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In a year that heralds several milestones for South Africa, including our hosting of the Fifa Soccer World Cup and the twenty year anniversary of Nelson Mandela's historic release from prison, Seda is pleased to bring you the 2010 edition of the Seda Small Business Monitor.

As with any milestone, the journey to reach it is filled with lessons and achievements. This is true of our journey to create a tool for information sharing in the SMME sector. We are thrilled to note that during the past few years of this publication it has grown to meet a very specific need. It created a platform for sharing of information, best practice and more importantly networking of practitioners, researchers and entrepreneurs within the SMME sector. We are grateful to all the contributions made, both those that were eventually published, and those that were not. The quality of submissions and the issues raised continue to provide us with a sense of the matters the sector is grappling with, as well as an overview of valuable work being carried out all over our country in respect of SMME development.

With a national footprint consisting of 9 Provincial Offices, 42 Branch Offices, 48 Enterprise Information Centres and 29 Technology Incubators countrywide, Seda continues to focus on support initiatives that enable small enterprises to succeed and grow in South Africa.

Seda initiatives facilitate access to finance, support the creation of an enabling environment for small enterprises as well as assist in expanding market opportunities for specific categories of small enterprise.

We also continue to reach out to various areas throughout the country through various partnerships and provision of information on interventions that broadly assist in the development of small enterprises, as well as increasing education and training opportunities for this sector.

Some of the broad themes for the 2010 Small Business Monitor include economic recession and SMMEs, the effects of governance and legislation on SMMEs, social enterprises and entrepreneurs, the legacy of the Fifa Soccer World Cup 2010 for the sector, monitoring and evaluation of small enterprise support programmes as well as mentoring of small enterprises.

I extend my sincere gratitude to all our contributors. This edition of the Small Business Monitor is another significant contribution to the business intelligence necessary to support the growth of small enterprise in South Africa.

Hlonela Lupuwana
CEO
Tembeka Nkamba-van Wyk focuses on countering negative mindsets in the mentoring of SMMEs, Lazarus Modise examines redefining the role of Local Economic Development and municipalities' Integrated Development Programmes and Jan Beeton discusses leadership-driven entrepreneurship. Our article by David Kombanie asks the important question of how SMMEs will sustain themselves after the 2010 Fifa Soccer World Cup.

The case study by Andrew Charman and Leif Petersen focuses on the impact of legislation on SMMEs by illustrating the local economic impact of the closure of shebeens in the Western Cape as a consequence of the new Western Cape Liquor Act, 2008.

With such a wide range of practical research material and editorial views expressed in this issue of the Small Business Monitor, we are confident that the debate and discussion stimulated by these articles will contribute to furthering the growth of the SMME sector and that of its support institutions.

Sekamotho Mthembu
Editor
MENTORING OF SMALL ENTERPRISES - COUNTERING NEGATIVE MINDSETS

By Tembeka Nkamba-Van Wyk and David Christer

There is a dire need in South Africa to provide the appropriate support structure to uplift potential small businesses and entrepreneurs to a level of self-sufficiency and sustainable productivity. The altruistic motivation is required and appreciated but this is not a mission for the faint hearted. The recurring problems and challenges need to be addressed satisfactorily to ensure success. Situations and personalities differ greatly and there is no single panacea that can be applied across the board. Our hands-on experience in this field can however assist in preventing and minimizing the problems, by providing solutions and hopefully add positively to this vital process of empowerment.

Ngezandla Zethu

Ngezandla Zethu (With Our Hands) is an empowerment and training organisation based in Tshwane (Pretoria). Ngezandla Zethu has been involved in various training programmes to empower small businesses and individuals and also assist them to develop their business and management skills.

This article is based on Ngezandla Zethu’s mentorship programme through which 10 entrepreneurial businesses from the creative sector were trained as a result of funding from the National Development Agency (NDA). The entrepreneurs represented the fields of textiles, fashion, beauty therapy and construction. This article also highlights some of the challenges that we encountered when we facilitated the process towards the entrepreneurs’ business self-sufficiency and the lessons learned.

With a sound educational and training background entrepreneurs are able to appreciate and work towards this goal of being self sufficient and can independently source the necessary resources and support groups to make their business venture a success. There are inspiring examples of people from disadvantaged circumstances that have battled against the odds to emerge as successful entrepreneurs. This article is not addressed at these success stories but at those individuals that limit their full potential by adopting negative and hindering mindsets, and how we can make positive interventions to turn this situation around.

By identifying and recognising the implications of these negative mindsets we endeavour to reconstruct attitudes that will enable true empowerment, self sufficiency and success.

The Context

Before discussing these disabling mindsets, it is important to discuss the context that we are working in and that has provided a fertile field for these problems to arise. The first is the legacy of apartheid structures that has undermined the selfworth of the most vulnerable sectors of our society. This sector feels unable to engender a desire to be independent, and looks to the government to solve their basic wants and needs such as housing, health, food security and employment. This situation has been compounded by the existing government’s inability to fulfil their election promises and thus service delivery has become an emotive issue. The enormity of the government’s challenges cannot be underestimated as much still has to be achieved with limited resources.

The challenges are great and the resources are limited, therefore a climate where the responsibility of turning the situation around by relying solely on the government is unworkable. Bureaucratic solutions are fraught with regulations, procedures and delayed payment and by their very nature remain detached from the real issues and challenges at hand. Entrepreneurial mentorship has a vital role to play and can interact more directly with the upliftment process. Thus a partnership between government and the

Tembeka Nkamba-Van Wyk left a senior government position to start her own empowerment organisation "Talking Beads" in 1997 which has trained over 5000 (mainly rural) women in beadwork. Tembeka’s aim was to revive local craft traditions whilst providing work for South African women. In 2000 she won the Shoprite Checkers Woman of the Year (business category). She is passionate about empowerment and is the managing director of Ngezandla Zethu (With Our Hands), which is the training wing of Talking Beads. She serves on several boards and is an accomplished producer, scriptwriter and poet.

David Christer is an architect, interior designer and graphic designer who has worked in the design field in South Africa, Zimbabwe, the UK, the USA and the Middle East. He is passionate about Sustainable Development and the revival of Indigenous Knowledge and has proposed the establishment of a Centre of Appropriate Technology (CATSA) in Pretoria. He is the chairperson of Ngezandla Zethu. He is involved in the upgrading of traditional crafts into design items for Talking Beads, and he is currently establishing a recycling craft centre in Pretoria.
mentors is desirable, whereby the government acts as an enabler by providing the necessary funding and structures and the mentor acts as the implementing agent.

The second concern is the current education system, that puts an unrealistic importance on obtaining a matric or a tertiary education. This approach caters for the minority and many are left floundering without appropriate skills and employment. Options must be made available to those that are not matric material within the education system to provide practical and technical training through apprenticeships. There is also scope to reintroduce compulsory national training for school leavers that is geared towards community service and citizenship. Often poor career choices are made due to limited exposure to broader “life” issues.

Indigenous Knowledge

In the past there was an ethos of self-sufficiency as traditional skills were passed down from one generation to the next whether it be house building, food security, sourcing medicinal plants, traditional accountability structures, storytelling or the production of traditional crafts. Urbanisation and the adoption of Western systems has alienated people from their traditional values and has created a “disconnect” from indigenous knowledge - “the tree trunk has been severed from the roots and the tree is no longer bearing leaves and fruit”: Chinua Achebe, a Nigerian writer adequately describes this phenomenon in his book “Things Fall Apart”. He states that “they have put a knife on the things that held us together and we have fallen apart,” referring to the foreign solutions that alienate people from their traditional systems and compromise their productivity.

So we are faced with a climate of low self-worth, inappropriate life skills training and a disconnect from traditional values that seriously hinder the progress of the individual and the development of the country. All three of these challenges can be addressed by incorporating indigenous knowledge back into our national structures. Selfworth can be invigorated by reminding people of their proud heritage and legacy. By introducing indigenous knowledge and entrepreneurial training in our basic school education we will be better equipped to contribute positively and appropriately to our development. This will also address our disconnect from our traditional values by marrying indigenous knowledge with contemporary systems.

It is worth reminding ourselves at this stage of one of the core values of African philosophy - the spirit of “Ubuntu” - the need to concentrate on the common good. This is a philosophy which emphasises the importance of investing in the community rather than in an individual, as the community grows the individual grows.

Had the spirit of Ubuntu been practiced by our current entrepreneurs, we would not have faced such compelling challenges and obstacles which emanated from the entrepreneurs’ desire for immediate self-enrichment. This leads to no consideration of others or the long term consequences of their actions on the development or success of their business.

Crippling Mindsets

Within the context discussed above we will now discuss the negative mindsets that we encountered in the entrepreneur programme. These were seen as challenges for which appropriate solutions were sought. The recurring incidence of these mindsets indicated that they are widespread and need to be addressed to ensure the positive growth and development of the mentees.

1. The Mindset of Entitlement

Unfortunately many of the entrepreneurs that we have mentored are imbued with a mindset of entitlement. Based primarily on redressing the injustices of the previous apartheid government, they feel entitled to a limitless supply of support and resources, whether this entitlement is earned or not. This unrealistic expectation has been compounded by pre-election promises that have not been delivered.

This mindset of entitlement does not concern itself with what would be best for the community or country, but is more concerned with wealth and status accumulation for the individual. The health and success of the individual is inextricably linked to the health and success of the community.

Cash handouts from the sponsors are not a practical and manageable option, even though this was foremost in the minds of the entrepreneurs when they joined the programme. It was decided instead to provide support by offering a comprehensive training programme in business management, finances, marketing and identity management, while providing a budget for the acquisition of essential equipment. Ngezandla Zethu also negotiated suitable premises for the entrepreneurs who were previously working from dilapidated buildings that charged unrealistic rentals. Ngezandla Zethu saw the importance of showcasing the products of the entrepreneurs and arranged for them to participate in high profile exhibitions such as
Decorex. Initially the entrepreneurs were slow to appreciate the value of exhibiting their products and there was a reluctance to produce products for display that didn't always guarantee immediate financial gain. The importance of investing in the long term benefits of the business had to be emphasised.

2. The Mindset of an Employee

Following on from the mindset of entitlement and dependency on others, the entrepreneurs often found it difficult to make the transition from that of a worker or employee to that of an owner of their own business. This transition could only be achieved after providing the necessary training and resources by slowly withdrawing this support and forcing the entrepreneurs to take on more management decisions and responsibilities. Originally we provided many of the job opportunities to the entrepreneurs to enable them to build up their production capabilities and confidence. By withdrawing these opportunities the entrepreneurs were forced to market their own products and skills and to source their own work opportunities.

3. The Mindset of Pity

Another disabling mindset that required attention was the mindset of pity. There seemed to be a desire to project a feeling of inadequacy to engender pity from others. This often became apparent when we called in the entrepreneurs for a feedback session with the funding body, the NDA. Beneficiaries who were making good progress and expressed their gratitude to us one day, would sit forlornly in front of the sponsor the next day and state glumly that they were receiving no benefits from us as the mentors and trainers. This misplaced action was intended to solicit additional help and resources. On one occasion one of the entrepreneurs was severely reprimanded by her peers in the programme by giving positive feedback on her progress. The challenge was to replace this self pity with a desire to gain respect from one's peers and existing or potential customers, which could be achieved by building understanding, competency and promoting selfworth.

Related to the mindset of pity is the tendency to give inaccurate feedback on production and income. Prior to a scheduled meeting with the sponsor we met individually with the entrepreneurs to monitor progress. The initial feedback was that they were struggling, business was bad and that they had only earned R2 000 in the past month. Further probing based on our awareness of their undisclosed activities indicated that the actual earning for the month was closer to R20 000. This applied to several of the entrepreneurs interviewed, clearly a misplaced endeavour to solicit more pity and more funding.

In our programme the funding came from the sponsor but we (as mentors) held the purse strings. It is important to remain objectively well informed about the progress of the businesses being mentored without becoming emotively embroiled in the operations. To retain this objectivity the mentor must remain involved but distant, a difficult balance at times. Familiarity does unfortunately breed contempt unless the situation is carefully monitored.

A recurring problem has been entrepreneurs that have not budgeted to pay their office rentals, resulting in the landlord locking them out of their offices and denying them access to their equipment and materials and therefore halting production. The entrepreneur then turns to the mentor to bail them out - this is not always possible or desirable as it throttles the aim to be independent and self-sufficient. Entrepreneurs must appreciate the need to budget for their monthly expenses prior to reckless spending.

Another expense which requires payment by the mentor is transport. All unscheduled payments we make to the entrepreneur are recorded in writing and signed for, to ensure repayment. For the entrepreneur (and Ngezandla Zethu) to monitor the accounts we insist that each entrepreneur has a business bank account and that all cash slips are collected and filed away. The entrepreneurs all have their own email addresses and we find this the most effective way to correspond with them between training and feedback sessions. It was necessary to provide the necessary basic training to make the entrepreneurs computer literate.
4. The Short-term Mindset
There was a tendency among the entrepreneurs to consider the short term gains rather than the more sustainable long term benefits. There was an impatience to demand immediate payment for their work regardless of what the long term implications would be. It was difficult to convince them of the value of investing in trade exhibitions (such as Decorex) that we organised for them to market their products, as we were not paying them up front for their products on show. None of the exhibiting costs were passed on to the entrepreneurs and they were only asked to provide us with products for exhibition. We also provided designs for some of the products to be exhibited. Trade exhibitions do not always ensure early sales but can lead to lucrative orders in the future.

Entrepreneurs withdrew from a school uniform contract with the Department of Social Development because they thought the money was insufficient and the work was too much. There was no value placed on getting experience and exposure and building up their work portfolio. There is a lack of appreciation of the sacrifices required by “self-made” people to succeed. Exposure to successful role models would be beneficial.

5. Negative Mindset
It is disconcerting to observe a lack of self-esteem - a “can’t do” mindset amongst the entrepreneurs. There appears to be a fear of becoming independent. There is a lack of understanding of business acumen and how it all works.

A “can’t do” mindset must be changed to a “can do” mindset. A “don’t know” mindset must become an “I will find out” mindset.

The Downward Spiral Sequence
In preparation for the Entrepreneur Programme Ngezandla Zethu interviewed over 200 prospective mentees to be mentored, from which the final 10 were chosen. The final ten entrepreneurs were all running their own small businesses and showed great potential for growth and development. Generally the existing structures were very fragmented and any marketing of the products or services was ad hoc, and mainly by word of mouth. The operating and marketing systems needed to be formalised.

The entrepreneurs joined us very motivated and grateful for the opportunity and eager to be part of the programme. It however soon became apparent that the entrepreneurs were expecting cash-in-hand from the funders and were disappointed to be reminded that the programme provided “only” training and mentorship and the funds for the purchase of essential equipment.

There was resentment from the entrepreneurs when money was not handed over to them and they undervalued the benefits of the training programme, marketing interventions and the purchase of equipment. From previous experience cash-in-hand payments generally went on personal purchases rather than being invested into the business and as such it is a practice to be avoided.

It was difficult to impress upon the beneficiaries the importance and value of the training and mentorship that was provided as this relates to long term planning and growth rather than more tangible short term earnings.

Initially, desperate for support, the entrepreneurs were hardworking and enthusiastic. This graduated to added confidence, familiarity and entitlement. It then moved on to responsibility avoidance and a disruptive approach, as it became evident that their unrealistic expectations of funding without conditions were not met. In many cases the entrepreneurs became self-sabotaging and an urgent intervention was critical at this stage to turn the downward spiral around, even though the mentor may be close to despair.

Desperation can force people into business for the wrong reasons, without having a love or understanding of business. This can lead to insurmountable obstacles. There is often no sustainability or long term planning or passion for the product they are developing, or no vision for the future. It is desirable for an entrepreneur to work within their comfort zone and follow their inherited knowledge, skills and passion.

Self-education
Another challenge is that the entrepreneurs we mentor do not generally seek further information and opportunities beyond what we offer in the training courses. There is a reluctance to read, whether it be newspapers, books or journals. They get into a rut and don’t expand their knowledge. They don’t invest in knowledge but are more concerned about earning money. There is also a lack of exposure to their competitors, which makes it difficult to identify the most appropriate product and customer profiles for the location of the business. Regular and planned information gathering is required to remain competitive and to source new opportunities. If there is a reluctance to purchase this research material, use can be made of the local library.
General Feedback

The groundwork had been done. The entrepreneurs had received a good basic training and had been issued with the necessary equipment to trade successfully. Nevertheless, the negative mindsets still persisted, which seriously hindered the realisation of their potential. This situation had to be turned around as much time, effort and funding had been invested in this project, and if this was to become a prototype project which could benefit others, a lasting solution had to be found.

The entrepreneurs have benefited from a move to the Tshwane business incubator centre in the centre of the city. Marketing material including business cards have been designed for them and with the move into the new premises this has enabled them to adopt a more professional approach to their business operation and marketing. Advances in technology have made it possible for small businesses to compete with larger players.

The advancement of the entrepreneurs since entering the programme has been significant as they implement the new accounting and marketing principles and take the next step to full independence. They have accessed new markets and the quality of the products has improved significantly. One issue which still requires attention is time management, particularly relating to production. The entrepreneurs need to pace their production to take cognisance of resources, skills and deadlines. It is also vital to keep the communication with the customer open to update them on progress.

Lessons Learnt and Recommended Solutions

The mentorship of entrepreneurs is a vital requirement to create new, viable and self-sustaining businesses in South Africa that can stimulate skills development and job creation, resulting in poverty alleviation. It is however a process full of surprises and challenges and it is important to remain focused on the end goal, which is to ensure the independence and competence of the entrepreneurs. Initially regular feedback sessions are essential to identify problems that can be addressed early. The lessons learnt will be very applicable to continuing this vital enabling process as learners become trainers and the benefits are realised and appreciated by a growing number of our nation. These include:

1. The mentors and coaches should be aware that the process of mentorship of entrepreneurs is not simple and straightforward. The mentors should not get discouraged but should follow the process through to completion. Mentors should accurately document the process.

2. Mentors should be alert at all times to reassess the strategy if required.

3. Entrepreneurs should eliminate negative self talk changing “I can’t” to “I can”, changing “I don’t know” to “I will find out”. This will help them realise their potential.

4. Entrepreneurs must change their employee mindset to that of an employer. This can be achieved by removing the support structure and adopting the responsibilities to run the business. This relates to the theory of learning to catch one’s own fish. The safety net must not become a comfort hammock. An initial support structure is important but it must not become permanent as the beneficiary must learn to stand on their own two feet.

5. Entrepreneurs should avoid quick fix solutions that undermine the sustainability of the business.

6. The attitude of entitlement and lack of self-affirmation are very damaging to the process and should be discouraged systematically and emphatically.

7. The entrepreneurs must be assisted to build networks so they can learn from others. They must be encouraged to attend forums that can be educational to them. They must be encouraged to network with successful people within their specific or related fields.

8. Feedback forums should be arranged on a regular basis so that the entrepreneurs, trainers and sponsors can assess and share the successes and challenges of the programme.

9. Support (funding, equipment and training) distribution should be conditional and should be earned through the adequate participation in training and mentorship programmes. Willingness to accurately share the successes and challenges of the business should form another evaluation criteria.

10. Financial and bank statements should be accessible to the mentors to enable them to evaluate the progress of the entrepreneur and make the appropriate interventions.

11. The non-banking of money earned through the business should lead to disqualification from the support programmes as this interferes with the honest and reliable evaluation of the progress.

12. Reading and the sourcing of knowledge, tender and work opportunities should be encouraged. Participants should read at least 2 newspapers per day such as the Business Day and a local newspaper such as the Sowetan or Pretoria News.

13. The passion to develop should come from within - one should make a personal commitment to be successful and must not rely on the impetus to come from others.

14. People must earn the support that they are given, and be prepared to pass on the support to others.

15. One of the challenges of working within bureaucratic structures is often that quantity wrongly takes precedence
over quality. As a mentor one strives to ensure a commitment to quality of the product and the service by the small business. Generally service delivery is poor in South Africa and so excellent service helps to attract customers and a growth in the business.

16. Support need not be monetary. Exposure to money can be transient but knowledge and experience endures.

17. New phraseology should be adopted for the concept of entrepreneurship so that it relates and resonates with the target demographic. The concept of UZENZELE “those who do it themselves and who create things themselves” taps into the proud heritage of our nation and promotes the re-adoption of indigenous knowledge in conjunction with modern systems. This promotes selfworth and self-reliance based on traditional wisdoms that are not dependent on formal training and foreign influences.

18. We cannot defeat poverty in South Africa by using only borrowed knowledge.

19. Awards should be given to the top achievers to encourage them to work harder.

National Coordination Programme

An overarching concern about the success or failure of the various entrepreneur mentorship programmes, both within the organs of government and within the private sector, is their lack of coordination. There is a tendency for these initiatives to act independently without sharing ideas.

Some of these bodies include SEDA (Small Enterprise Development Agency), GEP (Gauteng Enterprise Propeller), GEDA (Gauteng Enterprise Development Agency), TEP (Tourist Enterprise Partnership), NDA (National Development Agency), economic development departments within local government, creative bodies such as GACC (Gauteng Arts & Culture Council), NAC (National Arts Council) and also private sector bodies such as Old Mutual and Coca Cola.

Entrepreneurs take advantage of this fragmentation and lack of coordination by “double dipping” and applying for funding from various bodies, to the detriment of other small businesses requiring funding. Lessons learnt from one body are not adequately passed on to the other bodies that share the same objectives of empowerment and development.

Ngezandla Zethu has recognised the importance of establishing a national body to coordinate the support structures and implementation of development and growth for entrepreneurs and small businesses. Ngezandla Zethu is starting a forum of all role players in this field to link them together to ensure that there is a pooling of experience and ideas. We also propose the establishment of a national database to prevent “double dipping”, where all funding is registered.

Another concern is that beneficiaries have received funding on an annual basis from some bodies without any thorough assessment, accountability or feedback on the results of the expenditure. In some cases the money has been filtered from the designated business, which has shown no substantial growth, to pay for personal expenses.

In order to promote accountability and ensure a coordinated approach to the growth and development of entrepreneurs and small businesses in South Africa, the ethos of self-sustainability should form an essential part of our basic education. School learners should be taught the basics of entrepreneurship that will enable them to run a small business and source opportunities without seeking outside assistance. Ngezandla Zethu looks forward to playing an active part in this process.

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LEADERSHIP DRIVEN ENTREPRENEURSHIP - TOP DOWN AND BOTTOM UP

By Jan Beeton.

Some Introductory Remarks

Any number of dimensions may be needed for South Africa to develop as a leading entrepreneurial nation of the world. In this article, the writer poses provocative questions, and provides equally provocative answers concerning the challenges we face as a nation, in order to add to the debate.

An integrated model to bring differing dimensions discussed in this article together is necessary to guide us in the right direction and to inform emerging national vision and planning concerning the future economic development of South Africa.

Two key building blocks which for the writer are important to inform an integrated entrepreneurship model for the country are:

- There must be leadership from the top from government and business to build our national resolve, our image as an entrepreneurial nation, and the values we need to get there.
- There must be entrepreneurial initiative on the ground displayed by the citizens of the country across the board by individuals, families, groups and communities - spurred and supported by the right leadership from the top.

To get to the right answers, we need to ask the right questions.

Simply put, what are we not getting right and why? Some of the dimensions of this question are:

- In a world where the availability of permanent and formal jobs in traditional companies is shrinking, why is employment still considered superior to self employment, or other new forms of work?
- Why do we think that civil servants can foster entrepreneurship?
- Why are entrepreneurship development institutions non-entrepreneurial?
- Why do we use people who have never run a business as mentors of small businesses? Why do trade unions continue to focus on members’ ‘solidarity’, when what we need is economic initiative and results?
- Why do trade unions focus exclusively on employment? Why don’t career services talk about self-employment as a career more?
- Why are schools and educators lacking in enterprise and entrepreneurship?
- Why do young people leave school without initiative and entrepreneurial flair?
- Why does the state ‘welfare’ us instead of getting us to work?

There are many initiatives trying to build entrepreneurship in the country as an answer to endemic and structural unemployment in the quest for increasing economic growth for job creation. The cumulative impact of these initiatives is questionable in South Africa, however, as the Global Monitor on Entrepreneurship continues to indicate. South Africa continues to trail in the global rankings. According to the latest Global Monitor, rates of participation in entrepreneurship stand at just 5% putting the country far behind its peer emerging market countries like Brazil (12%) and Indonesia (19%). Dr Mike Herrington, Director (2008), has this to say: “It bothers me a lot that South Africa is not more entrepreneurial. You would expect a high level of entrepreneurial activity in developing countries because they have little formal employment. But entrepreneurship is very low in South Africa. This country has a culture that doesn’t teach one to be entrepreneurial”. (Herrington, M (2008))

A few telling answers to the kinds of questions posed above (which give us a lead on why we are slipping) are:

- Educators are simply not entrepreneurs, or enterprising. They left school, went to college or varsity and then went back to school - when did they get the opportunity to get exposed to business and work, let alone to be enterprising?

Jan Beeton has developed a career lasting some 27 years now in the community and entrepreneurship education, training and development sector in Southern Africa. She has worked in all nine provinces and in other countries in the region as well. She has worked in both urban townships and rural areas. She has managed a consulting practice for the last 10 years. She has developed expertise and accumulated experience primarily in the following fields: micro enterprise development, adult education, youth development and community development. Through her consulting work, Jan seeks positive transformation in the socio-economic realities of the lives of the marginalised and poor in South Africa. She holds a BA honours degree and professional qualifications in small business management and adult education.
Our national image is what we look like to ourselves and to the world around us. Do we look like and act as a creative people driven by innovation, producing and creating common wealth? Do we have national pride in being self-made men and women? Do we follow the kind of entrepreneurial values addressed in the credo below?

**THE ENTREPRENEUR’S CREDO**

I do not choose to be a common man
It’s my right to be uncommon - If I can
I seek opportunity - not security
I do not wish to be a kept citizen, humbled and dulled by having the state look after me.
I want to take the calculated risk, to dream and to build, to fail and to succeed.
I refuse to barter incentive for a dole.
I prefer the challenges of life to the guaranteed existence, the thrill of fulfilment to the stale calm of utopia.
I will not trade my freedom for beneficence, nor my dignity for a hand-out.
I will never cower before any master nor bend to any threat.
It is my heritage to stand erect, proud and unafraid; to think and act for myself, to enjoy the benefit of my creations and to face the world boldly.

(Thomas Paine, 1776)

A position-based view of leadership dictates that we start with the government, the ruling party, its alliance partners and the business leadership of the country to build our national entrepreneurial resolve, image and values. The following kinds of initiatives and activities are examples of what the writer has in mind.

**Figure 1: National and Business Leadership Resolve, Image and Appropriate Values**

Figure 1 depicts the different areas of focus to be built from the top, led by government and organised business.

National resolve is when all the citizens align with and buy into a common vision of an entrepreneurial society and commitment and have the drive to achieve it together in all groups within the society.

Our national image is what we look like to ourselves and to the world around us. Do we look like and act as a creative people driven by innovation, producing and creating common wealth? Do we have national pride in being self-made men and women? Do we follow the kind of entrepreneurial values addressed in the credo below?

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**A National Entrepreneurship Development Model**

Business people are best helped by other business people. Whilst this thinking might not apply to banks who are notorious for not helping entrepreneurs to get up and running, the argument nevertheless holds true that entrepreneurs can help each other best. We should strive to include our most successful entrepreneurs and best entrepreneurial brains in government policy making, strategy development and in national planning in terms of SMME development, to ‘get it right’ from the top.

Look, for example, at an entrepreneur like Billy Selekane - the knowledge, skills and expertise he could bring to bear in government would be enormous.
Billy Seleke: An Ordinary Man Doing Extraordinary Things

Author, speaker, organisational effectiveness specialist and business man Billy Seleke is driven by one goal: motivating people to be their best. Born poor in Tembisa in 1967, Seleke changed his destiny by reading, and giving expression to his indomitable spirit, one that refused to admit defeat even in the face of seemingly insurmountable odds. Today he is the owner of a group of companies with interests in consulting, investment, aviation, property and petroleum. An imminent deal with a security giant is about to turn his own security interest into a R300 million business. Seleke has inspired more than three million people worldwide with his words. This is one man who knows about being knocked down and getting up again. (Entrepreneur Magazine, 2009)

Low Bureaucracy/high Facilitation Policy Approaches

Since civil servants, or trade unionists for that matter, are not business people or entrepreneurs, it stands to reason that they neither legislate nor make appropriate policy and regulations that can facilitate entrepreneurial development. We may very well ask the question: whose business is business?

Successful entrepreneurial development is never about handouts or government or big business helping the small business ‘poor cousin’ (CSI initiatives and grants regarding enterprise development are an example of this). To really help entrepreneurs, things must be approached and run in an entrepreneurial way. It is a contradiction in terms that a so-called ‘hand up’ is being given by government to entrepreneurs, but administered by departments and staff that are slow, bureaucratic and rule-bound, and do not work together in the interests of the entrepreneur.

Continuing red-tape, challenges for small entrepreneurs in order to be business compliant and ‘giving with one hand and taking with the other’ are examples of our need to develop truly integrated national resolve as a dynamic developmental and entrepreneurial nation. Take for example, current developments with the issuing of tax clearance certificates for tenders which impose greater burdens on small business in order to be compliant, and, on the other hand, greater support in terms of the new Companies Act concerning easier registration procedures for small businesses.

Simple And Appropriate Legislative And Regulatory Frameworks

Burdensome legislative processes and entrepreneurship just do not go together. We need legislation and regulation that fits with the way entrepreneurs live and work and really does support and facilitate start-up entrepreneurs to launch and grow quickly in order to provide employment for themselves and others.

A couple of examples that we might consider are:
• Special and easier compliance frameworks for start-up businesses; and
• Incentives to register and comply, such as no taxation for a certain period (which should err on the side of generosity).

The principle we need to work on is taking away as many obstacles as possible that stand in the way of an entrepreneur making a go of it - not adding to them!

Special Schemes For Small Business To Access Finance

The argument goes that, if business and capitalism are so good, why is it so hard for entrepreneurs to access finance through traditional financial channels? What most small entrepreneurs need is relatively small amounts of finance readily accessible on a revolving basis as loans are repaid. Such facilities provided by banks and other financial institutions would really support entrepreneurs by giving them easy access to accounts, small overdraft facilities and small loans which are low cost.

The future success of our nation depends to a very large extent on doing things differently from the way we have done them in the past. We also need to find new answers to old problems. Banks and other financial institutions are in the forefront of business in urgent need of visionary leadership, transformation and innovation for our future national well being. They have the potential, if properly focussed, to impact entrepreneurship development on a significant scale. To help entrepreneurs, financial institutions need to be entrepreneurial themselves, but managers of banks, like civil servants, are not known for their entrepreneurial flair.

National Days And Events

We need to celebrate entrepreneurship, and South Africa’s great entrepreneurs (including social entrepreneurs) who have contributed to building a national entrepreneurial culture and value system. We need to acknowledge that, although we are not where we want and need to be, we are a stronger entrepreneurial nation than we were 15 or 20 years ago. We need to tell stories about our achievements. We need exhibitions, displays, national awards and open day visits to businesses that have a great entrepreneurial culture or have achieved great things.
An example that we could consider is the Chinese Enterprise Federation’s National Entrepreneurs’ Day.

**National Entrepreneurs’ Day**

In 1994, China Enterprise Confederation denoted April 21 as the national entrepreneurs’ day, an initiative aimed at commending the role models in business reform/operation, promoting the experience extracted from the successful initiatives for business reform and innovation, heightening the social status of entrepreneurs, boosting their entrepreneurs’ daring and pioneering spirit, and grooming well-qualified entrepreneurs. Attaching great significance to the National Entrepreneurs’ Day, state leaders autographed or sent congratulation letters to the initiative in recognition of the achievements scored by entrepreneurs. Activities and campaigns are launched nationwide on National Entrepreneurs’ Day each year. (China Enterprise Confederation website: www.cec-ceda.org.cn/english/activities/ned.htm)

**A Country Brand**

For national events such as the one described above to succeed, we need a national brand to enthuse the nation and communicate the country’s image as an entrepreneurial nation that can compete for top global honours. Slogans like ‘I am a proudly South African entrepreneur, and ‘I chose entrepreneurship as my career’ would add to the national brand.

A good example of a country’s brand that is strongly associated in peoples’ minds with dynamic entrepreneurship is Singapore. The by-line of the Singapore government’s lion logo is ‘Integrity~Service~Excellence’. It has been voted one of the leading country brands in the world.

**Government Entrepreneurship Services Exhibitions**

Exhibitions that are staged every year nationally and provincially, by all government departments and agencies together that facilitate entrepreneurship and offer assistance to entrepreneurs, (mounted perhaps as part of a National Entrepreneurs’ Day) could become a national resource. A dedicated directory of services updated annually could be published to accompany such exhibitions.

**Appropriate And Visible Business Leadership At All Levels**

We need transformative business leadership demonstrating real commitment to what is required for South Africa to flourish as an entrepreneurial nation. Appropriate company core values followed by real action would underpin such leadership in order to integrate large, medium, and small business in the first and second economies in the country in new kinds of supply chains, with the aim of benefitting all our citizens at all levels of entrepreneurship.

‘Cradle to Grave’ Approaches of Innovation, Creativity, Inspiration and Investment

We need a national reverence for creating newness. This is a personal characteristic and ability, and a business practice. From birth, in the family and in the community, to school, further education, and then ultimately the workplace in employment or self-employment, we need a culture of and capacity for innovation built by asking questions like:

- Why do we do it like this?
- Why don’t we do it like this?
- How can this be done?
- How can this be done better?
- Isn’t there a new or different solution for this?
- Isn’t there a solution for this?
- Who said this can’t be done?

**National Innovation Capacity**

National innovative capacity depends on the strength of a nation’s common innovation infrastructure (cross-cutting factors which contribute broadly to innovativeness throughout the economy), the environment for innovation in its leading industrial clusters, and the strength of linkages between these two areas. (Stern, Porter and Furman 2000)

**High Visibility And Celebration Of The ‘nuts And Bolts’ Of The Entrepreneurial Nation.**

The ‘nuts and bolts’ of the entrepreneurial nation are: the achieving individual, the entrepreneurial family and community, the enterprising school, college and university, and the successful small, medium and micro business. We need to celebrate our people, our achievements, our struggles to be an achieving nation and our striving for even greater heights. In the next section of the article, the writer talks about each of these different kinds of entrepreneurs and entrepreneurial initiatives, and the contribution they can and do make as part of the ‘nuts and bolts’ of an entrepreneurial society.

**Leading From the Bottom**

A functional approach to leadership dictates that initiative is taken from the bottom up as well as from the top down to build
our country as an entrepreneurial nation. Some key building blocks are talked about below.

**Entrepreneurial Individuals**

This is the core of the country i.e. the self-made business man or woman, the community volunteer, the entrepreneur on a social mission, the volunteer business mentor, the enterprising scholar and student. It is anyone with a ‘can do’ attitude, willing to take the initiative and some calculated risk to create the best, be their best and do the country proud. Such people are best supported by governments and administrations willing to be and do the same. Such people come from families, schools, and communities who are also willing to be and do the same. It all works together.

**Limpopo’s own Henry Ford**

Augustine Mabasa’s homemade car is powered by a generator and has a top speed of 30km/h. Limpopo’s own Henry Ford, Augustine Mabasa, has been given a chance to become a qualified motor mechanic. The 29-year old from Siyandani village outside Giyani has been making his own cars from scrap metals since he was at school. Now he has been offered a two-year learnership by Nissan SA and is receiving intensive training at BD Motors in Tzaneen. “When I started collecting scrap metals to make my first car, people laughed at me, saying that I had lost my mind,” Mabasa said.

Mabasa was in Grade 11 when he made an electric car, which won first prize in the Eskom Expo for Young Scientists. It was later bought by a businessman for R10 000.

‘Augma’ - His Generator Powered Car:

His second car, called the Augma, runs on a 10l petrol tank, is powered by a generator and has a top speed of 30km/h. It boasts a clutch, brake and accelerator pedals, four shock absorbers, an exhaust system, a hooter as well as four gears, including reverse. Mabasa can even drive the vehicle at night because it has an effective lighting system, which is connected to an ordinary car battery. He believes that one day he will get a roadworthy certificate to use his car on public roads. “It took me more than two years to make this car, but it is not yet finished. I still have to provide it with a handbrake, windows and a powerful music system,” he said with a smile.

Daniel Makgoba, a trainer at Nissan SA in Pretoria, said Mabasa was one of about 30 students who had been enrolled at different dealerships across the country. “They are learning to service, repair and overhaul the mechanical parts of a car. They will also attend classes and, upon completion of the two-year course, they will become qualified technicians and issued with relevant certificates,” he said. Mabasa entered the training programme last month and is expected to graduate in October 2011. “I want to thank Nissan for recognising my talent and giving me this opportunity,” he said. (Mopani Herald, November 2009)

**Family Businesses**

As a business mentor, the writer knows only too well that those entrepreneurs she works with who come from a background of family business, no matter how humble, are likely to do better in business than those who don’t. That is the importance of the entrepreneurial family or the family business.

According to sources, the majority of the active businesses in the country are family controlled. As a result of government policies, and black economic empowerment obligations on large corporations, a growing new breed of family entrepreneurs is starting to emerge in South Africa as well - following in the footsteps of the Ruperts, Ackermans, Motsepes and Kunenes. Black South African citizens across the board are now able to create businesses, supported by preferential government policies and strategies, and private as well as public sector funding, in much greater numbers than before these measures were introduced. They can pass these businesses on within their families. In this way, the country has the opportunity to build a greater middle broad band of solid entrepreneurial capacity and expertise over time.

Engaging children in the family business from an early age, increases the likelihood that they will develop a ‘nose for business.’ But even those families who do not have their own business can instill in their offspring the importance and value of being enterprising from an early age. It can happen as part of play activities, for example, and in discussions at family meals about where the products and food on the meal
table come from, and how they got to the family table. It can happen in the bank, post office and in shops by taking the time to explain to children what is happening in these places, how the products and services that can be seen and experienced in these places work, and why you are there. It can happen when mother, father, or care giver spends time with the children explaining what they do and why they do it.

The first place of education is in the home and it is a very powerful place of education for a child’s future. Using some of the family time available to address issues of work, business and the larger world around the child is time well invested in the future. The home is very influential concerning a child’s career or work choice. Value placed on self-employment as a worthy career choice will stand the child of today in good stead in a world where the nature of work is changing rapidly and opportunities for formal employment are increasingly not readily available.

**Enterprising Communities**

Government is pursuing community-driven development as a policy and strategy to get the people of the country moving to solve their own problems and help themselves.

What is needed for this to work is 1) people willing and able to get up and help themselves, 2) people able to work together, and 3) access to training and relevant information.

To be enterprising is a personal quality or the quality of a group or groups, as ‘a measure of ‘agency’ in one’s own life’. This idea is communicated in an article located on the internet called ‘Enterprise, Community and Complexity’ by Mike Chitty. He says:

‘Community is a property that emerges when individuals and groups learn to negotiate their self-interest with the self-interest of others. Community emerges when individuals learn how to associate and collaborate in pursuit of mutual self-interest - when they recognise that the best way to achieve their own self-interest is to help others to achieve theirs. When they understand the nature of reciprocity. Or to borrow the words of a well known business networking group, ‘givers gain’. A beautiful by product of this is a raised awareness of the importance of difference. If I learn how to associate and collaborate with someone who has different skills and knowledge, or a different cultural heritage to my own, I am likely to gain more opportunities than if I associate with people who are pretty much the same as me. Association across race, gender, age and so on provides the key to opportunity and provides a precondition that will allow harmonious communities to emerge. With difference comes both opportunity and resilience’. (Chitty (2009))

What is needed therefore is awareness and education concerning how enterprising communities work in order for initiatives to do well.

One of the best examples of an enterprising community the writer has worked with is in a remote rural village in Limpopo. It is a community resource information centre started by a group of villagers themselves, with the full support of the village chief and his council, in their quest to access the outside world, prepare their people for the 21st century and support schools and school and community libraries in their area.

They raised R5m themselves from a local business foundation, built the centre and established a network of schools in the area to assist in their development. They also developed strategic partnerships with not for profit organisations who could help them. They were successful to such an extent that they were approached by government departments who wanted to open offices at the centre to establish a local presence easily accessible to community members. The information centre became a one stop centre for services sorely needed by local community members.

Pioneering initiatives like this are needed by communities all over the country in their quest for development. The principle at work here, which is so successful, is that communities can attract assistance on a large scale once they are able to demonstrate they are helping themselves. And nothing brings pride faster to a community or develops their entrepreneurial capability faster and better than achieving things for themselves.

**Entrepreneurial Schools**

One of the most powerful ways to influence the future development of a nation is through the education and activities that take place in its schools (and in its colleges and universities). Whilst continuing to place primary value and importance on academic studies, policy approaches and planning need without doubt to focus much more in the writer’s view, on the education of children and young adults in our country for business careers and entrepreneurship in the future.

The key to this for the writer is to pay much more attention to how and what educators are educated and trained in at tertiary level, and in in-service training and development programmes once working. It is apparent that educators themselves need far more exposure to business, to
entrepreneurship and to the world of work outside the education system as part of their initial and further education and training. They need exposure also to training in innovation and creativity. This could be done as part of their initial and continuing education and training, as well as for Heads of Department, Principles, School Governing Bodies and national and provincial education department officers.

There are initiatives taking place supported by business that work with schools to improve their business-mindedness and efficiency. One example of such a programme is the National Business Initiative’s (NBI) EQUIP Programme.

The EQUIP programme supports government in the implementation of its education quality improvement programmes and policies by building the capacity of schools to develop into strong and viable institutions with sound and strategically designed development plans. These partnerships offer partner schools access to “best practice” in school leadership, governance and curriculum delivery.

What is needed more than this in the writer’s view is to take education professionals into the world of work as well as businesses to encourage the staff in schools to understand enterprise and be more entrepreneurial.

Outcomes aimed at learners in the education system in terms of outcomes based education (OBE) moreover, need to be linked much more with the competencies and skills needed by the economy of the country. It is not enough to report on the level of matriculation passes each year. We need to know what skills learners are coming out of schools with as a result of matriculation, how these fit with what is needed by the country, and the impact they make in terms of benefit to the economic and entrepreneurial development of the nation.

Education and teachers’ unions need to focus their attention much more on performance and results. They should stop being concerned so much with the uniformity and solidarity of their members and work towards supporting performance assessment of educators, as well as incentives for educators improving their performance. This change in focus could make a considerable contribution to educators and schools becoming more entrepreneurial.

Schools which demonstrate entrepreneurship by being entrepreneurial are, without any doubt however, first prize for the writer. They not only educate practically about entrepreneurship, but also raise income for the school, and for the learners themselves who take part. A fine example of such a school is Life College in Johannesburg.

Life College is a ‘replicable social business that develops a CHAMPION MENTALITY through Character Education, Real Life Projects and Leadership Education for companies, government, youth and families’ (Life College website: http://www.lifecollege.org.za/).

School learners who attend the college (in addition to attending school) learn about entrepreneurship primarily by designing and managing projects that add to the fundraising done by the college, as well as generating an income for themselves.

Another example is a project the writer worked with a few years ago called the Thuba Makote project. The aim of the pilot programme was to transform schools as centres of community life (a programme established in terms of the Tirisano project under former Education Minister Kader Asmal). Part of the initiative was to explore what facilities in the pilot schools targeted by the programme could be run by community, parents and the schools for their mutual benefit. New schools were built as part of the project. The facilities included print rooms, tuck shops, libraries and halls.

The opportunity to rent out facilities like the school hall were explored, as well as selling vegetables and providing faxing, telecommunications and computer services for the local community as well as learners, which they paid for.

The TeachAMantoFish project is an international non-profit organisation (also operating in South Africa along the East Coast from Durban to Cape Town), which helps people to help themselves. The organisation is based on the philosophy that education represents a powerful tool for generating jobs, improving incomes, and expanding the opportunities available to young people in developing countries.

TeachAManToFish works to support schools and education programmes in developing countries to offer a better quality, financially sustainable education to the most needy. Creating jobs requires creating entrepreneurs. We believe that the most successful institutions at producing graduates equipped for running their own businesses are those that
themselves take an entrepreneurial approach to managing their programmes.

By incorporating production into the educational process not only can students gain a first-hand knowledge of the subjects they study, but useful income can be generated to finance academic overheads”. (TeachAManToFish website: Http://www.teachamantofish.org.uk/)

Enterprise Development Initiatives Which Are Entrepreneurial Themselves

Too many enterprise development initiatives in the country operate solely on funding or grants from either the private sector or government. Whilst this is important, it is even more important that projects developing enterprises and entrepreneurs are seen to be implementing what they teach (preach), by doing it themselves, in a business-minded manner, acting as role models in the process for those they support. In other words, they should demonstrate their own capacity to generate income to support their work, as they work to develop entrepreneurs.

Many not for profit organisations and government agencies are challenged however to be even business-minded and engage in effective business practices like planning and managing well in order to establish and implement development initiatives effectively. Funding provided by government and corporate agencies should come with provisos that those developing entrepreneurs should be capable of being entrepreneurial themselves. Social entrepreneurs are an outstanding example of people who fit this category very successfully. They generate income and profit as they work for socio-economic change.

The Thembalethu Home Based Care Programme in Nkomazi in Mpumalanga is a fine example of a non profit organisation generating income for its work as it works to teach young community members to develop a positive life style by being entrepreneurs. Young people in the project publish a community newspaper, operate a performing arts group and manage and run an arts and crafts project. They also operate a crafts shop selling products to tourists passing by on their way to Swaziland. Some of the proceeds of these enterprises go back to the NPO and the young people generate an income for themselves as well through the businesses.

Concluding Remarks

This article has attempted to demonstrate that for entrepreneurship development to truly take off in our country we need to be willing to ask the right questions and to be totally ruthless with ourselves in answering these questions. We also need an integrated approach and model built on national resolve, entrepreneurial values and transformative leadership.

South Africa still has a long way to go to build the kind of nation that can take pride in itself as an entrepreneurial economy providing much more needed employment and many more successful small businesses to get the whole nation to work. But it has also come a long way in a relatively short period of time. Events, initiatives and more deliberations are necessary in order to celebrate the achievements and highlight the opportunities and challenges for greater success in the future.

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1. Introduction

Since the announcement of South Africa as 2010 FIFA World Cup™ host, government and business have spent billions of Rands on infrastructure development in preparation for hosting the world’s biggest sporting event in a spectacular African style. Various sectors of business such as construction, tourism, hospitality and catering services, transport, security, Information & Communication Technology (ICT), manufacturing and health have prepared extensively for the event.

By successfully hosting the Confederations Cup, which is a precursor to the FIFA World Cup™, South Africa has confounded its critics and confirmed its readiness to host the 2010 FIFA World Cup™. According to statistics released by FIFA, just over 584 000 people turned up to watch the Confederations Cup in June 2009. There were no major problems reported except for challenges with the transport system and a few incidents of crime.

South Africa has lots of expectations that come with hosting the FIFA World Cup™. As President Jacob Zuma declared in his New Year message, “the 1st of January 2010 marks the beginning of the most important year in our country since 1994,” which is the year when the country made history by having its first democratic elections.

The tourism industry in particular, has one of the best prospects to showcase the South African spirit, which is alive with possibilities. Special programmes have been put in place by government and its business partners, large corporates and the 2010 FIFA World Cup™ Local Organising Committee (LOC) to support small businesses so that they too may enjoy a share of the pie. And yet when the final whistle blows after 90 minutes (assuming the final game does not go into extra time) of a wonderful game of football on the evening of 11 July 2010, in the amazing Soccer City Stadium, it will be back to normal and business (both big and small) will be counting its profits, and for others, losses.

With the importance that government attaches to the growth of the SMME it is critical that the measures which have been taken to include SMMEs in the World Cup equation lead to the survival and sustainability of these enterprises beyond the 2010 FIFA World Cup™.

2. The 2010 Fifa World Cup™, Tourism And Small Businesses

The CNBC Business Magazine of December 2009 lists the FIFA World Cup™ in South Africa as one of the 50 Things that Will Change the World in 2010. The World Cup party is Christmas come early for South Africa. The country is looking to the World Cup to boost its competitiveness, contribute to long-term growth and the creation of jobs.

The World Cup will push the numbers of visitors to about 500,000 during the one month that the sporting event takes place. It is estimated that the sporting visitors, who are known for high spending, will spend about R7.3 billion during the tournament. Most of the arrivals will be first-time visitors to South Africa. Some of them will criss-cross the country to watch their national teams and/or favourite players in the different host cities, which exposes them to the cultural diversities of the nine provinces of South Africa.

In a first for the FIFA World Cup™, MATCH, which is the company contracted by FIFA to deliver accommodation and

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STAYING IN BUSINESS: HOW WILL SMMEs SUSTAIN THEMSELVES AFTER THE 2010 FIFA WORLD CUP™?

By David Kombanie
ticketing solutions for the 2010 FIFA World Cup™, made a bold decision to contract small, medium and micro-enterprise (SMME) accommodation for the soccer event. This type of accommodation includes guesthouses, and Bed and Breakfast (B&B) establishments. In previous FIFA World Cups™, only hotel accommodation was contracted and promoted by the soccer body's accommodation company. Government, through the Department of Tourism is congratulated for this achievement, which demonstrates government's commitment to growing the second economy in order to achieve some of the objectives of the Accelerated Shared Growth Initiative for South Africa (AsgiSA).

Through a partnership between MATCH and the Tourism Grading Council of South Africa, the Tourism Enterprise Partnership (TEP) has signed up over 5,000 rooms from SMME tourism businesses for use during the World Cup. With star grading being a pre-requisite for participation, TEP offered financial assistance and subsidies to SMMEs to meet the standards. One of the benefits to these SMMEs is that their services are advertised in the FIFA.com website, which boasts of more than 7.3 billion visitors per year.

As the “owner” of the World Cup, FIFA guards jealously the integrity of its sponsors and so exercises tight control over advertising and selling of its merchandise. Within the stadiums, precincts and in theme parks that will be set up by FIFA, business will be conducted per the FIFA rules and regulations. Thus opportunities for SMMEs, including the informal sector, will still be plenty outside of the FIFA designated zones.

3. Lessons From Previous Hosts Of Sporting Events

The World Cup gives an opportunity for the soccer fans to become future tourists to South Africa. The country is full of expectation that the effects of the World Cup on the economy will continue to be felt post the event.

There are some lessons to learn from cities that have hosted previous FIFA World Cups™ and other similar sporting events. Following the previous FIFA World Cup™ held in Germany, the host country was able to increase tourist arrivals in the hosting city of Berlin by 47% through deliberately converting visitors to brand advocates for “Destination Germany.” Berlin achieved a Net Promoter Score of 88% which means that 88% of visitors stated that they will recommend Germany back home to their friends and colleagues. It is reported that several thousands of shops were opened in preparation for the World Cup, and of these about 20,000 became permanent.

Good lessons can also be learnt from Barcelona, in what is now famously referred to as the “Barcelona Effect.” There was a tourism boom after the successful hosting of the 1992 Olympics. Key to Barcelona’s tourism success was turning the city and region into an attractive destination and making it more affordable for the global tourist market. Post the Olympic Games it’s said that:

- Barcelona’s international tourism growth averaged nearly 20% for three years;
- Accommodation occupancies rose from 54% to 82% within five years of hosting the event; and
- Unemployment almost halved from 18.4% pre-Olympics to 9.6% post the Olympic Games.

Greece on the other hand would teach South Africa how not to host a sporting event. The city, which was host to the 2004 Olympic Games fell victim to exorbitant pricing demands by its local hotel industry, with dire repercussions for its tourism brand post the event. Hoteliers raised room prices by a colossal 7 - 8 times in a bid to cash in on the expected tourism bonanza. The result is that hotel occupancy in Athens plunged to 57% in the year following the Olympics; the lowest among 11 of Europe’s busiest cities.

The lessons above are very clear; visitors will make decisions about coming back to South Africa for business and leisure based on how they have been treated during their stay in this country. Government, business and the public at large wish to see an increase in the number of tourist arrivals post the World Cup. It is for this reason that a lot of resources have been spent to indeed showcase South Africa as a destination of choice in Africa.

Unfortunately, the behaviour of some businesses and certain sectors of society could just destroy the efforts that the country has expended in the last six years preparing for this special event. Already there is an outcry over some of the amounts being touted in the media for the cost of air tickets and accommodation.

This has led the Minister of Human Settlements, Tokyo Sexwale, to rightly ask the question: “Are we treating the 2010 FIFA World Cup™ as a 30-day cash cow, in order to maximise short-term profits, or are we using the event to build South Africa’s tourism brand for decades to come?” Calvyn Gilfellan, a well-known tourism official also echoed similar sentiments when he warned that “viewing the month-long event as a cash cow will harm South Africa’s burgeoning tourism industry.”
4. Sustaining Small Businesses Post 2010 Fifa World Cup™

To add to the already existing thousands of SMMEs, there are many others that have been created by entrepreneurs specifically to cash-in on the hosting of the 2010 FIFA World Cup™. Government is keen to see SMMEs sustainable post the World Cup. It is thus imperative that plans are put in place to nurture the SMMEs. An integrated approach that includes government and its business partners would have to be adopted in order for this to be achieved.

Below are some of the recommendations that can be adopted to support SMMEs for sustainability post 2010 FIFA World Cup™. The recommendations are discussed under three headings:

1) The Moment of Truth;
2) Conducting Business During the World Cup, and;
3) What SMMEs Must Do After the World Cup.

The Moment of Truth

The moment of truth forms the foundation of the desired behaviour that will positively impact the sustainability of SMMEs. Products alone cannot build a small business; delighting customers with excellent service is the primary product. Through service excellence a customer comes into contact with the business and forms an impression. Marketing gurus refer to this as the “moment of truth” (MOT). During the 2010 FIFA World Cup™ there will be millions of these MOTs and the soccer tourists will take the messages back to their home countries. It is thus imperative that these MOTs are largely positive on matters of service, equity and customer satisfaction.

Customer satisfaction is what brings the customer back to buy goods and services. What this means for a small business in South Africa during the 2010 FIFA World Cup™ is that it must dazzle the soccer fans outside the stadium with a service standard that leaves the visitors thinking they have not seen everything in the country. Small businesses have the opportunity to create a South African Ubuntu factor, which is characterised by a spirit of fair pricing, value for money and good customer care. SMMEs, especially those that have been given the opportunity to provide services under MATCH, must be ambassadors of South Africa during the sporting event.

In the millions of MOTs that will take place during the month-long event, there will be some misunderstandings and expectations not met. The profitable art of service recovery would have to kick in to soothe some emotions broken down.

Handling an angry customer requires an innovative employee who is empowered to make decisions on the spot. This means that staff must be trained to deal with angry tourists, and during the World Cup there are likely to be several such tourists since soccer fans are known for taking one too many glasses of drink.

It is never too late to focus on client service training and it is imperative that SMMEs that want to make it through the World Cup and want to last afterwards need to invest in staff training. This will make for a good experience during and after the World Cup period. Training and feedback to employees should actually be on a continuous basis.

Conducting Business During the World Cup

A vibrant media plays a pivotal role in growing sporting tourism. The South African Broadcasting Corporation (SABC) has a crucial role in bringing to the fore the diverse cultural nature of South Africa. For example, during the World Cup the SABC can use the opportunity to diversify its programmes so that it showcases the cultural aspects of South Africa, especially highlighting the major role played by small businesses. During prime time viewing, the public broadcaster can flight a promotion of each of the country’s provinces and some of the attractions in which small businesses are involved, for example, arts and crafts, restaurants, bars and other places of entertainment, and African traditional dancers. The print media can also do the same by allocating some pages on a daily basis to promote small business in the different provinces.

The above, of course, means that small businesses must be willing to pay for advertising costs. Alternatively, the advertising could be subsidized if arranged with and supported by, for example, organizations such as TEP, Business Trust or Business Partners.

Government on its part must make sure that public transport and security are at its best during the World Cup. The country is already branded as a high-crime country, with Johannesburg ranked internationally as number one of the cities with the most cases of violent crimes. It is important that people feel safe even in the SMME accommodation that has been selected by MATCH. The owners of the accommodation have the responsibility to provide this assurance to their guests.

The dare-devil driving skills of the taxi drivers and their notoriety for bad mouthing clients will not advance the cause of SMMEs in the transport industry. One assumes that those
that have been appointed to provide transport for soccer fans have received good training and will adopt professional approaches to good customer care.

Greed that is characterised by exorbitant pricing for goods and services could just kill the goose that lays the golden egg. The issue of pricing just confirms the theory that price is not a competitive advantage because it does not last. The sour taste of unfair pricing remains in the mouth of a customer long after the sweetness of the profit to the provider of services has disappeared. Already the pricing debate is catching media headlines, unfortunately for the wrong reasons. There are some reports of airlines and other hoteliers increasing their rates during the period of the World Cup. Lessons from Greece show that greed could just kill business post the 2010 FIFA World Cup™. The worst case tourism legacy beyond 2010 would be to see visitors grudgingly pay exorbitant prices for accommodation and other related services only to go home and brand South Africa as a beautiful but prohibitively expensive destination. History has shown many times that, no matter how great a destination, if visitors feel they have been ripped off, not only will they not return, but their word of mouth affects other consumers in their home countries for at least one year after the event. SMMEs are advised not to join the wrong band-wagon of over pricing, but that they balance profit with providing a good experience for the visitors to come back for more business.

There are an increasing number of tourists from the African continent that are visiting South Africa. Approximately 120,000 soccer fans are expected to arrive from countries in the African continent. In view of the xenophobia that has taken place two years ago and even last year, it is important for South Africa to communicate a good message of oneness with other Africans. Much as the country has said this is a World Cup for Africa, there must be visible effort by all parties to communicate a message of solidarity with the rest of the continent. In particular, when these visitors are accommodated in SMME establishments, they must be shown the positive aspects of South African culture by being given a warm reception and good care. SMMEs must also use the opportunity to learn about tourism opportunities in other African countries and the possibilities for development partnerships.

On the local front, the domestic market remains crucial to the future of SMMEs post World Cup. SMMEs must not neglect their existing customers in preference to the arriving travellers. Still SMMEs must price appropriately for the local market during the World Cup event. While a growing business needs to constantly capture new customers, the focus and priority should be on pleasing the existing customer base. Companies that fail to nurture and retain their customer base ultimately fail. It is said a company spends twice as much to get new clients as it will in maintaining its existing customer base. A company is also limited in its ability to attract new clients if it can’t hold onto and satisfy existing customers and clients. By adopting a professional approach, SMMEs must not be seen to be giving preferential treatment to foreign visitors at the expense of locals, even though it could be that locals are paying less than the visitors.

A lot of resources have been spent preparing SMMEs to be part of the 2010 FIFA World Cup™, for example, the more than 5,000 SMMEs that have been registered with MATCH to provide accommodation for the soccer tourists. It is important for organisations such as TEP to be monitoring the performance of these SMMEs during the World Cup. This could be done by opening a call centre where the tourists can lodge their complaints. In addition, TEP can make arrangements with those SMMEs registered with MATCH to get their guests to complete survey forms where they rate the service provided by the SMMEs. Feedback received during the World Cup will be helpful in improving the service standards of the SMMEs.

South Africa needs to make sure that it can accommodate all the people arriving for the spectacular event. And not only that, the service providers (Bed & Breakfast’s, transport providers etc), must meet the visitors’ unique expectations and even exceed their expectations. If tourists are made to feel unwanted in South Africa, they will just not come back and instead go elsewhere, which would be detrimental to the viability of the SMMEs. Small businesses thus have got the unenviable task of “exceeding customer expectations” in order for the soccer visitors to come back as tourists. A kind smile with a warm welcome message gives warmth to the heart of a customer. SMME owners must have business cards and be ready to hand these to customers. Staff of small businesses must be equipped to make decisions and welcome clients with a South African smile.

A message of appreciation for business transacted appeals to customers. Such messages can be printed on receipts and/or invoices. Alternatively, a “Thank You, Please Come Back” card can be included in the envelope with the customer settlement receipt. Also, such messages could be sent to clients by email or posted by ordinary mail to their home countries. Whatever the channel chosen by the SMME is, such letters and emails could include more promotions and discounts for repeat business and referrals.
What SMMEs Must Do after the World Cup

Government and small businesses must adopt an integrated approach by continuing to work together after 2010 FIFA World Cup™ to attract business back to the country. For example, some road-shows could be done to the winning country with some of their leading players just to remind their nationals about the African soil where their team won the World Cup. Similar tours could be done to all the countries that visited South Africa. Some of the soccer stars could be appointed ambassadors to promote South Africa as a tourist destination and in the process talk about the importance of the small enterprises.

Also adopting an integrated approach, the SMMEs must organize themselves into clusters in order to benefit from economies of scale and scope. Being organized in clusters will also benefit the businesses by easily linking them to the international value chain. The clusters must consist of complete packages, which include transport, accommodation, and tour guide etc. in order to reduce the cost to the customers.

Surveys must be conducted with the visitors after the World Cup to measure their levels of satisfaction with the service received during their visit. Such a survey can be followed up with phone calls and friendly letters thanking the visitors for their patronage. For those SMMEs selected under MATCH, this could be done collectively through TEP. Individually, sending a well thought out email to customers served during the World Cup is one cheaper means to communicate with all customers and share with them the latest gifts and promotions available for that next visit. The satisfaction surveys also present an opportunity for the SMMEs to ask the visitors if they would be willing to refer someone to their businesses.

It would be helpful if TEP enters into an arrangement with MATCH to continue to showcase those SMMEs in the FIFA.com website for some months after the World Cup. The LOC can post a message thanking the SMMEs for the partnership and services provided. Visitors can be allowed to post their comments about the service they received. Keeping the SMMEs in the website gives them an opportunity to attract new business from those that visit the FIFA website.

5. Conclusion

The 2010 FIFA World Cup™ gives SMMEs an opportunity to connect their businesses to the outside world, and in the process open new doors for them to market themselves to the international community. At the same time the sudden slump in business that will follow soon after the World Cup may be devastating for the small businesses. Considering the importance that government has attached to the SMME as a contributor to economic growth and employment creation, it is in the interest of all parties to make sure that support is given to the SMMEs so that they survive post 2010 FIFA World Cup™. That support has to start now, strengthened during the World Cup and continue after the World Cup. One hopes that when the next World Cup takes place in 2014, that South Africa will be a case study on how small businesses were started towards the World Cup and are standing at that time. The opportunity that has been granted by MATCH and FIFA for the SMMEs to provide accommodation must be seized and maximised in order to complement the efforts of government and its business partners.

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REDEFINING THE ROLE OF LED AND IDP

By Lazarus G. M. Modise, Earl Mailula, John K. Mosimane & Oupa Mmotsa

Introduction

The Role of Local Economic Development

In South Africa, Local Economic Development (LED) has been a product of a process which followed the country's first democratic elections, in which the new government sought to find ways to breach the economic and social divides which characterised South African society. The South African Constitution empowered local municipalities to work with poor communities to develop strategies to meet their economic and social needs.

At the same time, macro economic development strategies are being pursued, including regional strategies such as Spatial Development Initiatives and provincially focused programmes, focusing on a specific province's overall economic development.

It is the authors' view that, while in principle a correct and necessary intervention, LED as a practice has not yielded the results it is intended to in many communities in South Africa.

LED is a key feature of government's overall strategies to address economic challenges, and the national framework for economic development's role for LED is for it to stimulate and develop sustainable economies by promoting a strategic approach to the development of local economies. This approach is intended to create a shift away from narrow municipal interest, which is focussed only on government input and ad-hoc projects, that do not have impact in terms of scale.

The leadership and governance policy and sustainable community investment policy programmes, should seek to:

- improve good governance, service delivery and public and market confidence in municipalities through their Spatial Development Planning;
- exploit the comparative advantage and competitiveness of municipalities;
- support enterprise and business infrastructure development;
- Introduce sustainable community investment programmes, focusing on organizing communities for development and maximising circulation of public spending in local economies.

It is the authors' submission that the municipalities should decide on the LED strategies and the process of arriving at these strategies must be part of the IDP process. As a primary outcome, LED must aim to create jobs and alleviate poverty by making the local economy grow.

The people in the municipality should come together to reach agreement on their economic growth path, thus taking decisions to make their economy grow and creating more income opportunities for themselves, especially for the poor.
Therefore, the LED strategies should be based on the overall vision outlined in the IDP and should take into account the result of the related analysis phase done in conjunction with the community. LED should also look at things like integrating our residential and work areas, building development corridors between areas and supporting the economy with good public transportation, as well as starting more businesses and factories within the municipality(ies) as part of the IDP.

**Redefining the Role of Local Economic Development**

The idea of local economic development came onto the economic world stage as local economies in Western Europe and North America became integrated into global economies and the need arose for local areas to compete in attracting capital as well as businesses. Then there came a paradigm shift in the original idea of local economic development from being a growth mechanism and job creation instrument to include redistribution of generated wealth.

There are eight (8) key aspects that are pivotal to a healthy and sustainable local economy:

- Strong purchasing power
- Local purchasing
- Local ownership
- Local jobs
- Local reinvestment
- Local resources to meet local needs
- Opportunity and diversity
- Integration and links

In view of the above, it is the authors' view that LED therefore should be aimed at:

- Creating more jobs
- Developing local markets
- Establishing small, medium and micro enterprises
- Addressing poverty in local areas
- Empowering the community through reinvestment of profit into a community trust
- Providing funds for growing more businesses and equitable redistribution of generated wealth
- Leveraging low income-earners.

The core values of LED remain relevant and as ensconced within the constitutional frameworks that empower local municipalities to set and achieve developmental goals for their local economies, as is our constitutional democracy. These values empower municipalities to structure and manage their administrative, budgeting and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community. Therefore LED, through the municipality, should seek to mobilise local people and resources in an effort to fight poverty, and to be the initiator of economic development programmes through the regulatory powers that be.

While in principle, LED seeks to empower the poor and previously marginalised in our community, in practice there are many challenges to its implementation on the ground.

The role of LED as enshrined in the Local Government Municipal Systems Act No.32 of 2000, Chapter 5 subsection 26(c), should be redefined, or sharpened in focus to include emphasis on the following, which will assist to achieve the aims outlined above:

- Putting the ownership of employment and wealth generating activities in the hands of the masses of the historically marginalised, through acquisition of equity in established private businesses. This should not only be at director and board levels, but, through operational involvement in departments/plants, which would affirm transfer of technical management, and business skills and as such would impact at board/director’s level to make inputs in the direction of the company’s growth path (not fronting). Acquisition of equity and hands-on operation in new ventures with private business will be coupled with real skills transfer and incorporate mentorship and private business support expertise. It also allows for joint use of the premises, facilities and control systems of these private companies (since municipalities have limited further land
available and these big businesses having bought large pieces of land before the transition to democracy;
· supporting of blacks in and towards start up ventures in new and potentially lucrative and sustainable areas of mainstream economic activity through linkages with big businesses in expansion ventures in communities. This can be aided by processes such as acquiring shares and equity through the development finance institutions such as the National Empowerment Fund and Industrial Development Corporation, Khula etc;
· emphasising strategies for black businesses to form joint-ventures/partnerships among themselves within a community or area to build capacity for procurement purposes. This should also extend to the entities procuring goods and services from one another, thereby rotating the economy amongst themselves;
· creating a conducive environment accommodative of all the talents and the explorable skills in the locale in order for local economies to thrive and create jobs and opportunities. This implies relevant training interventions in communities matched with the skills development areas specific to the economic development potential in that community;
· reviewing burdensome legislation causing SMMEs to struggle to get their businesses off the ground in the interests of stimulating economic growth at grass roots level. We concur with the Hon. Minister of Trade and Industry, Dr. Rob Davies, who when interviewed and asked about what measures the department was taking to reduce the burden faced by small businesses stated that, “the New Companies Act, set to come into force next year (2010), would see a major reduction in red tape for small businesses, as it would do away with the need for audited financial statements”. At a local level this is evidenced, for example, in hindrances in the SMME growth path due to the municipalities’ by-laws e.g. demanding Spazas/Creches (NPO’s) operating in yards should advertise, with commercial newspapers locally charging them +/-R700; and requiring registration for municipal consent to the amount of R300, which discourages entrepreneurial spirit;
· Introducing incentive schemes by Municipalities to attract business investment locally and abroad. The Minister’s statement may suggest that the Preferential Procurement Policy Framework Act No 5 of 2000, as implemented by local municipalities and districts in their policies, hampers the growth and development of SMME’s when procuring for goods and services, in that SMME’s can only procure tendering or provide quotations on the basis of their municipal rates and taxes being up to date. In fact, the reverse should take precedence in that SMMEs should procure and thereafter, pay for services;
· formalising the currently active local trades such as autobody panelbeating/spraying, motor vehicle repairs, exhaust pipe repairs etc. and centralise these activities into an incubator concept by identifying patches of land available e.g. converting parks within communities for job creation and building/putting business support structures in place, with due consideration for the environmental impact assessment valuations.

Often the spanner in the spokes of this turning wheel of economic wealth generation, which thwarts the intent of legislature, is the lack of institutional capacity of some local municipalities, opening the LED processes, projects and programmes to nefarious practices by unscrupulous councillors and dodgy officials in the blind pursuit of self aggrandisement and greed. It is critical that political affinity and/or ideological pursuit should not be the defining quality or interface between the government and the governed in local economies.

Furthermore, an economic system is like a living organism. It has to be nurtured in order for it to flourish and wax strong. The economic fundamentals of growth and equitable distribution of rewards for innovative flair, cutting-edge entrepreneurship and rare business acumen skills are the innate qualities that underpin any efficiently run economic system. They are disproportionately spread across the political spectra within the local economies. Indeed, governments by their very nature are averse to the function of job creation.
What has been lacking in the LED process in South Africa is the oversight role by districts towards local municipalities and the monitoring and evaluating of districts by provincial government to achieve the above suggested outcomes. This is due to section 83 of Local Government Municipal Systems Act No.32 of 2000 (as amended), construed to make planning, implementing and monitoring of LED and projects the preserve of districts.

The redefined LED’s strategic role would therefore be to remove the structures imposed upon LED in local municipalities by the Local Government Municipal Structures Act No.117 of 1999 (as amended), section 24, in order to give effect to Local Government Municipal Systems Act No. 32 of 2000 (as amended), section 23, in line with the developmental obligations imposed upon the Municipality by sections 152 and 153 of the Constitution Act No. 108 of 1996 (as amended).

The Role of the Integrated Development Plan (IDP)

In terms of the Local Government Municipal Systems Act, 2000, all municipalities are required to prepare Integrated Development Plans (IDP’s). This is a process by which municipalities prepare their five year strategic plans that are reviewed annually, in consultation with communities. The consultation process should, in principle, include all relevant sectors of the community such as ngo’s, business representation, entrepreneurs etc. An IDP must reflect the municipality’s development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs.

Refocusing the Integrated Development Plan (IDP)

It is common knowledge that many obstacles still prevail against small businesses and black businesses in general and injustices prevent the majority of South Africans from gaining access to finance, investments, major markets and participation in the mainstream economy. Black businesses tend to be confined to the margins of economic activity and equated to small business sectors such as hair salons, shebeens, the taxi industry, atchar processing / manufacturing and spaza shops.

This is contrary to the revolutionary business ideals envisaged in the Freedom Charter, of equitable sharing and distribution of the economic cake, where the generated wealth of the country can at best be realised in the local sphere and contribute in achieving the Reconstruction and Development Programme’s goals, thereby circulating the Rand within the locale. The Supply Chain Management Framework, Section 76 of the Public Financial Management Act of 1999, as currently fragmented through sector departments and as applied by municipalities, is not creating an enabling economic environment. Integrated development projects through LED should be championed by business entrepreneurs themselves, without the manipulative, greed-infested sleight of hand of unscrupulous local government councillors, unskilled and inept officials and lackeys of the powers that be clambering for uncalled for attention in the corridors of local government.

The national and provincial sector departments, development finance agencies, private sector bodies, non-governmental organisations (NGOs) and communities all have a key role to play in preparing a concrete programme as part of the five year strategic plan and in implementing their IDP. The IDP should provide clarity on how sector departments can accelerate their support to municipalities based on their master sector plans, as well the role of the provincial government in giving support to the IDP format guide and analysis framework guide to sector departments, provinces and municipalities.

The Broad Based Black Economic Empowerment Act No. 53 of 2003, was driven and distorted through the co-option of a selected few black individuals into what was formerly a white boy's club, and/or formation of a few rich black elitist clubs. The following trends tend to dominate the emerging economy: the use of black faces as fronts to legitimize the current skewed pattern of empowerment and ownership leading to the lending of black faces to white owners of capital.
to satisfy empowerment requirements of government tenders; the ownership of business without control and management of the day-to-day operations of that business; acquisition of minority shares in as many blue chips as possible, with no focus on core business activity and no clear targets, as those “empowered” barely understand the transaction and even less so, the nature of the business they are buying into.

A disturbing factor is evident, in that government has become both the player and referee. Government should execute the mandate to govern, whilst it is the role of the business sector to create jobs, hence government’s role is in creating an enabling environment. There is however a distortion of the role of the IDP which should facilitate these clear roles. Through exclusion of community participation (business interest) as enshrined in Chapter 4 of Local Government Municipal Systems Act No.32 of 2000, a monster called “tenderpreneurship” for friends and close associates has been created instead.

A critical challenge facing SMMEs’ growth and development strategy is that black entrepreneurs on the whole remain excluded from the IDPs’ financial and economic resources which would enable them to engage meaningfully in the mainstream economy. The basic inequalities outlined are not exhaustive. It must also be noted that there is a dearth of basic business acumen, which can cause entrepreneurs to remain forever “emerging”. This impacts on their ability to attract sound business deals, and to invest in innovative models of growth and expansion and create meaningful jobs in growing local economies.

In pursuit of market-driven economic policies in a mixed economy like South Africa, the freedom of the enterprising business or tender should be held sacrosanct, uncluttered by myopic political oversight, administrative beauracracy and handicapping statutory obligations. The Preferential Procurement Policy Framework Act of 2000 (PPPFA), in its current form, became outdated (it encouraged or allowed inadvertant fronting of white capital), as it was not aligned with the aims of the Broad Based Black Economic Empowerment Act No. 53 of 2003, and its related strategy. It is envisaged that the PPPFA of 2000, will be repealed and that the framework required by section 217 of the Constitution will be provided for through appropriate amendments to the Public Finance Management Act (PFMA) of 1999.

The listing of all existing and new public entities should seek to clarify the legal position of silent partners and to incorporate a legal sanction that will discourage silent partners i.e. fronting, distortion leading to fronting. Due recognition should be given to local businesses and entrepreneurs and the LED/IDP lobby groups in their drive to open up the local economies to attracting big-capital investments and tendering in joint ventures, thereby, providing an enabling economic climate conducive to the enterprising spirit of creativity. In this environment everyone is free to engage in economic and business activities, without fear of being nipped in the bud by political currents hostile to one’s political affinity.

The envisaged repealing of sections of Municipal Systems Act and Municipal Structures Act, through the Intergovernmental Relations Framework Act of 2005, will also disentangle local governance from misconstruing these sections to mean that they empower them to become tenderpreneurs as well. The new-found freedom of political office bearers would afford the municipalities and districts the much yearned for space to do what they are poised to be good at i.e. carrying out the political mandates of their constituencies of ensuring good governance, unfettered involvement of socio-economic partners in service delivery and the provision of market solutions for goods and services.

In addition to the current Mayoral Imbizos or roadshows and workshops on local economic imperatives, service delivery challenges and community needs analysis engagements should be held in the process of developing IDPs. This will sharpen people’s critical awareness of these issues and in the process, deepen the democratic participatory processes, transferring power to the people and letting them really govern themselves according to Freedom Charter principles.
The current national service delivery protests' main thrust across the length and breadth of the country lies with the poor delivery of services or absence of decent service delivery and a lack of decent jobs. The redefined role of the IDP process will be to engage with various sectors in the community to develop a business plan that is in line with delivery of quality services anchored on the developmental priorities of that community, which then shall inform the District IDP as well the Provincial five year strategic IDP.

With a re-focusing of the IDP, the process will be a people-centred and people-sensitive drive rather than boardroom-driven. This will ensure processes that are government-business-community initiatives and encourage collectively sharing the responsibilities to ensure success. This redefined process will ensure that monitoring the delivery of services and securing projected outcomes is a joint government, business and community responsibility.

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EXPLORING AFTERCARE PROGRAMMES OF DEVELOPMENT AND SUPPORT INSTITUTIONS

By Dr. D. Myrick

Due to high unemployment and the need for economic growth in South Africa, development and support institutions will find it necessary to implement aftercare programmes to grow the small, medium and micro enterprises sector (SMMEs). While the literature on aftercare is extensive, the focus is usually on non-developmental sectors e.g., post-operative aftercare. Indeed, there is not much literature for aftercare programmes in the context of development institutions and generally the development sector.

The aim of this paper then is to contextualize the notion of aftercare in development terms, whereby aftercare as a development strategy may be used to increase the efficiency and number of SMMEs in South Africa. The ultimate goal, however, would be to optimize the operations of SMMEs and when possible create employment and maximize profits.

Aftercare defined in terms of investment promotion includes a range of activities from post-establishment facilitation through to developmental support including: 1) optimising investments, 2) encouraging follow-on investment and 3) achieving greater local economic development impact (UNCTAD, 2007). If in terms of investment promotion aftercare is defined as reaching out to the investor, in development terms one definition of aftercare could be “reaching out to the recipient of grant or donor funds.”

Indeed, an assumption here is that an SMME will have been the recipient of either donor funding or support services. Thus the notion of aftercare may be extended to include, say, consulting services or support. The research question then is: To what extent do the development sector, and for that matter development and support institutions, utilize aftercare programmes to service their beneficiaries, projects and/or stakeholders?

Development and Support Institutions: The Context of Aftercare Programmes

When one considers the multitude of development organisations operating in South Africa (DEVDIR: 2010), there are two questions that should immediately come to mind. Firstly, with regard to support institutions, to what extent are they and their activities coordinated? Secondly, as they engage in their respective activities, to what extent do they use formal aftercare programmes and strategies to assist SMMEs?

Towards unpacking that first question, there are two concepts that contribute to understanding development and support institutions. The first concept is that of Official Development Assistance (ODA). As lately as 2006, there had been concern for the effectiveness of donor aid in South Africa. Smith, Browne and Dube (2006) found that:

- There was a need for departments and donor agencies to use uniform arrangements and procedures.
- Joint missions and work (i.e., partnerships) were required, as donors engage in their field work.
- There was a need for results based frameworks and optimal monitoring and evaluation (M&E) systems for effective ODA.

Smith’s, et al. study entailed interviews with managers from South African National and Provincial Departments, Development Counsellors representing International Donor Countries (e.g., USAID, SCAC, JICA, SIDA and AusAid), and South Africa’s IDC, Lovelife and the DAC Working Group. A total of 44 interviews were conducted, to include 13 National Departments and 21 multilateral donor agencies.

What is most interesting, and a fact that elected administrations have alluded to in recent times, is that donors view South Africa in terms of political, economic and strategic importance, rather than in altruistic developmental [aid] assistance terms. This, no doubt, has been a contributing factor to an absence of coordination, cooperation and partnerships amongst development and support institutions. This speaks to the second concept in unpacking the former question above.

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That second concept towards unpacking the question regarding coordinating activities is that of harmonisation. Harmonisation entails establishing common arrangements for planning, funding and implementing development programmes. The objective should be to preclude duplication of modalities, while complimenting each other in the performance of development and funding activities. The subject study referred to earlier found that donor agencies, for example, were not inclined to engage in joint planning. In other words, there was no collaboration, especially on the matter of joint country analysis.

Moreover, there was weak coordination between government departments and donor organisations. Aid was focused more on outputs and not outcomes. This is interpreted as emphasis being placed on short term outputs and not long term outcomes, the result being money and resources used without regard for impact on beneficiaries and communities.

Thus on the matter of coordination of development institutions, the sector must be viewed in terms of government departmental activities and associated developmental public entities and non-government organisations. There have been, and continues to be, effort to coordinate the activities of all players governmental and non-governmental. The National Treasury’s International Development Cooperation (IDC) unit, for example, has produced a Policy Framework and Procedural Guidelines for Managing ODA to facilitate interaction between government departments and non-government donor agencies (DCIS, 2003).

The necessity for a policy document arose out of the greater inclination by donors to channel financial support through the state and less through, say, the non-profit sector. Still, the activities of the non-profit sector, NGOs and government departments require coordination and at least, ensure that developmental efforts are aligned with national priorities of poverty eradication, education, infrastructure development, mitigation of HIV and Aids, etc. To this end, there has been a recommendation for all developmental players to engage in discourse through a National ODA Forum. Indeed, the IDC is leading developmental coordination, in conjunction with a National Development Board, a Development Counsellor’s Forum, an ODA Coordinator’s Forum, Cluster Forums and Provincial Forums (Smith, et al., 2006:12).

Towards answering the question on the use of formal aftercare programmes, as a strategy to provide support and consulting services to SMMEs, the concept of aftercare in South Africa is one that remains to be accepted and widely used. That is not to say that counselling, mentoring and planning services are not made available to SMMEs by development and support institutions. Such services, amongst others, are generally known as business development support, for example, to the second economy (Marais, 2008). This article then aims to build on the notion of business development support, such that the practice comes to indeed be recognised and known as [development] aftercare. A parallel, therefore, is drawn between business development support and aftercare [programmes] services. Inherently, aftercare entails some kind of support, say, after a grant has been awarded or upon a service request from an SMME.

Common in many countries, business support centres are the most widely used approach to providing aftercare services. Network advice centres, for example, are used to further the aims of local economic development. Information on competitive grants, mentoring, national supply information and industry sector specific information is made available to SMMEs and entrepreneurs in the formal and informal sector. Generally, these may be considered business development services. Still, the more specific aspects of such services may then exemplify aftercare that may be made available for the development of SMMEs.

**Programmes and Activities Exemplifying Aftercare**

There is an economic case and a development case for implementing aftercare programmes. As supporting evidence, it therefore makes implementation all the more urgent. The case can be made that aftercare can lead to transforming industries, sectors and even regional economies (UNCTAD, 2007:24). In other words, the potential impact of aftercare on the development sector and SMMEs could produce positive spillovers such as new management techniques, new products and technologies, skills development and linkages with universities and prospective international donors.

Indeed, aftercare should be thought of as a strategic reaction in response to, for example, the world economic recession. As markets fail and as large corporations fail to adapt, the alternative is to focus on SMMEs and assist by providing and engaging in aftercare activities.

While there are no aftercare programmes per se in South Africa that can be held up as a standard for replication, there are international examples of developmental aftercare programmes that may be used as models to formalise business development support in South Africa. Those
programmes are: 1) Sefton City Aftercare Management; 2) The First Peoples Economic Growth Fund, and 3) Inward Investment Using Aftercare Strategies.

Sefton City is located in the North West part of the United Kingdom, being the port city for Liverpool. In this instance, the service deliverer is the municipality or city council itself. The objective is to optimise investments made for the regeneration of the community, while providing business development interventions and assistance across a wide range of areas - e.g., advice on grants, local business initiatives, business development issues, planning, environmental legislation, property development and site acquisition, workforce development and recruitment matters (Sefton City: Online). Although Sefton bills its services as aftercare, it essentially is offering business support and advice for start-up business, existing businesses and businesses desiring to relocate into the locate area.

There is a development aspect to Sefton’s programme offerings in that it involves the community, and serves as an intermediary between the various spheres of government, especially on the matter of grants and subsidies. While in this instance a [public] development entity is not the service provider, the lesson so to speak to be learned is that the municipality itself can be an aftercare service provider, especially when the municipality has a geographic competitive edge such as being a port city. This brings to mind Cape Town, Durban and East London, and the extent to which they employ aftercare strategies for the regeneration of local communities.

A second example of aftercare programme activities is The First Peoples Economic Growth Fund (FPEG) based in the Manitoba Province of Canada. This programme aims to provide financial support to Manitoba’s aboriginal people and after doing so, provide a variety of support to include aftercare funding. The FPEG bills its Professional Support Services as an aftercare programme for new businesses that have obtained funding from another development programme. In this way the FPEG is truly an aftercare service provider, as it services those businesses that, for example, have already received grant money. The FPEG’s intake requires prospective clients to complete a comprehensive application form that queries whether there is a need for business plan development or any other type of professional support services, otherwise referred to as aftercare support.

The application form may be used to apply for additional grant funds as well. The FPEG offers other development services that serve to augment the aftercare programme. In other words, services such as skills development, loans to ammes entrepreneurs, joint venture funding, and support for community owned businesses are separate programmes aside from the aftercare programme but these programmes, part and parcel, could easily be sub-programmes of the aftercare programme offered.

Thirdly, the United Nations Conference on Trade and Development (UNCTAD, 2007) sets the standard for aftercare albeit with a view towards attracting foreign direct investment. Indeed their publication entitled “Aftercare: A Core Function in Investment Promotion” at best offers a framework for initiating aftercare in the development sector and subsequently:

- Define the nature of aftercare.
- Establish and operate an aftercare unit.
- Implement aftercare programmes for impact.

Reflecting on the UNCTAD definition of aftercare given earlier and reflecting on a brief [telephone] survey to be discussed hereafter, aftercare means different things to different people. In one instance, aftercare can be defined as support provided to an SMME by some type of advisory service. Aftercare might also be defined as the advisory service bringing two SMMEs together to form a business partnership. The advisory service could provide local economic data and information, such that a project could expand its operations.

Aftercare may be defined as assistance obtained to resolve implementation problems. The nature of aftercare is that of post-funding support, or post-establishment facilitation, as the servicing entity optimises its investment (grant funding or otherwise) by training, capacitating and serving as an intermediary between an applicant or recipient of grant money. In short, grant money may be given and added support is given to ensure the success of the project, the recipients and/or beneficiaries.

A telephonic survey revealed that while a development organisation may not have a formal aftercare programme, activities such as mentoring, business plan preparation and capacity building are construed as sub-components of aftercare. If some type of “post” support is provided the organisation thinks of itself as engaging in aftercare. Conclusively, there is little agreement as to what aftercare is and what activities fall under the general heading of aftercare.

In the event that a development organisation decides to establish a dedicated aftercare programme, it is first and foremost necessary for the organisation to understand the needs of its primary stakeholder. Those needs will drive the’s
services to be provided under any aftercare programme. A wealth of knowledge can be gleaned from UNCTAD’s investment promotion strategy where aftercare entails investment promotion agencies (IPAs), for example, assisting foreign companies to establish operations in a developing country this being a foreign direct investment (FDI) initiative. In the case of development organisations, the needs of grantees (SMMEs), for example, will drive the services to be provided under an aftercare programme. Does the SMME need business planning? Does the SMME need market information? Does the SMME need mentoring? In many development organisations in South Africa, such services and support are indeed being given, but not necessarily under the banner of a formal aftercare programme.

Establishing a formal aftercare unit or programme will then involve: 1) developing objectives for the unit to be established; 2) identifying resources, financial and the like, required to launch the programme; 3) designing the aftercare programme; and 4) rolling out the programme, delivering services, monitoring and evaluating for programme impact.

Towards designing the programme, services should be identified within the following 3 broad areas:

1. Administrative services:
   - Assisting in company registration
   - Obtaining operating licenses
   - Finding offices and business facilities
   - Understanding marketing and channels of distribution

2. Operational Services:
   - Training support
   - Promoting products and finding new markets
   - Facilities expansion
   - Identifying local suppliers
   - Finding additional sources of funding
   - Promoting clustering and partnerships

3. Strategic Services:
   - Consulting on adding value to products and services offered
   - Adapting to international standards for export opportunities
   - Policy advocacy to further develop the sector

Ultimately, the objective of aftercare support is to ensure that there is optimal impact - no matter if it is from the perspective of the supporting [service] provider, or from the perspective of a recipient of, say, donor or grant funding. There will be a desire to optimise the disbursement of funds or the provision of services. There will be a desire to optimise the recipient development organisation. There will be a desire to achieve a positive optimal impact on end beneficiaries and adjacent communities. Aftercare is a strategy that may be used to achieve those ends. Finally, the rationale for aftercare in the context of development support will be to further economic development. Conclusively, aftercare makes good business and economic sense.

The Landscape for Aftercare - A Brief Survey of Development Organisations

To assess the awareness of aftercare in development and support institutions in South Africa, a brief telephonic survey was conducted. Admittedly, the responses of a small number of institutions (10) should not be taken as being representative of the development sector. However, a general conclusion is made that, at least in South Africa, there is perhaps no such thing as an aftercare department or programme, an aftercare manager or aftercare desk. Rather, activities that exemplify aftercare are being performed; however, grouping those activities under, say, a management term or strategy known as “aftercare” is not commonplace. Support services are indeed provided but not under the heading of aftercare. Nevertheless, there is some familiarity with the term aftercare.

A telephonic interview involved querying respondents using the attached questionnaire as a framework for discussion see the annexure - Aftercare Programme Usage Survey. Of the 10 organisations surveyed, 7 could be described as small size development organisations, while the remaining 3 could be described as large size development organisations or banks. With respect for those 2 categories, large and small development organisations, there was a feeling that the larger development organisations were less inclined to engage in aftercare. One development bank with a large section of researchers was only vaguely familiar with aftercare, if familiar with aftercare at all. Due to size and a large internal bureaucracy, the larger development organisation will be less able to respond to the needs of, say, an SMME at the grass roots level. Indeed, SMMEs may not be their primary stakeholders, with the more sophisticated affluent stakeholder requiring little or no aftercare service once funds have been disbursed. In contrast, the smaller development agency will be most willing to attend to the needs of an SMME, while providing the most needed aftercare services of capacity building, mentorship and financial management. There, however, is a paradox in that as much as the smaller development organisation does provide services akin to aftercare, or may
have a desire to establish a dedicated aftercare programme or desk, limited financial resources and the small size of the organisation precludes it from, say, rolling out a fully fledged aftercare programme. Comparatively, the large development organisation has the financial resources and can mobilise the manpower for aftercare but may not have the inclination to do so. The small development organisation does not have the financial resources or the manpower but certainly has the inclination. One small development organisation noted that the training [development] manager or manager directly working with the SMME was the one providing aftercare support and services.

Summarising the responses to the questions: In response to whether the organisation provides aftercare support services 80% of the respondents replied no and 20% replied yes. However, of the 80% who said no, they commented that they were providing services that could be construed as an aftercare activity. There, however, was no formal internal aftercare programme. Fifty percent of the respondents were aware that aftercare could be used as a development strategy, while 50% were not aware. Seventy percent of the respondents were not familiar with another organisation having an aftercare programme. Thirty percent did know of some other organisation that used aftercare as an implementation strategy. In reference to question 4, two organisations were mentioned by name as having an aftercare programme.

Question 5 highlighted aftercare activities such as mentoring, placement of students after graduation and management training over an extended period of time. Only 20% responded that they would consider implementing a formal aftercare programme. As a best practice, one respondent preferred to outsource or contract a service provider to provide aftercare support to their stakeholders. Finally and in response to question 8, the 3 larger development organisations were guarded in their discussions and not that eager to talk. On the other hand, a majority of the smaller development organisations were willing to talk, were open and enthusiastic over the subject of aftercare.

**Contextualising Aftercare - Best Practices and Recommendations**

Aftercare in the development sector, at best, is fragmented and undefined. Development and support institutions do provide a host of (post funding) support, for example, to capacitate beneficiaries and projects. Support services, nevertheless, are not necessarily grouped under, say, a departmental heading of “aftercare.” Thus the development of formal aftercare programmes is a work in progress, in the context of the South African development sector.

On the international stage, there are models and best practices that can be drawn upon, towards formalising aftercare programmes in South Africa. Aftercare programmes may be initiated by key municipalities in order to maximise and further the aim local economic development. Depressed municipalities may use an aftercare strategy to partner SMMEs with industries and manufacturers that are attracted or invited to establish operations in their geographic areas. Small sized development and support institutions may choose to establish formal internal aftercare programmes targeted at beneficiaries, projects and SMMEs in general.

With funding for aftercare programmes in small development institutions being a limiting factor, larger development institutions and development banks could choose to encourage and fund aftercare programmes [partnerships] in the smaller development programmes, considering that the latter are tactically more able to respond to the needs of beneficiaries, projects and stakeholders at the grassroots level. Programme design should be based on the aftercare needs of stakeholders. However, best practices along the lines of mentoring, business planning assistance and market development and market penetration are but a few of the types of services or activities that can comprise an aftercare programme.

Conclusively, many activities that serve to exemplify aftercare are actually being performed in the development sector in South Africa. The advent of the aftercare specialist is not far off. The rise and the appearance of the aftercare manager can be expected. The materialisation of aftercare programmes is most desirable.

**References:**


Footnotes

1. Smith, et al. are not explicit as to what is not considered Official Donor Assistance (ODA). In defining ODA, there is reference to funding and development activities, and/or donor [development] institutions that in some way interact with, or who engage with, or are managed by the National Treasury.

2. See The Paris Declaration for further discussion on harmonisation (MDFR, 2005).

3. For a list of the 10 organisations surveyed, contact Dr. D. Myrick at drm_2000_za@yahoo.com
Dear Sir/Madam,

As a Manager and entity involved in development, I am sure you want to offer the best service possible. Essentially, I am interested in your approach to servicing your stakeholders and whether you use an aftercare programme to maximise the funding and subsequent administration and management of funded projects. Kindly, will you please answer the following research questionnaire on aftercare usage?

Aftercare programmes are commonly used, for example, in the context of medical procedures - i.e. Post-operative aftercare. This research aims to determine to what extent developmental organisations provide support after grant money has been given. Is there follow-up support given to facilitate sustainable development? Do you have a formal programme to cater to the needs of recipients over the project life cycle?

Aftercare involves assessment, diagnosis, planning and interventions to assure that the most desirable outcomes are achieved. Aftercare may be used as a strategy to grow small, medium and micro enterprises.

Aftercare Programme Usage

1. Does your organisation provide aftercare support services?
   ______ Yes ______ No

2. Are you aware that aftercare programmes may be used in the development sector?
   ______ Yes ______ No

3. Are you familiar with an aftercare programme used by some other organisation?
   ______ Yes ______ No

4. If yes, please indicate the name of the organisation:
   ________________________________________________

5. If yes to question 1: Briefly describe your aftercare activities.
   ________________________________________________
   ________________________________________________
   ________________________________________________
   ________________________________________________

6. If no to question 1: Would you consider implementing an aftercare programme?
   ______ Yes ______ No

7. If yes to question 1: Describe a best practice that characterises aftercare.
   ________________________________________________
   ________________________________________________
   ________________________________________________

8. In the following space, please add any comments you may have on aftercare:
   ________________________________________________
   ________________________________________________
   ________________________________________________

Annexure
A PROCESS EVALUATION OF A SMALL BUSINESS DEVELOPMENT PROGRAMME

By Carol Wright and Joha Louw-Potgieter

The evaluators would like to thank the City of Cape Town and all those involved who assisted with the research. The views expressed in this article are those of the evaluators and not those of the City of Cape Town or any other organisation involved in the project.

Abstract

The purpose of this paper is to report on a process evaluation of a small business development programme. The programme under evaluation is the City of Cape Town’s Business Support Voucher Programme. This process evaluation assessed whether the programme was implemented as intended and focused on two main areas, namely coverage and process. Coverage deals with who receives the programme and process addresses whether the services provided by the programme are consistent with the programme plan and well coordinated.

The programme was largely implemented as planned, but there could be improvements to the definition of the programme targets, the consistency of the implementation across sites and the establishment of monitoring and reporting systems. Programme records were sometimes unavailable or not accessible. This made it impossible to obtain a representative sample of service providers and beneficiaries.

The evaluation highlighted some positive aspects of the programme implementation. The results of this evaluation could be used to refine the programme. Research on the success of small business programmes is limited. This is one of few studies which has examined whether the target population received the intended services from such a programme.

1. Introduction

The role of small businesses in developing economies is considered significant and strategic. The main reasons for this are that they are sources of employment for less skilled workers and contribute to economic growth (Rogerson, 2006). In South Africa, a developing economy, small businesses are estimated to account for approximately 38% of production and 71% of jobs (Kauffmann, 2005). However, recent local reports (African Response, 2006; Maas & Herrington, 2007; World Bank, 2007) indicate that development of these businesses is poorly understood and monitored. For instance, the failure
rate of small businesses in South Africa ranges between 60-80% (Phalatse, 2007). The main impediments for small business survival have been identified as lack of access to finance, infrastructure and business skills (Brand, du Preez & Schutte, 2007; World Bank, 2007).

2. Programme Description and Targets

The City of Cape Town (CoCT), a major urban area in South Africa, has a business support policy for small businesses. In 2005 the CoCT developed a Business Support Voucher Programme (BSVP), implemented in January 2006. The overall aim of the BSVP is to develop business start-ups and emerging businesses in order to create more jobs and make a contribution to the economy. Potential and existing small business owners who comply with specific criteria can access four different business development services – a feasibility study, a business plan, a health check, and mentoring - by means of a voucher system. Once the client has paid a deposit of 10% of the voucher, the voucher can then be used as payment for the defined service by a selected and accredited service provider. On completion of the business development service, the product is signed off and the service provider submits the voucher for payment.

The intended beneficiaries of the programme were identified as previously disadvantaged people (i.e. people who were classified as Blacks, Coloureds, or Indians under apartheid law) above 35 years of age. Of these intended beneficiaries 50% should be female, 40% youths, and 10% physically disabled individuals. Furthermore, the beneficiaries should be spread across the following small business categories:

- potential owners committed to starting their own businesses;
- start-up clients who have a good chance of subcontracting their services or who have the potential for entering into joint ventures or taking up franchises;
- and existing business owners whose businesses show that they have growth potential, could create a number of jobs, and/or are involved in industrial or services sectors (CoCT, 2005).

The following targets have been set for the provision of business development services:

- 400 feasibility studies;
- 450 completed business plans;
- 215 businesses mentored;
- 120 completed health check reports;
- and a minimum of 50 business development service providers accredited (Cape Agency for Sustainable Integrated Development in Rural Areas (CASIDRA), 2006).

The programme is implemented by means of a range of complex partnerships and procedures. The programme sponsors are the CoCT and the Provincial Government of the Western Cape, which fund the vouchers and the voucher allocating agents. The implementing agent for the total programme is CASIDRA, and Swiss Contact (an accreditation firm) acts as the accreditation agent of the business development service providers. Four Real Enterprise Development Initiative Managers, called RED Doors, and ten business advisors screen applicants and match them to a business development service and service provider. Fifty accredited business development service providers deliver the four different services.

3. Implementation Evaluation

An implementation evaluation establishes what a programme is, what it does and whether or not it is implemented as intended (Schreier, 1994). A clear and detailed programme description is required for an implementation evaluation (Rossi, Lipsey & Freeman, 2004).

The service utilization framework presented in Figure 1 offers a flowchart of procedures and activities of the BSVP. There were sufficient programme records to use in the evaluation. By January 2007, a total of 946 applications had been made and 501 vouchers issued.
Figure 1: A service utilisation flowchart of the BSVP as intended. Source: City of Cape Town
Three evaluation questions were constructed for this implementation evaluation. The first deals with coverage and the second and third with process (World Health Organization (WHO), 2000).

3.1. Evaluation question 1: Who is being served by the programme? (i.e. is it reaching the intended target beneficiaries of the programme?)

3.1.1. How many clients were served and how many vouchers were issued by the programme in the period January 2006 to June 2007?

3.1.2. How many programme participants came from the targeted small business categories? and

3.1.3. Do the number of recipients and their profile match the expected numbers and the profiles intended by the programme? (Chen, 2005; Lipsey, 2007).

3.2. Evaluation question 2: What services are being offered by the programme and are these consistent with the programme plan specifications?

3.2.1. What do the participants actually do and what are their experiences? Is this consistent throughout the implementation sites?

3.2.2. What is working and not working as expected? and

3.2.3. What monitoring system has been used to track implementation and how is it being used? (Lipsey, 2007).

3.3. Evaluation question 3: What resources have been used and are these consistent with the programme management plan?

3.3.1. How does the utilization of resources by the implementing agent compare to what was intended? (Lipsey, 2007).

4. Method

4.1. Data providers

Data for the evaluation was provided by the different stakeholders. All three programme sponsors, two implementing agents and two accreditation agents were interviewed. Initially the evaluators intended to interview all 14 allocating agents, all 135 programme beneficiaries and all 50 service providers. This proved to be an impossible task, however, as contact details were outdated, telephone calls were not returned and a number of businesses and services were no longer operating. In the end a convenience sample of five allocating agents, 13 beneficiaries and 13 service providers were interviewed. The gender, race and age profiles of the programme beneficiary sample appear in Table 1.

<table>
<thead>
<tr>
<th>RED Door location</th>
<th>Gender</th>
<th>Race Group</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Black</td>
</tr>
<tr>
<td>RED Door A</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>RED Door B</td>
<td>3</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>RED Door C</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>RED Door D</td>
<td>8</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Percentage</td>
<td>39%</td>
<td>61%</td>
<td>61%</td>
</tr>
</tbody>
</table>

Table 1: Beneficiary sample: RED Door Voucher Location, Gender, Race group and Age

4.2. Materials

An interview schedule, programme records and site visits were used to provide the necessary data for the evaluation. The interview schedule contained questions on the objectives and performance of the programme, the beneficiaries and services, the allocating agents as well as the role of the sponsors. The complete interview schedule, as well as a list of all the programme records used and a site visit check list are available from the authors on request.

4.3. Procedure

Telephonic interviews with beneficiaries and service providers took place from August to October 2007. The interviews took 30 to 45 minutes to complete.

5. Results

The results are reported in terms of the evaluation questions.

5.1. Evaluation Question 1: Who is being served by the programme?

5.1.1. How many clients were served and how many vouchers were issued by the programme in the period January 2006 to June 2007? The four RED Door facilities received over 1,300 applications for vouchers and issued 750 (see Table 2). Of the applicants interviewed, 80% were approved for vouchers and 56% were issued with vouchers. RED Door C issued the majority of the vouchers. RED Doors C and D were most successful in converting applications into issued vouchers (conversion rate = number of vouchers issued divided by number of applications multiplied by 100). The status of the vouchers issued is reported in Table 3. Of the 750 vouchers issued, only 8% have an activated status (i.e.
5.2. Evaluation Question 2: What services are being offered by the programme and are these consistent with the programme plan specifications?

Table 4 displays the 750 vouchers issued, broken down into number and type of voucher issued per RED Door. The majority of vouchers issued were for feasibility studies (57%), followed by business plans (28%) and mentoring (10%). RED Door C issued more than two thirds of the vouchers.

Table 3: Summary of status of BSVP Vouchers by RED Door, 1 January 2006 to 30 June 2007.

Table 5 compares the agreed service targets for the evaluation period with the actual number of vouchers issued per type of service. The main observation is that aside from the feasibility study target, the agreed service targets have not been met, with a variance of 32% under-achievement.

Table 5: Number of BSVP Vouchers issued relative to the CoCT and CASIDRA targets, January 2006 - June 2007.

5.2.1. Business support services by service provider. From the list of 50 potential service providers, 32 active service providers were identified from the programme records. Interviews with the sample of service providers showed that six provide all four services, two provide feasibility studies, business plans and mentoring, four provide feasibility studies and business plans, and one mentoring only.

5.2.2. What do the participants actually do and what do they experience? Is this consistent throughout the implementation sites? From the service utilization framework presented in Figure 1, two streams of process steps can be identified. These are a RED Door (service provider) stream and a beneficiary (client) stream:

(1) RED Door stream. Analysis of records and interviews showed that this service stream was implemented as intended and implemented consistently across the four
allocating agents. However, there were three steps which deviated from the intended process. In process step 3 (interview with the business provider), Red Door A included the business advisor in the interview. In process step 7 (choice of service providers), a variety of approaches were followed by the RED Doors. These approaches ranged from matching clients with a service provider, to allowing clients free choice of a service provider. In step 9 (service signed off by the RED Door), Red Door C only signed off the business plan service once a client had accessed finance successfully.

With regards to the service providers, the data revealed that these followed the expected steps in the service provision process. However, the active participation of the client in the process was identified as a problem by some service providers. They indicated that some clients “expected to be spoon fed” or “did not grasp that they need to contribute to the process themselves”.

With regards to the implementing agent, a review of records and interviews with CASIDRA revealed that CASIDRA complied with the intended role of the implementing agent for the BSVP. During the selected period, standard monthly reports were sent to the CoCT with a summary of the number of the vouchers issued and monthly expenditure.

With regards to the allocating agents, all four RED Door managers agreed that the BSVP allows for the small business owner to improve his/her business and access opportunities which they would not have been able to afford otherwise. All four managers also agreed:

- that the Red Door services allow a single entry point for the entrepreneur;
- that they provide a needs service to small business;
- that the step-by-step process is clear;
- that they can track client progress; and
- that clients who are not successful can access other services.

With regards to the beneficiaries, an arbitrary cut-off point of 50% of the sample of beneficiaries was used to classify whether an aspect worked well. From the interviews it was apparent that the following aspects of the programme worked well:

- the whole programme (“...allowed me to obtain a feasibility study and business plan”);
- the business advisors (“good advice was given by the business advisors...who were patient and understanding”); and
- the service providers (“...provided excellent service...and were professional...”).

With regards to the service providers, over 62% of those interviewed indicated that the programme provided a good basis for small business development. They suggested small process improvements (“a good foundation has been set and now there is a need to tighten areas which need attention.”).

Not working as well as expected: With regards to the allocating agents, the main challenges reported by all the RED Doors are reflected in Table 6.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>RED Door - clients</td>
<td>Many clients have early ideas or start-up businesses but are not ready for the voucher process. BSVP does not attract more owners of established businesses. Managing clients’ expectations with regard to access to finance is challenging.</td>
</tr>
<tr>
<td>RED Door - DataManage database</td>
<td>System access and maintenance is a problem. Need to keep and use manual records. No technical support.</td>
</tr>
<tr>
<td>Service Providers</td>
<td>Quality of product/s uneven. Advice not matched to client needs. Some clients not involved in product development process. Accreditation of service providers needs attention. No plan to develop service providers.</td>
</tr>
<tr>
<td>BSVP</td>
<td>Conversion of business plan into access to finance is complex and takes time</td>
</tr>
</tbody>
</table>

Table 6: Summary of Implementation Challenges as reported by RED Door Managers.

RED Door managers were of the opinion that beneficiaries were not ready for the business development services offered, that the electronic monitoring system did not work, that the service providers did not always provide quality service according to expected procedures and that beneficiaries had particular problems regarding access to finance.

With regards to the beneficiaries, the length of the whole
process, plus the challenging and time consuming activity of completing forms, were raised as problems by at least half of the beneficiaries. They also indicated that RED Door staff operated under time constraints which often caused delays or led to errors in the process.

5.2.4. What monitoring system has been used to assess implementation and how is it being used? A review of programme records revealed that there is no integrated monitoring system for the programme. A number of monitoring activities take place as part of the ng agents, implementation process by the implementing agent, CASIDRA and the allocating agents, the RED Doors. The sponsors also monitor the implementation via the monthly reports submitted by CASIDRA.

In Table 7 non-compliance of monitoring by voucher allocating agents is indicated. From this table it is clear that the majority of the RED Doors complied with the monitoring processes. However, RED Door B is not complying with aspects of the client and voucher data, service provider/product and CASIDRA monitoring processes.

<table>
<thead>
<tr>
<th>Monitoring Step</th>
<th>RED Door Monitoring Process as intended</th>
<th>RED Door Monitoring Process as implemented: non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client Data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Registration form</td>
<td>RED Door A</td>
<td>RED Door B X</td>
</tr>
<tr>
<td>• Client visit data</td>
<td>RED Door C</td>
<td>RED Door D X</td>
</tr>
<tr>
<td>• Client application data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Interview information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Interview results</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Past voucher tracking</td>
<td>RED Door A</td>
<td></td>
</tr>
<tr>
<td>• Past voucher product advice data</td>
<td>RED Door B X</td>
<td></td>
</tr>
<tr>
<td>Voucher Data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Voucher application data</td>
<td>RED Door C</td>
<td></td>
</tr>
<tr>
<td>• Manager sign-off</td>
<td>RED Door B X</td>
<td></td>
</tr>
<tr>
<td>• Client notification</td>
<td>RED Door D X</td>
<td></td>
</tr>
<tr>
<td>• Deposit status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Selected service provider</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Service level agreement signing</td>
<td>RED Door B X</td>
<td></td>
</tr>
<tr>
<td>• Service provider appointment data</td>
<td>RED Door D X</td>
<td></td>
</tr>
<tr>
<td>• Number of vouchers per client</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Provider And Product</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Client - service provider interaction</td>
<td>RED Door A X</td>
<td></td>
</tr>
<tr>
<td>• Client - service provider feedback</td>
<td>RED Door B X</td>
<td></td>
</tr>
<tr>
<td>• Service provider product review</td>
<td>RED Door C X</td>
<td></td>
</tr>
<tr>
<td>• Service provider product quality review</td>
<td>RED Door D X</td>
<td></td>
</tr>
<tr>
<td>• Service provider product sign-off</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Service provider invoice checked</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Recommendation to CASIDRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Follow up meetings with service provider</td>
<td>RED Door A X</td>
<td></td>
</tr>
<tr>
<td>CASIDRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Service provider product sign-off</td>
<td>RED Door B X</td>
<td></td>
</tr>
<tr>
<td>• Invoice and payment</td>
<td>RED Door C X</td>
<td></td>
</tr>
<tr>
<td>• Additional information supplied to CASIDRA as required</td>
<td>RED Door D X</td>
<td></td>
</tr>
<tr>
<td>Plans and management reports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Annual performance plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Monthly targets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Monthly reports to CASIDRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Monthly reports to PGWC, RED Door manager</td>
<td>RED Door A X</td>
<td></td>
</tr>
<tr>
<td>• Reports per business advisor</td>
<td>RED Door B X</td>
<td>RED Door C X</td>
</tr>
<tr>
<td>• Reports per service provider</td>
<td>RED Door B X</td>
<td>RED Door C X X</td>
</tr>
</tbody>
</table>

Note: X = not implemented or implemented inconsistently in the RED Door i.e. Non-compliance

Table 7: Summary of Monitoring Processes Compiled as Intended and Implemented by RED Door. (Sources: Interviews RED Door Managers and Business Advisors, CASIDRA, PGWC, CoCT July - November 2007; Site visits July - September 2007)
5.3. Evaluation Question 3: The programme’s resource utilisation

Table 8 presents a high-level summary of the type of service, targets, vouchers issued and payment to service providers. This information was extracted and collated from CASIDRA’s (2006, 2007) records.

<table>
<thead>
<tr>
<th>Voucher type</th>
<th>Funding 2005-7 Rands</th>
<th>Voucher target</th>
<th>Number of vouchers issued, June 2007</th>
<th>Payment to service providers as at June 2007, Rands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feasibility studies</td>
<td>1 500 000</td>
<td>400</td>
<td>536</td>
<td>1 105 175</td>
</tr>
<tr>
<td>Business plans</td>
<td>787 500</td>
<td>450</td>
<td>292</td>
<td>1 564 250</td>
</tr>
<tr>
<td>Health check</td>
<td>120 000</td>
<td>120</td>
<td>50</td>
<td>31 000</td>
</tr>
<tr>
<td>Mentoring</td>
<td>107 500</td>
<td>215</td>
<td>95</td>
<td>33 000</td>
</tr>
<tr>
<td>Subtotal</td>
<td>2 535 000</td>
<td>1185</td>
<td>973</td>
<td>1 325 600</td>
</tr>
<tr>
<td>Implementation &amp; monitoring, project management</td>
<td>1 485 500</td>
<td></td>
<td></td>
<td>No details reported</td>
</tr>
<tr>
<td>Total</td>
<td>4 020 500</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 8: Service type, funding, targets, payments and vouchers issued - June 2007

6. Discussion

6.1. Evaluation Question 1: Who is being served by the BSVP? (i.e. is it reaching the intended target beneficiaries of the programme?).

6.1.1. How many clients were served and vouchers issued by the programme in the period January 2006 – June 2007? Over the selected period, the BSVP had served over 1 300 potential clients in the application process and issued 750 vouchers. If one considers the number of applications in relation to the number of vouchers issued as a voucher conversion rate, the average was 56%. Of the 750 vouchers issued, 18% had been activated or completed. These conversion and completion rates indicate that the programme has served a relatively low number of clients. In addition, targets for three of the four business development services have not been met. With the exception of the feasibility study service, the rest of the services showed a variance of 32% under-achievement. The voucher conversion rate, completion percentage and variance against targets provide useful sources of information to assist in the management of the programme.

6.1.2. How many clients participating in the programme came from the target population? The intended targets in terms of small business categories were potential, start-up and existing small businesses owners.

The definitions used for small business categories are vague and difficult to measure. It is not clear what exactly potential, start-up and existing small businesses denote. The results indicate that the beneficiaries were potential and start-up small businesses. However, one cannot be confident that the participants are indeed from these categories as poor category definition may have hampered classification.

These categories could also be used to refine the business development service offered and allow for progression from entry level to a more established business. For example, the candidate entrepreneur could be given a voucher for introductory business training and once completed, could progress to a feasibility study voucher.

6.1.3. Does the number of actual recipients match the expected numbers and does the client profile conform to the client specifications? The BSVP has set the following targets within the three small business categories: previously disadvantaged groups of which 50% of recipients should be women, 40% youths and 10% disabled people. Progress has been made in terms of the target for women, as 33% of actual beneficiaries are women.

It is recommended that the youth target be excluded from the beneficiaries as the programme has been specifically designed to cater for business owners older than 35. Young people (below age 35) could access those programmes specifically aimed at younger entrepreneurs (e.g. the Umsombovu Youth Fund). Disabled clients (1%) are well below the intended 10% target. Ninety-two percent of the programme beneficiaries belong to previously disadvantaged groups (Black and Coloured). This indicates that the programme is focusing on its intended target group.

6.2. Evaluation Question 2: What services are being offered by the programme and are these consistent with the programme plan specifications?

6.2.1. What do the participants actually do and what do they experience? Is this consistent throughout the implementation sites? The programme offers four types of service, namely feasibility studies, business plan, business health check and mentoring. During the selected period, the types of vouchers issued were for feasibility studies (57%), business plans (28%) and mentoring (10%). All services are available to qualifying clients at all four RED Doors. This is consistent with the programme plan specifications. However, the relatively
low number of business plan vouchers is of concern. It is suggested that the match between the beneficiaries’ needs and the type of voucher be strengthened (WHO, 2007). The target for issued and completed business plans may also have to be revisited and a programme theory (described later) could go a long way in clarifying realistic targets for specific services.

In terms of the allocating agent services, on the whole the programme is being implemented as intended. Apart from three steps, the RED Door service stream was implemented consistently and according to intended steps across the four locations. However, Red Door B appears to have implemented the BSVP differently from the other RED Doors. This will need attention and review to ensure consistency and alignment.

It is recommended that some of the fundamental programme and business processes, particularly those of the allocating agents, are documented in accessible, user-friendly guidelines and manuals. This would assist in strengthening record keeping, consistent implementation and smooth handover at time of staff turnover.

In terms of the service providers, each of the 32 active providers offered at least two of the main business support services and followed the required steps in the process with the client. However, some variation in the steps was noted regarding the extent of client involvement in the development of the product. As this cooperative, skills-transfer element of the programme is important to the sponsors, it needs to be incorporated formally into the programme. Possible ways to do so include more detailed briefings to service providers on the expected involvement of recipients per type of voucher.

6.2.2 What is working and not working as expected in the programme implementation? Working as expected. The programme affords small business owners the opportunity to improve their businesses and access business opportunities. This is encouraging and in line with South African public sector policy to develop and support small businesses (African Response, 2006; Centre for Development and Enterprise (CDE), 2007; CoCT, 2003; National Small Business Amendment Act No. 29, 2004; World Bank, 2007).

In terms of the allocating agents, the RED Doors provide a single point of entry for the applicant and a step-by-step, clear developmental process to follow.

Not working as well as expected: with regards to the programme, one of the main challenges is matching the programme to the clients’ needs. On the one hand, it was identified that many of the applicants were unprepared for the programme or needed additional training. At the same time, the programme did not seem to attract more established small businesses. Research on small businesses in the Gauteng province of South Africa found a similar challenge, which led African Response (2006, p. 89) to conclude that support for start-up small businesses “...will require longer term strategies and significant resources”. This implies that the programme should possibly differentiate its service offering with more structured, introductory business training for the survivalist businesses (candidate and emerging entrepreneurs) and put in place some targeted skills development and technology-focused training for established small businesses (African Response, 2006; CDE, 2007).

An additional challenge was the complexity of completing the final stages of the programme process. For example, it was reported that some beneficiaries who have a business plan, struggle to access funding from a financial institution. CASIDRA was aware of this particular challenge and was working closely with a range of financial institutions to explore options to address the issue. Strengthening this part of the BSVP would result in potential small businesses owners becoming start-up business owners, instead of remaining potentials without funding.

With regards to the service providers, from the results it is clear that the quality of the service provision was varied and uneven. In some instances, the advice did not match the clients’ needs or stage of business development; some clients were not involved in the business product development process and at the end of the programme, were unsure of how to proceed. A monitoring system to provide information about the success rate of each service provider will go a long way in ensuring the appropriate business development service for the right client. In turn, this information could be used to re-examine the accreditation of service providers and link the service provision process more closely to programme outcomes.

6.2.3 What monitoring system has been used to assess implementation and how is it being used? The results indicate that the programme is monitored in an...
unsystematic way and that there is little integration between different stakeholders. A reporting and monitoring framework needs to be developed and fully integrated into the programme processes. This would ensure that CASIDRA and RED Doors are able to access, present and use information in a more effective manner.

In addition, CASIDRA could possibly conduct more on-site visits and meetings with the service providers to strengthen programme communication processes, quality controls and support the intended developmental focus of the programme.

The lack of an effective monitoring system is not unique to the BSVP. Researchers have noted that comparable benchmarks are not readily available for the many different small business programmes as monitoring systems are not as well developed as they should be (CDE, 2007; Rogerson, 2006; World Bank, 2007).

As a start, it is suggested that the RED Doors put in place a number of monitoring processes, most of which are related to the programme process steps and captured in the DataManage system. These processes were not documented and the evaluators created a checklist of the monitoring processes which could be used in future.

6.3. Evaluation Question 3: What resources have been expended in the conduct of the programme and are these consistent with the programme management plan?

The resources expended on components of the implementation of the BSVP were reported to the CoCT, however only the total value of the vouchers was reported. The basic monthly reporting requirements were complied with. From the information available in the selected period, the planned budget for the BSVP had not been spent and the targets for vouchers had not been met (aside from the feasibility studies target).

Consideration should be given to developing a more detailed reporting format. Firstly, the needs of the users of the resource expenditure should be documented (W. K. Kellogg Foundation, 2004). Secondly, information on the number of applications, approvals, issues and conversion of issues into activated and completed services could be included as a possible starting point (see Table 2). The status and future of the DataManage system could also be reviewed for reporting purposes. Recent reports indicate that the system is stabilizing (CASIDRA, 2007). However, getting this system to work consistently would help CASIDRA and the RED Doors to monitor programme implementation more effectively.

7. Conclusions And Final Recommendations

In this evaluation, the evaluators posed three evaluation questions. These questions and the subsequent answers (which were limited by uneven data records) have raised a number of issues. Firstly, are the four business development services the optimal programme activities for this context? The answer would seem to be no. Evidence from the evaluation showed that some clients were not yet ready for the feasibility study service. On the other hand, some clients, after completing the business plan service, found it difficult to access the required finance.

Secondly, are the targets for the different types of services realistic? It does seem logical that as one proceeds along the spectrum of business development, the completed services would taper off, simply because not all business ideas are viable. The evaluation has shown an 18% activation/completion rate across the spectrum and this information could be used for more realistic target setting and service provider accreditation.

Thirdly, how does one define and measure client success? Is a client successful after having completed all four services? Or is success defined as having accessed the required finance, or when a sustainable business exists in a specific business category? These short, medium and long term outcomes could be made clearer and aligned with the programme activities.

All these issues, and the problem of defining different types of small business, could be addressed by means of a coherent programme theory. A programme theory is a plausible and sensible model of how a programme is supposed to work (Bickman, 1987). In other words, how do the stakeholders of the BSVP understand the way in which it will bring about change in the state of small business owners? A more refined understanding of what works in terms of small business development would assist the programme stakeholders to improve the alignment of programme activities, targets, and different levels of outcome.
8. References:


City of Cape Town (CoCT), 2003. Business support policy, Cape Town, City of Cape Town.

City of Cape Town (CoCT), 2005. Management and operational plan, city's Business Support Voucher Disbursement Programme, Cape Town, City of Cape Town.


THE IMPACT OF GLOBAL RECESSION ON SMALL, MICRO AND MEDIUM-SIZED ENTERPRISES (SMMES) IN SOUTH AFRICA: THE CASE OF THE TOURISM SECTOR IN LIMPOPO PROVINCE, SOUTH AFRICA

By Emmanuel Oseifuah

Abstract

Tourism is ranked and recognised as the second largest industry in the world after manufacturing (WTO, 1990; WTTC, 1992). Researchers emphasise that tourism expenditure has become an important source of economic activity, employment, tax revenue and foreign currency generation in many economies (Eadington and Redman, 1991). According to the World Travel and Tourism Council (WTTC) 2008 annual research figures, the travel and tourism industry employed over 255 million people world-wide and generated 9.6% of global GDP in 2008. Other related studies (see, for example, Tourism Intelligence International, 2009), however, reveal that the current global recession is having a profound negative impact on the industry worldwide. The question that arises is “to what extent has the global recession impacted the tourism sector in a developing economy such as South Africa?” Particularly of interest is the impact of the recession on the tourism sector in a typical rural economy located in the Limpopo Province.

The purpose of the study is to investigate and assess the socio-economic impact of the global recession on small and medium-sized tourist enterprises in the Limpopo Province of South Africa. Both quantitative and qualitative methods were used to generate and interpret tourism data from very small and micro tourism enterprises in the Limpopo Province.

The findings show that tourism SMMEs in Limpopo are concentrated in the accommodation and attractions activities. The explanation for this may be found in the rural nature of the province in the sense that about 90% of the population lives in the “non-urban” areas (StatsSA, 2004). The analysis also suggests that the majority of tourism SMMEs in Limpopo province have been adversely affected by the current global recession in terms of loss of income, concomitant upon attenuation of tourism visitors, among others.

An overwhelming majority (70%) of the owner/managers rated the effect of the recession on their businesses as “medium” to “very high”, while 30% assessed it as “very low” to “low”. This is consistent with the hypothesis that there is a direct link between recession and tourism demand generally and, also that the current global recession has a negative impact on tourism SMMEs in the Limpopo province.

As to whether they have implemented any strategies to curb the recession effect, 70% said they have not taken any action to this effect. Only 30% said they have implemented marketing/advertisement strategies to boost their businesses. It was noted also that 60% of the respondents were of the view that the government could help alleviate the current recessionary effect on tourism SMMEs through subsidy and marketing assistance.

As a policy palliative, tourism is a key and vital industry in any modern economy. It is therefore important for government, in consultation with economic and tourism practitioners, to update and expand the existing policy framework contained in the 1996 White Paper, possibly through specific legislation. Such governmental measures would not only regulate this vital but vulnerable industry, but would also generate firewall measures and provisions to protect the industry from future economic turbulence.

1. Introduction

Etymologically, the terms “tourist” and “tourism” are said to have been first employed technically by the League of Nations in 1937. However, it should be noted that tourism as an industry has existed long before this date. Anecdotally, King George III of England is reputed to be the first “tourist”. This is because he is said to have taken regular tours (holidays) to the seaside town of Weymouth when in poor health. Tourism is classically regarded as travelling for recreation. In recent times, however, this definition has
been expanded to include any travel outside of one's normal place of residence.

Tourism, like any other form of economic activity, is recognised as a global service industry of great economic, cultural, social and political importance, offering enormous economic opportunity for many countries, particularly those in the developing world. It generates employment and income in associated industries such as financial services, construction, cleaning, security, laundry, arts and craft, beach vendors, food and beverages, among others. Due to its labour intensive nature as well as the comparatively low barriers of entry, the tourism sector is increasingly dominated by small, micro and medium-sized enterprises (SMMEs), which provide a variety of products and services such as accommodation, food and beverage, attractions (cultural, historical etc) and transportation. The burgeoning importance of tourism and its widespread impact on society was recognised in the 1980 Manila Declaration on World Tourism which came with the following declaration:

Tourism is considered an activity essential to the life of nations because of its direct effects on the social, cultural, educational and economic sectors of national societies and on their international relations (WTO, 1995).

The World Tourism Organisation defines tourism as comprising the activities of persons travelling to, and staying in places outside their usual environment, for not more than one consecutive year, for leisure, business and other purposes (World Tourism Organisation, 2001). The definition recognises tourism as comprising a broad range of socio-economic activities, and goes beyond the common perception of tourism as being limited to recreation and leisure only.

The United Nations (1994) identified three forms of tourism, in its Recommendations on Tourism Statistics: domestic, inbound and outbound tourism. Domestic tourism involves residents of the given country travelling only within that country. Inbound tourism involves non-residents travelling into the given country. Outbound tourism is where people travel away from their home country to visit other international countries for leisure or business. One of the main aims of this paper is to assess the relative impact of the current global economic recession on two of these three tourism activities. These are domestic and international, as they are generally regarded as the two major contributors to a country's tourism picture.

Tourism is regarded as one of the fastest growing industries in the world economy. This industry is reported to have generated about $500 billion in the last fifty years (Cavlek, 2002; DTI, 2009). Expenditure from the tourism industry has therefore become an important source of DTI economic activity, employment, tax revenue, and foreign currency generation in many economies (Eadington and Redman, 1991). DTI (2009) reports that globally, tourism accounts for approximately 35 per cent of exports of services and over 8 per cent of exports of goods.

Cavlek in “Business in Tourism: SMEs versus MNCs” (2002), cited the World Tourism Organisation (2001) to the effect that from 1950-2000, the number of international tourist arrivals in the world increased from 25 million to 698 million, and international tourism receipts in the same period increased from US$25 billion to US$478 billion. Between 2000 and 2008, international tourist arrivals had reached 922 million and predictions are that this figure would grow to 1.56 billion in 2010. Over the same 2000-2008 period, international tourism receipts are said to have grown to US$ 944 billion. The World Travel and Tourism Council (WTTC, 2008) points out that the travel and tourism industry employed over 255 million people worldwide and generated 9.6% of global GDP in 2008. Indeed, tourism is now regarded as the second largest industry in the world after manufacturing (Eadington and Redman, 1991; WTO, 1990; WTTC, 1992; WTO, 2009).

According to the Department of Trade and Industry (2005), the phenomenal growth of the tourism sector over the last 50 years is in part due to globalization, including innovations in transport and information and telecommunication technologies, which have made travel cheaper and more accessible. Other contributing factors include increasing leisure time and disposable income in the leading tourist-generating markets of North America, Western Europe and Japan, among others.

Recent studies, however, reveal that the current global recession is having a profound negative impact on the industry worldwide (see, for example, World Tourism Barometer, 2009; and Tourism Intelligence International, 2009). The question that arises is “to what extent has the global recession impacted the tourism sector in a developing economy such as South Africa?” Particularly of interest is the impact of the recession on the small and medium tourism enterprises (SMTE) in a typical rural economy located in the Limpopo Province.

1.2. Definition and classification of small businesses

The definition of small business varies from country to country. Various definitions have been provided based on varied criteria. Among the common criteria used are the number of employees, gross assets, turnover, and investment level. The most common criterion used is employment, with varying levels of upper and lower size limits. This study uses the definition of small business provided by the National Small Business Act (1996): “a separate and distinct business entity, including cooperative enterprises and non-governmental
organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy”. The Act classifies small businesses into four main categories using three quantitative parameters: full-time employees, turnover, and asset value (See table 1).

<table>
<thead>
<tr>
<th>Sector or subsector in accordance with the Standard Industrial Classification</th>
<th>Size of classes</th>
<th>The total number of full-time equivalent of paid employees Less than:</th>
<th>Total turnover (Rm) Less than:</th>
<th>Total gross asset value (fixed property excluded) (Rm) Less than:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Medium</td>
<td>100</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>3.00</td>
<td>3.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>10</td>
<td>0.50</td>
<td>0.50</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>Medium</td>
<td>200</td>
<td>39.00</td>
<td>23.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>10.00</td>
<td>6.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>4.00</td>
<td>2.00</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Medium</td>
<td>200</td>
<td>51.00</td>
<td>19.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>13.00</td>
<td>5.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>5.00</td>
<td>2.00</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Electricity, Gas and Water</td>
<td>Medium</td>
<td>200</td>
<td>51.00</td>
<td>19.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>13.00</td>
<td>5.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>5.10</td>
<td>1.90</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Construction</td>
<td>Medium</td>
<td>200</td>
<td>26.00</td>
<td>5.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>6.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>3.00</td>
<td>0.50</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Retail and Motor Trade and Repair Services</td>
<td>Medium</td>
<td>200</td>
<td>39.00</td>
<td>6.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>19.00</td>
<td>3.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>4.00</td>
<td>0.60</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Wholesale Trade, Commercial Agents and Allied Services</td>
<td>Medium</td>
<td>200</td>
<td>64.00</td>
<td>10.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>32.00</td>
<td>5.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>6.00</td>
<td>0.60</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Catering, Accommodation and other Trade</td>
<td>Medium</td>
<td>200</td>
<td>13.00</td>
<td>3.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>6.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>5.10</td>
<td>1.90</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Transport, Storage and Communications</td>
<td>Medium</td>
<td>200</td>
<td>26.00</td>
<td>6.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>13.00</td>
<td>3.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>3.00</td>
<td>0.60</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Finance and Business Services</td>
<td>Medium</td>
<td>200</td>
<td>26.00</td>
<td>5.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>13.00</td>
<td>3.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>3.00</td>
<td>0.50</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Community, Social and Personal Services</td>
<td>Medium</td>
<td>200</td>
<td>13.00</td>
<td>6.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>6.00</td>
<td>3.00</td>
</tr>
<tr>
<td></td>
<td>Very Small</td>
<td>20</td>
<td>1.00</td>
<td>0.60</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
</tbody>
</table>
It is evident from the above classification that the vast majority of tourism enterprises operating in rural areas in South Africa can be classified as very small and micro tourist enterprises (VSMTEs).

1.3. The effect of the global economic recession on South Africa
A recession (or economic downturn), is a phenomenon which has been defined in the economics literature as at least two consecutive quarters of decline in a nation's gross domestic product (GDP). The consequences of economic recession typically include increased unemployment, stagnant wages, decreased consumer and business spending and fall in retail sales, among others. Some economists believe this definition of recession is flawed because of its narrow focus on GDP. It was suggested to consider a wider set of measures of economic activity to determine whether a country is indeed suffering a recession. Using other indicators can also provide a more timely gauge of the state of the economy.

The United States National Bureau of Economic Research (NBER), a private research organization, which maintains a chronology of the beginning and ending dates of U.S. recessions, uses a broader definition and considers a number of measures of activity to decide the dates of recessions. The NBER defined recession as “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators. A recession begins when the economy reaches a peak of activity and ends when the economy reaches its trough.” Consistent with this definition, the NBER focuses on a comprehensive set of measures (including not only GDP, but also employment, income, sales, and industrial production), to analyze the trends in economic activity.

According to the IMF (2009), the global economic recession has led to substantial declines in total output, investments, imports, industrial production, high unemployment rates and increased retrenchments worldwide. In South Africa, GDP data published by Statistics South Africa shows that the country entered recession in 2009 with a real GDP growth rate of -6.4% in the first quarter of 2009, compared with a 1.8 percent contraction in the fourth quarter of 2008. The Engineering News (2009) cited Rand Merchant Bank chief economist, Etienne le Roux, to the effect that the manufacturing sector recorded a 22.1% decline in output in the first quarter of 2008 compared to a contraction of 21.8% in the fourth quarter of 2008. There is also an increase in business bankruptcies and retrenchments; mortgage arrears resulting in house repossessions, motor vehicle repossessions; a sharp decline in second-quarter agricultural output – which had recorded a 17.1% contraction quarter-on-quarter in the second quarter, compared with a 2.9% contraction in the first quarter and 16.7% growth in the fourth quarter of 2008.

The Minister of Tourism, Marthinus van Schalkwyk, highlighted the effects of the current global economic recession on the tourism sector in South Africa as follows:

“In South Africa our tourism sector has proved to be more resilient than some other economic sectors, but we are not immune to the effects of the economic crisis. Some of the impacts will only become more visible in the next few months as the full consequences of the global economic meltdown trickles down. However, in 2008 we bucked the worldwide negative trend with 5.5% growth in foreign arrivals. The latest available data for foreign arrivals show that even in January 2009 we recorded growth of 5.4% compared to the same month in 2008. Furthermore, in 2008, foreign direct spend grew by an estimated 23.5% amounting to more than R74 billion. Yet, even though we have thus far been spared the worst impacts and remained in positive territory until the end of 2008, we are not complacent and cannot ignore the fact that our growth could slow down during 2009 as many of our primary markets remain in recession. (Minister of Tourism, Marthinus van Schalkwyk, January, 2009)"

1.4. Importance of tourism to South Africa
Since the dismantling of apartheid in 1994, tourism development has been viewed as a priority in South Africa’s broader development strategy (Rogerson and Visser, 2004). For example, the White Paper on the Development and Promotion of Tourism noted that tourism had largely been a missed opportunity for South Africa, but considered that it could provide the nation with an ‘engine of growth, capable of dynamising and rejuvenating other sectors of the economy’.

The White Paper identified the following as some of the important roles that tourism can play in the economic development process in South Africa:

• Tourism is labour intensive, requires a multiplicity of skills and has the potential to create jobs and bring development to rural areas, and thereby facilitate the achievement of the objectives of the government’s Reconstruction and Development Programme (RDP).
• Tourism has the potential to:
  1) create opportunities for the small entrepreneur;
2) promote awareness and understanding among different cultures;
3) breed a unique informal sector;
4) help to save the environment;
5) create economic linkages with agriculture, light manufacturing and curios (art, craft, souvenirs), the services sector, such as health and beauty, entertainment, banking and insurance.

Tourism can also play a strategic role in dynamising other sectors of the economy - the agriculture sector that benefits from the tourism industry (increased demand for new agricultural products and services such as organic agriculture, farm tourism); the manufacturing sector (the supply of furniture and fittings, construction, linens, pots, pans, etc.) as well as crafts (wood-working, curios, fine art).

The increasing importance of the tourism sector in the South African economy is reflected in its increased contribution to GDP and job creation (see table 2 and 3).

Table 2: Foreign tourism statistics. Source: South African Tourism annual reports (2002-2008)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to GDP (R bn)</td>
<td>72.5</td>
<td>100.9</td>
<td>109.7</td>
</tr>
<tr>
<td>Direct employment</td>
<td>492,654</td>
<td>512,000</td>
<td>465,710</td>
</tr>
<tr>
<td>Indirect employment</td>
<td>na</td>
<td>na</td>
<td>558,810</td>
</tr>
<tr>
<td>Total foreign direct spend in RSA (R bn)</td>
<td>48.8</td>
<td>45.8</td>
<td>53.6</td>
</tr>
<tr>
<td>Average length of stay (nights)</td>
<td>10</td>
<td>10</td>
<td>9</td>
</tr>
</tbody>
</table>

Table 2 reveals that the contribution of international tourism to South Africa’s gross domestic product (GDP) increased from R72.5 billion in 2002 to R194.5 billion in 2008, an increase of 168.3%. The total number of jobs created (direct and indirect) increased from 1,024,520 in 2004 to 1,041,700 in 2008, an increase of 1.68%. The average length of stay fell from 10 nights in 2002 to 8.2 nights in 2008.


<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>FA*</td>
<td>6,000,538</td>
<td>5,908,024</td>
<td>6,449,916</td>
<td>6,640,095</td>
<td>6,815,196</td>
</tr>
<tr>
<td>DA**</td>
<td>3,884,415</td>
<td>3,802,459</td>
<td>3,849,790</td>
<td>1,254,063</td>
<td>434,400</td>
</tr>
<tr>
<td>Total</td>
<td>9,884,953</td>
<td>9,710,483</td>
<td>10,399,706</td>
<td>7,894,158</td>
<td>7,249,596</td>
</tr>
</tbody>
</table>

Tourism can also play a strategic role in dynamising other sectors of the economy - the agriculture sector that benefits from the tourism industry (increased demand for new agricultural products and services such as organic agriculture, farm tourism); the manufacturing sector (the supply of furniture and fittings, construction, linens, pots, pans, etc.) as well as crafts (wood-working, curios, fine art).

The increasing importance of the tourism sector in the South African economy is reflected in its increased contribution to GDP and job creation (see table 2 and 3).

1.4. Profile of Limpopo Province

Limpopo province lies in the northern eastern part of South Africa. It shares borders with the Gauteng province (the industrial centre of the country) in the south, Mozambique in the east through the Kruger National Park, Zimbabwe in the north and Botswana in the west (Limpopo Growth and Development Strategy, 2004-2014). Limpopo is the fifth largest of the country’s nine provinces, with a total of 125,755 km², taking up 10.3% of South Africa’s land area and with a mid-2007 population estimate of 5.4 million people (11.3% of the total population of South Africa).

According to Statistics South Africa (2004), the province has a low level of urbanisation as 89.3% of its population lived in non-urban areas. The province is rich in natural beauty, culture and wildlife, making it a natural tourist destination of choice. In fact, Limpopo’s tourism was founded on its rich wildlife (for example, Kruger National Park) and natural reserve (example Mapungubwe) resources.

The population distribution of the districts in the province is shown in the table 3.

Table 4: Distribution of the population of Limpopo by District. Source: Stats SA: 2007 Community Survey

<table>
<thead>
<tr>
<th>District</th>
<th>2001 Population Census</th>
<th>2007 Mid-year Population Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capricorn</td>
<td>1,154,692</td>
<td>1,243,187</td>
</tr>
<tr>
<td>Mopani</td>
<td>1,061,448</td>
<td>1,068,568</td>
</tr>
<tr>
<td>Sekhukhune</td>
<td>967,185</td>
<td>1,085,424</td>
</tr>
<tr>
<td>Vhembe</td>
<td>1,198,055</td>
<td>1,240,035</td>
</tr>
<tr>
<td>Waterberg</td>
<td>614,151</td>
<td>596,092</td>
</tr>
<tr>
<td>Total</td>
<td>4,955,535</td>
<td>5,238,286</td>
</tr>
</tbody>
</table>
Table 4 shows that Capricon is the largest district (1.24 million people), followed by Vhembe, Sekhukhune, Mopane and Waterburg, with population of 1.24 million, 1.09 million, 1.07 million and 0.60 million respectively.

1.5. Statement of the problem and research question
Recent studies reveal that the current global recession is having a profound negative impact on the tourism industry worldwide (see, for example, Tourism Intelligence International, 2009). The question that arises is “to what extent has the global recession impacted the tourism sector in a developing economy such as South Africa?” Particularly of interest is the impact of the recession on the tourism sector in rural economies located in the Limpopo Province.

Related questions include the following:
- What is the extent of the recession on the South African economy?
- Does economic recession have a direct impact on tourism demand?
- How great is the decline in tourism on tourist destinations and tourism operators?
- What were the trends of the tourism industry in Limpopo before the global recession?
- To what extent does the recession affect the tourism industry in Limpopo?
- Which tourism sectors have been affected more and why?
- To what extent has the Limpopo economy declined as a result of the recession in the tourism sector?
- What specific measures have tourism SMMEs adopted to survive the recession?

1.6. Hypotheses
These questions were translated into the following hypotheses:
- There is a direct link between economic recession and tourism demand.
- The current global recession has a negative impact on tourism SMMEs in the Limpopo province.

1.7. Objectives of the study
The main objective of this study is to investigate and assess the socio-economic impact of the global recession on small and medium-sized tourist enterprises in the Limpopo Province.

The specific objectives are:
- To determine the impact of the current global recession on the operations of tourism SMMEs in Limpopo.
- To assess the relative impact of the current global economic recession on domestic and international tourism arrivals.
- To determine the measures implemented by tourism SMMEs to deal with the potential impact of the recession.
- To draw policy implications from the results.

2. Literature Review
There is generally a paucity of literature on the specific topic under research. Most of the data available on the tourism industry relates to the social, economic and environmental impact of tourism, generally. There is therefore a great need to assess, a) the impact of this industry on SMMEs and b) the effect of the current global economic meltdown on this vital sector of economic activity.

The effect of the global recession has been felt worldwide. The International Federation of Arts Councils and Culture Agencies (IFACCA) conducted a recent survey of its members worldwide on the likely impacts on the arts of the global downturn, and on how arts councils and ministries of culture around the world are helping arts sectors meet the challenges of the recession. The findings revealed that, while an overwhelming majority of respondents expect the global downturn to impact on the arts, many are still unsure about the extent, nature and timing of the impacts (Madden, 2009).

According to the Asian Development Bank (ADB, 2009), the recession has triggered a substantial decline in demand for the region’s main exports – manufacturing, commodities and tourism. This has had a substantial impact on the economies of Asia and the Pacific. For example, manufacturing in Cambodian clothing exports to the United States—its largest market—dropped by 27 per cent in the first 5 months of 2009 from the corresponding period of 2008.

Koch and Massyn (2000) investigated the prospects and challenges of the domestic tourism sector in South Africa. They analysed the status of domestic tourism in South Africa in terms of several parameters: provincial distribution of domestic tourists; domestic tourists’ motivations, expenditure patterns; the total economic contribution of tourism in South Africa; the economic contribution of domestic holiday tourism in South Africa; present government policies; links between domestic tourism and other sectors of the economy; the impacts on social livelihoods; the impacts on local cultural diversity and lifestyles; impact on national reconciliation;
environmental impacts and issues for further enquiry. They found that, historically, undue attention has been devoted to promoting international tourism, to the detriment of the positive contribution that domestic tourism can play in sustainable tourism development.

Prideaux and Witt (2000) examined the causes of the Asian financial crisis by examining the initial impacts on Australia’s tourism industry and assessed the response of the Australian Government. They found that the Australian Government has generally ignored the impact of the crisis on the tourism industry and has failed to ensure that Government policies in areas such as taxation have a neutral impact on the nation’s tourism industry.

Fabian (2009) investigated the impact of the financial crisis on the tourism industry in Tanzania. Data for the study was collected via interviews and postal questionnaires. The analysis of the data revealed that the current financial crisis has adversely affected the tourism sector in Tanzania. Several companies have retrenched their employees while others have curtailed the recruitment of new staff. Some tour operators have closed down their businesses, while the country’s foreign exchange earnings have also dropped from US$ 1037 million (2007) to US$ 933 million (2008).

A detailed analysis of the South African tourism economy reported in the 2004 edition of the Monitor highlighted a number of key findings on the state of the tourism industry and areas for improved competitive performance. The report indicated that tourism arrivals in South Africa in 2004 were too dependent on a few large markets and thus the mix of arrivals needs to lessen dependence on these potentially volatile markets and correspondingly increase South Africa’s share of arrivals from high value markets. The report stated further that the domestic tourism industry needs to be realigned in terms of redefining and upgrading its products and services to address the tourism demands in those countries and segments that are most valuable (Monitor, 2004).

There is little doubt that the global recession is having a widespread negative impact on the socio-economic well being of people and businesses around the world. Assessing the extent of the impacts and the mechanisms by which those impacts are felt by tourism SMMEs is necessary and imperative.

3. Methodology

This study is part of a larger investigative study that the present researcher is conducting on the effect of the global recession on tourism business in the Limpopo province. For the purposes of the current study, a total of 10 owners/managers of tourism SMMEs were interviewed. A structured questionnaire was used to gather data on a number of issues relating to the impact of the recession on tourism SMMEs. Data collected include the age of the business, size of labour force, the number of years engaged in the tourism business, the overall assessment of the impact of the recession on the tourism sector in South Africa as a whole, and the interviewee’s business specifically, strategies put in place to counteract the recession’s impact and the perceived role of government in alleviating the recessionary effect.

4. Data Analysis and Discussion

4.1 Data analysis

The data was analysed by means of tables quantifying the effect of the recession on a selected number of tourism SMMEs in the Limpopo province. The results are shown on tables 5-9:

Table 5: Overall effect of the recession on the tourism sector in South Africa.

<table>
<thead>
<tr>
<th>Size of entity (no. of full time employees)</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5</td>
<td>5</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Greater than 5 and less than 10</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Greater than 10 and less than 50</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Greater than 50 and less than 100</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>3</td>
<td>10</td>
</tr>
</tbody>
</table>

Table 5 shows that 70% (7 out of 10) of the businesses interviewed agree that the global recession has affected South Africa’s tourist sector.

Table 6: Age and nature of the business.

<table>
<thead>
<tr>
<th>Age of business</th>
<th>Accommodation</th>
<th>Attractions (e.g. game parks/ hunting/ etc)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1-2 years</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>2-5 years</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>
It can be deduced from table 6 that all the ten businesses are engaged in the accommodation activity only, while 50% of the businesses are engaged in both accommodation and attractions activities. Of the 10 businesses providing accommodation services, 60% have been operating for over 5 years while 40% have been operating for less than 5 years.

Table 7: The extent of the global recession on the operations of your business

<table>
<thead>
<tr>
<th>Strategy</th>
<th>No. of entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>1</td>
</tr>
<tr>
<td>High</td>
<td>4</td>
</tr>
<tr>
<td>Medium</td>
<td>2</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
</tr>
<tr>
<td>Very low</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
</tr>
</tbody>
</table>

Table 7 indicates that an overwhelming majority (70%) of the owners/managers assessed the effect of the recession on their businesses as medium to very high. 30% assessed it as very low to low.

Table 8: Strategies to curb effect of the recession

<table>
<thead>
<tr>
<th>Strategy</th>
<th>No. of entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>7</td>
</tr>
<tr>
<td>Marketing/Advertisement</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
</tr>
</tbody>
</table>

Table 8 revealed that 70% of the ten entities did nothing to alleviate the effect of the recession. This means they have no strategies in place to curb the potential impact of the global recession on their businesses.

Table 9: Possible government interventions to alleviate the effect of the recession

<table>
<thead>
<tr>
<th>Possible government intervention</th>
<th>No. of entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don't know</td>
<td>3</td>
</tr>
<tr>
<td>Marketing/Advertisement support</td>
<td>3</td>
</tr>
<tr>
<td>Government subsidy</td>
<td>3</td>
</tr>
<tr>
<td>Grading should be free</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 9 shows that 3 respondents have no idea what kind of government intervention they require to alleviate the effect of the recession. 3 respondents suggested that the government should intervene through marketing/advertisement of their businesses. Another 3 suggested financial subsidy from government. Finally, one respondent indicated that the fee charged for grading accommodation facilities should be scrapped.

5. Conclusion

As stated in the introduction, the purpose of this study was to investigate and assess the impact of the global recession on tourism SMMEs in the Limpopo Province. The study reveals that tourism SMMEs in Limpopo are concentrated in the accommodation and attraction activities. The explanation for this may be found in the rural nature of the province in the sense that about 90% of the population lives in the “non-urban” areas (StatsSA, 2004). The analysis also suggests that the majority of tourism SMMEs in the Limpopo province have been adversely affected by the current global recession in terms of loss of income, concomitant upon attenuation of tourism visitors, among others.

An overwhelming majority (70%) of the owners/managers rated the effect of the recession on their businesses as “medium” to “very high”, while 30% assessed it as “very low” to “low”. This is consistent with the hypothesis that there is a direct link between recession and tourism demand generally and, also that the current global recession has a negative impact on tourism SMMEs in the Limpopo province.

As to whether they have implemented any strategies to curb the recession effect, 70% said they have not taken any action to this effect. Only 30% said they have implemented marketing/advertising strategies to boost their businesses. It was noted also that 60% of the respondents were of the view that the government could help alleviate the current recessionary effect on tourism SMMEs through subsidy and marketing assistance.

As a policy palliative, tourism is a key and vital industry in any modern economy. It is therefore important for government, in consultation with economic and tourism practitioners, to update and expand the existing policy framework contained in the 1996 White Paper, possibly through specific legislation. Such governmental measures would not only regulate this vital but vulnerable industry, but would also generate firewall measures and provisions to protect the industry from future economic turbulence.
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Department of Environmental Affairs and Tourism. 2009. Tourism budget vote speech delivered by Martinus van Schalkwyk, Minister of Tourism, Old Assembly Chamber, Parliament, Cape Town.


Small, micro and medium enterprises (SMMEs), worldwide, contribute to employment and national economic growth and development, particularly in developing countries. In South Africa the small business sector is reported to have contributed 27%-34% to the country's GDP between 2000 and 2006. The sector's contribution to employment is in the vicinity of 40% during the same period. Whereas the trend slightly declined in the micro-enterprise sub-sector, performances have been relatively constant in the very small business and small business sub-sectors (Dore, 2009:45). Elsewhere, particularly in other African countries and Latin America, the role of micro and small enterprises (MSEs) is no less significant. Studies in Botswana, Kenya, Malawi, Swaziland and Zimbabwe, for instance, show that SMMEs generate almost twice the level of employment that registered, large-scale enterprises and the public sector do (Mead and Liedholm, 1998; cited in Nichter and Goldman, 2009:1453-1454). In Paraguay, Mexico and Bolivia micro and small enterprises (MSEs) with 10 employees generate 58% and 53% of total employment respectively (ILO, 2003). In terms of economic output, MSEs contribute about 31% of GDP in Dominican Republic; 13% in Kenya; and 11% in Pakistan (Daniels, 1999; IDB, 1998; Small, 2002, cited in Nichter and Goldman, 2009:1454).

Some analysts (e.g. Nichter and Goldman, 2009; citing Daniels, 1999; Gamser, 2003) maintain that official statistics underestimate MSE's contribution to GDP. Kenyan MSEs, for instance, are reported to actually generate 40% of GDP, not 13% as recorded by some analysts. Doubtless true, SMMEs are as important a source of livelihood to millions of households (employees or entrepreneurs) as they are in alleviating poverty and inequality; as well as maintaining social cohesion and environmental stability. The growth of SMMEs is therefore no less critical in South Africa than it is elsewhere, and the current global recession renders the promotion of small business growth and development in South Africa as important as is the bail-out of floundering big business in rich countries. The recession, notwithstanding, the growth and development of small business has perennially been constrained by several factors. The key constraints include lack of access to finance, technology, raw materials and components, product markets and inadequate government support. Small firms, particularly small manufacturing enterprises (SMEs) also face high input costs, an often hostile business environment characterised by debilitating tax systems and legal frameworks, a host of managerial problems, high wages and strong unions, and above all the impact of globalisation (IDS, 1997). These are critical barriers, which have justifiably been essential to the debate on and interventions in small business growth and development in South Africa, and developing countries in general.

In the past decade or so, the debate has focused on what may be described as the isolation thesis, the notion that the isolation of small and medium enterprises (SMEs), rather than size, is the key problem, and that the answer lies in clustering and networks or networking. In other words, clustering, networks and inter-firm cooperation are catalytic to the growth of firms, and therefore warrant promotion. The proponents of this thesis argue that operating alone small firms find it hard to overcome growth barriers. With government support, however, things could be much easier,
prioritizing a customer-oriented focus, a collective approach and a cumulative effort to ensure continuous, rather than one-off, improvements (IDS, 1997). This article explores the isolation thesis, using data from a study on the network perspective of the growth paths of small clothing manufacturing enterprises (SCMEs) in Durban. The paper tests the isolation thesis and also explores the relationship between networks and/or network characteristics and the performance of the sampled SCMEs. The most significant type of networks for small business performance is identified; and whether clustering is a sufficient condition for inter-firm cooperation to a level that promotes firm performance and collective efficiency or not, is explored. Whereas the results presented in this paper are limited to the Durban clothing manufacturing cluster, they provide the groundwork for debate on economic recovery policy response to the current recession. The rest of the article is structured as follows: In the next section, a conceptual overview of industrial clusters, networks and small business growth is presented. Next, a descriptive profile of the clothing industry is provided. The data is then described, followed by the presentation of the results and conclusion.

A Conceptual Overview

Industrial Districts or Clusters

In the past two decades or so, industrial clusters and networks have exponentially gained prominence in the firm growth literature in terms of volume and analytical depth. Much of the literature concurs with Schmitz and Nadvi’s (1999: 1503) simple definition of an industrial cluster as “sectoral and spatial concentration of firms”. The early theoretical insights into industrial clusters, generated by Alfred Marshall in his Principles of Economics (1920), extolled externalities associated with the agglomeration of firms engaged in similar or related activities. Such externalities, e.g., economies of scale, a pool of specialized labour, knowledge spillover and access to commercial and financial services, tend to lower transportation and transaction costs (Schmitz and Nadvi, 1999:1504; Porter and Solveig, 1998, cited in Boari, 2001:4). They also enhance individual performance and the collective efficiency - the competitive advantage derived from external economies and joint action - of firms in an industry or a cluster (Marshall, 1920, Nadvi, 1999; Schmitz and Nadvi, 1999).

Several success stories of industrial clusters have been widely documented, since Piore and Sabel (1984) first brought the phenomenal surge of small firms growth in the Northeast and central regions of Italy in the 1960s and 1970s to the world’s attention. Examples include a cluster of leather shoe producing firms in the Sinus Valley, Brazil, the surgical instrument firms in Sialkot, Pakistan, and the computer industry in Silicon Valley, California, USA. (Piore and Sabel, 1984; IDS, 1997; Nadvi, 1999; Nadvi and Schmitz, 1999). These successes, notwithstanding, clusters do not always promote growth and this particularly holds true for the Durban cluster of clothing manufacturing enterprises which is the focus of this paper. Clusters have periods of emergence, growth, decline and renewal, and the challenges for all actors are certainly different at each of these stages (Lundvall, 2003:5). Secondly, exchange relations do not take place in a social vacuum (Granovetter, 1985); the social is as important as the economic. The negation of external social and business networks in the collective efficiency analytical framework therefore adds to the limitations of the framework in explaining growth disparities within and between clusters (Schmitz and Nadvi, 1999:1505, 1506). Thirdly, an enabling business environment is a necessary condition for firm growth, and by and large, local governance and institutions are critical determinants (Boari, 2001:15-16). Fourthly, the quality of the human factor, i.e., appropriate personality traits, such as trust, honesty, vision, confidence and commitment are a sine qua non for exchange outcomes through joint action and/or inter-firm co-operation (Adjibolosoo, 1995; Adu Febiri, 1997; Haucap, 1997; Adjibolosoo and Soberg, 2000; Owusu-Ampomah, 2004, 2009).

The success of an industrial cluster is thus dependent on several factors. In the era of “Globalising Learning Economy” (Lundvall, 2004), however, having a social and legal-administrative system that creates positive personality traits and interaction amongst people is a most important national asset... Linking up with dynamic partners abroad, may be the best way to bring new ideas into the national innovation systems” (Lundvall, 2003: 10). Simply put, networks and the underlying primary bonding mechanism - the quality of human factor or human personality traits are the critical elements for firm growth and the growth of industrial districts or clusters.

Network Theory

Network theory is a labyrinth of conceptual uncertainties (Owusu-Ampomah, 2009:6). Many analysts define networks differently but in this paper I refer to a network as a pattern of formal or informal ties or relationships amongst economic and/or non-economic actors. The network literature (e.g., Brass and Burkhardt, 1992; Ernst, cited in Castells, 2000:207; Casson, 2000 and Bogarti and Li, 2009:2-3) is also replete with
many types of networks. Ernst (cited in Castells, 2000:207), for example, classifies network-types in terms of economic activity in industries; and these are supplier networks, producer (or factor) networks, customer networks, standard coalition networks and technology cooperation. Brass and Burkhardt (1992), on the other hand highlight communication and fraternal networks but the binary classification of Casson (2000) tells how tall the list can be. For Casson (2000), a network may, for instance, be regional or inter-regional; transparent or opaque; open or closed; vertical or horizontal; and positive or negative. In recent times Bogarti and Li (2009: 2-3) have observed that at one level networks may be continuous or discrete. At another level a network may fall into one of four major categories: similarities, social relations, proper interactions and flows.

In spite of the conceptual uncertainties in network theory, much of the literature (e.g., Perrow, 1992; Nohria and Eccles, 1992; Putnam, 1993; Uzzi, 1996; Villasalero, 1999; Chan Kwok Bun and Chee Kiong, 2000) concur that networks support firm performance and national economic growth and development. Putnam (1993:161) succinctly captures the relevance of networks in the context of industrial districts:

“Networks facilitate flows of information about technological developments, about the creditworthiness of would-be entrepreneurs, about the reliability of individual workers and so on. Innovation depends on continual informal interaction in cafes and bars and in the streets. Social norms that forestall opportunism are so deeply internalised that the issue of opportunism at the expense of community obligation is said to arise less often here than in areas characterised by vertical and clientistic networks. What is crucial about these small-firm industrial districts, conclude most observers, is mutual trust, social cooperation and a well developed sense of civic duty in short, the hallmarks of the civic community” (Putnam, 1993:161).

The caveat, however, is that networks, like industrial clusters, may not always support firm performance or economic growth. Interactions may not be even within the cluster; firms in networks may also not be homogeneous nor interchangeable in terms of role or task; inter-firm relationships may not be homogeneous, and that some firms may or may not show the capability to design, support and manage large and differentiated network relationships with other firms (Lorenzoni and Baden-Fukker, 1995; Dyer, 1996; Uzzi, 1997, cited in Boari, 2001). Within networks some members may be circumspect and skeptical, with considerable impact on equitable resource distribution, learning opportunities and technological diffusion. Information flow could be hampered by gatekeepers, disgruntled network partners or self-seeking individuals, especially if centrally placed in the network and having control over the distribution of resources (Marsden, 1982:205; Owusu-Ampomah, 2009:7).

Doubtless true, clusters and networks are necessary elements in firm and economic growth, especially in this era of an increasingly competitive and volatile global economic environment. For clusters dominated by SMMEs, strong inter-firm relationships and/or cooperation and joint action appear imperative; operating in isolation is a recipe for

<table>
<thead>
<tr>
<th>Figure 1: Typology of Business Networks</th>
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<tr>
<td><strong>Factor Networks</strong></td>
</tr>
<tr>
<td>- production, finance, marketing</td>
</tr>
<tr>
<td>- transport, labour, etc.</td>
</tr>
<tr>
<td><strong>Communication Networks</strong></td>
</tr>
<tr>
<td>- Electronic</td>
</tr>
<tr>
<td>- Face-to-face (FTF)</td>
</tr>
<tr>
<td>- Printed matter</td>
</tr>
<tr>
<td><strong>Fraternal Networks</strong></td>
</tr>
<tr>
<td>- Friends</td>
</tr>
<tr>
<td>- Relatives</td>
</tr>
<tr>
<td>- Business colleagues</td>
</tr>
</tbody>
</table>

Source: Owusu-Ampomah, 2004:

Whereas network-types vary from analyst to analyst, this paper adopts the types of networks identified in the study that forms the basis of the paper - factor, fraternal and communication networks (Owusu-Ampomah, 2004) (Figure 1). The paper also recognises Castell’s (2000) differentiation of network characteristics into consistency and connectedness as conceptually useful. By consistency he meant the extent to which there is a sharing of interests between a network’s goals and the goals of its components. Connectedness, on the other hand, refers to the ability of a network to facilitate noise-free communication between its components, i.e., the nature of connections and how it facilitates interactions between the members in a network. To a large extent, the degree of consistency and nature of connectedness of a network is a key to network outcomes in exchange relations. The worth of a network to individual components and the collective may be determined by density (presumably, the most important), centrality, openness, diversity, strength of ties and medium of interactions, e.g., face-to-face (FTF), the print and electronic.

The worth of a network to individual components and the collective may be determined by density (presumably, the most important), centrality, openness, diversity, strength of ties and medium of interactions, e.g., face-to-face (FTF), the print and electronic.
disaster. Is this the case for the Durban clothing manufacturing cluster? This question is at the core of the discussion in the rest of the paper and I begin in the next section with a brief description of the Durban clothing manufacturing industry.

**A Descriptive Profile of the Durban Clothing Industry**

The Durban Metropolis has the largest cluster of clothing manufacturing enterprises in KwaZulu-Natal. The industry is dominated by small firms, mainly cut, make and trim (CMT) enterprises. These are clothing manufacturing enterprises which do not have their own lines of garment manufacturing but depend on subcontracting relationships. Much of the literature on the clothing industry in the Durban Metropolis (e.g., Harrison, 1996; Owusu-Ampomah, 1997; Morris et al, 1998), attribute the small-size structural pattern of the clothing firms to seasonal demand for clothing, relatively portable skills associated with clothing manufacturing and the cost-effectiveness of dealing with small firms.

In the past decade or so, the clothing and textile industry has been declining, with dire consequences on employment levels, environmental stability and the growth and development of the economy. The industry is the hardest hit in the wave of job losses, which was severe in the period 1998 to 2001, when 33 963 jobs were lost, countrywide - 22 700 in clothing, 5 700 in footwear and 3 800 in textiles. During that period 12 300 employees in KwaZulu-Natal lost their jobs, compared to 10 000 in the Western Cape, 4 600 in Gauteng, 3 400 in the Eastern Cape, and 3 506 in the Free State and Northern Cape (Indicator, December 2001).

In the wake of the current wave of global recession, production volume of the clothing and textiles sector has declined by nearly 10% although the effect of the recession has been felt in all other sectors except food and beverages and electrical machinery between October 2008 and March 2009. Whilst job losses in the South African economy as a whole have reached alarming proportions, with 209 000 jobs lost in the first quarter of 2009 (Qhena, 2009), the clothing and textiles sector appears relatively better off than other sectors, but this does not suggest that the industry is insulated.

The decline of the clothing industry is often attributed to many factors and its roots do not lie in the current global recession. The factors include lack of technical and managerial skills, lack of capital and financial management skills and high input costs, largely due to high wages. Other factors are debilitating legal environments, low productivity, and globalisation (Owusu-Ampomah, 1997:87-92).

“For many decades, the clothing industry was focused almost exclusively on the domestic market. Its biggest battle has been competition from cheaper imports, made cheaper still recently by the reduction of import tariffs in line with government’s restructuring programme for the industry......” (Indicator, December 2001:2).

A number of studies (e.g., Prinsloo, 1995; Harrison, 1996; Owusu-Ampomah, 1997; Kaplinsky and Morris, 1998) suggest that the downward trend of the clothing industry in South Africa is partly due to inadequate inter-firm cooperation and networking within the industry. There is little evidence of the level of cooperation and networking associated with successful industrial districts or clusters, e.g., Pakistan's Sialkot surgical instrument cluster (Nadvi, 1999) and the Italian clusters (Piore and Sabel, 1984:17). Besides, the industry appears to be oblivious of the imperatives of responding to global competitive pressures through upgrading, pricing, quality, speed of response and flexibility. This does not enhance the opportunities for job creation in a labour intensive industry, which has the potential to reduce unemployment. The former Minister of Trade and Industry, Mr Mandisi Mpahlwa did not lose sight of this potential and the need for action, speaking at the 10th National Congress of the South African Clothing and Textile Workers Union in Durban in 2007.

“This is the large sector, perhaps the most labour intensive sector; (it) has a lot of jobs, a lot of capabilities. We have to stabilise that sector and we have to support the clothing and textile sector” (Khumalo, 2007).

The stabilization of the sector cannot be over-emphasised but this needs a deeper understanding of the sector dynamics. The sectoral analytical approach that dominates studies on the sector is useful but it lacks extra-structural and rich analyses of considerable depth, detail and texture that case studies usually provide. For policy makers to intervene effectively they need not only understand the structural constraints but also the interpersonal, social and business interactions or relationships within the industry and the forces that shape these interactions or relationships. This paper contributes to this understanding, using data derived from a case study on the network perspective of the growth paths of small clothing manufacturing enterprises (SCMEs) in Durban.

**Description of the Data**

The objectives of the study, inter alia, were to:

- · Investigate whether the isolation thesis was applicable to

- · Investigate whether the isolation thesis was applicable to
manufacturing enterprises in Durban, and this confirms that the isolation thesis was applicable to the small clothing performance firms (VLPFs) were then analysed to i.e. the very high performance firms (VHPFs) and the very low performing firms. The outliers, The analysis compared first the characteristics of the high performing firms and the low performing firms. The outliers, i.e. the very high performance firms (VHPFs) and the very low performance firms (VLPFs) were then analysed to convincingly confirm the findings at the first stage analysis.

Empirical Evidence

The analyses of the survey and qualitative data established that the isolation thesis was applicable to the small clothing manufacturing enterprises in Durban, and this confirms manufacturing enterprises in Durban, and this confirms earlier observations in the literature (e.g., Prinsloo, 1995; Harrison, 1996; Owusu-Ampomah, 1997; Kaplinsky and Morris, 1998). Not only was network density/size low amongst the sampled SCMEs but also the extent of openness, spatial distribution and diversity was limited. The mean network density was 23.56, with a standard deviation of 18.76; the minimum was 6 and the maximum was 110. The extent of openness, measured by an openness index (OI) (on an openness index scale with a minimum of 0 and a maximum of 100) was a mere 52.64, with a standard deviation of 14.93. The minimum openness index was 30 and the maximum was 95. The network contacts of majority of the firms (58% n=34) were located locally whilst only 42% (n=25) had both local and external network contacts. The data suggested a fairly high degree of inward looking amongst the sampled SCMEs in the Durban Metropolis, and this was confirmed by depth interviews with officials of the Clothing Federation of South Africa and the Southern African Clothing and Textiles Workers Union (SACTWU).

Whereas all the officials agreed that networks were significant for the growth of the industry, they also conceded that the level of network relationships and inter-firm cooperation amongst SCME owners in the Durban Metropolis was relatively very low, compared to say, China where the network density of a firm at any particular time could be several dozens (Wei-ping, 2000:46). It was intimiated that inter-firm cooperation within the industry was at one level primarily pipeline driven. At another level it was needs driven and often occurred at the level of policy intervention, particularly where the government's trade and industrial policy seemed to have a negative impact on the industry and success was not always guaranteed.

The reasons for the low level of network relationships in the clothing industry include mistrust, reputation effects, individualism, the apartheid system, conservatism of an ageing crop of entrepreneurs, time and financial constraints, cultural differences and religion. Other reasons were lack of government policy to promote business networks, lack of exposure to the culture of business networks, lack of interest in formal network structures, rivalry or destructive competitive spirit and indifference amongst components of the industry's formal networks.

The problem of mistrust, individualism, and reputation (Raub and Weesie, 1990) underlines the human capital theory or the much preferred human factor paradigm which argues that human factor decay i.e., negative personality traits such as dishonesty, selfishness and lack of trust, accountability and responsibility are the primary causes of poor economic
performance, particularly in less developed countries (Adjibolosoo, 1995). Inter-firm relations in the industry, especially between the small and big firms were anything but cordial, and this, together with the inadequate networks account for the poor performance of the industry. This is vividly captured in one of the reported interviews with the officials:

“The small companies are being squeezed by the big companies. If you are small you'll be small until you die or don't survive; if you are big you'll be big in order to squeeze those that are small. That's the fact of the game in South Africa. Small companies are not enjoying any good cooperation from the bigger companies...” (SACTWU Official, 2001).

In sharp contrast:

When you look at the Far East the SMMEs are very supportive of each other hence they are very successful in the export market. What they do is try and help each other to overcome problems...all their problems are dealt with by groups of people that have got the interests of the country at heart. In South Africa we work as individuals because we haven't been exposed to the culture. To a large extent, that explains the failure of the SMME sector to grow as it should (Clofed Official, 2001) (Emphasis added).

This perception was corroborated by another official who believed that the Chinese - referring specifically to those in the clothing industry in South Africa - had mastered what he called the “cluster approach,” i.e., joint action. He explained:

"When we talk about exports it is huge and the only employers that are able to achieve that goal are Chinese. I had a discussion with two Chinese guys two weeks ago. They said to me that they were in firm control of 100% of the export orders they receive but the only way they were using was that they were sharing the export orders among themselves, between Isithebe, Newcastle, Tembisa, Lesotho, Qwaqwa etc. ... “(SACTWU Official, 2001) (Emphasis added).

Network Characteristics and Business Performance

In spite of the inadequacy of networking and the high degree of inward looking amongst the sampled SCMEs, survey data confirmed a positive relationship between networks and business performance although the relationship was statistically weak - the coefficient of determination (r²) was 0.0321. A positive relationship was also established between the degree of openness and economic performance although this relationship was also not strong. With df at 59 and α=0.05, r² was calculated as 0.1542, and F ratio given as 10.759.

The weak relationship could be attributed to two or more reasons: (a) the sample size was not adequate to establish a clear linkage between networks and profitability, and (b) the use of cross-sectional data under the circumstances of what is suspected to be a small sample size could also be problematic in establishing causality. Nevertheless, since the performance of a firm depends on many factors, each of which counts, irrespective of the size of its contribution, it is argued that network density or size of networks is a factor in the performance of the sampled SCMEs as it enhances access to resources. This argument is consistent with much of the literature on networking (e.g. Nohria and Eccles, 1992:6; Burt, 1992-64), which maintains that the greater the network density of an actor, the better the actor’s chances of accessing social resources, and hence a better performance.

Notwithstanding this argument it was clear that the regression analysis had not convincingly established causality between networks and business performance. To establish causality beyond doubt the outliers, i.e., the very high performing firms and the very low performing firms were pulled out and analysed. A comparison of the openness index of the very high performing firms (69) with that of the very low performing firms (51) suggested that the very high performing firms were more open than the very low performing firms. The result demonstrated that openness had a positive effect on the performance of the sampled firms. In other words, the more open the sampled SCMEs were in the management of their businesses, the greater the chances of higher economic performance. This conclusion concurs with much of the literature (e.g., Bell and Albu, 1999; Casson, 2000; Theodorakopoulos and Wyer, 2000, Lundvall, 2003:10) that openness and/or networking enhances business performance.

Most Significant Type of Network

The question of the most significant type of network was examined next, relying once again on the outliers, as the initial analysis of the data-set showed conflicting results. For the outliers, communication networks, to be precise electronic networks, emerged conspicuously as the most significant type of network in terms of performance. The medium of communication most often used by the very high performing firms in factor and fraternal network interactions was electronic. In other words all the very high performing firms preferred electronically mediated interactions to face-to-face (FTF). In contrast only 83% of the very low performing firms used electronically mediated communication most often in their factor network interactions; the rest (17%) preferred FTF. In relation to fraternal networking, 67% of the very low performing firms used electronic medium while 33%
preferred FTF. While the majority of the very low performing firms (like all the very high performing firms) prioritised electronically mediated interactions, the firms that preferred FTF were all in the VLPFs category. From the data it was clear that highly successful firms in the sample were more likely to be those that had shifted emphasis away from the medieval mode of interactions face-to-face to modern electronically-mediated interactions. Conversely, the poorest performing firms were more likely to be those that stuck to old-fashioned medium of interaction: face-to-face (FTF).

These findings were reinforced by the data on the types of electronic media employed by the sampled firms (Table 2). The data showed that there were significant differences between the very high performing firms and the very low performing firms, and the differences helped to explain the disparity in the performances of the sampled SCMEs in Durban. The most often used medium of communication was the telephone. However, while all the very high performing firms were linked by telephone only two in three of the very low performing firms had access to it. Quite significantly too, the number of very high performing firms that had access to the computer was three times as many as the number of very low performing firms that had access to this medium of communication.

Table 2: Category of Firms and Electronic-Mediated Interactions

<table>
<thead>
<tr>
<th>Electronic Medium</th>
<th>VHPFs</th>
<th>VLPFs</th>
</tr>
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<tbody>
<tr>
<td>Telephone</td>
<td>100%</td>
<td>67%</td>
</tr>
<tr>
<td>Access to Computer</td>
<td>100%</td>
<td>33%</td>
</tr>
<tr>
<td>Use of Computer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Word Processor</td>
<td>100%</td>
<td>33%</td>
</tr>
<tr>
<td>Computing Accounts</td>
<td>83%</td>
<td>33%</td>
</tr>
<tr>
<td>Designing</td>
<td>83%</td>
<td>0%</td>
</tr>
<tr>
<td>Internet</td>
<td>100%</td>
<td>33%</td>
</tr>
<tr>
<td>e-mail</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>Voice Mail</td>
<td>50%</td>
<td>17%</td>
</tr>
<tr>
<td>Teleconferencing</td>
<td>50%</td>
<td>17%</td>
</tr>
</tbody>
</table>

The various ways in which the computer was used also differed between the two sub-samples. While 83% of the firms in the very high performing firms used the computer for designing, none of the very low performing firms used the computer for that purpose. Further, all the firms that had access to the computer (100% and 33% of the true sample in the cases of the very high performing firms and the very low performing firms respectively) were on the internet. Regarding e-mail, 83% and 17% of the very high performing firms and the very low performing firms respectively had access to it. The least employed electronic media were voice mail and teleconferencing. Only 50% and 17% of the very high performing firms and the very low performing firms respectively used the computer for voice mail and teleconferencing.

The hypothesis that factor networks were the most significant type of networks was not supported by the data in terms of performance. The economic performance of the firms associated with fraternal networks (FRANET) was also lower than the economic performance of firms associated with electronic communication networks. The conclusion is that electronic networks are the most significant type of network among the sampled SCMEs in Durban. This finding confirms the widely held view that the use of the new information and communication technologies (ICTs) is significantly associated with economic performance. In this event, for SCMEs in Durban to become competitive and improve upon their performance through effective and efficient networks in this era of globalisation, they will need to modernise their information and communication technologies.

**Conclusion**

This paper has explored a key constraint, the isolation thesis, underlying the growth and development of small businesses in the context of the small clothing manufacturing enterprises (SCMEs) in Durban. The paper empirically confirms the isolation thesis and concludes that the low level of networks and inter-firm cooperation amongst the SCMEs in Durban, controlling for other factors, accounts for the relatively poor performance of the industry in the past decade or two. The paper also empirically confirms communication networks as the most significant of the three types of networks identified in the literature - factor, fraternal and communication networks for firm performance. The specificity of this finding is that the use of new ICTs, e.g., the computer, internet, and e-mail, not face-to-face (FTF) interaction contributes more significantly to firm performance.

Besides all this, it is clear that the existence of a cluster does not necessarily guarantee networking, inter-firm cooperation and/or joint action to a level that assures individual performance and collective efficiency. Clustering may be necessary, but is not a sufficient condition for economic growth. The findings suggest that the promotion of networks, inter-firm cooperation and joint action, and the rapid uptake of ICT use are likely to have a positive impact on firm performance and the collective efficiency of the enterprises. This in turn could have a contagion effect on job creation and a reduction in unemployment. The promotion of networks, inter-firm cooperation and joint action, and ICT uptake, however, cannot be pursued in isolation but in pari passu with efforts to deal with the human factor decay and other non-structural systemic constraints underlying the limited networks and inter-firm cooperation.
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Clofed Official, Interview, Sept. 10 2001

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SACTWU Official, Interview, 10 Sept. 2001


EXTENDING BUSINESS DEVELOPMENT SERVICES TO SOCIAL ENTERPRISES: THE CASE OF A PILOT SOCIAL BUSINESS PLAN COMPETITION ON THE CAPE FLATS

By Tom Fox and Egbert Wessels

Abstract

Existing business development service (BDS) institutions such as SEDA, NYDA and The Business Place have not traditionally focused on providing tailored services for social enterprises in South Africa. Some are now taking steps to explore the potential for such services, and expanding their service offer accordingly. One example of this exploration was a pilot Social Business Plan Competition that ran during the second half of 2009 in the Cape Flats area of Western Cape. It was coordinated by The Business Place Philippi in collaboration with other providers of financial and non-financial BDS and the International Labour Organization. The aim of the competition was not only to expose such institutions to the concept of social enterprise and to develop support services for social enterprise, but also to raise awareness of and interest in social enterprise among the target population. This paper describes the methodology used, the tools developed, the lessons learned and the potential for replication of the competition concept as a way for BDS institutions to enhance their capacity to identify and serve social enterprises alongside their traditional clientele. The competition showed that there was a great interest in social enterprise as a business type as well as a great need for support. The conclusion is that this support can to a great extent be supplied by existing BDS institutions.

1. Introduction

Social enterprise is an emerging concept worldwide that is attracting increasing interest as a way to apply business approaches to social challenges. Its emergence is connected to various trends and movements, some of which are interrelated.

Firstly, it has roots in the social economy movement, which includes cooperatives, mutual benefit societies, associations and foundations. Depending on the context, this is sometimes referred to as the ‘solidarity economy’ and it is often characterised by a strong focus on the democratic governance of the enterprise. While social enterprises do not necessarily follow this principle as closely as is required of cooperatives, there is increasing recognition of social enterprises as one among many forms of social economy enterprises. Notably, at a regional conference organised by the International Labour Organization (ILO) in October 2009 on the social economy as a response to the economic crisis in Africa, social enterprises were recognised as part of the social economy.

Secondly, governments around the world are under pressure to improve the efficiency and effectiveness of service delivery to their citizens. This has led to debates about the relative benefits of contracting out some elements of public services to external suppliers. Social enterprises have been proposed as a pragmatic response to this often ideologically and politically charged question, as they can
offer the efficiency of a private sector service provider but with a guarantee that the public rather than private interest is served.

Thirdly, non-profit organisations (NPOs) with charitable or social purpose missions are likewise under pressure from their donors and supporters to become more efficient and financially sustainable, and to maximise the social ‘return on investment’ (Alter, 2006: 206). This has led to a new generation of NPOs that are adopting business-like operations and techniques in order to improve their efficiency and/or looking for ways to generate at least a portion of their own income themselves rather than depending solely on grants or donations. Some philanthropic financiers who in the past funded NPOs on a grant basis, are now starting to seek investments in social enterprises from which they anticipate not only a social return but also a high chance of a financial return, hence the opportunity to reinvest their capital in further social causes.

Fourthly, the recent economic crisis and the financial crisis that preceded it have triggered a process of reflection on business models that has questioned the sustainability of conventional private sector approaches, and increased interest in alternative business models that seek to combine social and financial goals. As the Honourable Minister of Economic Development Ebrahim Patel says, the “very extremes of profit-fundamentalism have so distorted economic actions and incentives, that the essential purpose of economic activities became subverted. Society is paying a high price for the lack of balance, with the economic crisis. There is recognition that such a model is not sustainable … There is now also an increased interest in a better mix between private and social enterprises as a further response to the lack of development in the past” (Patel 2009: 14).

Finally, there is increasing realisation of the depth, size and significance of the social enterprise sector in many parts of the world. Minister Patel goes on to note that “the social economy is [a] frequently under-recognised, under-appreciated and under-marketed part of the modern economy” (ibid.). What was once a hidden segment of the economy is starting to be recognised as a major employer and contributor of economic activity. In countries where it has not yet had significant policy recognition or support, such as South Africa, there is the implication that social enterprise could represent a new growth area which offers a politically attractive win-win - new job creation and better service delivery.

However, social enterprise remains in its infancy, both at a policy and a practitioner level. There are no universally agreed definitions of social enterprise, nor of related concepts such as social entrepreneurship or social entrepreneur. The immaturity of the field is reflected in what impartial observers might regard as petty squabbles over definitions, and there are fault lines in the sector between those who focus on social entrepreneurs (the individuals acting as society's 'change agents') and those who focus on the social enterprise itself. This lack of consensus on terminology can be problematic - it is hard for outsiders to get a clear sense of what is meant by social enterprise, as this depends on who is using the term, and misunderstandings are common. It is not surprising therefore that the first question in many conversations about social enterprise is ‘what do you mean by social enterprise?’ Some examples of existing definitions are shown in Box 1.

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**Box 1. Selected definitions of social enterprise and social entrepreneur:**

- “A social entrepreneur … builds strong and sustainable organizations, which are either set up as not-for-profits or companies” (Schwab Foundation, 2009)
- “Social enterprises are businesses trading for social and environmental purposes” (www.socialenterprise.org.uk)
- “[Social enterprise refers to] any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals.” (OECD, 1999)
- “Social enterprise[...] adopt one of a variety of different legal formats but have in common the principles of pursuing business-led solutions to achieve social aims, and the reinvestment of surplus for community benefit.” (Haugh, 2006)
- “A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.” (UK Cabinet Office, 2006)
- “Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change.” (Www.ashoka.org)
2.2. Ongoing policy dialogue on social enterprise

2009 saw a concerted effort to raise the level of debate on social enterprise in South Africa. Through the facilitation of an International Labour Organization project, representatives of government, workers, employers, social enterprises, academics, business development service facilitators and providers and other stakeholders entered into a comprehensive debate on how to improve the enabling environment for social enterprise development. This involved national and community-level research, outreach, a study tour, policy dialogue and the development of resources and tools. A national conference was held in October 2009 on the enabling environment for social enterprise development in South Africa, resulting in a conference statement that sets out an agenda for designing, institutionalising and implementing a more conducive policy, legal, regulatory and institutional framework. Work on this framework, including improvements to business development service provision for social enterprises, is ongoing.

2.3. Working definition

One of the national research studies carried out to inform the above policy dialogue noted that South African stakeholders expressed the need to develop a homegrown definition, and based on the research findings, proposed the following as a working definition:

A social enterprise’s primary objective is to ameliorate social problems through a financially sustainable business model, where surpluses (if any) are principally reinvested for that purpose. (Steinman, 2009: 39)

During the national conference of October 2009, a revised version was adopted that replaced ‘ameliorate’ with ‘address’ and ‘principally’ with ‘mainly’, which some delegates considered clearer, particularly for those people for whom English is not a first language.

Furthermore, the conference statement noted that “this working definition embodies key principles that define social enterprise, notably (1) the primacy of the enterprise’s social purpose and (2) financial sustainability”, and suggested that “the clause on reinvestment of surpluses is an indicator and guarantor of the primary social purpose” (ILO, 2009b: 1). Discussions regarding an appropriate definition in the context of the pilot social business plan competition, and in stakeholder feedback on community-level research into the potential for social enterprise development in selected township communities, indicated a potential challenge arising from this clause. In a micro-enterprise context, entrepreneurs...
often view profit as their only personal income rather than costing a salary for themselves into the business plan before calculating profit. This suggests the need to make it clear to a potential social entrepreneur that ‘mainly reinvesting surpluses’ does not mean that he/she cannot expect to derive a reasonable income from his/her social enterprise, as long as this income does not compromise the enterprise’s social purpose.

2.4. Institutional support for social enterprises

There are a few existing institutions that provide dedicated support to social enterprises or social entrepreneurs in South Africa. Some are international organisations with local offices, notably Ashoka⁹ and the Schwab Foundation for Social Entrepreneurship,¹⁰ which both provide support to selected social entrepreneurs through their networks. Others are attached to academic institutions, notably the Network for Social Entrepreneurs at the Gordon Institute of Business Science¹¹ and the Centre for Social Entrepreneurship at the University of Johannesburg.¹² Three are also independent organisations including the social enterprise incubator Heart;¹³ the African Social Entrepreneurs Network (ASEN)¹⁴ and the nascent UnLtd South Africa.¹⁵ These are of course many other organisations whose work overlaps with the social enterprise space and which in practice provide support to social enterprises, even if they are not labelled as such.

Significantly, there is increasing interest among established facilitators and providers of conventional business development services in extending their service offer to include tailored services for social enterprises. These include the Small Enterprise Development Agency (SEDA), whose interest in the subject is reflected in the inclusion of social enterprise as one topic in the call for abstracts for this publication, and the National Youth Development Agency (NYDA). They also include The Business Place and Red Door, which were both involved in the Cape Flats pilot social business plan competition described below.

2.5. Business competitions and social entrepreneurship awards schemes

There are some existing examples of competitions and award schemes open to social entrepreneurs in South Africa, including the Gordon Institute of Business Science (GIBS) Social Entrepreneurship Awards,¹⁶ the Schwab Africa Regional Social Entrepreneurs Award,¹⁷ and the Social Entrepreneur categories of the South Africa chapter of Ernst & Young’s World Entrepreneur Awards¹⁸ and the Nedbank/Businesswomen’s Association Regional Business Achiever Awards.¹⁹ These awards target established social entrepreneurs. To date there has been less of a focus on social enterprises at the pre-start-up or start-up stage. Business plan competitions for conventional small enterprises are commonplace in South Africa as elsewhere, a prominent example being the Enablis Business LaunchPad competition;²⁰ but only now are these starting to extend their focus to social enterprises.²¹

3. Social Business Plan Competition on the Cape Flats

3.1. Objectives

The ultimate objective of the 2009 pilot social business plan competition²² was to explore how to unlock the potential of social enterprise to create social value in the target community. The immediate objectives were threefold:

Firstly, the competition aimed to raise awareness of social enterprise as a concept among the public at large in the target community, and to encourage members of the community to come up with viable business solutions to real social problems. The competition then aimed to give these potential social entrepreneurs the help they required to develop an outline social business plan that described how their idea could work. For those ideas that were successfully developed into viable social business plans, the aim was to help the entrants to access finance and other services required to put their plans into practice.

Secondly, the competition aimed to provide existing BDS institutions currently serving the target community with an awareness and understanding of social enterprise, and with appropriate tools to provide BDS support to social enterprises as well as conventional businesses. In doing so, it was intended that these BDS institutions would be granted an opportunity to expand their service offer as well as increase their developmental impact.

Thirdly, the competition was a pilot. It was intended that it would generate insights into the usefulness or otherwise of such a competition-based approach in pursuit of the above two objectives, and lessons on the process and tools used with a view to refining these for future use.

3.2. Target audience

The competition was specifically aimed at residents of the area of the Western Cape commonly known as the Cape Flats.²³ The competition targeted this area both because it comprises most of the previously disadvantaged communities in the wider Cape Town, and because it is served by the BDS institutions that were involved in the
pilot competition. Entries were invited from any individual, group or company residing and operating (or intending to operate) a social business in this area. The intention was to encourage individual residents and groups from the target area to come up with viable plans to address socio-economic problems in their own communities or be recognised for having done so.24

The competition was open to all, with no restriction on age, gender or other demographic criteria. The publicity material stated that the organisers particularly welcomed entries from youth, women, and people with disabilities. Specific efforts were made to attract entries from people with disabilities and/or related to social businesses with a disability focus, by disseminating information on the competition via Disability Workshop Development Enterprise and its network of disability-focused organisations. No specific efforts were made to attract entries from youth or women, other than involving the National Youth Development Agency in the process.

Entries were invited from individuals, businesses and any other relevant form of organisation, including unregistered businesses, Pty Ltds, closed corporations, partnerships, cooperatives, Section 21 companies and non-profit organisations. The competition was open to those with existing social businesses and those with an idea for a potential social business.

3.3 Partners

The overall coordinator of the competition was The Business Place’s Philippi branch (TBPP). During 2008, TBPP had been involved in dialogue with a Netherlands-based organisation called Stadia, through Cordaid’s Urban Matters partnership programme in Philippi. Stadia had previously organised a social venture competition in Amsterdam and was interested in helping partners to apply the concept in other countries. In early 2009, TBPP discussed the idea with the International Labour Organization (ILO) and both parties agreed that this was a good fit within the context of the ILO’s work on social enterprise development in South Africa. Stadia provided insights from its experience, in particular by delivering the initial training of trainers workshop and by providing examples of documentation used in Amsterdam and elsewhere. Stadia’s involvement in this workshop was supported financially by Cordaid and the Sustainability Institute.

TBPP managed all aspects of the process, including partnership development, marketing and outreach, delivering information workshops and other support to entrants, receiving and screening entries and hosting the final awards event. The ILO provided technical support to TBPP throughout the competition process.

Local branches of other BDS institutions (Red Door, National Youth Development Agency, Small Enterprise Development Agency, Learn to Earn and Disability Workshop Development Enterprise) variously took part in the initial training of trainers workshop, disseminated information on the competition and referred potential entrants to TBPP. Of the other BDS institutions, Red Door played the most active role and hosted some of the information workshops. Learn to Earn disseminated information on the competition in the course of parallel research it was undertaking for the ILO on the potential for social enterprise development on the Cape Flats. In addition, Radio Zibonele promoted the competition with regular features and interviews. The competition awards were provided or sponsored by UnLtd South Africa, Tembeka Social Investment Company Ltd and TBPP with support from the ILO.

3.4 Process

The development of the competition from idea to completion took roughly eighteen months, with the ILO’s entry as a partner being the catalyst for action after Stadia had supplied the conceptual framework. In the initial conceptualisation and planning stages, TBPP, Stadia and the ILO formed the core group, with some input from targeted partner organisations that increased as the project took shape. In planning the competition the following issues were addressed: training business advisors in SE, effectively spreading the word to the target audience, informing and skilling social entrepreneurs (prospective and active), coaching them before and after the end of the competition, developing an appropriate entry form and subsequent adjudication process, and identifying and securing appropriate and meaningful prizes.

3.4.1 Conceptualisation

The basic concept and framework was borrowed from Stadia and their competitions in the Netherlands,25 but adapted for the South African and specifically the township context. In designing the competition the general profile of entrepreneurs, and specifically social entrepreneurs, on the Cape Flats had to be taken into account. Many of the existing organisations run by local residents that qualify by broad definition as social enterprises are either micro- or small enterprises or grassroots, welfare-type organisations, often managed by people with a limited educational background.
concepts and principles of social enterprise are not familiar to either group.

The competition was therefore conceived with a message that was simple and clear and did not assume prior knowledge of the SE concepts. Communication with the target group had to move from initial interest engendered by the written publicity material to an interactive, participatory relationship where information and training could be conveyed verbally and visually given the limited educational background of the target group. The assistance to prospective entrants had to include information and training on the basic components of a general business plan. The need for continuous face-to-face support to prospective entrants made TBPP and Red Door ideal partners, as the core services of these BDS organisations are individual consultation and training for entrepreneurs.

The definition of social business for the purposes of the competition was as follows. The business plan had to clearly address a social problem(s) and could show how the activities of the business started solving the problem(s). The plan also had to show how, within a reasonable time, the business could start to pay for itself and become profitable. Some of the income, at least to start with, could be from grants and subsidies, but a significant amount had to be earned from business activities. Lastly, the jobs created in the community by a social business had to be decent with fair wages.

### 3.4.2. Training of Trainers

One of the objectives of the competition was to provide existing BDS institutions and their business advisers with an awareness and understanding of social enterprise, and with appropriate tools to provide BDS support to social enterprises. A leading European SE specialist and author, Peter Scholten, ran a two-day trainers workshop for business advisors from partnering organisations. The training addressed SE concepts in general, referring to case studies, and then focused on how to plan and measure impact using a methodology called Social Return on Investment.

The two core elements introduced were a social budget and a social impact map that quantify the social impacts of an enterprise and thereby make it possible to determine in monetary terms the social return on investment. The challenge raised by this introduction to fairly sophisticated tools was how to make them appropriate for the target audience.

### 3.4.3. Entry form

The entry requirements were very broad in order to attract as many prospective and active social entrepreneurs in the target area as possible. No distinction was made between an existing enterprise and an idea, and any form of legal entity was allowed. The entry form took its cue from the outline of a conventional business plan format with the added specific social business elements of a social budget and impact map. The form was written using simple terms and requested only very basic financial information. A word count limit was specified for each question to help entrants focus on only the most important information as well as to facilitate an easier adjudication process. Throughout the form entrants were encouraged to visit a business consultant at one of the BDS partners for any further assistance needed. Forms were available electronically on the website as well as in hard copy and entrants had the choice of either hand-delivering it at one of the BDS partners or e-mailing it.

### 3.4.4. Outreach and promotion

Experience has shown that the effective communication channels in the Cape Flats township society, especially to the general profile of the target group, are verbal and visual and not through the print media. Although printed material was used, the primary channel used in our advertising was Radio Zibonele, a predominately Xhosa-speaking community station. For eight weeks the station provided twice-weekly slots in which business consultants from TBPP were interviewed, active township social businesses were profiled and interviewed, and listeners could phone in with questions. This raised significant awareness of social business and was very effective in attracting entrants to the competition.

Brochures and posters were designed by a graphic designer. The brochures were mainly distributed through the BDS partners with some being available through public libraries. Posters were put up in public places, libraries, community health centres and at NGOs. Other avenues used were bulk SMS’s by TBPP to clients on its database as well as free notices in community newspapers.

### 3.4.5. Workshops for potential entrants

The workshops for potential entrants were aimed at familiarising them with social business as a concept and introducing them to the entry form. It also allowed people to test their business or business idea against the competition criteria for a social business before investing time in completing the form. The workshops drew a lot of interest and were well attended with nearly all eventual entrants attending a workshop.
Business consultants from TBPP ran a total of seven half-day workshops at TBPP as well as at two Red Doors within the competition target area. There was no assumption that participants were familiar with a general business plan template and all of the elements of a business plan were therefore covered. Those who needed further training on the elements of business plans in general were referred to TBPP short courses that are regularly scheduled. The main focus of the training was the social budget and social impact map that were new concepts to all attendees. There was a significant amount of group work done by participants, enabling all to work with and understand these social enterprise tools.

### 3.4.6. Coaching for entrants

Participants at workshops were all encouraged to make use of individual consultation opportunities with business consultants from the BDS partners, TBPP and Red Door. Most entrants ended up seeing a consultant at least once during the process of completing their entry form. The social business coaching also gave business consultants an opportunity to gain a deeper understanding of the new concepts and approaches themselves.

The coaching process, that is central to both the TBP and Red Door models, builds good relationships with entrepreneurs that ensure that they continue accessing business development services and have therefore a better chance in succeeding in their enterprises. The competition attracted to the BDS partners a large number of entrepreneurs who had previously not accessed these services and who have continued their relationship with the BDS providers since the competition.

### 3.4.7. Judging

The adjudication was a three-step process. Firstly, business consultants from TBPP screened all entries for basic eligibility, i.e. residence within the target area, form filled out completely, and fulfilling the basic criteria of being a social business. The next step was to score all the eligible entries according to a weighted score sheet that included all the sections from the entry form and resulted in a score out of 100. Finally, the top 15 entries from this process became the shortlist of finalists that were interviewed by a panel of judges.

The adjudication panel consisted of senior representatives from all the competition partners - BDS providers and sponsors. The interviews took place over a day and allowed for an interview of thirty minutes per finalist wherein the finalist had the opportunity to make a short presentation of their business or business idea, followed by questions from the panel. Judges scored the finalists on four elements counting 25 points each, namely the entrepreneur him/herself (drive, experience, etc.); social impact; financial viability; and operational plan. The final panel deliberation also took into account the impact that the prize(s) would have on enabling the winners to realise their social business plans.

### 3.4.8. Awards

Ten prizes were available, out of which it was envisaged that there would be two overall winners in youth and general categories respectively. The aim of the prizes was to provide financial resources for winners to kick-start their businesses as well as mentorship and other support during this process. The main component of each awards package was grant funding, for the general prizes of R10 000 each, and for the two overall winners R18 000 each. The grant conditions are laid down in a contract between the sponsor and the award winner. This specifies that the funds are to be released based on the operational plan and budget of the business plan entered in the competition over a maximum period of a year in a close mentorship relationship with the BDS provider managing the disbursement. The ultimate sustainability of the business is one of the main guidelines in disbursing the grant funds - the business needs to be a going, income-generating concern by the payment of the last funds.

The second part of the awards package was access to loan finance from a micro-lending institution, Tembeka Social Investment Company, at preferential rates. Built into the finance approval process is the usual due diligence exercise that provides another layer of assessment and also support to the entrepreneur. This element of the award aims to expose the social entrepreneur to the reality of business financing. Providing grant funding alone would not have been in line with the philosophy of the competition of encouraging a more self-reliant approach to local economic and social development.

All winners also received a year of free membership to the TBPP membership program that will give them access to a membership lounge (with a number of IT products and business services) as well as subsidised business skills training opportunities. The two overall winners, in addition to the above, received free serviced office space at TBPP for a year that includes computer, telephone and internet access.
3.4.9. Post-competition support

All the prizes have a strong relational element. This will hopefully lead to a good, trust-based and supportive relationship with the BDS mentor. A further driver to ensure that consistent support reaches the entrepreneur is the contractual agreement around the disbursement of the grant funding that stipulates regular access to financial and operational information. As noted above, the TBPP service model is based on one-to-one consultation with entrepreneurs, so in that regard the support structure for the winning social entrepreneurs easily slots into an existing structure.

Communication with all entrants to the competition continued after its completion and they are being encouraged to make use of the available BDS services in pursuing the start-up or expansion of their social business.

3.5. Results

3.5.1. Level of interest from the community

The organisers of this competition went into it without any fixed expectations, not having any indication of the level of interest it would raise. There was no precedent and social business as a term and concept was relatively unknown in the target area. The end result was very positive. The marketing campaign, and specifically the exposure on the community radio station, brought many phone calls and visits to TBPP and Red Door. The seven training workshops were attended by a total of 151 would-be entrants and 78 entries for the competition were eventually received. Even after the competition closed, TBPP was contacted by a number of entrepreneurs who were introduced to social business through the print and radio exposure.

3.5.2. Capacity of entrants to engage conceptually and practically

Despite initial fears that the social enterprise concept, and specifically social return on investment as a measurement tool, would be too sophisticated for the target audience, most applicants were able to grasp its theoretical underpinnings. The results of group work done by prospective entrants in the training workshops bear this out. The difficulty for most entrants came in quantifying social impact when drawing up a social budget. The poor educational background of many of these entrepreneurs does lead to a literacy and numeracy barrier. However, understanding social business concepts seemed to be no more challenging for entrants than grasping the basics of a general business plan. What is evident from assessing the outcomes of the training workshops, one-to-one consultation sessions and the entry forms as a whole, is that more in-depth basic business skills training would be necessary to allow most of the entrants to create an accurate and complete business plan.

Disappointingly, almost half of the total entries were disqualified, with a similar proportion of entries by men and women being disqualified. More than half of the disqualified entries were excluded due to incomplete financial projections and/or social impact calculations. Given that most entrants apparently grasped the theory, this suggests that a lack of basic numeracy skills is the biggest problem for these entrepreneurs.

3.5.3. Demographic profile of entrants

The gender spread amongst entrants was very equal (see chart 1), although the same cannot be said about the age spread. Less than a third of entrants were under 35 years of age and most of those were closer to 35 than in their early twenties. There were four entries from disabled individuals, though a larger number of business plans addressed the needs of the disabled community.

The breakdown of business ideas in different sectors shows that by far the majority were service enterprises with most falling in the subsectors of skills training, health and education (in that order). There were also a number of retail and a few manufacturing enterprises.

3.5.4. Award Winners

The list of finalists numbered thirteen in total. Interestingly, despite a fairly even spread of genders amongst the total competition entries, there was only one male finalist. After the interviews and a final deliberation by the judges’ panel it was decided that there wasn’t a strong enough youth entry to warrant a main youth prize and that only eight of the total of ten prizes would be awarded. The two overall main prizes
were awarded to entrepreneurs with social enterprises focusing on volunteer tourism involving placements with community organisations and glass recycling respectively. The other six winning entries had business concepts revolving around a soup kitchen and vegetable production, a soup kitchen and community bakery, training for home-based carers, linking urban farmers to markets and disability sheltered workshops. Of these enterprises, two were in the idea stage, two partially operational and four fully operational.

The awards were presented at a festive event at TBPP with the ILO Pretoria Director, Mr. Vic van Vuuren, as special guest and Ezra Ngcukana, the jazz legend, and his band providing entertainment.

3.5.5. Projected employment creation
When designing the competition and deciding on success indicators, employment creation was determined as one of the main objectives. Targets were set for direct employment creation of 50 new jobs created by competition award winners within three years and indirect employment creation target of 250 new jobs created by social enterprises within the target community within three years.

Five of the eight award winners have business models that aim at creating a significant number of jobs at the semi- and unskilled levels whereas the social impact on their communities from the other three lie in other areas. It seems at this stage that both of the above employment creation targets are eminently reachable. Not only have the award winners made great progress in starting or expanding their enterprises, but also quite a number of other competition entrants have visited TBPP for assistance with their social businesses.

4. Findings

4.1. Level of interest from potential clients in the community
The pilot competition indicated a significant level of interest in social enterprise development among the target community. The notion of tackling a social problem using a business approach proved appealing. Entries were submitted both by existing community-based organisations with a vision of turning their operations into self-sustaining enterprises and by individuals with a social business idea. The competition appealed equally to men and women and to a lesser degree to youth, indicating the need to specifically target youth in future iterations of the competition. Interestingly however, no youth entries and only one male entry were deemed of sufficient quality to be short-listed, and none were awarded prizes. The dominance of women among the award winners is interesting from a policy and theoretical point of view and is in line with some international experience which suggests that “social enterprises are a natural home for women entrepreneurs” (Social Enterprise Coalition, 2009: 7). The dominance of entrants over the age of 35 is also interesting and adds to the international debate on the importance or otherwise of life experience in the profile of the typical social entrepreneur.

4.2. Types of support required by potential social enterprises
The competition experience suggests the need for supportive interventions by BDS institutions at various stages. Firstly, the positive response to the competition suggests the value of outreach and awareness campaigns such as this in identifying and attracting new clients. Secondly, these potential clients require support in understanding the concept of social business. Thirdly, they may benefit from support in generating a viable social business idea and turning that idea into a social business plan. And finally, although the competition findings cannot prove this as yet, experience with delivering BDS in the target community suggests that many clients are likely to require ongoing coaching and guidance as they establish, consolidate and grow their social businesses.

The entries included two distinct types of social enterprise - those with a community-based organisation background whose managers understand the need to become financially self-sustaining, and those that fit more closely with conventional start-up enterprises but that have a social purpose. The needs of each group will differ given their respective areas of expertise and the types of support they are accustomed to. This highlights the need to integrate and cross-fertilise the types of support currently offered to non-profit organisations (NPOs) by agencies such as the Department of Social Development and the support offered by conventional BDS institutions such as SEDA, NYDA and The Business Place. This should include broadening advisors’ knowledge of the range of alternative registration options, possible business models and financial services available across the spectrum of social enterprises, from NPOs through Section 21 companies and cooperatives to close corporations and Pty Ltds.

4.3. Lessons for future competitions
The competition partners reviewed the pilot experience and concluded that although the competition was successful, some changes could be made for future t
iterations. In particular, the content of the training sessions and the entry form should be less conceptual and easier to understand; facilitators should be able to draw on clear case studies and examples to aid understanding of what qualifies as a social business; the outreach process should specifically target youth; and the partners should be prepared to provide intensive support to potential entrants, both during and following the competition.

A second pilot competition will be held in Nelson Mandela Bay Municipality during 2010 to further test and refine the tools and approaches, following which the intention is to roll the competition concept out through national partners. As part of this process, a handbook for social business plan competition facilitators will be developed, as well as specific training materials and other tools to support the process.

5. Conclusions

The competition successfully exposed conventional BDS institutions to the concept of social enterprise and enhanced their capacity to identify and serve social enterprises alongside their traditional clientele. It also succeeded in raising awareness of and interest in social enterprise among the target population. As such, the social business plan competition approach proved highly appropriate and could easily be replicated wherever BDS institutions wish to explore the potential for providing tailored services to social enterprises.

Although dedicated support institutions for social enterprise are emerging in South Africa, their capacity and reach is likely to remain limited. The possibility of extending support to social enterprises through the established networks of mainstream BDS institutions is therefore attractive. The competition indicates that this is not only possible, but that they can significantly stimulate the demand for social BDS. The challenge then is to ensure that existing BDS institutions have the capacity and tools to reach out to, identify and serve social enterprises alongside their traditional clientele, and to do so within a highly supportive environment. To a great degree, the competition approach can help as a starting point in developing this capacity.

References:


Footnotes:

1. In this paper, the terms ‘social enterprise’ and ‘social business’ are used interchangeably.
2. The Plan of Action included the following definition: “The social economy is a concept designating enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises, which have the specific feature of producing goods, services and knowledge while pursuing both economic and social aims and fostering solidarity” (ILO 2009a: 2).
3. For example, estimates suggest that there are over 60,000 social enterprises in the UK, contributing GBP24bn (R288bn) to the economy and employing 800,000 people (Social Enterprise Coalition, 2009: 3).
4. For example, the Skoll Foundation, which defines a social entrepreneur as “society’s change agent: pioneer of innovations that benefit humanity” (see www.skollfoundation.org) and Ashoka, which uses the phrase “men and women with system changing solutions for the world’s most urgent social problems” (see www.ashoka.org).
5. These include the promoters of the Social Enterprise World Forum, which will be hosted in South Africa in 2011 (Social Enterprise World Forum, 2009).
6. The Social Entrepreneurship Development Targeting Youth in South Africa (SETYSA) project, which is funded by the Ministry for Foreign Policy of the Flemish Region of Belgium.
7. For more information on this process, and to access the various research papers, reports and tools that have been developed through the ILO project, see www.asenetwork.org.
8. It should be noted that the national research undertaken by the University of Johannesburg did not identify this issue, did not suggest that the use of the words ‘ameliorate’ and ‘principally’ might be problematic, and did not concur with the conference statement’s interpretation of the clause on reinvestment of surpluses (Steinman 2009:39).
16. These awards have run for the last three years under different guises; in 2009 as the Southern Africa Social Entrepreneurship Awards and in 2010 as the Social Entrepreneurship Awards hosted by the Network for Social Entrepreneurs (GIBS in association with Ashoka Southern Africa and BTA.
20. Enabis, an entrepreneur development organization, runs the competition in partnership with FNB and SEDA. Now in its fifth year, the Business LaunchPad competition has become the largest competition of its kind in Africa and one of the largest in the world (see www.enabis.org).
21. Notably, the Cape Town Entrepreneurship Competition 2010, which took place during February and March this year, included a category for social entrepreneurs. The organizers refer to the “professional level of entrepreneurship support which the winners will receive and the opportunity to meet real investors who are willing to invest in real businesses” (City of Cape Town, 2010).
22. For further information on the competition and the award winners, see www.ibp-philippi.org.za/competition.
23. For the purposes of the competition, it was defined as the area bounded by the N2 highway in the north, Baden Powell Drive (R310) in the east and south and Prince George Drive/Kromboom Parkway (M5) in the west, as well as Delft and Blue Downs, which lie outside these boundaries.
24. This was in line with one of the immediate objectives of the ILO project; involved, which in part reads: "Mobilize the target communities to embrace a more self-reliant approach to local economic and social development" (ILO, 2008: 17)
25. See www.zininzaken.nl.
26. For a full explanation of this methodology, see Scholten et al. (2007). For further information on related methodologies, see www.proveandimprove.org.
27. Of the 15 short-listed entrants, two were unavailable for interview.
28. For example, research in the UK finds that 26% of social enterprises could be described as ‘women-led’ almost twice as many compared to conventional small businesses (ibid.).
29. The literature on this issue is more equivocal, some authors suggesting that social entrepreneurs are likely to be younger (Van Ryzin et al, 2009:129) while others suggest the importance of exposure to social experiences, beliefs of self-efficacy and access to social support, which are arguably more likely to be associated with more mature people (Mair & Noboa, 2006: 129-131).
IMPLICATIONS OF THE NEW COMPANIES ACT ON SMALL BUSINESSES

By Ronnie Mmotlane

Abstract

This paper aims to assess the implications of the New Companies Act on SMMEs. This was done by assessing literature on the differences between the Companies Act of 1973 and the New Companies Act and discussing what the new features in the Act meant for SMMEs and the SMME economy with reference to the current “Global economic Downturn”. A two-way methodological approach was followed: on the one hand a desktop study was conducted in which literature on the policy was analysed, while on the other hand, face-to-face semi-structured interviews and telephonic interviews were held with 7 participants from Seda, the DTI, New Finance Business and Cipro, respectively. The rationale for interviews was to capture participants’ opinions on why the Companies Act was amended and how the reforms in the policy would affect SMMEs. For most participants the New Companies Act seems to be bringing along with it not only changes in terms of policy regulation, control, management or registration for all types of companies, but also offers improvements to the current Companies Act. Most participants attributed the growth of SMMEs to policy where legislation reviews are taking place. Some, entrepreneurs no longer see necessity as the basis for starting a business, but see it as an opportunity to start a new business, as a viable career and concurrently with the upcoming 2010 FIFA World Cup™, as future potential. Despite other participants arguing that there was no impact of the Act on SMMEs since it was not geared up for small companies, there are a number of responses confirming that there was an impact on starting, growing and exporting SMMEs. In conclusion, reform of the corporate laws in South Africa is well timed for most SMMEs for the current situation, especially in the current economic downturn, as it offers a relief to most companies, irrespective of size and turnover. Though other changes in the Act might pose more problems and uncertainties for SMMEs such as the repealing of the CCs, by reaffirming concepts of limited liability and personal liability, business owners are protected by the law in case of business turnarounds. Because most people have little knowledge about the New Companies Act, educational campaigns might be useful to educate both existing and potential SMMEs as well as the general public on the New Companies Act.

Executive Summary

The aim of this paper is to assess the implications of the New Companies Act (NCA) on SMMEs by finding answers as to how does/or how will the NCA affect the functioning of SMME’s in South Africa, especially during the “Global economic Downturn”. The paper also spells out the differences between the two acts, the old Companies Act of 1973 and the New Companies Act.

The old Companies Act concentrated more on having a regulatory framework for big companies, and the SMMEs found it difficult to organize and manage capital to comply with its high regulatory demands. It only was in 1984 that interests in SMMEs as important role players in the South African economy were considered and the Close Cooperation Act (CCA) was established to ease the burden created by the Companies Act for small companies. Before the CC Act small companies struggled to comply with high demands of the Companies Act. For example, it was difficult for struggling SMMEs to raise monies for auditing or for a professional accountant to organize their financial statements.

To do away with the failure of the Companies Act of 1973, and in particular the shortcomings of the CC Act on developing
and protecting SMMEs, the New Companies Act was established. The New Companies Act is a South African corporate law established by the Department of Trade and Industry (the DTI). It is a broader version of the preceding Companies Act of 1973 and is intended not only to regulate, manage, incorporate, control and register all companies, but also make provisions for both small businesses and professional companies. The introduction of the new Act and reforming of other corporate laws such as the CC Act was “to bring South African company law in line with international trends, as some of the major commonwealth countries including the United Kingdom recently undertook major reforms. The new Act consolidates the CC Act and the Companies Act of 1973 into one Act regulating companies and creates a solid framework that would benefit and protect companies in general. The NCA introduces new categories of companies, new provisions for minority shareholders and the provision of financial statements in the area of businesses, among other changes. The NCA also makes it easy for SMMEs to access opportunities for their growth and development and enhance their professionalism with the aim of making them competitive in both the local and the global market.

A desktop research study was conducted in which literature on policy was analyzed followed by semi-structured interviews where six face to face interviews and one telephonic interview were conducted with relevant stakeholders at management level from organizations working within the small business arena i.e. Seda, New Business Finance, the DTI, and Cipro. The rationale for interviews was to capture participants’ opinions on why the Old Companies Act was amended and how the reforms in the policy would affect small business.

The majority of the participants were of the opinion that in addition to the changes made in terms of policy regulation, control, management or registration for all types of companies, the New Companies Act was also an improvement to the to the Old Companies Act, which was at this time considered outdated. Other participants argued that there will be no impact of the New Companies Act on SMMEs since it was not geared for SMMEs. But some of the responses confirmed that the impact will only be on those businesses that are starting, growing and exporting. In this way, the new Act is the reform of features aiming at equating management and regulation of all companies in South Africa and seems to be offering a relief to the small business sector by working on the rationale of beginning ‘from small to large’. It could be said that the reforming of the corporate laws in South Africa is well timed for most SMMEs for the current situation. In the current economic downturn, the New Companies Act offers equity of doing business to all companies irrespective of size and turnover. But the most interesting aspect of the Act is that it is set to protect the business of smaller companies and the SMME sector.

1. Background

Given the background of South Africa's unequal economy, there is a need for the development and promotion of small businesses (SMMEs). The SMME sector forms the basis of South African economic objectives of growing the economy to the standard of global competitiveness, creating employment and alleviating poverty; and thus contributes more than 41% percent to the GDP with more than 50% of employment created (Berry, Von Blottnizz, Cassim, Kesper, Bal & Van Seventer, 2002; Van Wyk, 2005). Though most SMMEs have been registered and incorporated as closed corporations, there has been little impact as far as government policy goes in ensuring their growth. Instead, many of them have developed into informally operating businesses that have struggled to access opportunities available to their development. They have struggled to access finance and markets, and this has had much impact on their development, and has put a lot of pressure on enterprise development institutions and policy makers in general to introduce policies that could help them develop adequately. Current companies regulating laws such as the Companies Act of 1973 (Old Act) and the Close Corporation Act of 1984 (CC Act) have done little other than to control and regulate the quantity of registering companies. As a result the nature of these regulating laws has worsened the conditions of SMMEs with regard to preparedness and competitiveness in both local and global markets.

The amendment of the old Companies Act, which itself amended the English-based Companies Act of 1926 (Cronje, 2003), was the result of its strict regulatory policies that had little regard for corporate governance, transparency, accountability, merger methods, interests of minority shareholders, and other means of protecting individuals involved in companies. When it was established and amended to suit the Roman Dutch system, the old Companies Act concentrated more on having a regulatory framework for big companies, and thus in the process burdening SMMEs who found it difficult to organize and manage capital to comply with its high regulatory demands. It was in 1984 when interests in SMMEs as important role players in the South African economy were considered. This led to the establishment of the CC Act, which generally sought to ease small companies from the burden created by
the Companies Act. Before the CC Act, small companies struggled to comply with high demands of the Companies Act. For example, it was difficult for struggling SMMEs to raise monies for auditing or for a professional accountant to organize their financial statements.

2. Introduction

To do away with the failure of the Companies Act of 1973, and in particular the shortcomings of the CC Act in developing and protecting SMMEs, the New Companies Act was established. The New Companies Act is a South African corporate law established by the Department of Trade and Industry (the DTI). It is a broader version of the preceding Companies Act of 1973 and is intended not only to regulate, manage, incorporate, control and register all companies, but also make provisions, unlike its predecessor, for both small businesses and professional companies (CGF Research Institute, 2009). As a Bill it was endorsed on the 8th of April 2009 by former President Kgalema Motlanthe and was set to regulate all South African companies irrespective of type and size. Among other reasons for the introduction of the new Act and reforming of other corporate laws such as the CC Act was to “bring South African company law in line with international trends as some of the major commonwealth countries, including the United Kingdom, recently undertook major reforms” (Van Wyk, 2005, p3).

The new Act consolidates the CC Act and the Companies Act of 1973 into one Act regulating companies and creates a solid framework that will benefit and protect companies in general. This Act introduces new categories of companies, new provisions for minority shareholders and the provision of financial statements in the area of businesses among other changes (Bouwman, 2009; Meiring, 2009). In this way it was also set to accommodate all companies so that they can have equal opportunity to market and financial access by complying with the same requirements for businesses. It is certain that changes in the new Act were set to protect the interests of all businesses, in particular SMMEs, in that they previously could not access opportunities in the same way big companies have. The new Act is formed by other legislations such as the Corporate Laws Amendment Act of 2006, which allowed amendment of Acts in the corporate arena, and amends the Companies Act of 1973 (Enslin, 2008; Luiz, 2007).

Although the CC Act concentrated its effort on SMMEs in the way that the Companies Act could not, it also did little to develop SMMEs other than to provide a platform for their incorporation, registration, management, and their control in more or less the same way the Companies Act consolidated big companies. As a result, policies such as the New Companies Act were readily in place to make it easy for SMMEs to access opportunities for their growth and development and to enhance their professionalism with the aim of making them competitive in both the local and the global market.

3. Research Objectives

It is the aim of this paper to assess the implications of the New Companies Act on SMMEs. In this paper we seek to answer the question “How does/or how will the NCA affect the functioning of SMME’s in South Africa?” by conducting an assessment of the old Act (Companies Act 1973) and the New Companies Act with a view of establishing critical literature analysis on the themes below:
- The difference between the old Act and the new Act
- The implications of the New Companies Act on SMMEs, and
- The new Act’s implications on the SMME economy given the “Global economic Downturn”

4. Methodology

The above-mentioned themes for literature assessment of the Act and its implications on SMMEs are combined with a discussion of results from semi-structured interviews with relevant stakeholders from organizations working within the small enterprises arena. Six semi-structured interviews and one telephonic interview were conducted with respondents at higher management level from Seda, New Business Finance, the DTI, and Cipro. A snowball technique was used to find respondents with whom appointments were set before the interview, though stratifying participants according to their level and organization was not compulsory in this study. A 10 item interviewing schedule was used to capture respondents’ opinions, feelings, attitudes and insights on the implications of the New Companies Act on small enterprises. Results were analyzed using content analysis methods in which responses were categorized into themes which were discussed (see appendix A).

5. The Difference Between the Old Companies Act and the New Companies Act

The Companies Act of 1973 is by legal definition “the certificate of incorporation or registration issued to it in terms of that Act” (Department for Business Enterprise & Regulatory Reform, 2008, p15). This Act was established with the purpose of having a framework for big companies, to promote good governance and to protect minority shareholders within those companies. Among other
requirements of this Act, companies were required, for example, to account for their businesses by having ordered financial records and auditing of their accounts; a requirement which was seemingly burdensome for low turnover companies. This Act differs from the New Act with regard to many new and flexible clauses in the Act regarding the incorporation of the close corporations into the Companies Act to form a new unitary system, thus reforming the Act by finally abandoning the United Kingdom contractual and regulatory system. Other differences exist, but for the purpose of this article discussion is emphasized on the difference between the new and the old acts regarding the implication on SMMEs.

With the old Act the CC Act was introduced with the separate framework focusing on incorporating and registering close corporations (CCs) or SMMEs and in some instances working as a protection for smaller companies against the costly requirements of the Companies Act of 1973. According to Van Wyk (2005) the CC Act provided inexpensive and flexible forms of incorporation suitable for SMMEs. On the other hand, the new Act consolidated the CC Act to form one unitary system (SAICA, 2006). The aim of this unitary system was to equate standards of incorporation, organization, registration and management between companies of relative types and sizes. For example, the repealing of the Close Corporations Act of 1984, which was introduced to work in parallel with the Companies Act of 1973, serves as the benchmark of the changes taken by the new Act. The revoking of the Act meant that companies will in the future no longer incorporate or convert into close corporations. Since the majority of SMMEs are registered under this Act and will no longer be incorporated as close corporations, but as owner-managed companies, the new Act will benefit the SMME owners with a choice of either converting into other types of businesses or companies.

By incorporating the CC Act into its framework, the New Companies Act has in a way distinguished itself from the old Act regarding mandatory requirement of audits for companies; in other words, in the new Act SMMEs might be exempted from complying with audit requirements. While the old Act strictly required companies to acquire audits and professional accounting officers for their financial records, the CC Act made it leniently voluntary for owners and managers of close corporations to comply with such requirements. The CC Act has followed the New Zealand and Canadian qualitative models which did not put strict regulations for small or closed corporations to have financial statements audited, though having an accounting officer was mandatory (Van Wyk, 2005). While it is apparent that optional audit requirements may inconvenience SMMEs who choose not to have their financial statements audited from meeting standards needed to qualify for bank loans, tax incentives and/or other financial opportunities crucial to enterprise growth and development, easing of audits on smaller companies can on the other hand benefit them from being affected by relentless bureaucracy and unnecessary administrative requirements (SAICA, 2006). This view argues that small companies should be exempted from this type of duty in that the audit costs far outweigh the benefit of having financial statements audited and thus being eligible to financial opportunities crucial for businesses growth.

In terms of categorizing companies, the Old Act recognizes private and public companies with the CC Act recognizing close corporations as those that are simpler and less expensive. Furthermore, the Companies Act offers provisions to both public and private companies to opt to be companies of limited liability; owners of such companies will be protected from being personally liable for debts of the business and can decide to manage their company flexibly in the way that they see fit. The difference is that the new Act broadens the distinction when it further clarifies between the profit and non-profit companies. The new Act also introduces “state-owned” companies as a new dimension added to the existing private, personal liability and public companies which will carry the “SOC Ltd” abbreviation at the end of the name of the formed company (Meiring, 2009). Non-profit companies are stated as the successors of the old Companies Act’s section 21 companies. The new Act here differs from the old one with regard to giving different types of companies more flexibility to regulate and manage themselves, as is seen in the changes made in the memorandum of incorporation. What this means is that the new Act, unlike the strict regulation law of the old Companies Act, seeks to give all companies self-regulatory options in which they themselves will, while complying with the Act, choose their own way of running the business. The new Act is framed in such a way that it aims to protect companies as is illustrated by the incorporation of the CC Act into the Act.
<table>
<thead>
<tr>
<th>Purpose of the Act and Categorization of Companies</th>
<th>Old Companies Act 1973</th>
<th>Implication on SMME</th>
<th>New Companies Act</th>
<th>Implication on SMME</th>
</tr>
</thead>
<tbody>
<tr>
<td>This Act was established in 1973 with the purpose of having a regulatory framework for big companies only.</td>
<td>To promote good governance and to protect minority shareholders within those companies.</td>
<td>This act was established to regulate all South African companies irrespective of type and size.</td>
<td>To regulate, manage, incorporate, control and register all companies. It introduces a new categorization of companies, new provision for minority shareholders and provision of financial statements.</td>
<td></td>
</tr>
<tr>
<td>Compulsory Audit standards</td>
<td>Companies were required to account through financial records and auditing of their accounts.</td>
<td>The requirement of auditing financial records was compulsory for companies.</td>
<td>Compulsory audits were burdensome for low turnover companies.</td>
<td>Difficult to organize and manage capital to comply with this demand. SMMEs might be exempted from complying with audit requirements.</td>
</tr>
<tr>
<td>Close Corporation Act and CCs</td>
<td>SMMEs were considered to be important role players to the SA economy and the Close Corporation Act (CC Act) was introduced in 1994.</td>
<td>It was created to ease small companies from the burden created by the Old Companies Act. CC Act concentrated mainly on SMMEs but did not do much for them other than to control and regulate the quantity of companies to be registered. CC Act had shortcomings in terms of developing and protecting SMMEs, it only provided platform for their incorporation, registration, management and control. SMMEs were still not prepared and competitive both locally and globally in markets. Majority of SMMEs are registered as close corporations and will no longer be incorporated, but will registered as owner-managed that will benefit SMME’s owner.</td>
<td>New Companies Act was established as a result of the failure of the Old Companies Act and the shortcomings of the CC Act. The New Companies Act consolidates the CC Act and the Old Companies Act of 1973 into one Act—thus repealing the CC Act. It accommodates all companies in order to have equal opportunity to market and access to finance like big companies. It made it easy for SMMEs to access opportunities for their growth. The repealing of the CC Act may create challenges in terms of classification and benefits as there is no automatic process of conversion to owner-managed company. SMMEs will enjoy the benefits of limited liability and access to funding and will also qualify for other funding from financial Institutions.</td>
<td></td>
</tr>
<tr>
<td>Financial reporting standards</td>
<td></td>
<td></td>
<td>Financial statements and record keeping are mandatory to give smaller companies opportunities and funding opportunities. Audited financial records will enable companies access to finance like grants and other incentives.</td>
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6.1. The Repealing of Close Corporations: SMMEs

To be able to find answers on "what the implications of the New Companies Act will be on small businesses", it is best to note the effects of the Companies Act of 1973 on small businesses. Despite resolutions to some of the effects of the Companies Act by the Close Corporation Act, small businesses continued to operate outside the framework of the Act as many of them experienced problems with registration, struggled to raise capital to start up a business and did not have adequate reporting standards that would help them acquire more support from business support institutions.

While it is apparent the rationale for amending the old Companies Act and repealing of the Close Corporation Act into one New Companies Act was on the basis of simplifying the process and protecting all businesses, there are other issues that might negatively have an impact on businesses, especially small businesses. However, the implications discussed below are not categorized according to the type of effect they might have on small businesses, but have been outlined generically so as to understand the effect as discussed in the literature. In the literature we assess how new features, additions and changes in the new Act - such as those in: repealing of CCs and the introduction of owner-managed private companies, categorization of companies including the introduction of “state-owned companies”, provision and implications of limited liability on SMMEs, reporting standards and the provisions of voluntary audits for SMMEs - will affect the operation, growth and development of SMMEs i.e. in terms of securing funding and properly managing their small businesses.

6.1. The Repealing of Close Corporations:

Although existing close corporations will still exist for over 12 years after the closing of the Close Corporation Act, it is important to assess future effects of phasing out close corporations on SMMEs. Since the Close Corporation Act is now repealed, there is a concern on whether benefits of CCs will continue to exist in the new Act. In other words, will the new owner-managed private companies set to replace CCs entail similar benefits enjoyed by existing CCs? Benefits of the close corporations involved provision of a simple, inexpensive and flexible form of incorporation for the enterprise, consisting of a single entrepreneur or a small number of participants; a simple, viable and cost-effective way of enterprise where the business is not measured according to its annual turnover or number of employees but on the number of incorporators in the business; protection of assets for the businesses owner; and the provision of legal personality and limited liability to small businesses. More practical advantages involve being able to access government incentives and tenders. What this meant for SMMEs is that as legal entities, close corporations had an advantage over other types of companies in that they did not have to comply with the statutory requirement by legislation in terms of reduced cost of compliance and regulatory burden.

The disadvantage for CCs concern issues of personal liability in which owners of the business are entirely responsible for everything involving their business. The impact of this application of the law may have serious consequences should a particular CC involve itself in a situation of this nature. This is because these businesses are normally low-income businesses with limited capital to uphold themselves should they encounter a turnaround. What then are benefits of the new owner-managed private companies? According to Van Wyk (2008), the owner-managed private companies are new and are thus not yet tested, but he goes further to make an allusion to the fact that the choice of maneuvering between close corporations and the owner-managed private companies might suit the South African context. The concept of ownership-management is more stable over time and less sensitive to economic pressures (Tabone & Baldacchino, 2003), meaning that owner-managed companies are similar to SMMEs and that they are within the threshold of limited liability pardon for their low-income status.

6.2. New Categorization of Companies:

Repealing of the Close Corporation Act might lead to problems regarding type of business classification, continued benefits or support of small companies, starting a business, and leaving CCs in confusion as there is no automatic process of converting to a new owner-managed company, and effects on cooperatives. How will the new categories of companies affect the way SMMEs are categorized or defined? Although there is a lot of confusion and debate regarding defining or describing SMMEs, it is commonly agreed on how SMMEs are described. Under the current corporate laws they are normally recognizable as CCs and described in terms of their entrepreneurial dimension, ownership and management; labour status, informal or semi-formal economy (informal businesses) and the size of the business i.e. Workforce plus turnover. Elsewhere around the world the same criteria for describing SMMEs are used and more so for the purposes such as determining the relevance of audit examinations for large and small companies. For example, in Britain and Malta, quantitative criteria based on turnover, net assets and/or numbers of employees are often used to distinguish between “small”
and “large” companies (Tabone & Baldacchino, 2003). Although existing CCs will retain their close corporation status when the owner-managed private companies are introduced, potential SMMEs which will not be eligible to register as CCs will be forced to take the personality of a private company, but retaining their limited liability status. It is not clear whether indicator variables such as turnover and size of workforce used to define SMMEs will continue to be used to describe them.

According to the New Companies Act, companies are either profit-making or non-profit-making, with profit making companies recognized as either a state-owned company, a private company, a personal liability company or a public company (Meiring, 2009). By nature most small businesses or closed corporations will thus be identified as profit-making private companies in the sense that most of them are not only identified as making financial gain for businesses, but are “actually the backbone of the SMME sector”. According to Foote (cited in Gillette, 2002), normally public companies have the advantage over private companies in access to capital to grow the business. But private companies can react more quickly to challenges and opportunities without going through exhaustive decision-making processes. Given stipulations of the new Act, smaller businesses are even more at an advantage as they will further enjoy benefits of limited liability and access to funding provided their legal personality status; or even qualifying for other funding from financial institutions provided such businesses can afford to provide professionally managed financial records. How companies are categorized will have little impact on SMMEs in terms of growth and development in general and/or in terms of how the business will operate, except where their identity is concerned, especially given the advent of repealing the CC Act.

6.3. Reporting Standards and Raising Capital:

One of the most important reforms in the New Companies Act is that financial statements and record keeping for small businesses, as it is for all companies, are still mandatory; but this time with emphasis on audits as a voluntary requirement to give smaller companies opportunities for responsibility for professionalism and increasing chances of opportunities in funding and other opportunities. Several organizations including big global firms such as the KPMG and institutions such as the South African Institute for Chartered Accountants (SAICA) have through their reviews of the Act attempted to answer the question on how voluntary requirement of audited financial statements will affect the development of SMMEs. By having audited financial records, companies have a better chance of obtaining successful bank loans, issuing for tax and/or gaining other financial support opportunities like receiving grants or incentives. However, SAICA (2006) is of the opinion that the removal of the audit would have a significant effect on SMMEs in that they will be forced to change their business focus to provide services other than auditing. SMMEs will thus have no need to worry about the expense of hiring an expensive auditor or having piles of paper work for regulatory purposes, but will generate all their efforts and finances to growing themselves.

On the other hand, “forcing the audit on companies or other entities where the separation of ownership and management does not apply or requiring the appointment of an auditor where management, shareholders or other stakeholders can obtain relevant and reliable information from other sources would be both inappropriate and impractical” (Van Wyk, 2008). How will this voluntary exercise help SMMEs? According to Mongalo (cited in Seda Newsletter, 2009), closely-held companies will have fewer disclosure and transparency requirements and won't require the appointment of either an auditor or an accounting officer to report on financial statements. The voluntary requirement of audits is understandable as far as small businesses are concerned. On the same note maintaining involuntary requirement of financial statements may increase SMMEs’ role as professional entities which are recognizable by funders such as banks and other institutions when they are at the stage of acquiring funding to grow their businesses. Adding on these, Booyse (cited in CGF Research Institute, 2009) asserted that a major challenge for SMMEs will be the need for them to further comply with other formal requirements of companies such as Risk Management, IT Governance, Business Continuity, and off course annual audits; an expectation new to smaller companies.

7. Implications of the New Act on SMME Economy Given the Current Economic Downturn

The year 2009 has been marked as the year in which countries hit the hardest by the global economic recession in 2008 will experience even more of its harsh impact in unemployment, world stock markets crisis and consequent political instabilities than those economies primarily benefiting from the crisis. The passing of the New Companies Act thus overlaps with South Africa’s sliding into the global economic downturn which has so far negatively affected the financial statuses of businesses and employment levels in the country. Given the fact that recent increased unemployment streaks of 23% are not doing
justice to small enterprise support development systems, both the recession and the implications of the new Act could add more to the woes. The SMME sector is the largest contributor to South African GDP with more than 41% and creates more than 50% of employment; meaning that the effects of both the economic meltdown and the Act have the potential to cripple the economy of the country. What is proposed in the new Act, however, seems to be bringing relief to SMMEs as changes within the Act point to the intent of providing legislative support. According to SAICA (n.d.) some of the objectives of the corporate law review intended to facilitate the growth and development of small businesses that will ultimately replace the close corporations and removing the costly statutory burden for SMMEs. But will such positive effects of the new Act help minimize the harsh tides of increasing employment losses? What then are implications of the new Act on the SMME economy in terms of establishing SMMEs (entrepreneurship), SMME lifespan (i.e. small businesses turnover versus SMME turnover growth), SMME contribution to employment, and SMME continued contribution to GDP?

According to the Herrington, Kew and Kew’s (2008) findings in the Global Entrepreneurship Monitor (GEM), South Africa’s Total Early-stage Activity (TEA Rate) on Entrepreneurship of 7.8% was significantly lower than the average for all efficiency-driven economies and all those economies with low to middle income. What this implies is that South Africa has a poor record of people motivated to establish businesses when compared to most countries in the world. This spectacle is expected to worsen given the recession affecting the financial statuses of enterprise development institutions. Both public interest and private sector companies such as the New Business Finance (NBF) dedicated to developing, supporting and growing SMMEs, may be unable to provide the necessary support to SMMEs as they themselves have turned the focus towards surviving the harsh economy.

Despite much protection from legislation, without intervention of supporting institutions emerging SMMEs may find themselves in a bad state regarding establishing and sustaining their businesses. The New Companies Act introduces various changes regarding business organization, incorporation, registration and other means of managing companies; including the repealing of close corporations, changes in the reporting standards and how future companies will be categorized. In terms of registration of companies, new entrepreneurs may be affected in terms of the type of company best suiting their choice. Van Wyk (2008) has observed that the new owner-managed company is a new and untried regime; meaning that they may, unlike CCs, not be suitable for new emerging enterprises. Other potholes of the Act can affect SMMEs or entrepreneurs when it comes to knowledge and training that most supporting institutions offer in the areas of policy and business operation. Entrepreneurs may need to be more knowledgeable about their rights concerning most importantly their protection, which the new Act firmly emphasizes i.e. in the cases of limited liability and personal liability and voluntary audit exemptions.

The SMME sector plays a critical role in the South African economy by creating employment within communities of the second economy (Seda and Ehlanzeni District Municipality Report, 2009). Since the country’s official slide into the recession in May 2009, more than 23% of job losses have been reported. Employment data has shown a large increase in unemployment with 179,000 jobs lost in the first three months of the year (Fin 24, 2009). Unemployment is not only an economic activity disrupting individual and household securities, but can basically predispose other harsh socio-economic factors that can bring the country into deeper social, political and economic turmoil. Socio-economic related factors such as political unrest due to continuing mass protests and the pedigree of criminal activities are partially the result of unemployment. Since SMMEs carry the highest weight for employment suitable to the majority of South Africans, their downfall due to implications of the recession can only mean the downfall of South African economic and political stability.

Some of the objectives of the New Companies Act are based on the hope to develop and manage the growth of the SMME economy. This means that by protecting financial securities of low turnover enterprises, the Act will in a way be helping SMMEs protect their capital for sustainability and employee retention. The new Act offers protection not only to rights over securities regarding tax issues, voluntary audit and other benefits regarding SMMEs, but also aims to provide adequate management to them. With the reforms that Cipro and other institutions are taking like introducing an efficient way of issuing tax returns and halting registration as CCs but optional private limited liability companies, SMMEs stand a good chance of thriving in this period of economic hardship.

8. Interpretation and Discussion of Results

Based on the results from developed themes (see Appendix A) and concurring literature, the New Companies Act seems to be bringing along with it not only changes in terms of policy regulation, control, management or registration for all types of companies; but also offers improvement to the current Companies Act. The basis of the new Act is the reform of features aiming at equating management and
regulation of all companies in South Africa. While previous corporate laws had little regard for smaller companies, the new Act seems to be offering a relief to the small business sector by working on the rationale of beginning 'from small to large'. For example, it is expected from the new Act to make provisions for both SMMEs and professional companies (CGF Research Institute, 2009).

There is concord in the responses of participants that the updating of the current Companies Act dated from 1973 was long overdue, as it could no longer meet the requirements that enable adequate business in South Africa. More so, the South African economy depended much on the SMME economy of which the old Act had little impact in terms of elevating it to reach global standards. As a result, the amending of the Companies Act was seen by most stakeholders and law reviewers as well timed and adequate for the growing South African economy. Below are some of the thoughts that arose from developed themes.

8.1. Growth of SMMEs:
Most respondents interviewed were reported to be involved to some extent with small enterprises; for example, in developing legislation, offering finance, promotion, registering, and developing programmes. When they were asked what their thoughts were about SMMEs in South Africa, their emphasis was more on policy, entrepreneurship and promotion. According to most responses, South Africa has advanced policy that has potential to promote growth for companies. Growth of SMMEs was put at policy level where legislation reviews and translation are taking place. This is true regarding South African policy when thinking about the introduction of the CC Act and the current reviewing of the Companies Act, among other corporate laws. Good corporate procedures and governance have in the process changed the mindsets of entrepreneurship in South Africa. According to one response, entrepreneurs no longer see necessity as the basis for starting a business, but see it as an opportunity to start a new business, as a viable career and concurrently with the upcoming 2010 FIFA World Cup™, as future potential.

There were responses on what is not done to develop SMMEs from other participants. While policy is advanced and prepared to develop SMMEs in South Africa, at implementation level things were reported to be bad. Amid many concerns, participants worried about the inability of various assisting institutions in the SMME field to offer services in decentralized one-stop shops, thus leaving SMMEs with admin work, lack of assistance for SMMEs, lack of management, lack of incentives and framework. Other worries were on consultancy; for example, no one is said to be helping SMMEs from start to finish. Private consultants are not providing enough for SMMEs and are not monitored to ensure value for money services. Another concern from responses, though not heavily emphasized, was on education as businesses were not provided with any sufficient education and know how.

With the reforming of the Companies Act the pros of “what could be done for SMMEs” seem to weigh more than the cons of “what the impact of corporate laws has been on SMMEs”. Promotion of SMMEs was rated highly. Most participants agreed that if SMMEs were to be properly promoted at all levels (i.e. at policy and implementation level) they could develop to adequate, expected and required standards. Developing the informal sector is one of the key necessities to the SMME sector as many other operating businesses are operating outside corporate governance and laws. Respondents were of the opinion that the Act could become handy in ensuring their informal business registration and incorporation into legal entities to enable for them benefits enjoyed by legal companies i.e. limited liability, financial statements for funding, among others. SMMEs could also be developed if supporting systems such as user friendly internet databases could be built for the registration of companies.

8.2. Views on the Implications of the New Companies Act:
Responses from participants have confirmed that the reform and amendment of the Companies Act of 1973 was due to harsh implications the Act had on the SMME sector. Despite being more elaborate than its predecessor, the 1973 Act did little to benefit small businesses. During its tenure, the Act established reporting standards and created the Close Corporation Act of 1984, which made it easier for SMMEs to register and obtain limited liability as a stipulated SMME memorandum. However, the Act remained dormant, restrictive and regulatory; thus it was not good to conduct business in South Africa under the watch guard of this Act. The Act was too complicated for SMMEs and regarded only big companies as worthy of regulation.

Despite other participants arguing that there was no impact of the Act on SMMEs since it was not geared up for small companies, there are a number of responses confirming that there was an impact on starting, growing and exporting SMMEs. For growing SMMEs views were that impact was on earlier rather than later and that it was at the registration level. Others argued that impact of the old was on SMMEs’ inability to raise capital. This concurs with literature as it was evident that most small companies could not be regarded for funding as most funders or financial institutions regarded companies with
audited financial statements as worthy of being funded (SAICA, 2008). Although it was costly for growing companies to become companies in the eyes of the current Act, it is argued that the introduction of CCs has rectified this shortcoming. This is one of the reasons the New Companies Act re-emphasized corporate and financial statements and enforced structures.

The New Companies Act, unlike its strict regulatory predecessor, shows to be more positive for SMMEs. The new Act has simplified the entire process that was previously complicated for SMMEs. For example, its application will be simpler and less costly for SMMEs, its process of registration easier as companies will be faced with a choice between either a small private company qualifying for limited liability or a private company. The fact that two previously separated Acts have now been conjoined signifies simplification itself. According to responses, the new Act also offers protection of SMMEs and security to directors. For example, personal liability has been introduced as one of the reformed features of the new Act where liability will be limited only to the director of the corporation. In terms of SMMEs, the new Act prefers a company to close when in stages of decline, rather than when it has declined; that is, the Act will be dealing directly with ailing companies. The impact is also evident in starting businesses, growing businesses and exporting businesses. For example, with regard to those SMMEs that are exporting, import companies will rather deal with a registered entity which is recognized and controlled by law.

9. Conclusion

It could be said that the reforming of the corporate laws in South Africa is well timed for most SMMEs for the current situation. In the current economic downturn the New Companies Act offers equity of doing business to all companies irrespective of size and turnover. But the most interesting aspect of the Act is that it is set to protect the business of smaller companies and the SMME sector. Through new categorization of companies and terminating the concept of CCs, the new owner-managed private companies for SMMEs are set to benefit them more than the CCs have. By reaffirming concepts of limited liability and personal liability, business owners are protected by the law in case of business turnarounds and slumbers. It should be emphasized that taking away the concept of the CC is far from meaning that existing CCs will also lose their legal status as businesses. Adding on this, is that though potential CCs will no longer be accepted, existing CCs will have more than a decade to convert their legal businesses to private companies.

Changes in the requirements of reporting standards; that is, voluntary audits of which SMMEs will eventually form part and forced requirement of prepared financial statements make a significant change in legal entities of various sizes. Voluntary audits are set to ease the burden of intensive administration and paper work for those entities that would otherwise lack the educational or capital capacity to prepare them. For example, most SMMEs might be unable to meet the capital or monies needed to pay private audit firms for their audit services, or might lack the skills to administer such services, as most small business owners operate businesses without adequate or specific educational training on such businesses. But it is worth mentioning that this optional audit reporting might harm growing SMMEs that wish to trade beyond South African boundaries; that is, wishing to trade in import and export, with foreign countries as international companies are most likely to enter into a contract with businesses that reveal most or all aspects of a legal entity, including those businesses that prove to have adequate and properly audited financial records.

With regard to the strict requirement of prepared financial statements, SMMEs are going to benefit more than they have before the introduction of this rule. As private companies and thus legal entities, it is only fair that SMMEs have prepared records of their finances to secure business needs such as funding and market opportunities. But it is however not clear to what extent this strict requirement will help those SMME owners with little or limited education or skills to deal with standards of preparing financial statements; or if outsourced, how cost implications will impair their financial statuses as businesses, especially in the time of the recession as businesses struggle to cut costs for their livelihood. In terms of this problem, big organizations such as banks and government departments could play a significant role in assisting SMMEs to meet this requirement: (1) proper incentives, grants or subsidies could be allocated to significantly low turnover businesses to outsource these services, and (2) skills training and educational programmes could be initiated to educate struggling SMMEs on basic accounting, bookkeeping, computer literacy i.e. excel or pastel, basic business management and the like.

In our interviews with relevant people within the enterprise development sector and from our desktop analysis experiences, we have realized that most people and organizations know little about the amendment of the Companies Act and the reforming of some of the corporate laws like the Close Corporation Act. Only those working with the corporate Acts directly, for example, people from the organizations such as the DTI, Cipro, SAICA, SAIPA, and
Business Finance knew most about the reforms in the corporate laws. It has thus emerged from our attention that there is a great possibility that most of the members of the public or ordinary SMMEs and companies also know little about the reform of the corporate laws. Thus, to better disseminate and share the information on the changes in the companies Act and how it will affect ordinary business, we recommend to the custodians of the Act that they use different ways of letting people know about the New Companies Act. Although different media channels have been used, educational campaigns might be useful to smaller companies, especially with regards to the New Companies Act and the introduction of owner-managed companies.

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References:


http://www.seda.org.za/content.asp?subID=928


Appendix A

Content Analysis: Developed Themes:

1. Response question: Working with SMMEs
   - To develop finance for SMMEs
   - Promote documents to support SMMEs
   - Develop programmes at international level
   - Dealing with existing, registered/not registered CCs, and very few cooperatives

2. Response question: Growth of SMMEs
   Major Theme: Views that SMMEs are growing
   Theme: Policy
   - growth is at policy level
   - South African policy is advanced
   - Policy to translate legislation
   Theme: Entrepreneurship
   - Entrepreneurs see opportunity than necessity
   - Opportunity to start a new business
   - See it as a viable career
   - Future potential is 2010
Major Theme: Views on what needs to be done.

• Theme: Promotion
  • Promotion of SMMEs
  • Develop informal sector
• Theme: Supporting systems
  • Developing user friendly systems
  • Internet database

Major Theme: Views on what is not done to develop SMMEs.

• Theme: Implementation
  • Unable to offer services in decentralized one-stop leaving SMMEs with admin work
  • Lack of assistance
  • Lack of management
  • Lack of incentives & framework

• Theme: Consultancy
  • No one is helping SMMEs from start to finish
  • Private consultants not providing enough for SMMEs
  • Consultants not monitored to ensure value for money services
  • Not providing education on business form to SMMEs

3. Response question: Reason for establishing the Companies Act of 1973

• Theme: Registration of Companies
  • Logic outflow in enabling company registration

• Theme: Review of Companies Act of 1926
  • Modernize principles of 1926 Act
  • Change principles of 1926 Act
  • 1926 was based on English laws which were foreign to South African laws
  • Out of the need for the Roman Dutch law for South Africa

• Theme: To cater for SMMEs
  • It was difficult to cater for SMMEs and big companies in one law
  • To protect SMMEs, but maybe it did not work
  • It was burdensome for SMMEs to raise capital

• Theme: Corporate governance
  • Responsibility and order
  • Internal working governance
  • To have good corporate governance

Theme: Regulation of companies
  • To have framework for big companies
  • Companies needed to be regulated
  • To regulate the creation and management of companies as legal and commercial entities
  • To regulate companies and manage their reporting to governance structures

4. Response question: Implications of Companies Act of 1973 on Businesses, and on SMMEs in particular

• Theme: Positive implication
  • Reporting standards done voluntarily
  • Creation of the Close Corporation Act of 1984 which made it easier for SMMEs to register and obtain limited liability
  • SMME memorandum stipulated

• Theme: Negative effects
  • Restrictive and regulatory, thus not good to conduct business in South Africa
  • Did not assess SMMEs
  • Companies became the norm for medium to large businesses but had limited application to SMMEs
  • It was too complicated for SMMEs

5. Response question: Major impact on stages of SMMEs (i.e. on the starting, growing or export level)

• Theme: Impact on growth
  • Enable companies to become companies
  • Costly, but introduction of CCs rectified this shortcoming
  • New Companies Act re-emphasized corporate and financial statements
  • Enforcement structures

• Theme: Impact on starting
  • More earlier than later
  • Registration
  • Raising capital

• Theme: No impact
  • Old Act was not geared up for SMMEs
  • No impact

6. Response question: Reason for establishing New Companies Act
Theme: To replace the 1973 Act
- 1973 did not meet the expectations of business anymore
- Company law was in dire need for a review
- 1973 Act did not contribute anything to the starting, growth and exporting of business

Theme: Promotion and protection
- To promote information easier
- To define roles and responsibilities of directors

Theme: Categorization
- To streamline companies into profit and non-profit making

7. Response question: How will the New Act affect businesses, SMMEs in particular?

Theme: Simplification of the process
- Application will be simpler and less costly
- Process of registration has been simplified
- Simplification as they are no longer dealing with two Acts

Theme: Protection of SMMEs
- Directors
- Prefers a company to close when in stages of decline, than when it has declined.

Theme: Including SMMEs in its framework
- It will facilitate small businesses in particular
- When CC Act is revoked it will leave current CCs in limbo
- Existing CCs will concert to companies after a period of ten years

8. Response question: Major impact of New Act on stages of businesses (i.e. on start, growing or exporting)

Theme: Starting businesses
- Registration
- Limited liability and legal personality

Theme: Exporting
- Import companies will rather deal with a registered entity which is recognized and controlled by law to some extent

Theme: Growing
- Those operating due to the requirement for transparent financial information

9. Response question: Features in the New Act that might have impact on SMMEs
- Simplification of incorporation
- Simplification of management
- Less stringent audits requirements
- Closely held companies will enjoy more freedom of management and decision-making
- Less compliance requirements
- Private company requirements
- Financial statements requirements
- Categorization of companies i.e. distinction between profit and non-profit companies
- Voluntary regime in financial reporting standards

Appendix B

Interview Schedule

Purpose of the study:
The purpose of this study is to compile a research paper on the New Companies Act (NCA). In this article we attempt to answer the question "How does/or how will the NCA affect the functioning of SMME's in South Africa." To achieve an answer to this question we have decided to gather and analyze information on the causal relationship between the NCA and SMMEs and assessed the impact of the NCA on small enterprises by conducting interviews with relevant stakeholders working with or within the area of developing small businesses (i.e. Seda, the DTi, Khula, Cipro, Gauteng Enterprise Propeller, Umsovombu, SAYCC, Youth Commission, etc). The aim is to capture their opinions, feelings, attitudes or insights on the implications of this Act on the development, support and promotion of small businesses in South Africa. Data from the interviews is going to be used as supplement or support to a Desktop research undertaken to complete the study.

Procedure:
Semi-structured interviews are set with not less than 8 participants/respondents either at management or specialist level across identified relevant stakeholders. Participants are invited into the study in a snowball fashion and appointments are set with them to be interviewed either telephonically or face-to-face. Though stratifying participants according to their level and organization is not compulsory in this study, we aim to have at least an even sample representing both levels from each company (e.g. having 4 at management level and 4 at specialist level). A 10 item interviewing schedule is developed to be used by researchers at Seda with the aim of capturing participants' opinions, feelings, attitudes or insight on the implications of NCA on small enterprises.
Issues of confidentiality:
Seda is aware of ethics of conducting research that would not be malevolent to respondents/participants or the organizations they represent. In this regard Seda acknowledges the participants' effort and time put to this study, and acknowledges the responses of individuals as private entities of those individuals or the organizations they represent. As a result information that would be acquired from participants or respondents of this study would be treated with exceptional confidentiality and would not by any means be subjected to publishing, broadcasting or mediated in any media without knowledge and consent of respondents/participants of this study.

Consent:
Please note that participation in this study is not compulsory. Participants are free to decline invitation to participation and are entitled to stop with the interview unfinished if they so feel for any reason.

…………………………………………. (Signature)

Demographic Information
A. Name of Organization ……………………………
B. Occupation level:
   Specialist……… Management……….. Both……….

Item questions:
1. Are you working directly with developing businesses (either financially or not; and whether small or medium)? If you are, please state what type you are working with regarding the above.
2. What is your take/opinion on the development or growth of small businesses in South Africa? Break it down to business support (BDS), SMMEs and legislation.
3. Do you know any reason/purpose why the Companies Act of 1973 was established? If yes, in just a sentence or two, please provide any.
4. What has been the implication of this Companies Act on businesses, and to what extent do you think the Act has enabled/constrained small businesses?
5. On what stages of small businesses (i.e. Start, growth, export, etc) do you think the old Act has had/or is having a major impact?
6. Do you know about the New Companies Act? Do you know any reason/purpose why the Act has been established? If yes, in just a sentence or two, please provide any.
7. How do you think the New Companies Act will affect businesses, and to what extent will it have an impact on small businesses in particular?
8. At what stage (i.e. with regard to those businesses that are starting, that are growing, that are exporting, etc) do you think the new Act will have major impact when it is implemented?
9. What new features/or clauses in the Act (i.e. on categorization of companies, board representatives, financial statements, tax, etc) will have major impact on small businesses?
DEFINING SOCIAL ENTREPRENEURSHIP IN THE SMME SECTOR: WHAT IS IT AND CAN IT BE OF UTMOST RELEVANCE IN THE SMME SECTOR?

By Vicki Igglesden

Introduction

Global sentiments regarding the conduct of business have contributed to growing interest in social entrepreneurship as a means of bridging separation between economic and social value creation. The drive has been to create a connected and systemic approach to doing business, based on a ‘common set of human and earth-centred values focused on sustainability, social equity and justice, and livability in all spheres of society’ (Waddock 2009).

In the aftermath of the recent economic crisis, questions are being asked as to what model of capitalism should be adopted to address problems posed by increasing inequality and unemployment alongside a simultaneous reduction in the fiscus. A parallel issue is the diminishing reach of the state in the model of democracy and liberal economics prevalent in the ‘developed’ world. Further, questions arise in connection with the disparity between the western model of politico-economic development and the authoritarian model adopted by China, which is making inroads into several developing countries. There is an indisputable rise in the pressure for business to play its part in sustainable development through interaction with the challenges posed by social and environmental needs.

Parallel to the demands on corporates, there is a ‘new architecture transforming the social and citizen sectors’, promoting systemic change and search for new solutions to development needs (Sen 2007). The significant reduction in available funding globally, together with increased needs for social and environmental interventions, have generated greater competition amongst not-for-profit organisations (NFPs) for resources. In many contexts, this situation is further exacerbated by changes in the relationship between government and NFPs, where the latter are called to deliver services formerly delivered by government.

It is in the context of the above factors that the discussion of social entrepreneurship in South Africa becomes relevant. In this paper I will discuss approaches to understanding social entrepreneurship in an attempt to address the issue of definition. Without clarity on definition - or at least the definitional problems - it is difficult to contemplate the potential relevance of social entrepreneurship to the SMME environment. I will also consider conditions that have been identified as contributing to or detracting from an enabling environment for social entrepreneurship. Having addressed this latter point, I will briefly review aspects of the SMME sector in South Africa and consider, in the light of the preceding discussions, the relevance of social entrepreneurship to the sector. I will conclude that social entrepreneurship has significant potential relevance to the SMME sector in South Africa but that, due to the operational complexity of such enterprises, without prior development of the necessary environmental conditions there is little likelihood that any large scale promotion of social entrepreneurship will be successful.

The argument will be developed mainly from a review of international literature and the emerging literature in South Africa on social entrepreneurship. This will be supplemented by reference to aspects of the recent SETYSA research in South Africa, in which the author was involved (see below).

1. Social Entrepreneurship: What is it?

As most writers on the subject confess, ‘social entrepreneurship’ is understood in a variety of ways. Peredo and McLean (2006) state that, if we are to understand the promise of social entrepreneurship and to advocate for its integration into policy, definitional clarity is essential.
Definition will guide adjudication of enterprises and activities that are (implicitly or explicitly) constitutive of social entrepreneurship through the development of effective legislation and policy, standards of evaluation, and for the identification of the necessary support services. However, it is a matter of contention in the literature whether it is necessary to set boundaries to the scope of social entrepreneurship in order to distinguish it from traditional or business entrepreneurship (Seelos & Mair 2005) or whether it is preferable to 'maintain a degree of permissiveness' in the definition so that there is a 'suitably flexible explication of content' (Peredo & McLean 2006). In the latter case it is recommended that merely 'core elements implicit in common usage' are identified.

Most commentators would agree with the view that social entrepreneurship entails addressing the same core opportunities and challenges as business entrepreneurship, with some important additional factors that derive from the incorporation of a social mission. Thus, social value creation, innovation, resourcefulness, opportunity recognition and a degree of risk tolerance are generally included as core characteristics of social entrepreneurship. The core features that differentiate social entrepreneurship from traditional entrepreneurship include the nature of the founding mission, the intended market impact, the focus on stakeholder salience, the source of opportunities and a very particular set of performance metrics (Neck et al 2009). It is, however, the primacy of social value creation that is the undisputed key feature.

Drawing from a range of authors, Dees (1998) draws a profile of social entrepreneurship (acknowledged as idealised) in which social entrepreneurs 'play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value);
- Recognizing and relentlessly pursuing new opportunities to serve that mission;
- Engaging in a process of continuous innovation, adaptation, and learning;
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability in the constituencies served and for the outcomes created.

Mair and Marti (2005) view social entrepreneurship broadly as a process that serves to catalyse social change and/or address social needs. They observe that social enterprises operate in an organisational context to offer new services and products, whether through new venture creation or through process innovation within existing organisations. In effect, social entrepreneurship is practised in a diversity of activities, bridging sectors traditionally regarded as the prerogative of business and those normally viewed as 'social' or 'welfare' activities.

One of the contributing factors in the definitional confusion is the range of different types of definitions. In this paper I will refer to the two most common approaches to defining social entrepreneurship - those that identify the normative characteristics of individuals who are successful drivers of social entrepreneurship and those that focus on the appropriate business models for social entrepreneurship.

The 'normative behaviour' approach to defining social entrepreneurship: Waddock (2009) describes social entrepreneurs as systems thinkers with pragmatic vision, working at the interstices between business and society in a dialectical process aimed at bringing about social justice and equity through a sustainable venture. These individuals are adept at negotiating numerous competing systems and identifying leverage points for change, using a mixture of political savvy, vision, inspiration and luck (preceded by thorough groundwork). Other behavioural traits identified as characteristic of social entrepreneurs include the use of cognitive schemas that reflect internal values and motivations connected to the mission of the social venture, and an 'acute understanding of social needs, along with passion, creativity, charisma and remarkable leadership skills (Certo & Miller 2008). In some cases the special behaviour that underlies successful social entrepreneurship is described as a particular cultural orientation (Deraedt 2009).

Emphasis on personal characteristics has, perhaps, its apotheosis in Ashoka's approach to conceptualising social entrepreneurship (Ashoka 2007). Being both business entrepreneurs and social reformers, social entrepreneurs establish large, self-sustainable developments to improve the national social fabric by leveraging small cash investments to innovate and bring about systems change. Through the relentless pursuit of their goals, they are capable of being 'a major catalytic force in transforming the developmental firmament' (ibid.). Ashoka's vision of social entrepreneurship emphasises the 'ethical fibre' of individual social entrepreneurs and their potential, as 'natural' leaders and role models, to develop visionary 'pattern setting' ideas that can be developed into prototypes of institutions, processes and social and citizen sector 'architecture' for replication in other contexts (Sen 2007).
Against this approach, Peredo and Mclean (2006) reject the ‘temptation’ to include normative characteristics to define practitioners of social entrepreneurship, not least because any definition should, they maintain, accommodate unsuccessful, inconsistent and non-exemplary examples of social entrepreneurship.

The business models approach to defining social entrepreneurship: The starting point for this approach is the nature of the enterprise through which social entrepreneurship is conducted. The model adopted has to comply with the goals and constraints of social entrepreneurship in general as well as those defined by the specific social mission and desired social impact of the individual venture. An important attribute is flexibility in structure.

Social enterprises allow individual social entrepreneurs to ‘strike their own balance between the desire to make a social contribution and the personal need to capture an economic return from professional activity, across a wide range of possible ratios’ (Seelos & Mair 2005).

Social enterprises, therefore, are ‘novel business models brokering between very limited and disparate resources to create social value’. Their purpose is to provide ‘products and services that cater directly to the social needs underlying sustainable development goals’ but that ‘remain unsatisfied by current economic or social institutions’ (Seelos & Mair 2005). Neck et al (2009) identify two models of ventures that can be considered examples of social entrepreneurship. Both types are founded on the principal premise that their activities will solve an identified social problem.

The first, ‘social purpose ventures’, are structured for profit and are perceived as having an economic impact on the market. The second, ‘enterprising non-profits’, may have ‘earned income activities which very much apply the general principles of entrepreneurship’ but, importantly, they also ‘focus on growth and economic sustainability’ (ibid). In effect, the distinction here is in the relative importance of the motivation for profit, on the one hand, and for the creation of social value and systemic change, on the other.

Peredo and McLean (2006) are amongst those who emphasise the value of seeing social enterprises as existing on a continuum. They argue that the key to being eligible to be considered a social enterprise lies in the fact that the goal is principally defined by social ends (rather than by profitability).²

Diagram 1: The Continuum for Business Models of Social Enterprises.

Diagram 1: sets out a range of possible business models capable of supporting social entrepreneurship activities. These exist on a continuum between pure social value creation and pure economic value creation. Social entrepreneurship occurs where the profit motive is driven principally by a social mission.

Hybrid models are those whose mission statement and structure provide for a ‘double bottom line’ that is a blend of social and economic value creation. Ongoing disagreement as to which models do fall strictly within the scope of social entrepreneurship renders the diagram somewhat hypothetical at this stage.

Contentious issues in defining social entrepreneurship: From the preceding discussion of approaches to defining social entrepreneurship a number of issues that remain contentious have been identified. It is useful to review what they are as they point to potential difficulties attached to defining social entrepreneurship in South Africa:

a)Significance of the social mission: Whilst it is agreed that the social mission is a core defining feature of social entrepreneurship, disagreement exists on whether, and to what extent, social and for-profit motivations can exist alongside one-another in a single venture. Determining the motivation for an enterprise may be difficult in practice.

b)Immutability of the social mission: There are suggestions that ‘the social mission is not as sacred a goal as traditionally has been believed’ and that passion for the mission is tempered by pragmatism about the market (Weerawardena & Mort 2006).

c)Economic value creation: Consensus has not been reached on the appropriate manner of profit distribution, and/or reinvestment, nor whether ‘a
person or organization can pursue two bottom lines and be considered a social entrepreneur” (Certo & Miller 2008). Although many would agree that economic value creation is ‘a necessary by-product that ensures the sustainability of the initiative and financial self-sufficiency’ (Mair & Marti 2005), there are some models of social entrepreneurship that shun economic wealth creation.

d) Community connectivity: On the one hand it is argued that a social entrepreneur’s embeddedness in the community enhances opportunity recognition and access to critical resources. Conversely, outsider-status may provide a better basis for evaluating prospects of success (Mair & Marti 2005).

e) Personal characteristics of social entrepreneurs: Seelos and Mair (2005) state that there is a lack of empirical data to assess whether claims made about personal characteristics can be justified. Weerawardena and Mort (2006) maintain that environmental conditions and the need to pursue a social mission in a sustainable manner may impose significant constraints on behavioural aspects of social entrepreneurship.

f) Risk management: There is conflict between the view that social entrepreneurs operate with above-average appetite for risk (Mair & Marti 2005, Dees 1998, Peredo & McLean 2006) and the opposing claim that social entrepreneurs have to be ‘extremely cautious in making resource commitments’ due to excessive uncertainty of funding streams and the priority of building a sustainable organisation (Weerawardena & Mort 2006).

g) Innovation: Despite the emphasis in the literature on innovation as a key feature of social entrepreneurship, it is arguable that it is neither necessary nor, conceivably, possible for all social enterprises to be structured and run on innovative lines. The very notion of replication (so central to Ashoka’s vision), suggests that innovation is not necessarily a core feature of all types of social entrepreneurship.

In conclusion of this review of a range of understandings of social entrepreneurship from the international literature, it is clear that there remains quite a high degree of flexibility in current definitions, verging in some instances on confusion. This is no doubt due both to the relative newness of mainstream policy focus on the phenomenon and the mercurial nature of entrepreneurship itself. Whilst flexibility and a certain imprecision allow for a wide range of innovative approaches to social entrepreneurship, the very same features hinder institutional actors from developing formal frameworks for promoting and supporting social entrepreneurship. The agenda should be, therefore, to work towards greater clarity of options for structure and operation without constriciting the licence for the creativity that is such an important force in social entrepreneurship.

Towards a South African definition: In research conducted for ILO/SETYSAL (Steinman 2010) contends there is a need for a ‘home grown’ definition and description of social enterprises. These must be understood in the context of the historic development of the social sector in South Africa, of ongoing societal inequalities and of salient political and cultural issues. Following consultation with stakeholders in 2009, Steinman concluded that:

‘A social enterprise’s primary objective is to ameliorate social problems through a financially sustainable business model, where surpluses (if any) are principally reinvested for that purpose’ (ibid:40).

Steinman (2010) reports that South Africans indicated two themes that were critical but over which it was difficult to gain clarity. One was the definition of ‘sustainability’ (including allowable income streams) and the other was the nature of profit and/or surplus (including different understandings of these terms) and the necessity for regulations regarding their disbursement. There was, broadly speaking, consensus that social enterprises should:

‘be capable of attracting investments or creating share equity;
‘not be dependent upon corporate social investment or grants beyond the start-up phase;
‘plough back any surplus ‘into the social purpose, community or business in a way it may seem fit, without affecting the ability of the social enterprise to obtain share equity and to pay dividends to shareholders’;
‘pay dividends (if any) in accordance with their Constitution which shall allow for such payments to be capped ‘to strike a balance between encouraging people to invest in social enterprises and the principle that the assets and profits of the social enterprise should be devoted to its social purpose’ (ibid).

Social enterprises should be able to exist in a number of legal forms (including NPOs and NGOs, Section 21 companies, cooperatives and social entrepreneurial concerns), although in blended value models the social value and economic value creating vehicles should be clearly separated. It was also strongly felt that a social
enterprise should engage with the relevant beneficiary community according to democratic principles and operate within a value system consonant with the Constitution of the Republic of South Africa.

Also from the SETYSA program, Learn to Earn (LtE)\textsuperscript{10} used a 'working definition' of a social enterprise, being an entity for which the primary objective is to address a particular social need or opportunity through a financially sustainable business model and whose profits or surpluses (if any) are principally reinvested for that purpose in the business or in the community'. (LtE 2009:7)

Coming from a practitioner of social entrepreneurship, this definition is noteworthy for its orientation to 'social needs and opportunities' rather than the more common focus on 'social problems'. Discussion of the definition revealed two further important emphases:\textsuperscript{11} Firstly, social entrepreneurship requires a good understanding of the beneficiary community of the venture and that the impact on that community is measurable and is monitored to ensure that negative unforeseen consequences do not arise. Thus the venture must be socially sustainable as well as financially sustainable. Secondly, LtE encourage a broad approach to identifying resources, including the use of already-existing community resources, income generation, grants, donations, and investors (but not shareholders).

In contrast to the international literature reviewed in this paper, the SETYSA consultations appear to have generated rich responses on the financial aspects of social entrepreneurship. Although further evaluation would be required to establish why this is so, it is fair to speculate that environmental conditions are responsible for this. Widespread poverty and unemployment, coupled with a tradition of community service linked to income generation (however small), would render the financial aspects of social entrepreneurship in South Africa extremely important.

Returning to Steinman’s appeal for a ‘home grown’ definition, clarifying what social entrepreneurship is (or is to become) in the South African context, may well need particular focus on the financial aspects, such as resource identification, investment vehicles, profit distribution, financial incentives and broader issues of sustainability.\textsuperscript{12} It will also need to take account of community political and cultural concerns through careful account of governance issues relating to community participation and to monitoring. I would argue, therefore, that the definition of social entrepreneurship in South Africa is still very much ‘a work in progress’.

Given the diverse views on the various elements of the definition of social entrepreneurship in South Africa, it may serve well to adopt a template for identifying the defining features of different instances of social entrepreneurship, according to the demands of time and place. The SETYSA research highlights that social enterprises - and social entrepreneurship - are multidimensional constructs subject to a range of defining factors. Social enterprises are temporally and geographically dynamic and are - or should be - embedded in and responsive to the local economic, social, physical, political and legislative environment. The crucial influence of environmental dynamics is addressed by Weerawardena and Mort (2006) (See Diagram 2).

Diagram 2: Model of Social Enterprise (drawing on Weerawardena & Mort 2006)

Alongside the environment, there are two further determining factors - the drive for sustainability and the social mission. Social enterprises are bounded and ‘deeply rooted’ in both their social mission and their drive for sustainability. Weerawardena & Mort (2006) argue that the role of the social mission is equal to, not greater than, the requirement to maintain sustainability of the organisation. Social enterprises maintain their force for creating social value from three internal dynamics: innovativeness, proactiveness and risk management. (ibid).\textsuperscript{14} Effectively, we might argue that there are nested fields of forces - the drive for sustainable development, the goal of the social mission, and the social enterprise itself - all of which are responsive to and constrained by environmental dynamics.

2.Enabling Environments for Social Entrepreneurship

Given the defining influence of the environment, it is important to consider factors identified as contributing to an enabling environment for social entrepreneurship.
Broadly viewed, environmental variables occur in properties of the individual entrepreneur, the enterprise, the processes of entrepreneurship adopted and the context within which the enterprise operates. Sharir & Lerner (2006) identified eight variables contributing to the success of a social venture:

- the social network;
- total dedication of the founder(s);
- the capital base at the establishment stage;
- the acceptance of the idea of the venture in the public discourse;
- the venturing team (number of people and range of expertise and experience, levels of pre-existing friendship and sound staff training and management);
- long-term cooperation with other organisations (information exchange, coordination and sharing of resources, work, risk, responsibility and rewards);
- the ability of the service to stand the market test (most effectively through identifying a clientele and establishing a customer base); and
- previous managerial experience.

Of these, two are necessary conditions: firstly, total dedication to the venture's success and, secondly, the venture's social networks. Success in social entrepreneurship requires the 'resolve, determination and belief of the entrepreneurs in the importance and necessity of the notion they wish to realize' (Sharir & Lerner 2006). More crucially, 'the social capital incorporated in the entrepreneur's social network is in itself one of the venture's most important resources, and serves to supplement the venture's human capital' (ibid). Certo and Miller (2008) argue that social capital supports resource acquisition in the form of investments of time and/or money, the fostering of alliances and the linkages within communities wherein value creation is contemplated. Social capital contributes to enhancing reputation, in itself a critical intangible asset, along with intellectual capital and good will (Waddock 2009). It also facilitates the necessary flow of expertise and talent across sectors - business, welfare, government and community - in a process that demands 'trust, mutual respect and highly valued complementarities' (Sen 2007).

The extent to which a social enterprise is responsive to the environmental dynamics - particularly its salience to stakeholders - is a predictor of its success (Neck et al 2009). To be effective, social entrepreneurship 'must first be rooted ideologically and in terms of resources in the communities it affects' (Sen 2007). Community awareness and understanding of the aims of social entrepreneurship contribute to an enterprise's success. Equally, formal and informal institutions that control existing policy, practices and resources need to be able to identify some value in what a particular social enterprise sets out to do (Sharir & Lerner 2006).

A critical factor in the enabling environment for social entrepreneurship is access to funding. Social enterprises suffer from lack of access to capital, particularly start up capital (Lyon & Sepulveda 2009). Such funding as is available is often too short-term and conservative in nature, serving well-proven approaches. Compared to traditional entrepreneurs, social entrepreneurs need 'longer-term support to test and refine their ideas and transform them into a sweeping social movement' (Sen 2007) and social enterprises take longer than conventional enterprises to reach profitability (Steinman 2010). Organisations such as Ashoka identify venture capital initiatives as 'the most critical intervention' to provide seed money and important professional services to social entrepreneurs (Sen 2007). In effect, local knowledge and opportunity awareness of individual entrepreneurs can be opportunistically matched with the 'pool of corporate knowledge, managerial skills, and capabilities to implement social entrepreneurial efforts' (Seelos & Mair 2005).

Finally, an important factor affecting the operating environment of social entrepreneurship is the availability of effective frameworks for monitoring and evaluation. Measurement of social value creation is both difficult and contentious (Dees 1998). It is difficult to accurately isolate the factors that contribute to social change and it is difficult to allocate an economic value to change. However, effective performance metrics are necessary for establishing the legitimacy of social entrepreneurship (Mair & Marti 2006). Ultimately, it is recommended that a 'blended value' approach should be adopted that seeks to measure social and/or environmental impact alongside financial profit (Neck et al 2009).

Research in the South African context has identified factors that are viewed as essential to creating an enabling environment for social entrepreneurship. Steinman (2010) identifies policy, legal, regulatory and institutional factors relevant for creating an enabling environment for social entrepreneurship, along with political factors, such as the 'role of the non-profit sector during the struggle' and cultural norms in community cooperation and sharing. Peels et al (2009) call for conditions that allow for the optimal design of legal frameworks for vehicles of social entrepreneurship. In particular, the pursuit of an identified
social aim, the enablement of economic activities, a sound governance structure and the autonomy of the social enterprise should be assured (ibid). There should be government intervention in the market (both directly and indirectly through market structures), and in addressing entry barriers and imperfect competition. Provision should be made to support capacity development, replication and scaling up of best practices and for strengthening the practice and public understanding of and support for social entrepreneurship (ibid).

With respect to the financial aspects of social entrepreneurship in South Africa, Steinman (2010) reports that access to finance from banks is difficult; there is lack of clarity about the status of grants and it is not possible to raise share equity within the existing NPO framework. Moreover, business development services need to be seen to be more responsive of the needs of social entrepreneurs and to more effectively screen applicants for training for their entrepreneurial flair. There needs to be development of a philanthropy venture capital infrastructure and provision of tax incentives to support social entrepreneurship. Peel et al. (2009) write that measurement tools need to be developed to assess the social return of social enterprises in terms of their economic performance, their social aims and their governance.

In sum, the principal factors that have been noted as relevant for creating an enabling environment for social entrepreneurship in South Africa relate to the social entrepreneur’s social networks and commitment; the relevance of the enterprise to the community and the community’s awareness of social entrepreneurship; access to funding and support services and the existence of effective monitoring and evaluation systems. For these to exist, there needs to be an appropriate policy, legislative and regulatory environment and, most importantly, conceptual clarity regarding the possibilities and limitations of social entrepreneurship. In effect, none of these are possible without first establishing a single definition that accommodates limitation without closing avenues for innovation.

3. SMMEs in South Africa: Context and Characteristics

At this stage we may return to the second part of the original question posed: Can social entrepreneurship be of ‘utmost relevance’ in the SMME sector? In addressing the notion of ‘utmost relevance’ I will assume that relevance is to be measured against the predominant model of traditional or business entrepreneurship in the SMME sector in South Africa. There is a large body of literature on the important features of this sector too expansive to review here. However, with a view to presenting a brief overview I will refer to the Global Entrepreneurship Monitor (GEM) of 2008 and of 2009.

In 2009 perceived entrepreneurial capabilities and entrepreneurial intentions amongst South African entrepreneurs were significantly below the means registered for other comparable countries in the survey. Perceived opportunities and fear of failure were in line with the mean. Perceptions of entrepreneurship as a good career choice and the perceived high status of entrepreneurs, together with media attention for entrepreneurship, were only slightly lower than the mean. South African rates of nascent, new or early-stage entrepreneurial activity were, however, approximately half the mean for similar countries in 2009. Only the rate of business discontinuation approached global levels. More South African men than women were reported to be engaged in entrepreneurial activity. Expectations of entrepreneurial job creation (of 20 or more jobs) in the next five years were reported as being much lower in South Africa than most comparable countries.

With regard to institutional factors, South Africa was identified as lacking government programmes, primary and secondary education, and research and design transfer to support entrepreneurial activity. However, assessment of post-school education, and commercial and physical infrastructure indicated that provision was positive for entrepreneurial activity (GEM 2009). In 2008 experts declared South Africa’s entrepreneurial environment as mediocre, with similar deficits in institutional support. It was noted that government policies and programs, education and entrepreneurial capacity had been featured among the most frequently cited limiting factors since 2001. (GEM 2008)

In 2008 GEM included a special focus on the entrepreneurship environment in South Africa. It was noted that entrepreneurial activities were most likely to be started by whites and Indians and by men. Black Africans were reported as having ‘the lowest prevalence of opportunity motivation’ among the different race groups, despite the fact that levels had improved on previous years. Factors identified as constraining entrepreneurial activity were access to finance, education and training and government policies - with education and training being perceived as particularly badly below the required level.

The 2008 GEM survey concluded that South Africa’s performance in terms of entrepreneurial activity was below the median and had consistently been so since 2001, despite a relatively low GDP per capita and very high unemployment rates which together fostered expectations that there should be high levels of early stage entrepreneurial activity. However, a poor skills base and
4. The Relevance of Social Entrepreneurship to the SMME Sector in South Africa

The SMME sector in South Africa is clearly already operating under several marked constraints. This forces the question as to what benefit there could be in promoting social entrepreneurship in the SMME sector, given the complex demands such enterprises characteristically make of individuals, communities and the broader institutional infrastructure.

Entrepreneurial activity is widely viewed as capable of contributing substantially to improvements in wealth creation and to economic development through job creation, innovation and the knock-on welfare effect (GEM 2008, 2009). This being the case, there are good reasons to argue that social entrepreneurship has the potential to add a useful dimension to the SMME sector in South Africa. However, as we have seen in the earlier discussion of definition, it is critical that there is an effective enabling environment as the complexity of the dual demands of the social and business aspects of social enterprises dictate appropriate support mechanisms, at least in the somewhat prolonged establishment phases of individual social enterprises.

In sum, having reviewed, firstly, the definition and requirements of effective social entrepreneurship and, secondly, the context and characteristics of the SMME sector in South Africa, there are arguments both for and against supporting the notion that social entrepreneurship is of utmost relevance in the sector. Much of that which mitigates against concluding that social entrepreneurship is of utmost relevance to the SMME sector relates to currently existing environmental factors. If, as is indicated by the GEM reports of 2008 and 2009, the SMME environment in South Africa continues to be hampered by lack of appropriate education, support services, finance, and entrepreneurial capacity, these shortfalls will be more keenly felt by social entrepreneurs who require access to enabling resources over and above those required for conventional forms of SMMEs.

On the other hand, much of that which supports the idea that social entrepreneurship is of utmost relevance to the SMME sector in South Africa relates to changes in the broader environment that social enterprises can bring about. Most obviously, the social value created through social entrepreneurship has the potential, where successful, to bring about positive community change. The fact that social enterprise start-ups have tended to engage a slightly younger demographic than traditional enterprise start-ups (GEM 2009) is of potential value as a contribution to addressing the high levels of youth unemployment. Equally, the emphasis that some approaches to social entrepreneurship place on leadership - particularly developing new forms of leadership and for leadership 'in new places’ (Sen 2007) - is a valuable approach to community transformation.

Further, the fact that multiple dimensions of collaboration and cooperation are built into the social entrepreneurship model has the potential to present a new way of doing business in communities where business cooperation is observed to be lacking.22 The funding models for social entrepreneurship provide a much needed antidote to the increasing scarcity of development funds, coupled with donor demands for evidence of long-term sustainability and of community participation in creating their own developmental solutions. In the South African context, there is further potential in the social entrepreneurship model for challenging entrenched dependency and chronic attitudes of entitlement to government assistance. Given the levels of need, the reduction in donor funding and the limitations of the fiscus (in the light of the recent global recession), radical new models of social welfare delivery are necessary.

A further potential advantage of the social entrepreneurship model lies in the formal replication aspect of some approaches. Through this mechanism entrepreneurial opportunities can be extended to individuals and/or communities who do not have the vision to construct their own successful social enterprise but are nonetheless sufficiently skilled to run their own social

Although South Africa reported relatively high availability of venture capital in 2008, only a small proportion of it was invested in seed, start-up or early stages-projects. It remains, therefore, that generally speaking, informal investment is ‘far more important than venture capital’ in South Africa as, in the short-term, it ‘has far more impact than venture capital on entrepreneurial activity’ through its vital role in business start-up situations (GEM 2008).

Severe environmental limitations (including widespread poverty and lack of access to markets and to resources) provided some explanation of the unexpectedly low levels of entrepreneurial activity. This, along with relatively high failure rate for new start-ups and the high risks associated with self-employment for the financially vulnerable, combined to ‘paint a bleak picture of the SMME sector’s potential to contribute meaningfully to job creation, economic growth and more equal income distribution’ (GEM 2008).

The SMME sector in South Africa continues to be hampered by lack of appropriate education, support services, finance, and entrepreneurial capacity, these shortfalls will be more keenly felt by social entrepreneurs who require access to enabling resources over and above those required for conventional forms of SMMEs.
enterprise according to a pre-existing format, with guidance on its local applicability. Of note in here is the increasing penetration of commercial franchise enterprises into non-traditional markets, creating awareness of mechanisms of venture replication amongst potential social entrepreneurs in these communities.

From a general perspective, there is not a wealth of resources - most obviously social capital - within most communities in South Africa that suggest an environment primed for successful promotion of social entrepreneurship.

There is however, a history and ongoing tradition of community service, particularly in relation to welfare, which is often (but by no means exclusively) the preserve of women. The development of social entrepreneurship presents an opportunity for women, who are under-represented in conventional entrepreneurial activities, to become economically active.\[^{23}\]

From an economic perspective, it is worthwhile recalling that opportunity-motivated enterprises tend to make a higher contribution to the economy than do necessity-driven enterprises (GEM 2008). Promotion of the social opportunity identification dynamic that is central to social entrepreneurship has the potential to raise engagement in the opportunity-driven ventures. There are clearly many potential socioeconomic and environmental benefits to developing social entrepreneurship in the SMME sector. At the same time, the possibility of such a move raises a host of questions and the need for some reality checks.

**Job creation potential of social enterprises:** GEM (2009) reports that amongst South African entrepreneurs expectations of job creation in the next five years was fairly widespread, but at a low level - only 17% of respondents expected to create 20 or more jobs. GEM 2008 reported relatively low prevalence of job-growth oriented businesses in South Africa. The international literature is unclear on the job-creation potential of social entrepreneurship. Neck et al (2009) report low levels of job creation in social purpose ventures, with one third of ventures creating between 1 and 5 jobs and none creating over 5 jobs. Ashoka, on the other hand, claim that social entrepreneurs have been 'generating jobs at 2.5 to 3 times as fast as the rest of society' (Sen 2007).

Another aspect of job creation that needs to be considered, particularly in the light of the Decent Work Agenda,\[^{24}\] is the quality of jobs created through social entrepreneurship. The tendency for social enterprises to rely on volunteer and below-market rate wages as part of their resource strategy\[^{25}\] will do little (if anything) to improve South Africa’s decent work deficit. Although there is a strong tradition of volunteer labour in the social sector, it is often the disadvantaged that engage in this activity.\[^{26}\]

Viability of profit regulation: The argument, from the policy perspective, is that if social entrepreneurship ventures are to benefit from dedicated support initiatives, including special funding arrangements, there needs to be control on levels of profit distribution, for both ethical and financial bottom-line reasons. Furthermore, a formula regarding profit distribution is easier to administer as a gate-keeping mechanism to allow access to benefits designed for social enterprises than is, say, measurements of social value creation.\[^{27}\] However, it is open to question whether individuals or communities who have lived for years, generations even, with no or insufficient gainful employment, will be attracted in significant numbers to an opportunity to convert the profits of their entrepreneurial labours into social investment in their communities unless that opportunity is accompanied by the possibility for personal financial enrichment.\[^{28}\]

As currently defined, the social enterprise concept imposes a social burden-to-provide on members of historically marginalised communities.\[^{29}\] A more appealing formulation might incorporate the core values espoused by the Fair Trade movement\[^{30}\] in order to mitigate the objections to the limitations on profit distribution and to ensure that widespread labour and working condition inequities are not perpetuated.

**Popular understandings of entrepreneurship:** GEM (2008) observes that there is a need to develop ‘a positive but realistic entrepreneurial culture’ in South Africa, noting that there were both unrealistic expectations of financial turnover and of the time it will take to break even. It is not clear what the popular understanding of the terms ‘entrepreneur’ and ‘entrepreneurship’ are and the extent to which those understandings differ from those in formal academic and policy discourses conducted, for the most part, amongst language and business elites. The popular press, for example, is reported to refer to an entrepreneur in terms that suggest that she or (more usually) he is simply one who ‘starts up and/or runs a small business’ (Peredo & McLean 2006).

Given recent media coverage of ‘tenderpreneurs’ and of individual entrepreneurs who have accumulated spectacular wealth through BEE deals, it is fair to argue that creating awareness of the parameters of social entrepreneurship may well cause consternation amongst communities who have come to understand
entrepreneurship for its wealth accumulation dimension rather than for its innovation dimension. Arguably, it is fair to speculate that there is considerable variation in local imaginings of ‘the entrepreneur’, affected by a range of demographic and socio-economic factors.

Some further questions: There are many questions raised by this paper that remain to be answered. For example, given the desirability of fostering locally-generated initiatives, how can the lack of appropriate social networks be compensated for in the case of individual would-be social entrepreneurs from communities with pervasive low social capital? How can the ‘special individuals’ identified as social entrepreneurs be identified in meaningful numbers in socio-economically marginalised communities? How effective can duplication of successful social entrepreneurship initiatives be in the light of the very particular drive and vision of social enterprise founders? How can the engagement in social entrepreneurship in South Africa be developed from being a predominantly white activity to being more inclusive?

There are clearly many policy, definitional and environmental issues that have to be addressed before a model for social entrepreneurship can be considered sufficiently well conceptualised to be successfully introduced as a formal business model in the South African SMME sector. These include, but are not limited to, establishment of government support structures to promote an enabling environment; production of legislation, regulation and guidelines; provision of finance, incentives and relevant developments in the financial services industry; appropriate education and skills transfer; and public education and raising awareness of the value of social entrepreneurship.

To lay the necessary foundations, throughout these exercise that policy decisions and management initiatives need to be 'directed towards understanding and managing environmental dynamics' (Weerawardena & Mort 2006).

There is little disagreement that social enterprises can effectively operate in a broad range of sectors and be involved in a diversity of businesses. However social entrepreneurship is clearly not an unalloyed panacea to relieve high levels of unemployment and the pressing needs for sustainable development interventions in the communities in which the majority of South Africans live. The demands that the successful conduct of social entrepreneurship makes on individuals, communities and institutional infrastructure are considerable. In this respect, it is wise to remain aware that there is a tendency in the literature on the subject to represent social entrepreneurship as an unqualified good. However, the challenges aside, social entrepreneurship clearly does have the potential to play a significant role as an extremely valuable member of the SMME family, provided that the necessary enabling mechanisms are in place, which necessitates first that the current definitional confusion is resolved. To reject that social entrepreneurship has relevance to the SMME sector in South Africa is to conclude that there is neither the need nor the opportunity in South Africa for the development of globally effective social enterprises such as the Big Issue and the Grameen Bank. This is clearly not the case.

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Mair, J ohanna & Ignasi Martí, 2005, Social Entrepreneurship Research: A Source of Explanation, Prediction and Delight. IESE
3. Whilst there are arguments for maintaining a distinction between social entrepreneurship and ‘business entrepreneurship’, ‘social enterprise’, ‘social business’, ‘social economy’ and ‘social entrepreneur’.

4. In this paper I use the terms ‘traditional entrepreneurship’, ‘business entrepreneurship’ and ‘conventional entrepreneurship’ interchangeably to refer to private commercial business that does not qualify to be called ‘social entrepreneurship’.

5. Neck et al (2009) identify the core features of traditional entrepreneurship to be acting on an opportunity identified, acquiring resources to support the intended action, and building a team to create something of value.

6. A very similar inventory is presented by Peredo & McLean (2006).

7. See also www.ashoka.org

8. This excludes ventures where social benefits arise in the course of the drive for financial profit. Social-cause branding, for example, is used as an opportunistic mission to increase profitability (Peredo & McLean 2006). It also excludes for-profit ventures that dedicate a portion of their profits to ‘social responsibility’ investments (Neck et al 2009).

9. SETYSA (Social Entrepreneurship Development Targeting Unemployed Youth in South Africa) is a 2 year pilot project implemented by the ILO. It aims to increase awareness and appreciation of social entrepreneurship, build capacity of community business development services and establish social businesses in pilot communities in the Western Cape and the Eastern Cape.

10. Learn to Earn (LtE) is a social enterprise, based in Cape Town, providing lifeskills and livelihoods training as well as providing research services to potential or already-existing social enterprise initiatives seeking to replicate the LtE model. LtE contributed to the SETYSA research in 2009. www.learntoearn.org.za

11. This analysis is developed from presentations given at focus groups run by LtE in the Western Cape in 2009 for the SETYSA research process. (See LtE 2009)

12. In addition to community members themselves, LtE’s approach to resource identification encourages consideration of already existing facilities, local knowledge and skills, local histories and existing or defunct relationships.

13. The comment of one of Steinman’s respondents on sustainability is opposite. Pat Pillay, the founder and CEO of Life College Association is reported as urging a change in mindset about sustainability ‘because sustainability is not only linked to the balance sheet but to vision, mission and social purpose’ Steinman 2010).

14. Opportunity recognition occurs within the ambit of sustainable development.

15. There is a tendency for the use of ‘esoteric’ measures and notions such as ‘lives touched’ to be used for evaluation of social value creation (Neck et al 2009). Sharir & Lerner (2006) probably
speak for the majority of social enterprises when they identify ‘survival as a prime measure of success’. For their research they evaluate the success of social ventures in terms of the degree to which the social venture achieves its declared goals, the ability of the venture to ensure program/service continuity and sustainability, and the measure of resources available for the ventures growth and development.

16. The regulatory environment is such that there are more opportunities to establish SMMEs than there are to develop social enterprises (Steinman 2010).

17. I will not distinguish between different types of SMMEs. For the purposes of this article I will merely assume that the category SMME includes a range of for-profit entities established through private entrepreneurial activities but limited to not more than 200 employees for any one entity.

18. GEM’s approach to the analysis of entrepreneurship measures attitudes, activity and aspirations amongst entrepreneurs and entrepreneurship specialists, on the assumption that a range of environmental conditions affect these core components of entrepreneurship. It is assumed that appropriate opportunities, capabilities and attitudes are necessary for entrepreneurial activity in any country.

19. Countries in the GEM survey are ranked according to a measure of phases in economic development. South Africa is categorised as being among the efficiency-driven economies, of which 22 were surveyed in GEM 2009.

20. The domination of whites prevails also in the current social entrepreneurial environment in South Africa. (Steinman 2010).

21. Informal investment arises from individuals investing in other people’s start-ups, often alongside founder investment.

22. In recent research in the Cape Flats, participants from a number of communities reported pervasive ‘jealousy’ amongst township entrepreneurs, often acted out in destructive and intimidatory moves employed against traders who were identified as particularly successful by competitors. (Learn to Earn 2009). GEM (2008) reports reluctance to share skills and facilities amongst South African entrepreneurs.

23. Although the higher participation of men than women in entrepreneurial startups and early stage businesses persists in social enterprise startups, the gender gap is significantly reduced. (GEM 2009)

24. Consolidated in the International Labour Organisation’s structures and programmes by the 2008 ILO Declaration on Social Justice for a Fair Globalization. Decent work is defined as work that takes place ‘under conditions of freedom, equity, security and dignity, in which rights are protected and adequate remuneration and social coverage is provided’ (Barrientos 2007).

25. Sharir & Lerner (2006) note the reliance of social entrepreneurship in Israel on ‘volunteers and staff ready to accept below-market wages’.
Introduction

The South African National Liquor Act (No. 50 of 2003) affords the responsibility of administering liquor legislation in respect to liquor micro-manufacturing and retail licensing to the nine provinces. The Act requires that provincial legislation should adhere to the broad objectives to regulating liquor trade, promoting opportunities for new entrants (especially historically disadvantaged individuals) and mitigating the harmful effects of liquor abuse. All provinces have begun the (lengthy) process of enacting their own legislation, with the Eastern Cape and Gauteng completed. In late 2008 the Western Cape government promulgated sections 76 (a), (b) and (d), 80 and 87 (1)-(3) of the Western Cape Liquor Act as the first step towards the full implementation of its autonomous legislation.

The new provincial Act signalled the end to the Liquor Act of 1989, which had hitherto prevailed. The new Act set out specific requirements for the regulation of all liquor traders (retailers) and micro-manufacturers. Under this new Act, the majority of non-regulated micro-enterprises that sell liquor, commonly known as shebeens, are potentially excluded from the regulatory framework due to their inability to meet the onerous criteria for compliance. These criteria include the requirement that all liquor licence applicants must obtain appropriate land use zoning approval from local government structures. However as many shebeens are located in residential areas, these businesses are unlikely to obtain land use approval and would not be granted a liquor license even if they met the requirements for regulation in all other respects. The prospects for these businesses are either closure or illegal trading.

The researchers sought to develop an understanding of the socio-economic impact of the closure of non-regulated liquor retailing venues in the province as a consequence of the partial implementation of the Western Cape Liquor Act over the past 12 months. The research was motivated by the apparent absence of thorough understanding of the scope and scale and livelihoods dimensions of the informal liquor trading industry. When the then ANC provincial government first sought to partially implement the Act, over ten thousand protestors took to the street, claiming that the Act would put thousands of people out of work and destroy the livelihoods of the shebeen owners. The government acknowledged the veracity of these claims, but pointed to the supposed benefits of stricter regulation, especially a reduction in alcohol abuse. This topic, in contrast, has been extensively researched. Whilst we recognise the past era in which liquor retailing was not effectively regulated has had detrimental effects on health and social order, our research shows that the consequence of the current strategy of ‘closure and criminalization’ of shebeens may not produce the result intended and could have unintended negative consequences.

This paper builds on research that our company, Sustainable Livelihood Consultants, has undertaken into the informal sector of the Western Cape. Our argument draws on the...
findings of the research conducted for the MEDS process for Provincial Government in 2007, research of the unregulated liquor trade for Provincial Government in 2009,2 and further studies of informal entrepreneurs in Charman & Petersen (2009). In all these studies, the research approach has been multi-faceted, bringing together elements of media reports, scholarly literature review, site interviews with non-licensed retailers, and a forum of 31 non-licensed liquor retailers and industry representatives taking place on 04 February 2010 in Cape Town.

The Development of the Western Cape Liquor Act

An important aim of the Western Cape Liquor Act was to redress the societal costs of liquor consumption, which includes the established links of alcohol abuse with criminal activity, health and social implications. The legislation simultaneously needed to regulate the large number of micro-entrepreneurs engaged in liquor trade. In this respect the challenge of liquor regulation was to normalise a sector whose economic development had long been skewed through the Apartheid legacy, in terms of non-recognition and the failure of government to provide business infrastructure (including zoning) in the township and non-white residential areas.

The Act evolved from 2003 with the issuing of a Green Paper “A Liquor Licensing Policy for the Western Cape”. The core principle was thereby advanced that regulation needed to “balance economic benefits with health and social issues”. The Green Paper specifically dealt with the issue of removing (unnecessary) bureaucratic obstacles discriminating against the licensing of existing appropriate non-licensed businesses operating from township residential areas (i.e. shebeens and other non-licensed liquor retailing enterprises).

Subsequent refinements led to the development of the White Paper in 2005, which furthered the claims of the non-licensed retailers, stating: “[many liquor] traders from the previously disadvantaged communities…are law-abiding citizens and want nothing more than to earn an honest living for themselves and their families”; but due to “unrealistic barriers” in the licensing system cannot obtain licences. The White Paper set out a strategy to bring about this result, through targeting traders who had been selling liquor from a specific location for a period of three years. The intention was to provide unlicensed traders who had not broken the law in other aspects, and with approval from neighbours and communities, to have one year to fulfill all licensing requirements and gain a licence.

The subsequent Western Cape Liquor Bill was published for comment in February 2006, though various refinements took place before the Bill was approved in March 2007. These refinements stripped the Bill of the core policy objectives as set out in the Green and White papers. Instead of providing “simple and easy mechanisms” to enable illegal retailers to become licensed, the Bill made no concessions for their historical disadvantage - meaning that operators would need to apply for licenses on the same terms as other applicants.

The historical nature of townships conceived as dormitory and residential areas for the working classes now meant that the vast majority of liquor retailers would be in contravention of municipal by-laws in relation to zoning of business premises. The consequence of this is that unless municipal land-use zoning or exemptions are reconsidered throughout the province, the proposed Act would disqualify virtually all non-licensed retailers from being able to apply for a trading licence.

Taking a prohibitionist approach towards the non-regulated sector, the Act sought to restrict shebeens through, inter alia, preventing retailers from selling “sizeable” quantities of liquor to individuals without licenses, outlawing the possession of such quantities of liquor, granting powers to the regulatory authorities to impose severe penalties on retailers and wholesalers that break the law, and imposing stiff penalties on non-regulated liquor trade by micro-entrepreneurs.

The final Act, in short, removes all concessions to the situation and circumstances of the unlicensed liquor trader. It provides a “one-size-fits-all” solution from which the majority of traders will be excluded, thereby perpetuating racial inequality in the composition of the liquor industry structure.
The Rationale for Regulation.

There is no question that liquor brings an enormous social and financial cost to the South African economy. The national cost, estimated at over R50 billion [direct and indirect costs] per year by the National Liquor Regulatory Forum (in the Sowetan 02/10/2009) and reflected in health and welfare, traffic accidents, and law enforcement greatly outweighs the R37.2 billion in sales (ABR, 2008) inclusive of a R10-12 billion contribution made to the economy via the tax system by the sector. The negative effects of liquor on South African health and society are well documented, some critical examples include:

South Africa is one of the leading countries in the world with respect to Foetal Alcohol Syndrome [FAS], and within the Western Cape liquor, is one of the most frequently abused substances (Harker et al., 2007). FAS occurrence amongst school aged children in South Africa is amongst the highest in the world, with the Northern Cape town of De Aar having an incidence rate of 12.2% - the highest level in the world [for comparison, the USA average is 0.1 0.3%] (FASFacts 2006).

The risk of contraction of HIV through risky behaviour is linked with liquor and alcohol abuse particularly binge drinking (MRC 2003). Furthermore, according to Dr Neo Morofele of the MRC (The Sowetan 06 May 2009) drinkers are 57% more likely to be HIV positive than non drinkers.

In 59% of recorded deaths due to violence in Cape Town, liquor has been an evidential factor (Harker et al. 2007). Furthermore, 23% of arrestees in Cape Town were reported to be under the influence of alcohol (Parry et al. 2004).

Evidence of liquor consumption features in 46% of transport related injuries, 51% of transport related deaths and 59% of violent deaths within the Western Cape (Pluddemann et al., 2004).

These statistics have led to a high level of government and societal interest and involvement in better understanding and managing the impacts of liquor consumption and associated alcohol abuse in South Africa, and have been influential in the minds of policy and lawmakers.

The Nature of Non-regulated Liquor Trading

The South African liquor industry is one of the fastest growing in the world (Research and Markets 2007), featuring more than 23,000 licensed (Brady & Rendall-Mkosi 2005) and an estimated 265,000 unlicensed liquor outlets (Charman 2006). Within the Western Cape, non-licensed liquor retailing occurs primarily in working class black and coloured residential areas on the fringes of formally planned towns and cities. The proliferation of many small, scattered, home-based enterprises in these primarily residential areas is the consequence of the legacy of apartheid planning structures, limited local transport availability, illegality, and entrepreneurial efforts to fulfil local demand for liquor by township residents. Demand for liquor and social outlets has seen numbers of unlicensed liquor retailers greatly overwhelm licensed outlets in informal settlements. With rising urbanisation [population growth has been estimated at nearly 70,000 people per year in Cape Town between 1996 and 2006 (CoCT 2006)] and growing informality within the South African economy, the sector has continued to expand.

Data on most aspects of the non regulated liquor industry is limited. However within the Western Cape, the number of unlicensed liquor retailers is roughly estimated by both Government and industry stakeholders at potentially 20,000 - 25,000 enterprises. These enterprises occupy various operational niches within the informal economy, and can be roughly split into three categories (based on segregations discussed by Charman 2009 at www.liquorwise.co.za):

Shebeen: a great majority of informal shebeen businesses appear as ephemeral, clandestine, home based activities. They are commonly managed by “part timers” who also gain some level of state social welfare payments [e.g. old age or disability pensions]. These enterprises operate for perhaps one or two days / evenings per week, primarily selling 750 ml bottles of beer. The venue is generally within the occupant’s home, with clientele commonly sharing the lounge or garage space with the host. Ablution facilities [if provided] are in the occupant’s residence. In general the employment capacity of these enterprises is limited due to the micro-scale of operations and part-time nature of the business. The ephemeral nature of these enterprises makes them difficult to quantify, but it has been assumed at between half and two thirds of all unlicensed liquor trading enterprises would fall into this category [+/- 11,500 businesses] (SALTA 02/09).

Tavern: these enterprises are operated as full-time businesses. They have dedicated premises, branded and marked facilities, specialised equipment which can include fridges, bar counters, tables, music systems and public toilets. It is estimated by the Western Cape Liquor Board (2009) that approximately 1,500 of these well established enterprises exist, generally awaiting outcomes of licence applications. (Note that the application backlog sitting with
the department is substantial - in some cases license applicants have waited three years for an outcome. This backlog is unlikely to be cleared soon, as each application requires a site inspection, interviews and considerable evidence gathering for decision making. Further, in the recent rush for legitimisation, more than 800 new licence applications were submitted in the last two months of 2009 (WCLTA 02/10).

Emerging tavern: Somewhere between these two extremities Charman (in www.liquorwise.net 09/2009) estimates that there are potentially 7,000 unlicensed liquor retailing enterprises that demonstrate the hallmarks of established, full-time operated businesses with the potential to be legitimised, but remain unlicensed due to various factors such as location [occurring in residential zones] and / or infrastructural deficiencies [such as lack of separate toilet facilities].

Current Impact

Many aspects of the new Western Cape Liquor Act were signed into law by Premier Lynne Brown in November 2008, however various statutes of the Act remain to be fully implemented by early 2010. Although speculative, it could be argued that high profile protest action followed up by general elections, the change in the political leadership of the Western Cape, and further protests and lobbying by various interest groups compounded to further delay final implementation of the Act. Political protest was prominent, with organisations representing Western Cape unlicensed liquor traders marching 5000 people to the office of the Western Cape Premier on the 27 January 2009 protesting that the Act would severely impact on the livelihoods of 150,000 people through loss of employment, income and food security (Cape Times 28/1/09). Further action in late 2009 resulted in more than 800 new licence applications were submitted in the last two months of 2009 rush for legitimisation, more than 800 new licence applications were submitted in the last two months of 2009.

Value chains

In addition to direct employment, an important consequential impact of emerging and established taverns is the creation of downstream value chain opportunities for other businesses. Sustainable Livelihood Consultants (2007) highlight informal sector micro-enterprises commonly do not create employment, but instead provide a means for feeding opportunity downsteam, facilitating growth in further micro-enterprises.

Livelihoods

Employment

Previous research into the Western Cape informal economy conducted by Sustainable Livelihood Consultants (2007) revealed that tavern and emerging tavern liquor retailing enterprises employed an average of 2.7 persons [inclusive of the owner] on a full time basis, and 0.8 persons part-time [primarily weekends]. Based on estimated enterprise numbers in these categories in the Province [8,500], this would equate to approximately 22,950 full time, and 6,800 part time employee work opportunities within the sector - a total of 29,750 direct work opportunities. More widespread but smaller scale shebeens potentially comprise a further 40,250 additional full and part time jobs. This calculation reveals that an estimated 70,000 individuals earn direct income from the informal retailing of liquor in the Western Cape. Interviews with a sample of 31 tavern owners at their forum revealed overall direct job losses of 20 people to date, commonly part time staff as the owners cut back on their business investments. However despite the implementation of the Act and high levels of policing, only two of the sampled businesses reported to have ceased trading altogether.

A major consequence of the Western Cape Liquor Act has been to illegalise non-licensed venues (located principally in marginalised black and coloured communities) and mandate swift police action to force enterprise closure. Political rhetoric has been strongly stated: “Shebeens are a menace to society” (Former Community Safety MEC Patrick McKenzie in The Voice 13/10/08); “Shebeens are an unacceptable scourge… the SAPS is coming after you with a big stick” (Former Western Cape Finance MEC Gareth Strachan in The Voice 13/10/08); “Close them down every single one of them” (Former Western Cape Premier Lynne Brown in City Press 30/11/08); “The ANC Youth League will stop at nothing in ensuring…. this is not a society of drunkards, alcoholics and drug addicts” (ANCYL National Spokesman Floyd Shivambu in ANC Today 13/11/09); “We need to address the criminal aspects associated with alcohol abuse” (current MEC for Finance Alan Winde in Cape Argus 3/4/09). Subsequent confiscations, arrests and fines have been issued to many non-licensed liquor retailers, culminating in a police ‘blitz’ and subsequently the closure of 445 enterprises in Nyanga, Gugulethu, Philippi, Philippi East, Lansdowne, Athlone and Manenberg in early January 2010 (Cape Argus 5/01/10).
The value chain opportunities provided by established and emerging liquor retailers are numerous - including self employment for individuals such as car and security guards, bottle collectors, cleaners, 'braaier' chefs, musicians and DJs, artists and graphic designers (producers of pamphlets). Each of these enterprises generates an income as a direct consequence of the informal liquor retailer, by gaining customers through visiting tavern clientele. This support can range from ad-hoc employment of local residents to perform specific services, to avoiding competitiveness by actively supporting neighboring businesses. Some of the emerging taverns, for example, do not supply cooked meals (despite the demand) but instead pass the business on to neighboring micro-enterprises as a gesture of local reciprocity.

Figure 1: Potential value chain beneficiaries linked to emerging taverns within the informal economy.

This business clustering evolution is the organic growth of micro-business zones, where numerous businesses cluster around the core liquor retailer at a local street level. These zones operate on the basis of wealth transfer between businesses and commonly foster substantial local economic benefits at a genuine broad-based level. Although difficult to quantify due to limited understanding of the sector dynamics, the anecdotal evidence of associative value chain enterprises is evident at all visited non-licensed liquor retailing sites in informal and working class settlements. The 31 traders interviewed in the forum revealed that in 2008 [prior to the Act] they supported 91 value chain businesses [an average of three per enterprise]. This has since declined to 35 subsequent to enforcement of the Act.

Policing the Trading Environment

Uneven Enforcement - Localities And Licensing
Liquor traders highlight that the enforcement of the Act has been unevenly applied throughout the Cape Town metropole and Western Cape. Police in some areas have systematically closed down the vast majority of unlicensed liquor retailers [for example Mitchell’s Plain], whilst other locations have been left unenforced [parts of Khayelitsha]. Those who have been closed down have had potentially tens of thousands of rands worth of liquor stock confiscated [in some cases representing the life savings of the owner]. A further frustration was revealed at the forum where 26 of the 31 tavern owners indicated that they had applied for liquor trading licences from government [one had applied six times], paying an average of R6437 per application with no success. Considering that only approximately 350 tavern licences have been issued in total for all Western Cape informal settlements [out of the estimated 6,650 licensed liquor venues in the province] (WCLTA 02/10), the unevenness in the application of the law and licensing is seen as a major cause of political and economic disgruntlement.

Uneven Enforcement - Enterprises
With respect to enforcing the legislation, it is apparent that taverns and emerging taverns - the most visually prominent and regularly operating enterprises - have borne the brunt of police enforcement; including forced closures, confiscations, fines and arrests. Conversely, by their nature ephemeral shebeens are smaller and more clandestine, giving them considerably less impact within the value chain, and also greater difficulties for police detection. In this way the new Liquor Act has selectively impacted the fewer, larger and more economically successful enterprises, over and above the innumerable and clandestine shebeens. The majority of taverns at the forum highlighted negative trends in business as a consequence of the Act, whereas smaller shebeens appeared less impacted, some even experiencing growth.

Impact on Liquor Volumes Sold
At this stage it is too early to know the impact of the new liquor legislation on the volumes produced by liquor manufacturers or in terms of changing consumer drinking habits. Interestingly, two of the major suppliers in the Western Cape, SABMiller and Distell highlight marginal declines in total South African demand (approximately 2%) which may be attributed to the new Act, or also influenced by economic recession in national and global markets during the period.

The liquor traders forum in February 2010 revealed varied
sales volume impacts, whereby 21 of the 31 businesses interviewed recorded a relative decline in liquor sales over the previous 12 months as a consequence of the Act, but the remaining 10 enterprises highlighted substantial sales increases in most or all forms of liquor over the period despite [in some cases] weekly or monthly police raids on the premises.

Unintended Outcomes

A potential consequence of limiting the retailing of liquor is the rise of illicit behaviours to service the demand. The research found evidence of production and distribution of new and illicitly manufactured bulk wine marketed as ‘grape flavoured alcohol’. Shebeeners highlighted that its arrival had occurred within the last 12 months as part of a bulk distribution strategy by the local manufacturers and suppliers. Unlike branded alcoholic beverages such products are difficult to detect by law enforcement authorities as they are translucent liquids delivered in non-descript 20 litre containers. A very concerning consequence of legislation is to create market conditions suitable for such ill-intentioned micro-manufacturers, bootleggers and clandestine shebeen retailers. Further, the health impacts from consuming illegally manufactured / procured liquor have included permanent disability and death of consumers (see Cape Times 14/8/09 “Toxic alcohol claims three more lives”).

These preliminary results demonstrate a likelihood of significant economic and social impacts on the non-licensed liquor retailing sector. Whilst predicting future ramifications of the Western Cape Liquor Act (2008) is problematic, initial investigations, field interviews and the informal industry forum held in February 2010 revealed that, in the previous 12 months the Act may not have necessarily achieved its objectives of restricting trade and mitigating social impacts of liquor abuse, but has potentially reorganised supply chains, impacted on employment and livelihoods in the informal sector, and created opportunities for clandestine operators to enter the market.

An Alternative Approach

Although implementation of the final statutes of the Act appears imminent early this year, sealing the fate of non-licensed retailers in the Province, the authors highlight that an alternative development pathway could still be considered. Adopting a socio-economic development approach that takes into account the realities of township life would be a pragmatic attempt to manage the industry, rather than the sole usage of a ‘blunt’ legislative instrument.

Such an approach, focused on emerging and established taverns would attempt to legitimise operations in a manner that ensures sustainable small business development, strengthen linkages with government, mobilize support from liquor manufacturers and entrench existing efforts to promote responsible trading and responsible alcohol use in the sector. Specifically, this could include:

- Development of a model of micro business zones centred around existing, emerging and established taverns, where these enterprises demonstrate good business practice, have an established relationship with the local community and have fostered a range of downstream micro-enterprises.
- Encouraging a system of minimum and progress standards for qualifying non-licensed retailers through implementing a restricted license programme that will allow for business investment and upgrading during a limited window period. These could include gaining surrounding neighbour approvals, adherence to building codes [such as ensuring separate toilets and fire exits are in place], and gaining membership of social agencies [such as the Industry Association for Responsible Alcohol Use].
- Attaching a liquor license to venues and owners rather than that defined by neighbourhood [thus allowing for the issue of local property zoning to be overcome]. This would allow reputable operators to continue trading from approved premises.
- Creating an enabling economic and social environment for informal business and local people - including improved security, street lighting, and alternative local social venues for the youth [such as gaming centres, pool table venues].
- Focusing policing and enforcement attention onto genuine clandestine shebeen enterprises where emphasis on regulation is more greatly required.
- Enhanced public education and initiatives to encourage empowered decision making with respect to liquor access and consumption.

Conclusions

Despite the (considerable) related social costs, emerging and established taverns remain important black businesses, providing measureable direct employment and anecdotaly substantial value chain opportunities. At this level, most indicate a willingness and potential to become licensed and legitimised. In its present form the Act [despite its honourable intentions] will greatly harm these businesses, with a direct impact of potentially 30,000 direct job losses and subsequent knock-on effects for the livelihoods of the many businesses linked into local value chains.
For the Western Cape Liquor Act to make a substantial impact on irresponsible retailing of liquor and subsequent social ramifications, it would be necessary to focus efforts on the many thousands of smaller, clandestine shebeens. These ephemeral businesses have demonstrably less to lose by breaking the law as they have invested less capital into the enterprise and create fewer value chain opportunities for subsequent businesses. Many are already recipients of social grants and it is likely that these enterprises take advantage of their micro and informal status to operate below the radar of law enforcement. In fact, contrary to intentions, it may perversely encourage the emergence of greater numbers of micro-scale shebeen enterprises and grow an organised, clandestine culture of liquor trading.

Taking a development approach would allow for the fostering of appropriate business and local surroundings, creating an enabling environment for business and community, and allowing for normalisation of economic and social development in marginalised locations across South Africa.

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Footnotes:

1. This research is not directly referred to as the study has not been publicly released by the Western Cape Department of Economic Development and Tourism Liquor Directorate.

2. There is much conflicting data regarding the size of the sector in the Western Cape. Media and the South African Police Service commonly quote that 20,000 illegal retailers are in the marketplace, (eg Cape Argus 2009), and the Western Cape Shebeeners Association estimate that 30,000 of these non-licensed liquor traders exist. This research utilises the figure of 20,000 for all calculations.

3. Shebeens are, in short, unlicensed venues that operate from people’s homes and sell liquor to be consumed either off or on the premises. Critically, the new Western Cape Liquor Act does not give legal recognition to shebeen traders. The Gauteng and Eastern Cape provincial liquor acts, by contrast, provide shebeen traders with specific licenses [permits]. The Eastern Cape [schedule to the] Act defines a shebeen as ‘a residential place used both as a residence and an outlet for selling liquor illegally for both on and off consumption’. The Gauteng Act defines a shebeen as ‘any unlicensed operation whose main business is liquor and is selling less than sixty [60] cases consisting of 12 x 750ml of beer bottles per week’.

4. Note that the average employment figures were calculated for the MEDS study in 2007 and were primarily based on shebeens, rather than emerging or established taverns. Limited quantitative analysis subsequent to the informal liquor traders forum in February 2010 indicated that these larger businesses employ an average of 5.1 persons (including the owner) per enterprise. Should this be the case, and a rough estimate of 8,500 enterprises exist in this category, then the total direct employment would be 5.1 x 8,500 = 43,350 (plus shebeens = 40,250), which revises the total estimate to 83,600 direct beneficiaries of the informal liquor trade in the Western Cape.
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<td>46 Bisset Street Lot No. 456 Port Shepstone</td>
<td>039 688 1560 (t) 039 684 0271 (f)</td>
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<td>KWA-ZULU NATAL</td>
<td>Seda uThungulu Richards Bay</td>
<td>ZCDF Community Park Gate 5, South Central Arterial Alton, Richards Bay</td>
<td>035 797 3711 (t) 035 797 4346 (f)</td>
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<td>LIMPOPO</td>
<td>Provincial Office Polokwane</td>
<td>2nd Floor Suite 6, Maneo Bld 73 Biccard Street Polokwane</td>
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<td>Seda Capricorn Polokwane</td>
<td>68 Hans van Rensburg Street 1st Floor Pharmarama Bld Polokwane</td>
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<td>Seda Sekhukhune Sekhukhune</td>
<td>2 Van Riebeeck Street PO Box 1553 Groblersdal</td>
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<td>Suite 102 Bi-water Bld 16 Brander Street Nelspruit</td>
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<td>Shop 20 / 21 Nelspruit Paul Kruger Street Nelspruit</td>
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<td>Seda Gert Sibandu Secunda</td>
<td>South Wing Govan Mbeki Bld Lurgi Square, Secunda</td>
<td>017 634 4339 (t) 017 631 4005 (f)</td>
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<td>Seda Nkangala Witbank</td>
<td>23 Botha Ave, Hi Tech House Cnr Botha Ave &amp; Rhodes Str Witbank</td>
<td>013 655 6970 (t) 013 655 6986 (f)</td>
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## Seda CONTACT DETAILS

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<td>NORTHERN CAPE</td>
<td>Provincial Office</td>
<td>13 Bishops Avenue</td>
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<td>053 632 7562 (f)</td>
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<td>Seda Frances Baard</td>
<td>6 Long Street</td>
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<td>822 Voortrekker Rd</td>
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<td>Suite 018 Commissioner Place</td>
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<td>021 596 1300 (t)</td>
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<td>Neels Bothma Street, N1 City Goodwood</td>
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<td>Louwville Place</td>
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<td>Vrede Street, 2nd Floor</td>
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<td>WESTERN CAPE</td>
<td>Seda Eden George</td>
<td>Entrance A, 1st Floor Beacon Place, 125 Meade Street George</td>
<td>044 874 4770 (t) 044 874 4870 (f)</td>
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<td>Seda Cape Winelands Stellenbosch</td>
<td>1st Floor, Eikestad Mall Bird Street Stellenbosch</td>
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