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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 SMME programmes. In particular, the evaluation objectives, including economic growth and development, to the SMME programmes because of the SMME programmes' impact on the economy.

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1. Introduction

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

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 noted that the SMME sector is not a homogeneous one. The term SMME policy in this article refers to the policy of the Department of Trade and Industry (the DTI) which was established in 1994. The DTI's policy to replace the apartheid-era policy of industrial development, (Berry et al., [2002](#), [2003](#), [2004](#)) was largely shaped in part by a process of consultation and implementation and the role of the DTI in the post-1995 era is discussed in the White Paper. New key policy areas are those of local enterprise development's own

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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.

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 from an economic perspective. The policy is based on the promotion of SMME development through international support mechanisms. During the period of the concept of SMME development to SMME development in the global context, very diverse and equally important [ment]



1. The introduction 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. The focus was to be on small and medium-sized enterprises, particularly those in the manufacturing and service sectors, and to provide them with the financial and technical support needed to develop and grow. The institutional framework was to be based on a combination of government and private sector initiatives, with the government playing a key role in the establishment and support of the Ntsika and Khula. A decentralised approach was to be adopted, with the government focusing on national-level support and the private sector on local business development. The programme of support was to be based on a combination of financial and non-financial support, with the government providing the financial support and the private sector providing the non-financial support. The programme was to be based on a combination of financial and non-financial support, with the government providing the financial support and the private sector providing the non-financial support.

1. 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).

References

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](#)).

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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:

3. Conclusions

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 (Ntsika, [2004](#)). 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 (Ntsika, [2004](#)).

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At the onset of the programme, the following were measured

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for evaluation was at the provincial or

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2.2.1 P

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.

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SMMEs, a nt's at positive ents n by the respect to port some e situation in SMME



1. 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).

References

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 indicators. The absence of a clear policy focus on these dynamic SMMEs, as the largest and most productive segment of the formal economy, is a significant gap in the

absence of SMME expansion in the national economy. A potential strategy for SMME expansion in the national economy is to focus on the dynamic SMMEs that had the highest growth rates and the highest employment creation rates.

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

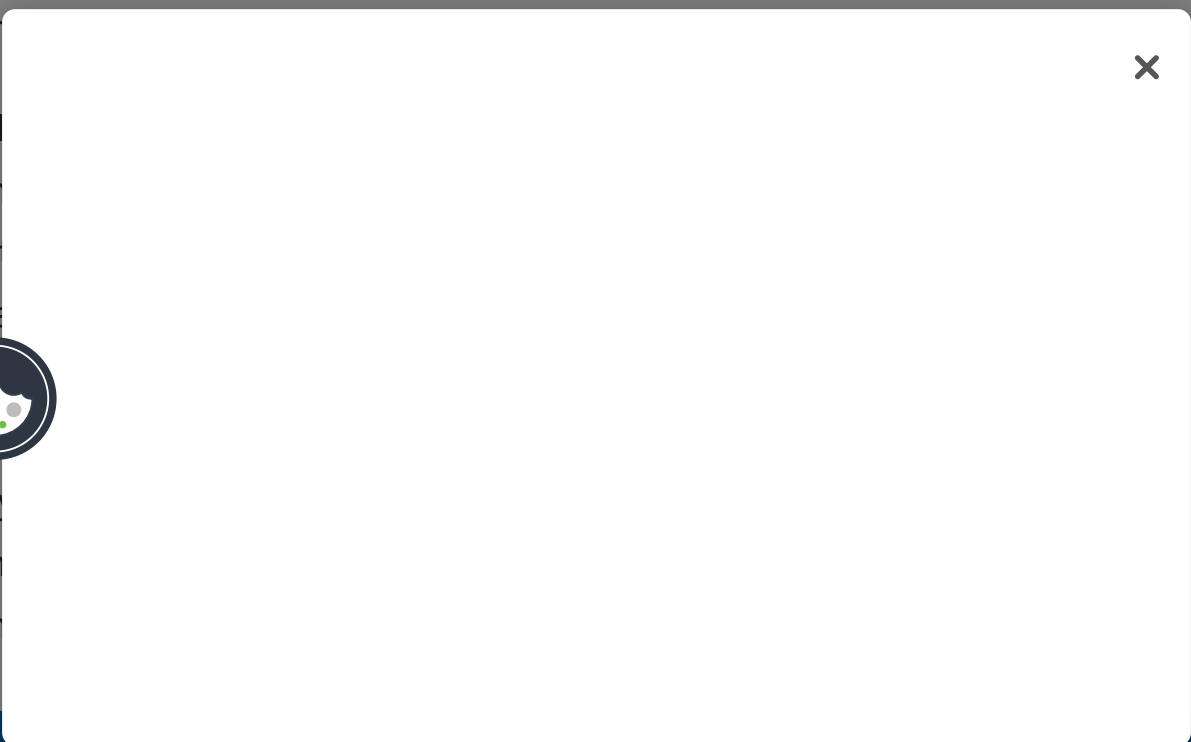
or with a certain function upstream or downstream of the production chain, like in other developing economies, South African SMMEs try to compete with larger enterprises in the same product markets, possibly for somewhat different consumer groups' (Qualmann, 2000:41).

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

It is evident that the bulk of employment is created by the microenterprise sector. World Bank research indicates that net employment is created by firms in the economy. The firm form of employment

the bulk of employment is created by the microenterprise sector. World Bank research indicates that net employment is created by firms in the economy. The firm form of employment



1. Introduction

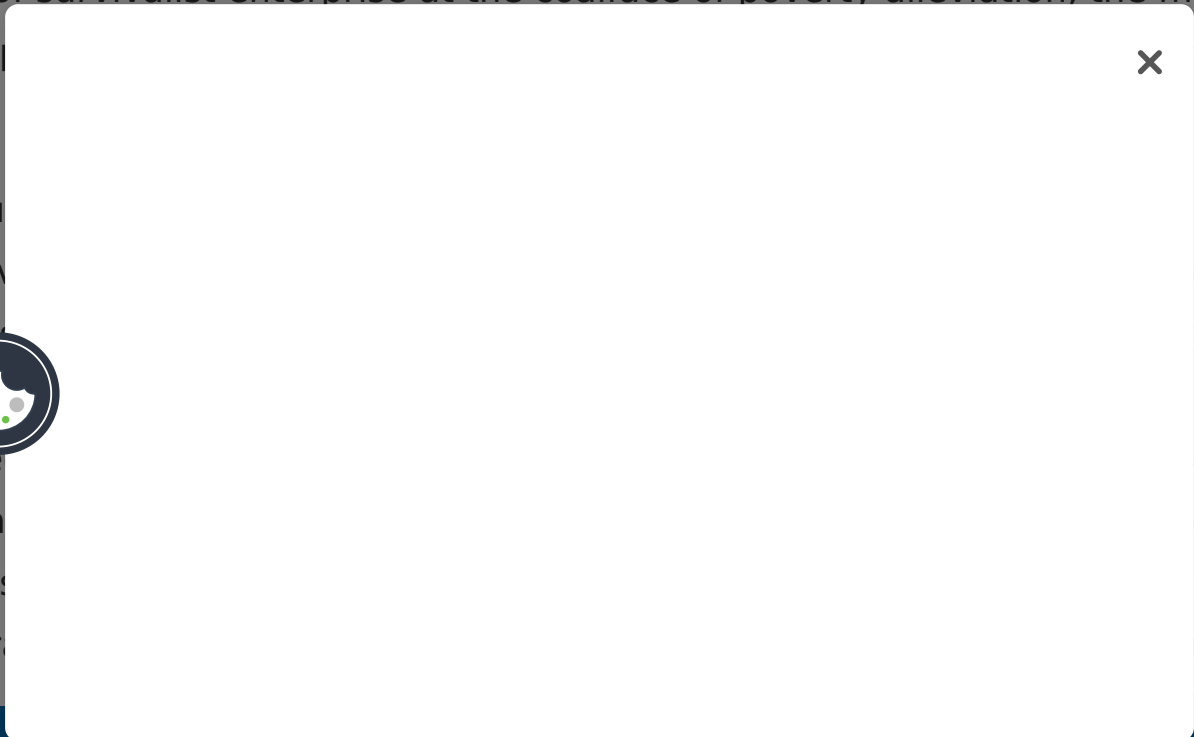
The contribution of the SMME economy to poverty alleviation is the subject of growing controversy. Although a number of critical studies question the potential of the SMME economy to attain the goals of extensive employment creation, most observers concur that the SMME economy can be a positive factor 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).

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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 support is at the local level, rather than at the national scale of government. For groups of survivalist enterprise, local government activities of support for these kinds of enterprise (Mead [1998](#)). The effectiveness of such support depends on the timing and nature of government intervention. For women entrepreneurs, local government support is essential for women entrepreneurs. For women entrepreneurs, street trading is a common example of survivalist enterprise in Africa's



of local government as a key to SMME development is now officially recognised by the

DTI (Erwin, [2002:7](#)).

2. The government's SMME programme, 1994-2003

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 criteria are in terms of achieving economic evaluations concerning the impact of Kesper, [2002](#), whilst both Ntsik was appropriate non-financial required for improving of finance to micro 'The verdict

1. Introduction

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 -

2. The government's SMME programme, 1994-2003

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).

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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 low for small SMMEs, particularly those in rural areas, the poor and those in the informal sector. This is particularly true for those in the support sectors of tourism, retail and services. The DTI's findings that 'the take-up of support programmes is low for small SMMEs, particularly those in rural areas, the poor and those in the informal sector' (DTI, [2003](#):29) is a clear indication of the need for a more targeted approach to SMME support.
3. Export-oriented SMMEs are more likely to receive assistance than those in the domestic market. This is particularly true for those in the support sectors of tourism, retail and services. The DTI's findings that 'the take-up of support programmes is low for small SMMEs, particularly those in rural areas, the poor and those in the informal sector' (DTI, [2003](#):29) is a clear indication of the need for a more targeted approach to SMME support.
4. The number of SMMEs that receive assistance is low, particularly for a variety of reasons. The DTI's findings that 'the take-up of support programmes is low for small SMMEs, particularly those in rural areas, the poor and those in the informal sector' (DTI, [2003](#):29) is a clear indication of the need for a more targeted approach to SMME support.

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

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1. Introduction
funding available to SMME development through Ntsika is dwarfed by the impact of other support programmes, such as the SMMDP.

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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

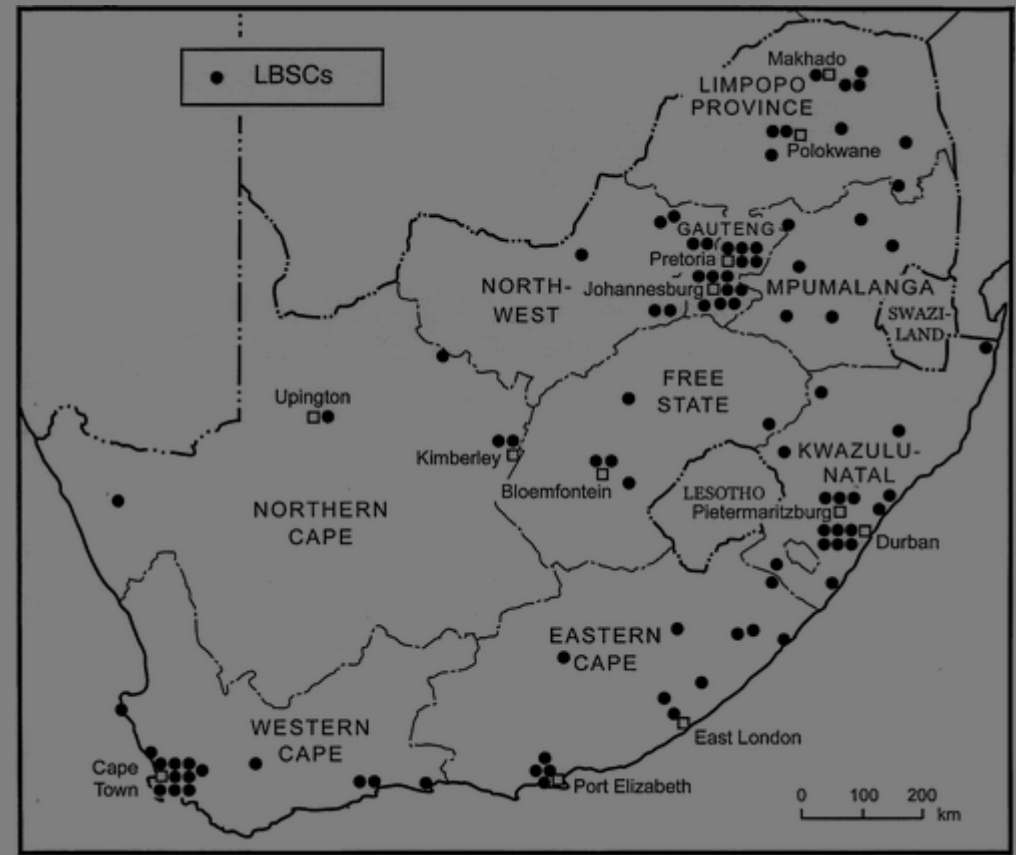
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At a provincial level, Bloch & Daze (2000:6) analyse the distribution of LBSC support in relation to the estimated number of SMMEs and conclude that, on that basis, the Western Cape, Eastern Cape and Limpopo are 'over-represented', compared with Gauteng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

References

Figure 1: Spatial distribution of LBSCs, 2002



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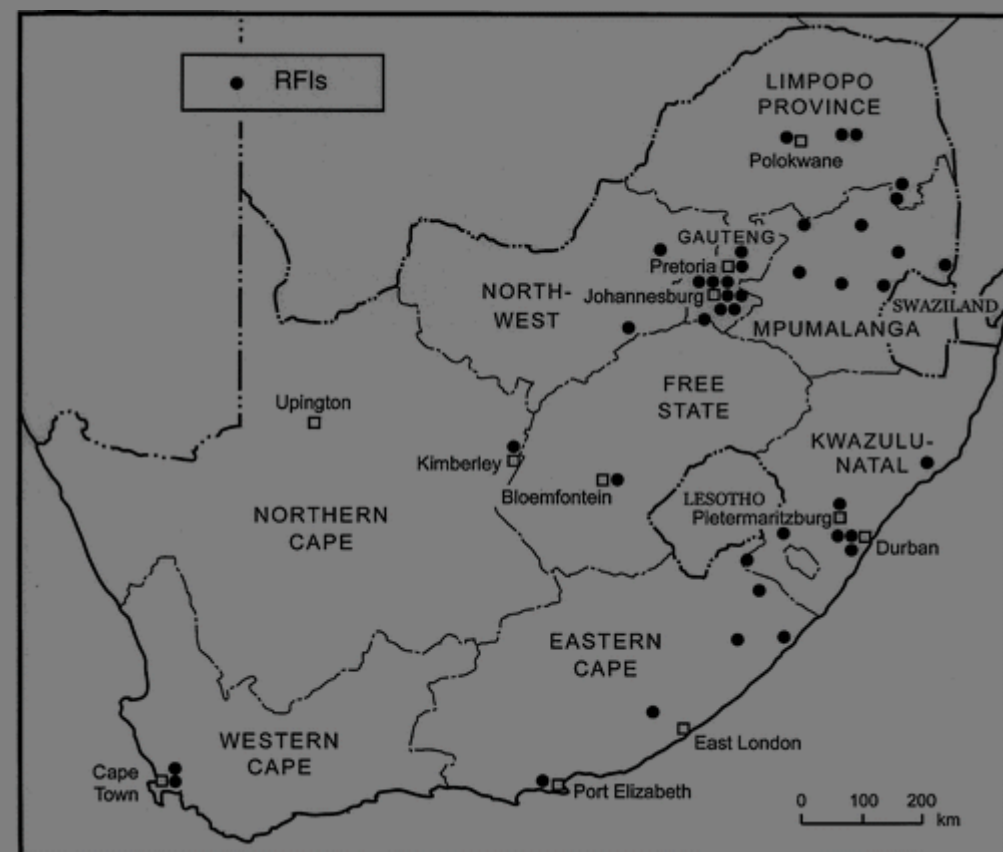
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Figure 2 provides a profile of the provincial and locality breakdown of Khula's network of the locational offices of RFIs. As with the analysis of the LBSC network, a number of observations can be made if the RFI data are compared with the broad provincial 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



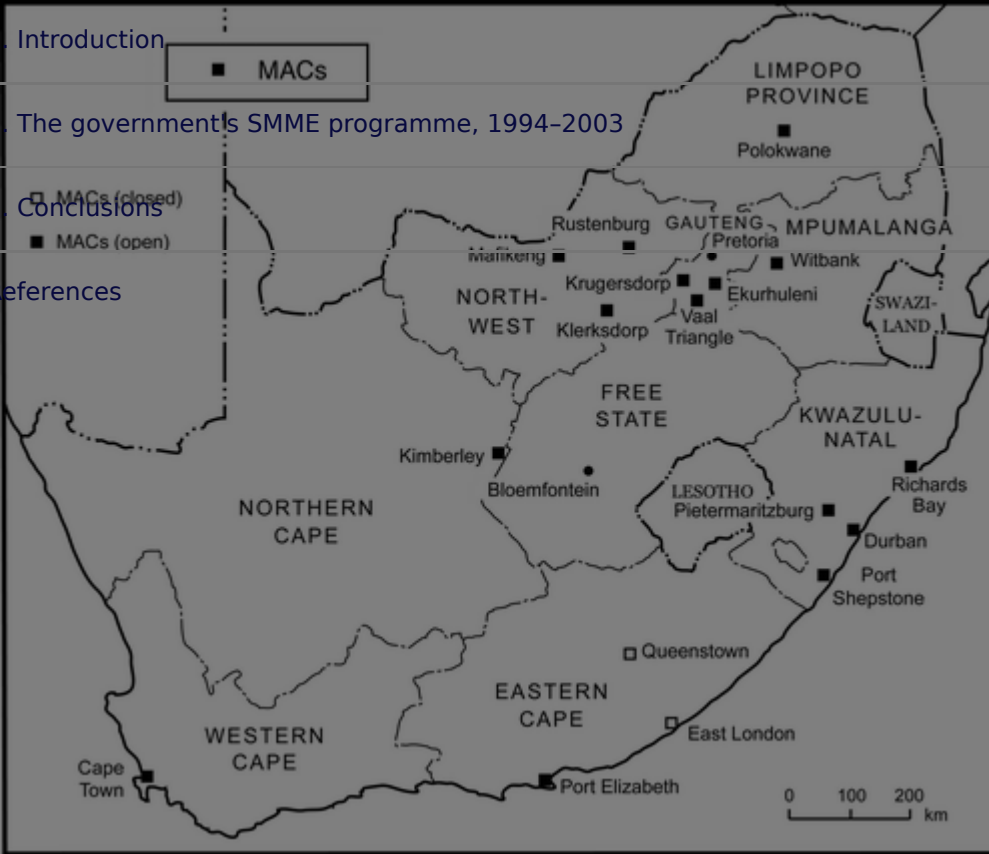
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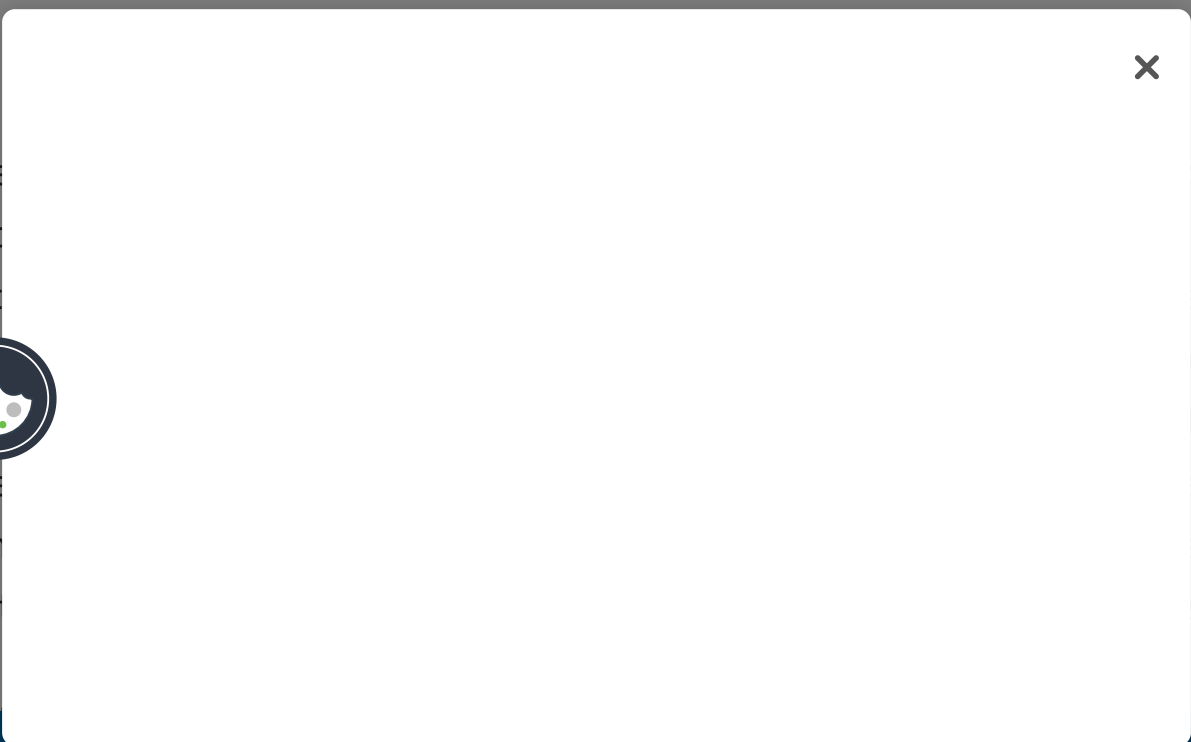
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Taken together, these findings concerning the distribution of SMME support networks point to geographical unevenness and the existence of gaps in coverage and programme outreach. Nevertheless, this should be read against a conclusion that poor awareness 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

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impacts of theme is objectives at ic (erment) programmes states: 'With es - namely, al se needs.'



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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 upon in (Bloch & Daze, [2000](#):2).

The details of the programme are more than the orderly growth of the sector, extending across the country in a haphazard patchwork of local initiatives. The programme, who demonstrates the shortcomings of the work, the shortage of skills, the extension of the programme to the conduct of poor services

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A collection of nearly 40 success stories associated with Ntsika's LBSC programme was published recently (Ntsika, 2002). This collection underlines that, given adequate
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funding and adequate capacity within the LBSC provider, LBSCs can be valuable local
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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
References
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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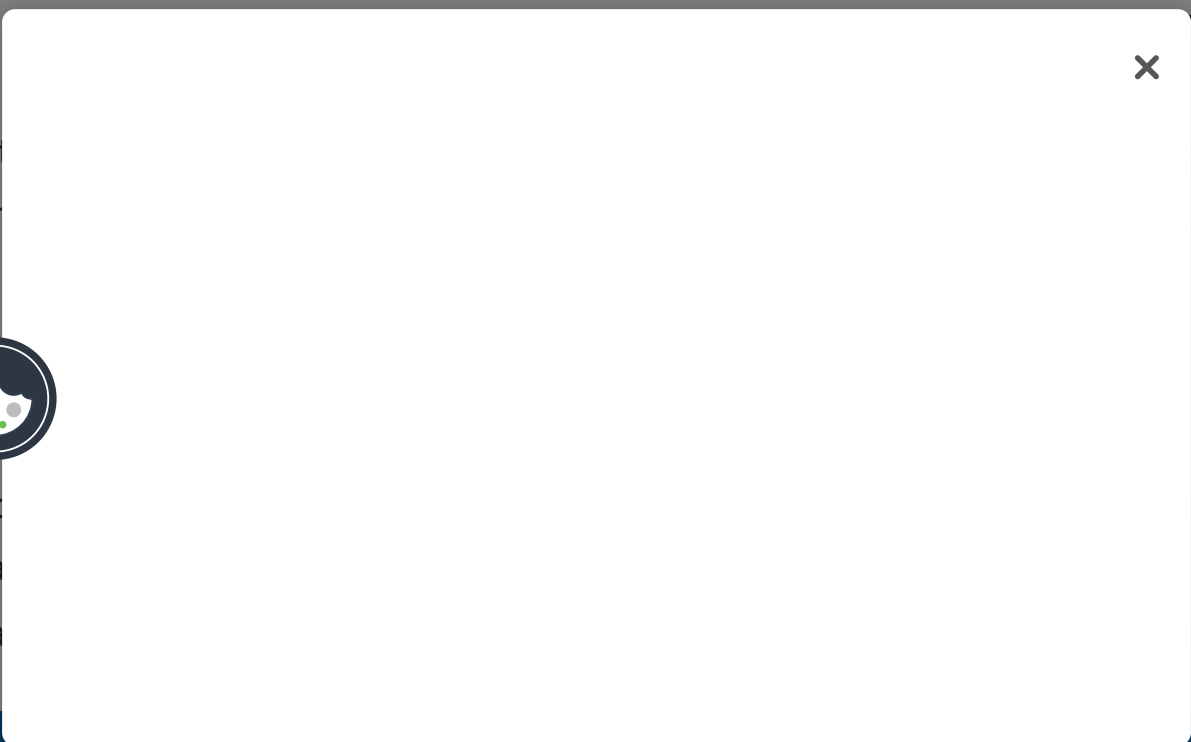
Together, the operations of the RFI and Credit Guarantee programmes have catalysed many critics. The commercial banks so far have channelled the bulk of the R165 million that has been advanced as loans to the SMME target market. The responsibility for risk assessment lies with RFIs that apply their own 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

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1. Introduction
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.

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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 programme was designed to supply sector specific, high quality advisory services to manufacturing firms. The programme was implemented in two MACs, one in the north and one in the south, situated in the industrial belts. The programme was a nationwide system with a central office in the north and regional offices in the south. The programme targeted small and medium enterprises. The programme has been successful in building confidence in the programme and has resulted in increased budgetary support. Overall, the programme has been successful in four factors (Qualmann, 2000; Dorfling, 2001).



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](#)).

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 national programmes (Berry et al., [2002](#); UNDP, [2003](#)). Overall, it has been observed

that since the early 1990s, the SMME sector has been marked by a wide spread of small-scale enterprises. The conclusions of the study indicate that the emergence of SMMEs is a result of the government's policy of promoting small-scale enterprises.

Conclusions

1. Overall, the impact of the SMME sector on the economy is weak.
2. Reliability of the data is a concern for the government.
3. Data collection is a challenge for the government.



4. There is no useful spatial data on the SMME economy.

2. The government's SMME programme, 1994-2003:
Conclusions on performance include:

3. Conclusions

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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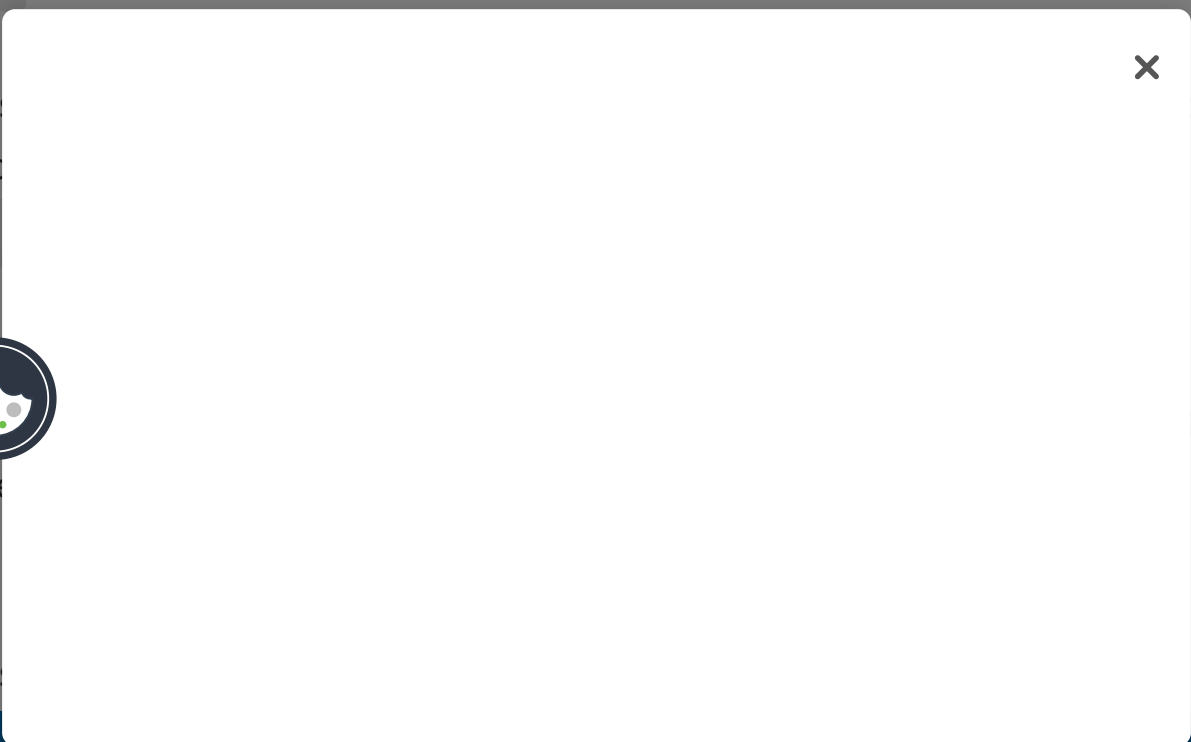
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