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# The impact of the South African government's SMME programmes: a ten-year review (1994–2003)

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## Abstract

This article critically reviews the impacts of the first ten years of the national government's small, medium and microenterprise (SMME) programmes. In particular, the evaluative focus is in terms of impacts in relation to a range of policy objectives, including poverty alleviation, job creation and the enhancement of national economic growth as part of post-apartheid reconstruction. Key findings relate, inter alia, to the weak state of official data for undertaking impact evaluation; the fact that the SMME economy exhibits only a weak contribution as regards employment creation because most SMMEs do not grow; and, the fact that existing government SMME programmes largely have been biased towards the groups of small and medium-sized enterprises and, to a large extent, have bypassed microenterprises and the informal economy.

# 1. Introduction

Since 1994, South Africa has confronted the dual challenges of reintegration into the global economy, as well as positioning itself to realise the high expectations associated with the new democratic order. In order to attain the objectives of economic growth through competitiveness on the one hand, and employment generation and income redistribution on the other hand, policy attention has increasingly focused on the promotion of the country's small, medium and microenterprise (SMME) economy (Berry et al., 2002; Kesper, 2002). In common with the experience of many countries in the developing world, post-apartheid South Africa has been at the forefront of the development and implementation of a set of pro-SMME policies (Rogerson, 2001a; Hallberg, 2003).

The critical importance of the SMME economy for addressing the challenge of sustainable development in South Africa was recently highlighted through the release of the 2003 Human Development Report for South Africa (UNDP, 2003). This article critically reviews the impacts of the first ten years of the national government's SMME programmes. In particular, the evaluative focus is in terms of impacts in relation to a range of policy objectives, including poverty alleviation, job creation and the enhancement of national economic growth as part of post-apartheid reconstruction. This review and analysis draw on several recent detailed studies of the workings and impacts of post-1994 SMME development programmes, as well as the limited data available on the progress and impacts of SMME programmes.

It should be acknowledged that this review takes place at a watershed period in SMME policy in South Africa. It was announced that during late 2004, the Department of Trade and Industry (DTI) would release a new refocused strategy for SMME development to replace the policy approach that had been in operation since 1994 (Damane, 2002, 2003, 2004). The impetus for reformulating this revised approach is driven in part by a process of reflection on the disappointments that have arisen from the implementation and outputs of the post-1994 programmes.

In addition, the new revised strategy will be a response also to the changes in the post-1995 environment that have occurred since the preparation of the 1995 White Paper. New key issues affecting SMME development that have emerged since 1995

Manufacturing Strategy (Damane, 2004). Although the full details of the new DTI approach to SMME development are not available, the essential directions of the revised programme can be gleaned from interviews with the Chief Director of the DTI's Enterprise Development Unit (Damane, 2002, 2003, 2004). The refocused programme seeks to address several of the shortcomings in the impacts of the post-1994 programme, which are highlighted below.

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## 2. The government's SMME programme, 1994–2003

The discussion moves from an initial brief examination of the objectives, major delivery mechanisms and key components of the government's SMME programme. Against this background, the focus turns in more detail to assessments of the outcomes of policy.

### 2.1 Objectives, delivery mechanisms and key components

Within the macroeconomic context provided by the Growth, Employment and Redistribution (GEAR) strategy, the specific framework for SMME development was set forth in the 1995 White Paper on Small Business. This, together with the National Small Business Development Act of 1996, paved the way for the launch of a range of new support institutions and initiatives (South Africa, 1995; Damane, 2003). One report for the World Bank argues that the 'White Paper has done an excellent job in creating a policy that is based on the particularities of South Africa' (ICC, 1999:27). As Kesper (2002:19) observes, the landmark 1995 White Paper contained the country's first SMME policy framework that was 'informed about the peculiarities of South Africa's SMME economy, combines South African and international arguments in favour of SMME promotion, but – due to the lack of domestic policy experience – largely relies on international “best practice” with regards to policy objectives and the design of the support framework’.

During 1994–2003, the government's focus on the SMME economy derived from a conceptualisation of at least three key roles for SMMEs in reconstruction. These relate to SMMEs as agents of employment promotion, redistribution, and the improvement in global competitiveness. However, as Manning (1996:68) observes: 'Not only are these

support, to literacy and numeracy training, and access to basic information)'. Whilst it must be acknowledged that each of the policy objectives are both valid and critical in relation to issues of poverty eradication or growth enhancement, 'policy makers necessarily have to impose a hierarchy of importance upon them, in order to decide on the distribution of resources' (Manning, 1996:68). In the absence of clear guidelines for resource allocation, the SMME strategy between 1995 and 2003 sought to meet this range of different and sometimes conflicting objectives (Dorfling, 2001).

The White Paper essentially centred on a number of specific strategic considerations. The first was attaining broad-based legitimacy for the government's new SMME strategy, which represented a marked change from the apartheid era. A second critical issue was that of addressing the apartheid legacy of the disempowerment of black business. The final and critical strategic issue was that of establishing a set of new national institutions to support, coordinate and monitor the process.

The proposed framework in the White Paper was viewed as generally in line with conventional 'best practice' strategies that were pursued in both developing and developed countries during the 1980s and 1990s, and thus replicated international experience (Qualmann, 2000; Dorfling, 2001). At the core of the national government's SMME support programmes were the policy interventions introduced by the new institutions and structures that were set up to implement the national SMME strategy. The main institutional pillars were Ntsika Enterprise Promotion Agency, which was responsible for non-financial or business development services, and Khula Enterprise Finance, which functions as a wholesale finance institution supporting a range of retail finance intermediaries that would deal directly with the SMME entrepreneurs themselves (ICC, 1999). In parallel with international best practice, support was to be focused on improved and decentralised access to information, training, markets, finance and technology, improvements in business infrastructure and the market environment, and the strengthening of networks between enterprises.

Essentially, the main delivery mechanisms for, and key components of the institutional support network that was created through the White Paper to nurture the sustainability of South Africa's SMME economy were organised primarily around Ntsika and Khula. A critical component of the support strategy was the establishment of a set of decentralised or localised support service centres (LSCs), which later became

programme of Ntsika (Bloch & Daze, 2000). The White Paper made clear the significance of LBSCs: 'Compared to all the other policy areas forming part of the national strategy, the establishment, maintenance and gradual expansion of a national grid of LSCs (Local Service Centres) will constitute the most important vehicle for small business support in the near future' (South Africa, 1995:46).

More specifically, it was linked to issues of local economic development, with the White Paper considering that LBSCs are 'the one programme that can best help to integrate services available for small enterprises at the local level' (South Africa, 1995:46). The services provided by these centres include business information, general business management advice and counselling, aftercare and networking to other service providers, and are aimed at both existing and start-up SMMEs (Bloch & Daze, 2000; Dorfling, 2001). By 2003, the number of accredited LBSCs in South Africa had risen to 92 local service providers (Ntsika, 2003a, 2003b). Alongside these accredited LBSCs, there are also a number of Ntsika-funded service providers that are non-accredited organisations financed to provide services, such as training (Dorfling, 2001:106).

Another institutional component of support was the set of tender advice centres that were initiated in order to provide, amongst their services, advice on tendering and tender procedures, especially in relation to new guidelines and procedures for public procurement contracts. Further, the group of so-termed retail financial intermediaries (RFIs) represents outlets on a retail level that offer finance to SMMEs. By 2002, there were 40 such RFIs that were operating throughout South Africa and included a mixture of non-governmental organisations (NGOs), provincial development organisations and banks (Dorfling, 2001).

The last major institutional element of public sector support was the establishment of manufacturing advice centres (MACs), which were inspired by the small enterprise support structure initiated in Denmark. MACs are aimed at assisting SMME manufacturers in improving their competitiveness in local, national and international markets (Boyd, 2002). The MAC programme was launched in 1997 as a joint initiative of Ntsika, the DTI, the Council for Scientific and Industrial Research (CSIR) and the National Productivity Institute, and is coordinated by a national programme office, the NAMAC. From the initial two pilot MACs in Durban and Port Elizabeth, the MAC

Other newer support institutions have been put forward by the DTI (Dorfling, 2001). In particular, interest has centred on initiatives such as local industrial parks (LIPs), small business incubation and linked sectoral cluster programmes:

1. The LIPs are a DTI initiative for addressing the challenges of employment creation and meeting the needs identified in the Reconstruction and Development Programme through the creation of a sustainable SMME sector. The emphasis is firmly on industrial production rather than on any other kind of economic activity.
2. Business incubators are institutions that have proved effective in other parts of the world and are designed to support the growth of new and emerging enterprises within a controlled work environment and over a limited time period.
3. The development of industry cluster processes by the DTI is aimed at national economic growth through competitiveness. It involves a collaborative exercise in which firms and organisations in an industry work together to identify obstacles to competitiveness, and seek to encourage a collective approach to addressing these obstacles (Dorfling, 2001).
4. In addition, since 1999, the national government has sought vigorously and consciously to provide an 'enabling environment' designed to support the sustainability of the SMME economy (Ntsika, 2000). This initiative has primarily taken the form of legislative reforms and regulatory reviews (Ntsika, 1999, 2001). The main activities of the government included a review of its national strategy for the promotion of SMMEs, a review study on access to finance by SMMEs, and a review of laws and regulations that impact on the SMME economy. As a product of this review process, changes were to be announced in 2004 concerning the directions of national SMME frameworks (Damane, 2004).

## 2.2 Assessing outcomes and impacts

At the outset of the evaluation, it must be admitted there are few strictly measured figures available about the impact and performance of government support programmes on the SMME economy as a whole. Even less clear is the statistical base

## 2.2.1 Poor data

The dismal nature of the statistics surrounding the SMME economy can be appreciated by examining two sets of data produced for 2001 ([Table 1](#)). The first is a set of data drawn from Ntsika's Annual Review (Ntsika, [2001](#), [2002](#)), which shows the number of SMMEs broken down by province. The second data set is from Statistics South Africa (StatsSA), and is an estimate of the numbers of non-value-added tax (VAT) registered small and microbusinesses operating in the country (Lehohla, [2002a](#), [2002b](#)).

Table 1. Provincial profile of SMMEs

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The discrepancies between the data sets can only be described as remarkable. At national level, the Ntsika figures suggest a national total of approximately 1,1 to 1,2 million SMMEs. By contrast, the StatsSA research estimates that 'approximately 2,3 million people in March 2001 were owners of at least one non-VAT-registered business' (Lehohla, [2002b](#): 4).

At provincial level, the degree of discrepancy between the two data sets is extraordinary. For example, Ntsika figures for KwaZulu-Natal are 198 749, whereas StatsSA has a corresponding figure of 580 000; for the Free State Ntsika estimates 49 835, whereas StatsSA has 129 000; and, finally, for Mpumalanga, Ntsika has 53 636 whereas StatsSA estimates 181 000 (Lehohla, [2002a](#), [2002b](#)). These discrepancies are highlighted here in detail in order to underline the appalling weaknesses of available national and regional data concerning the SMME economy in South Africa.

## 2.2.2 Pre- vs post-1994 SMME impact evaluation

Despite the paucity of reliable, accurate national and geographical data on SMMEs, a number of assessments have been offered on the impacts of the government's programmes in the period 1994 to 2003. At one level, it might be argued that positive progress has been made. Using 1994 as a baseline, certain positive statements concerning the impact of SMME programmes can be asserted. An evaluation by the



progress has been made' (Qualmann, 2000:43). Equally, compared with the situation in the pre-1994 period, a marked momentum of progress can be observed in SMME development. Bloch & Daze (2000:1) remark that in the early 1990s, there was 'simply no existing public small, medium- and microenterprise (SMME) support infrastructure for the country'. A World Bank assessment is equally positive in terms of progress, stating that the activities of 'Khula and Ntsika have planted the seeds for sustainable and employment-creating' SMME development (ICC, 1999:7).

### 2.2.3 SMME programmes and employment creation

These signs of 'progress' cannot be taken, however, to mean that the new SMME policies have been fully effective, or that the new institutions have functioned as desired. In terms of evaluating whether support for the SMME economy has contributed to the goals of reconstruction, it is necessary to consider the objectives of employment growth, national economic growth, poverty alleviation and income redistribution. In an incisive analysis, Manning (1996:63-4) challenges much of the conventional wisdom surrounding the equation of SMME promotion with employment creation. It is argued that the 'evidence in support of the perception of SMMEs as important sources of employment is somewhat weak'. In the case of manufacturing SMMEs, existing evidence points to their share of employment being substantially lower in South Africa than in other international contexts (Manning, 1996; Rogerson, 1999).

In terms of contribution to national economic growth and employment creation, it is clear that the majority of South Africa's SMMEs are micro- and survival enterprises with no signs of enterprise growth (Berry et al., 2002). By contrast, it has been shown that the most dynamic group of SMMEs and those most responsible for new employment are medium-sized. These dynamic SMMEs, however, represent only the smallest segment of South Africa's SMME economy as a whole, and yet remain the axis for higher competitiveness. This analysis shows that it would be grossly misleading to take indicators of a net growth in the numbers of SMMEs as an index of the success of government SMME programmes. Indeed, the reverse is more likely to be true, as the largest numbers of new SMME births occur as a result of the failures of the formal economy, and as a result of people setting up informal and microenterprises in the absence of formal work opportunities.



in the numbers of their employees. It is clear that the contribution of SMMEs to national employment growth remains low for, at least, three reasons:

1. First, whilst there exists a large and growing number of SMMEs, structural problems need to be acknowledged in terms of the fact that 'the majority of these enterprises are not functionally integrated into modern production structures' (Qualmann, 2000:41). The essential structural problem is that rather than 'complementing larger enterprises with specialised products and services or with a certain function upstream or downstream of the production chain, like in other developing economies, South African SMMEs try to compete with larger enterprises in the same product markets, possibly for somewhat different consumer groups' (Qualmann, 2000:41).
2. Second, the majority of microenterprises lacks the dynamism to expand beyond that of one-person operations throughout their existence (Berry et al., 2002; Kesper, 2002). The available evidence suggests that the poor performance of the SMME economy in employment creation is wedded to the predominance of microenterprise and retail activities with little or no prospects of growth (Rogerson, 1999; Berry et al., 2002).
3. Third, from findings of recent research in both Gauteng and the Western Cape, it is disclosed that, whilst the dynamic SMMEs may still be growing in terms of profit performance indices, these enterprises have recently adopted a strategy of jobless growth (Chandra et al., 2001; Kesper, 2002). The phenomenon of jobless growth means that whereas the SMME economy may well contribute to national economic growth, this does not automatically translate into employment creation (Kesper, 2001). Moreover, it is clear that those few dynamic SMMEs that achieve international competitiveness 'have the lowest propensity to create employment for the unskilled which constitute the bulk of South Africa's labour force' (Kesper, 2002:164).

It is evident, therefore, from a range of recent research investigations that 'the bulk of employment creation by South African SMMEs is likely to emerge from new microenterprise formations' (Kesper, 2001:177). This finding was reinforced by the World Bank's detailed investigation in Johannesburg, which showed conclusively that net employment growth in the SMME economy was accounted for by the arrival of

very small firm formations and not the expansion of existing SMMEs accounted for the overall employment growth in the SMME sector' (Berry et al., 2002:27).

#### 2.2.4 SMME programmes and poverty alleviation

The contribution of the SMME economy to poverty alleviation is the subject of growing controversy. Although a number of critical studies question the potential of the SMME economy to attain the goals of extensive employment creation, most observers concur that the SMME economy can be a positive factor in contributing to poverty alleviation (Rogerson, 1999; Kesper, 2002). For example, Dorfling (2001:93) argues that because of the sheer size of the microenterprise and informal economy, and the fact that many of those involved are female heads of households, disabled people and rural families who are struggling to survive, 'the sector plays a particularly important role in terms of income generation and poverty alleviation'. This important role assumed by the SMME economy is not necessarily a reflection of the success or impact of government programmes; indeed, once again it can be viewed as a default option for household survival taken up in the wake of the poor performance of other initiatives to address poverty (cf. Driver et al., 2001). The UNDP 2003 Human Development Report asserts that support for the SMME economy 'is assigned the burden of addressing poverty and unemployment directly' (UNDP, 2003:xxi).

A critical factor in determining the positive contribution the SMME economy might make to poverty reduction, especially by the micro- and informal enterprise, is the policy and support environment offered by local and national governments. Policy support and a less hostile attitude of local governments can allow greater informal income and livelihood opportunities and thus make the lives of the poor a little less poor (Mead, 1999). It has been argued that current national support programmes offer little in the way of support for survivalist enterprise, women entrepreneurs and rural SMMEs. For groups of survivalist enterprise at the coalface of poverty alleviation, the most effective level of policy intervention and support is at the local level rather than the national scale of government (Rogerson, 1999).

For groups of urban survivalist enterprise, the local economic development activities of local government can exert a profound impact on the economic health of these kinds of enterprise and on the wider coping strategies of poor households (Lund,

government intervention that can impact positively on the workings of survivalist informal enterprise and enable a contribution to poverty alleviation. The gains to poor women street traders of a changing policy environment represent documented examples of how the poor can be a little less poor, and how informal enterprises of South Africa's SMME economy can contribute to poverty alleviation (Skinner, 2000). The importance of local government as a key to SMME development is now officially recognised by the DTI (Erwin, 2002:7).

### 2.2.5 SMME programmes and empowerment

It is evident that an SMME strategy will undoubtedly contribute to redressing severe inequalities inherited from the apartheid period in terms of patterns of economic ownership (South Africa, 1995). In the case of the tourism sector, the arguments for promoting SMME development, especially of black entrepreneurs, are strongly tied to the objectives of transformation and black economic empowerment (Rogerson, 2004a, 2004b, 2004c). It has been cautioned that whilst SMMEs 'represent one vehicle for redressing racial income inequalities, it would be dangerous for policy makers to rely on SMMEs as the main agent for economic redistribution in South Africa' (Manning, 1996:65). Moreover, 'even if SMMEs are a successful channel of wealth to black entrepreneurs, this does not necessarily translate into reduced income inequality', because of the unequal distribution of the benefits of enterprise expansion (Qualmann, 2000; Berry et al., 2002).

At least, from the evidence of government support to SMMEs operating in the tourism sector, it is difficult to conclude that the impact of the national government's SMME support programmes has contributed to economic redistribution. For example, under the tourism support element of the SMEDP programme it has been disclosed that only 4,6 per cent of funding has been allocated to SMMEs owned by previously disadvantaged individuals – 95 per cent of funding in this particular DTI programme has gone to support the further development of white-owned enterprises (Rogerson, 2004c).

These criticisms surrounding the impact of government SMME programmes in terms of achieving national goals for reconstruction have been matched by negative evaluations concerning the impacts of 'sub-optimal implementation' (Berry et al.,

mandates, it was apparent that 'more rapid progress is required, especially with respect to appropriate non-financial service provision'; a greater scaling up of programmes was required for improving delivery; and there existed a gap in terms of large-scale delivery of finance to microenterprise (Dorfling, 2001:108). Overall, Qualmann (2000:i) states: 'The verdict amongst SMMEs and relevant stakeholders about progress is relatively negative.'

The broad conclusions among critics are that 'too few (black) SMMEs are reached, too little funding is available, too many centralised top-down programmes are considered – by Ntsika, Khula and the DTI, and delivery is felt to fall far short of initial promises, let alone expectations' (Qualmann, 2000:43). A core aspect of delivery failure has been that government programmes in general have not been reaching their target groups (Berry et al., 2002:42). In the DTI's broad-based strategy for black economic empowerment (BEE), it was conceded that 'to date the number of BEEs who access the DTI incentives is still unacceptably low' (DTI, 2003:29).

## 2.2.6 Which groups have been beneficiaries?

In terms of which groups have been prime beneficiaries of the government support programmes, the evidence from recent investigations suggests the following conclusions:

1. The use of SMME support programmes varies from sector to sector, pointing to the fact that existing support programmes respond better to the needs of certain sectors than others. For example, from the World Bank's Johannesburg study, almost 25 per cent of the clothing industry use SMME support programmes, compared with only 8 per cent in tourism and a meagre 5 per cent in information technology (Chandra et al., 2001).
2. Although the use of SMME programmes is low for all sizes of SMMEs, 'larger SMMEs are more likely to receive assistance than their smaller counterparts' (Berry et al., 2002:43). Most alarming is the conclusion that take-up for support programmes is lowest among microenterprises, a finding that underlines the poor reach or inadequate national response of SMME programmes to the support needs of emerging SMMEs.
3. Exporting SMMEs or high-growth SMMEs make more use and take greater

of Gauteng, Western Cape and KwaZulu-Natal suggests an implicit spatial and interprovincial bias in the benefits of the national programmes.

4. The major spatial difference in the impacts of the SMME programme is, however, between urban and rural or peri-urban areas. It is evident that, for a variety of reasons, urban-based SMMEs have been the prime beneficiaries in terms of their access and awareness of the SMME support programmes. The least advantaged have been rural entrepreneurs, the majority of whom, to a large extent, have been left out of the reach of the programmes.
5. Finally, there exist contradictory findings concerning the impact of SMME programmes on reaching the objectives of economic empowerment. On the basis of limited information, Berry et al. (2002) suggest that 'black entrepreneurs use SMME support programmes more than their white counterparts'. This finding is, however, challenged by a recent review of tourism SMME financing that showed that the International Tourism Marketing Assistance Scheme (ITMAS) and Small and Medium Enterprise Development Programme (SMEDP) financing was to a large extent directed at white-owned enterprises (Rogerson, 2004c).

### 2.2.7 Funding allocation bias

To some extent these impacts can be linked to the emphasis given in the period 1994 to 2003 to the small and medium-sized enterprises, where white ownership is dominant, compared with the relative neglect of policy support to microenterprises and the informal economy, where previously disadvantaged entrepreneurs are most important. This bias in the national government's SMME policy is admitted at the highest level in several statements made by DTI officials (Erwin, 2002; Damane, 2002, 2003).

One statistical index of DTI prioritisation is reflected in budgetary allocations. In Vote 31 of the Medium Term Budgetary Policy Statement for 2002 (South Africa, 2002), the largest individual appropriation for SMME development related to financing of the Small, Medium Manufacturing Development Programme (SMMDP) (now the SMEDP). The programme received R245 million, the vast majority of which goes to small and medium sized enterprises. By contrast, funding to Ntsika in support of the provision of non-financial services was a total of R40 million.

direct programme funding was cut from R31,5 million in 2001 to R27,6 million in 2002. Within this funding allocation to Ntsika is the budgetary support for the LBSCs, which the 1995 White Paper had identified as 'the most important vehicle for small business support in the near future' (South Africa, 1995:46). Quite clearly, the amount of support funding available to SMME development through Ntsika is dwarfed by the impact of other support programmes, such as the SMMDP.

Table 2. Ntsika: direct project funding

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The limited scale of funding to Ntsika was exceeded also by the R43 million allocated to support the national coordination office of the Manufacturing Advice Centre, which again has been a primary vehicle of support to growing and more established small and medium enterprises rather than microenterprises, although the programme is committed to supporting goals of transformation. Accordingly, during the period 1994 to 2003, DTI funding allocations for SMMEs have inevitably favoured and been biased heavily towards support for established small and medium enterprises (often white owned) rather than emerging microenterprises and the informal economy.

### 2.2.8 Lack of knowledge or access to support services

In assessing the effectiveness of South Africa's institutional support framework, Kesper (2002) and Berry et al. (2002) identify several areas in which the original well-intentioned support measures suffered from suboptimal implementation. At the heart of the problem, there is 'general mistrust to external agencies among SMMEs on the one hand and the incapacity of support institutions to persuasively raise awareness about their existence and effectiveness on the other' (Berry et al., 2002:38). The disappointing outreach of support services to SMMEs is in part the consequence of a widely disclosed 'lack of awareness' by both established and emerging SMMEs of the existence of SMME support initiatives (see Chandra et al., 2001; Kesper, 2001; Rogerson, 2001b, 2001c; DTI, 2003).

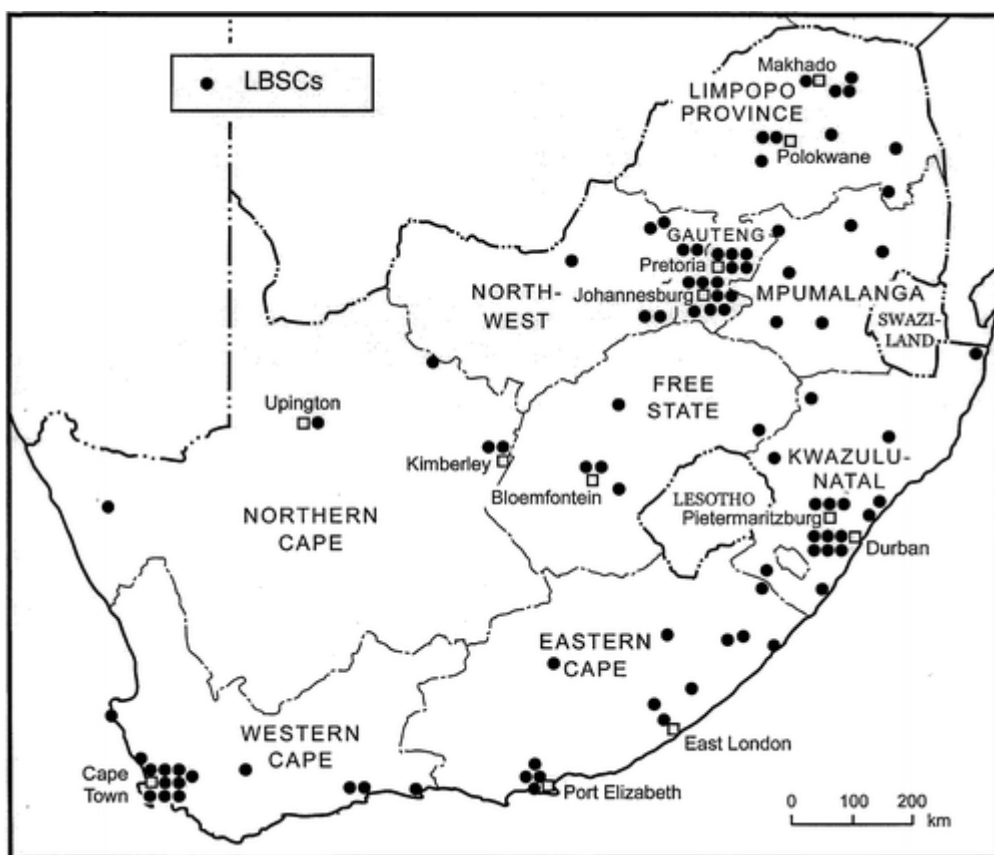
This problem of the awareness and knowledge of DTI support programmes is reinforced, to some extent, by an uneven geographical distribution of service



offered'. This is exacerbated by the high search costs imposed on SMME entrepreneurs for accessing services, and the often cumbersome administrative procedures alongside the continual changes in programmes that act to frustrate SMMEs from applying for support to available programmes (Kesper, 2002).

At a provincial level, Bloch & Daze (2000:6) analyse the distribution of LBSC support in relation to the estimated number of SMMEs and conclude that, on that basis, the Western Cape, Eastern Cape and Limpopo are 'over-represented', compared with Gauteng and KwaZulu-Natal. Figure 1 shows the current spatial distribution of LBSCs by province and geographical locality.

Figure 1: Spatial distribution of LBSCs, 2002



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Two points are in evidence concerning the national spatial grid of LBSC support:

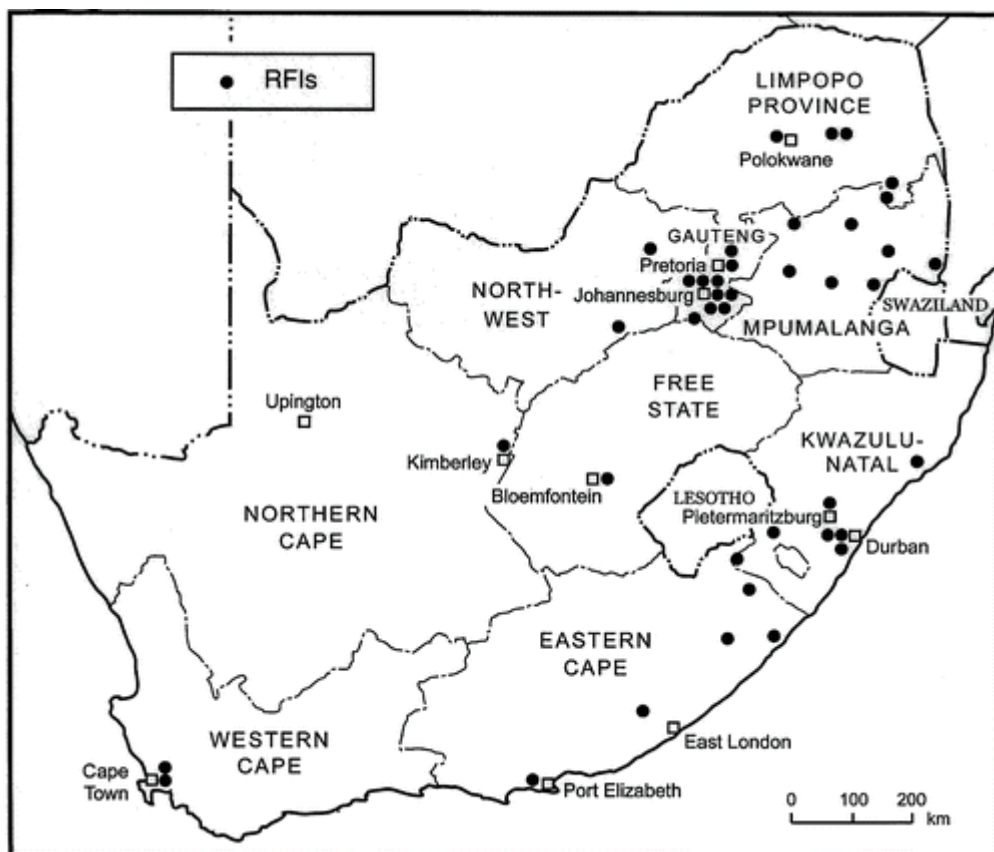
1. First, using the crude Ntsika data of numbers of SMMEs and setting those against the numbers of LBSCs, the poorer provinces of Eastern Cape, Limpopo and Northern Cape are relatively 'over-represented' or 'oversupplied' with LBSCs, compared with their numbers of SMMEs. By contrast, it emerges again



2. Second, at a more fine-grained level, it is clear that there has been a substantial degree of geographical decentralisation of the support network. Indeed, only 31 of the existing 91 LBSCs are situated in South Africa's four major metropolitan areas. The majority of LBSCs are widely dispersed to provide potential support for SMME development in the country's medium-sized centres and small towns.

Figure 2 provides a profile of the provincial and locality breakdown of Khula's network of the locational offices of RFIs. As with the analysis of the LBSC network, a number of observations can be made if the RFI data are compared with the broad provincial numbers of SMMEs, as identified by Ntsika in Table 1. Once again, what emerges is that the provinces of Gauteng, KwaZulu-Natal and Western Cape are relatively 'under-represented' in terms of RFI office network and that, correspondingly, the best-supplied provinces in relative terms are Mpumalanga, Eastern Cape and Limpopo.

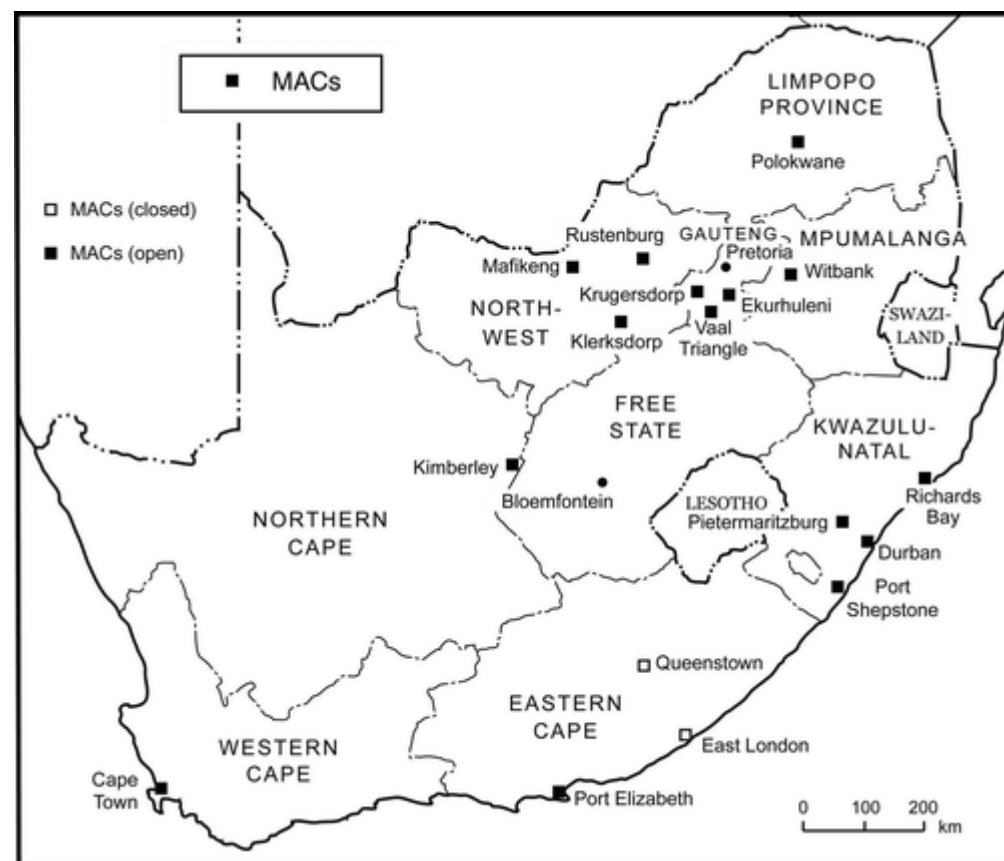
Figure 2. Spatial distribution of RFIs, 2002



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existing manufacturing SMMEs, is currently geographically uneven. The strongest outreach of the programme is in KwaZulu-Natal. Although a rollout has occurred from the initial centres in the Eastern Cape and KwaZulu-Natal with MACs established in six other provinces by 2003, the Free State was still without a provincial MAC. That said, the Free State provincial government had given a commitment for the future establishment of an MAC to be located in Bloemfontein (NAMAC Trust, 2003).

Figure 3. The NAMAC network of operations, 2003



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Taken together, these findings concerning the distribution of SMME support networks point to geographical unevenness and the existence of gaps in coverage and programme outreach. Nevertheless, this should be read against a conclusion that poor awareness of, and access to DTI programmes is a stronger factor behind programme disappointments rather than inappropriate spatial distribution of service provision.

### 2.2.9 The need for clear priorities

the increasing confusion because of at least three different development objectives at the policy and implementation levels of policy support, namely the economic (competitiveness), welfare (poverty alleviation) and political (black empowerment) objectives, which have led to a lack of clear selection criteria for support programmes (Rogerson, 1999; Qualmann, 2000; Kesper, 2002). As Dorfling (2001:109) states: 'With the government perceiving SMMEs as agents to address three key objectives - namely, employment promotion, redistribution, and the improvement in international competitiveness - there is a serious challenge in attempting to balance these needs.'

Several assessments of the performance of the post-1994 SMME programme - which are supported by the earlier analysis of budgetary allocations - point to the fact that since 1995, the weight of government support has focused on formal small and medium-sized enterprises with a corresponding relative neglect of survivalist informal enterprise. With the policy and support emphasis on issues of maximising growth and competitiveness, it is argued that as a product of the conflicting policy objectives for the SMME economy, the opportunities and potential for supporting poverty alleviation have been overlooked (Rogerson, 1999). As was emphasised, 'determining clear priority groups is urgent, be it targeting of more efficient promotion activities towards the more productive SMMEs, or to better assist survivalist, mainly black-run endeavours' (Berry et al., 2002:97).

## 2.2.10 Specific programme evaluations

Specific subprogrammes of SMME support have received different evaluations as regards their contributions to reconstruction goals.

### 2.2.10.1 LBSCs

The LBSC programme is the flagship of Ntsika's assistance to SMME development. In respect of LBSCs, Bloch & Daze (2000:2) aver that 'in the face of what is widely perceived as a disappointingly flawed process of implementation of the national strategy of small business, the LBSC programme, given its prominence, has acted as something of a lightning rod for criticism'. It is argued of the LBSCs that the 'programme's perceived debilities in terms of overall strategy, accreditation process, funding procedure, income generation performance, service fit (or lack thereof) with the needs of clients, and impact assessment have all been reported and commented

The detailed study conducted by Bloch & Daze (2000:19) shows that ‘rather than the orderly grid envisaged by the 1995 White Paper, the LBSC network is spreading across the country in the form of a uneven, colourful, sometimes even rather messy patchwork of loosely affiliated rather than tightly linked service providers of several types, who demonstrate varying capacities and capabilities’. In addition, certain shortcomings of the workings of the LBSC programme as a whole are identified, including skills shortages and the imperative for linking the non-financial services of LBSCs to the extension of financial support (Rogerson, 1999; Dorfling, 2001). Other research conducted in Johannesburg has disclosed dissatisfaction by SMMEs of the poor services received from LBSCs (Chandra et al., 2001).

A collection of nearly 40 success stories associated with Ntsika's LBSC programme was published recently (Ntsika, 2002). This collection underlines that, given adequate funding and adequate capacity within the LBSC provider, LBSCs can be valuable local assets for integrating SMME support services in an individual locality. Overall, it must be concluded that despite their limited funding relative to other support programmes for SMME development, LBSCs still represent ‘a highly promising and necessary business development service intervention for entrepreneurs and SMMEs in South Africa’ (Bloch & Daze, 2000:8).

#### 2.2.10.2 The role of Khula

Evaluations of the role of Khula in the DTI's SMME support programme assistance have been mixed. According to Khula sources, a number of achievements need to be recognised. In terms of the goal of facilitating mobilisation and direction of resources towards small and medium enterprise development, considerable recent progress is claimed (Khula, 2003). Table 3 provides information derived from Khula on the impact and outreach of its several different programmes from 1996 to 2002. The RFI programme, along with the Credit Guarantee Scheme, represent the anchor initiatives operated by Khula for assuring the sustainability of the SMME economy.

Table 3. Impact and outreach of Khula's programmes, 1996 to 31 March 2002



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SMME economy (Khula, 2003). The array of guarantee schemes are grounded on the principle of a risk-sharing arrangement whereby Khula assumes a portion of the risk associated with lending to the SMME economy. Likewise, a range of different products and services are offered by Khula to selected RFIs. In Khula's presentations of outputs to the Portfolio Committee in March 2003, new data were released that suggested that the RFI programme loans had reached R338 million with 165 880 clients. Of these, a total of 30 per cent were male, 70 per cent were female; 96 per cent were black and 4 per cent white. Some 70 per cent were urban and 30 per cent rural.

Together, the operations of the RFI and Credit Guarantee programmes have catalysed many critics. The commercial banks so far have channelled the bulk of the R165 million that has been advanced as loans to the SMME target market. The responsibility for risk assessment lies with RFIs that apply their own minimum lending criteria, with the most basic being the provision of an acceptable business plan. Disappointments have been stated with the limited loans granted by banks under the Individual Guarantees Scheme. It has been suggested that the provision of finance to emerging SMMEs 'has been restrained by both banks and microentrepreneurs not being aware of the existence of guarantee schemes' (Berry et al., 2002:46).

This has led to Khula's successful launch of a communication and marketing campaign targeted at banks, which has shown positive outcomes as regards lending to SMMEs. As Berry et al. (2002:72) observe: 'Recent evidence suggests that banks have tremendously extended their engagement to SMMEs since 1996.' Kesper (2002:32) points out that for those microentrepreneurs who happen to learn about the Khula programmes, 'constraints such as the lack of management support accompanying the loan application remain. Indeed, most microenterprises are not able to pass the hurdle of providing a business plan, the minimum requirements of banks to qualify for a loan, while bankers are often not willing (or able) to guide the potential client through the lending procedure.'

Overall, the criticisms levelled at Khula often relate to the events surrounding the way the organisation lost so much of its capital base and market confidence in its ability to deliver on its mandate. Weak management, poor corporate governance and greed by some of the RFI associates brought about a collapse of many RFIs during 1999/2000. During the following year, Khula put in place several controls to strengthen the quality

the favourable indicators are the following:

1. The establishment of a monitoring process
2. The development of programmes to ensure that RFI partners have more reliable capacity in such areas as accounting, debt collection, risk evaluation, marketing and administration
3. Khula's provision of technology to its associates to help them monitor loans more effectively and control their own finances
4. A reduction in the number of RFI partners that Khula supports

**Table 4** shows the progress that Khula has made in terms of curbing bad-debt write-offs over the fiscal periods 1999/2000 to 2001/2.

**Table 4. Khula business loans: bad debt write-offs, 1999/2000 to 2001/2**



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Other new innovations by Khula have been the initiation in 1998/9 of the Khula Start programme under which it assumes a lead role in setting up microcredit outlets, and the launch in 2000 of the Thusa Mentorship Programme in an attempt to bridge the skills gap and build greater levels of trust between banks and borrowers. Additional institutional strengthening by Khula includes improvements in corporate governance and financial management control systems. This is reflected in the fact that during the 2001/2 fiscal period, no further RFI collapses were reported. This analysis – supported by that of Monkman (2003) – points to a conclusion that after a bad period of activities during 1996–9, Khula's operations were strengthened and the performance indicators show an improved post-2000 contribution to SMME development.

### 2.2.10.3 MACs

In contrast to the weight of criticisms directed at Ntsika's LBSC and Khula's RFI programmes, the initial assessments of the Manufacturing Advice Centre programme have been overwhelmingly positive (Qualmann, 2000; Dorfling, 2001). The MAC



(Boyd, 2002). Based on the promising experience and outcomes of the first two MACs, situated in Port Elizabeth and Durban, the decision was made to launch a nationwide system with nine provincial offices and a network of satellite operations that were targeted to be operational by end 2002 (Dorfling, 2001). Moreover, the DTI has committed itself to funding the MAC programme for another ten years. Confidence in the programme is reflected in changing DTI budgetary allocations, with increased budgetary allocations to support the activities of NAMAC.

Overall, it is argued that the successes of the MAC programme are based on four factors (Qualmann, 2000; Kesper, 2002):

1. First, is the existence of a well-developed and efficiently managed Small Enterprise Development Fund that partly finances improvement projects, particularly for manufacturing SMMEs operated by black entrepreneurs.
2. Second, is the MACs proven track record of delivery of business services, especially to small and medium-sized enterprises.
3. The third ingredient of success has been the existence of a strong core of competencies built at national and regional levels, which has set the context for the replication of MACs on a wider nationwide basis (Berry et al., 2002).
4. Finally, closely associated with the MAC programme is the Business Referral and Information Network (BRAIN), which was initiated by the DTI to furnish SMMEs with easy access to strategic business information for all stages of the enterprise's life cycle and relevant for both domestic and international markets. The BRAIN programme functions strongly so as to complement positively the activities of the MACs with its primary focus on improving 'the competitiveness and growth of SMMEs in South Africa through the supply of relevant value-added information' through a powerful networking system linked to a national information system (Boyd, 2002; NAMAC Trust, 2003).

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### 3. Conclusions

Given the importance of the SMME economy for broad national goals, including sustainable development, there is a need for continual monitoring of the impact of



wide spectrum of viewpoints and attitudes' (Kesper, 2002:270). Several key conclusions emerge from this analysis concerning data inadequacies and the performance of government SMME programme impacts in the period 1994 to 2003.

Conclusions on the data are the following:

1. Official data concerning the actual numbers of SMMEs and the performance and impacts of the government's SMME programmes are scarce and generally weak.
2. Reliable indicators on the success of SMMEs in terms of the growth of enterprises as regards employment or output indicators are absent.
3. Data on growth in enterprise numbers as an index of successful government SMME programmes are unreliable.
4. There is no useful spatial data on the SMME economy.

Conclusions on performance include:

1. The SMME economy exhibits only a weak contribution as regards employment creation because most SMMEs do not grow.
2. The existing government SMME programmes have largely been biased towards the group of medium and small-sized enterprises and, to a large extent, have by-passed microenterprises and the informal economy.
3. Some positive signs for future improvement in impacts can be gained from the individual assessments on LBSCs, the restructured Khula operations and the NAMAC programmes.

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