#### SMALL MEDIUM AND MICRO ENTERPRISE DEVELOPMENT (SMME) STRATEGY

ACRONYMS

BDS - Business Development Services

BEE - Black Economic Empowerment

CBNRM - Community Based Natural Resource Management

CPA - Community Property Association

CPPP - Community-Public-Private-Partnerships

CSIR - Council for Scientific and Industrial Research

DBSA - Development Bank of Southern Africa

DFEA - Department of Finance and Economic Affairs

DfID - UK Department for International Development

DPLGH - Department of Local Government and Housing

DTI - Department of Trade and Industry

GDP - Gross Domestic Product

GEAR - Growth, Employment and Redistribution Strategy

IDP - Integrated Development Plan

IGA - Income Generating Activities

ISRDS - Integrated Sustainable Rural Development Strategy

LED - Local Economic Development

MDA - Market Development Approach

M&E - Monitoring and Evaluation

NAMAC - National Manufacturing and Advisory Centre

NC - Northern Cape

NCPGDS - Northern Cape Growth and Development Strategy

NGO - Non-Government Organisation

PDI - Previously Disadvantaged Individual

PPP - Public Private Partnership

PSBC - Provincial Small Business Council

RDP - Reconstruction and Development Programme

SBS - Subsector / Business Services

SE - Small Enterprise

SMME - Small, Medium and Micro Enterprise

SMMEDS - Small, Medium and Micro Enterprise

## Development Strategy

### Local Government Framework

The local government framework for SMME support can best be described by examining the concept of Local Economic Development (LED).

### Local Economic Development

Definition of LED: Local Economic Development is about local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in the community.

· The LED Process: LED invites local government, the private sector, NGO’s and the local community to work together to improve the economy. It often focuses on enhancing competitiveness, and increasing growth; and also on redistributing that growth through the creation of SMMEs; and through job creation.

· LED encompasses many different disciplines, such as planning, economics and marketing. It also encompasses many local government functions, including planning, infrastructure provision, real estate and finance.

· The practice of LED can be undertaken on many different scales: A local Government often pursues LED strategies for the entire area. Individual communities and individual areas and segments of communities (such as the Disabled, Youth or Women) within a local government’s jurisdiction can also pursue LED strategies to uplift communities. These are generally much more successful if pursued jointly. In essence, LED is about communities continually upgrading business, environments to improve their competitiveness, retain jobs, and improve incomes.

Communities respond to LED needs in many ways. There are a wide variety of LED initiatives including:

* Ensuring the local business environment is conducive to major businesses and sectors in the area.
* Supporting SMMEs
* Encouraging New Enterprises
* Attracting investment from elsewhere (both domestic and international).
* Investing in physical (hard) infrastructure.
* Investing in Soft infrastructure (including human resources development, institutional support systems and regulatory issues)
* Supporting the growth of particular clusters of businesses.
* Spatial targeting (particular parts of the area) supporting survivalist businesses (informal).
* Targeting certain disadvantaged groups.

### Organising LED Strategic Planning:

Ideally the development of a LED Strategy should form part of a broader strategy, such as the IDP for a region, city town or rural area. Sound strategic planning ensures that priority issues are addressed and scarce resources are effectively utilised. This consists of the following 5 steps:

**Step 1: Organising the effort**

A community begins the LED strategy planning process by first identifying people, public institutions, businesses, community organizations and other groups with vested interests in the local economy. This is often led by local government, usually its Mayor or Municipal Manager. The skills and resources that each of the stakeholders bring to the strategy process provide a critical foundation for success. The identification of stakeholders assumes some basic knowledge of how the economy works in the area. Secondly working groups and steering committees should be established to ensure formal structures are in place to support LED strategy development and implementation.

**Step 2: Conducting the competitive assessment**

Each community has a unique set of local attributes that advance or hinder LED. This includes its economic make-up, its human resources capacity to carry out economic development, as well as how ‘friendly’ the local government’s business environment is for economic activities. The aim of the competitive assessment is to identify the community’s strengths and weaknesses, including its human resource capacity and the local government’s ‘friendliness’ to all types of businesses from corporate to informal survivalists; and to identify the opportunities and threats to the local economy. The goal of the assessment is to create an economic profile of the community that highlights it’s economic development capacity. Also important is to develop comparative information on the competitive position of neighbouring communities and other regional, national and international competitors.

**Step 3: Developing the LED strategy**

The LED strategy includes the development of a shared economic vision for the community and determination of goals, objectives, programmes, projects and action plans. This process ensures that all stakeholders are aware of what is to be achieved, how it is to be achieved, who will be responsible and the time frames associated with the implementation of the strategy. It (LED Strategy and action plans) has to be assessed against the human resources capacity to carry these out taking into accouont the budgetary constraints.

**Step 4: Implementing the LED strategy**

Implementation is driven by action plans. Ongoing monitoring is provided through formal structures and evaluation of specific project outcomes. This ensures that the LED strategy continues to lead to the achievement of the LED vision, goals and objectives.

**Step 5: Reviewing the LED strategy**

Good monitoring and evaluation techniques help to quantify outcomes, justify expenditures, determine enhancements and adjustments and develop good practices. This information also contributes to the review of the total strategy. The LED strategy should be reviewed at least annually to ensure that the overall strategy remains relevant. It may be that conditions have changed or that initial assessment of the local conditions was incorrect. The LED strategy should continuously evolve to respond to an ever changing competitive environment.

DTI is of the opinion that the lagging SMME sector is mainly due to the short history of an available policy framework for SMME development. The support approach used for the past ten years was a broad-brush stroke – treating all business as homogenous. There is now a realisation that there are several other policy areas in need of proper definition, especially relating to national, provincial and municipal roles. Furthermore, most of the SMME support institutions were all supply driven, which have overwhelmed entrepreneurs instead of meeting their needs. The obvious problem of access to finance and collateral, a result of historical imbalances, has impeded the number of start-ups and growth of existing businesses. Globalisation has also had a major negative impact on an emerging market such as South Africa, which causes small business to become more vulnerable in an already uncertain climate.

DTI has stated unambiguously that its objective is to increase the number of new businesses and decrease the number of business failures. There is also a need for the growth of existing businesses.

However DTI is a coordinating body with a specific role to create the right environment for SMMEs to thrive in. Other institutions are responsible for direct support. DTI aims to achieve its objective through the following strategies:

Creating solid partnerships with the private sector to lead to a greater number of Public-Private Partnerships (PPPs) and to establish greater involvement and co-ordination with business chambers. To include entrepreneurship in the school curriculum so that young children are taught the value and basic skills of business at an early age. This is aimed at turning out “job creators” instead of “job seekers”. Becoming more research orientated – firstly to discover what precisely is the enabling environment needed for thriving businesses. Secondly, research that produces credible statistical information about SMMEs – number of viable businesses, their contribution to GDP and the number of jobs sustained by them and streamlining the regulatory framework. Legislation that does not render an enabling environment for a thriving SMME culture must be changed, as well as appreciating the culture of entrepreneurism through additional rewards and awards.

Focusing on improving technical and business skills and rationalising the available support structures such as the merger of Ntsika and Namac. Possibly creating more support centres to decentralise SME support.

Nurturing innovation and incubating successful technology based enterprises through the Godisa Programme.

Creating new structures, such as the Apex fund, to provide access to funding for micro enterprises.

In summary the DTI has adopted a holistic approach which seeks to stimulate the right environment but leaves the actual delivery of SMME support services over to institutions closer to the target group. It is believed that such proximity will ensure a demand led and therefore much more focused approach. The individual needs of aspirant entrepreneurs are unique. DTI can only address the macro environment. It is up to local structures and specific small business support institutions to focus on actual needs.

### Contemporary Discourse on SMME Support

It is important to understand and analyse the background and prospects of BDS to inform thinking when designing an SMME Development Strategy for the Northern Cape Province.

The Guiding Principles for Donor Intervention in Business Development Services for Small Enterprises defines BDS as services that improve the performance of the enterprise, its access to markets and its ability to compete. BDS were formerly known as ‘non-financial’ services and comprised a narrow range of services such as training and consultancy that focused on internal constraints. More recently, with changes in operating environments, greater access to information and a higher degree of emphasis by governments on promoting private sector growth, BDS have come to include a wider range of services, especially those that address external constraints, such as policy reform and infrastructure, marketing and information services. The International Labour Organization’s SEEP Guide to Business Development Services identifies seven BDS categories, each comprising a range of services:

· Market access

· Input supply

· Technology and market development

· Training and technical assistance

· Infrastructure

· Policy/advocacy

· Alternative financing mechanisms.[4]

A distinction is sometimes made between operational and strategic services:

operational being those needed for day-to-day operations, such as banking, accounting, tax services, distribution and compliance with regulations, while strategic services are those used by enterprises to improve the performance of the enterprise, its access to markets and its ability to compete. As the offerings by ‘operational’ suppliers become more sophisticated, with the emergence of value chains, improved financial approaches and e-business systems suitable for almost any enterprise, this distinction is rapidly becoming blurred.

For example the supply of telecommunications services would formerly not have been considered a business development service. Now, with the low cost and accessibility of cell ‘phones, many small entrepreneurs have created good businesses by providing communication services in areas not served by landlines, to those who cannot afford a regular service. Recent trends and developments in BDS include:

### Market Development Approach (MDA)

This approach proposes that for Business Development Service (BDS) providers to be efficient and sustainable in the SMME sector, free functioning market mechanisms governed by the forces of supply and demand must be allowed and / or encouraged to develop. (International DfID seminar on SMME support 2001)

Instead of focusing on the actual provision of BDS (be it through direct provision or subsidising providers), interventions should rather be aimed at developing the markets for BDS and addressing market constraints.

What this means for business development agencies is that the key task is to create and develop an environment that is conducive to private sector development. This in turn should lead to an environment encouraging the supply of business services. The market for business services would grow only if private sector (small) businesses are geared for growth. In other words small businesses need answers to basic questions such as; how can the business operations be more productive? How can new markets be discovered? Where can one find new and good customers? – These are basic business questions that can only be raised in a favourable business climate.

Instead of creating dependency relationships and promoting the “hand-out” syndrome, the MDA - treats small business as benefiting from the right kind of service in the right way, as any other business would.

### Conventional BDS approach Market Development Approach

Responsibility for BDS

Small businesses are beneficiaries of support provided by governments and NGOs. BDS Is perceived as a public good that is primarily the responsibility of the state. Small businesses are treated like any other business – as discerning customers. The private sector is seen as the service provider and BDS are financed on a transactional basis.

What is considered as BDS?

Services and goods that are believed to be beneficial to small businesses. A broad range of services available on demand. Services are provided by a supplier for a fee, i.e. legal, advertising, telecommunications etc. Services are also provided through the supply chain – “embedded services” i.e. knowledge and information embedded within a commercial relationship

Who are the BDS providers?

BDS providers are government owned or sponsored and non-profit agencies. BDS providers are profit-oriented private sector agencies and other sources including information networks and business associations

Objectives of development intervention

The reason for the agency’s existence is to deliver services to SMMEs. Its objective is to try to create a market that works. Donor-sponsored organisations should focus on facilitation – stimulate others to do things. They are temporary players, tasked to develop instead of distorting the market!

Overall approach

Implicit assumption of a continued subsidy – BDS to be provided indefinitely in some unspecified way, interventions are finite, focused and facilitative – it is either developing markets or addressing market constraints

On the whole an understanding of the markets helps determine the constraints that need to be overcome to get the markets to work properly. In approaching problems the traditional way one might say, “A business has a problem, let’s try and fix it”. The MDA says, “The business has a problem, why is the market not providing solutions to the problem? Let’s try to fix the market.”

### The Subsector / Business Services (SBS) Approach

Targeted at donors and practitioners involved in SE development, the SBS approach consists of eight steps. Although practitioners have used elements of the SBS approach in the past, systematic application of all of these steps in a comprehensive manner is relatively new.

Step 1: Subsector Selection – choose a subsector with the greatest potential for growth in SE income and employment.

Step 2: Subsector Analysis – gain a greater understanding of the operating context for SEs and intelligence on the market players, their roles, and interrelationships.

Step 3: Identification of Constraints and Opportunities – determine key issues hindering SE growth and competitiveness in the subsector.

Step 4: Identification of Business Services – determine which business services can best address the constraints identified in Step 3.

Step 5: Selection of Business Services – target specific business service(s) for more in-depth analysis.

Step 6: Assessment of Business Services – understand constraints to the sustainable supply/demand of the targeted business service(s).

Step 7: Identification of Facilitation Activities – determine facilitation activities that address the constraints of the business service(s).

Step 8: Selection of Facilitation Activities – choose the most appropriate facilitation activities to implement.

The SBS approach to business service program design is an attempt to provide practical tools to link subsector analysis with the development of sustainable business services. Bridging these two aspects of SE development can result in programs that address subsector constraints and opportunities in a sustainable fashion, thereby providing long-term benefit to SEs.

Many elements of the SBS approach are not new and have been used by practitioners in the past. The SBS approach provides a systematic process by applying some of the better SE development tools and methodologies. The ultimate objective is to identify, assess, and strengthen commercial business relationships and services which will result in increased SE profitability and competitiveness.

The outcome should be that the link between demand and supply is made, leading to increased transaction flows of services. The newly adopted approach is not, in marketing terms, ‘new’ – it is just the approach in the BDS sector that is new.

### Small Business Myth

In an article in the Mail & Guardian titled “A myth that’s cost us millions” Barrie Terblanche (2002) contends that South Africa is not a friendly environment for small business for a number of reasons. The most important of these is the stubborn myth that small business equals informal business.

According to Terblanche everyone seems to have caught on that small business is the answer to high levels of unemployment and therefore everyone wants to contribute. But for civil servants, corporate buyers, politicians, teachers, unions, social workers and community activists the words “small business” conjure up an image of somebody sitting on a pavement selling vegetables. “This mistake has cost us millions of Rands in failed projects”, Terblanche argues.

The Small Business-Enabling Act of 1995 defines small businesses as those with fewer than 50 employees. “Imagine a factory with 45 workers turning over millions of Rands a month – that is a small business!”

The small business development fraternity has now realised that the two groups – informal survivalists on the one hand and formal small businesses on the other – are vastly different.

Survivalists generally do not employ people. They jump at the first opportunity of formal employment – which is not surprising as the survivalist arena is cruel. They very rarely grow and become formal businesses. However, it is crucial to help them, as informal trade saves people from starvation.

On the other side of the spectrum are formal small businesses, whose owners are highly skilled, experienced and employable. Nearly all of them have once been employed by someone else. Research shows they regard their former work experience as their most important training ground. In general these “formal small businesses” have a much better likelihood for creating employment and long-term survival and growth.

Recent debates are showing a growing awareness of the myth. Public discussions are making clear distinctions between support for micro- and small business. But the Department of Trade & Industry (DTI) continues to stop short of acknowledging that support for survivalists is poverty relief and should therefore become the responsibility of other departments such as Welfare, Education and Labour.

Separating “micro” and “small” is politically risky. Already the Department of Trade & Industry is being criticised for being “elitist” by focusing too much on formal business. Their challenge is to convince the unemployed that the “haves” have to be supported in order to benefit the poor.

Table 4: Formal Small Businesses vs. Informal Survivalists

Marketing Approach

Business established to address a specific and verified need in the market place. Searching to engage in an income generating opportunity

Skills Levels

Highly educated, skilled, experienced and employable. Previously employed in the formal / corporate sector where most of their business experience has been gained and opportunities in the market place identified.

Generally low education levels. Poorly skilled with no business experience. Will immediately take on any employment opportunity when presented.

BDS required

Access to markets, general business consulting services, banking, information on products and manufacturing, etc. Access to finance, business opportunities, business planning, business - management and technical skills training, etc.

Most successful support strategy

Market Development Approach. Mentorship relationships and opportunities to acquire skills in a structured environment. Experimental learning and skills acquisition responsive to individual needs. Marketing networks and initiatives to secure stable product demand.

Although Black Economic Empowerment (BEE) does not equate to small business development, it is perceived to continue discriminating against informal survivalists. Most beneficiaries in respect of BEE activities are from the formal business sector. This exacerbates the negative perception that government’s small business support programmes are elitist because it benefits only the “haves”. Those described as the “have-nots” do not participate in BEE, as they do not have the basic skills, experience and collateral to access these opportunities. The national strategy for small business development acknowledges the important role of the first economy in job creation. But public opinion has, in recent times, compelled business development activities to incorporate the survivalist category, or in other words, to adopt a broad based approach.

### Sustainability vs Participation

The concepts of sustainability and participation are often seen as opposing forces. In other words widespread participation is normally associated with interference and therefore a threat to sustainability. On the other hand sustainability is mostly considered in financial terms, which will suffer if too many viewpoints have to be consulted before a decision is taken.

In the context of development there is a tendency to use terms like Participation and Sustainability liberally and rather loosely. The Northern Cape small business review has revealed many failed programmes due to a one sided emphasis on participation. For example the (Agriculture – Paprika project description needed). Unfortunately the process became embroiled in power struggles and politics. One of the main reasons for this failure, according to analysts, is the negative impact of political contestation on local economic development – the local power struggles related to accessing opportunities.

It is evident that participation does not ensure sustainability and sustainability does not necessarily mean that there is participation. However in an ideal situation participation and sustainability, although separate concepts, reinforce each other and are mutually interdependent. It is generally observed that the levels of participation and sustainability in any programme context vary with each stage of the programme. It is therefore logical to view participation and sustainability separately as they aim to achieve / create ideal situations. In attempting to understand their impact on development, it is necessary to clarify these concepts independently and then jointly, to reflect on how programmes are shaped by these interrelated components.

· *Participation*

Participation is defined as organised efforts to increase control over resources and regulative institutions in given social situations, on the part of groups and movements of those hitherto excluded from such control. It emphasises certain terms like organised efforts, power to control and institutions in a social situation that are associated with the concept of participation.

Participation, by its nature, is a process of empowerment, which tries to create a society in which power and resource distribution occur within a democratic institutional framework. This empowerment progression is continuous and ultimately leads to the formation of a society based on ideal values, including democratic decision–making, efficiency and equity in terms of power and resource distribution. The nature of participation may change in different situations depending on the socio-economic and cultural aspects of society.

From the above, the main parameters associated with participation are deduced as: participants, empowerment, equity, capacity building, sense of ownership and institutional development.

· *Sustainability*

Sustainability is defined as simply a state of self-reliance.

However, to understand sustainability against the background of programme development the first question to be asked is what kind of sustainability? Within this context it is not meant as self-dependence. In most systems there is always an element of dependence on external factors. Self-reliance however implies power to negotiate with outsiders on terms and conditions, which are not exploitative but beneficial to both parties. In other words the essence of sustainability is when empowered participants are capable of establishing symbiotic relationships with external systems.

The second question is, sustainability of what? Since the process of participation is dynamic, sustainability of the process alone does not necessarily lead to development. Therefore the prime concern is the sustainability of the systems developed during the programme period and the impact of the intervention. Of these two parameters the sustainability of impact is the most important.

The third and last question is, sustainability for what? Sustainable benefits of programmes are essential for propelling development forward. With skills and experience gained during the process, there is a possibility that participants would start thinking and planning ahead for further development. Therefore the sustainability of systems and institutional arrangements are critical.

Equitable distribution of benefits forms an integral part of the systems and institution.

Therefore the main parameters associated with sustainability are: Technical sustainability, financial sustainability, political sustainability, sustained benefits from programme interventions and environmental sustainability. These parameters can be directly correlated with the parameters of participation to form a Participation / Sustainability matrix containing the parameters of participation and sustainability in columns and rows respectively.

To understand the interplay between participation and sustainability, programme initiators and stakeholders should rank each parameter of participation against each parameter of sustainability individually. For example to achieve technical sustainability capacity building of the participant is most important; financial sustainability requires focusing on institutional development, etc. For this reason, it is important to use the sustainability matrix to assess public and business participation.

Table 5: Participation/ Sustainability Matrix

Participation

Sustainability Participants Empowerment Equity Capacity

Building Ownership Institutional Development

Technical

Financial

Political

Benefits

Environment

· *Public and Business Participation*

Levels of participation generally correspond with stakeholder investment. Ranging from passive (being informed) through consultative (by considering views, opinions and recommendations of stakeholders) to interactive participation (collaborative decision-making) these different intensities of involvement generally correspond with different levels of impact which decisions might have on stakeholders.

It is therefore suggested that these different participation scenarios must be examined to ensure that stakeholder involvement is concomitant with stakeholder investment. In addition different participatory vehicles should be utilised to cater for different types of sustainability.

### A different approach

Unemployment is reaching catastrophic levels, especially in the poorest provinces of South Africa. Rural areas in the Northern Cape are experiencing up to 90% unemployment. The reigning view on how to escape from poverty within these impoverished communities is to find employment in the formal sector. As a result, an exodus from the rural regions is causing poverty to be exported to informal settlements in the immediate vicinity of all major towns and cities across South Africa. According to Lahif and Rugege (2002) the displacement of chronic poverty and landlessness from the former homelands and commercial farms to the towns and cities has not provided a solution, but rather has created new and equally intractable problems in the urban areas. Formal small businesses cannot absorb the oversupply of unskilled labour. In fact formal sector employment opportunities are expected to continue to drop as a result of changes in the global economy and reigning economic policies.

A dire need exists to transfer entrepreneurial skills to informal survivalists to stimulate job creation from within the ranks of the poor.

Historically two disconnected and parallel economies have existed in South Africa, characterised by an ever-widening economic gap. There are the entrepreneurs engaged in formal business who are fully equipped to understand and engage the mechanisms of the market. And there are the survivalists who have had no access to markets and are thus ill equipped to establish employment-creating opportunities within their localities.

Creative solutions are urgently required to bridge this skills gap, since firsthand experience has shown how ineffective supplying subsidised services can be. Regrettably expecting sophisticated MDA principles to be embraced by impoverished survivalists would be equally futile. A new approach may be needed to harness the skills and experience of formal small business while engaging survivalists in opportunities that enable them to acquire the skills to effectively engage in the market themselves.

## Mutual Enterprise Model

The Mutual Enterprise Model has been conceptualised to accommodate the educational and skills levels and limited access to assets of poor communities, while simultaneously providing the required support for enterprises to successfully compete in the open market.

The model is based on the principles of co-operative free enterprise as espoused by the Mondragón Corporación Cooperativa. Established in the 1950’s as a counter measure to poverty, unemployment and bleak economic prospects, the Mondragón Co-operative in the North of Spain has been having a profound effect on the erstwhile-impoverished Mondragón community, which has gradually evolved into a modern day thriving global corporation. Today, nearly half a century after the creation of the first co-operative, the Mondragón Co-operative Corporation is, in terms of sales volume and number of workers, the largest business corporation in the Basque Country, and the eighth largest in Spain.[5]

It is important to note that the original Rochdale principles of cooperation have always been vigorously applied in the Mondragon strategy. These consist of open membership, democratic control; distribution of surplus in proportion to trade, payment of limited interest on capital, political and religious neutrality, cash trading and promotion of education.

Regrettably in South Africa, numerous failures of organisations operating under the pretence of subscribing to cooperative principles have resulted in the common misconception that cooperatives are socialist institutions failing to differentiate between individual contributions. On closer inspection it would seem that most of these unsuccessful efforts under the guise of coooperation, have hardly subscribed to the basic cooperative principles let alone understood the context thereof.

The Mondragón experience is an example of how powerful cooperation is as a vehicle to gradually build both equity and capacity from within destitute communities. However, it is an organic and evolutionary process and cannot be applied to deliver so called “fast track” solutions.

In addition the cooperative business environment has to deal with added complexities such as balancing between apparently paradoxical features of cooperative business including:

· Efficiency and democracy

· Economic and social concerns

· Equality and hierarchical organisation

· Private interests (of staff and the different companies) and the general co-operative interest

· Identification with the co-operative model and cooperation with other business models

It is generally believed that through having had to continuously address these and other challenges normally absent in the alternative business model, the Mondragón experience resulted in the acquisition of valuable innovative capacity that equipped it to successfully engage in the global marketplace.

Over time with the proliferation of cooperatives as part of the overall Mondragón movement the principles have slightly adjusted but essentially stayed the same. The principles are now known as:

· Open admission instead of open membership

· Democratic organisation instead of democratic control

· Sovereignty of labour instead of distribution of surplus in proportion to trade

· Instrumental and sub-ordinate nature of capital instead of payment of limited interest on capital

· Participatory management

· Social transformation

· Universality instead of political and religious neutrality

· Payment solidarity instead of cash trading

· Education instead of promotion of education

Informal and rural enterprises generally operate in fragmented markets and have to compete with highly sophisticated and well-organised counterparts from formal and urban areas. As a result most survivalist businesses are tenuous except where they are linked within a distribution network to the formal sector. This is probably the reason why trade (especially in alcoholic beverages) is one of the only sectors considered viable in informal and rural settings.

It is evident that a different approach is required for informal and rural businesses to survive and grow and consequently to produce sustainable jobs. Enterprises must be enabled to work together while valuing healthy competition. As mutual or co-operative action is compatible with the overriding value system of Ubuntu it should be the appropriate strategy to organise informal and rural initiatives towards building local economies. In addition, co-operative businesses allow the unemployed exposure to disciplined business environments allowing them to gradually acquire skills and experiences that were previously inaccessible.

## Summary and Conclusions

Creative solutions are desperately needed to successfully engage the Northern Cape’s large number of unemployed in sustainable economic activities. The structural barriers faced are so acute that conventional business development strategies have, to date, proved to be ineffective. In reviewing BDS trends and developments worldwide, it becomes evident that the unique South African situation requires unique South African solutions.

For too long the small business development approach has been intellectually driven. Quick fix solutions based on sophisticated principles have been expected to address complex structural problems. Not only is the target group lacking capacity, the support structures charged to provide BDS are themselves in need of intensive support.

The following key issues need to be considered in the design of a new SMMEDS for the Northern Cape Province:

* A market led approach to ensure that support activities are focussed on practical needs towards getting the market to work properly.
* The prevailing “hand-out” syndrome must to be counteracted by engendering an internal locus of control value system.
* Pursue opportunities available through focussing on product markets over and above business service prospects.
* Differentiate between survivalists and the formal small business sector.
* Integrate the perceived opposing forces of sustainability and participation.
* Distinguish political organisations from business operations.
* Based on the principles of Ubuntu instead of competition.

### Proposal: An Integrated and Segmented Approach to SMME Development

### Overview

To ensure a balanced approach between supplying inputs, on the one hand, and facilitating the market, on the other, an independent support framework should be established based on a combination of co-operative and free enterprise principles. The support framework would initially be subsidised up to an agreed point when it has reached a position of sustainability. This would mean that participating SMMEs are not only paying for services but contribute to the framework’s running costs with each product sold. The support framework is also known as the Hub-and-Spoke structure (Hub being the centralised framework and Spokes the participating small businesses) and enables the harnessing of the positive aspects of commercialisation without the destructive elements of exploitation. To embed the principles of co-operation, the Hub will have an equity stake in the participating Spokes network and vice versa. Consequently the relationship between the central Hub and independent Spokes will be symbiotic; i.e. commercial success of the Spokes and an expanding Spoke network would mean sustainability and growth for the Hub.

Objectives and characteristics of the Central Hub:

· Establish a network of production / retail or services partners (Spokes)

· Conduct market assessment and research

· Provide product development and design inputs

· Identify and / or establish service providers to assist Spokes or participating businesses.

· Alternatively set up private sector partnerships with production groups including exit strategy agreements as and when targets are achieved.

· Capacity building of service providers (Using Setas and learnerships where appropriate)

· Establish, maintain and grow national and export marketing networks and opportunities

· Identify opportunities for expanding the local market

· Provide market information to production Spokes

· Establish formal agreements with Spokes similar to franchising principles

· Design and maintain M&E system to measure impact and proactively identify and solve potential problems

Considering the principles mentioned under paragraph 4.2.7, the process design should also consider the following:

· To differentiate between survivalist / informal businesses on the one hand and formal small businesses on the other, a separate strategy for each category is needed. It is suggested that development and support of the formal business category should be accommodated within the rollout of the reviewed national strategy.

· Development and support of survivalist or informal businesses should be rationalised through adopting the mutual enterprise / Hub-and-Spokes model. This will facilitate the organisation of the informal / survivalist sector towards accessing markets and consolidating resources such as assets, capacity, inputs, etc.

· Establishment of an endowment funding facility to support the building of central or sectoral hubs and financing satellite opportunities on a sustainable basis.

· Co-ordinating available capacity building facilities such as the Sector Education and Training Authorities to address specific skills needs.

· Establishment of a provincial small business representative body to lobby on behalf of its members in terms of legislation, support and overall co-ordination, and provide a monitoring and evaluation (M&E) function.

In summary, two approaches are needed; one for formal small businesses and the other for addressing the needs of the emerging informal or survivalist sector. The latter will be the focus of this proposal as the needs of the formal sector can be sufficiently attended to through the MDA. In addition two distinct and formal types of support institutions are needed to differentiate between political or participation and business or sustainability issues. One to ensure wider participation and representation, and the other to facilitate a systematic business approach focusing on sustained benefits for investors. This organisational arrangement is illustrated in figure 1 below.

### The Mutual Enterprise or Hub-and-Spokes model for SMME development

The underlying principle on which the model is based recognises the value of the co-operative business methodology. In this business model ownership is defined by the individual enterprise’s contribution to ultimately result in cooperative ownership. The model subscribes to the principle of being driven by the needs of the participating individual enterprises.

The operational process consists of a central Hub co-operative business, which provides business / management services at a fee or commission to its participating spokes or independent small businesses grouped together to benefit from consolidated efforts. As mentioned, this implies a symbiotic relationship, as the success of the spokes is a prerequisite for the Hub’s success, and vice versa.

It is further characterised by cost efficiencies resulting from economies of scale. This involves shared capital and operating expenditures supporting collective inputs, collective processing as well as collective outputs for marketing purposes:

· Collective inputs: Considering the basic needs of communities from which survivalists hail, a number of sustainable business opportunities are available. Outsiders generally service these needs because community members neither have the wherewithal nor the capital to do so. Centralised initiatives could co-ordinate and build on available resources to exploit these opportunities. This implies that the opportunities require similar inputs to take it from the idea stage to the market. Business development inputs identified in the research include business management, access to finance, entrepreneurship and technical skills training; general and financial administrative support; infrastructure, tools and equipment; as well as transport. Centralising these services enables the individual enterprises to focus on core business aspects and through economies of scale achieve sustainability of opportunities previously rated as not viable.

· Processing: The technical, technological and other resource requirements to make the production process viable for these enterprises are generally out of reach, unless they are subsidised. The collective investment approach inherent in this model again, enables individual entrepreneurs to pool their resources. This reduces the production cost per unit and makes the enterprises competitive.

· Outputs: Most rural individual enterprises are unable to successfully access regional, national and international markets as a result of limited marketing capacity – marketing know-how and networks. In general such enterprises are pre-occupied with production to the exclusion of marketing activities.

The streamlining of the marketing function allows for setting up a dedicated marketing capacity to meet the needs of the individual enterprises.

Furthermore, this model comprises of the following major components:

### Structure

The structure consists of three distinct levels interacting on the basis of a hub-and-spoke model. The distinct structures are the individual enterprise (spokes), the district or sector cooperative (hub)[6] consisting of 5 areas vide Frances Baard, Kgalagadi, Namaqua, Bo Karoo and Siyanda, and one provincial cooperative (central hub).

· The individual enterprise:

The district or sector-focused cooperative assists potential entrepreneurs in the establishment of an identified enterprise in terms of the development of a business plan, accessing finance and formalising the relationship between the entrepreneurs and the district or sector cooperative.

· District / Sector cooperative:

The district cooperative is established as an independent entity, co-existing with the district municipality focusing on the economic development of local communities. The district cooperative is mutually owned by a finite number of community shareholders and managed by appointed members. As a separate business entity it allows for focusing on commercial challenges without it being clouded by community matters. The main objective of the co-operative is to create and sustain viable businesses through which its members can be employed and trained in business and technical skills.

The conflicting demands of participation and sustainability are consequently separated and catered for in the two different organisations. However, each structure would still be faced with individual challenges concerning their internal interdependent aspects of participation and sustainability.

· Provincial cooperative:

The provincial cooperative provides coordination and support to the district cooperatives focusing particularly on financing, accessing national and international markets and processing of district products. Other responsibilities include general research, information dissemination, negotiating with potential private sector investors, etc.

### Operations

The operational design of the model is geared towards providing efficient and quality support to individual enterprises. The best way to illustrate this is by way of the following example:

In the instance of a number of beekeeping enterprises operating as a collective, the capital expenditures could be divided between the participating businesses for equipment that can be shared on a rotational or reservation basis, such as transport, a centrifuge for honey extraction, etc. More importantly, the co-operative approach allows for centralising the processing (extracting), packaging, marketing and sales logistics of the products. These activities offer opportunities for the district Hubs to generate income towards sustainability. At the Provincial Hub level the focus would be on packaging and marketing products for national markets and ultimately international exports. The beekeepers are thus permitted to focus on their beekeeping operations instead of their attention being diverted to other equally important business issues.

Small business support is integrated in the operational design of the supporting organisation. Therefore the existence of symbiotic relationships – if the individual producers are not successful, the livelihood of the Hub will be at stake.

### Finance

There are two approaches in financing the model. In the first instance, to get the process off the ground, it is suggested that an endowment fund be set up for each District Hub as well as for the Provincial Hub. For example if an amount of say R10 million is invested to generate 10% return per annum, then R1 million per annum becomes available for initial support until self-sustainability can be achieved.

To overcome the problem of individual access to finance, the potential for establishing a community loan-financing scheme should be investigated. The District Hub can facilitate and manage a Credit Union scheme for its members who are committed by contributing to the capital of the loan fund. Members will have access to the loan fund, share in the profits and participate in the investment decision-making processes. Potential entrepreneurs apply to the Credit Union with assistance from the District Hub. The repayment of the loans is made from revenues generated by successful entrepreneurs.

In addition, a development loan fund should finance the mutual enterprise support approach until it becomes sustainable. Preliminary financial projections show that the support framework could reach sustainability within thirty months.

### Monitoring and Evaluation

The monitoring and evaluation design is to be informed by the unit of analysis that requires assessment. The unit of analysis in the proposed approach is at the enterprise, district Hub as well as the Provincial Hub levels. Each level requires a set of indicators and specific methodologies for generating the information that provide such indicators within the functioning of the Lobby Structure.

### In Conclusion

The proposed approach is aimed at bridging the need for the MDA to accommodate the specific constraints, which lagging communities experience attempting to engage with the market. The table below provides a summarized overview of the two methodologies and how the mutual enterprise model incubates and supports informal survivalist enterprises to achieve independent commercial status similar to those of competing sustainable formal small businesses.

Market Development Approach

Mutual Enterprise Model

1. Responsibility for BDS

Small businesses are treated like any other business – as discerning customers. The private sector is seen as the service provider and BDS are financed on a transactional basis. The spokes are the lifeblood of the Hub. If they do not become commercially viable they will not be able to pay for services – therefore an added responsibility rests on the Hub over-and-above normal business transactions between parties

2. What is considered as BDS?

A broad range of services available on demand. Services are provided by a supplier for a fee, i.e. legal, advertising, telecommunications etc. Services are also provided through the supply chain – “embedded services” i.e. knowledge and information embedded within a commercial relationship.

The Hub will provide marketing, product development, finance, skills training and any other necessary business service to Spokes at mutually agreed fees, royalty payments, mark-ups and sharing in profits.

3. Who are the BDS providers

BDS providers are profit-oriented private sector agencies and other sources including information networks and business associations

The Hub has an organised “captive market” for its services that cannot survive if not paid for, or if unproductive

4. Objectives of development intervention

Objective is to try and create a market that works. Donor-sponsored organisations should focus on facilitation – stimulate others to do things. They are temporary players, tasked to develop instead of distorting the market!

The objective is to enable Spokes to produce marketable products, which in turn can generate adequate revenue to pay for services and earn profits. In short a market that works!

### Overall approach

Interventions are finite, focused and facilitative – developing markets or addressing market constraints

Once sustainability has been achieved focus shifts to new / additional opportunities.

It should be noted that the implementation of the mutual enterprise model would be impacted on by two significant factors. Firstly, mechanisms need to be built into the model to ensure that political aspirations are separated from the enterprise development activities. The separation between Municipalities and the Hub cooperatives contributes to the separation but may not necessarily guarantee it.

Secondly, the model is highly dependent on local communities buying into the proposed approach. Preliminary discussions with the target group indicate a willingness to favourably consider such an approach.

Ultimately, the approach adopted needs to ensure that communities are empowered through the sustainable use of available provincial resources. This involves building the social, capital and infrastructural assets of the targeted communities. The mutual enterprise model is designed to build on and not undermine the socio-economic conditions of the participating communities.

### Implementation Action Plan

Before discussing implementation, a description of a possible pilot implementation scenario is needed to illustrate the scope and implications of the proposed strategy.

It is envisaged that each District Municipality will support a central Hub with Spokes or satellite co-operatives at each Local Municipality. Spokes at the local municipal level become the Hub or organising co-operative for each municipality. These can be further segmented to operate within a specific sector or sub-sector dependent on its unique situation or available economic opportunities.

Table 6: Implementation Action Plan

Key Area Activity Responsibility Date Output

Awareness· Once a strategy has been adopted, run series of workshops with district and local municipalities to explain the co-operative model.

* Run Strategic planning workshop
* Publicise results SMME Desk and DPLGH Once aware-ness phase completed· Detailed implementation plan document
* Brochure explaining process Capacity Building
* Finalise co-operative model
* Design intensive training programme
* Identify champions
* Run training workshops SMME Desk6 months duration· Vision entrenched
* Co-op awareness
* Technical skills
* Pilot Implementation
* Select site
* Plan implementation
* Set up Hub-and-Spokes structure SMME Desk · Lessons learned
* Implementation manual
* Policies and rules
* Design implementation plan
* Project management SMME Desk Within 18 months from inception
* Monitoring & Evaluation
* Design M&E process
* Implement M&E programme Prov Small Biz Continuous Regular reports and impact evaluations

7.3.15 Institutional Framework Required

The proposed co-operative process in the Northern Cape can be linked to most SMME support and LED policies and programmes. More importantly, the Hub-and-Spokes structure can be used as a vehicle for all economic and social development initiatives. It is suggested that all departments integrate their small business development support programmes into the proposed co-operative structures. The Framework required is based on a provincial wide buy in and alignment with the Hub-and-Spokes model.

The following policies and programmes can be assimilated into the model.

* Broad-based economic empowerment: The co-operative structure provides an ideal vehicle to transfer ownership and control of economic resources to the majority of SA’s citizens. The Hub-and-Spokes strategy will allow the unemployed and informal survivalists an opportunity to start engaging meaningfully in economic activity. The DTI’s national policy on Co-operative Development states that government is committed to working with the co-operative movement to ensure that an increasing portion of the ownership and control of economic activities is vested amongst co-operative enterprises.

* SMMEs: The development policy further states that all government support programmes for SMMEs shall be extended to co-operatives.

* Local Economic Development and Integrated Sustainable Rural Development (ISRD): It is generally recognised that co-operatives play an important role in the growth of the local economy. Local government is crucial in supporting co-operative development and providing an environment at grassroots level within which co-operatives can flourish. In turn co-operative enterprises enable local people to be directly involved in producing and delivering the goods and services that their members, and the wider community, may require. Co-operatives can therefore become ideal vehicles to contribute to the objectives of the LED and ISRD strategies.

In summary, it is well established that, although co-operatives are self-help organisations, they neither succeed without external assistance, nor do they simply emerge from grassroots. They have to be initiated by external interest groups. However, aid to co-operatives should not entail any obligations contrary to the autonomy and interests of co-operatives. Such aid should be meticulously co-ordinated to avoid duplication and waste of resources.