

DISCLAIMER

Report on the SMME sector of ODA for Japanese International Co-operation Agency by Peter Karungu, Elizabeth Marabwa and Michael Stettler.

Responsibility

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LIST OF ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
AUSAID	Australian Agency for International Development
BEES	Black Entrepreneurship and Enterprise Support
BLUE	Business Linkages for Under-utilised Enterprises
BtB	Business to Business
CABSA	Canadian Alliance for Business in Southern Africa
CDC	Commonwealth Development Corporation
CIDA	Canadian International Development Agency
CSBP	Centre for Small Business Promotion
CSIR	Council for Scientific and Industrial Research
DANIDA	Danish International Development Agency
DBSA	Development Bank of Southern Africa
DCR	Development Co-operation Report
DoFA	Department of Foreign Affairs
DFID	Department for International Development (UK)
DOF	Department of Finance
DTI	Department of Trade and Industry
EEZ	Emerging Enterprise Zone
EIB	European Investment Bank
EU	European Union
GDP	Gross Domestic Product
GEAR	Growth Employment And Redistribution
GTZ	Deutsche Gesellschaft für technische Zusammenarbeit (Germany)
IBEC	Independent Business Enrichment Centre
IDC	Industrial Development Co-operation
IFC	International Finance Corporation
ILO	International Labour Organisation
IMAL	Increasing Micro-enterprises Access to Liquidation
JICA	Japan International Co-operation Agency
JSE	Johannesburg Stock Exchange
Khula	Khula Enterprise Finance Ltd
LBSC	Local Business Service Centre
MAC	Manufacturing Advisory Centre
MEC	Member of Executive Council
MTEF	Medium Term Expenditure Framework
Ntsika	Ntsika Enterprise Promotion Agency
NGOs	Non – Governmental Organisations
NORAD	Norwegian Agency for Development Co-operation
NSBC	National Small Business Council
ODA	Overseas Development Assistance
RDP	Reconstruction and Development Programme
RFIs	Retail Financial Intermediaries
SA	South Africa
SAIBL	South African International Business Linkages
SBC	Small Business Centre
Sida	Swedish International Development Co-operation Agency
SMME	Small Medium and Micro Enterprise
TAC	Technical Advisory Centres
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USSALEP	US – South African Leadership Exchange Programme
VAT	Value Added Tax

DEFINITIONS TABLE

GOING CONCERNS	An organisation, which can be conceptualised independently of the individuals and personalities involved in it.
GEAR	Growth Employment and Redistribution (South African Government macroeconomic strategy)
LARGE ENTERPRISE	Employing more than 100 employees (200 for some sectors)
MEDIUM ENTERPRISE	Employing up to 100 employees (200 for some sectors)
MICRO ENTERPRISE	Employing up to 5 employees
PARASTATAL AGENCIES	Government owned (fully or partially) Corporations
PERSON CENTRED SMMEs	An enterprise that cannot be divorced, conceptually, from the activities of the entrepreneur. The person or entrepreneur engages in business activities.
SMALL ENTERPRISE	Employing up to 50 employees
SURVIVALIST	In survivalist enterprises the income generated is less than the poverty line
VERY SMALL ENTERPRISE	Employing between 5 and 10 employees (20 in some sectors)

EXECUTIVE SUMMARY

1.1 INTRODUCTION

The assessment of Official Development Assistance (ODA) in the SMME sector forms part of phase II of the Development Co-operation Report (DCR). The SMME sector is one of the sectors where ODA is evaluated in some detail. The cross-cutting themes of capacity building, gender and environment are also given specific consideration in the assessment. ODA is very significant to SMME development, both in terms of the importance of the sector in its own right and in terms of partnering the South African government's activities in this area. As a partner to government ODA is well aligned with South Africa's SMME development strategy, and accordingly there is substantial South African ownership of ODA to this sector.

1.2 ANALYSIS SUMMARY

Closer analysis shows, however, that the high degree of alignment and SA ownership does not guarantee expected success. Two very broadly defined obstacles hamper ODA impact and success in this sector. The first of these has to do with the difficulty of implementing into reality various aspects of the government's SMME development strategy. The other obstacle is less tangible, and more conceptual in nature, and has to do with the very definition and understanding of the SMME sector. It is no less significant for sectoral development and for ODA in the sector.

In dealing with these obstacles, donors and government have to acknowledge the following reality. First, there is a discernible shift in ODA and in the South African government's approach to the sector, even if this shift is not nearly complete and absolute. Secondly, the friction generated by this shift and various means to deal with the obstacles has led to an increasingly problematic interaction between government and donors active in the SMME sector.

Donor and government engagement and implementation of the strategy is not leaving the strategy itself unaffected. It is being remoulded, even if this is not yet spelled out it is at least implicit. We are here simply articulating the trend. As far as the strategy and its implementation is concerned, we are finding ourselves in a transition period, and it is important for the development partners to interact in a meaningful way.

1.3 DONOR PARTICIPATION AND EXPERIENCE

Donor involvement in the SMME sector has been significant. Between 1994 and 1999 donors have committed a total of approximately R1.6 billion to SMME development. (Some of the funds so committed, though, are for ongoing projects.) Donors had disbursed R 867 million thereof by the end of 1999. This compares with an amount of about R 810 million disbursed by government via

the DTI, the CSBP and the agencies in its contribution to strategy implementation.

Job creation and transformation are two of the key objectives of donor involvement in this sector. Donors seek to achieve these objectives by getting involved with projects that have as their goals i) development and poverty alleviation, and/or ii) business growth. Depending on the goal, the final beneficiaries are either going concerns that benefit from Business Growth projects or individuals (or groups of) who engage in business activities (and run person centred enterprises) and who benefit from development and poverty alleviation projects.

Another important issue is one that deals with co-ordination in this sector. Donors find that there is not sufficient co-ordination by government, and that the meetings which are organised by the DTI's CSBP are not of the nature desired by the donors.

1.4 TANGIBLE OBSTACLES

Responsible for the disappointments and trends are some of the obstacles to the implementation of the strategy. Better expressed, some of the assumptions on which the strategy is based, do not hold in practice. The strategy assumed that there is capacity (NGOs, CBOs, etc) in the economy that can be harnessed to serve as business advisers and finance service providers for SMMEs. As four years of strategy implementation have shown, this assumption diverged significantly from reality. Accordingly, delivery has been very slow. The government agencies that act as wholesale service providers, exerted most of their energies to establish the presupposed capacity. And they themselves laboured under lack of relevant experience, skills and appropriate organisational structure.

This lack of capacity has been removed at the upper end of the agency hierarchy but still persists at the lower end (see chart diagram 1 on page 29). The second obstacle is the poor or inadequate absorptive capacity of SMMEs emanating from a deficiency in business management and technical expertise. The absence of markets for certain SMME products augments the problem.

1.5 CONCEPTUAL OBSTACLES

The trends in evidence now are possible as a result of a certain openness, if not ambiguity, of the strategy. The White Paper acknowledges important differences between the different categories that make up the SMME sector, but states that these must be dealt with at project level, rather than strategy level. Any donor and agency is thus free to engage with enterprises at any end of the definitional spectrum of SMME, and still operate within the strategy. In this sense the strategy is perhaps a relatively blunt tool. Donor support of SMMEs and donor goals differ according to whether they target going concerns or person centred enterprises.

The problem is not one of right or wrong, or which type of enterprises should be supported. Both sub sectors can be supported simultaneously. Instead the

problem is one of clarity. Donor and agency activities would be clearer understood if there were a consistent delineation between different types of SMME support ODA. The expectations and measures of success would differ according to the type of SMME supported by any project.

The agencies would be the main beneficiaries of a consistent delineation, and donors would be forced to commit themselves to one or both of the sectors. As it is, commitment to the lower spectrum of the SMME sector is waning simply because it is the more difficult sector area, where positive results are more elusive. Donors are essentially shifting to areas that are easier, and the strategy gives them a free hand to do so. And those donors that are truly committed to the lower end the sub sector turn their backs on the government organisations, because they lack the focus the donors wish to see.

1.6 TRENDS

Donors and agencies alike adapt to the disappointments. As a result there has been a trend towards paying more attention to the higher end of the SMME spectrum and, invariably, less attention to the lower spectrum. That is, going concerns are increasingly more likely than person centred SMMEs to become beneficiaries of ODA. This trend is discernible also in the activities of the agencies, and thus not limited to the donors. This suggests that the trend is not so much a function of donor idiosyncrasies as it is a function of the difficulties associated with the lower end of SMMEs.

The reasons for the shift in emphasis from the low end to the higher end of the SMME spectrum can be found both in donor pressure and in government pressure. Donor countries are keen to see South Africa as a trading partner rather than a recipient of assistance, and hence they seek to grow businesses into viable partners for donor country based businesses. This attitude is in line with the government political economy embodied in GEAR. The shift from RDP to GEAR thus justifies donor trends in this regard.

Another important trend is that donors are less likely now to channel their projects or funds through the government's implementing agencies, compared with the early period of strategy implementation. This is the result of the disappointments experienced by donors in their interaction with the agencies, and more importantly, the perceived inability of agencies to deliver.

1.7 ODA ALIGNMENT AND SA OWNERSHIP

The above suggests that ODA on the whole is well aligned, even though the described trends are taking place. From the strategy point of view, then, there is significant South African ownership of ODA. If anything, it might be that there has been too much South African ownership. Many of the ODA projects channelled through the implementing agencies have not been successful. Part of the reasons are the capacity problems at the agencies and their associated retail service providers. These organisations have not been able to effectively dispense their obligations that come with ownership of the projects. The ideal ownership balance between donors and South Africa has not yet been found.

1.8 GOVERNMENT PERSPECTIVE

The views expressed by donors are echoed at the DTI's CSBP and also at Khula and Ntsika, though there are differences in emphases. The agencies indicate that the assumptions that underlie the strategy do not apply in reality. Nonetheless, given the actual conditions, they are performing effectively. Both Khula and Ntsika have made considerable efforts to strengthen their own capacity, and that of their associated retail service providers. They counter the criticisms of the donors by arguing that the donor community, amongst others, had unrealistic expectations and should have taken cognisance of the capacity backlog which exists in the sector. As regards the issue of co-ordination, they admit that this area could possibly be improved.

As regards shift of focus from person centred SMMEs to going concerns, the issue is clearly one of sustainability. Many of the low-end SMME activities are not sustainable and thus it should not come as a surprise that donors follow this trend in favour of high end SMMEs. There is also no strong objection to the increasingly adopted donor practice whereby projects are run independently of government agencies. Why should these burden government or its agencies if they do not have the personnel to handle it. (As an illustration of the difficulties in government one may cite the high staff turnover at the CSBP. Of 16 employees, all but the director has been there for less than a year.) Important is that government is informed of these projects, and that they are aligned to government objectives. In this regard, donors should make more of an effort to inform government of their activities, their impact and their evaluations of projects in this sector.

Provincial governments generally feel somewhat far removed both from the donor community and from national government's SMME development activities. There is not enough provincial ownership of ODA, nor is there any significant co-ordination between donors, national and provincial government. Similar observations apply with regard to local government. Provincial governments question the effectiveness of donor involvement. They suggest that the beneficiaries are all too often the intermediaries responsible for SMME support, rather than the SMMEs themselves.

1.9 THE NATIONAL POLICY CONTEXT FOR SMME STRATEGY

SMME development is one of government's key components in its strategy for employment creation and income generation, and forms an integral part of GEAR. It is also directed at poverty eradication and as such is included amongst the four components that characterise developmental local government. Because women are the hardest hit by poverty, SMME development aims to address gender imbalances.

The Medium Term Expenditure Framework is a planning and implementing tool for national government forms part of the context within which small business development is encouraged. Small business development is one of the ten DTI major programmes for which Medium Term expenditure estimates are being made.

The main thrust of the strategy is to create an enabling framework for SMME development. The implementation of this has led to the creation of the CSBP (chief Directorate at the DTI) and the two implementing agencies Ntsika and Khula. A host of other government projects and activities of other stakeholders also feed into the strategy.

There have been some disappointments in ODA for SMME development. The disappointments relate to the lack of impact especially of projects that deal with the lower end of the SMME spectrum, and those which are channelled through the implementing agencies. Inadequate service delivery appears to be the most serious flaw of the strategy.

1.10 RECOMMENDATIONS

Our recommendations which are primarily based on the weaknesses, difficulties and trends identified, can be summarised as follows.

1.10.1 Co-ordination

The co-ordination problem between donors and government must be addressed as a joint effort between donors and government.

1.10.2 Programme Database

Co-ordinating activities should include the establishment of a database that captures all donor programmes and projects which are relevant to SMME development.

1.10.3 Specifying objective of assistance and target enterprise

In the context of improved co-ordination and the establishment of a database, donors should also specify very clearly whether their projects have a poverty alleviation focus or not. It should also always be made clear what type of entity is the final beneficiary – a going concern or just an individual engaged in business activities

1.10.4 Closer co-operation with provincial government

Donors should start to co-operate more extensively with Provincial Government. It is not just that Provincial governments are part and parcel of the national strategy. Provincial governments believe they can make a substantial contribution to donor efforts.

1.10.5 Local government and local economic development

The thrust towards decentralisation should also be extended to increased donor involvement with local authorities. This should happen in the context of local economic development. The DTI is in the process of restructuring, where such restructuring is likely to lead to a stronger presence of the DTI at local

government level. Donors, to the extent that they have expertise and experience in local economic development, should aid in this respect.

1.10.6 Reverse the trend away from government agencies

Past donor experiences with the government agencies may not always have been positive. The agencies have, however, learned a number of lessons over the past four or five years, and they have implemented changes based on these lessons. They are now in a better position than ever to fulfil their mandate to assist in small business development. Future co-operation between donors and agencies may turn out to be more successful than the past. Perhaps the trend whereby donors have increasingly turned away from agencies can now be reversed. Nonetheless it should be clear that any future additional involvement with the agencies must be thoroughly considered, and donors must participate in areas where agencies show strength.

1.10.7 SMME advocacy

SMME advocacy is in a state of disarray. An obvious example thereof has been the closure of NSBC, but it holds true for small business advocacy in general – at local, provincial, national and government level. Perhaps it is time that donors get involved in SMME advocacy co-ordination and implementation. At least one donor should take the lead in this regard

1.10.8 Integrated SMME assistance and procurement linked development

Perhaps an advocacy organisation could start to make noise about the low level of black SMME participation in filling government procurement contracts. Government procurement demand constitutes an important market for SMMEs. This is significant since access to markets is one of the biggest constraints facing SMMEs. BtB projects tend to be successful because they address not only financial, technical and management issues, but also help in establishing a market for the SMMEs. These are integrated projects.

1 INTRODUCTION

1.1 BACKGROUND INFORMATION

This report is part of a larger project to evaluate Official Development Assistance (ODA) to South Africa for the period 1994-99. The project is undertaken by the Department of Finance (DoF), and a range of donors

This report forms part of the DCR II, which seeks to assess in more detail ODA in specific sectors, thematic areas and regions. This report covers the Small, Medium and Micro Enterprise (SMME) sector. A key objective of DCR II is to provide guidelines for the alignment of future ODA to the development priorities of the South African government.

1.2 GUIDING QUESTIONS

The format of Official Development Assistance (ODA) to South Africa has changed since the first democratic elections. Whereas such assistance pre-1994 was primarily channelled to NGOs and other organisations that were involved in the struggle against the apartheid regime, post-1994 ODA is mostly channelled in support of the government and its developmental goals. This change in format has also implied a change in the type of activities supported by ODA. Private sector development, and SMME development in particular, has emerged as a significant attractor of ODA. This stands in sharp contrast to the pre-1994 situation when economic boycotts were designed to cripple South Africa's private sector, so that it would pressure the government for change.

ODA to South Africa has always been characterised by strong moral attitudes. Initially it was a moral responsibility to take a stand against apartheid, and later it was the moral obligation to help those groups of society that had suffered the economic and other prejudices during apartheid. There is also the moral attitude that development aid is a noble thing. As we leave the apartheid era further and further behind, so soul searching emerges as to why South Africa should be the target of development assistance, keeping in mind that it is classified a medium income country.

Coinciding with this type of soul searching comes an increasing willingness on the part of donors to supplement moral reasons for ODA in South Africa with economic reasons. South Africa is not only a target for development work; it is also a lucrative market and a potentially significant trading partner. ODA in the SMME sector is particularly imbued with both moral and market objectives.

Just as donor views and approaches change, so do attitudes in South Africa. There is a cautious approach towards ODA that was not around less than ten years ago. The caution or even scepticism follows naturally enough: If South Africa is a market for the donor country, is not the entire ODA motivated by the self-interest of the donor country?

The international experience with ODA is relevant here. Many developing governments see their sovereignty undermined by multilateral agencies, and

donor countries dictate the development direction within specific sectors. From early on the first democratically elected government asserted that it will not sacrifice its independence in exchange for funds from the World Bank. Along similar lines DCR II investigates, amongst other things, whether ODA serves South Africa's interest or some other. To test whether it does serve the interest of South Africa, in phase II of the DCR we want to answer the following questions with respect to ODA:

- ◆ Is it sufficiently owned by South Africa?
- ◆ Is it aligned to national strategies and policies?
- ◆ Is there sufficient co-ordination between government and the donor community?
- ◆ Is it in line with the Medium Term Expenditure Framework?
- ◆ Does it have any significant impact?
- ◆ Does its provincial distribution coincide with relative needs?
- ◆ Is it adequately monitored and evaluated?
- ◆ Can we devise improved institutional and structural arrangements to manage and direct ODA?

It must be emphasised that this report is not about the SMME sector per se. Rather its subject matter is ODA in a particular sector. The outline below makes it clear that the focus is on ODA, nonetheless some conceptual SMME aspects will be discussed in order to provide an framework for the analysis of ODA in the sector.

Section 2 describes the methodology used for the study.

Section 3 introduces some basic concepts that will prove useful in analysing and evaluating ODA in this sector, and will also help us understand the problems faced in the sector.

Section 4 is an overview of donor participation in the SMME sector.

Section 5 outlines the government perspective on ODA in this sector. It covers all three levels of government.

Section 6 looks at the perspectives of other stakeholders.

Section 7 considers the issues of ownership and control of ODA.

Section 8 summarises the trends in SMME development assistance.

Section 9 considers some ideas on the way forward so that the SMME sector is best served by donors and government.

2 METHODOLOGY

2.1 RESEARCH DESIGN: AREAS OF CONCERN

There are four major areas of concern in government delivery of improved services and accelerated development. These are:

- ◆ Response and needs of the recipients

- ◆ Policy framework
- ◆ Institutional framework regarding the implementing agencies
- ◆ Implementation of the policies and strategies

The methodology employed here was designed to get to grips with all four areas of concern. In particular, all major role-players and stakeholders were consulted in order not only to get their respective views regarding the above areas of concern, but more particularly to assess their own involvement in those areas of concern.

Within this general framework is found the particular interest of this research: ODA involvement as regards these general areas of concern. Thus, cross cutting the general areas of concern are those specific to this study:

- ◆ Rationale
- ◆ Information
- ◆ Alignment
- ◆ Impact
- ◆ Gaps weaknesses
- ◆ Flow of funds
- ◆ Co-ordination

2.2 STAKEHOLDERS

The role-players who were contacted for the research can be classified into the following groups:

- ◆ Government Organisations
 - National Government Department
 - Provincial Government Department
 - Local Government Department
- ◆ Parastatal agencies
- ◆ Donor Organisations
- ◆ NGO's
- ◆ Private sector organisations
- ◆ Beneficiaries

The interaction with the above role-players occurred along different dimensions. The most obvious, of course, were the numerous interviews, but this was supplemented (often preceded by) other information gathering approaches. The full list is as follows:

- ◆ Interviews
- ◆ Supplementary Donor/agency reports
- ◆ Literature study
- ◆ Workshop

2.3 INTERVIEWS

All interviewees are deeply committed to this sector. The danger of this is that there is a tendency by the stakeholders to engage with the consultants as if the research is about the SMME sector per se, rather than about ODA as regards this particular sector.

To steer away from this the interviews were structured in a way to give prominence to various relational aspects that would be suggestive of answers regarding questions of alignment, co-ordination, gaps, flow of funds, etc. For example, the questions were of the following nature:

- ◆ How does your organisation interact with other stakeholders?
- ◆ How does it engage with the strategy?;
- ◆ How does it adapt in response to problems, difficulties and weaknesses?;
- ◆ Does it do so within the given framework? etc.

2.4 LITERATURE STUDY

Literature study formed another important component in the research. The following types of literature were reviewed

- ◆ Existing literature on ODA, i.e. DCRI,
- ◆ Existing Literature on SMME
- ◆ Speeches (by the ministers of Finance and of Trade and Industry)
- ◆ Strategy documents (SMME White Paper and Local Government White Paper, National Small Business Act) and Medium Term Expenditure Framework (MTEF)
- ◆ Supplementary Reports by donors on their SMME projects and programmes

2.5 WORKSHOP

Once the groundwork for the report had been completed i.e. all interviews conducted, literature reviewed etc., a workshop was held on the 18th of February 2000. Participants included representatives from the key donor organisations, NGOs, national and provincial government.

At the workshop we presented our overall findings regarding ODA in this sector. This included findings on:

- ◆ Alignment
- ◆ Ownership
- ◆ Impact
- ◆ Co-ordination
- ◆ Trends
- ◆ Recommendations

These findings were opened for discussion. The discussions revealed that participants were in agreement with our findings and overall thesis, but they made important contributions regarding various details, and prompted additional questions for investigation.

2.6 CROSSCUTTING THEMES

In our interviews we had incorporated questions about ODA in the SMME sector, and the crosscutting themes which are also being investigated in terms of DCR II, viz. gender, capacity, environment. Equally so did we review the literature with these themes in mind.

3 GOVERNMENT STRATEGY

3.1 SMME AND GEAR

The government's strategy relating to SMMEs must be seen in the context of its overall macroeconomic policy GEAR (Growth Employment and Redistribution) adopted in 1996. At the heart of GEAR is the assumption that accelerated economic growth is more likely to be achieved by supply side measures rather than demand side measures. Thus, rather than stimulate economic growth with increased government involvement and consumption in the economy, government must trim down and create an environment where the private sector will be willing to take the lead in economic growth. In particular, sustained growth for South Africa, cannot be attained behind protective trade barriers, but can only occur through business that is internationally competitive.

Fiscal, monetary and trade policy, as well as policy relating to the labour market and privatisation, are all designed to achieve these goals. Here are some of the policy highlights:

Fiscal Policy <ul style="list-style-type: none"> ◆ Quick deficit reduction ◆ Cut back on government consumption expenditure ◆ Reduction of tax to GDP ratio ◆ Monetary Policy ◆ Tight monetary policy ◆ Relaxation of exchange rate controls 	Trade Policy <ul style="list-style-type: none"> ◆ Tariff reform ◆ Tax incentives ◆ Increasing competitiveness of SA business ◆ Industrial cluster support programmes ◆ Phasing out export subsidy scheme ◆ Accelerated depreciation for new investments in manufacturing ◆ Use of legislation and establishment of programmes and institutions to promote SMME
Privatisation <ul style="list-style-type: none"> ◆ Sale of non-strategic assets ◆ Creation of public-private ◆ Partnerships 	Labour Market <ul style="list-style-type: none"> ◆ Increase labour market flexibility ◆ Increase incentives for more shifts, job-sharing and employment flexibility ◆ 'Wage moderation' ◆ reduce minimum wage schedules for young trainees

Accelerated investment and employment growth, and lower inflation, are the key expected outcomes of these policies. GDP growth was targeted at 6% by the year 2000; employment growth was set at 409,000 jobs annually.

Of interest is that in the GEAR policy document the SMME sector features not so much as an component area for growth, but more as a sidekick for employment creation and income generation.

The promotion of small, medium and micro enterprises (SMMEs) is a key element in the Government's strategy for employment creation and income generation. Due to obstacles of the past the SMME sector is severely underdeveloped. A major effort will be made to operate and implement the policies outlined in the White Paper on Small Business Promotion.¹

In the course from 1996 to date, the implementation of GEAR has not led to job creation. Between 1996 and 1999 unemployment has increased and jobs in the formal sector had been shed. As a consequence the role to be played by the SMME sector has grown somewhat in importance. New studies suggest that between 2000 and 2003 only 53,000 net jobs will be created even though GDP is expected to grow at about 3%. This situation could be described as jobless economic growth, and government hopes that growth in the SMME sector can remedy this.

3.2 SMME AND MTEF

The Medium Term Expenditure Framework is a planning and implementing tool for government. It forms part of the context within which small business development is encouraged. Small business development is one of the ten DTI major programmes for which Medium Term expenditure estimates are being made. The expenditure outcomes from 1995/96 to 1999/2000 and medium term expenditure estimates are given below.

Table 1: Expenditure on Small Business Promotion (R mil.)

Expenditure Outcome				Prelim. Outcome	Medium term expenditure estimate		
1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
14,2	198,2	73,2	77,8	106,7	106,7	106,7	106,7

The expenditure in the Department of Trade and industry has declined from a high of R3,232 mil in 1996/97 to its lowest in 1999/00 of R1,795. The reduction is due mainly to the phasing out of the general export incentive scheme. In terms of the MTEF, its expenditure will increase by approximately 25%² by 2002/03. That will mean that expenditure on small business promotion in terms of the national strategy will be less than 5% of the DTIs budget.

It is somewhat disappointing for the SMME sector that its allocation remains constant while that of the DTI's is increasing substantially. It does not appear that the framework which is to be established in terms of the White Paper on SMME development has been sufficiently established. For instance, provincial and local governments have not yet been effectively integrated into SMME development. The DTI must make its presence felt at local levels if it is to make advancements in terms of SMME development. Furthermore, small business advocacy, one of the three pillars for SMME development, is in complete

¹ Department of Finance (1996) Growth, Employment and Redistribution: A Macro-Economic Strategy. Summary, p13.

² A large proportion of the increased DTI budget is destined to help South African firms take advantage of the EU SA trade agreement.

disarray. Financial constraints are as pressing now as they were a few years ago, and lack of technical skills is emerging as a further aspect that must be given attention if SMME development is to make significant headway. Co-ordination in the sector is inadequate, and so on.

One may take a simple example. The CSBP has been tasked with the following: strategy implementation co-ordinator, agency watchdog, policy formulator, interdepartmental and donor co-ordinator, and others. Yet its staff complement is so small – it fluctuates from between nine to sixteen staff. Only three of the staff are technical experts.

Present expenditure allocations can at most be sufficient to maintain what has been achieved so far, but to remedy the shortcomings mentioned above, will require a significantly greater financial contribution to SMME development. In short, it cannot be hoped that the strategy will be adequately implemented at current SMME expenditure levels. Even if donor commitments to the sector are added to the calculation, the funds dedicated to the sector are inadequate in terms of the strategy's objectives. It is hoped by SMME sector team (the authors) that the current restructuring of the DTI will remedy the situation.

3.3 WHITE PAPER ON SMALL BUSINESS DEVELOPMENT AND THE NATIONAL SMALL BUSINESS ACT

At the centre of Government's SMME strategy is the White Paper on Small Business Development and, of course, the National Small Business Act. The thrust of the strategy is to create an environment favourable to SMME development. This involves the following areas of intervention:

- ◆ Creating an enabling legal framework
- ◆ Streamlining regulatory conditions
- ◆ Access to Information and advice
- ◆ Access to marketing and procurement
- ◆ Access to finance
- ◆ Physical infrastructure
- ◆ Training in entrepreneurship, skills and management
- ◆ Industrial relations and labour environment
- ◆ Encouraging joint ventures
- ◆ Capacity building and institutional strengthening
- ◆ Differential taxation and other incentives

Various bodies are expected to play an integral part in the strategy: private sector business, business associations, Non-Governmental Organisations (NGOs), Community-Based Organisations (CBOs), national, provincial and local government, foreign donor organisations, parastatals and tertiary education institutions.

It must be mentioned that particular attention ought to be paid to the development of SMMEs that would not normally be able to access support through the normal commercial channels and that it promotes entrepreneurs from the historically disadvantaged communities, women, youth, disabled and rural areas.

Agencies that have given advice, and technical and financial assistance in drawing up the strategy included, United States Aid in Development (USAID), World Bank, European Union (EU), DFID (UK), Friedrich Ebert Stiftung, as well as agencies from the following countries: Australia, Netherlands, Singapore, Denmark, Germany, Ireland, Japan, and from several other countries.

As a result of the strategy development processes (including also the small business conference) the four key government institutions have been created, tasked with various aspects of the implementation of the strategy:

- ◆ Centre for Small Business Promotion (CSBP) – chief directorate in the Department of Trade and Industry (DTI)
- ◆ Khula
- ◆ Ntsika
- ◆ National Small Business Council (now defunct)

In the process the Small Business Development Corporation has been restructured into the now fully private sector Business Partner.

3.4 OTHER INITIATIVES

There are various other aspects that go into South Africa's strategy with regard to SMME development. A number of national departments have their own initiatives. Here is a list of the departments and an indication of the type of initiatives:

- ◆ the Department of Public Works (emerging contractor development programme),
- ◆ the Department of Energy Affairs (new deputy ministers novel emphasis on SMME development in the energy sector),
- ◆ the President's office (establish links with foreign enterprises to create labour intensive jobs),
- ◆ the Department for Constitutional Development (Local Economic Development programme in co-operation with the DTI),
- ◆ Department of Labour (Skills development programmes for self employment).

Few of the programmes run by these other departments have received SMME specific ODA, but to the extent that they have, they are included in the analysis. Examples include the GTZ project 'Technology diffusion through Technikons' which is run through the Department of Arts, Culture, Science and Technology and is aimed at existing and emerging SMMEs, as well as support from various donors for the two Presidential Conferences on SMMEs.

Within the Department of Trade and Industry there are a number of projects and initiatives that also have a bearing on SMMEs in general. Here they will just be named in conjunction with a whole array of other projects and initiatives:

- ◆ Spatial development initiative
- ◆ Manufacturing development
- ◆ Export facilitation
- ◆ National Empowerment Fund

- ◆ Regulatory Review
- ◆ Preshipment export finance guarantee facility
- ◆ Competitiveness Fund
- ◆ Competition Policy
- ◆ Procurement Reform
- ◆ Job summit
- ◆ National small business conference (1st and 2nd)
- ◆ Develop strategy for franchising by SMMEs
- ◆ Umsobomvu Fund

4 DONOR INVOLVEMENT AND 'GEAR' OBJECTIVES

There is a lot of overlap between the donors in terms of the rationale for their respective involvement, but quite clearly there are differences amongst them. Perhaps the differences could usefully be defined as differences in emphases. The overriding concern for donors operating in this sector is to help South Africa

- ◆ deal with the unemployment problem, and, in the process,
- ◆ to be part to transformation in the South African economy.

In the context of unemployment and transformation, there are two nodes of emphasis around which the activities of donors coalesce. These are:

- ◆ Poverty alleviation
- ◆ Business growth

The two over riding concerns and the particular emphases within the context of the concerns, can possibly be represented in visual form. The nodes of activity emphasis are business growth and poverty alleviation activities. From these nodes radiate out consequences for employment. In other words, these activities are designed to improve employment prospects, which in turn lead to a slow but steady transformation of the economy (see figure 1)

The transformation that is sought is one where historically disadvantaged South Africans will start to gain some economic power. It is hoped, that is, that transformation in economic terms will eventually follow the transformation that has already taken place at the political level

Naturally, different donors have a different understanding of transformation, and accordingly they focus their activities either on business growth or on poverty alleviation, or they adopt a two-pronged approach where both types of activity are part and parcel of their engagement in this sector.

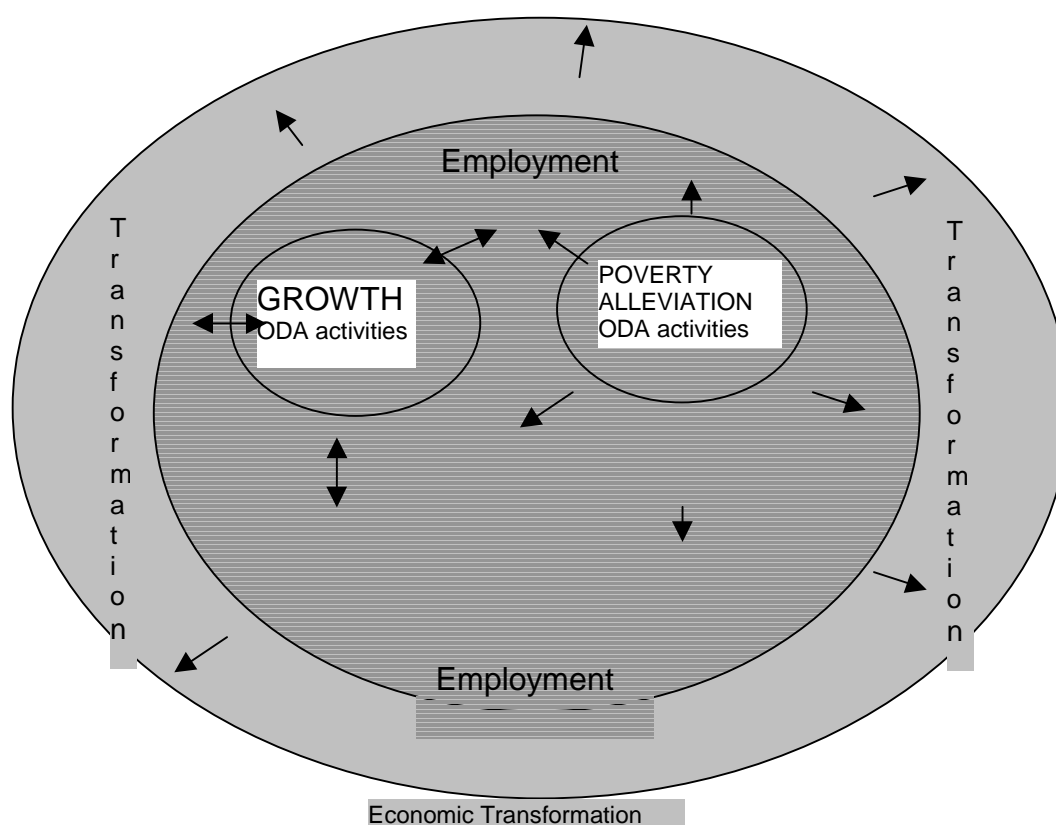


Figure 1: Rationale for Donor Involvement

4.1 POVERTY ALLEVIATION

Not all, but certainly most, donors see poverty alleviation as one of the key objectives of their involvement in the SMME sector. Donors pursuing poverty alleviation acknowledge that South Africa is a middle income country, but that below the GDP per capita figures are hidden vast disparities in family income.

It is the existence of a very large poverty-stricken segment of the population that justifies involvement in South Africa generally and in the SMME sector in particular. Some donors suggest that while GEAR has won approval from the business community and from the international community, it has failed to generate jobs.

The UNDP and Department for International Development (DFID) are amongst the donors that are most concerned with poverty alleviation as a rationale for their involvement in the sector. DFID champions for example the notion of pro-poor growth. Most others, too, have a policy alleviation concern (Danish International Development Assistance (Danida), Swedish Development Assistance (Sida), Deutsche Gesellschaft für technische Zusammenarbeit (GTZ), Italy, International Labour Organisation (ILO), IrishAid, to name but a few), but this applies only to a limited degree to USAID, Norad and JICA.

A whole array of ancillary objectives makes up the poverty alleviation focus of donor involvement in the SMME sector. These include:

- ◆ Income Generation
- ◆ Employment creation
- ◆ Black Economic Empowerment
- ◆ Redressing gender imbalances
- ◆ Youth employment
- ◆ Rural community development

The beneficiaries of donor activity in the SMME sector with a poverty alleviation focus tend to be micro and very small enterprises. In terms of our earlier discussion they are targeted at person centred enterprises.

The target of development is not so much a business organisation as it is an individual. It so happens that such an individual may engage in business activities, and that donors seek to support her in her enterprise endeavours, but the target beneficiary is not business per se. In a pithy formula, the donor rationale for engagement is to develop an individual not the business. Business growth is at most the by-product of achieving the primary objective.

The initial main objective of most donors was to assist person centred enterprises in order to alleviate poverty. This approach was in line with the Reconstruction and Development Programme the then guiding policy in South Africa especially around 1994-5 period.

Issues relating to gender feature prominently in terms of poverty alleviation focus in SMME development. Women are hardest hit by poverty, and households with a female head are over represented amongst households classified as poor or very poor. This is still more pronounced in rural areas. Accordingly many donors pay particular attention to women in terms of their poverty alleviation activities. DFID, SIDA and IrishAid figure among the donor run programmes specifically designed for women. It is not clear, however, to what degree these programmes have merely a women focus, or to what degree they have an influence on woman's position in the household or the community – that is, to what degree they redress gender imbalances. No impact assessment on this theme had been made available to the team.

4.2 BUSINESS GROWTH

A macroeconomic growth strategy such as GEAR will succeed only to the extent that there is growth at the micro-economic level, viz. business growth. The economic philosophy that has guided the design of GEAR has also been adopted by donor's involvement in SMME development. Its assumptions are that business growth will sooner or later lead to job growth, to poverty reduction, and to economic transformation. The independent variable, so to say, to be acted upon is business growth, while the others are dependent on business growth.

If donors have adopted business growth as a focus for SMME development activities, this does not imply that they have abandoned poverty alleviation as an objective. For these donors poverty alleviation may also be a variable which they seek to impact upon more directly than just via business growth. In fact, most donors follow a two pronged strategy, where both foci coexist. Lately,

though, business growth has started to figure more prominently than in the earlier period of ODA. This trend, which has occurred in tandem with the ascendancy of GEAR and demise of RDP, will be detailed more fully later.

Business growth as a focus node to achieve employment and transformation relates primarily to going concerns as opposed to person based enterprises. The beneficiaries of growth focused ODA are therefore going concerns. The growth achieved through ODA is growth of a business, in the first place, not of an individual. That particular individuals benefit is somewhat incidental, though, of course, it is ultimately the desired outcome.

Danida, USAID, SIDA, International Finance Corporation (IFC), and Norwegian Agency for Development Co-operation (Norad) are some of the donors prominently involved in business growth assistance. Some of the subsidiary objectives (affecting the dependent variables, as it was expressed above) of business growth include the following:

- ◆ Greater equalisation of income, wealth, economic opportunities
- ◆ Creation of employment
- ◆ Economic growth
- ◆ Strengthened cohesion among small enterprises
- ◆ Levelling of the playing field between SMMEs and big business
- ◆ Sustainable transformation in favour of the majority population
- ◆ Black economic empowerment
- ◆ Increased black equity holding
- ◆ Increased competitiveness
- ◆ International trade participation,
- ◆ Improved productivity and appropriate technical changes

The above list makes it clear in what sense business growth ODA differs from ordinary business growth: it is business growth with a focus on black entrepreneurs. The name of the USAID programme captures best this focus: 'Black Private Enterprise Development'. 'Empower through enterprise', the USAID slogan, captures equally well the objective of its involvement in the SMME sector.

The difference between business growth that receives ODA support and any other business growth (i.e. growth of business **not** from the historically disadvantaged community) has its parallel in the structure of the DTI. A large number of the DTI programmes are directed towards SMMEs in general, but in terms of official policy, only the CSBP focuses on SMMEs that emerge from the historically disadvantaged community.

Even if their respective names for programmes are not quite as suggestive, other donor business-growth focused programmes have the same objectives:

- ◆ CDC Management Training Project (DFID),
- ◆ Business to Business Fund (Danida),
- ◆ Sweden SA Business Partnership Fund (SIDA),

- ◆ Empowerment venture capital funds and management support (various: Swedfund, USAID, SIDA, IFC, Propaco³, CDC, DFID, and others),
- ◆ Investment South Africa (EU, GTZ),
- ◆ Match Making (Norad),
- ◆ Business Linkages (AusAID – Australian Assistance in Development), etc.

In all cases business growth is attained through:

- ◆ Capacity building,
- ◆ Transfer of skills,
- ◆ Transfer of know how,
- ◆ Transfer of technology
- ◆ Access to markets
- ◆ Access to capital,
- ◆ Exposure to international arena
- ◆ Intensified support for disadvantaged business organisations
- ◆ Enabling regulatory environment
- ◆ Improved access to financial resources for the historically disadvantaged

There may be some overlap between business growth focussed activities and poverty alleviation activities. Often it may be difficult to identify what focus is pursued in order to achieve transformation and employment creation.

The criteria to be employed in order to classify programme or project objectives into i) business growth, or ii) poverty alleviation is simple: is the objective to develop the person that engages in business activities, or is it the grow the going concern. Best of both worlds is attained where an individual is supported in her business activities, for her enterprise to become a true going concern which is then grown via business growth support.

5 THE SMME SECTOR IN SOUTH AFRICA

While this report is not concerned with the SMME sector in South Africa per se, but instead with development co-operation as regards the SMME sector, it is nonetheless requisite to briefly characterise the SMME sector in South Africa.

5.1 THE SIZE OF THE SMME SECTOR

The sector is of particular interest to the government and the donor community because of the important contribution it can make to employment creation and to poverty reduction. Estimates suggest that eight out of every ten new jobs created in South Africa are in SMMEs. A particular concern though is that five or six of these new jobs created are again lost within a year (this often goes unmentioned when government or the press punts the importance of SMMEs).

The precise contribution the sector makes is difficult to assess, and the statistics are unlikely to be very accurate by virtue of the very characteristics of especially micro and very small enterprises. However, The figures published by

³ The entity of the merged French development aid agencies

Ntsika (see table below), do provide us with a very useful snapshot of the sector.

The table below makes it clear that of 906,690 enterprises in existence in South Africa, only 6,017 are considered large, and hence that about 900,000 enterprises fall into the SMME category. About 57% (over 4,2 mil) of South Africa's employed people work in enterprises that are classified as SMME. These figures underline the importance of the sector in terms of economic growth and employment.

Table2: Kind of enterprise and employment in South Africa⁴

Firm Type	Number of firms	%	Number employees	%
Survivalist	184,400	20	184,400	3
Micro-enterprise	466,100	51	848,549	11
Very small	180,000	20	1,068,431	14
Small	58,851	7	1,225,972	17
Medium	11,322	1	909,880	12
Large	6,017	1	3,159,931	43
Total	906,690	100	7,397,163	100

The figures also show that the very term SMME as a category is too inclusive, including as it does 99% of all enterprises. The table shows the breakdown into the different categories of SMMEs. In survivalist enterprises the income generated is less than the poverty line.

The expression is somewhat controversial, and instead here it will be included in the micro-enterprise category, which refers to those enterprises where the turnover is below the VAT Registration limit and which are unlikely to employ more than five paid employees.

Very small enterprises are defined as those which employ between five and ten employees (20 in some sectors). Firms that have up to 50 employees are categorised as small enterprises and those employing up to 100 (or 200 in the mining electricity, manufacturing, electricity and construction sector) are included in the medium enterprise category. The full definitions and all the criteria are given in the National Small Business Act⁵.

5.2 ENTREPRENEURSHIP BY POPULATION GROUP

South Africa has been classified as a medium income country, and given this status donor countries often ask themselves why they provide ODA which is normally directed to less developed low income countries.

The answer is that underneath this classification are hidden very substantial differences in income. It is well-known that after Brazil, South Africa has the

⁴ Ntsika (1997) *The State of Small Business in South Africa*, Annual Review 1997, Ntsika Enterprise, Ntsika Enterprise Promotion Agency: Pretoria

⁵ *National Small Business Act* (102) of 1996

most unequal distribution of income in the world, with a Gini co-efficient⁶ of 0.56. These differences in income coincide to a large degree with the lines drawn along racial classification.

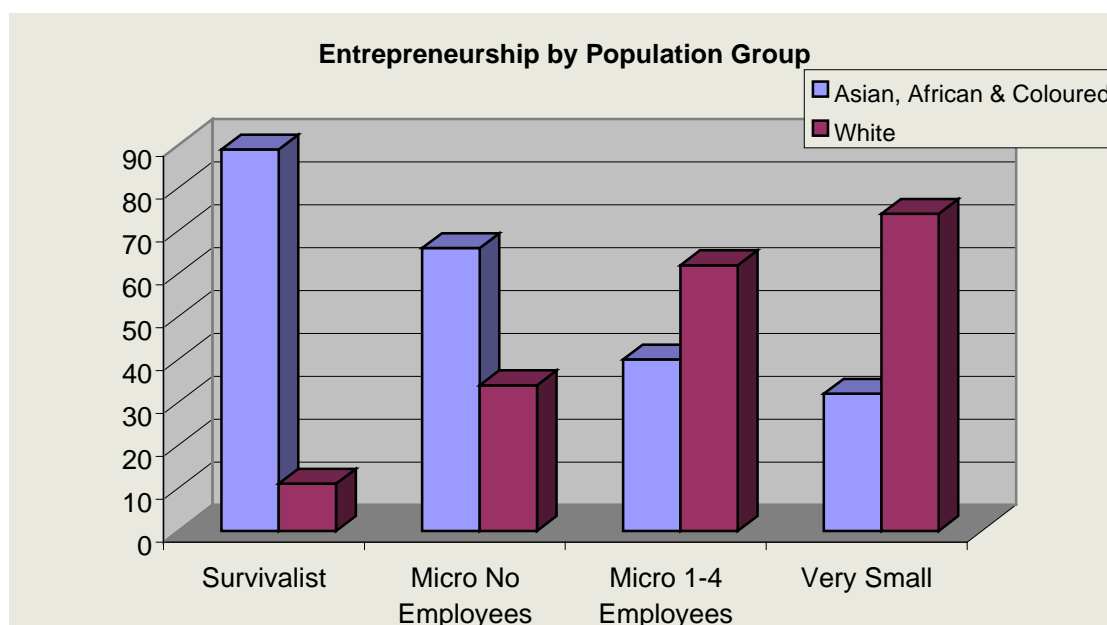


Figure 2: Enterprise by population

The bar chart shows clearly that the proportion of black entrepreneurs is higher the smaller is the type of enterprise. This speaks volumes about the reasons why individuals engage in very small-scale entrepreneurial activities, especially if one also remembers that blacks are over represented the lowest income group.

An additional interesting feature about the distribution of entrepreneurship by population group is that even in the small-scale enterprise categories charted above, blacks constitute only 59% of all entrepreneurs. Whites, at 41%, are proportionately over represented in this small-scale entrepreneurial activity. This may well be because entrepreneurial activity faced many obstacles in the apartheid years.

5.3 ENTREPRENEURSHIP BY GENDER

What is true for black entrepreneurship in general, is particularly also true for women entrepreneurship. The bar chart tells us that the smaller the size of the business, the higher the likelihood that it will be operated by a woman. Women, in short, dominate only the lowest end of the enterprise spectrum. (Unfortunately the data for small and medium enterprise is still outstanding.)

⁶ This co-efficient is a numerical measure (ranging from 0 to 1) of income inequality. A Gini co-efficient of 0 means a perfectly equal distribution of income. The Gini co-efficient for Brazil is 0.61 and for the U.S. 0.31.

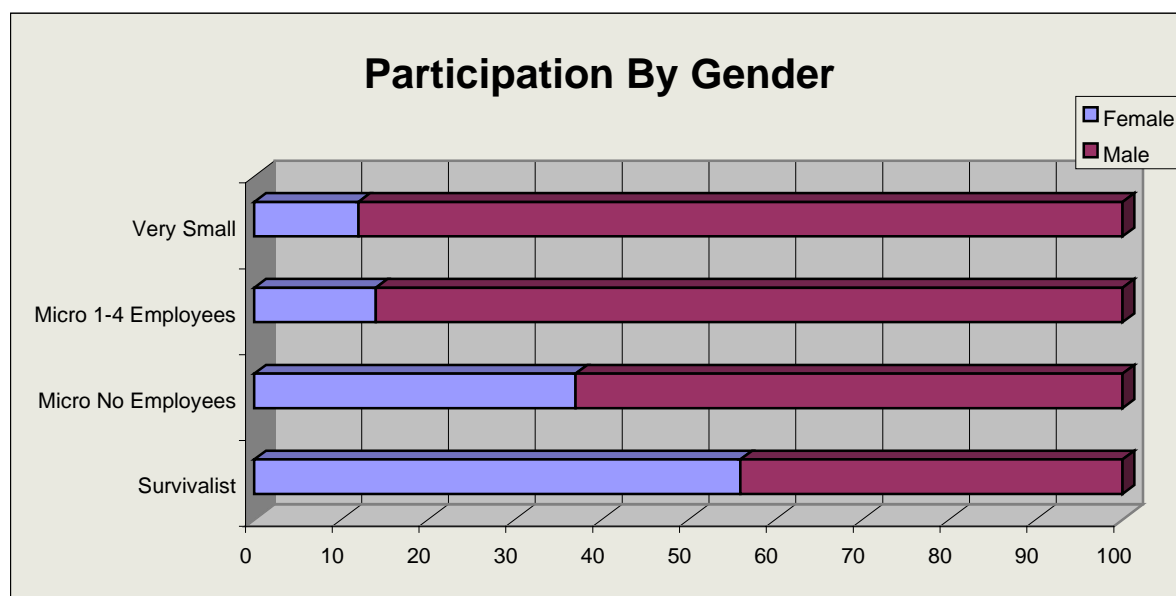


Figure 3: Gender participation

Whereas women entrepreneurs run only 15% of enterprises with five to ten employees, women run nearly 60% of survivalist enterprises. Average women entrepreneur participation is 31% for the SMME classes represented in the bar chart.

5.4 CONCEPTUALISING DIFFERENT TYPES OF BUSINESSES

5.4.1 SME and SMME: What's in one more 'M'?

Donors are usually very clear about the goals of their various programmes in the SMME sector. Depending on the goal, they will target the one or other type of business, where the type can be defined in terms of the categories found in the National Small Business Act.

Thus, the projects may be classified as support for small, micro or medium enterprises, but, donors prefer to distinguish between SMME projects that are essentially about poverty alleviation through trading activities, and projects that aim to grow existing businesses or established business people. The latter distinction focuses on the type of enterprise and the corresponding type of assistance, whereas the former distinguishes only in terms of size of enterprise. At the level of individual projects then, the desired objectives are evident.

The Government's White Paper on the promotion of small business acknowledges important differences and needs between survivalist and micro enterprises on the one hand, and small and medium enterprises on the other. However, its strategy formulation does not proceed in terms of these differences and distinctions, but persists with the more generic expression of SMME. Cognisance of the important differences and distinctions between different types of enterprises must (in terms of the White Paper) be taken and addressed at individual project level.

Problems arise when one moves from the individual project level to generalisations about the SMME sector as a whole. In the process of generalisation, important differences in project goals and objectives may become lost. The erstwhile clarity at donor level and at particular project level may become lost at overall ODA and strategy level. Because the term SMME blurs important differences, the summation of individual project experiences often does not match the generalised SMME evaluation. This is a function of the formulation of the strategy.

In the developed world SMME as a concept conjures up different things than in developing countries. It conjures up, for instance networks of Italian enterprises, or up-starts in Silicon Valley, or fast growing French and Dutch venture capital backed firms. In the developing world SMMEs often conjure up activities of entrepreneurs who operate outside the formal sector. To be fair, in the developed world one talks about SMEs (Small and Medium Enterprises) as opposed to SMMEs, but what is the effect of slotting in the extra 'M'. The price of giving the concept a wider meaning so as to fit the situation of the developing world is a loss of sharpness and clarity of meaning. The strategy, the agencies, donors and other stakeholder labour under this opaqueness.

For the purposes of this report we can therefore not apply the concept *SMME* in an indiscriminate manner. If the concept and its implied classificatory apparatus affects decision making, and if it is itself a subject of research, we may have to use a different classificatory apparatus in order to deal with the concept SMME as a subject of investigation. One could adopt, as many of the interviewees have done, the distinction between SMEs versus SMMEs, but this is not a very elegant solution in the absence of 'verbal underlining' as when the speakers emphasises the second 'M' or its absence. In addition, distinguishing between enterprises in terms of their size is undesirable if it underplays more important differences.

5.4.2 Going concerns and person centred enterprises

Whereas textbooks in economics and business economics tend to treat all firms as essentially similar and facing similar problems, for the purpose of this report the differences between different types of enterprises are more important than the similarities. It is evident that the differences are vast, not just in terms of turnover, employees, etc., but also in terms of the future of the enterprise, the reason for the existence of the enterprise, and the sort of assistance they require.

Economic opportunities, including employment opportunities, are limited in South Africa, and often self-employment and entrepreneurship is not a path that is chosen by enterprise owners, but is the only possibility. Whereas in much of the developed world and in the developed sector of South Africa, self-employment and entrepreneurship have positive, even romantic connotations, for many entrepreneurs from historically disadvantaged communities it is simply the consequence of a lack of employment opportunities.

This is not to say that even for these, self-employment cannot be something positive and fulfilling. The important point is that the different entrepreneurs may see different futures for their respective enterprises.

The goal for some entrepreneurs is simply to earn an income, which is sufficiently high to ward off poverty. Their enterprise is something to be pursued until 'something better comes along', at which point these entrepreneurial activities will be abandoned. In this case, the enterprise cannot be divorced, conceptually, from the activities of the entrepreneur. This type of enterprise is a person centred enterprise. Its rise and decline is nothing but the rise and decline of the person (and his family or associates) of the person operating the enterprise. In this business the entrepreneur performs many different functions in addition to the entrepreneurial function. Business in this case refers not so much to an organisational structure as it refers to the business activities of an individual.

Other entrepreneurs may be operating an enterprise that encompasses much more than the business activities of the entrepreneur. The fortunes of the enterprise can in theory (even if in practice it may not be the case) be separated from the fortunes of the entrepreneur. The goal of the entrepreneur is much more than to ward off poverty. Poverty may not be a threat for she may have many other opportunities.

For some the goal is to take advantage of market conditions and to grow the business. In the future they may want to sell it, or to hand it on to their children, or grow it into a large enterprise. That is, the business is or is to become, an organisation, which can be conceptualised independently of the individuals and personalities involved in it. 'Going concern' will be the expression used for this form of business. It is a going concern independent of the current ownership.

One can thus draw a meaningful distinction between a going concern and a person centred business. The distinction may not always be clear-cut and watertight, and businesses can graduate from being person centred to become a going concern (or vice versa). The categorisation introduced here has a parallel in the different size categories of business. Most micro and very small enterprises are likely to be person centred, whereas medium and large enterprises are likely to be going concerns.

Depending on their specific size small enterprises can be classified as either a going concern or a person centred business. The dividing lines for the two different categorisations do not necessarily have to coincide. The advantage of the 'organisation versus person centred business' distinction is that it emphasises not the business size, but its organisational nature and possible future. A similar distinction, but not identical, is drawn by the law, which recognises some types of businesses as legal entities separate from the owners, but other enterprises have no legal status independent of the owner's.

Below are just a few criteria (in question format) by which one can identify whether an enterprise is properly classified as a going concern or a person centred enterprise:

- ◆ If the owner/s withdraw/s will the business continue?

- ◆ Can financial institutions assess the financial standing of the enterprise independently from the financial standing of the owner/s?
- ◆ Can the enterprise be sold as a going concern?
- ◆ Is a buyer willing to pay an amount in excess of the net asset value (is there goodwill)? or
- ◆ Could the buyer just as well start his own operation?

From the point of view of assessing ODA, distinguishing along the lines of organisational nature is more meaningful than distinguishing along the criteria of size, turnover and so on. For instance, a very successful internet business with four employees would be classified as very small, but its organisational structure and its future may parallel that of a medium sized enterprise, and its needs are very different from those of many other very small businesses.

5.4.3 Growth assistance and development assistance

The distinction drawn between a going concern and a person centred business allows one to assess ODA in terms of:

- ◆ Type of assistance
- ◆ Target entity of assistance
- ◆ Objective of assistance

Type of assistance. The distinction drawn here is between *organisation focussed assistance* and *person centred assistance*. The categorisation introduced here allows us to distinguish between different types of assistance given by donor agencies in the SMME sector. If a going concern (say, micro in terms of employees) benefits from ODA, the nature of the assistance is likely to be very different from that received by person centred micro enterprise.

Target entity of assistance. Given the distinction between a going concern and a person centred business, one needs to identify whether the target of assistance is i) an individual person or a group of individuals, or ii) an organisation.

Assistance objective: Ultimately, the question that needs to be addressed has to do with the objective of the assistance. Whether assistance is targeted at an organisation or at a person/individual (or group of individuals) is an important factor in determining the objective of the assistance. A going concern, by our definition, has structures in place, which can guarantee the enterprise's survival irrespective what happens to the current owner. These very structures are likely to have emerged in the process of the enterprise's development from its conception to being a viable going concern. The degree to which these structures emerge is therefore a function of the degree of firmness of establishment.

Growth as an assistance objective. Business organisations established and structured as going concern firms, (even if young and very small) will seek to grow their profitability and size. The basis for that growth has already been put in place. The required organisational structures are in place, the capacity and know-how is in place, the market is in place, and so on. The objective of assistance to such going concerns is growth.

Development as an assistance objective. Where the basis for growth is not in place, or not adequately so, the enterprise is likely to be an individual (or group of individual) based business, rather than a going concern as defined here. The objective of any assistance to such an enterprise is business *development* rather than growth. Thus defined business development assistance is a form of poverty alleviation assistance. This is clearly the case when, for instance, individuals are taught the basic principles of business so that they may profitably engage in entrepreneurial activities. Such development may be contemporaneous with growth measured as increased income, but the point about development is to permanently increase the rate growth.

The distinction between going concerns and person centred businesses offers the opportunity to clearly differentiate growth assistance from development assistance in the SMME sector. If the final beneficiary of assistance is a going concern, then such assistance shall be termed growth assistance. Growth assistance enables the going concern to increase its income or turnover and to increase employment.

Development assistance, on the other hand, is assistance not to a going concern, but to an individual (or group of individual) based business. Development assistance is here defined as aiding in the process of increasing labour and entrepreneurial skills, adding quantities of physical and human capital, and improving productivity to permanently increase the potential rate of income growth. The aim is to ensure survival and to help individuals cross the poverty line.

6 PARTICIPATION IN SMME DEVELOPMENT ASSISTANCE

6.1 DONOR AND GOVERNMENT FINANCING

On the basis of information collected by ourselves and the information made available by the DCR data team, we have compiled the data on ODA in the SMME sector.

Approximately 160 projects can be classified as belonging into the SMME sector. These projects we have in turn classified as supporting either going concerns or person centred SMMEs. Projects that involve the formulation or review of strategy, and similar, have been allocated to the third category, viz. other. Also included in other are projects where there is insufficient information available to be able to assign them to either of the two main categories.

Table 3: Donor Funds for period 1994-1999

R millions					
	Going Concerns	Other	Person centred SMMEs	Total Committed (1994-2002)	Total Disbursed
AUSTRALIA	2.560		6.388	8.948	4.000
BELGIUM			5.450	5.450	5.449
IDRC	1.187	4.290	5.134	10.611	4.787
DANIDA	132.750		37.167	169.917	
EU	209.996	10.529	47.606	268.131	47.073
GTZ	15.940		61.123	77.063	20.750
ILO			0.157	0.157	0.157
IRISH AID			0.419	0.419	0.419
ITALY		0.854	47.194	48.048	14.388
JICA	15.365		0.000	15.365	12.134
NORAD	11.774		27.228	39.002	39.002
DUTCH		16.421	5.617	22.038	20.944
SIDA	72.746		37.633	110.379	
DFID	24.163	1.086	45.072	70.321	
UNDP			16.995	16.995	13.552
USAID	407.934		65.326	473.260	392.846
IFC	220.000		71.500	291.500	291.500
	1114.415	33.180	480.009	1627.606	867.000

Based on the above table, just over 50% of the funds have been disbursed to date.

The figures are understated in two respects. First JICA has effectively committed a much larger amount to this sector. However, the Japanese are waiting for the correct conditions to be obtained before they enter the sector to the degree they wish. Correct conditions may not just be limited to improvements in technical and skills capacity (which is a major obstacle in this sector), but may also relate to strategy changes.

The second respect in which the figures understate ODA in this sector are some of the venture capital funds (and some support organisations) which have not been included here (except the USAID funded SAEDF, IFC and Sida venture capital). These funds are normally funded by a number of donors simultaneously. If these were to be added, total ODA in this sector would increase by a further R200 million⁷.

Comparative figures for donors and government, at an aggregate level, are provided below in table 4.

⁷ Karungu, Nyandoro, Stettler (2000), *Venture Capital as a Source for Black Economic Empowerment*, a study commissioned by Sida and the DTI.

Table 4: Financial Disbursements to SMME Development

Institution	Amounts (Rmil): 1994 - 1999	Percentage of total
Government (DTI)	810	48%
Donors	867	52%
<input type="checkbox"/> Government figures relate to fiscal year <input type="checkbox"/> Government contribution is funding via the DTI only. Other governmental departments also contribute to SMME development, Both government and donor funds statistics are thus biased downwards.		

The figures clearly reflect that donors are more active financially in development assistance to SMMEs than the South African government.

6.2 AGENCIES AND OTHER STAKEHOLDERS

Among the government agencies that have partnered with donors in project implementation count the following:

- ◆ Khula
- ◆ Ntsika
- ◆ DBSA
- ◆ CSIR

Ntsika and Khula interact most with donors, and our comments will be restricted to these two agencies.

6.2.1 Ntsika

Ntsika was established in 1997 in terms of the National Small Business Act to deal with non-financial constraints faced by SMMEs in South Africa. Ntsika has a large number (27) of programmes in place which are grouped under the following programmatic headings:

- ◆ Market Access and Business Linkages
- ◆ Targeted Assistance
- ◆ Management and Entrepreneur Development
- ◆ Technology
- ◆ Business Development Services
- ◆ Policy Research and Information

Ntsika, like Khula, has been designed as a wholesale service provider. The Local Business Services Centre (LBSC) programme, which falls under the Business Services division, is Ntsika's cornerstone for the provision of non-financial assistance to SMMEs. There are now a total of 98 LBSCs in operation. LBSCs when accredited by Ntsika, will obtain a R120 000 grant from the agency. The activities of LBSCs consist mostly of counselling interventions and training interventions.

Its main sources of funding are annual Government Grants from the DTI and Donor Funding. For the 1999/00 annual budget of R71mil, DTI has come up

with R34mil and donors have contributed R28mil.⁸ Donors that have in the past supported Ntsika include, amongst others, DFID, NORAD, EU, GTZ, UNDP, ILO, Danida. The donor funds are used exclusively for individual programme support. Total pledges to Ntsika have amounted to about R64mil. Up to date.

6.2.2 Khula

- ◆ Khula was set up in 1996 with an initial capital of R187mil (subsequently increased to R390mil, and anticipating a further injection of R200mil) to help loosen the financial constraints faced by SMMEs in South Africa. In particular its objectives are:
- ◆ To improve the outreach and efficiency of alternative financial institutions, especially to unserved rural areas.
- ◆ To increase the level of bank lending to SMMEs at rates not inflated by unreasonable risk perceptions, especially to previously disadvantaged groups.
- ◆ To stimulate the provision of start up and small scale equity products for SMMEs.
- ◆ To expand the number of small and medium sized enterprises listed on the JSE.

To get deepest possible penetration into the SMME sector, Khula was set up as a wholesale financial institution, rather than as a retail financial institution.

There are three components to its strategy to achieve its objectives:

- ◆ Funding for RFI
- ◆ Credit Guarantee Scheme
- ◆ Equity Capital

Funding for RFI. About two thirds of Khula funds were intended to be used to help improve the capacity of existing Retail Financial Institutions (RFI) and to establish new RFIs to provide financial services to SMMEs. Existing and new RFIs came mostly from the ranks of NGOs. According to the assumptions contained in the national strategy, NGOs were thought to possess the required capacity, and Khula would only have to help with funds.

Credit Guarantee Scheme. The credit guarantee scheme is operated by the Khula subsidiary, Khula Credit Guarantee Limited which is registered in terms of the Insurance Act. It guarantees loans, up to 80% of loan value, made by banks to SMMEs. Loan sizes have an upper limit of R1mil to entrepreneurs from historically disadvantaged communities, and R600'000 to others.

Equity Capital. In the past, Khula had funded professionally managed venture capital funds, and will start to do so again.

Donors have contributed to the tune of nearly R90mil to Khula's capital⁹. R82mil thereof is held in trust and R8mil has been transferred into the equity fund. The following donors contributed at various stages of Khula's existence: Norad, EU,

⁸ The balance comes from other sources.

⁹ Khula (1999) *Annual Report 1998-99*

Danida, Sida, IDRC¹⁰, Ford Foundation. In addition to providing direct funding to Khula, donors have also supported Khula initiatives by supporting with technical assistance. With funds some of the RFIs sponsored by Khula. AusAID, IDRC and Danida can be mentioned in this context. ODA in this form amounted to about R25mil.

In total the donor contributions to Khula and the RFIs of about R115mil is significant and constitutes around 10% of total donor participation in the SMME sector. It is also a substantial amount when compared to the R300mil put in by government to deal with the financial constraints faced by SMMEs.

6.3 DONOR PROGRAMMES AND PROJECTS

6.3.1 Programme levels

Given that there are different objectives pursued by donors with their participation in the sector, it is to be expected that there are a large number of different types of projects and programmes. The programmes are perhaps best grouped according to the four areas of concern, or levels, identified in the process of delivery of improved services and accelerated development.

These areas, it may be recalled from the section on methodology, are:

- ◆ Policy framework
- ◆ Implementing agencies
- ◆ Implementation
- ◆ Demand by beneficiaries

For convenience's sake, in what follows we shall refer to the four areas of concern as 'programme areas'. Hence, there are four types of overarching and general 'programmes'. The particular activities pursued within the programme areas shall be referred to as projects. It should be clear that this terminology does not necessarily coincide with that adopted by individual donors, but it allows for easy grouping of activities across donors.

Policy framework programmes. Some programmes, especially the earlier ones, sought to support government efforts to develop an appropriate strategy and policy framework for this sector. This type of support is continuing in the form of assistance for ongoing review of the strategy and regulatory framework. These programmes typically involve a national Department as implementer.

Programmes aimed at implementing agencies. A large number of donor programmes support the implementation of the government strategy by assisting the government implementing agencies. Most prominently amongst these agencies figure Ntsika Enterprise Promotion Agency and Khula Enterprise Finance (Ltd), but also national Departments, Provincial and in isolated instances, Local Governments may be so supported. To the extent that these agencies provide mostly wholesale type of support services, these donor programmes may be thought of as wholesale oriented. Particular projects may

¹⁰ Very limited IDRC contribution of R41350.

aim to improve the management and service delivery capacity of the agencies and Departments. Some projects involve simply funding for the agency, or some of the agencies' projects. Promotional activities are also included in this category. Donor support is not limited to governmental institutions. Other intermediaries that provide final services to SMMEs also receive support from donor projects.

Implementation Programmes. The largest numbers of projects are dedicated to the actual implementation of the strategy. That is, these projects are designed to participate directly in the development of SMMEs, and as such they can be thought of as retail oriented programmes. For instance, such projects may engage a service provider (RFI, LBSC, NGO or other private organisation), grouped into sub-programmes that deal with the major constraints on SMME development:

- ◆ Access to finance
- ◆ Skills and training
- ◆ Access to markets
- ◆ Infrastructure

Thus donor projects, which are part and parcel of the implementation of the strategy, may assist SMMEs with business skills training, with access to finance, or with access to markets or with any combination of these.

A suggestive list of projects in this programme area may include:

- ◆ Business to business contacts
- ◆ Training in business skills
- ◆ Technology support
- ◆ Venture capital funding
- ◆ Information dissemination
- ◆ Technical training
- ◆ Exchange programmes, study trips
- ◆ SMME incubators
- ◆ Mentorship
- ◆ Women skills training
- ◆ Youth entrepreneurship promotion
- ◆ Black enterprise development

Demand by Beneficiaries. There are probably no projects specifically and exclusively designed to stimulate the demand for SMME development, though in a sense all other programmes and their projects somehow are about stimulating demand for service delivery in this sector. Implicit in the entire strategy design and policy framework is the assumption that there will be growth in entrepreneurship in South Africa. All projects increase the awareness and improve the profile of entrepreneurship.

6.3.2 Programmatic sector themes

It bears repeating that there are two themes in the involvement of donors. These programmatic sector themes are i) poverty alleviation (and other

associated goals such as income generation, employment creation, development) and ii) economic growth. Accordingly, all ODA SMME sector projects can be classified as either development and poverty alleviation assistance, or enterprise growth assistance. In terms of the terminology developed in section 3, assistance projects target either going concerns or person based SMMEs.

6.3.3 Implementation channels

Just as there are different types of programmes and projects, so are there different channels of programme and project implementation. To some extent the preceding section has already referred to most of them, but the topic requires elaboration.

NGOs

Without doubt NGOs figure most prominently as partner in the implementation of donor projects in the SMME sector.

National Departments

Donors have partnered with various National Departments in implementing SMME development projects. First among these is the Department of Trade and Industry. In addition, the Department of Agriculture (rural community projects) the Department of Arts, Culture, Science and Technology (technology support) and the Department of Labour have acted as implementers of donor projects.

Provincial and Local Governments

In a few instances donor projects are channelled directly through Provincial Governments rather than the National Government. These usually involve the SMME desk in the Provincial Government. In even fewer cases municipalities implement donor projects, or are the beneficiaries.

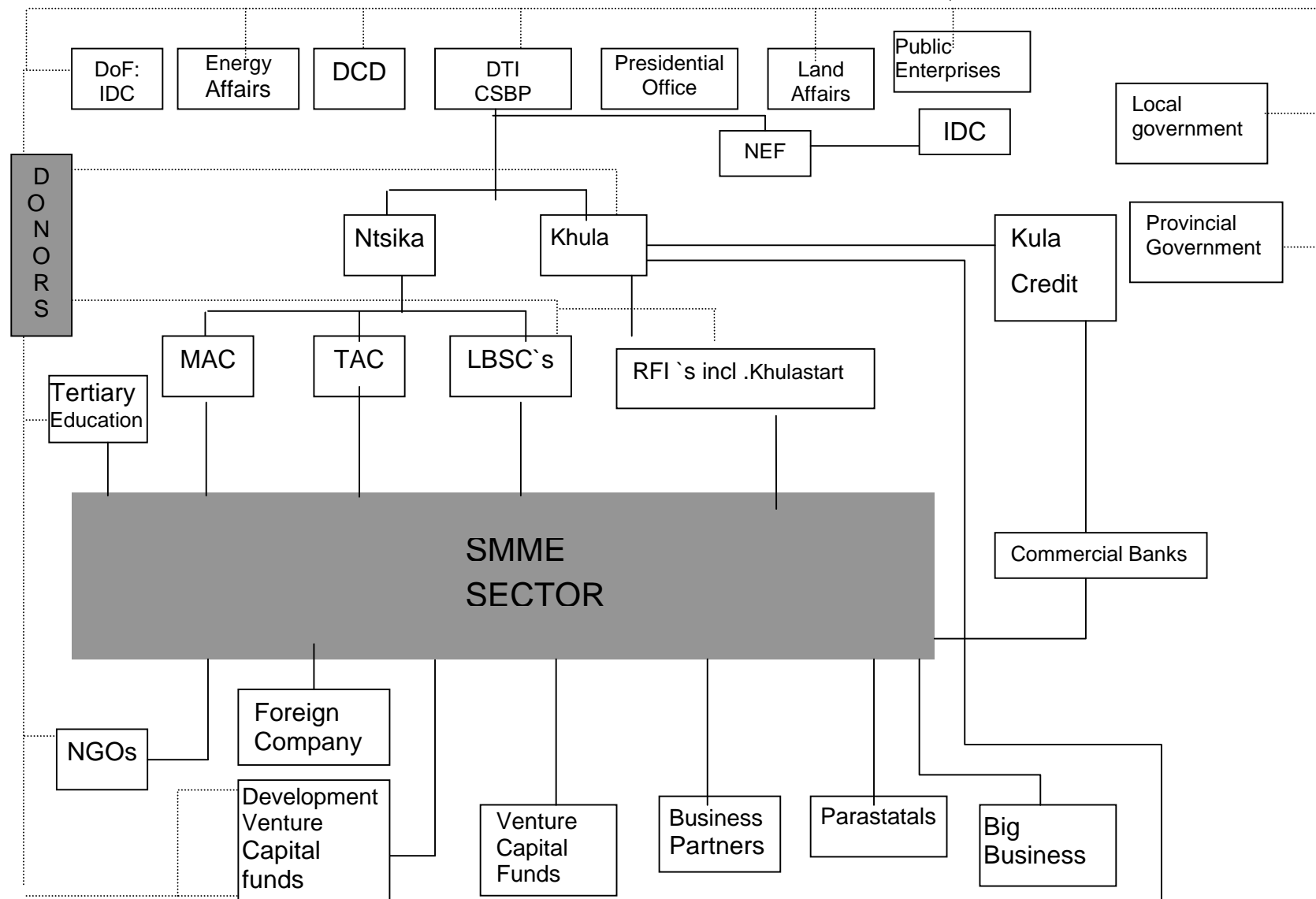
Tertiary Educational Institutions

Increasingly donors are relying on tertiary education institutions (Technikons and University) for the implementation of projects, though the number of such projects is still very small. Often the projects have some sort of technology component to them, but they may also involve skills training and information dissemination.

Private Business

In the case of some projects, donors aim to establish business to business relationships between South African SMMEs and businesses from donor country. Typically the latter is the senior partner. Both businesses are intended to benefit from the partnership, and certainly the South African SMME is supposed to develop and mature in the process of the interaction.

The flowchart below provides a summary overview of this sector. Highlighted, in particular, are the donor interactions through the various implementation channels in assistance to the SMME sector



6.4 INTERACTION

6.4.1 Donors and national government

The study has generated interest in light of the fact that many government officers are of the opinion that SMME delivery system is not optimal and something needs to be done. Opinions vary across the spectrum of government officials as to what should be done. However, there seems to be a consensus regarding the constraints and factors that impede on the SMME delivery. There is a well founded concern among all the interviewed officials that communities are losing interest in SMME due to the bureaucracies and too often failure, on the government side to meet the expectations.

The interaction between the donor community and the government occurs mainly at the national level and hardly any at the provincial level, though both these two tiers of the government welcome and indeed support the efforts of the donor community. However, they feel that a more cost effective and collaborative approach needs to be instituted in order to improve the delivery system of the SMME.

The most encouraging, perhaps amazing, aspect is that the understanding of the SMME sector by government employees and by the representatives of Khula and Ntsika coincides fundamentally with that of the donors. There may be differences in emphases, but beyond that there is agreement as regards the difficulties with the implementation of the strategy and in particular the lack in capacity. There is also agreement that closer co-ordination may be desirable.

Relationship between donors and DTI

While some donors are critical of the working relationship particularly on the rate at which things move within DTI, others are keen to state that DTI has had positive contributions to their efforts. However, the Director of Center for Small Business Promotion (CSBP), normally invites donors and other key stakeholders when issues that are critical to SMME development are being discussed. Thus forum is the annual briefing session where donors and other stakeholders are briefed on the annual plan of the CSBP and the agencies.

As was noted in the section of donor participation, the donors, while appreciative of these sessions, would like a different structure to these. Generally the sessions consist of some presentation by the CSBP on its annual plan or by Khula or Ntsika on some project or other. Donors would prefer these sessions to be of a nature where there can be interactive analysis of the sector and the strategy. This would allow them to discuss their respective problems and become aware of those of others.

DTI has had to request donors on the impact assessment of their initiatives to which very few of them have been able to provide. Some donors do not supply CSBP with the amount spent on projects let alone the monitoring and evaluation process. While some donors provide some of the information, on the whole this information is not provided to DTI. According to DTI, donors are avoiding

difficult areas such as micro-enterprises and SMMEs. While the reasons are often justified especially given the relatively high default rates and low business skills, DTI believes that the same reasons are the justification for their presence and the strategy that they endorsed.

However, CSBP raised concerns that the attrition rate of employees in the directory is relatively high. For instance in the beginning of the year 2000, of approximately 15 employees in the directory, only the Director had one year in the directory. Such a high turn over is tantamount to making smooth and continuous relationship with donors less effective. In addition, it is costly to keep on training and retraining employees. Indeed, it makes working with provincial and intergovernmental officials, donors and other stakeholders ineffectual.

Problems and difficulties

While capacity is a highly subjective concept and difficult to measure, many donors suggest that there is a lack of absorptive capacity and technical capacity in the government agencies. In the case of facilitating finances for projects, funds are often known to be available whether it is with government, donors or national institutions like Ntsika and Khula. Unfortunately, deployment of these funds to the SMMEs is not optimal. It seems that capacity to enable SMME to access these funds is lacking.

They reiterated to have a voice for SMME, reviving a voice for small business but will be determined for small business, and they would have preferred a situation where the process is driven by business. Government restrictions are problematic. Micro/niche market is not viable and the majority of finance has to be commercial. The future of banks and how to accommodate SMMEs has not been clarified. SA financial institutions are sophisticated but not diversified to meet the needs of SMMEs. Devising of financial institutions still lacks.

Officials from CSBP submit that implementation of the existing strategy could be improved if donors and officials work more closely. At provincial levels donors need at minimum register their presence in the in r provinces. In addition they strongly feel that national government is not able to co-ordinate donors efforts in the provinces without the assistance from provincial officials. Provincial officers would want to have donor's liaison with the SMME desks so as to avoid duplication and for accountability.

In the view of the CSBP, co-ordination among the donors themselves is almost ineffectual. Some donors suggested that an approach be adopted that would bring donors doing similar projects together to avoid duplication. Equally, a collaborative effort is critical to achieve the objectives. An annual briefing session is not enough. A report system of donor efforts and especially a monitoring plan and an impact assessment should be provided to the CSBP on an agreed upon period.

SMME co-ordination within government departments

Officials from national and provincial SMME desks are concerned that intergovernmental co-ordination of SMMEs is poor and does not allow for any accountability let alone management. SMME provincial desks feel that there are

many SMME projects emanating from different departments without consultation and collaboration with SMME desks.

Secondly, the provincial SMMEs desks are often uninformed of the procedures and a formula if any that the national government uses to determine how donor funds are deployed. There is consensus from the provincial desks that a better and more highly profile mechanism be established to harness SMME potential.

The provincials officials as well as some donors argue that if SMMEs are going to create the kind of jobs envisioned in the strategy, that a more high profiled establishment such as commission on SMME managed from the office of the President be established. While the view is not endorsed by all stakeholders, a general recommendation emerged that calls for a stronger and well-co-ordinated model that cuts across all the departments. Clearly the staff at CSBP is overworked and may be this explains the higher attrition rate.

6.4.2 Donors and provincial government

Relationship between SMME, provincial officials and donors

Provincial officials in particular are concerned that donors mistrust them and prefer to work with NGOs. They concur that this may be a historical imperative, however, for accountability, efficiency, implementation and sustainability of the national SMME strategy that was devised with donor assistance, donors should work closely with government officials at both national, provincial and local levels. Secondly, provincial officials are concerned that donors hire their own consultants without any form of consultation and therefore fail to create regional and local capacity that would ensure sustainability long after the donors have left.

Provincial officials are not fully informed of the way in which donors operate and especially how they choose projects and areas of operation. Thus, they tend to approach issues as defined by the national government. Thus, if there is a less than well-co-ordinated approach between the national government and the donors, optimisation at provincial level is not feasible or in the other words the delivery of donor effort will have no government input.

Most of the SMME desks in the provinces visited claim not to be informed by the donors operating in their respective provinces involved. They propose that a well-co-ordinated approach needs to be devised that is informative, cost effective and that would minimize duplication.

There is little if any interaction between donors and provincial SMME officials. The SMME officials feel alienated and detached from donor work and that there is very little co-ordination between ODA and provincial officials. Provincial officials argue that while donors are at liberty to identify the projects of their choice, effective output could be achieved if all the role players were informed. Donor efforts and that of governments should complement each other. They argued that if the projects were to be sustainable in the long run, provincial capacity building that would be derived from the donor relationship would be critical to the envisioned sustainability.

Provincial government officials raised concerns regarding the manner in which donors identify their areas of operation. They felt that donors are concentrated in a few provinces and disregarding others. They proposed that an effective SMME delivery system and effective communication need to be established to inform them on the role of donors, their areas of expertise and locality that they operate within. Dissemination of such information would cut down on duplication, unnecessary information gathering at provincial levels.

Relationship between NGOs, donors and government

The donor and NGO communities have a good working relationship. The NGOs visited in the provinces speak highly of their working relationship with the donors. This may be due to the historical imperative of South Africa where donors had to work directly with donors. However, the relationship between NGOs and provincial government officials is not well established. If donor efforts were to be more effective in SMME development, donors, NGOs and government have to collaborate.

The above synopsis gives an overall view of the relationship between donors, government officials and other stakeholders. The appendix provides a summary of the reports as generated from respective provinces.

7 ASSESSMENT OF KEY ASPECTS OF GOVERNMENT STRATEGY FOR SMME DEVELOPMENT

7.1 NTSIKA

A fair amount of self-reflection has been going on at Ntsika. There is implicit agreement with some of the views expressed by donors and other stakeholders on the SMME sector. In particular Ntsika recognises the crucial lack in capacity of the retail service providers (at lower end of agency hierarchy), especially the Local Business Service Centres (LBSCs).

There is also awareness of the difficulties with the implementation of the national strategy. Ntsika officials (Provincial Co-ordinator, acting General Manager, Market and Business Linkages division personnel) acknowledge, sometimes publicly, that there is a problem with the strategy to the extent that the assumptions made in devising the strategy did not hold in reality.

It simply was erroneous to assume that there is a network of NGOs ready to act as retail service providers assisting SMMEs in non-financial aspects. As a result of the absence of such a network, Ntsika has had to be preoccupied with building up such network and capacitating the retail service providers.

Since inception, Ntsika has directed its efforts at putting in place the network needed for the actual delivery of non-financial assistance to SMMEs. The delivery itself takes place only with some time lag. Ntsika personnel feel that the constraint to act as a wholesale agency is most restrictive. Perhaps if Ntsika would be able to act as a retail service provider, in certain instances, it would be better positioned to deliver.

The somewhat critical self-assessment at Ntsika does not mean to suggest that no headway had been made in implementing the capacity building aspect of the national SMME strategy. The four years of Ntsika existence has brought with it a vast learning experience.

Ntsika has drawn a number of important lessons from the experience, as is indicated by the recent restructuring of the organisation. The number of divisions has reduced. Another important aspect of the restructuring has been the establishment of the post of General Manager. Instead of reporting directly to the CEO, division heads now report to a general manager who is responsible to the CEO. Thus, there is now a layer in the organisational hierarchy, where is collected the information of the activities in all the divisions.

This creates the opportunity for a more integrated approach to Ntsika activities, in so far as the general manager can function as overall co-ordinator. The co-ordinating function applies not only within Ntsika, but includes also co-ordination with other stakeholders. For instance, the Department of Welfare and the Department of Labour have lately joined forces with Ntsika on projects such as housing developments and skills training.

There is now emerging a clear understanding at Ntsika, that SMME development activities have to be integrated in approach. Business training in the absence of appropriate technical skills and market linkages, is of little value. Access to finance without a marketable product or without a contract, cannot be turned into financial growth. Only the integration of the various small business support activities will lead to business advancement.

Thus, although Ntsika may agree with the historic assessment of its activities by donors, this past experience should not be taken as a precise indicator of Ntsika's performance in the future. Government and donors may have hoped that Ntsika would be in position to deliver adequately within two or three years of its launch. Perhaps it was not in such a position as early as that, but the view at Ntsika seems to be that it is now getting into that position. In their assessment of Ntsika, donors should thus make allowance for the possibility that the initially proposed timeframe SMME development delivery had been too ambitious.

7.2 KHULA

Khula is proud of its achievements, while acknowledging difficulties that are being experienced in implementing the strategy aspect, which seeks to address the financial constraint on SMMEs development. The biggest problem that Khula experiences is a lack of capacity of the RFIs. Micro finance is a difficult industry, as all practitioners know. It takes time to build up the experience, capacity, and working models needed for success. Yet there has been tremendous pressure on Khula to disburse its funds.

Khula's greatest disappointments have been experienced with RFIs. These organisations have been experiencing problems and the success rate of the established RFIs has been minimal. Khula tried to disburse its funds the RFI network even though that network, and some RFIs in particular, was not yet in a position to get the funds to the final beneficiaries on a sustainable basis.

The result was that Khula had to write off R30 million of loans. Of the existing 50 odd RFIs that receive support from Khula, only 20 or even less are expected to survive in the medium term.

Contrary to the assumptions made in designing the national small business strategy, RFIs simply do not have technical and managerial capacity to deliver adequately on the erstwhile high expectations. This was already noted in Khula's 1997 annual review. Disappointments in this regard has meant that many donors have pulled out of project involvement with RFIs. An extreme example is the one of AusAid which considers its R 6 million odd invested into support of an RFI as a complete waste of effort and money.

To improve on delivery in the micro-finance sector, Khula initiated the Khula Start programme where it takes the leading role in setting up new micro credit outlets (MCOs). To improve service delivery Khula is now redesigning the KhulaStart programme with the introduction of an apex structure, where strategic guidance and technical capacity is located at the 'head quarter', and the branches deal with the remaining tasks that require less expertise. These MCOs cater essentially for the lowest end of the SMME spectrum in rural areas.

Khula, it should be noted, has made a concerted effort to get a coherent mix of services into place. Serving the low end of the SMME spectrum, what we have called the person centred enterprise, are (as already mentioned) the KhulaStart and RFI programmes. Serving the middle sector of the SMME spectrum, is the Credit Guarantee Scheme. The SMMEs that qualify for the Scheme are what we have called going concerns. And serving the top SMME end going concerns, is the newly developed Equity Capital programme. Khula, like Ntsika, is now in a better position than ever to deliver on its mandate as specified by the strategy. And as with Ntsika, donors should not base their evaluation of Khula's future solely on its past.

7.3 DONORS

There is some divergence of donors' opinion of the strategy itself. The majority of donors are of the opinion that in principle it is a sound economic strategy.

Negative comments on the strategy essentially had to do with the fact that it is perhaps too theoretical. The suggestion is that in theory it is very strong, but the theory has made assumptions which diverge from reality. In particular, the strategy assumes that there is a strong network of capable NGOs out there, and that these could easily be shaped into retail service providers, such as RFIs and LBSCs.

As we have all learned in this sector, the reality is different. Many NGOs suffered or had to close down as a result of donor reorientation of funds, away from NGOs (pre-1994) to direct support of government. And even the NGOs in place lacked the prerequisite experience in business support. In other words, the assumption on which the strategy was based was not in place.

While most donors shared this opinion only few would go as far as saying that the strategy failed as a result. Some did, however, say that if the policies and strategies cannot be implemented successfully, then it is meaningless to call the

strategy a good one. If it can't be implemented, then it has failed, no matter how good it is by theoretical design.

The Japanese have very strong reservations on the strategy, though these reservations have not so much to do with issues of strategy implementation as with the very design of it. They feel that it does not include a sufficiently pro-active government role. They reckon that despite the fact of globalisation, the South African government needs to take a prominent role in supporting SMMEs in their infant stage. They feel that too much exposure to the international competition will limit the growth of these small businesses. Globalisation has brought with it too much competition. It will be difficult for the SMMEs to break in both the local and the international market without substantial government assistance. The Japanese feel that government should:

- ◆ plays an active role in the creating opportunities especially markets for SMMEs;
- ◆ promotes incentives to build business linkages between the SMME sector and big business;
- ◆ ensures that reconciliation is also reflected in the working relationships in the economy by efforts to encourage co-operation and business linkages between white established entrepreneurs and black owned SMMEs; and
- ◆ promotes SMME growth in the rural areas.

The main frustration of Donors with regards to the government strategy can be summarised in the following two points:

- ◆ Difficult to implement as a result of inadequate service delivery network
- ◆ Insufficiently differentiate as regards person centred enterprises and established businesses

7.4 CENTRE FOR SMALL BUSINESS PROMOTION

According to the Centre of Small Business Promotion (CSBP) in Department of Trade and Industry (DTI) that is in charge of SMME, the existing strategy had donor input and the Japanese were particularly instrumental in the design of the project. The view from DTI is that the strategy is not defective, however, the implementation may be questionable. DTI acknowledges that the delivery of SMME especially in dispensing donor funds is not the most optimal and hardly is there a monitoring plan.

While there are lots of jobs created and some success stories, the department feels there is room for improvement. DTI requires that donors provide an assessment of their impact but this has not worked effectively. DTI invites the donor community into any major discussions on policy and other matters critical to SMME development. However, working relationship could be improved to enhance achievement of goals and objective of the SMME strategy.

The constraints commonly identified were:

- ◆ relationship between SMME provincial desk and the donors;
- ◆ relationship between donors and DTI;
- ◆ SMME co-ordination within government departments;

- ◆ SMME donor co-ordination in the provinces; lack of capacity particularly financial;
- ◆ relationship between government officials and national institutions namely, Khula, Ntsika and Industrial Development Trust;
- ◆ relationship between government officials and NGOs; and relationship between LBSCs.

While respective provinces emphasized issues differently, clearly commonality outweighed the differences.

7.5 STRATEGY DRIFT

A strategy is a living thing and therefore is open to change and evolution. The SMME strategy is sufficiently broad to allow for changes in emphases, but as these changes in emphasis occur, so the strategy changes somewhat in nature. The change that is taking place has to do with greater emphasis on going concerns. The donors are participating in this process, jointly, that is with the government agencies. This will be detailed more fully in section 8.4.

7.6 ALIGNMENT WITH SMME STRATEGY AND IMPACT

7.6.1 Alignment

On the whole donors have been scrupulous in aligning their contribution in this sector to the South African strategy. Alignment shall be assessed in terms of whether it is aligned to:

- ◆ The national small business strategy
- ◆ Institutional arrangements
- ◆ GEAR
- ◆ The medium term expenditure framework

In addition to assessing alignment with regard to policy and strategy issues, it can also be assessed in terms of co-operation with the agencies that have been established as a result of the adopted strategy and policy. Thus, alignment can be expressed in terms of donor involvement with Ntsika and Khula and associated organisations.

Alignment with SMME strategy and institutional arrangements

Donors are seeking ways to address some of the constraints experienced by SMMEs, as identified in the White Paper and the National Small Business Act. They also seek government approval of their projects. This indicates that there is close alignment of ODA to the national strategy.

The alignment is closest where donors fund implementing agencies that have been created in terms of the strategy documents, and that are directly responsible for the implementation of the strategy. To the extent that donors have supported retail agencies, which have been created, or supported by the wholesale implementing agencies, there has also been close alignment. Many

donors have contributed along those lines and these include AusAID, IDRC, EU, Norad, Sida, Danida, GTZ.

Even where donors have followed a different route, that is, where they have channelled their ODA not through the wholesale implementing agencies (or their associated retail service providers), these donors have made all possible efforts to ensure that their ODA is well aligned.

For instance, both DFID and USAID have meticulously sought government approval of their projects. Some of DFID's projects may have gone through twelve drafts, all circulated to and discussed with the appropriate government departments. USAID, too, always engages in extensive dialogue with government, (and dialogue with other donors) to ensure approval on the South African government side.

Where donors have not been satisfied with the strategy, they are simply holding back their efforts until the situation is more favourable to them. This is true for JICA. Alternatively, dissatisfied donors may simply turn their back on the sector (UNDP, AusAid) rather than to institute projects not aligned to the strategy.

GEAR

GEAR has as one of its components the advancement of SMME. Any support dedicated towards the SMME sector may thus be read as alignment with GEAR. Donor alignment with GEAR is fundamental still. Many of the donor projects are aimed at advancing the growth of going concerns. Thus they pursue objectives which are in line with the overall GEAR objectives. This is reinforced where the supported going concerns have an explicit export orientation.

There is thus donor alignment with respect to GEAR. The question, however, remains to what degree is GEAR supportive of real person centred enterprise advancement.

MTEF

The MTEF does not show large amounts dedicated towards SMME development measured in terms of funds made available to the CSBP. This could either mean a lack of importance assigned to this sector or it could imply a significant gap that has to be filled. Donors obviously take the latter view, namely that the SMME sector is considered an important development sector, but that insufficient funds reach the sector via the CSBP. That it is an important sector can be inferred from many other ancillary MTEF aspects. Thus, projects that have emanated from the jobs summit have R1.2 bn. dedicated government funds. Then there is the National Empowerment Fund and Small amounts into CSBP, but big amounts into job summit, Usobomvu Fund, and the National Empowerment Fund (NEF), all of which have a significant SMME development aspect to them.

All the above leads to the conclusion that the SMME development sector is a high priority sector, but the financial gaps that exist in the MTEF, can be filled by

the donor community. There is thus alignment to the MTEF in a round about way.

7.6.2 Impact

Impact assessment is a multidimensional exercise, which measures the outcomes of a given project or programme. It evaluates the appropriateness, effectiveness and sustainability of a project given the agreed targets predetermined in the business plan. Impact assessment of individual projects falls out of the terms of reference of this project. The assessment done in this section is based on the information and documentation from the donors and this lends itself to criticism. Furthermore, not all donors have conducted impact assessments and this present a major bias on the outcome of this superficial impact assessment. Impact will be discussed within two broad categories that are local or micro impact and social impact

Local or micro impact

- ◆ Transfer of technology and changes in productivity levels,
- ◆ Training-capacity building,
- ◆ Access to finance particularly micro finance,
- ◆ Changes in turn over of SMMEs receiving assistance,
- ◆ Policy analysis, adaptation and change,
- ◆ Institutional restructuring, strengthening and effectiveness,
- ◆ Co-operation and networking among service providers,
- ◆ Linkage to the local economy, and
- ◆ Impact on environment.

Social impact

- ◆ Location of projects: in rural and high unemployment areas,
- ◆ Degree of participation of women,
- ◆ Jobs created,
- ◆ Alignment of the programme to broader economic objectives of the South African government, and
- ◆ Sustainability of projects established and the SMME programme in general.

Different donors have focused on some of the aspects of the above indicators. The success or failure of each donor activity in the SMME sector has largely depended on the strategy used to implement stated objectives, the institutional working environment and competence, the sectoral focus of the project and the donor and recipient capacity to manage the assistance.

The following impact table is meant only to give an idea of the outputs achieved by some donor projects. It should be clear that the table is not meant to be even remotely exhaustive, but merely suggestive. (On the whole donors have not been able to give monitoring and evaluation reports.)

Table 5. Examples of donor projects and their outputs

Donor	Budget	Project	Expected Output	Actual Output	Explanation
Danida	Dkk 200 mil	Promotion of black business & black employment	Strengthen & support SMME; transfer technology & know-how; supporting capital investment; develop institutions that help SMMEs and networking with international enterprises, etc.	BtB programme IBEC NSBC MAC National SMME Conferences	
	Dkk 18.7mil	IBEC	Provide training and establish a financing arm	Development of a financial service with the aid of Khula was a failure and project was abandoned in 1998. 17000 people were trained, and approximately 35 000 jobs created.	
	Dkk 3.2 mil	NSBC	Develop black business chambers	The organisation has since closed down	Corruption within the organisation was partly responsible for the closure.
	Dkk 4.7 mil	National SMME Conference	Develop the SMME policy collectively	3000 participant including the president, direct output was the creation of Khula & Ntsika and the SMME desks in every province & inspired local economic development	
	Dkk 18 mil	MAC programme	Establish 2 MACs which: Provide advisory services to SMMEs –technology needs & create linkages with international companies	Two MAC were successfully established	Replication of the project is being anticipated
	Dkk 159.3 mil	BtB programme	Establish joint venture schemes, Khula guarantee scheme; address generic problems faced by SMMEs eg. Business planning, financial control, technology transfer etc.	20 successful joint ventures established against a target of 50, approximately 1000 jobs to be created & access to finance improved.	
USAID	US\$ 1. 53 mil	Get Ahead Foundation	Support Micro-credit which provide loans through stokvels to survivalist enterprises, create employment, access to finance, increase business profitability etc	Control group has shown an average increase in profit of 43 – 80% has alleviated poverty among the survivalists.	

DFID	Pounds 15 mil	Enterprise Developme nt	Provide training to develop business skills, counseling, enhance NGO capacity in SA and facilitate business collaboration etc	Approximately 60 000 people have been trained & about 50-60% got into business and 20 got employed.	
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7.6.3 Donor reporting

Donors have experienced varying degrees of success and relative failure in the implementation phase in the SMME sector. Most donors unfortunately gave verbal impact assessments, but there are exceptions, such as Danida, who provided a comprehensive report on their activities in this sector. USAID, EU, IFC, Sida, Jica, have also provided some useful documentation we have used to assess the impact of donors in the SMME sector.

In some instances donors have reported that their SMME projects have been outright failures with zero impact. This applies more to donors that have run their projects via government wholesale agencies than to donors that have run their projects independently of these (see section 8.2.3).

Donors have clearly stated that they have not successfully provided adequate training to recipients, the RFIs and SMME service providers. The SMME programme has failed in its most important function of providing access to finance for the historically disadvantaged communities.

The documented information from Danida, USAID, EU, JICA and Sida has shown those there mixed results. There has been recorded successes in some of the individual projects and failure in others. According to Danida, success has been achieved in the following projects: Manufacturing Advisory Centre (MAC), BtB, and failure in the Independent Business Enrichment Centres (IBEC) and National Small Business Centres (NSBC) project. For instance, MAC project main objective was to establish two technical advisory institutions, provide technical assistance to SMMEs, and facilitate networking with local and international service providers. According to the impact assessment report done on behalf of Danida, MAC achieved the following:

Macro level:

- ◆ established successfully the proposed two institutions in Durban and Port Elizabeth,
- ◆ supported the formation of the two MACs and the provided for successful recruitment, training and retention of staff at the centres, and
- ◆ created new jobs

Micro level:

- ◆ enhanced productivity levels and technical change in technology based small enterprises,
- ◆ firms helped are realising increases in sales,
- ◆ firms are experiencing positive impact on material costs, inventory costs capital expenditure, and
- ◆ are able to identify priorities.

The BtB projects according to Danida have managed to address the generic problems experienced by black entrepreneurs. For instance, BtB has achieved the transfer of technical skills in:

- ◆ strategic management
- ◆ marketing
- ◆ business planning
- ◆ financial control and technology to SMMEs
- ◆ created about 1000 new jobs
- ◆ helped to bridge the understanding gap of partner in the joint ventures formed.

Other donors on the basis of Danida success in the joint venture programme have also initiated BtB programmes in the SMME sector in South Africa. Under this project, Danida BtB has forged 20 successful business links between Danish and black owned South African companies. The EU has run a successful BtB programme and the Swedes also.

IBEC project has trained 17 000 persons and created 35 000 jobs. Women constituted 65% of the those trained, and composed 60% of the loans portfolio in 1996. IBEC's attempt to increase access to finance to especially micro lenders was unsuccessful.

NSBC received financial support from Danida but its organisational life was sub-optimal and has since closed down. But before its closure, it was supported with finance enabling it to host two important conferences, which have largely shaped the implementation strategy of the SMME sector.

Like Danida, USAID has also made attempts to assist the RFIs, which service the SMME, particularly those specialising in micro credits. For instance, Get Ahead Foundation has \$1.530 000 to assist in developing micro finance to stokvels has been successful but the rest of assistance given to the RFIs have not been effective in meeting the needs of their perceived clients. A South Africa International business linkage was supported by USAID with the objective of ensuring that it enhanced black entrepreneurs' access to finance. This has not been realised. IMALI, a RFI was also supported by USAID with the hope of broadening and deepening the access of micro enterprise to finance. Again this attempt failed.

The donors have been relatively successful in providing training programmes for people working in the SMME sector in an effort to build capacity. This has been most useful given the dire need to build capacity in the SMME sector. On the other side, donors have spent a lot of money on these training programmes, which have in some instance only benefited a few individuals. It is questionable whether the costs incurred justify the action taken and whether it is an inefficient way of spending much-needed funds.

For instance, most of the money spent on training, which involved travelling overseas, has been used to cover mainly travel cost, accommodation overseas and consultant fees. There is a general feeling that most of the money that has been allocated for training has gone more into administration of the project and that only a small percentage has directly benefited the recipients.

In general, an NGO, CABS, has noted that about 75 % of the donor funds have been used for administration and only 25% have gone directly to recipients. It is problematic to evaluate the effectiveness of training programmes and is outside the mandate of this project. In particular it will be interesting to find out some of the answers to the following questions:

- ◆ What were the specifications of the course?
- ◆ Was the training appropriate to the level of recipients?
- ◆ Was there a benefit to the participants?
- ◆ If there was such a benefit could it be quantified?
- ◆ Has the output of the candidates quantitatively and qualitatively changed?

Most donors have tried to include the recipients in the project so that the ownership of the programme rests more with the local people in comparison to the donors. For instance, the Japanese have commissioned a study in KwaZulu Natal to determine the needs of the province within the context of SMME development. The study will entail interaction and contribution to the local community, which includes resident academics. This is a clear case of demonstrated ownership of the programme. Instead of bringing in their own agendas and imposing on the community, the donors are trying to win the participation of the recipients in determining the form assistance, which the recipients need. Involvement of donors at that stage helps to establish joint ownership and responsibility for the project.

7.6.4 Business growth impact

The impact of the above mentioned programmes on business growth is impossible to determine as there is lack of information providing specific details of the variable used as a proxy to measure the impact on business growth. In fact, most donors have not given an impact assessment but from general observation of reports given verbally and in writing, the growth impact in the SMME sector has been limited especially given the amount of finance invested in the sector. The sector has experienced serious mitigating circumstances such as general lack of capacity pervading the South African economy at the critical level below the middle class. This has been made worse by the lack of capacity in government and its related agencies to implement the strategic objectives.

However, there has been a trend by donors, which clearly demonstrated a shift from the person centred enterprise to invest more in growing concerns. Danida experienced success in the joint venture programme. This success has also led to the replication of the programme by such donors like the EU and Sida.

7.6.5 Person-centred enterprise development impact

Assistance to the SMME sector initially focused on the person centred enterprise. It was hoped that this would alleviate poverty and increase employment opportunities. Impact on the person centred enterprises is invisible because these entrepreneurs invest in their families. In general terms, focus on the sector has been dwindling and reflecting a shift in trend is observable from the South African experience. According to statistical evidence, unemployment

has actually increased since 1994 implying that the SMME sector via person centred development has failed to generate meaningful sustainable employment. Poverty is still a menace to South Africa again reflecting lack of success in the sector.

8 OWNERSHIP IN SMME ODA

There are, then several properties that constitute ODA in the SMME sector. These include the following:

- ◆ Alignment to the strategy
- ◆ Rights to evaluation
- ◆ Control of the disbursements of funds
- ◆ Use of government implementation channels

The question of sufficiency of ownership boils down to efficiency, which properties of ODA in the SMME sector are best under the control of the South African government and which are not best controlled by it.

8.1 ALIGNMENT TO THE STRATEGY

Ownership with respect to the property of strategy alignment is very much in the hands of government. Repeatedly has it been made clear above that donors on the whole have gone the extra mile in winning government approval of their projects, or in channelling their projects through organisations that were established in terms of the strategy. In fact, it seems that donors are more committed to the strategy than is government itself. Even small (in terms of their overall ODA) donors are putting sometimes a large proportion of their ODA into this sector, pursuing objectives (employment creation, poverty alleviation, business growth, etc) which are in line with governments strategy.

If there are any question marks with regard to ownership of this property than it has to do with the bluntness of the strategy itself. The strategy does not differentiate sufficiently between going concerns and person based SMMEs. This lack of preciseness allows for neglect, for instance, of person centred SMMEs while still following the letter of the strategy. Donors thus have a lot of manoeuvrability within the strategy, and in as far as this leads to a loss of precision of their overall SMME objectives, one might be inclined to say that they are too strongly bound to the strategy.

Again, one is not saying that the strategy drift, for instance is bad or unwelcome. Rather the problem is that with the loss of preciseness comes ambiguity of goals, objectives and overall targets, and hence difficulties with assessing impact and evaluating performance. Donors should take the lead in establishing programme categories that correspond to ODA in person centred SMMEs and in going concerns. This departure from the strategy would introduce crispness into ODA in the SMME sector and into debates about it.

8.2 RIGHTS TO EVALUATION

This, then, brings us to a property where South African ownership is not very strong: impact assessment and evaluation. The CSBP struggles, on the whole, to receive impact assessments and evaluation performed of donor projects. Donor impact and evaluation reports that find their way to government are still the exception rather than the rule. This is one area where government ownership of ODA in the SMME sector is inadequate. Greater ownership in this regard might be useful to government in that it might give some pointers as which types of projects work well and which do not. Information so collected could also be disbursed to the rest of the donor community, which surely, can only be of benefit to ODA in the SMME sector.

The above is a statement of principle. Whether or not improved ownership of reporting will achieve anything depends on the capacity of the relevant government authority. Presently there is such a high staff turnover and staff shortage at the CSBP, that there is no guarantee that such reports may not just gather dust.

8.3 USE OF GOVERNMENT IMPLEMENTATION AND FUND-DISBURSEMENT CHANNELS

The somewhat inadequate ownership of the assessment and evaluation properties of ODA in the SMME sector is related to the degree of ownership in terms of the use made of government channels of implementation. A cursory view of the projects suggests that only about a quarter of all projects is channelled through government departments or agencies. Of approximately 160 donor projects that could be classified into the SMME sector, only about 40 go through the government channels. However, in value terms these 40 weigh more heavily. Certainly most of the big European donors have channelled the bulk of their projects through various government Departments and agencies (i.e. GTZ, Danida, Sida, Norad) the big exception having been DFID.

The experience of donors that have used the government agencies extensively suggests that there is in fact too much ownership – if ownership means the degree to which projects are in the control of agencies. These donors repeatedly reported that the agencies lack the capacity to apply to funds allocated by the donors, or they struggle to implement projects successfully which donors finance. If this is the case, then too many projects have moved through the agencies. In this sense there has been not insufficient ownership of ODA, but quite the opposite: too much South African ownership. Unless absorptive capacity of the agencies is being improved, more projects should be reallocated to the donors for implementation. In fact, this is happening in terms of the trends described earlier.

There is, perhaps, a drift in the small business development strategy, even if it is not as yet fully articulated. A routine strategy review has recently been concluded, but apart from personnel at CSBP and the sponsoring donor, stakeholders have not had the opportunity to see the document. Nor have the consultants working on this sector report.

A strategy is similar to law by precedent. It may appear to be relatively fixed, but underneath the appearance of immutable givens, there is surprising leeway for change. In law by precedent much hinges on the interpretation of key concepts. The same applies to the strategy in the SMME sector.

In the first place, SMME as a development sector, and as a concept is sufficiently broad to allow for changing emphases. One thus comes to the point where one has to ask what are the objectives, what does one hope to achieve. It may well be that one hopes to achieve both growth and development, but as is happening now, unless one distinguishes clearly between them and delineates them from one another, development assistance is given up in favour of growth assistance.

Is one to be led by the realities of the sector i.e. development work is difficult, and better results are obtained via growth assistance? That is: does the form (located in SMME viz business sector) determine the substance (the type of work) or should substance determine form?

8.4 TRENDS IN OFFICIAL DEVELOPMENT ASSISTANCE

After three or four years of strategy implementation it seems that we have come to the end of the first phase, in the sense that we have entered into a new phase, a phase of transition. Government, agencies and donor organisations have engaged with the strategy and are assessing their experiences. On all fronts adaptations are taking place in response to these experiences. The responses have to do with the following:

- ◆ Type of SMME focus
- ◆ Channel of delivery
- ◆ Method of interaction
- ◆ Strategy Changes

These responses, if they are not just isolated incidents but sufficiently common, turn into trends. Not all donors and government institutions need to be involved for the trend to exist, and indeed not all are. Nonetheless, our close up look at ODA (and government activities) in this sector has revealed a slow unfolding of events and decisions, which are indicative of a new trend. Important is especially the ever so slight, but perceptible shift in the type of SMMEs that are attracting support.

By necessity, we are generalising here. Some organisations buck the trends (and that is a good thing) that we are describing below. Notwithstanding this, the general direction is visible in outline form and in specifics.

8.5 DONOR TRENDS IN ODA

Given the difficulties donors have experienced in their participation in this sector (detailed in a prior section) it is not surprising that they adapt themselves to the realities. The changes pertain to all aspects listed above.

A lack of delivery can be attributed to one or more of three problems; i) either there is a problem with development activities in that particular SMME sub sector (sub sector specific problem), or ii) there is a problem with the mechanism utilised to deliver on the project. (Delivery problem), or iii) there is a problem with the design of the project (design problem). Sub sector specific problems and delivery problems will be discussed in the following sections. Sub-sector specific problems have led to a drift in support away from person-centred enterprise development activities. Delivery problems have led to the trend where donors are increasingly disinclined to channel their projects through the government implementing agencies. Individual donor project design problems, to the extent that they are not prevalent or systematic, are not within the ambit of this report.

8.5.1 From person-centred SMMEs to going concerns

The definition of SMME as a sector is of course so all inclusive (see introduction which states that 99% of firms fall into this category) that all sorts of activities can still be classified as SMME development. Whatever the trends among donors, there is no change in the underlying philosophy that SMMEs ought to be developed. There is, however, a shift the type of SMME that is finding favour with donors.

In terms of the definition introduced above, we can classify SMME development support into the categories of i) support for going concerns and ii) support for person centred enterprise. In the section on donors we have detailed some of their programmes. Many of the donors have projects that support specifically micro and very small enterprises. Most often, these projects are channelled through or in association with Ntsika and Khula, or alternatively they are Ntsika or Khula projects that are simply financed by the donor funding. The objective of these programmes is income generation and poverty alleviation. The enterprises that benefit from these are essentially person centred enterprises. The same donors may also have projects that are in the form of business to business partnerships, or that help in the expansion of already established enterprises. These projects, in other words, are directed at going concerns.

The experience of the donors that have funded development of both person centred enterprises and going concerns is that supporting the latter has tended to be significantly more successful. A winning horse receives more backing, and the same principle applies to SMME support. On the basis of their experiences these donors shift more of their betting on going concerns and away from person centred enterprises. Successful recipes are often copied, and where one or two donors have booked some success with support for going concerns, there are now many more that try to emulate this success.

There are, of course, also donors that have from the outset supported going concerns, but not person centred enterprises. And other donors have initially not participated in this sector, but then gave it a shot at person centred enterprise development. When these burned their hands at this, they then ditched the sector altogether. The overall net result is that support for going concern business development is increasing while support for person centred development support is decreasing.

To support the conclusion that this is a trend, we cite here a few examples. DANIDA and its business to business programme have been successful and receive internal backing, in counter-distinction to its other SMME project. NORAD too has gone the direction of going concern support, and the activities directed through the Norwegian Trade Council are perceived more successful than the support for person centred SMMEs. Sweden has lately established the Sweden South Africa Business Partnership that targets interaction with going concerns. AUSAID and UNDP have abandoned their SMME support, which was person centred SMME support. Instead, SMME development is now perceived as a fortunate by-product of poverty alleviating activities.

USAID never showed interest in person centred SMMEs. JICA has never had faith in South Africa's SMMEs generally, doubting, quite rightly, the capacity. It is waiting for the correct conditions to materialise and then it will put its money behind going concerns linked if possible to big business. The European Union is investigating the possibility of establishing an equity or venture capital fund, which, most likely, targets going concerns. Such donor funded venture capital funds already exist and are attracting increasing attention. There are also donor funded venture capital support organisations that have booked some success and are likely to grow in future.

8.5.2 Poverty alleviation or growth

This trend does not imply that there is a wholesale abandonment of person centred SMMEs. Some donors have been successful with these and continue their projects. Others may have been less successful, but are developing new designs to support these SMMEs in the future. There are donors that continue with their projects as best as they can, and some have only launched their involvement in support for these SMMEs. There are also donors that are very critical of this unfolding trend, when pointed out to them. What cannot be disputed is that this is the trend.

At the workshop, the existence of this trend was put on the table by the consultants. Donors were not surprised by it, quite simply, the information leading up to this conclusion had mostly been obtained from the donors themselves. It evoked a lot of debate, but the debate was not about the existence, rather it was about the desirability of it. It naturally also led to some soul searching, where donors were questioning their involvement in the sector, and whether that involvement is in the form business growth or in the form of poverty alleviation.

8.5.3 Method of engagement: channel delivery

The second trend to be described here is the trend unfolding with respect to the channel of engagement or delivery of projects. Like the trend pertaining to the type of SMME that finds favour, so too this second trend is the result of the lack of impact or results that have been achieved so far.

Donors have generally operated in one of two ways in getting their projects to the final beneficiaries. Either they would make funds available to the government-implementing agents, in particular Ntsika and Khula, for these to

then effect the projects desired by the donors, or the donors would institute and run the projects independently of the Ntsika and Khula. In the second case, donors would nonetheless have consulted with the relevant government organs (i.e., DTI, CSBP, Ntsika, Khula) to ensure that the projects are aligned with the government strategy and that there is no duplication and the like.

DFID is an exemplary case of a donor that does not generally run its project through Ntsika or Khula. Instead it has established its own training and IT centres, or works with tertiary institutions and other partners to implement its programmes. Each project would have been devised with the approval and involvement of the CSBP or other relevant government institutions. According to its own evaluation, DFID believes that its projects have been very successful. It should be noted that the projects referred to are development projects that target the lower end of the SMME sector, i.e. they target mostly person-centred SMMEs. DFID is planning a project to assist Ntsika to develop its capacity of associated intermediaries (i.e. LBSCs, MACs), but this is the exception to its standard channel of delivery.

Most other donors have channelled the majority of their person-based enterprise development projects through Ntsika or Khula. Just to name a few: GTZ, DANIDA, UNDP, NORAD, SIDA, EU, AusAID. Some of the donors' projects are still in their early phases, but for those projects that have run for a while, the assessment is, on the whole, not nearly as positive as DFID's assessment of its projects. In these instances, donors may well acknowledge their own shortcomings, but parts of the problem are the government implementing agencies. The reasons the donors cite for the problems they attribute to the agencies vary: it can be inadequate organisational design, lack of capacity, lack of relevant experience, insufficient clarity of the rationale for their involvement, or too restrictive strategy.

The manner in which donors respond to these difficulties associated with their involvement with the implementing agencies differs from case to case with regard to the details. The overall trend, however, is one of turning away from the implementing agencies, either

- ◆ to follow the example of DFID and rely on their own channels of implementation,
- ◆ to leave the SMME sector altogether,
- ◆ to concentrate increasingly on going concerns at the expense of person-based enterprises (as already described).

In some instances, these responses have not yet been effected or formally decided on. Nonetheless, the trend of winding down involvement with the implementing agencies is a reality and we shall see more of it in the short-term. Those donors that remain in the sector shall increasingly channel project delivery through their own instituted mechanisms. The trend, in other words, is towards a more direct route of delivery, by-passing the wholesale implementing agencies.

To illustrate the difficulties experienced by the donors in their involvement with the implementing agencies, some data may serve well. Below are some projects that were channelled through Ntsika and Khula. In each case it can be

seen that relatively small proportions of committed funds had actually been applied (even if time period had been long), or the projects had been discontinued, or never got off the ground, before disbursements had been made. Even if there may be explanations for the termination, etc. at the individual project level, the few cases here are suggestive of a trend, namely the lack of absorptive capacity in the agencies. (The values quoted are mostly those provided by the data team).

Table 6: Donor budget, project and disbursement

Donor	Project	Date	Budget	Applied
GTZ	Assistance to Ntsika/ Small Bus Promotion	5/97 – 4/2000	8,671,00	1,221,000
GTZ	CEFE, latterly with Ntsika	5/94 – 12/2000	18,461,000	12,740,000
GTZ	Assistance to ISA	2/98 – 1/01	15,940,000	5,004,000
GTZ	TIPS support (DTI related)	6/98 – 12/00	6,000,000	2,000,00
Norad	Planned assistance to Ntsika			Never got off the ground
AusAid	SOMED in conjunction with Khula	95 – 8/99	5,250,000	0 discontinued
UNDP	Local Industrial Park w. Ntsika	2/97 – 12/97	804,000	At the end of UNDPs involved in the sector,
UNDP	SMME tech support prog w. Ntsika	11/95 – 11/98	1,394,929	There is still an unspend amount of R 2million which was earmarked for Ntsika.
UNDP	Nat. Strategy for the development (with Ntsika)	4/97 – 4/00	14,797,055	
Danida	IBEC, with Khula			1/3 of funds
EU	Trade & Invest Development Programme, with Ntsika	2/97- 2/00 extended to 4/02	47,605,000	18,044,00

To put it as clearly as possible, I might say that donors adapt to the difficulties experienced, either a) by avoiding the really difficult development task, or b) by avoiding problematic interaction with the implementing agencies.

As these changes are taking place, they are likely to reveal the true nature of the co-operation between the South African government and the donor community. There has been too much ownership, too much alignment.

8.5.4 Reasons for change

Where does change come from? On the one hand, the changes are taking place because of hitherto relatively ineffective implementing agencies and the slow implementation of the strategy. On the other hand, the government's GEAR policy has been suggestive that government's top priority of reconstruction and development has been replaced by business advancement. Another possible reason for the change, at least for some donors, may be that

their governments are keen to see South Africa emerge as a business partner rather than a country in need of aid.

8.5.5 Donor-to-donor interaction

There is also a change in the type of interaction amongst donors. Due to the insufficient co-ordination activity of the CSBP, donors have decided to meet each other on their own accord. This is particularly true for the agencies of countries that are EU members. Thus, the EU, GTZ, Sida, DFID, Danida, and others have started to meet on a regular basis.

These meetings are not intended to compete with or replace the annual meetings organised by the CSBP. Rather these meetings serve a function which donors would prefer the numerous CSBP meetings to perform; the meetings serve to analyse problems in the sector, identify gaps, avoid duplication of activities, etc.

The meetings are an example of donor adaptation to the difficulties they experience in the sector. There obviously is a strong need for such meetings, else it is unlikely that donors would meet in this manner, but since the CSBP cannot presently cater for this need, donors have found an alternative, second best route.

8.6 GOVERNMENT TRENDS IN ODA

8.6.1 From person-centred SMMEs to going concerns

Government, and its implementing agencies, also follows some of the trends described above. Most significantly, it follows the trend according to which the SMME category of going concerns is increasingly finding favour over person-based SMMEs.

The trend can be clearly discerned in the activities of Khula. A greater proportion of its funds is being reserved for the loan guarantee scheme than initially determined. At the outset of its operations, it was determined that one third of funds should be dedicated to the guarantee scheme, and two thirds for micro finance.

The guarantee scheme targets going concerns rather than person centred SMMEs, in that it guarantees loans made by banks but the banks (who are left with a 20% non guaranteed portion) employ standard criteria to identify bankable enterprises. Loan amounts up to R1mil (R600,000 for firms, which are not from historically disadvantaged communities) are being guaranteed. Micro finance, on the other hand, serves the needs mostly of person based SMMEs. The difficulties Khula has had with micro finance have forced it to revise the proportions. Now the split is about one half micro finance and one half loan guarantee.

Also suggestive of the trend is Khula's renewed foray into venture capital. Three regional venture capital funds are planned, the first of which (for the Western, Northern, and Eastern Cape) is about to begin operations. For these Khula

hopes to get partners from the donor community or the private sector, but it will itself invest at least R20mil into each of these, and may be willing to top them up as depending on requirements to a maximum of R50mil each. The funds will be run by independent venture capital managers, and the investment range shall be from about R250,000 to R2mil per investment. The purpose is to help in the development and growth of promising firms.

The nature of venture capital investment is, of course, such that it targets going concerns rather than person centred SMMEs. Hence this initiative serves as a further example that Khula's interests are leaning increasingly to going concern enterprises.

The figures by Khula bear out the argument. Since the start of its operations four years ago Khula Credit issued 3656 guarantees, but it seems at an accelerating rate, for 43% of these (1566) were made in the 1999/00 financial year alone. The growth in business lending through the RFI has also been high, but according to expectations it will, or already has, level off. In fact, of the existing 70 odd RFIs and MCOs no more than 20 are expected to survive in the medium term.

The volume of business handled by the surviving organisations will increase, but the sheer reduction in numbers may mean that penetration will decrease and, accordingly, that business loan growth may become negative. Khula chairperson, Gideon Sam, is concerned about the impact Khula has on those who are economically active but described as unemployed. He says the impact is 'far too small', and he continues: 'In the light of our experience of setting up and building Khula, I have come to the belief that the original strategy was too limiting. Only a brave and massive attack will bring about the rewards that we seek and that our people deserve'¹¹. Despite the chairperson's call to more incisive help for person-centred businesses, Khula is actually moving in the other direction.

Further evidence that going concerns are receiving increasing attention from Khula is its involvement in the Emerging Enterprise Zone (EEZ) at the JSE. It has also adopted a new and additional objective: 'To expand the number of small and medium enterprises listed on the Johannesburg Stock Exchange'¹². In addition it has also acceded to a request by the Department of Land Affairs (DFA) to partner the DFA as administrator of the Land Reform Credit Facility, which helps disadvantaged South Africans to become owners of commercial farms. Thus far 17 projects at R62mil have been approved. These projects are clearly designed as going concerns. One may also mention the Khula's mentorship scheme. Four mentorship centres have been established. Together these have referred 150 applicants to banks, 60 of whom were successful with a total R10mil loans earmarked.

In summary, the major developments initiated by Khula are designed to assist going concerns types of enterprises. As a result of problems with disbursement of funds and inability of both banks and RFIs to service the micro enterprise, Khula has been forced to focus on the small to medium enterprise subsector.

¹¹ Khula Enterprise Finance Ltd (1999) *Annual Report 1998/99*, pp 4-5

¹² Department of Finance (2000) *Budget 2000*

While Khula has used its own reason to justify its change in focus it has basically slipped backwards and has not effectively contributed to the perceived economic empowerment of black owned SMMEs in South Africa. The outlook for person centred development activities are thus rather dismal. The Khula start programme, under which 22 Micro Credit Outlets (MCOs) have been established, is Khula's initiative to improve its micro finance delivery especially to women and in rural areas. However 'Long-term sustainability of the MCOs remains an on-going challenge'¹³. Equally so, Khula's quarterly report describes as a challenge the sustainability of RFIs.

Khula's current focus on growing concerns has not marked a watershed in the South African financial sector that has been incompetent in its handling of SMMEs especially those owned by historically disadvantaged communities. This change in focus has been inline with the government shift from RDP to GEAR. This paradigm shift has been disseminated in all the sectors of the economy. In a way, the action of Khula and related donors has been in alignment with the South African economic policies.

It should be noted that Khula views the various types of support, i.e. to person centred SMMEs via RFI, to going concerns via the Credit Guarantee Schemes, and to growing businesses via the venture capital funds, as an integrated approach, in the sense that any start-up business may be able to find Khula support throughout its upward move.

The approach taken by Khula finds support at the CSBP. The line taken there is that if a SMME cannot survive even with the support of Khula or Ntsika, then it does not make sense to try and support it. A business enterprise must be feasible before it should be supported. In terms of economic logic one cannot really object to the argument. The economic reasoning is applied to individual SMMEs that are not feasible. The implications, however, are meant to be wider. The individual SMMEs referred to tend to be individual person centred SMMEs. The argument can easily be generalised to something like, why support a group or category of SMMEs that are not feasible. And this seems to be the crucial meaning at the CSBP: why put resources in a type of SMME that stands little chance of economic success? Why, in other words, support person centred SMMEs?

8.6.2 Delivery channel

Amongst donors the trend is towards committing fewer of its funds through the government implementing agencies. This trend is not necessarily frowned upon at the CSBP. It is aware, for instance, of all the DFID projects and that these mostly bypass the wholesale agencies.

Nonetheless the CSBP supports these in principle and spirit. In fact, this method of implementing donor projects has the distinct advantage of not burdening Ntsika, for instance, which is already struggling through insufficient capacity. It would not make sense to load it with additional projects that could be better implemented by the donors and its partners.

¹³ Khula Enterprise Finance Ltd (1999) Second Quarter Report for the Financial Year 1999-2000

The trend towards more direct implementation of projects is itself also found amongst the implementing wholesale agencies. Khula, for instance, has started its own non-financial assistance scheme (the mentorship programme) in the second half of 1999. According to the strategy, Ntsika should do this. Of course Khula will cede the programme to Ntsika if the latter wants to take it on at a later stage, but the case illustrates that more direct delivery approaches are often preferred by the government agencies.

More significant still, in terms of the trend towards more direct delivery, are some of the other activities by Ntsika and Khula. Both have interacted with various SMMEs on a direct basis, either in the provision of financial and or non-financial services. Thus, in these instances, instead of acting as a wholesale service provider they act as retail service providers. These are, of course, the exception rather than the rule, but they serve to illustrate that wholesale delivery activities are replaced by retail activities.

9 RECOMMENDATIONS

Our recommendations on the way forward for donors are based on the weaknesses, difficulties and trends identified above, and they also take into account the changes which are unfolding at the DTI.

9.1 CO-ORDINATION

The co-ordination problem between donors and government must be addressed as a joint effort between donors and government.

The *ad hoc* and piecemeal informal approach adopted by donors is not good enough. The DTI (the CSBP in particular) must take the lead in this respect, but donors must also insist on it. DTI's lead must be restricted to the logistics of such meetings, but ought not to include the agenda setting.

In the past the DTI has misunderstood the donor expectations of joint meetings. Perhaps the donors should be given the opportunity to set the agenda, but, of course, both sides will have to be flexible in this regard. Meetings do not even have to be held at DTI offices, but they may revolve from donor to donor. Ntsika and Khula must participate at these meetings. Khula has lately resurrected its donor forum. (The EU technical adviser to Khula has been instrumental in this regard.) The air has been cleared at that forum meeting, and now the momentum must be maintained.

9.2 PROGRAMME DATABASE

Co-ordinating activities should include the establishment of a database that captures all donor programmes and projects relevant to SMME development. That database should be available to all parties concerned. Apart from the usual information (amount, time period, target beneficiary, implementing agency, etc.) the database should also contain brief assessments so that donors can learn from others' experiences. Programme impact reporting should be compulsory for the database.

9.3 SPECIFYING OBJECTIVE OF ASSISTANCE AND TYPE OF TARGET ENTERPRISE

In the context of improved co-ordination and the establishment of a database, donors should also specify very clearly whether their projects have a poverty alleviation focus or not. It should also always be made clear what type of entity is the final beneficiary – a going concern or just an individual engaged in business activities.

Some of the difficulties of the SMME strategy are the consequences of lumping vastly divergent enterprise into the same category. Sooner or later the Act may have to be amended in order to address these difficulties. Such an amended Act will then spell out variations of the strategy as it pertains to the different types of enterprises.

Such amendments can be avoided if the implementing organisations can devise adequate and consistent means to separate out the needs of different enterprise types. In either case, donors might as well start right away to clearly delineate between poverty alleviation and business growth projects on the one hand, and delineate support for going concerns and person-based enterprises on the other. (The terminology can of course differ, i.e. it may still be in terms of micro versus small and medium enterprise.) This recommendation will supply a mechanism that will help ensure that poverty alleviation, for instance, will not be unduly neglected.

9.4 CLOSER CO-OPERATION WITH PROVINCIAL GOVERNMENT

Provincial governments have not been sufficiently integrated into ODA activities. Provincial SMME desk have the detailed knowledge that is often missing at the level of central government departments and its agencies. Closer co-operation between donors and provincial government is required to derive the benefit of this more detailed knowledge. The benefits from decentralisation should not be underestimated and provincial governments are keen to see it happen.

9.5 LOCAL GOVERNMENT AND LOCAL ECONOMIC DEVELOPMENT

The thrust towards decentralisation should also be extended to increased donor involvement with local authorities. This should happen in the context of local economic development. So much is afoot in terms of local economic development, yet hardly any donor is engaging in it. The DTI is in the process of restructuring, where such restructuring is likely to lead to a stronger presence of the DTI in a number of municipalities. The DTI, in other words, is going to be an instrumental part of local economic development initiatives. Donors, to the extent that they have expertise and experience in local economic development, should aid in this respect.

9.6 REVERSE THE TREND AWAY FROM GOVERNMENT AGENCIES

We have detailed the trend away from donor involvement with government agencies. Past experiences may have justified this, but from a forward point of view, donors may have to make a clinical assessment of what the agencies can do in the future. Two things must be considered in this respect. First, the agencies are getting to the point where donors thought they were (or should have been) three years ago. In some areas the capacity has finally been put into place, and in those areas the agencies may now be ready to deliver.

Secondly, the DTI (and the agencies) is getting its house in order. In the restructuring process the DTI will establish SMME development as one of its core activities, and all directorates must continually have SMME development implications in mind. In addition, more funds will go the way of SMME development. This should not be taken as a signal that donor involvement should be reduced; it is a matter of the DTI putting its money where its mouth is.

As regards the future of Khula, it is clear that lessons have been learned from the past. Three different programmes are in place (or soon to be) to cater for the financial needs of low, middle and high end spectrum of SMMEs (MFIs, Credit Guarantees, and Equity capital). In particular, the creation of the KhulasStart Apex may do a lot to remedy the problems experienced with micro lending, and donor contribution in this regard would surely be welcome. There are also obvious opportunities for involvement with the well thought out venture or equity capital funds, which are in the process of being launched. There are also success stories at Ntsika, such as the TAC programme.

We are thus recommending that the trend away from involvement with government agencies should not necessarily continue. Nonetheless it should be clear that any future additional involvement with the agencies must be thoroughly considered, and donors must participate in areas where agencies show strength.

9.7 SMME ADVOCACY

SMME advocacy is in a state of disarray. An obvious example thereof has been the closure of NSBC, but it holds true for small business advocacy in general – at local, provincial, national and government level. Small business needs a voice, and it is high time that a donor takes a lead in efforts to establish a coherent voice. Even before the closure of the NSBC only one donor seems to have been operating in this field. The DTI will surely also want to resurrect this third component of SMME support, even if it is in the form of a body that is not inside the fold of the DTI.

9.8 INTEGRATED SMME ASSISTANCE

Perhaps an advocacy organisation could start to make noise about the low level of black SMME participation in filling government procurement contracts. R60 billion worth of government contracts (at all levels, but excluding parastatals)

are awarded annually. Government procurement demand constitutes an important market. This is significant since access to markets (and demand for SMME output) is one of the biggest constraints facing SMMEs. BtB projects tend to be successful because they address not only financial and capacity issues, but also help in establishing a market for the SMMEs. These are integrated projects. This should be the goal for all SMME assistance.

Training and financial support for SMMEs is pointless if there is no demand for the output of the enterprise, but if there is a contract or a ready market for the enterprise, then training and financial packages can be tailor made to help the enterprise meet its obligation.

We recommend thus that donors research the possibility of an integrated SMME support applied not only to BtB projects, but applied generally to all forms SMME support. Procurement requirements (not just government but also big business) may hold the key to the success of such an approach. President Mbeki's repeated call to help create and advance co-operatives (agricultural or otherwise) might be accommodated in this plan.

10 APPENDIX: PROVINCIAL REPORTS

10.1 EASTERN CAPE

10.1.1 Institutions represented in the interviews:

SMME Desk Officials
Department of Economic Affairs Officials
Department of Public Works Officials
Business Partners
FABCOS
Department of Labour
Eastern Cape Development Corporation (ECDC)
SMME Federation

10.1.2 Relationship with donors

Donors do not deal directly with provincial officials. There is very little co-ordination between provincial government officials and the donors. Donors work directly with fund recipients or the NGOs. Officials were eager to work and assist the donor community in their initiatives. Provincial officials feel that working with donors would provide them with skills and capacity that will be necessary for long term sustainability of the projects and SMMEs initiatives

According to provincial officials, there are too many middlemen using donor funding in the course of implementing projects. Donors often hire consultants from donor countries rather than local consultants and this is very expensive. Above all it does not improve local capacity which is critical for long term sustainability of the projects. Secondly, government officials are of the view that the NGOs are often bloated with unnecessary employees and contrary to the perception that NGOs are not corrupt, this may not necessary be correct.

ECDC does not get donor funds. In the last 2 years ECDC has moved from a loss close to 100 million Rands in 1997 to a break-even point having retrenched over 50% of the workforce. Officials of the ECDC feel that it is a good conduit for development of SMMEs and would want to have a working relationship with donor community. According to the ECDC, SMME strategy should be implemented with less bureaucratic bottlenecks and conditions that lender the targeted subjects frustrated and disinterested. According to the he ECDC officials, there is role for private sector in SMME. At minimum exposure and training by private sector would empower SMMEs. Thus, donors should see what role they could could undertake to bring private sector in the SMMEs

10.1.3 Relationship with Khula and Ntsika

While donors are putting funds into Khula and Ntsika, at provincial level, initiatives from these institutions are deserving. Often Khula and Ntsika undertake some training and research but there is hardly any feedback from

them. Tender procedures are too complex for SMMEs to implement and they are not user friendly. Procurement policy is also a snag and there is too little affirmative action. Provincial officials suggest that Ntsika training focus more intensively in simplifying the tender procedures. There are few tender advisory centres but only one is competent to manage TAC. Khula guaranteed schemes are quite problematic. The use of commercial banks and rules for loans is retrogressive. They argued that Khula is benefiting the previously advantaged and emerging elitists.

There is a Provincial Act aimed at research on policy and statistics. The overall objective is to generate a database and a monitoring plan for the SMMEs. A paper to include NGOs and all stakeholders on SMME will be ready by the end of the year.

10.1.4 Co-ordination

Co-ordination of SMME in the province is not optimal. There are too many SMMEs initiatives in the province. Each ministry has its own SMME initiative and this makes accountability and co-ordination by the SMME desk officials difficult. Again this leads to duplication of services and creates an unhealthy competition. They cited an SMME recipient who had received assistance from two departments and ECDC. There is a need for a provincial co-ordinating team. There is no intermediary between officials and SMME. According to the provincial officers, black economic empowerment is a buzzword – without any substance. There are no statistics that would assist in validation.

According to the provincial officials, gender policy is not well-co-ordinated. While all departments are supposed to have a policy on gender, many departments are not implementing the policy. Department of Public Works has a gender policy (women managed by women) which is very successful. The Ministry of Economic Affairs does not have a gender policy. The ECDC has gender policy targeting women and youth. The

ECDC supports government initiative on gender. Their priority is women and children. They are also very sensitive to the environment.

10.1.5 Capacity building

Provincial officials are in agreement that there has been enough efforts geared to capacity building. Donors, NGOs with donor funding and institutions like Ntsika have trained many stakeholders. However, the success of the training can only be measured through projects evaluation. Again this can only be done if there are funds deployed. Only when stakeholders in SMME have had a chance to practice what they have learnt, impact on capacity would not be assessable. The training strategy should be effectively managed. There is a need for a one-stop shop rather than too many offices all over.

10.1.6 Recommendations

A more collaborative effort ought to be aimed at the SMME initiatives. According to provincial officials the high rate of unemployment could be reduced if all the

stakeholders work together. Donors should work with government officials and equally important, their approach should ensure that every rand investment have the greatest return possible.

From school level youth should be taught applied business skills and encouraged to be business oriented. Formal job training should include entrepreneurship skills. Donor funding should go to capacity building to encourage entrepreneurship. Government through restructured institutions like Khula should be used to projects. Tourism can be used as a key to growth and job creation. Database on skills and opportunities could be instituted. SMME delivery system should be improved.

An effective body of SMME, may it be a commission or another body need to be established with powers to manage and co-ordinate all inter-department SMME initiatives. Such a body would cut down duplication and competition at provincial level. Incentives to attract SMMEs should be created. Proper communication between donors (via a database) on what is happening should be encouraged. Donors should not all be concentrated in well-developed areas of Pretoria/Johannesburg. SMMEs should be able to interact directly with donor communities to cut down bureaucracies.

10.2 KWAZULU-NATAL

10.2.1 Officials interviewed:

SMME Desk Officials
MEC : Economic Affairs
Department of Agriculture
Business Support Centre
Ithala KFC
Dumac

10.2.2 Relationship with donors

According to provincial government officials, the donors supporting SMME initiatives in the province are European Union, JICA, USAID, and IDRC. However, there is very little co-ordination between SMME office and donors. Donors seldom inform the provincial officials or seek their advice. Only JICA approached them at some stage.

The MEC Economics was keen to find out how donors identify their area of operation and wondered whether there is any formula that DTI may have that guide donors on how to despatch the funding. The MEC feels the benefit from the donors is not significantly relative to the total volume of donor funds coming to South Africa since new political dispensation. He would want to link up with JICA as they work with given rules. Donor funding should not be treated as a handout. A strategic partnership/equity arrangement with donors would help to empower the communities.

Donors are involved in agriculture, education and training. Donors may support a project directly or use NGOs for implementing the projects. Ithala Development Corporation hardly receives any support from donors.

10.2.3 Relationship with Khula and Ntsika

In light of the fact that these are two institutions earmarked to stream roll funding and training, and hence receive government and donor funding provincial officials are of the opinion that they effort is less than optimal. Khula has not managed to establish itself – it is literally unknown. While Khula is a wholesaler financing institutions, many micro finance institutions have not been able to channel funds from Khula to SMMEs. With all funds available to Khula, officials feel that Khula should move from a wholesaler to retail financing. Secondly the criteria applied should not necessary be strictly be commercial banking in design.

Surely, officials argue that given the sizes of SMME and lack of economies of scale, financing with similar conditions like commercial banks is not going to lead to a vibrant SMME sector. Officials argue that Khula is too detached and their corporate culture is far removed. Khula should also be used to strengthen saving and accountable approach to businesses. According to the officials there is no known Khula strategy, nor any brochures, or briefing on what they do.

Ithala made a loan of R50mil at a time when interest rate were very high of which they have drawn 50%. They are renegotiating a rate for the other 50%. People on the ground are unhappy about Khula. Khula guarantee scheme has not produced any success stories and should be revisited.

Provincial officials are aware of the challenges faced by Khula. There is a poor business culture and many recipients treat the funds as entitlement. However, Ithala has had success stories over the years and if the efforts were collaborated the default rate would be lowered. Again there is a need for donor funding which may be channelled through Khula, government and NGO to have an effective co-ordination and accountability.

Ntsika has had a positive contribution in capacity building. However, there is little or no feedback that Ntsika provides after training. Secondly, the timing of responses and communication is often belated and therefore stakeholders loose interest. Officials feel that for the sake of efficiency and cost savings, provincial officials should empowered with enough capacity to disseminate the relevant needs in the communities. In some instances, provincial officials feel that Ntsika is a stumbling block, causing delays and often demanding that the thinking should be national rather than provincially. They argue that there are some special needs and demands for provinces that may demand provincial evaluation. The bureaucracy in Ntsika and Khula is also a bottleneck.

10.2.4 Co-ordination

Co-ordination of donor funding in the SMME sector is dismay. Officials feel that on average donors operate without consultation with provincial officials. This makes it difficult for government officials to monitor and manage the project.

According to government officials, SMME started small with grass roots involvement in 1995. Due to poor co-ordination it took long to adapt to SMME strategy.

Local Economic Development emphasises grass roots and often allows SMMEs to take lead. Such an approach is seen to be effective and to cut down on top down approach to development initiatives. Secondly it allows for effective deployment of resources and cuts down unnecessary competition for the limited resources among black businesses. Therefore and inevitably the donors, NGOs and government should collaborate and use an effective strategy that will lead to long run sustainability of SMMEs. Co-ordination should also bring together all role players that will complement national strategy with provincial unique needs. Strategic sectors with higher probability of success and long run sustainability should be identified and well co-ordinated.

Workshops and meetings should be well planned and implemented to ensure promptness and effective time management. Duplication of issues should be avoided and that can only be achieved with a coherent and a good co-ordination strategy. Service Providers Forum meetings should be held quarterly in regional meetings. Performance Monitoring and Evaluation should be clear to all the stakeholders.

10.2.5 Capacity building

Provincial officials are of the opinion that communities have had enough training and there is a need to test their capacity to undertake projects. Indeed like in other provinces, funds should be availed for projects. There was a feeling that “experience is the best teacher”. Secondly and as alluded earlier, capacity should be developed effectively with the officials who will be entrusted to monitor and implement the projects. Donor funding should be seen to impact not only to NGOs but also to the provincial and local government officials.

10.2.6 Recommendations

The MEC especially wishes to see balances drawn between Eco Greene, which will address the social economic issues. Money should move from consumption to investment spending. There should be a strategic partnership/equity arrangement to empower the communities, using capital together with skills as a key. According to him, there seems to be no correlation between growth and job creation. A suggestion was made that a balance be sought between capital intensive and labour intensive with latter seen as the most effective in job creation.

For SMMEs to be sustainable/complementary there should be collaboration between SMME and private sector, demand driven – nature progression. Effective linkages between SMMEs and private sectors should be created. Being the open economy, and given the strategic position, we have to grow clothing sector, for example, to compete with the Chinese. We need to grow our own sector. An emphasis should be on SMMEs with a graduation to big conglomerate. Grass level initiatives with an upward mobility should drive the

SMME strategy. Given experience from donor communities and finances al that they bring they can make a difference in the province.

The Department of Agriculture thinks the solution would be to analyse social needs and involve committees to raise their concerns on how to best utilize donor funds, with the assistance of government aids agency. Advise to communities on rural marketing, training, and challenges will enhance their chances of success. The community should own projects. The new initiative by the department of agriculture is to look at new technologies that are available; organic ground vegetable is top export commodity; organisations are sensitised to rural needs (management); and bring together experts on agriculture.

10.3 NORTHERN PROVINCE

10.3.1 Officials interviewed:

SMME Desk Officials

MEC: Finance

SMME Northern Province Support Agency

Northern Province Development Corporation

EDA Trust

NGOs Interviewed:

Mamodi Poultry Project

10.3.2 Relationship with donors

There is no relationship between provincial government officials and the donors. Surprisingly the SMME offices are the first offices seen, after one drives out of the airport. While there is a hive of activities with donor funding, hardly any of the officials are briefed or informed about the activities in the province. SMME officials often feel alienated and dis-empowered as far project management and evaluations are concerned. In addition, any attempt to establish any database is hindered partly because officials are seen by project managers and recipients of donor funds to be interfering.

Donors have their own areas of focus and do not respect provincial imperatives, nor relate to provincial research. Attempts by provincial officers to visit donors in order to synergise were fruitless. Official requests were never responded to and neither were they explained as to why. According to the officials un-co-ordinated efforts are not in the long term an effective way of addressing the problem of unemployment in the province. Secondly, the donors' teams of consultants are costly and if they do not empower the officials, how will the long-term sustainability be ensured?

10.3.3 Relation with Khula and Ntsika

Both Khula and Ntsika are well represented in the province. Training of government officials by Ntsika have been positive although time consuming and at times repetitive. Khula and Northern Province Development Corporation had a good working relationship. However, the MEC of Economic Affairs feels that

Khula as a wholesaler financial could do better by simplifying the requirements and may be training the micro financing institutions. Overall the provincial officers and other stakeholders in the province are happy with Ntsika's efforts.

10.3.4 Co-ordination

Co-ordination between donors and officials is non-existent. However donors work closely with the NGOs. According to the officials the province has developed an SMME strategy in tandem with the national strategy. They feel that if the donor community and the NGOs were to collaborate with the provincial government, resources would be effectively deployed to improve the lives of the many poor families.

Provincial government envisions establishment of an SMME Northern Province Support Agency to serve as a hub with information filtering to LBSC. It is expected that the agency will co-ordinate the SMME and recommend the best approaches that would enhance the rate of SMME delivery. It would also assist in the implementation of provincial SMME strategy. In addition, it will assist in identifying and creation of retail financial intermediaries in collaboration with Khula. The agency will also assist in business networking where service providers will be brought together to cut cost and assist potential tender applicants.

10.3.5 Capacity building

Officials feel that enough capacity has been generated to undertake projects. While capacity building is an on-going process, the training and workshops should be complemented with projects. Again the only way to test the outcome of the capacity is through project management and implementation. There is a perception in the province that the stakeholders have outgrown the learning curve.

10.3.6 Recommendations

The way forward is to bring the donors, government officials and NGOs to agree on a cost saving and optimal approach to deployment of the very scarce resources. Both the donors and government officials should complement each other. While NGOs are important stakeholders ultimately the government will have to be accountable to the people. Therefore, the government will have to device a mechanism to ensure a smooth working environment with the donors and other stakeholders. They have targeted assistance programmes on youth, women and disabled. There is no policy on environment embedded in SMMEs but they collaborate with the Dept of Environment.