 3.1: Changes in the SMME policies**

<i>Changes</i>	<i>Apartheid and the first Wave</i>	<i>1995 -2005 (second wave)</i>	<i>2005 and beyond (third wave)</i>
Sustainability of provision	-Virtually no support – only started in the mid 1980s -When support started it was through financial support mechanisms – with support from big business	-Government support agencies initiated	-A new sector of private sector business support firms initiated
Cost of services	High quality, high cost of services Cost recovery through financial aid	Most services are free	Enterprise pays small amount – largest part is subsidised
Clients and gender focus	Mostly white-owned enterprises and male dominated	Refocused to include black-owned enterprises with a few female participants on board	Female plus previously disadvantaged enterprises
Poverty impact	Not high on the agenda	Poverty rationale very specific	Poverty rationale very specific
Services provided	Limited number of business services	Number of businesses with special consultant to facilitate.	Most of services are outsourced
Making-markets-work-for-the-poor	Supply-driven approach to SMMEs	Supply-driven approach to SMMEs	Supply-driven and Market-driven approach to SMMEs
Government's roles regarding SMEs	Focused on white-owned enterprises	Assisted SMMEs through business support services	Assisted SMMEs through financial and business support services

Despite the overall logic and moral obligation assumed in these changes in Table 3.1, post-apartheid SMME policy and practice have not been without its criticism. The main points of criticism are the lack of SMMEs' awareness of business support services; the lack of links to other government programmes; the incompetence of staff and poor quality of services; insufficient basic business information to SMMEs; an ineffective monitoring and evaluation system; inadequate consideration of rural areas; lack of job opportunities in the informal sector, and the limited involvement of the government in supporting initiatives.

At the same time, there is some indication of the fact that SMME policy did follow some of the paradigm shifts as reflected upon in Chapter Two. This is visible in the actual withdrawal of government from providing services to the establishment of Seda (a government entity but an independent agency managed outside government procedures) as well as the outsourced services – something which will be addressed in more detail in Chapter Four, in which the specific business support agencies will be analysed in more detail.

## **CHAPTER FOUR: A COMPARISON OF BUSINESS SUPPORT PROGRAMMES AND APPROACHES IN THE FREE STATE**

### **4.1 INTRODUCTION**

Like many other developing countries, South Africa has been undergoing major paradigm shifts that have led to an increase in the importance of business support services (see Chapter Two and Chapter Three). Chapter Three discussed the policy changes in South Africa. The emphasis in this chapter shifts towards a conceptual evaluation of five different business support programmes that are functioning in the Free State (although two of these institutions also function nationally, interviews and research were conducted in the Free State only). Essentially, the chapter answers the questions: to what degree do these programmes reflect international trends as discussed in Chapter Two, and to what degree do they reflecting policy guidelines as discussed in Chapter Three? In order to answer these questions, a short background summary of these institutions is given. The business support programmes that will be evaluated in this chapter are: Seda, UYF, BESD, Premiers' Project and FDC.

### **4.2 SEDA**

This section considers the role of SEDA in business support services. SEDA is the Department of Trade and Industry Agency for supporting small businesses in South Africa. It was initially established in 2005 in the Provinces of the Eastern Cape, Western Cape, Limpopo and Mpumalanga. It became active in the Free State and other provinces a year later, in 2006. Seda was formed out of Khula, NAMAC, and CPPP. All these three institutions were established in the post-1994 era with the aim of assisting previously disadvantaged groups of SMMEs. The agency was established with a mandate of assisting entrepreneurs to start their businesses, while also creating jobs (DTI, 2002; 2005; Seda Annual Report, 2007). Attention is devoted to the background of the programme, its basic approach and different programmes. Lastly, a synthesis is conducted against the international background as well as the policy directives in Chapter Two and Three.

#### **4.2.1 The aim of SEDA**

The Department of Trade and Industry gave Seda a mandate to design and implement one standard national delivery network for the entire country, as well as to provide non-financial support and to promote small enterprises, especially in rural areas. In fulfilling this mandate, Seda's vision of being a centre of excellence for small enterprises and its mission of developing, supporting and promoting these SMMEs to grow and be sustainable, seemed to be the driving force. Hence Seda is focusing on empowering SMMEs and assisting them to access finance as well as market opportunities for specific categories of small enterprises. On the other hand, Seda is also localising small business support through a grid of Seda-coordinated information and advice access points. Furthermore, Seda is initiating a national entrepreneurship drive and expanding education and training for small businesses as well as co-funding minimum business infrastructure facilities in local authority areas across the country (see also DTI, 2002; White Paper, 1995; 2005; Agupusi, 2007; Seda, Annual Report, 2008).

#### **4.2.2 The basic approach to business support**

The approach of Seda focuses on both existing and start-up enterprises. However, the emphasis seems to be on the establishment of new enterprises. It is claimed that 20% of the enterprises which Seda works with are start-ups and the remaining 80% are new enterprises (Moholo, 2009). Seda provides assistance to SMMEs in the form of business support, more specifically in developing business plans, mentoring and coaching, training, as well as the development of marketing material.

#### **4.2.3 Business support offered to SMMEs**

Seda offers the programmes and services mentioned above to both start-ups and existing businesses. All the programmes are discussed in detail below.

##### ***4.2.3.1 Developing business plans***

One of the main services offered by Seda entails business plan development. Two main approaches exist in this respect. First, Seda has at its disposal in-house materials to help entrepreneurs develop business plans. These materials include business plan templates, software resources and books. These in-house services are available free of charge. The second

mechanism used is a process whereby the development of a business plan is outsourced to private consultants (it should be noted that various aspects of business plans can be outsourced through this mechanism). The typical process entails the entrepreneur or prospective entrepreneur consulting one of Seda's staff members. The business is diagnosed and, if found appropriate, it is given a voucher for a business plan or any other service. The entrepreneur then goes to see a consultant on the Seda database to develop a business plan. The consultant finalises the business plan and is paid by Seda. On average, the entrepreneur pays 10% of the actual cost (Seda annual report, 2007).

Yet, the system is not without its problems. In an interview with a Seda business adviser the following problems were identified. First, the quality of business plans is not always up to standard. In this regard there seems to be a large degree of business plan duplication. Second, the assumption that a business plan will help the entrepreneur with direction and assist the entrepreneur in finding business finance seems to be incorrect. As a result, these entrepreneurs end up not getting funding from financial institutions (Moholo, 2009).

#### ***4.2.3.2 Mentoring and coaching***

Businesses which have succeeded in accessing funding are coached and mentored by Seda consultants. The mentoring and coaching programmes are aimed at assisting SMMEs not only in developing their business plans, but also in identifying gaps. There are more than ten programmes and services in regard to which Seda offers mentoring and coaching. The programmes offered by Seda to SMMEs are as follows: Trade Point programme, Manufacturing and Services, Construction, Agribusiness and Forestry, Small Scale Mining Beneficiation, Tourism and Cultural Industry, Export Development Programme, Information and Communication Technology, Franchise Support, and Cooperatives programmes. Some of these services are subsidised in the sense that Seda pays 90% of subsidies regarding these services to both start-ups and existing small businesses, whereas both the entrepreneurs of start-ups and existing businesses pay only 10% of the amount (Seda's Annual Report, 2007/2008; Moholo, 2009). Start-ups are not subsidised with the same amount as existing businesses due to the different turnover of both businesses. For example, a start-up business might be showing a loss or if it makes a profit, its income might be used to cover the expenses of the business. In an

existing business, the turnover depends on the state of the business. For example, the business might be in the development phase or in a growth phase. These phases do not have the same turnover.

Two approaches to mentoring and coaching are applied. In the first mechanism Seda consultants mentor entrepreneurs. Secondly, as is the case with business plans, Seda pays a mentor or a coach who is an expert in the same field as the entrepreneur to mentor this emerging entrepreneur. Mostly, Seda outsources mentors for businesses like construction and technological businesses as they do not have their own experts for those particular industries (Moholo, 2009). Moholo (2009) also indicated that, if she had a choice, she would hire a private mentor because the mentors in the Seda database do not do what is expected from them; they only mentor for the sake of getting paid and an entrepreneur is often still left in the dark as regards to what to do and how to go about.

#### ***4.2.3.3 Training***

As part of mentoring, Seda organises workshops and seminars in order to get SMMEs involved, as well as to identify their challenges while at the same time trying to address those challenges through training. Seda offers training in the field of project management, computer skills and also an Export Development Programme as one of the mentoring programmes which fosters awareness of export opportunities to SMMEs, and at the same time provides training to these SMMEs for international competition exposure. Seda held workshops in 2007 for emerging entrepreneurs. In these workshops, a few courses were offered to SMMEs at various stages to prepare them for export activities. The courses offered included Export Orientation, in which Seda assisted 20 small enterprises at branch level for export development support after they had been assessed via the Export Readiness Assessment Tool. The second course concerned pre-exhibition as well as post-exhibition training whereby Seda assisted small enterprises to exhibit nationally and internationally. In this regard, 32 SMMEs exhibited nationally and 27 internationally (Seda's Annual Report, 2008). With regard to computer skills Seda installed software, which was suitable and user-friendly for an individual business. At the same time, Seda developed three training courses called Seda Start-up1, Seda Small Enterprise Start-up and the Seda Basis Business Skills course. These courses were developed with the aim of meeting South

African Qualification Authority (SAQA) guidelines in order to teach emerging entrepreneurs the skills to start their new ventures. In addition, Seda went in to partnership with Productivity South Africa in order to provide productive, capacity building training to SMMEs - which was previously provided to medium and large enterprises only. According to the Seda report (2009), 1815 SMMEs were trained and at least three improvement projects were implemented at Seda branches.

#### ***4.2.3.4 Marketing material***

Marketing material is another prominent service provided by Seda. Marketing material provided by Seda to SMMEs as one of the subsidised products range from designing a logo, to business cards, letterheads and cooler banners (Moholo, 2009). In some instances Seda consultants go to SMMEs to assist them in terms of branding their offices. In some cases the consultants also help in designing websites for these SMMEs. All these marketing materials mentioned are provided by Seda and some by the external providers, for which Seda gives vouchers to entrepreneurs to pay those providers for their services.

#### ***4.2.3.5 Contribution to poverty alleviation***

Seda, as the programme under the DTI, assists SMMEs by providing business support in terms of offering the programmes mentioned above. Seda assists small businesses to grow and be sustainable. As a result, these businesses are at least able to create jobs for the poor (Seda annual Report, 2008; Moholo, 2009). According to this report (Seda annual Report, 2008), many entrepreneurs managed to hire at least four or more employees, which has increased the employment rate in the second economy and have to some extent reduced poverty as these employees are able to put food on their table.

#### ***4.2.3.6 Provision for female entrepreneurs***

Seda's main clients have been men ever since it was established until, late 2008, when it started catering for female entrepreneurs (Moholo, 2009). Up until May 2009, Seda held only a few workshops for female entrepreneurs. Even though Seda caters mostly for men, in terms of

assisting their clients to access markets, Seda launched a Trade Point South Africa in April 2009 aimed largely at female entrepreneurs.

#### **4.2.4 Synthesis**

From the above discussion the following main comments can be made. Firstly, Seda is in line with international trends in outsourcing a large number of their services through private sector service providers. This outsourcing is done to reduce the long-term salary costs as well as to benefit from private sector efficiency. Secondly, although entrepreneurs are expected to make some contribution, a large part of the service is subsidised by the government. To some extent, this is in contrast with the international trend that attempts to minimise subsidisation. Thirdly, in respect of clients, Seda seems to emphasise the importance of including female and young entrepreneurs while new enterprise formation is also a focus area. However, there is some realization that the number of female entrepreneurs who are benefiting from the programme is limited. Fourthly, part of the overall rationale of Seda is to use small enterprise development to address poverty. Furthermore, despite emphasis by the business plans programmes and programmes for international exposure to ensure an emphasis on markets, the Seda programmes are mainly supply-driven in focus and seldom assist entrepreneurs in accessing value-chains more effectively. Finally, the Seda model represents one in which government's direct role has been outsourced to an independent agency and does not function through mainstream government structures, as opposed to the pre-2005 phase.

#### **4.3 THE UYF**

The unemployment rate amongst youths is very high in South Africa, but also in the rest of the world. Having skills and having a job are very important aspects for young people (Centre for Development Support, 2009). However, not everyone has the resources to develop the skills they need. To overcome these obstacles, Government, under the DTI, established UYF in January 2001 with a mandate of promoting entrepreneurship, creating jobs, developing skills and transferring skills among young South Africans between the ages of 18 and 35 and females of all ages (DTI, 2007; UYF Annual Report, 2007/2008). However, UYF conducted a study in 2008 with the aim of assessing the progress that South Africa is making towards meeting the United Millenium Goals for the year 2014 (UYF Government Expenditure Report, 2008). The study

focused on government investment in the youth development programmes to promote sustainable livelihoods. The study contributed to a human capital development and self-employment development strategy to assist young entrepreneurs in lobbying government to invest more resources into the initiatives that facilitate and promote the development of young entrepreneurs. However, UYF in partnership with National Youth Commission, formed the National Youth Development Agency (NYDA) in 2008 (UYF Annual Report, 2008). The NYDA was established with the mandate of complementing and increasing the current networks established by the UYF. This required more resources and people to increase the capacity of the NYDA and to improve on the current status. As much as the NYDA is the current programme under the UYF, this study focuses only on the UYF and its contribution to the development of young emerging entrepreneurs.

#### **4.3.1 The aim**

The UYF was established for the creation of opportunities with regards to young people in order to acquire business skills, find job opportunities and even start their own successful businesses. In order to fulfil their vision of enhancing the active participation of South African youth in the mainstream economy and to achieve their mission of facilitating and promoting the creation of jobs and skills development for young South Africans, the UYF aims at enabling the implementation of effective youth development programmes and the mainstreaming of youth development for young people to have a sustainable livelihood. Their ultimate aim is to increase the involvement of young South Africans in the country's economy, by directing their focus at making things easier and more achievable for young South Africans to get good jobs and develop valuable skills (DTI, 2002; UYF: 2008).

#### **4.3.2 The approach to business support**

The UYF began facilitating the revitalisation of the South African Youth Council (SAYC) in early 2003 through its provision of financial and logistical support to the SAYC. The UYF worked closely with the National Youth Commission (NYC) and the SAYC in convening a Youth Growth and Development Summit to prepare a common position for youth ahead of the Growth and Development Summit held in mid 2003 (DTI, 2005). The UYF, SAYC and NYC relationship provided a platform for building and nurturing a collaborative approach to youth issues. Similar to the approach by Seda, the UYF also uses the so-called voucher system to

subsidise young entrepreneurs who want to register their businesses and who want to have a business plan as well as a marketing plan (DTI, 2002). The UYF implemented the skills development and transfer programmes in order to promote patriotism, employment and self-employment, as well as responding to the socio-economic imperatives of the country. The programmes include a National Youth Service programme, which is a volunteer project that mobilises numbers of people to render voluntary services. The second programme under skill development and transfer is the Graduate Development and Entrepreneurship Education & Training, which has managed to train entrepreneurship teachers from 291 schools (UYF Annual Report, 2008).

#### **4.3.3 Programmes offered to SMMEs**

UYF has a wide range of business management support programmes for the development of young entrepreneurs such as the development of business plans and market research skills (Ncokazi, 2007). In order to cater for the needs of their clients - for example, in terms of training or skills development - the UYF refers their clients to other stakeholders such as Seda (Mdebuka, 2009) as it does not have people who cater for such needs in the organisation. In terms of business plans, the UYF uses its voucher system to pay private consultants to write business plans for their clients. The UYF also has various support programmes for the development of SMMEs and young entrepreneurs. The UYF offers the following programmes to young male and female entrepreneurs: Business Opportunity Support Service (BOSS), mentoring, micro loans and a voucher system. These programmes will be discussed in more detail in the next part.

##### ***4.3.3.1 Business Opportunity Support Services (BOSS)***

BOSS is an online database for the youth-owned business procurer to register and search for business and procurement opportunities. The UYF created this online database to allow young entrepreneurs to register their businesses online and search for procurement opportunities that match their businesses needs. Via procurement, young entrepreneurs are able to get new products and services for their businesses; they can identify their business needs and find answers to such questions for the fulfilment of these business needs. On the other hand, in this way young entrepreneurs are also able to identify potential suppliers, ask for bids, and at the same time,

evaluate those bids and track the progress of their business. Finally, by procurement, young entrepreneurs are able to take deliveries and pay their suppliers (Mdebuka, 2009). In 2007/2008, BOSS targeted about R230 million worth of business opportunities to be accessed by at least 650 young entrepreneurs. At the end of the UYF financial year, BOSS managed to provide R270 million worth of business opportunities, which were sources for 803 entrepreneurs. Moreover, in the same year, about 51 young entrepreneurs were linked to business opportunities that were available and became operational. One hundred and thirty-five jobs were created and sustained (UYF Annual Report, 2007/2008).

#### ***4.3.3.2 Mentoring***

According to Heilman and Chen (2003), one-on-one mentoring and networking give SMMEs an opportunity to better equip their employees and enhance their skills. The UYF has people who mentor entrepreneurs voluntarily. For example, those people in the UYF data-base who have skills and knowledge and are willing to invest these in the youth (Mdebuka, 2009).

The UYF established a youth entrepreneurship campaign for 2010 (YEC2010). This campaign is aimed at promoting young South African entrepreneurs. It is a joint effort of the UYF, South African Chamber of Commerce and NAFCOC youth. The campaign aims to increase the total entrepreneurial activity amongst young people in South Africa through mobilising the youth and other relevant stakeholders to engage in efforts that will increase the total entrepreneurial activity among young entrepreneurs. The YEC 2010 is also aiming at creating awareness and encouraging a culture of entrepreneurship through promotional campaigns as well as lobbying and advocating for an environment that is conducive to young entrepreneurs to start, grow and sustain their businesses. This YEC 2010 has developed three pillars to ensure its effectiveness. First entrepreneurship awareness, education and skills training – through which the campaign transfers knowledge, creates awareness of opportunities and makes available assistance and support to young entrepreneurs. The second pillar is access to finance, procurement and business support – in which financial provision, procurement opportunities and business support to young entrepreneurs are encouraged. This is done to enable the development and sustainability of the youth owned enterprises. The third pillar is legislation, regulation and policy – in this regard, relevant organisations participate in advancing the interests of young entrepreneurs to minimise

regulatory, legislation, as well as policy hurdles that may hamper the entrepreneurial development of the youth (YEC, 2010).

#### ***4.3.3.3 Loans provision to SMMEs***

In order for the UYF to fulfil one of their biggest aims of promoting entrepreneurship among young people, they provide funding to young people and women, so that these group of entrepreneurs can start a new business or grow an existing one. The UYF offers micro loans from R1 000 to R100 000. The micro-finance loan is divided into 8 different products though which finance is structured according to the amount requested, affordability indicators, and the type of finance required, such as asset finance, working capital finance or contract based finance. The terms are then tailored around the individual's requirements (Youthportal, 2009). However, the UYF specifically aims to allocate and disburse funds to female-owned-and-managed microenterprises in order to create and sustain their businesses. Therefore, in 2007 and 2008 about 19,516 loans were issued to 19,351 microenterprises, which resulted in 24,364 jobs being created and/or sustained. Moreover, 95% of the microenterprises funded are owned by female entrepreneurs. Regarding the loan programme for small and medium enterprises, the UYF allocated 166 loans to 154 SMEs, which led to the creation and sustainability of about 3,049 jobs. As a result, 52% female-owned enterprises were funded during the 2007 and 2008 financial years (UYF Annual report, 2008; Youth portal, 2009).

#### ***4.3.3.4 Voucher system***

The UYF offers business support in the form of a voucher system to assist young and female entrepreneurs to start a business or improve and grow existing ones by using the Business Consulting Services (Youthportal, 2009). In addition to the voucher system, BCS provides one-on-one attention and guidance to young and female entrepreneurs. The UYF supports these young entrepreneurs in order for them to have access to technical assistance and managerial support for their businesses, and be able to pay for both services using special vouchers. In this way, their new or existing businesses will be sustainable, competitive and active in the economy, and as a result, reduce poverty.

For example, the consultancy services' voucher programme in particular has achieved an 11% increase in respect of the number of vouchers issued in 2008. The impact study done on the voucher programme has also shown that, on average, 3 jobs are created (over a two to three-year period) per voucher issued. As a result, in 2008 the UYF issued 10,534 vouchers, through which 11,958 jobs were created. The programme was able to create 4,443 new businesses during that year, while the voucher managed to assist 7,544 start-up businesses. During 2007 and 2008 UYF managed to access finance of R135 million and R20 million from the government and donors, for the purpose of creating business opportunities, and tenders were also accessed (UYF Annual report, 2007/2008).

#### **4.3.4 Synthesis**

To a large degree the UYF programme corresponds with the evaluation of Seda. The UYF also uses outsourced service and a voucher system with specific focus on the youth and female entrepreneurs and poverty reduction. Although some attention is devoted to market access, the programme is mainly supply-driven. It should be noted that the UYF provides this service independently from government.

### **4.4 BESD PROGRAMME**

The BESD programme is a programme implemented by the Department of Labour to create skills in the second economy. The fact that it is essentially a skills programme and not a business support programme should be noted. Essentially, the programme is demand-driven in that business coaches or trainers (called Entrepreneurial Development Practitioners) coach entrepreneurs at their places of business and in terms of the entrepreneurial training and coaching needs (Mokoena, 2009). The programme also includes mentoring aspects but these will not be addressed in this section.

#### **4.4.1 The BESD support framework**

The BESD approach uses business coaches, the Entrepreneurial Development Practitioners (EDPs), to provide basic training to entrepreneurs. These EDPs work as coordinators between entrepreneurs and are further supported by a formal training provider - in this case the Mangaung University Community Partnership Programme (MUCPP). Thus the actual implementation takes

place in an out-sourced manner. The MUCPP's function is to support and manage the EDPs while facilitating the necessary support networks and linkages. Each EDP takes responsibility for ten entrepreneurs. The Project Steering Committee functions on a strategic level and it serves the purpose of creating a forum to discuss issues relating to small businesses as well as the supportive role played by the represented organisations. EDPs have a structured curriculum but this is implemented in a flexible manner with the entrepreneurs. EDPs visit the entrepreneurs once a week and application exercises directly related to the business environment of the entrepreneurs are provided. The following modules are applied: bookkeeping skills and basic financial management, costing and pricing, marketing, customer care and the development of a business plan. These coaching sessions are free of charge.

#### **4.4.2 An evaluation of the BESD programme**

In a recent external evaluation the following points came to the fore and should be mentioned more specifically (see Marais and Lenka, 2007). On the positive side the following aspects should be mentioned:

- Approximately 50% of the entrepreneurs showed significant changes to their business in respect of at least an increase in profits, turnover or renewed investment back into the business (expanded premises, increase in equipment).
- Three factors were commonly cited for the above improvement in respect of business, namely, improved business as a result of better marketing; improved client satisfaction; and significant savings because of a better understanding of business finances. The first two aspects are important as they show that an emphasis on markets (including how you treat your clients) is an important factor to be considered in this respect.
- An equal distribution of males and females as project beneficiaries was achieved without an emphasis on the criteria in this respect.

In respect of the negative aspects related to the project, the following are worth mentioning:

- The overall project support from the service provider has not always been adequate. This implies that the outsourced mode has not been experienced positively – although one should acknowledge that government's capacity in this respect has probably not improved.

- Mentors and Coaches try to take short cuts and seldom prepare adequately for different entrepreneurs.
- The emphasis can easily be focused on the provision of training to the detriment of the demand-driven learning processes.

#### **4.4.3 Synthesis**

Overall this is a government-implemented programme with the MUCPP forming the outsourced agency that is responsible for implementation. In essence the programme is thus in line with the Seda and the UYF frameworks in this respect. However, the entrepreneurs do not contribute financially to the programme and receive the coaching free of charge. The majority of the clients are existing microenterprises and it is believed that an investment in this sector will make a contribution to poverty reduction. The programme is focused on existing entrepreneurs and reaches a more or less equal number of males and females. Although training is usually associated with supply-driven approaches, the coaching approach and the fact that the coaches visit the entrepreneurs at their places of business help to make it more demand-driven.

#### **4.5 PREMIER'S PROJECT**

The Free State Provincial Government, through the Department of the Premier, partnered with the Flemish Government and Seda to embark on an SMME support programme for the Free State Province. This programme resulted from the Free State Provincial Growth and Development Strategy (FS GDS) which emphasized job creation and the growth of SMMEs in the Free State Province (SMMEs baseline study, 2007). In comparison with the three programmes which have been discussed thus far, this programme was directly implemented by government structures and used the government systems to manage the project. The programme differentiated itself by focusing on four geographical areas in the province, namely, Matjhabeng, Thaba Nchu (Mangaung), Tokologo, and Qwaqwa (Maluti-a-Phofung). The overall idea was to prioritise these four areas with an intensive approach to business support. Entrepreneurs would receive services free of charge. The programme had five result areas:

#### 4.5.1 Strategic result areas

The first result is stated as: “*Extensive and continuous training and long-term mentoring are available to SMMEs and individuals.*” These envisaged results, were in the first place, related to the coordinated provision of training to entrepreneurs, especially unemployed individuals and organisations. In this respect, training on various aspects (such as social skills, IT skills, labour legislation, safety and hygiene in the workplace) would be available continuously and the focus would be mainly on enterprises and individuals in the informal and social economy. This programme would consider the use of the ICam system of the Department of Health to provide training from a central point. Even though this project might have some budgeted funds, it would be faced with the challenge of sourcing training funds from the funding institutions and the private sources available in the country. Moreover, every centre would have a full training programme overview that would run six-monthly and attention would be given to women, the youth and disabled individuals. In this regard, formal businesses would also be given a chance to participate, but on a cost-recovery basis. Income generated would be used as staff bonuses and to make the centre financially independent.

Secondly, on an annual basis, the mentoring function would assist at least ten businesses per centre; therefore, over five years the centres would be able to assist 200 or more enterprises. The enterprises that receive financial support from the private financial institutions and those that have government contracts would be linked to mentoring. The entrepreneurs involved would have an opportunity to become mentors for the project in the future and could later become trainers and facilitators. It would be important to report and record the process of training and mentoring as well as the successes and the failures of the SMMEs for future use of the institution in respect of the BSCs.

The second result reads: *Market access is facilitated/improved for individuals and SMMEs.* Three specific initiatives were identified in this result. One, the nature of people who are trained should be such that they will be employed by the public as well as the private sector. Two, this function should know about obstacles in accessing local markets and how to facilitate them in an appropriate manner in order to assist SMMEs in accessing markets to a greater extent. This also required the organisational development and facilitation of cooperatives, in which information

regarding tenders, advice and assistance with application needed to be provided. In this regard, the links between SMMEs and well-established businesses should be facilitated. Three, this function should also provide information (various incentives available from the DTI, information on markets would inform the placement and mediation components) with regard to national and international markets. The attention in this respect should also be devoted to women, the youth and disabled individuals, and included the social services sector and the social economy.

The third result is: ***“Placement/mediation opportunities are facilitated with and for business, the public sector, and private job opportunities.”*** This result is based on the two above-mentioned results. First, the unemployed individuals would be registered on a database and would be trained according to the market needs. Second, both the service and the trained individuals would be marketed to the public and private sector by the function related to opening markets. In this regard, the placement/mediation function would be the matchmaking tool. Third, a follow-up would be done in order to ensure integration among training/mentoring, opening markets and job placement/mediation. As in the other result areas, a specific focus would be adhered to in respect of women, the youth and the disabled entrepreneurs.

The fourth result reads: ***“Innovative employment and job creation opportunities will be researched and set up”***. The SMME sector in South Africa lacks resources to test its existence and development. To a large extent, this accounts for social economy, which is unexplored in this country. In pursuance of this result, twelve South Africans involved in this project were able to visit Flanders, a Belgian region that has a high employment rate and a well developed social economy. These twelve entrepreneurs were sent to Flanders in order to gain experience, to become innovative and to be inspired by the SMMEs in this region. Two experts from this region would also have an opportunity to visit the programmes twice over a period of five years and the project manager would be responsible for the organisation of the visits.

The fifth result reads as follows: ***“An effective outreach programme to the social services sector is functioning – with a specific focus on organisations working on HIV/AIDS”***. A specific outreach programme would be supported by this result and integrated (on different levels) into a wider social environment of the BSCs. Firstly, on gender, disabled and youth

integration. The attempt would comply with and work towards the provincial guidelines in this respect. Specific attention would be devoted to abused female groups, especially those who have gone through the support services of the two Tshepong Centres/Sexual Offences Courts of QwaQwa and Bloemfontein.

Secondly, the extension of financial and business advice as well as mentoring to social services organisations would be considered and the focus would be on the field of HIV/AIDS prevention and care. The training would include basic bookkeeping skills and financial management assistance. The idea was that these NGOs, Faith Based Organisations (FBOs), CBOs, and clinics, to mention but a few, would use their available budgets more effectively and in a more businesslike manner, which in turn should lead to better outcomes, as well as possibly even extra employment.

Thirdly, this outreach programme would direct its focus to schools in poorer suburbs with regard to BSCs. Special attention would be given to entrepreneurial skills, which is part of the critical outcomes of the Economic and Management Sciences learning area. This programme would link up with the project of the Department of Education on Professional Working Groups which is part of the SA / Flanders Development Cooperation – 2002. For example, a school could set up a small learner managed business on its premises, to support the theoretical training. In addition, a number of competitions for the schools and learners were envisaged. This result area would be followed up by the market facilitator.

#### **4.5.2 Synthesis**

After two years of operation the programme had made very little progress. It was hampered by logistical red tape within government, the inability of the project manager to manage the project appropriately, not enough qualified staff and problems with the donor. The focus on some technical training did also not help as it was difficult to make progress in this respect. Although the indicators mentioned some reference to young and female entrepreneurs the limited progress never allowed for an assessment of this approach. The same applies to the focus on markets. What seems evident is that the direct government involvement was not helpful in the attempt to provide services to prospective and current entrepreneurs.

## **4.6 THE FDC**

This section will provide a brief overview of the FDC and its programmes (Chapter Five provides a more detailed discussion of the FDC's business support programmes). The Free State Provincial Government has long recognised that the Province has an important role to play in growing the provincial economy, thereby reducing poverty and unemployment (Matsepe, 2007). The establishment of the FDC in 1995 and the subsequent amendment of the FDC mandate with its focal shift to SMME development and support were informed by this recognition. Prior to the amendments to the FDC Act, the FDC performed a much broader economic development role. This role was mainly focused on managing the industrial estates of the FDC and consequently not enough attention was devoted to the SMME sector. The Act was amended by Act 9 of 1999 and Act 4 of 2006 in order to focus the FDC mandate on the establishment of sustainable SMMEs in the Free State (FDC Corporate Plan, 2007 – 2010). The act re-established the purpose of promoting urban and rural SMMEs in the province. Through this refocusing the FDC gave opportunities of development to emerging SMMEs by providing loans to qualifying entrepreneurs for start-up capital, expansion capital, bridging finance and non-financial business support (FDC Annual Report, 2005/2006; 2007/2008). The FDC sometimes takes equity in businesses that lack collateral but have the potential for growth and profitability. The corporation also provides business subsidies tailored to the needs of emerging entrepreneurs, such as rental rates. The FDC's was established to promote economic development in the Province with special emphasis on SMME growth and development. The FDC aimed at targeting the sectors of agricultural beneficiation, tourism development, mineral beneficiation and chemical down-streaming in the five districts of the Free State Province.

The FDC proposed a Strategic Plan for the next Medium Term Expenditure Framework (MTEF) period, 2007 to 2010. This Plan resulted from a strategic-planning workshop of the FDC, which was held in January 2007. The workshop was attended by all the stakeholders of the FDC. This 2007-2010 Strategic Plan re-positions and brings the goal, objectives and operational approach of the FDC together to form one vision of SMME development. The plan therefore sheds any unrelated functions performed by the FDC in respect of their existing mandate of establishing and developing sustainable SMMEs in the Free State through providing financial and business support services (Matsepe, 2007).

#### **4.6.1 Support programmes to SMMEs through the FDC**

Business support services through the FDC provided the following service to SMMEs during the year 2007/2008:

##### ***4.6.1.1 Training and non-financial business support***

The FDC has two programmes to provide non-financial business support. The first involves their attempt to assist entrepreneurs in planning their enterprises effectively in order to access finance. In practice this would include helping an applicant apply for a loan to develop an appropriate business plan or cash flow projections. In certain cases the FDC would refer such applicants to Seda. In respect of training the FDC identifies key training needs and then outsources these to private sector trainers who would then train their customers accordingly.

##### ***4.6.1.2 Market access***

Not only does the FDC train SMMEs, but it also assists emerging entrepreneurs to access markets via exposure at trade fairs and exhibitions as well as on the internet (FDC Annual Report, 2007/2008, Morolo, 2009;). The FDC exposes all entrepreneurs, including female and the disabled, to national and international exhibitions in order to meet the potential buyers of goods and services.

##### ***4.6.1.3 Financial provision to SMMEs***

The FDC's non-financial support is a mechanism to support their lending and to minimise their risk. A more detailed discussion of the relationship between these two factors is presented in Chapter Five.

#### **4.6.2 Synthesis**

The FDC as an institution is also functioning outside the direct government structure and has its own board. The non-financial business support services is provided free of charge but its cost is recovered through the financial aid that the corporation provides. The FDC does not specifically target particular groups, but their main focus to support SMMEs since the mid-2000 suggests that the FDC is keen on addressing issues related to poverty. Their services are mainly supply-driven to ensure a return on funds lent to SMMEs and therefore they do not always consider

the opening of markets. It should be acknowledged that some attempts have been made to address the market side.

#### **4.7 CONCLUSION**

In this chapter the study covered the programmatic approach of five business support initiatives, namely Seda, the UYF, the Premier's project, the BESD approach and the FDC. The evaluation of the five business support initiatives were conducted in terms of seven criteria: the sustainability of the provision; cost of services; clients; impact on poverty; gender impact; whether it was supply or demand-driven, and the elements of making markets work for the poor entrenched in these initiatives (see Table 4.1).

**Table 4.1: Comparison of the Free State business support services to SMMEs development**

<i>Criteria/ business support programmes</i>	<i>Sustainability of provision</i>	<i>Cost of services</i>	<i>Clients</i>	<i>Poverty impact</i>	<i>Gender impact</i>	<i>Supply or demand driven</i>	<i>Making-markets- work-for-the-poor</i>
Seda	Outsourced services to reduce long-term salary cost	Still large degree of subsidy for services, but entrepreneurs need to make a financial contribution	The inclusion of women and youth is emphasised Also emphasis on new enterprises.	Addressing poverty is central to the rationale for business support services	Despite emphasis to support female entrepreneurs the impact is limited	Mainly supply-side driven	Some focus on markets but in general not enough attention
UYF	Outsourced services to reduce long-term salary cost	Still large degree of subsidy for services, but entrepreneurs need to make a financial contribution	Mainly youth	Addressing poverty is central to the rationale for business support services	Despite emphasis to support female entrepreneurs the impact is limited	Mainly supply-side driven	Some focus on markets but in general not enough attention
BESD	Outsourced services to reduce long-term salary cost	Entrepreneurs obtain training free	Focus on existing entrepreneurs – includes all groups	Coaches monitor the progress once a week and have employees	Does not consider gender directly but equality in terms of gender is achieved.	Although training is supply-driven the coaching approach tends to assist in a demand driven culture	The coaching approach helps entrepreneurs to identify the markets
Premier's Project	Project run within government structures	Free training and service	Project cater for new and existing as well as all demographic groups	Rationale within the Free State Growth and Development Strategy's attempt to address poverty	Not specifically for females but not ignoring this reality	In the project proposal there was a mix of supply and demand driven approach.	Some emphasis on markets
FDC	Outsourced services	Paid from the loan	The inclusion of women and youth is emphasised Also emphasis on new enterprises.	Addressing poverty is central to the rationale for business support services	Included women, even though still few	Mainly supply-side driven	Some focus on markets but in general not enough attention

In terms of the sustainability of the programmes, three of the business support initiatives were delivered through outsourced state agencies (Seda, the UYF, the FDC), one through an outsourced private public partnership (BESD), and one with direct government involvement. From the comparison it seems as if the government-driven initiative struggles the most to become operational. Different models of funding business support programmes were also presented. In the case of Seda and the UYF, direct business support services were subsidised through a voucher system with a small contribution from the entrepreneur. In the case of the FDC, the cost of business support services was recovered through the loan to the client. In the case the BESD and Premier's project, services were provided at no cost to the entrepreneurs. In respect of clients, the focus in general has been on previously disadvantaged groups with vulnerable groups such as the youth and females generally mentioned as groups on which the emphasis fell. At the same time the main rationale for business support services was related to addressing poverty. However, very little evidence of successful business support programmes to these groups was recorded.

Although a mix of supply-driven and demand-driven approaches characterised the initiatives, the BESD programme probably represents the best example of a more demand-driven approach – despite the fact that it was inherently a training programme. Moreover, the five business support programmes did focus on markets to some degree but seldom made it an inherent requirement.

## **CHAPTER FIVE: BUSINESS SUPPORT PROGRAMMES BY THE FREE STATE DEVELOPMENT CORPORATION**

### **5.1 INTRODUCTION**

In Chapter Two the international trends in business support programmes were discussed. One of these trends suggested that non-financial and financial support should be split. The South African policy and programme environments were discussed in more detail in Chapter Three and Chapter Four. In these cases financial and non-financial support services were mostly split. This chapter focuses explicitly on the business support services provided by the FDC. In 2006 the FDC took a new direction away from supporting larger enterprises towards a small enterprise development programme. As the FDC was providing both non-financial and financial business support to small enterprises (something that is against the basic policy approaches) a more detailed assessment of their non-financial business support programme is required. Therefore, the aim of this chapter is to assess the FDC's attempt towards non-financial business support to SMMEs in conjunction with their financial support.

The chapter begins with a demographic profile of the sample. It provides an overview of the response rate in terms of the total population. It also provides an overview of the enterprises that were interviewed with regards to the business profile and the current status of the businesses. The chapter continues to discuss the process of a loan application with regard to pre-financing and post-financing business support. Then the chapter looks into measuring business changes among entrepreneurs.

### **5.2 DEMOGRAPHIC PROFILE OF THE SAMPLE**

The demographic profile of the sample includes the respondents' gender, age, educational level and the positions they held in their businesses (see Table 5.1).

**Table 5.1: Demographic profile of the respondents**

<i>Item</i>	<i>Category</i>	<i>Frequency (n)</i>	<i>Percentage</i>
<b><i>Gender</i></b>	Male	86	67.7
	Female	41	32.3
<b><i>Age</i></b>	25 and younger	4	3.2
	26 - 30	16	12.7
	31 – 35	26	20.6
	36 – 40	30	23.8
	41 – 45	22	17.5
	46 – 50	15	11.9
	51 – 55	8	6.3
	56 - 60	4	3.2
	Older than 60	1	0.8
<b><i>Education</i></b>	Grade 8 – 11	23	18
	Grade 12	37	28.9
	N1 – N5	4	3.2
	Certificate	8	6.3
	Diploma	27	21.7
	Degree	6	4.7
	Post degree	22	17.2
<b><i>Position held</i></b>	Owner	54	42.2
	Co-owner	5	3.9
	Manager	48	37.5
	Director	2	1.6
	CEO	16	12.5
	Other	2	2.3
<b><i>Municipal area</i></b>	Motheo	65	52.4
	Lejweleputswa	25	20.2
	Thabo Mofutsanyane	7	3.2
	Xariep	16	12.9
	Fezile Dabi	14	11.3

It follows from Table 5.1 that 67.7% of the respondents were male, and 32.3% were female. The majority of the respondents were between the ages of 31 and 40, with about 29% of the respondents reporting to have Grade 12 as their highest qualification. The majority (42.2%) of the respondents reported to be the owners of the businesses, followed by 37.5% of the respondents indicating that they are the managers of the businesses. The data in Table 5.1 also shows that the majority (52.4%) of the businesses were situated in the Motheo municipal area, followed by 20.2% from the Lejweleputswa municipal area. The municipality with smallest number of the respondents was Thabo Mofutsanyane (3.2%). In terms of spatial variation in the Free State, this clearly indicates that enterprises that are in urban areas are more favoured than enterprises in rural areas.

### 5.3 THE RESPONSE RATE IN TERMS OF THE TOTAL POPULATION

This section provides an overview of the response rate with regard to the total population that participated in this study. Table 5.2 below shows the total number of SMMEs that was provided by the FDC. It also shows the number of SMMEs that were confirmed existing at the time that this survey was conducted, and the response rate in respect of this study.

**Table 5.2: The response rate in terms of total population**

<i>List of SMMEs provided by the FDC (n)</i>	<i>SMMEs confirmed to be existing (n)</i>	<i>Total number of the respondents (n)</i>
263	175	127

The FDC agreed to provide a list of SMMEs from their data-base that was financed by them. There was an agreement between the researcher and the FDC that the FDC consultants will call all these entrepreneurs prior to the survey to ensure that the businesses still exist. There reason behind this was that some of the businesses are still registered in the FDC data-base, only to find that they have long being closed. Therefore, the FDC wanted to confirm. In the process of confirming, a total number of 263SMMEs was outsourced from the data-base. One hundred and seventy-five were confirmed existing by the FDC consultants, but only 127 entrepreneurs out of 175 entrepreneurs were interviewed. As it has been mentioned in Chapter One, the 48 remaining entrepreneurs could not be reached for the following reasons: some entrepreneurs reported being very busy and having no time to answer the questions; some of them could not be reached telephonically as their phones were either

on voice-mail or the numbers no longer existed. At the same time the researcher found that some of the businesses that were on the FDC data-base were no longer owned by the entrepreneurs who received finance from the FDC. For example, the father who had applied for the loan had passed away and the son had taken over. Among all the entrepreneurs who were interviewed, the business profile of their enterprises is provided in Table 5.2 below.

## 5.4 AN OVERVIEW OF ENTERPRISES

### 5.4.1 Business profile of SMMEs financed by the FDC

This section briefly reflects on the business profiles of enterprises that were interviewed in this study (see Table 5.3). This will serve as important background information for the rest of the chapter.

**Table 5.3: Business Profile of the enterprises that were established and financed before 2006 and after 2006**

<i>Criteria</i>	<i>Percentage</i>
% of enterprises established before 2006	20.8
% of enterprises established 2006 and thereafter	68.8
% of enterprises financed before 2006	4.1
% of enterprises financed during 2006 and thereafter	6.3
Total	<b>100</b>

In Table 5.3 it is indicated that about 20.8% of the SMMEs who were interviewed were established before 2006. However, only 4% of these enterprises received finance from the FDC. The data also shows that during 2006 and thereafter, about 68.8% of the small enterprises were established and 6.3% managed to get finance from the FDC. Moreover, Table 5.3 shows the legal status of the enterprises that were established before 2006 and thereafter.

**Table 5.4: Legal status of enterprises that were established before and after 2006**

<i>Criteria</i>	<i>Percentage</i>
Percentage of enterprises which are closed corporations	82.0
Pty(ltd)	8.4
Partnership	0.8
Sole trader	5.6
Trust	3.2
Total	<b>100</b>

The increased finance since 2006 is an indication of the FDC's shift in emphasis towards SMMEs. In terms of legal status, 82% of the enterprises that were interviewed indicated that they were close corporations. Table 5.4 also shows that only 0.8% of the enterprises that received finance from the FDC registered as partnerships with 5.6% as the sole traders. During the interviews the respondents were asked to provide the current status of their businesses. Table 5.5 provides more detail on this.

#### **5.4.2 Current status of business**

Respondents were asked to provide a self-evaluation of the profitability of their enterprises. The results are presented in Table 5.5.

**Table 5.5: Current profitability status of business**

<i>Status of business</i>	<i>number</i>	<i>Percentage</i>
Highly profitable	6	4.8
Profitable	18	14.3
Breaking even	43	34.1
Making a loss but will eventually turn it into a profitable business	14	11.1
Making a loss – I have no hope	10	7.9
Start-up (too early to say)	35	27.8
Total	<b>126</b>	<b>100.0</b>

According to the Table 5.5 only 4.8% of the enterprises are highly profitable while only 14.3% are profitable. Just over one-third have recorded that they are breaking even while 27.8% suggested that it was too early to say. At the same time 11.1% were making a loss but were convinced that they would eventually become profitable, while another approximately 8% said that they are making a loss and have lost hope. The overall status is thus not that positive and, although a statistically significant

percentage noted that it is too early to say, this is probably an indication of how difficult it is to grow the SMME sector effectively.

## **5.5. LOAN APPLICATION AND PRE-FINANCING BUSINESS SUPPORT SERVICES**

This section deals with the non-financial support (business support) of the FDC with regard to loan applications (which included a specific effort to provide non-financial business support services) by entrepreneurs. The section describes the FDC system when entrepreneurs are applying for loan, the quality of services received during the application, and the pre-financing as well as the post-financing business support given to SMMEs.

### **5.5.1 The loan application process (pre-finance support)**

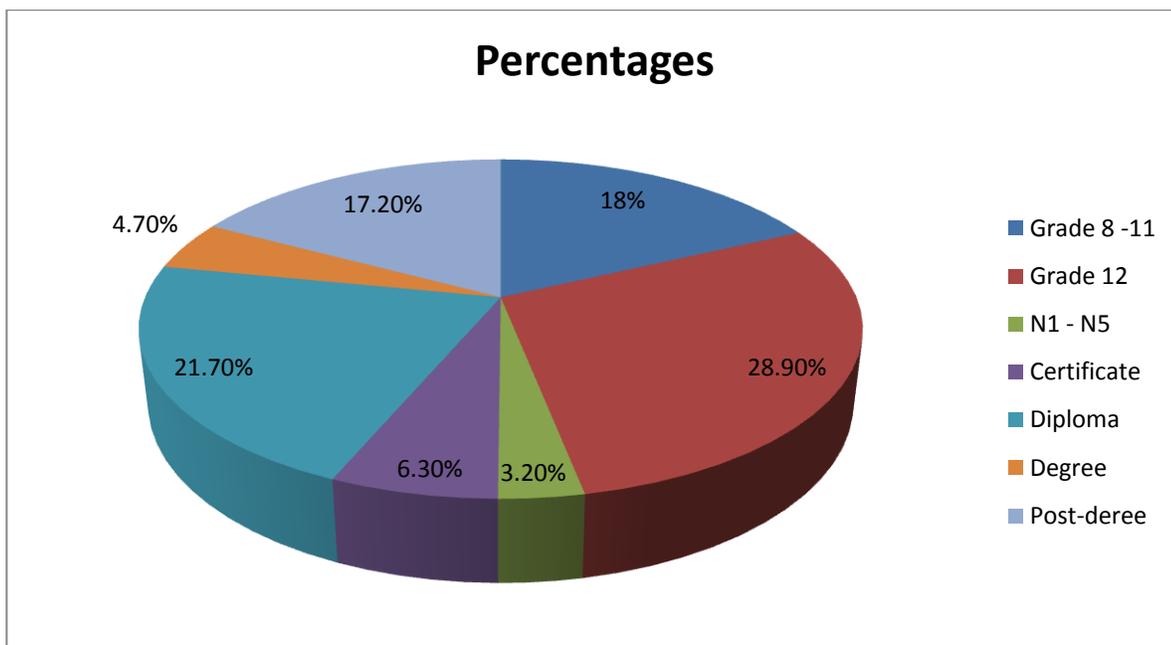
In order to discuss the value added through the loan application process a description of this process is required. First the applicant has to take the necessary documents to the FDC. The applicant also has to fill in the application forms. In this respect the applicant is assisted by a consultant. In the case of the applicant not being in the possession of the business plan, the consultant will give the applicant an FDC business plan format. The consultant then refers the applicant to the private sector for the assistance in writing a business plan. The FDC outsources such service from Seda, the UYF and some of the private consultants. When the business plan is completed, the applicant submits the business plan together with the other necessary documents to the FDC and waits for a period of two to three months for approval. The FDC deducts the money paid to the consultants from the loan that the entrepreneur receives when his/her application is approved. For example, if the FDC paid 10% to the consultant, when a loan application is approved the FDC gives a 90% loan to the entrepreneur and takes a 10% as a repayment of the consultant services.

It should be noted that the FDC only provides a format of a business plan; they do not take responsibility for the writing and completion of the business plan. Mr Morolo, from the FDC business unit summarised it in the following words: *“We do not write business plans, we do funding. In this case we refer our clients (entrepreneurs) to Seda or any independent consultancies that can assist them (clients) to compile their business plans, but we provide them with guidance and the lay-out in terms of the requirements of the FDC, and once that is done they are able to bring the business plan to the FDC for application for finance and then we evaluate and fund that business plan”* (Morolo,

2008). The important aspect to note from this is that, although the FDC does not provide these business support services themselves, business finance is not provided separately from non-financial support. However, it is the responsibility of entrepreneurs to do follow-up for themselves, and then submit the business plan to the FDC. The dilemma is that FDC does not take responsibility for the success or the failure of the business plans, but does assess business plans and rejects them in terms of a number of aspects. These aspects include the following:

- poor business plans (the loan amount does not match the enterprise needs; it may be that the products/services indicated are already being sold by too many people; poor market research);
- duplication of business plans, and
- incomplete application forms.

Poor business plans and unsuccessful applications could also result from a lack of education of the applicants. It should be noted that almost 29% of the entrepreneurs that are financed by the FDC have Grade 12 as their highest qualification, followed by 22% with a diploma. About 18% of the entrepreneurs' qualifications range from grade 8 to grade 11 and at least 21.9% has degree, post-degree and other qualifications that are not mentioned (see Table 5.1 and Figure 5.1 below).

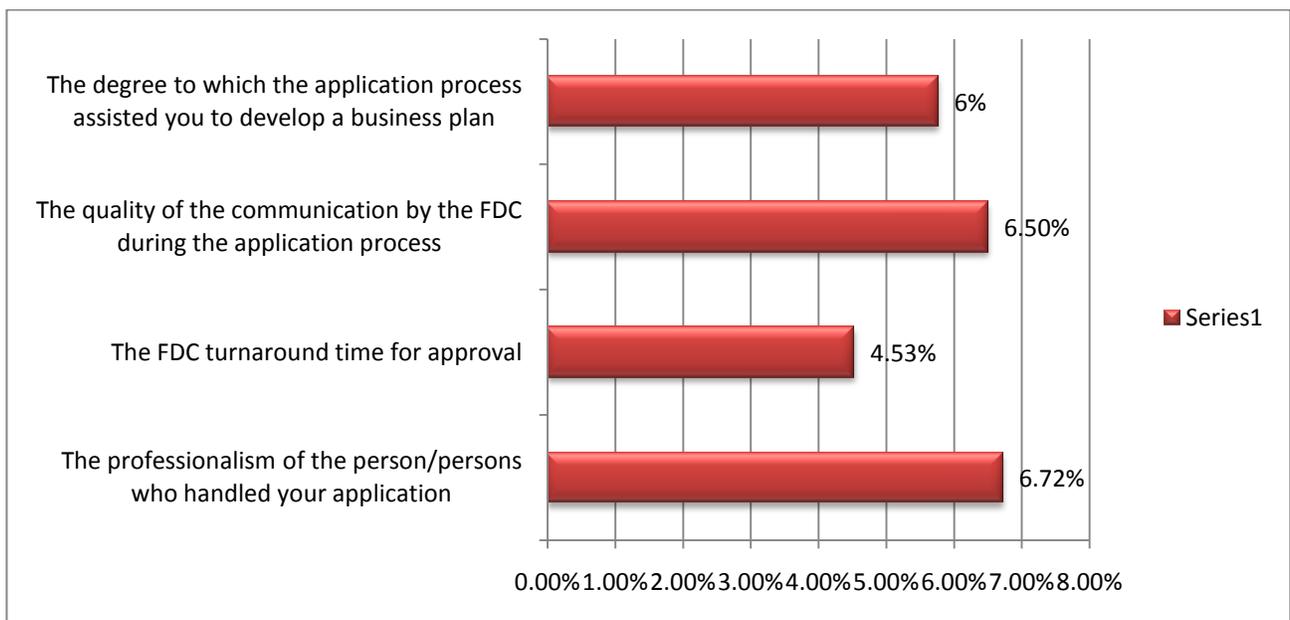


**Figure 5.1: Educational level of the respondents**

Figure 5.1 shows the educational level of the entrepreneurs who were financed by the FDC. The Figure shows that almost 29% of the respondents have a Grade 12 and only 4.7% of the respondents have a degree as their highest qualifications. Post-degree (17.2%) include honours, Masters, MBA, and Ph.D degrees. The fact that nearly half of the respondents' highest qualification is Grade 12 suggests that the overall qualifications of SMME owners are average. Moreover, business and management training skills provided need to be improved in order for the entrepreneurs to have a business understanding and acquire better management skills before they could be given finance. This issue is dealt with in detail in the following section.

### 5.5.2 Quality of pre-financing services received

This section deals with the quality of the services that entrepreneurs have received from the FDC during the loan application process. Even though the FDC outsources some of its services, the loan application process takes place within the organisation. During this time, the process is assessed starting with the services received during application; the consultants' treatment of the clients (entrepreneurs), and the turnaround time for loan application approval. In this section, four aspects are considered. Figure 5.2 summarises the average (out of 10) of the four questions that were asked about the quality of the FDC services that the entrepreneurs received during the application process.



**Figure 5.2: The quality of services received from FDC during application process**

Figure 5.2 illustrates that the professionalism of the consultants who handled the applications of the FDC clients/the entrepreneurs was rated fairly positively – a figure of 6.72 out of 10 was given by the respondents. Two positive comments made by the respondents to support the above statement are as follows:

- About 77.4 % of the respondents said that the FDC consultants are friendly.
- Almost 94% indicated that the FDC consultants are patient and polite.

On the contrary, some negative comments were also made by respondents regarding this question. These include the following:

- Thirty percent of the respondents said that FDC consultants mix business with pleasure.
- About 25% of respondents indicated that some of the files were missing. This last percentage seems to be alarmingly high.

On a similar basis a rating of 6.5/10 was allocated to the quality of communication between the clients and the consultants. The rating indicates that communication was very good during the loan application process. In this regard, there were positive and negative comments from respondents.

- On the positive side communication was very good between the FDC and the client (76.2% of the respondents) and the FDC consultant.
- At the same time two negative comments were made. Comments such as “FDC consultants always refer us to the next consultant” or “we struggle to get hold of them” and “there is no proper feedback” were commonly reported.

The degree to which the application process assisted with developing a business plan was rated at 5.77/10. In this respect, four positive comments were identified. First, 73.5% of the respondents said that they had no idea of a business plan and that the FDC process assisted them a great deal. Second, 26.3% said that the FDC helped them with a business plan format. Third, 75.3% said that the FDC helped them with market research while about 83.3% had appreciation for the finance they received. The lowest rating was given to turnaround time with a rating of 4.53/10. Even though this question was rated the lowest, there were still some positive comments regarding it. This includes the following: the approval of the loan application took less than a week for some respondents and three weeks for others, and the respondents were satisfied with the waiting period. However, the negative comments were the following: 74.4% indicated that they waited for about a year before loan

approval was given. Some respondents (94.2%) were still waiting for their loan approval when this survey was conducted.

The assessment was taken further to reflect the relationship between the existing levels of profitability in relation to satisfaction levels with regard to communication prior to receiving finance from the FDC (see Table 5.6). The rationale for a more in-depth discussion was to see to what degree different categories of enterprises (in terms of profit) relate to satisfaction in relation to business support programmes. Through this method an attempt was made to assess how different SMMEs (in terms of profitability) are experiencing business support. Methodologically SMMEs were divided into three groups in respect of profitability (self-reported).

**Table 5.6: Quality of communication vs. enterprise profit**

<i>Satisfaction levels / profitability</i>	<i>Profit low</i>	<i>Profit average</i>	<i>Profit high</i>
Satisfied with quality of communication: Low	20.6	17.3	35.7
Satisfied with quality of communication: Average	44.1	36.5	0.0
Satisfied with quality of communication: high	35.3	46.2	64.3
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Figure 5.2 in section 5.2.2 above shows that respondents rated the general communication at 6.72 out of 10, while Table 5.6 shows in more detail that well-performing enterprises rated the pre-finance communication the highest. For example 64.3% of those enterprises that rated their profits higher than eight out of ten also rated their satisfaction with the communication as high. The opposite also seems to be true. Enterprises with low profits also rated their satisfaction with communication to be low. Some of the lowest levels of satisfaction were obtained by the category of enterprises that had the lowest profit. The question that begs to be answered is what the implication for business support services would be. Fundamentally, it underlines the difficulty in providing business support to new enterprises or enterprises that are not all that profitable. One of the main problems is that it is difficult to find common ground between star-ups and well-performing enterprises in respect of the key issues as the levels of experience might differ considerably.

Similar to Table 5.6, Table 5.7 illustrates the satisfaction level of the entrepreneurs with regard to the time the FDC took to approve their loan application.

**Table 5.7: Turnaround time for approval vs. enterprise profit**

<i>Satisfaction level / profit</i>	<i>Profit low</i>	<i>Profit average</i>	<i>Profit high</i>
Satisfied with turnaround time: low	45.7	40.4	36.8
Satisfied with turnaround time: average	42.9	40.4	21.1
Satisfied with turnaround time: high	11.4	19.2	42.1
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Table 5.7 indicates that those enterprises that rated themselves low in respect of profits seem to be least satisfied with the turnaround time that the FDC takes for the loan approval (45.7%). The highest levels of satisfaction were recorded for enterprises with high levels of profits. However, at a satisfaction rate of just more than 42%, the general level of satisfaction does not seem to be extremely high. This indicates that the FDC has to devote its attention to improving its services in respect of turnaround time for approving loan applications. The positive evaluation of turnaround time by this group could be ascribed to the fact that better performing businesses were probably better equipped to provide the required business information to the FDC – at least in comparison with those that are only start-ups or not making a profit. This is probably an indication of the difficulties associated with business support to enterprises not functioning well in this sector.

The relationship between profit and the ability of pre-finance non-financial business support mechanisms were further questioned in Table 5.8 below in respect of the satisfaction with the business plan.

**Table 5.8: Ability to assist in developing a business plan vs. enterprise profit**

<i>Satisfaction level / profit</i>	<i>Profit low</i>	<i>Profit average</i>	<i>Profit high</i>
Satisfied with developing a business plan	34.4	20.5	15.4
Satisfied with developing a business plan	40.6	43.2	30.8
Satisfied with developing a business plan	25.0	36.4	53.8
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Like the other mentioned tables, Table 5.8 also shows that enterprises that are making high profits also benefited more extensively from initiatives to provide them with business plans. These

enterprises with high profits gave the highest rating in terms of being satisfied with the assistance in developing a business plan (53.8%). The higher percentage could result from well-performing enterprises being able to submit necessary and required information on time. At the same time, enterprises that are not making enough profit (1-3) were not satisfied with the assistance they got from the FDC with regard to developing a business plan (34.4%). Business support to the well-performing enterprises is being experienced more positively than that of enterprises not performing so well – a conclusion also derived from the previous discussion on the quality of communication. It could be that well-performing enterprises are more understanding; they submit necessary documents on time and also are more informed, whereas start-ups do the opposite – the availability of some business experience for both start-ups and well-performing enterprises also supports their ability to learn from business support programmes. It should also be remembered that some of the respondents indicated that they already had their business plans in hand when they were applying for the loan, while others had only been assisted in some of the sections and not in the entire business plan. At the same time, some respondents indicated that they had no idea how to write a business plan. Therefore, one can conclude that the well-performing enterprises apply already having the required business information on hand. Conversely, it is difficult to assist a person who has no business experience and therefore no business evidence. It will take time to coach and train that person and to assist him/her in developing a business plan.

Entrepreneurs were asked to rate the status of their businesses according to the way they perceive it, and they were also asked to rate out of ten how the appropriateness of their business plans assisted them in accessing international markets. Table 5.9 provides details as to how the appropriateness of a business plan assisted entrepreneurs in accessing international markets.

**Table 5.9: Appropriateness of a business plan in accessing international markets**

<i>Business plan/ international markets</i>	<i>Market access: Low</i>	<i>Market access: Average</i>	<i>Market access: High</i>
Appropriate business plan: low	33.3	8.3	33.3
Appropriate business plan: average	40.0	41.7	33.3
Appropriate business plan: high	26.7	50.0	33.3
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The data in Table 5.9 show very low results (33.3%) in terms of accessing international markets by the entrepreneurs that rated the appropriateness of their business plans to be high. The data in this table show that enterprises that rated an FDC business plan's appropriateness to be average are the ones that rated their access to international markets to be the highest. Two conclusions can be made from these results. First, it seems as if the accessing of international markets through business plans was rated somewhat higher by SMMES with average profit ratings. Overall it seems as if accessing markets in general and through ensuring that business plans consider market access, appear to be difficult. This indicates that the FDC is largely using a supply-driven approach to provide business support to enterprises with not enough evidence on the market side.

Although such an approach is not without its limits, the absence of a demand (market) driven approach is not always helpful in growing enterprises. It becomes a liability in the long run for SMMEs due to the fact that one will have to sustain his/her business using one's own money or funds, since there will not be enough turnover as well as profit from the business itself. It should be noted that the FDC's mandate is to help develop the previously disadvantaged SMMEs. Therefore, one of the reasons why the FDC became more supply-driven than demand-driven was to provide business skills prior to providing finance to the SMMEs not taking into account the fact that there should be a market available for these SMMEs to sell.

## **5.6 POST-FINANCE SUPPORT**

The above section considered the quality of the pre-finance support received from the FDC during the loan application process. The emphasis in this section shifts to an evaluation of the business support received by the respondents (entrepreneurs) after having received finance from the FDC. In this section respondents were asked to rate the quality of after-care services (out of 10) once they had received loans from the FDC.

First, during the interview the respondents were asked to rate the quality of the general after-care service programme (non-financial support) of the FDC against a figure of ten. The respondents rated this question 5.5 out of 10. In my assessment this is an average rating and there is an opportunity for improvement. As expected, there were positive and negative comments. On the negative side entrepreneurs gave three comments.

- Firstly, respondents (67.2%) indicated that “the FDC consultants only came once at our businesses”. This means that, ever since the entrepreneurs had received loans from the FDC, the consultants came once at their business premises once to provide aftercare service.
- Secondly, about 90% of the respondents said that “the FDC consultants did not interact with us”. It is clear that the FDC gave a loan amount to the entrepreneurs and seldom made follow-up calls on the entrepreneurs to ensure their satisfaction and to also ensure that the entrepreneurs are using the loan for business purposes.
- Lastly, a large percentage of the respondents said that “the aftercare service was very poor”.

In contrast to these negative attitudes, some positive comments were also made. Some of the comments that were made are as follows:

- “The FDC consultants visited our business a lot”.
- Another positive comment supporting this was that, “the FDC informed us with new opportunities and they called us”.

The danger of a system which links financial and non-financial business support is that once finance has been provided the institution might see itself as having performed its duty.

Another question that respondents were asked was to rate the quality of a mentorship programmes to help make their businesses sustainable. Entrepreneurs rated the quality of the mentorship programme at 4.2 out of 10. Both positive and negative comments were also made in respect of this question. The most positive comments made were “FDC helped me with the loopholes in my business,” and “mentorship was very good”. However, comments such as the following were common: “we have never received any mentorship,” and the “mentorship was very poor”. This shows that more still needs to be done with regard to mentoring and providing an after-care service to SMMEs in the Free State. Other than the above statements by the entrepreneurs, further confirming a lack of non-financial business support to SMMEs, are some of the remarks made by the FDC management representative during the interview: *“The business support that we have started is failing; we have just appointed people last year (in 2007) and have developed a programme of coaching and mentoring, so it is going to be very difficult to evaluate and give proof because it is a bit early”* (Morolo, 2008). The implication of the above statement is that the FDC does not take into consideration the non-financial business support in terms of developing SMMEs, instead, it provides

financial support and leaves the rest to the SMMEs, and ultimately, it expects the SMMEs to repay the loan amount. Other than that, evidence exists that the FDC is more concerned with the loan repayment than the development and sustainability of the small enterprise. Confirming this could be the two similar, direct quotes from the entrepreneurs “*FDC is after money and not the development of people*” and “*we proposed training workshops from the FDC but nothing has been done, instead we received training from outside sources and not from the FDC*”. This is in contrast with the SMME support policy and its stance on the promotion and development of SMME economy in South Africa. The policy guidelines stipulate that entrepreneurship should be promoted in the country, and that business support programmes should create enabling environments and should enhance the competitiveness and capabilities of existing enterprises (see Chapter Three). Overall there is still room for improvement in this regard.

As mentioned earlier, the ability of non-financial business support mechanisms to open markets for entrepreneurs is a crucial component. Table 5.10 elaborates more on the ability of the mentorship programmes to open international markets

**Table 5.10: The quality of mentorship programmes and their ability to open international markets**

<i>Satisfaction level/ international markets</i>	<i>Market access: low</i>	<i>Market access: average</i>	<i>Market access: High</i>
Satisfied with mentorship: low	41.7	60.0	75.0
Satisfied with mentorship: average	29.2	20.0	0.0
Satisfied with mentorship: high	29.2	20.0	25.0
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Based on the data in Table 5.10, only 25% of the respondents with high access to markets indicated that they were highly satisfied with the FDC mentorship programme. This is followed by the 60% of moderately satisfied respondents who indicated dissatisfaction (low rating) with the FDC mentorship programme. Once again market access does not seem to be central to the FDC’s business support programme.

The FDC could play a much more pronounced role in generating networks (especially market networks) for entrepreneurs. Through networking, the FDC could find donors and business partners (especially larger businesses and national and international ones) on behalf of the entrepreneurs. The FDC could act as a link between the two parties. The FDC could link an entrepreneur with the larger business relevant to the entrepreneur’s business. These larger businesses could coach and mentor entrepreneurs directly. The FDC management representative mentioned that, “*when providing funding we look at the socioeconomic impact that specific business will bring to the community and amongst others the key factors are job creation in that specific area and ensuring that there is also some skills transfer in cases of white-owned businesses, but at the end of the day there is employment in that specific area*” (Morolo, 2008). This could give entrepreneurs exposure in the long run since their mentors will assist them (entrepreneurs) in accessing markets. This can be done through mentors (larger business) recommending their mentees’ products or services (entrepreneur) to other relevant larger businesses, be they local, national or international businesses. When these larger businesses buy products from SMMEs their turnover would increase, more equipment could be needed for more production, and as a result, this could increase their business performance and create more job opportunities.

According to the data in Table 5.10, mentorship programmes have not been of assistance in terms of helping SMMEs to access markets. Therefore, the FDC as well as other four business support programmes do not put more effort into opening markets for small enterprises (see Chapter Four). Apart from the idea of making markets work of the poor, the FDC also offers training to the entrepreneurs in order to acquire the necessary skills to run their businesses, to be able to increase their turnover and to market their business (see Table 5.11).

**Table 5.11: Quality of training skills and their role in accessing international markets**

<i>Satisfaction level/ international markets</i>	<i>Accessing markets: Low</i>	<i>Accessing markets: Average</i>	<i>Accessing markets: High</i>
Satisfied with quality of skills training : low	84.2	66.7	100.0
Satisfied with quality of skill training : average	10.5	16.7	0.0
Satisfied with quality of skills training : high	5.3	16.7	0.0
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Very few entrepreneurs rated the quality of the skills training high. In fact, no entrepreneurs who rated their international market access as high also rated the skills training to be high. Moreover, 100% of the entrepreneurs with high international access rated the skills training programmes as low. A number of comments were made by the respondents regarding this question. Very few respondents were positive. However, a range of comments were received on the negative side. Comments such as “we never received any training” and “we proposed and nothing has been done,” were common. Similar comments were also made about the FDC being after money, not the development of people.

However, when he was asked during the interview about the degree to which the FDC is demand-driven, the FDC management representative mentioned that: *“We are using various workshops, exhibitions from overseas, and we take one to three clients to these exhibitions and workshops in partnership with the provincial government to get exposure in terms of their products, and we have also done some work concerning striking relationship with the DRC (Democratic Republic of Congo) and there are projects going on there (in the DRC) currently. We have also had road shows, national exhibitions within the province which we subsidise our clients (entrepreneurs) to visit, because one of the issues is that SMMEs do not have enough resources to attend the exhibition; so, for them to be able to attend and advertise their products, we have to subsidise them”* (Morolo, 2008).

However, if the FDC could use the BESD approach model of visiting the entrepreneurs in their business premises, train and coach these entrepreneurs on their businesses, this could assist the FDC in identifying entrepreneurs’ needs and addressing them much more quickly. This could also shift the FDC business support to be demand-driven without losing the supply-side approach. In essence, it could be more advantageous if there can be a balance between the two (i.e. the supply-and-demand approaches to business support).

The pre-finance and the post-finance support of the FDC to SMMEs have been discussed and its implications are provided. The focus now shifts to the overall impact of the FDC’s financial and non-financial support to SMMEs (see Section 5.5).

## **5.7 OVERALL IMPACT OF THE FDC's FINANCIAL AND NON-FINANCIAL SUPPORT**

This section distinguishes between two aspects of business support, namely financial business support and non-financial business support. It begins with the type of financial assistance that the entrepreneurs apply for at the FDC. It also provides an overview of the loan usage in the enterprises. It also provides overview of the impact of both the financial support as well as non-financial support of the FDC to SMMEs.

### **5.7.1 Type of financial assistance**

The respondents were asked to indicate the type of financial assistance that they applied for at the FDC. This was done in order to identify the type of loan that the majority of the SMMEs apply for and how they utilise this loan in their business premises. Table 5.12 on the next page provides more detail on the type of financial assistance entrepreneurs apply for at the FDC.

The paragraph starts-off by explaining some of the different types of loans that are available at the FDC.

- The first loan is a bridging loan. It is used to assist SMMEs with short-term cash requirements to service tenders or deliver goods and services. The maximum amount of it should not exceed 50% of the project cost and the repayment period is tied to the duration of the contract.
- Secondly, an initiator loan is applied for by those entrepreneurs who are intending to upgrade their businesses and graduate from the informal to the formal sector. The minimum loan amount is R20 000 and it may exceed one million rand.
- The third loan type is the equity investment loan. The purpose of this loan is to assist SMMEs whose viability can be enhanced by increasing their equity and lowering their debts. This loan may also be used in cases where an enterprise can be viable regardless of the size of its debt, yet lacks collateral to qualify for a loan.
- A micro loan is a short term loan that is granted to SMMEs. The minimum amount of this loan is R5000 and it may not exceed R20 000. The repayment period of this loan is within a period of 36 months.
- Lastly, there is a start-up capital. This loan type is used to assist SMMEs who want to start their businesses. It assists SMMEs who have a business plan, but no capital to start.

**Table 5.12: Type of financial assistance**

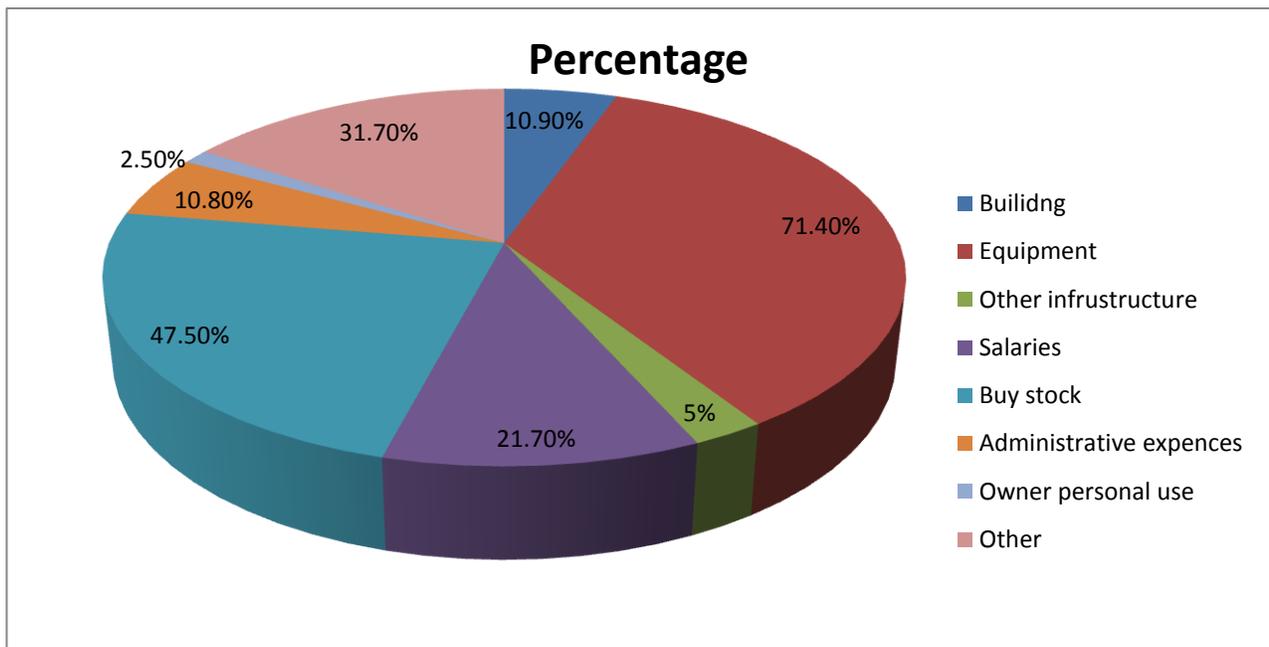
<i>Financial assistance</i>	<i>Percentage</i>
Bridging finance	33.1
Initiate	3.2
Equity investments	1.6
Micro	9.7
Start-up	38.7
Other	13.7
Total	<b>100</b>

The data in Table 5.12 shows that 38.7% of the respondents applied for a start-up loan and 33.1% applied for a bridging loan. Some respondents (9.7%) indicated that they needed a micro loan to pay salaries and buy stock for their businesses. The data indicates that only 1.6% of the respondents applied for an equity investment loan and 3.2% applied for an initiate loan. A total of 13.7% of the respondents indicated that they needed a loan for various reasons. These are as follows:

- Some respondents indicated that they needed a loan to buy equipment;
- Some applied for a loan for personal reasons other than business related reasons; and
- Some indicated that they needed a loan to build their business premises and some to expand their businesses (See Figure 5.3 on page 80).

However, when some of the respondents were asked to indicate a type of financial assistance they applied for at the FDC, they could not specifically tell. They had to explain first the reasons why they applied for a loan, and after the explanations, the researcher would then be able to indicate to the respondent a type of financial assistance he/she applied for. The respondents were asked to explain why they did not know the type of a loan they applied for, and the respondents indicated that the FDC consultants did not explain the loan types and the difference between them clearly. The respondents said that they had explained to the FDC consultants the reason why they apply for a loan, and the consultants, without thorough explanation, provided the respondents with application forms to fill in and told the respondents to wait for the loan approval. The dilemma in this instance is that the entrepreneurs could be applying for a loan that they do not necessarily want. For example, an

entrepreneur may be in need of a micro loan that is between R5000 and R20 000 in order to buy some stock. But, because he/she does not have knowledge of the difference between these types of loans, the entrepreneur could end up applying for a bridging loan instead. Percentages related to the issue surrounding the loan utilisation are reflected in Figure 5.3.



**Figure 5.3: Utilisation of the loan amount**

The entrepreneurs were asked as to what was the loan amount used for. It is clear from Figure 5.3 that the majority of the respondents (71.4%) used the loan they received from the FDC for buying equipment. This is followed by the respondents (47.5%) who reported that they used the loan for buying stock. A percentage of 21.7% of the respondents indicated that they used a loan to pay the salaries of their employees, while only 2.5% of the respondents indicated that they used a loan for their own personal use. From the above information, it follows that the majority of the SMMEs apply for finance mostly to buy equipment and to pay salaries. Therefore, one can conclude from the findings that markets play a vital role in businesses. If FDC could assist in opening markets for SMMEs, they will be able to sustain themselves and use their turnover to buy equipment and pay salaries rather than borrowing money from the business support institutions. Instead, they could use the loan for other reasons such as to expand or to buy transportation for their goods and services.

Figure 5.4 provide a cross tabulation of what type of the loan the majority of SMMEs apply for at the FDC and what do they use it for mostly.

**Table 5.13: A comparison of type of financial assistance with loan utilisation in percentages**

<i>Utilisation of</i>	<i>loan</i>		<i>Type of</i>	<i>loan</i>	<i>assistance</i>		
	<i>Bridging finance</i>	<i>Initiate</i>	<i>Equity investment</i>	<i>Micro</i>	<i>Start-up</i>	<i>Other</i>	<b>Total</b>
<i>Buildings</i>	23.10				76.90		<b>100</b>
<i>Equipment</i>	31	2.40	1.20	10.70	40.50	14.30	<b>100</b>
<i>Other infrastructure</i>	33.30	16.70			50		<b>100</b>
<i>Salaries</i>	34.60	7.70		19.20	23.10	15.40	<b>100</b>
<i>Buy stock</i>	32.70	5.50	1.80	9.10	40	10.90	<b>100</b>
<i>Administrative expenses</i>	41.70				25	33.30	<b>100</b>
<i>Owners personal use</i>	66.70				33.30		<b>100</b>
<i>Other</i>	36.10	2.80		13.90	30.60	16.70	<b>100</b>

Table 5.13 indicates that entrepreneurs who apply for a start-up loan use 76.9% of it to buy or to rent buildings; 50% is used to buy other infrastructure; 40.5% is used to buy equipment; and 40% is used to buy stock. The data in this table also shows that entrepreneurs who apply for bridging finance use at least 66.7% for their own personal use and 36.1% for reasons other than that of business. For entrepreneurs who apply for a micro loan, most of the loan amount (19.2%) goes to salaries and only 9.1% is used to buy stock. Entrepreneurs who apply for Initite loan use it mostly (16.7%) to buy other infrastructure of a business and only 2.4% for equipment.

Table 5.13 shows that the majority of SMMEs apply for start-up loans and bridging loans. But when comparing the utilisation of these two loans, it is clear that entrepreneurs who apply for a start-up loans use most of it for business purposes, while the entrepreneurs who apply for bridging finances use most of it for their own personal use. The majority of the respondents who applied for a bridging loan indicated that they had projects; some said they had obtained tenders and that they only needed a loan to pay the expenses and to buy equipment while they were still waiting for the project money.

The results in Table 5.13 clearly shows that the FDC should focus more on the entrepreneurs who apply for a start-up loan. These entrepreneurs have no start-up capital and they are not waiting for any funds from anywhere. Therefore their hope is only on the FDC to finance their businesses so they can develop and grow.

It has been shown in Table 5.13 as to what type of financial assistance the entrepreneurs mostly apply for and how these entrepreneurs utilised this loan. The next section discusses the impact of financial and non-financial support to SMMEs in the Free State. This section also makes use of a table to show how the businesses were impacted after they had received finance from the FDC.

### **5.7.2 The impact of financial support**

This section provides an overview of impact of financial and non-financial support on the SMMEs. In order to identify the impact of financial and non-financial support, the respondents were asked to rate their businesses in terms of 16 criteria before receiving finance and after receiving finance from the FDC. Table 5.14 provides an overview of these ratings and the gap between the pre- and post-finance ratings.

**Table 5.14: An assessment of respondents' rating of pre-and post-finance and the gap between these**

<i>Criteria</i>	<i>Pre-Finance</i>	<i>Post-Finance</i>	<i>The Gap</i>
<b>Employee numbers in business</b>	3.60	6.42	2.81
<b>Monthly turnover (rating out of ten)</b>	3.18	5.15	1.97
<b>Monthly profit</b>	2.80	4.71	1.91
<b>Asset value</b>	3.34	6.71	3.37
<b>Technical ability of employees</b>	4.12	7.08	2.96
<b>The appropriateness of a business plan</b>	4.44	7.44	2.99
<b>Size of business premises</b>	3.65	6.58	2.93
<b>Range of goods and services</b>	3.92	6.71	2.79
<b>Adequate equipment</b>	3.88	7.28	3.40
<b>The quality of financial management skills</b>	4.26	6.90	2.64
<b>The quality of the bookkeeping system</b>	4.18	7.08	2.90
<b>The skills to do cost accounting</b>	4.05	6.53	2.48
<b>General management skills</b>	4.60	7.68	3.08
<b>Accessing local markets ( Free State-based)</b>	3.82	6.28	2.46
<b>Accessing national markets (SA)</b>	2.72	4.58	1.86
<b>Accessing international markets</b>	1.96	3.81	1.85
<b>Average</b>	<b>3.65</b>	<b>6.30</b>	<b>2.65</b>

From Table 5.14, it seems as if four distinct comments should be made. Firstly, all the indicators showed an improvement as a result of the finance these enterprises obtained from the FDC. Secondly, the two biggest improvements were recorded for asset value and equipment, which suggests that the FDC finance in general provided better equipment. Thirdly, and ironically, the lowest levels of improvement were recorded for national and international markets. These last two comments suggest that the FDC business support programme is largely supply-driven – namely providing finance for equipment and assets and less likely to assist in opening markets. Fourthly, it should also be mentioned that significant improvements were recorded in respect of management and business systems skills (e.g. bookkeeping). Although FDC is still largely in a supply-driven, this has probably been assisted by the pre-finance support to SMMEs.

### **5.7.3 The impact of non-financial support**

From Table 5.14, it is also follows that the FDC did not only provide finance to SMMEs, they also provided non-financial business support, even though most of their non-financial support was outsourced. Some of these outsourced services are of a poor quality; for example, business plans that are of a poor quality or those that are duplicated. The non-financial business support was also provided in the form of training and coaching (after-care service). These two were of a poor quality. Either the FDC consultants visited the entrepreneurs once or they never went at all. There is evidence that the training provided entrepreneurs with improved skills. For example, after the entrepreneurs had received training from the FDC, they reported improvements in their management skills (30.1% improvement), in their cost accounting skills (248%), as well as in their financial management skills (26.6%) (see Table 5.9 above). Though the FDC outsources their business support, there has at least been a change in the SMMEs that have been supported by them. To confirm this statement 67.1% of the respondents said that, though it is on a limited scale, the FDC informed them of the new opportunities that were available. These included workshops, seminars and exhibitions, to mention but a few. This implies that the FDC favours a supply side approach more than a demand side approach.

## **5.8 CONCLUSION**

The analyses in this chapter reveal that entrepreneurs that were financed by the FDC have varying opinions. However, what stands out in this chapter is that small enterprises improved after receiving finance from the FDC. For example, they were able to buy equipment and assets; their business management skills improved, as did their financial management skills. Another key reflection of this chapter is that the FDC has not been able to open markets to SMMEs. Small enterprises are still struggling to access markets - be they local, national or international. From a different perspective, the chapter shows that the majority of well-performing and well-established enterprises have easy access to information from the FDC; their loan applications are approved more quickly, and they access markets better than do the start-up enterprises and the profitable enterprises. This development is an indication that the FDC has not made such substantial contributions to the development of start-up enterprises and profitable enterprises as it has with the well-established enterprises.

From a policy perspective, it should be noted that there is a need for the promotion and development of SMMEs in the country, and in particular, in the Free State Province. Promotion and development will result in more small businesses becoming sustainable, and ultimately being able to contribute to the economy of the country, as well as to poverty reduction and job creation. This will require the FDC to expand its non-financial support. The expansion of non-financial support should be coupled with awareness about new information and opportunities. To summarise the findings in this chapter, Table 5.15 profiles some of its key points for the purpose of comparison.

**Table 5.15: A comparison of positive and negative aspects of the respondents about financial and non-financial business support of the FDC.**

<b>Positive aspects: <i>Financial support</i></b>	<b>Negative aspects: <i>Financial support</i></b>
The majority of respondents indicated that there is enough financial support available to them	About 69% of the respondents said that there are sufficient funds, but people are not informed
Some respondents said that there is increasing access to finance	Some said that though financial access is increasing, it is still difficult to access it
Financial support assisted some entrepreneurs in buying equipment and other business assets	Some respondents said that the money was inadequate and they could not buy vehicles to transport their goods
<b>Positive aspects: <i>Non-financial support</i></b>	<b>Negative aspects: <i>Non-financial support</i></b>
Respondents indicated that the FDC consultants have good communication skills; they are friendly, patient and polite	General after-care services need to be reviewed and improved
With regard to turnaround time, some entrepreneurs waited for about three weeks for their loan applications to be approved	Turnaround time for loan approval still needs to be considered, especially for start-ups and profitable enterprises
During mentoring respondents said that the FDC assisted them with the loopholes in their business plans	Mentorship is available, but to very few individuals

## **CHAPTER SIX: CONCLUSION AND RECOMMENDATIONS**

### **6.1 INTRODUCTION**

Business support has had serious shortcomings in the Free State since the early 1990s. The main purpose of the study was to evaluate the business support services with regard to developing SMMEs in the Free State Province. This has been achieved through identifying the paradigm shift of business support in developed and developing countries. Essentially, the paradigm shift entailed a shift from a government-led approach to a more private sector and responsive approach. This included changes such as sustainability of provision; cost of services; a change to a client-based approach; a change in gender and poverty impact approach; a change in the services provided to the SME, as well as the identification of the new concept of making markets work for the poor. The paradigm shift was followed by an evaluation of the SMME policy and the policy approach to business support in South Africa. The study further compared the overall approach to business support of the five business support programmes in the Free State Province. Against this background, this chapter begins by providing a summary of the main findings of the study. This is followed by an overview of the recommendations of the study, a proposal for future research, and also an indication of the limitations of the study.

### **6.2 SUMMARY AND MAIN FINDINGS OF THE STUDY**

A number of the key findings made in this study are outlined as follows:

6.2.1 The world-wide shifts in business support programmes have not always filtered through to South Africa

In Chapter Two a paradigm shift in business support in developed and developing countries was presented. This shift was brought about by the inability of the old approach to develop SMEs effectively in that the business support was mainly supply-driven. The shift brought about the seven changes to business support which was discussed in more depth in Chapter Two. With the dawn of the post-apartheid era, the challenge was to ensure that a larger percentage of SMMEs from previously disadvantaged communities had access to the formal economy. Therefore policies were largely designed to address the equity issues related to SMMEs. The inherent approach of policy and practice was thus on the supply side (training, finance, supplying business plans) and not on the demand side (market access). Consequently, not all the lessons from the international experience were incorporated.

### 6.2.2 The SMME policy and practice have had limited success

Chapter Three gave a critical evaluation of the 1995 and 2005 South African SMME policy, which is interrelated with international policy development. In this chapter the SMME policy and its impact on small enterprises was presented. The government established business support programmes to develop SMMEs and to address poverty in the country. However, the outcomes of most programmes seem to be limited and in many cases not measurable due to the absence of appropriate M&E systems. Effectively only one of the programmes assessed in this thesis namely BESD had an appropriate M&E system in place. It is therefore extremely difficult to assess the outcomes of programmes and compare the results of different approaches.

### 6.2.3 Private sector providers have not always provided effective services

The paradigm shift in Chapter Two suggested that the state should make place for an effective private sector business support programme. To a large degree this international trend was followed in South Africa (UYF and Seda). However, the preliminary evidence from this study suggests that the services provided by this sector have not always been effective. In fact, it can be argued that the private sector was as supply-driven as the state-initiated processes. It stands to reason that the crucial question is whether the state would have provided a better service.

### 6.2.4 Most of the business support programmes in the Free State are more supply-driven than demand-driven

In Chapter Four, the focus shifted from policy evaluation to an assessment and comparison of business support programmes with regard to the support and development of SMMEs in the Free State. This chapter argues that four out of five business support programmes that are involved in this study outsource their services to other organisations (sometimes private sector firms). Most of their services are subsidised and they are mostly supply-driven. Moreover, these business support programmes seldom expose SMMEs to markets; they mainly finance and provide SMMEs with resources, training and materials to grow their businesses.

### 6.2.5 FDC business support and financial support struggled to open new markets

In Chapter Five, the FDC was analysed as a case study. The entrepreneurs who were financed by the FDC between 2001 and 2008 were interviewed. This chapter provided an analysis of the findings

with regard to the FDC. It was found that the FDC is more supply-driven than demand-driven. As a result, it is difficult for the entrepreneurs that are financed by the FDC to access markets. The FDC trained these entrepreneurs and financed them to be able to buy equipment, stock and to expand their businesses; however, the challenge was to be exposed to markets and to get the business support programmes to assess the market side of enterprises. Even though an FDC management representative indicated that the FDC does expose the entrepreneurs to exhibitions, seminar and workshops, the findings indicate that the FDC may be doing this, but on a limited scale.

#### 6.2.6 The FDC is failing regarding integrating financial support and business support

Chapter Three discussed the government's separation of Ntsika and Khula (financial and non-financial support). This was to ensure that business support programmes give their full attention to advisory assistance for SMMEs, the dissemination of best practice, and the encouragement of partnerships between SMMEs and the government. In 2006, the FDC came up with mandate to combine the two (financial and non-financial support), which was in conflict with the South African SMME policy guideline. However, the FDC failed in combining financial and non-financial support. The FDC failed to concurrently provide finance and full non-financial business support to these entrepreneurs. Instead, the FDC would outsource these services and not even give after-care to ensure that the entrepreneurs are being supported, mentored and coached.

#### 6.2.7 Enterprises with low profit are not satisfied with the FDC non-financial business support services

The findings show that the FDC mainly focus their attention on well-established and well-performing enterprises rather than the enterprises that are making a low profit. The well-established enterprises get first-hand information from the FDC; the feedback is communicated very well to them by the consultants; and their loan application takes two to three weeks to be approved. While at the same time enterprises that are making a low profit or start-up enterprises receive a negative treatment. These enterprises even rated the FDC's communication to be very low during the loan application process.

The enterprises also rated the mentorship programme very low. The low-profit making enterprises are not getting mentorship from the FDC even though they are financed by the FDC. Rather, some consultants from other business support institutions (Seda and UYF) are the ones who visit entrepreneurs at their business premises to coach and mentor them. This clearly indicates that the FDC focuses their attention on financial support rather than non-financial business support.

### **6.3 RECOMMENDATIONS OF THE STUDY**

The aim of this section is to put forward recommendations for the policy formulation that can be adopted to improve the business support programmes in the Free State.

6.3.1 There is a need to learn more directly from the international paradigms and practice South Africa, and in particular the Free State Province, has not always followed international policy and practice in respect of the business support services to SMMEs. Business support programmes need to learn more from the international paradigms and apply the relevant practices of business support services (such as how to properly and effectively provide non-financial support, what are the strategies to follow and what are the rules and regulations in this regard) in order to develop and promote SMMEs in the Free State.

6.3.2 There is a need to learn more directly from the international paradigms and practice in order to review the SMME policy and make it focus mainly on a more demand-driven approach. Though it is recommended that SMME policy should focus on a more demand-driven approach, considering the background of this country (South Africa), it is not surprising that business support has been supply-driven. For example, according to the findings in Chapter Five, the majority of entrepreneurs in the Free State have no managerial skills and other business related skills; as a result, it is not easy for business support programmes to be demand-driven (open markets for SMMEs) before providing business related training and assisting in developing business plans. However, the time has of being supply-driven has past; instead, business support programmes should now try to be more demand-driven. This could only be achieved if the SMME policy could focus its attention (in opening markets for SMMEs) to become more demand-driven.

### 6.3.3 Private sector providers should provide effective services to SMMEs

This study suggests that the services provided by the private sector have not always been effective. For example, the training and mentorship programme to SMMEs' are of poor quality. If the government could provide rules or guidelines as to what is expected of the private sector in terms of training and mentoring SMMEs, or any other programme that could help support and develop SMMEs, this could improve the services that the private sector provide to SMMEs.

### 6.3.4 There is a need for the FDC to expose SMMEs to markets

Firstly, the FDC outsources most of its services; it only provides finance and business support on a limited scale to SMMEs. The best thing that the FDC can do is to introduce SMMEs to larger businesses so that the SMMEs can supply these larger businesses with their products and services, while the larger enterprise could directly coach and mentor the small enterprise. For example, the FDC could link Builders Market with a small enterprise that is producing windows in the Free State and Builders Markets could act as a mentor to the entrepreneur of that small business. The FDC can also expose SMMEs to seminars and exhibitions in order to introduce them to local, national and international markets.

### 6.3.5 There should be monitoring and evaluation systems available to document the quality of the service delivery to SMMEs in order to ensure compliance with the international standards

Business support programmes should at least record all the training, mentoring and coaching that they provide to SMMEs. Business support programmes should also record the successes and failures of the SMMEs in the Free State, and the reasons why the SMMEs are succeeding or failing. Some of the reasons why enterprises fail - as indicated in Chapter Five - is that entrepreneurs lack managerial skills and business skills. Some of them do not know how to write a business plan. Business support programmes should provide training to entrepreneurs before assisting them financially (in the case of those who do not possess the skills). Business support programmes should then mentor and coach entrepreneurs for a period of at least two years after assisting them financially. This will reduce the failure rate and increase the sustainability of enterprises. Moreover, at the end of every financial year, the business support programme should then write a report and submit to the government. The report should include the following:

- It should provide feedback on how business support programmes mentored, coached and trained SMMEs. The reason is consequently in training and mentoring quality.
- It should include a number of enterprises that had a turnover higher than the previous year.
- It should include enterprises that made a turnover of less than the previous year and provide the reason(s) for the failure. In this regard, the business support programmes should indicate the weakness of the business and try to fill that gap in the next year.

This report could help to formulate a long-term system of monitoring and evaluation of SMMEs and help to increase the sustainability of SMMEs.

#### 6.3.6 The FDC should be willing to assist all types of enterprises without discrimination

The mandate of the FDC is to assist all people with viable businesses, irrespective of their colour, gender or business status. The findings show that the FDC cater more for male (67.7%) entrepreneurs than (32.3%) female entrepreneurs. The majority of the SMMEs that the FDC have assisted so far are in urban areas, and most of these SMMEs are well-established enterprises. Those enterprises that make a low profit seem to be dissatisfied with the services of the FDC. This conclusion is derived from the previous discussion on the quality of communication. It could be that well-established and well performing enterprises are more educated and highly skilled than the start-ups; as a result, they submit necessary documents on time and also are more informed than start-up enterprises. In this regard, the availability of some business experience (as already indicated that well-performing enterprises are highly skilled than start-ups) also supports their ability to learn from business support institutions. However, it is of importance that the FDC does not discriminate when supporting SMMEs. The FDC should treat all SMMEs equally by giving them relevant and necessary information. The FDC could also include entrepreneurs with disabilities in their mandate in order to have a balance and to address the needs of all previously disadvantaged individuals.

#### 6.3.7 The FDC should provide feedback to SMMEs

With regard to feedback, it was indicated in the findings that some of the FDC consultants always refer applicants (respondents) to other consultants. The respondents also indicated that they sometimes struggle to get hold of the consultants. It should be noted that consistency plays a vital role in every organisation. Therefore, there should be a consistency in the way in which the consultants of the FDC work with entrepreneurs. For example, if the FDC could sign a contract of at

least two years minimum with the consultants, a client (entrepreneur) could be assigned to one consultant and work with him/her throughout the loan application process until its approval. An entrepreneur would be able to know who to contact whenever he/she needs to make a query. As a result, this could reduce the rate of poor feedback to SMMEs, and the dissatisfaction of the SMMEs. It could instead improve the FDC service provision and service delivery to SMMEs.

#### 6.3.8 The FDC should stick to their time frame with regard to turnaround time for loan approval

By signing a two year contract with the consultants, the FDC could also improve its services in respect of the turnaround time for loan approvals. If entrepreneurs wait for a longer period for their loan applications to be approved, they cannot start their businesses. Moreover, if they wait longer, they are not able to fill the gap in the market, and therefore die in an early stage of their existence. The findings shows that the FDC does not consider a non-financial business support in terms of developing SMMEs; instead, the FDC mostly provide financial support to SMMEs and then expect SMMEs to repay the loan amount without even providing aftercare.

The FDC could play a more profound role in generating networks for the SMMEs. Through networks, the FDC could find donors and business partners (especially larger businesses, be they national or international). The FDC could act as a link between the two parties. The FDC could link an entrepreneur with a larger business relevant to the entrepreneurs' business and these larger businesses could act as direct coaches and mentors to entrepreneurs.

#### 6.3.9 The FDC should partake in the writing of the SMMEs' business plans

The findings in Chapter Five indicated that the FDC does not take responsibility for the success or failure of business plans. When the business plan succeeds, the FDC deduct the money paid to the private consultants from the loan amount. For example, if the FDC paid 10% to the private sector, the FDC then deduct that 10% from the loan amount of the entrepreneur and give only 90% to the entrepreneur. It is clear that the FDC loose the money if the business plan fails. For the benefit of both the entrepreneur and the FDC, the FDC should provide a business plan format as indicated in Chapter Four, and be (the FDC consultant and an entrepreneur) involve in the process of writing a business plan. In that way, it is reduces the risk that a business plan will fail, and in the long run, the FDC will have no need to outsource this service as the consultants will have gained experience of

writing business plans. Consultants also need to get more skills training, not only in drawing up business plans, but in general how to mentor and help entrepreneurs in running their businesses more successfully.

#### 6.3.10 The FDC should categorise their enterprises

The FDC should also categorise the enterprises according to their different needs. The FDC should have known the number of SMMEs who apply for different types of loans in their organisation, as well as how the SMMEs use the loan amount (See Table 5.13 on page 81 above). This table indicates that the majority of SMMEs apply for a start-up capital (76.9%) and that they use the loan amount to buy, for example, buildings, equipment and stock. The FDC should at least categorise these SMMEs and then train, coach and mentor them according to the needs of each category.

The findings of the study clearly indicate that more still needs to be done in the Free State in respect of business support services to SMMEs. Even though recommendations have been made in this study, the dilemma is that there is a need for development of the SMME policy to encourage the empowerment of the entrepreneurs and the development of the SMMEs in the Free State. As far as the literature is concerned, business support programmes have not been adhering to the SMME policy on empowering SMMEs in the Free State.

### **6.4 VALUE OF THE RESEARCH**

The value of the research can be expressed in terms of the following three aspects: Firstly, the study has provided a thorough international overview of trends in business support services and has contrasted the South African case with this international overview. This in itself has major value for comparative research and has been identified as a key recommendation from this study. Secondly, despite the noble intent to provide business support services to entrepreneurs who were excluded from mainstream business support programmes, the shortcomings highlighted by this study is the limited focus on the market-side of these enterprises. This study specifically showed the dilemmas in this regard. Thirdly, from a provincial point of view the study compared five business support programmes. The value of the findings might well be considered in terms of future provincial planning documents and policy.

## **6.5 FUTURE RESEARCH POSSIBILITIES**

This section identifies the future research opportunities that can further improve business support programmes in South Africa. In this research five areas emerged as key limitations to the advancement of business support services in the Free State. Firstly, although the study was conducted in the Free State, there seemed to be a challenge with regard to business support services to SMMEs in South Africa as a whole. Secondly, the study focused only on the SMMEs that were financed by the FDC. For future research, there is a need to include all SMMEs in the Free State, also those that are financed and supported by the five business support programmes that were involved in this study. Thirdly, not all the SMMEs in the Free State are financed by business support programmes in the Free State. Some enterprises were financed by the business support programmes outside Free State and these business support programmes were not included in this study. Therefore, business support programmes in other provinces that contributed to the development and promotions of SMMEs in the Free State should also be considered for future research. Fourthly, the gender impact such as the role of women entrepreneurs and the challenges they face in starting and running a business, and lastly, for future research the impact of business support programmes in supporting and developing women entrepreneurs should also be considered.

**Table 6.1: The relationship of the main findings of the study and the recommendations**

<i>Main findings</i>	<i>Chapter reference</i>	<i>Recommendations</i>
The world-wide shift in business support programmes has not always filtered to South Africa.	One and Two	There is a need to learn more directly from international paradigms and practice.
The SMME policy and practice have had limited success	Three	There is a need to learn more directly from international paradigms and practice in order to review the SMME policy and make it focus mainly in a more demand-driven approach.
Private sector providers have not always provided effective services.	Four and Five	<ul style="list-style-type: none"> <li>• Private sector providers should provide effective services to SMMEs</li> <li>• There should be monitoring and evaluation systems available to document the quality of the service delivery to SMMEs in order to ensure compliance with the international standards.</li> <li>• The FDC should also devote their time to improving their services, especially with regard to turnaround time for loan approvals</li> </ul>
Most of the business support programmes in the Free State are more supply driven than demand driven	Five	Business support programmes in the Free State should have a mandate that encourages a balance between supply and demand approaches.
FDC business support and financial support struggled to open new markets	Three, Four and Five	There is a need to learn more directly from international paradigms and practice in order to review the SMME policy and make it focus mainly on a more demand driven approach.
The FDC is failing in terms of integrating financial support and business support.	Three and Five	
Enterprises with low profit are not satisfied with the FDC non-financial business support services	Four and Five	The FDC should be willing to assist all types of enterprises without discrimination
	Five	The FDC should provide feedback to SMMEs
	Five	The FDC should stick to their time frame with regard to turnaround time for loan approval
	Four and Five	The FDC should partake in writing of the SMMEs' business plans

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## ABSTRACT

In the past twenty years there has been major change in the way business support services are rendered in the global economy. These shifts have brought new insights into the process of business support services. Six main changes in the approach to business support were identified. First, permanent government or donor funding was replaced by a mere start-up funding approach in order to provide sustainable business support services. Second, a larger range of market-driven and market-priced services that were delivered at a quality/price mix determined by end-users replaced the high costs of a limited range of services that used to be subsidised. Third, historically, literature shows that government and donors could not reach all small business but a limited number, and therefore a targeted client approach was introduced in order for the government and donors to reach them effectively. This paradigm shift was intended to place an emphasis on service providers in the private-sector. Fourth, the emphasis on the impact of poverty changed from one of short-term benefits to one of long-term benefits to providers and clients, indirectly benefiting the poor through job creation. Next, the mainly male clientele was replaced by small-enterprise owners which included females. Finally, there was a significant shift towards being demand-driven in respect of the needs of enterprises. This meant both that the range of services was expanded and that they were mostly delivered on a cost-recovery basis. It is against this background that South African Small Micro and Medium Enterprise (SMME) policy aims to address the issues of SMME support and development in the country.

SMMEs in South Africa were operating in the era of the apartheid regime but were not given enough support and were not a priority. Before democratic transition, the South African government was mainly giving attention to large businesses as well as state-owned enterprises. It was only in the late 1970s and the early 1980s that the South African government realised the importance of the small enterprise sector and its contribution to the country's economy. The democratic regime of the early 1990s gave SMMEs an opportunity to participate in the South African economy. A White Paper of 1995 came up with the strategy to promote and develop SMMEs in South Africa and to design an SMME policy framework that will focus its attention on supporting and developing SMMEs. The aim was to enable SMMEs to grow as a way of creating a balance in the economy (away from state-

owned and large enterprises) As a result, different support mechanisms have been implemented to support and develop SMMEs in the country since the democratic government took over in 1994.

The study focused primarily in the Free State Province, aiming to identify how the SMME policy intends to address the issues of supporting and developing SMMEs, and how the business support programmes assist in supporting and developing SMMEs in the province.

Some of the empirical findings suggest that the world-wide shifts in business support programmes have not always filtered through to South Africa. Therefore policies were largely designed to address the equity issues related to SMMEs. The inherent approach of policy and practice was thus on the supply side and not on the demand side. Consequently, not all the lessons from the international experience were incorporated. In addition, the SMME policy and practice have had limited success and in many cases not measurable due to the absence of appropriate M&E systems.

In conclusion, the study recommend that there is a need for business support programmes to learn more directly from the international paradigms and practice and apply the relevant practices of business support services in order to develop and promote SMMEs in the Free State and in the process review the SMME policy and make it focus mainly on the demand-driven approach. Moreover, the study recommends that there should be M&E systems available to document the quality of the service delivery to SMMEs in order to ensure compliance with the international standards.

**Key words: SMMEs, entrepreneurs, business support services, business support programmes, supply driven approach, demand-driven approach, financial support and non-financial support.**

## UITTREKSEL

Gedurende die afgelope twintig jaar was daar belangrike veranderinge in die manier waarop sakeondersteuningsdienste in die internasionale ekonomie gelewer is. Hierdie verskuiwings het nuwe insigte in die proses van sakeondersteuningsdienste gebring. Ses hoofveranderinge in die benadering tot sakeondersteuning is geïdentifiseer. Eerstens, is permanente regerings- of skenkersbefondsing vervang deur 'n bloot beginbenadering tot befondsing om volhoubare sakeondersteuningsdienste te lewer. Tweedens, het 'n wye reeks markgedrewe en markgeprysde dienste, wat gelewer is teen 'n gehalte/prysmengsel wat deur eindgebruikers gelewer en bepaal is, die hoë koste van 'n beperkte reeks dienste wat gewoonlik gesubsidieer is, vervang. Derdens, toon geskiedkundige literatuur dat die owerheid en skenkers nie alle klein ondernemings nie, maar slegs 'n beperkte aantal kon bereik. 'n Geteikende kliëntbenadering is dus gevolg ten einde die owerheid en skenkers in staat te stel om die ondernemings doeltreffend te bereik. Hierdie paradigmaskuif was om 'n klem te plaas op diensverskaffers in die privaatsektor. In die vierde plek het die klem van armoede se impak vanaf korttermynvoordele na langtermynvoordele vir verskaffers en kliënte verander, wat weens werkverskaffing indirek tot voordeel van die armes is. Verder is die hoofsaaklik manlike kliënte vervang deur kleinondernemingseienaars, insluitend vrouens. In die laaste plek was daar 'n betekenisvolle skuif na vraaggedreweheid ten opsigte van ondernemings se behoeftes. Die gevolg was dat die reeks dienste uitgebrei en meestal op 'n kostevervangingsbasis gelewer is. Teen hierdie agtergrond poog die Suid-Afrikaanse klein medium en makro-ondernemingsbeleid (KMMO) om die kwessies van KMMO-ondersteuning en -ontwikkeling in die land aan te spreek.

KMMO's het gedurende die apartheidsbewind in Suid-Afrika funksioneer, maar dit het nie voldoende ondersteuning en prioriteit geniet nie. Voor die demokratiese veranderinge het die Suid-Afrikaanse regering hoofsaaklik aandag aan groot ondernemings en staatsondernemings geskenk. Die Suid-Afrikaanse regering het eers in die laat 1970's en vroeë 1980's die belangrikheid van die kleinsakesektor en sy bydraes tot die land se ekonomie besef. Die demokratiese bewind van die vroeë 1990's het aan KMMO's geleenthede gegee om aan die Suid-Afrikaanse ekonomie deel te neem. In 1995 het 'n witskrif verskyn met die strategie om KMMO's in Suid-Afrika te bevorder en te ontwikkel, en om 'n KMMO-beleid in Suid-Afrika te ontwerp om die fokus en aandag op die ondersteuning en ontwikkeling van KMMO's te vestig. Die doel was om KMMO's te ontwikkel as 'n

manier om groei en balans in die ekonomie te skep (weg van ondernemings wat aan die owerheid behoort en groot ondernemings). Die gevolg was dat verskillende ondersteuningsmeganismes geïmplementeer is om KMMO's in die land te ondersteun en te ontwikkel, sedert die demokratiese regering in 1994 in werking getree het.

Die studie het hoofsaaklik op die Vrystaatprovinsie gefokus, met die doel om te identifiseer hoe die KMMO-beleid beoog om die kwessies van ondersteuning en ontwikkeling van die KMMO's aan te spreek en hoe die sakeondersteuningsprogramme die KMMO's in die provinsie kan ontwikkel en ondersteun.

Sommige van die empiriese bevindings het daarop gedui dat die wêreldwye verskuiwing in sakeondersteuningsprogramme nie altyd na Suid-Afrika deurgevloei het nie. Beleide is derhalwe grootliks ontwerp om die gelykberegtigingskwessies aan te spreek wat met KMMO's verband hou. Die inherente benadering van beleid en praktyk was dus aan die aanbodkant en nie aan die vraagkant nie. As gevolg hiervan is nie al die lesse uit die internasionale ervaring ingesluit nie. Verder het die KMMO-beleid en -praktyk beperkte sukses gehad en in baie gevalle was dit nie meetbaar nie, weens die afwesigheid van toepaslike M&E stelsels.

Om op te som, beveel die studie aan dat daar 'n behoefte bestaan aan sakeondersteuningsprogramme om direk meer uit die internasionale paradigmas en praktyke te leer en om die toepaslike sakeondersteuningspraktyke toe te pas ten einde KMMO's in die Vrystaat te ontwikkel en in die proses die KMMO-beleid in oënskou te neem en dit hoofsaaklik te laat fokus op die vraagedrewe benadering. Die studie beveel verder aan dat daar M&E stelsels beskikbaar sal wees om die gehalte van dienslewering aan KMMO's te dokumenteer en te verseker dat in ooreenstemming met internasionale standaarde is.

# ANEXTURE A: AN EVALUATION OF BUSINESS SUPPORT SERVICES TO SMMES IN THE FREE STATE

## QUESTIONNAIRE TO SMMES

	University of the Free State Tel: (051) 401 2286	PROJECT: FDC M&E QUESTIONNAIRE	2008										
<p><b>a. BUSINESS NAME:</b>                  .....</p> <p>.....</p> <p>.....</p> <p><b>b. INTERVIEW CONDUCTED WITH:</b>                  .....</p> <p>.....</p> <p><b>c. GENDER OF INTERVIEWEE:</b> .....</p> <p><b>d. HIGHEST QUALIFICATION:</b> .....</p> <p><b>e. AGE:</b> .....</p> <p><b>f. POSITION IN THE BUSINESS:</b>                  .....</p> <p>.....</p> <p><b>g. STREET:</b>                  .....</p> <p><b>h. SUBURB:</b>                  .....</p> <p><b>i. MUNICIPAL AREA:</b>                  .....</p> <p><b>j. TOWN:</b>                  .....</p> <p><b>k. POSTAL CODE:</b> .....</p>	<p><b>h. PHONE: (DAYTIME) (.....)</b>                  .....</p> <p><b>j. CELL NUMBER:</b>                  (.....).....</p> <p><b>k. YEAR IN WHICH ENTERPRISE WAS ESTABLISHED?</b> .....</p> <p><b>l. YEAR IN WHICH ENTERPRISE WAS FINANCED:</b> .....</p> <p><b>m. AMOUNT OF FINANCE FROM FDC:</b>                  .....</p> <p><b>n. SECTOR / INDUSTRY:</b>                  .....</p> <p><b>o. LEGAL STATUS OF BUSINESS:</b>                  .....</p> <p><b>p. CURRENT STATUS OF BUSINESS (only one):</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 5px;">Highly profitable</td> <td style="width: 50px;"></td> </tr> <tr> <td style="padding: 5px;">Profitable</td> <td></td> </tr> <tr> <td style="padding: 5px;">Breaking even</td> <td></td> </tr> <tr> <td style="padding: 5px;">Making a loss but will eventually turn it into a profitable business</td> <td></td> </tr> <tr> <td style="padding: 5px;">Making a loss – I have no hope</td> <td></td> </tr> <tr> <td style="padding: 5px;">Start-up (to early to say)</td> <td></td> </tr> </table> <p><b>PAYMENT RECORD FROM FDC:</b> .....</p>	Highly profitable		Profitable		Breaking even		Making a loss but will eventually turn it into a profitable business		Making a loss – I have no hope		Start-up (to early to say)	
Highly profitable													
Profitable													
Breaking even													
Making a loss but will eventually turn it into a profitable business													
Making a loss – I have no hope													
Start-up (to early to say)													

**q. Type of financial assistance:**

Bridging finance	1	Micro	4
Initiate	2	Start-up	5
Equity investments	3	Other (specify)	6

**1. Pre-finance information (questions in this section only to be asked once to interviewees)**

1.1 Rate the status of your enterprise, according to your perception, **before** receiving finance from FDC? *(10 represents the ideal and 1 represents very low)*

Criteria	1	2	3	4	5	6	7	8	9	10	n.a
1. Employee numbers in your business											
2. Monthly turnover											
3. Your monthly profit											
4. Asset value											
5. Technical ability of employees											
6. The appropriateness of your business plan											
7. Size of business premises											
8. Range of goods and services											
9. Adequate equipment											
10. The quality of your financial management skills											
11. The quality of the bookkeeping systems											
12. The skills to do cost accounting											
13. General management skills											
14. In accessing local markets (Free State-based)											
15. In accessing national markets (SA)											
16. In accessing international markets											

**n.a = not applicable**

1.2 Indicate the number of employees you had prior to be financed by the FDC

1.3 Rate the quality of the services you received from FDC during the application process? **(10 represents the ideal and 1 represents very low)**

Criteria	1	2	3	4	5	6	7	8	9	10	n.a
1. The professionalism of the person/persons who handled your application											
<b>Give a reason for your answer:</b>											
2. The FDC turnaround time for approval											
<b>Give a reason for your answer:</b>											
3. The quality of the communication by the FDC during the application process											
<b>Give a reason for your answer:</b>											
4. The degree to which the application process assisted you to develop a business plan											
<b>Give a reason for your answer:</b>											

## 2. Post-finance information

2.1 Rate the status of your enterprise, according to your perception, **at the moment?** **(10 represents the ideal and 1 represents very low)**

Criteria	1	2	3	4	5	6	7	8	9	10	n.a
1. Employee numbers in your business											
2. Monthly turnover											
3. Your monthly profit											
4. Asset value											
5. Technical ability of employees											
6. The appropriateness of your business plan											
7. Size of business premises											
8. Range of goods and services											
9. Adequate equipment											
10. The quality of your financial management skills											
11. The quality of the bookkeeping systems											
12. The skills to do cost accounting											
13. General management skills											
14. In accessing local markets (Free State-based)											
15. In accessing national markets (SA)											
16. In accessing international markets											

2.2 Indicate your current number of employees:

2.3 Rate the quality of the after-service you received after receiving the loan from the FDC? *(10 represents the ideal and 1 represents very low)*

Criteria												n.a
1. The quality of the general after-care programme (non-financial assistance)	1	2	3	4	5	6	7	8	9	10		
<b>Give a reason for your answer:</b>												
2. The quality of a mentorship programme to help make your business sustainable	1	2	3	4	5	6	7	8	9	10		
<b>Give a reason for your answer:</b>												
3. The quality of any skills training programme you received	1	2	3	4	5	6	7	8	9	10		
<b>Give a reason for your answer:</b>												
4. Communication after receiving your loan amount	1	2	3	4	5	6	7	8	9	10		
<b>Give a reason for your answer:</b>												
5. An interest rate that is the same as that of your calculations in your business plan.	1	2	3	4	5	6	7	8	9	10		
<b>Give a reason for your answer:</b>												
6. The way you were treated is in line with the concept of keeping you as a long term customer	1	2	3	4	5	6	7	8	9	10		
<b>Give a reason for your answer:</b>												
7. FDC is an institution that wants to help new and existing entrepreneurs to make a success of their businesses	1	2	3	4	5	6	7	8	9	10		
<b>Give a reason for your answer:</b>												

2.4 What was the loan used for:

Item	Was the loan used for it?	%
Buildings		
Equipment		
Other infrastructure		
Salaries		
Buy stock		
Administrative expenses		
Owner's personal use		
Other: Indicate		

### 3. Current political and economic entrepreneurial environment

3.1 Please rate the current economic and political climate for entrepreneurial businesses in the Free State? *(10 represents the ideal and 1 represents very low)*

Criteria	1	2	3	4	5	6	7	8	9	10	n.a
1. The Government is doing enough to help entrepreneurial businesses in the Free State	1	2	3	4	5	6	7	8	9	10	
<b>Give a reason for your answer:</b>											
2. Enough financial support is available to establish an entrepreneurial business in the Free State	1	2	3	4	5	6	7	8	9	10	
<b>Give a reason for your answer:</b>											
3. There are too many legislations that are barriers to start an entrepreneurial business	1	2	3	4	5	6	7	8	9	10	
<b>Give a reason for your answer:</b>											
4. There are too many policies that are barriers for entrepreneurial businesses to start doing business	1	2	3	4	5	6	7	8	9	10	
<b>Give a reason for your answer:</b>											
5. Rate the current economic climate	1	2	3	4	5	6	7	8	9	10	
<b>Give a reason for your answer:</b>											

3.2. What is your biggest business challenge at the moment?

3.3. What is your biggest business training/coaching/mentoring need?

3.4. What is your biggest financial need?

**THANK YOU**

## **QUESTIONNAIRE REGARDING BUSINESS SUPPORT PROGRAMMES**

### **SECTION A**

#### **1 BIOGRAPHIC AND SOCIO-ECONOMIC INFORMATION**

1.2 Name of the institution:

1.3 Position of the interviewee

1.4 Gender

1.5 Age

1.6 Period of employment in a particular institution

### **SECTION B**

1 Give a historical overview of how the project / institution developed?

2 Give an overview of your approach to business support services. What is the overall philosophy?

Why do you do it?

- explain the inputs to the system (what do you try to do?)
- explain the impact on SMME development

3 I you have vouchers, explain how these vouchers work and why you use vouchers and do not do the work yourself?

If you outsource the services, do the external providers work better than yourselves? Why? Why not?

- Give an overview of the type of vouchers, the cost and the number of take-ups of various vouchers?

4 Do you target specific groups? (Youth, female, men) Why? Why not? What are the challenges of each if they provide service? What percentages of your customers fall into each of these groups?

5 Evaluate the work that service providers do for SMMEs on your behalf? What is positive and what is negative?

6 Evaluate the successes and failures of your approach to business support services? Unpack both positive and negative aspects?

7 What are ethical problems that you experience in the process?

- For example, developing a business plan that cannot work?

8 What is the role of the government in terms of business support to SMMEs? Do you think government's approach is appropriate? Should it be more directive / more involved? Why/ Why not?

9 To what degree does your institution assist in alleviating poverty and how? Do you consider poverty alleviation when you assist enterprises?

10 To what degree does your institution assist female entrepreneurs? Are there specific programmes for female entrepreneurs? Give examples, etc?

11 To what extent does your institution give financial support to SMMEs, and if you do not give financial support, what input do you provide to SMMEs for development purposes?

12 To what degree is your institution demand-driven? How do you ensure that you open markets for SMMEs to sell their inputs?

**THANK YOU!!**