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Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

South Africa's “scaling up” meets the challenge

Presentation by Dr Thami Mazwai to ICSB Conference 2017

Background to post apartheid small business strategy in RSA



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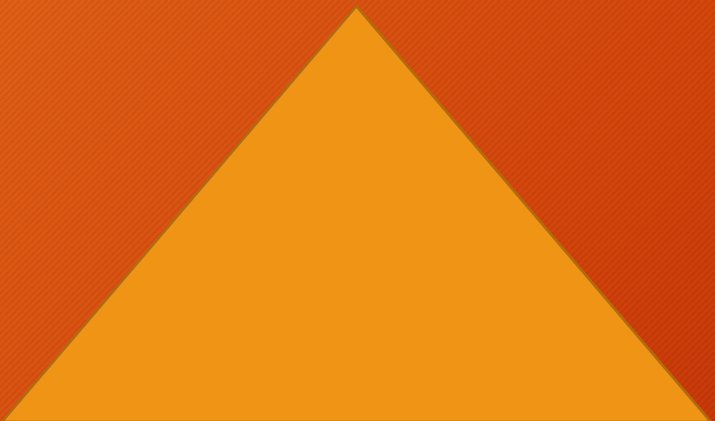
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South Africa is characterised by a highly dualistic economy, with a sophisticated formal sector of numerous globally-competitive multinational companies, paralleled to a population where up to 40% are unemployed and dependant on welfare grants and the informal sector to survive.

The RSA business landscape

Normal pyramid in most countries

- Business pyramid with a broad spread of mid sized businesses



Flat pyramid in South Africa and rest of continent

- The base is wider and narrower at the top denoting highly concentrated economy with limited medium sized businesses



Background to Post Apartheid strategy

- African National Congress (Ruling Party) inherited almost bankrupt economy, severe poverty, unemployment and high levels of inequality in black community
- Highly concentrated economy firmly in white hands
- Blacks living in rural areas and informal settlements and more of cheap labour
- Mandela conference on small business in 1995

Features of emerging policy

Small business was a unit of the Department of Trade and Industry and, secondly, the policy that emerged was based more on international best practice and not necessarily linked to country's realities

- Greater focus on getting more people to become entrepreneurs resulting in a deluge of start-ups
- First Small Business Act in RSA and subsequent amendments
- Provision of Business Development Services (BDS)

Emergence of focused DSBD

The creation of DSBD was a focused intervention to eliminate fragmentation by integrating the programmes within the public sector across all spheres to:

- Develop a focussed industry support that target specific sectors.
- Eliminate or reduce duplication
- Achieve optimal use of existing resources
- Maximise the impact of small business development programmes
- Achieve a coherent and comprehensive response to the needs, capacities and opportunities of the small business sector
- Ensure the roles of all stakeholders are well defined

Refocusing small business development

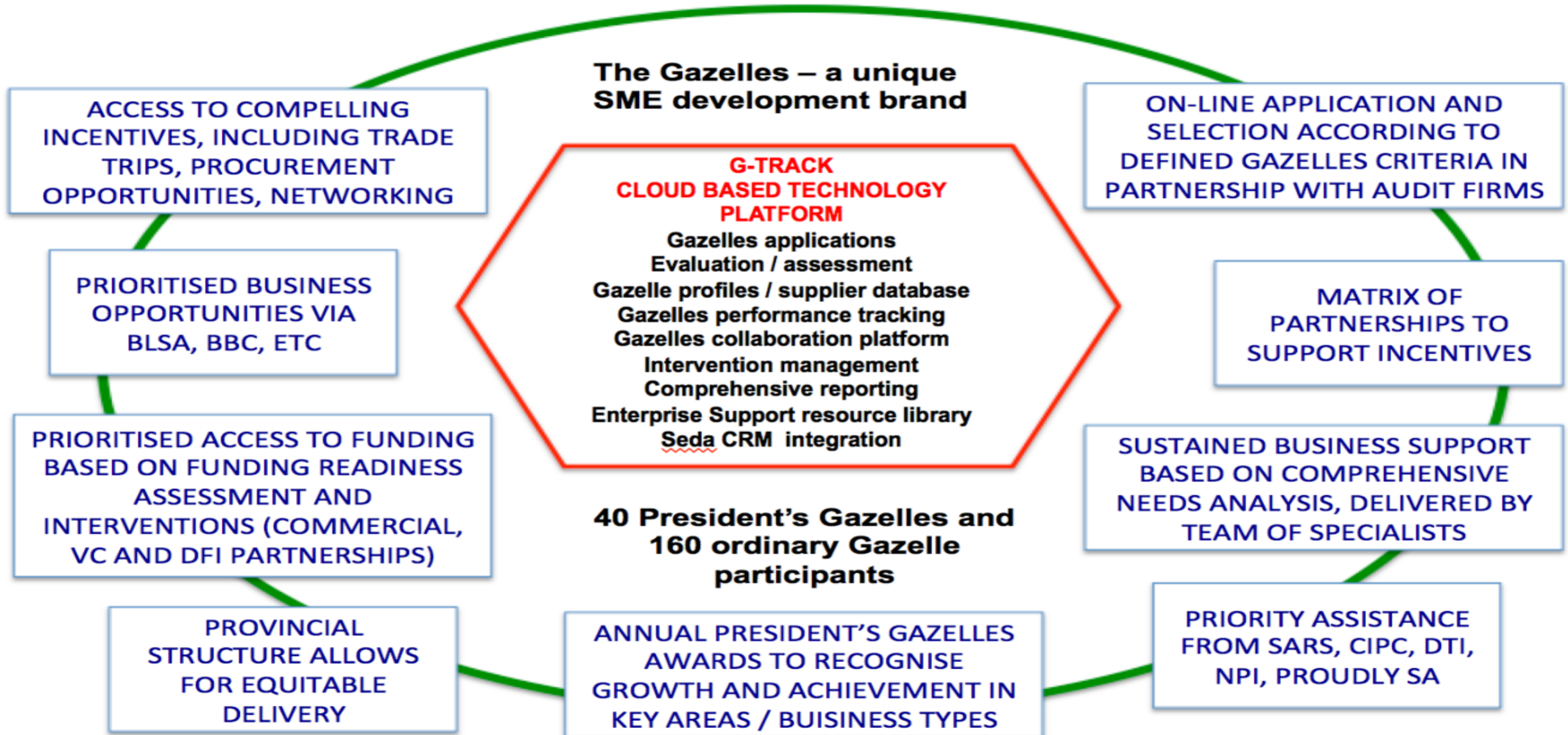
- The Ministry introduced a special programme to scale up entities in the informal sector so that they increase turnovers and are more professional
- The Ministry introduced the National Gazelles programme in 2015 to identify high potential small businesses and capacitate them
- In the meantime, the dti which is responsible for industrialisation, introduced a new initiative, that of creating black industrialists

Basis for criteria and the selection of NG

- Literature review and analysis of local situation identified the following as specific areas of focus:
- The capacity and characteristic of the jockey;
- High levels of creativity and innovation;
- Good governance and Administration; and
- Regulatory and Compliance.

THE PRESIDENT'S GAZELLES SME BUSINESS DEVELOPMENT SYSTEM

A turnkey integrated business acceleration system for 200 high-potential SMEs



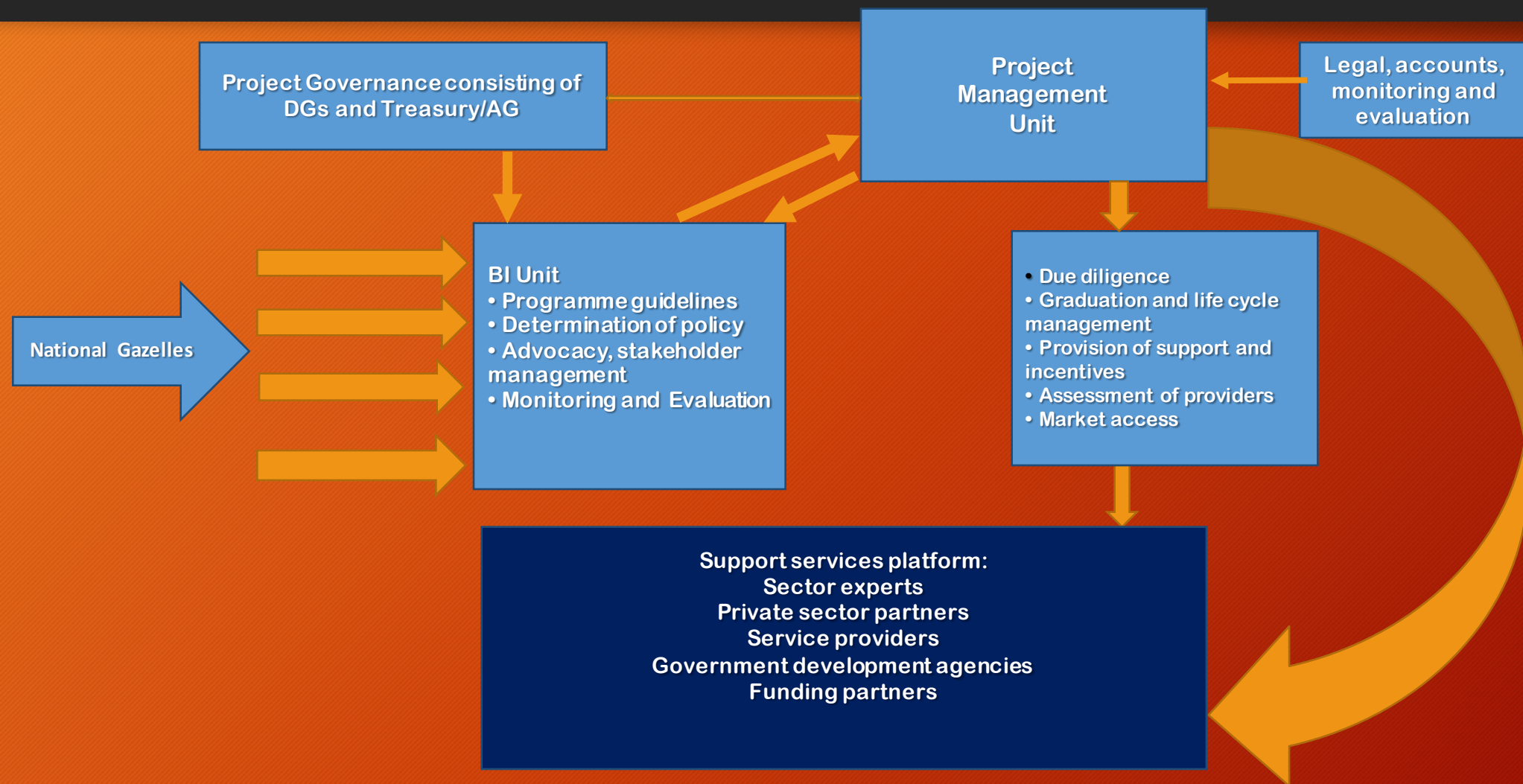
Selection of black industrialists

- The strategy was created out of a policy instrument and based on three legs: grant and loan funding, access to markets, enterprise support by government agencies
- Like the National Gazelles, a strict selection strategy was adopted and only people with live and viable projects were accepted
- The National Gazelles in the engineering and manufacturing spaces became a pipeline for the BI;
- The BI is restricted to manufacturing and engineering while the NG is much broader but excludes the retail sector



Proposal 4: Broadening of the BI Sectors and PMU

Black Industrialists development and support pipeline



What has NG programme achieved in 18 months

- Of the 40 businesses, 4 entities have reached the Threshold for the Gazelles programme within 18 months are being graduated to the BI programme.
- Proliferation of other private sector driven accelerator programmes modelled around the NG.
- As a result of the SA Gazelles programme, the region is now focussed on high growth entities. Botswana and Zimbabwe are looking at starting their accelerator programmes in the next 12 months.

Advantages of BI approach

- There is a move away from replicative entrepreneurship of the retail and services sector, and a focus on manufacture and engineering.
- A pipeline is being designed that will see a search for black industrialists in all sectors of the economy and a programme management is being set up to nurture these in their growth phases.

What has been overcome

- In the past the provision of finance, non finance services, access to markets, mentoring, incubation etc. was conventional wisdom.
- The penny has dropped that there needs to be a more in-depth approach that takes into account the individual and his capacity. More importantly, there is now greater realisation by black entrepreneurs that innovation is the name of the game.
- The country has also moved away from redistribution to individuals to creation of wealth (grow the pie).

Current shortcomings

- Regardless of efforts by both Ministries, some Government departments still hold onto their programmes. Thus, synergies are not fully exploited;
- Despite the fact that both new fairly successful in their own right, but a research component is sorely missing and, there is a limited link with schools of technology and trade which means that skills development and placement is not yet part of the pipeline
- ED is standard activity in RSA but, as stated, the country stressed start-ups. The two programmes have ushered in post start-up and growth phases but a consolidated and coordinated skills set for these phases must still be designed.

More serious shortcomings

- The Washington Consensus or Developed World outlook continues to hold sway despite, what Karl Marx also referred to as the “Superstructure”. The superstructure, in our case, refers to the economic infrastructure; the institutions, networks and role players that we inherited.
- No policy can dislodge their dominance that easily, particularly in the light of the current dynamics in terms of the rating agencies and a neoclassical world economy which aggressively replicates in the third world despite imbalances.

More serious shortcomings

Worse still, South Africa has a highly concentrated economy and the big players are diversifying into various sectors and markets. This limits the entry of new players, even those from overseas as recent history has shown.

A major summit is planned for October to discuss strategies on how to turn the people in townships and rural areas from being consumers to producers.

THANK YOU



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