

# Fact Sheet

University of Stellenbosch

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## The Business Place – Helping to foster entrepreneurship at the BOP

Small, Medium and Micro- enterprises (SMME's) form the backbone of South Africa's economy, not just in terms of their contribution to national output, which stands at an estimated 39%, but especially in terms of employment. According to current estimates, a staggering 74% of South Africans active in the economy are employed by SMME's. Given South Africa's socio-economic structures and challenges, encouraging entrepreneurship is arguably a strategic national priority. SMME's not only add value to the communities they serve in terms of providing goods and services, they empower these communities as they create employment, and their owners often act as role models within their communities.

This factsheet will look at how The Business Place, an NGO-type structure sponsored and funded by the South African financial group INVESTEC, has been helping to foster, nurture and assist the development of SMME's accross the country.

### 1. Background and context

a. A brief overview of the historical context of SMME's in South Africa

Small, Medium and Micro enterprises have historically played an important role in the socio-economic development of South Africa. However, during white rule, the development of SMME's in black communities was subjected to many restrictions, as the authorities did not initially want to encourage the formation of a black entrepreneurial base within so-called white areas. This changed drastically at the beginning of the eighties, when government came under intense pressure to address growing unemployment, and was keen, for

political reasons, to be seen to be raising living standards in black communities as part of an attempt to « win hearts and minds ». The authorities reversed their previous stance and started adopting a policy of tolerating, and later even encouraging the development of SMME's within the black communities, notably through the state-funded Small Business Development Corporation (SBDC) which was later privatised under the name Business Partners Limited. Several research papers and books argue that the resulting transformation of the economic landscape in the eighties was a major factor in helping to create the conditions for peaceful political change in South Africa.<sup>2</sup>

b. Current legal framework and Government support network

After the first democratic elections in 1994, the government introduced a new legal framework in order to regulate the sector, and, perhaps more crucially, re-organise the

state-sponsored support network for SMME's as part of its overall economic empowerment programme. The main piece of legislation currently governing SMME's is the National Small Business Act passed in 1996.

As a result of historical and political factors, many, if not most, SMME's were informal. The National Small Business Act's main aim was to establish a support framework for the development of SMME's, under the umbrella of the Department of

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## Key Figures

### 1. SMME's significance to South Africa's Economy :

Estimated number of people employed by SMME's :	12.5 million
Contribution of SMME's to GDP :	39 %
Contribution of SMME's to employment :	74 %
Percentage of employees in informal SMME structures:	29 %

Source : Department of Trade and Industry

### 2. Conducting Business

Average number of days needed to start a business, and number of administrative procedures to register a business, selected countries :

China	35 days, average of 13 procedures
Mozambique	29 days, average of 10 procedures
Ireland	13 days, average of 4 procedures
South Africa	31 days, average of 8 procedures

Sources : World Bank and IFC, « Doing Business 2008 », pp 88-93, & SAIRR South Africa Survey

agency, the main government agency now involved in the support of SMME's was relaunched as the Small Enterprise Development Agency (SEDA) in 2004<sup>3</sup>. SEDA's main objectives are to provide non-financial services to would-be entrepreneurs, mainly in the form of information and advice on legal and administrative matters, and marketing.<sup>4</sup> SEDA also has a special focus on co-operative enterprises and rural areas. It has a country-wide network with branches in most towns and cities.

In addition to SEDA's non-financial services, the government also runs Khula Enterprise Finance, a specialised funding agency falling under the DTI, aiming to facilitate access to finance to SMME's. Khula works in close cooperation with commercial banks and is also registered as an insurer. Finally, the Umsobomvu Youth Fund, specifically geared towards encouraging skills transfers and financing for young would-be entrepreneurs between the ages of 18 and 35, was created in 2001, under the umbrella of the Department of Labour.<sup>5</sup>

c. The rationale for support networks funded by the private sector – The Business Place as part of INVESTEC's contribution to empowerment

While it can be argued that the primary responsibility for promoting economic development lies with government, in an emerging country like South Africa the challenges are too big and resources too scarce for public authorities to tackle the issue on their own. This is where the private sector plays a vital role not only as a complement to government efforts, but actually as the vanguard of these efforts.

The private sector in South Africa also has a vested interest to be actively involved

in the encouragement of entrepreneurship : not only does it make good business sense to invest in wealth-generating projects, it also forms part of the overall efforts from the private sector to give substance to Broad-based Black economic empowerment (BBBEE).<sup>6</sup>

Enterprise development is, indeed, a specific chapter of the BBBEE scorecard, accounting for 15 of a possible 100 points in the overall scorecard<sup>7</sup>, and is one of several factors explaining INVESTEC's interest in supporting and sponsoring the establishment of The Business Place in South Africa.

## 2. Some challenges and opportunities for the development of SMME's in South Africa

A number of structural and environmental factors influence the environment for the creation of SMME's in South Africa, but perhaps the most pressing challenges at the moment are access to finance, lack of skills and the knock-on effects of the global economic crisis in South Africa.

### • Access to Finance

As in many other countries around the world, access to finance is a fundamental structural challenge for SMME's in South Africa. The issue is not so much that funds are not available, rather that unlocking that capital is a difficult task<sup>8</sup>. Small entrepreneurs have far less leverage with banks (and other financial institutions) than larger business operators and generally lending conditions are tighter to compensate banks for the perceived additional risk. Of

course the global financial crisis of 2008 has made banks even more cautious about taking on any additional risk on their balance sheets. While South African banks are reputed to be weathering the crisis comparatively well so far, they are very unlikely to relax lending conditions any time soon. Nevertheless, several banks and financial institutions in South Africa are pursuing plans to bring banking to the BoP, such as is evidenced for example by ABSA's microlending programmes specifically geared toward SMME's (see BOP Learning Lab Factsheet of November 2008).

### • Education and skills development

The legacy of a poor educational system has left South Africa with huge numbers of unskilled people, who struggle to get formal employment. For many unskilled people, this lack of formal employment possibilities would normally constitute an incentive to create their own micro-businesses, but too often this takes the form of survivalist enterprises, with little if any record keeping, let alone development strategies or growth objectives. As a result these survivalist ventures hardly ever become sustainable vehicles of wealth creation or employment. This challenge is indeed one that The Business Place specifically tries to address through its various training programmes.

### • The deepening economic crisis

The most recent figures show that South Africa's economy is taking a severe knock as a result of the global economic crisis. The economic growth has slowed to its lowest levels in ten years, with only 0.2% growth recorded for the third quarter of 2008, manufacturing is suffering badly and exports have fallen dramatically by 25%, as demand for commodities and manufactured products across the world has slowed very sharply.<sup>9</sup> The Economist estimates that the slowdown might result in 250,000 job losses this year. This difficult economic climate actually represents an opportunity as much as a challenge : perhaps more than ever, the promotion of SMME's as a vehicle to absorb unemployment and provide empowerment in the lower income segments is crucial to the country overall socio-economic well being.

### • The regulatory environment

Red tape and bureaucratic hurdles can form a serious obstacle to the development of SMME's. South Africa ranks about

1 <http://www.southafrica.info/business/trends/newbusiness/smallbusiness.htm>

2 See for example : KANE BERMAN, John, « South Africa's silent revolution », South African Institute of Race Relations, Johannesburg, 1990, and LASCARIS Reg & GREEN Nick « Third world destiny », Human & Rousseau, Johannesburg, 1988

3 [www.seda.org.za](http://www.seda.org.za)

4 GOVERNMENT of the REPUBLIC OF SOUTH AFRICA, Act Number 102 of 1996, National Small Business Act. <http://www.dti.gov.za/smme/act.pdf>

5 [www.youthportal.co.za](http://www.youthportal.co.za)

average in international comparisons in this regard. According to the World Bank, it takes an average of 31 days and 8 separate steps to register a business in the country.<sup>11</sup> There is, therefore, room for improvement as well as room for tax incentives and / or subsidies to encourage the formation of more SMME's.

### 3. Profile of The Business Place

A. A network of walk-in centres for entrepreneurs

The basic concept of the Business Place is to function as a central point of access for existing and would-be entrepreneurs : a service centre, offering not just information and advice, but with a more sophisticated product mix. The first centre opened in Johannesburg in 2002, and since then six more branches were opened nationally, with another branch in Gaborone, Botswana, giving substance to the ambition to foster entrepreneurship in the whole Southern African region and not just South Africa.

While The Business Place caters for anyone, it also has a deliberate focus on the youth, as one of the aims is to help create a new generation of confident, innovative entrepreneurs. One of its main objectives is to stimulate local businesses and thereby help to empower communities, enabling people to become self-reliant without government help.

In terms of funding, each branch currently operates as an independent, stand alone business with its own regional funders, most often corporate such as INVESTEC, British American Tobacco and other large players in the private sector.

B. The model

The basic model of The Business Place revolves around three main principles : network, partnerships and the cluster principle.

- A Network of Autonomous centres

Local expertise and direct knowledge of local conditions enable each centre to have a customised and differentiated offering adapted to local challenges. This adapted offering and flexibility adds value to the centres and helps to maximise the impact of

each centre. Each site also functions as a data-collection centre, compiling statistics on small businesses and local economic trends. While maximum autonomy is encouraged, information and best practice is exchanged between centres during an annual forum where basic learnings are shared.

- Partnerships

The second characteristic is the establishment of « strategic partnerships » between the local branches and stakeholders. These partners are a mix of public and private organisations, including municipal and provincial authorities (for example the City of Johannesburg, Provincial government of the Western Cape, Department of Social Development). The private partners, besides INVESTEC, include British American Tobacco (BAT), and Sekunjalo Investments.

- The Cluster principle

Following the cluster principle, The Business Place centres are located in easily accessible areas, usually in the immediate vicinity of other community service providers such as NGO's and Community-based organisations (CBO's).

C. The product mix : Basic training programmes, networking and exchange

The Business Place's training programme is the biggest single point of differentiation compared to government-sponsored support agencies. In this regard the Business Place functions like an educational facility, offering a short, basic but fundamental crash-course in business management, and an exchange platform linking clients to opportunities.

At the most basic level, each Business Place outlet offers a range of in-house, three-hour workshops on business-related topics such as writing business plans, establishing a marketing strategy, and information on the essential steps required to start a business. The cost to attend these workshops is nominal (R10 to R15). Other workshops are provided by external experts, including for example on topics such as filing tax returns for small businesses.

At a more advanced level, two main courses are on offer : The micro MBA, and the the Accounting Mentorship Programme for Entrepreneurial Development (AMPED). These programmes are unique to the Business Place and seem to have had a positive impact on the entrepreneurs who followed them.

#### Micro MBA

The Micro MBA is a simple but quite revolutionary concept, namely to provide basic business training to small and micro entrepreneurs in the form of a 5 day management crash course. In order to give the programme a real impact, the students must have run their business for a period of at least 6 months. The assumption is that this guarantees an intake of students who will at least have some practical experience of running their business and needs, and be able to quickly assimilate basic business concepts. The micro MBA programme is organised around eight aspects of running a business : market investigation, using a calculator, buying, costing and pricing, selling, writing a business plan, money management and stock control. It is also, crucially, customised to cater for the specific needs of traders, service providers and producers.

The micro MBA is being offered in partnership with the micro MBA organisation which owns the copyright to the material and accredits trainers through their own training course (micro-mba.com).

#### AMPED

The Accounting Mentorship Programme for Entrepreneurial Development (AMPED) is a brand new, basic accounting course currently being rolled out in all TBP centres.

The aim of the AMPED programme is to address the lack of capacity of many small businesses to keep proper financial records. This lack of capacity causes many businesses to underperform, as their owners are unable to compile a proper record of their activities and even less able to monitor trends and respond to them. The approach involves a « learning-by-doing » methodology, and the impact of the course is monitored through a mentor, whose role is to transfer the necessary computer and analytical skills.

6 Terreblanche, Barrie, "A machete for red tape », Mail & Guardian, 25 June 2008, <http://www.mg.co.za/article/2008-06-25-a-machete-for-the-red-tape>  
7 South African Institute of Race Relations, "South Africa Survey 2007-2008 », Johannesburg 2008.  
8 Anne HILTON, Martin FEINSTEIN, "Finance for SME's needs a big rethink", Business Day, Johannesburg, 7 May 2007. <http://www.businessday.co.za/articles/topstories.aspx?ID=BD4A454552>  
9 ISA Mariam, « Global crisis starts to take toll on South Africa's economy », Business Day, 2 march 2009.  
10 X, « South Africa – Tough times ahead » in The Economist, February 12th, 2009  
11 <http://www.doingbusiness.org/economyrankings/>  
12 THE BUSINESS PLACE, marketing brochure, p4

The micro MBA and AMPED programmes constitute crucial toolboxes and knowledge bases for emerging entrepreneurs, and by introducing formal businesses practices into SMME's, set the stage for their further expansion and development, empowering communities by optimising wealth creation and increasing employment opportunities in the lower income segments.

All in all, TBP's product mix is a genuine effort to offer a differentiated and value-enhancing assistance to build up SMME's. Over the past few years, TBP has implemented tracking processes in order to monitor and evaluate genuine progress of the SMME's it is assisting. This is essential in order to help TBP to develop further services and keep its pulse on the changes in the business environment. As a result of this ongoing process of monitoring and evaluating its services, TBP has started developing a number of new strategies and initiatives in order to adapt to the fluid environment in which it is operating. This includes the Enterprise Development Initiative, which is a vehicle through which TBP seeks to encourage strategic partnerships between SMME's and leading public and private sector companies that are interested in supporting small business.

## Conclusion

The Business Place can rightly consider itself to be one of the leading examples of an SMME support network in South Africa. The bigger question is how much of a genuine, large scale impact its efforts can have when its presence is still comparatively small. At this stage, there is also a lack of monitoring and evaluation tools : the genuine impact of the micro MBA and AMPED programmes still needs to be properly qualified. Despite this, TBP's achievements are real, and it could look at replicating its model on a far larger scale, including perhaps in depressed rural areas where its services may be needed more than anywhere else: the Eastern Cape and KwaZulu Natal, where many of South Africa's worst pockets of poverty are concentrated, immediately come to mind. As vehicles of economic upliftment and empowerment, the multiplier effect of SMME's in depressed rural areas is more significant than in urban areas. Furthermore, providing more resources for capacity building in the rural areas does not just make sense for its own sake, but also because the neglect of these areas put ever more strain on already overstretched urban areas that struggle to keep up with the relentless influx of people from the

countryside. However, genuine capacity-building is a slow process and considering the fact that it's privately funded, and has only been in existence for a few years, the TBP has already had a substantial impact on its users. It is a prime example of an active and growing effort by the private sector to provide development tools for the lower income segments, as an indispensable complement to the existing state structures and have a genuine and durable impact on the empowerment and economic upliftment of the poor in South Africa.

One area of concern, though, is the relative scattering of efforts by the public and private sectors : with so many initiatives, both government and business funded, there is a duplication of resources and lack of coordination that to some extent dilutes the genuine efforts undertaken by all sides to encourage the creation and survival of SMME's. There may be benefits to be had from coordination and pooling of efforts, and a compelling case for the creation of a national, public-private network across the country, acting as immediately visible, obvious points of entry for young entrepreneurs.

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