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SOUTH AFRICA



**Enterprise Development  
Strategy  
Portfolio Committee update**

**17 March 2006**

# Integrated Strategy to Support Small Businesses-

## Background:

Integrated Small Enterprise Development Strategy tabled to Cabinet and approved in October 2005

## Update to the Trade and Industry Portfolio Committee

- Rationale for the revised strategy
- SMME Sector Trends
- Revised strategy objectives
- Strategic approaches
- Strategy refinement and progress update

# CABINET PRESENTATION OUTLINE

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## RATIONALE FOR REVISING THE STRATEGY

- Limited contribution of small businesses to formal employment and economic growth
- Lack of entrepreneurship culture
- Continued lack of access to finance (between R10k-R250K)
- High small enterprise failure rates
- Over-concentration of small businesses particularly Black in micro category
- Inadequate segmentation of the market and support requirements according to size and type of entrepreneur
- Limited capacity amongst implementing agencies (whole sale approach)
- Poor co-ordination of small business support interventions

# TRENDS & PERFORMANCE- SELF EMPLOYED AND EMPLOYERS

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Table 6 – Number of employers or self-employed (in their main capacity)

	Formal	Informal	Total
Employers or self-employed (including commercial farms)	906 000	1 234 000	1 750 000
Subsistence farming		261 000	269 000
Total			2 019 000

# ENTREPRENEURS STARTING AND RUNNING A BUSINESS

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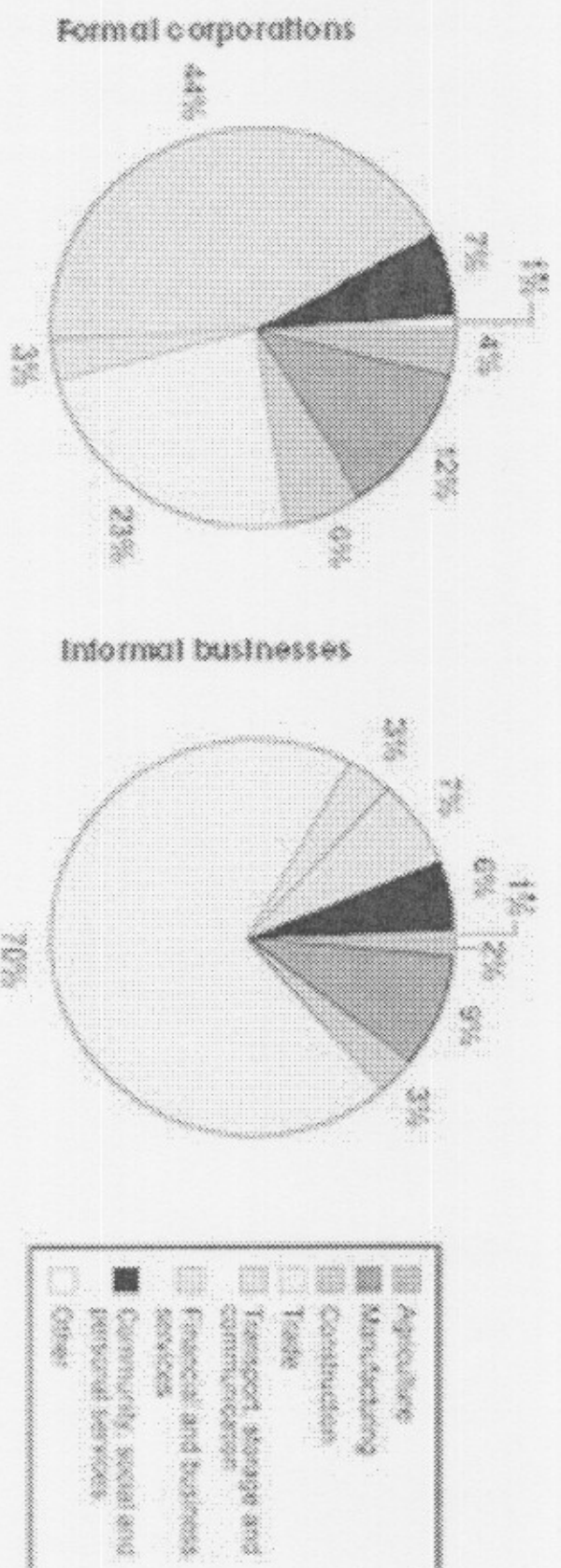
Table 7 - Number of entrepreneurs

Number of people currently	2002	2003
Starting a business	1,000,000	693,073
Running a business less than 3.5 years old ("new firms")	460,000	506,893
Running a business older than 3.5 years ("established firms")	730,000	273,182
Total	2,190,000	1,472,148

Sources: GEM 2002 and own calculations based on the GEM 2003 complementary reports<sup>3</sup>

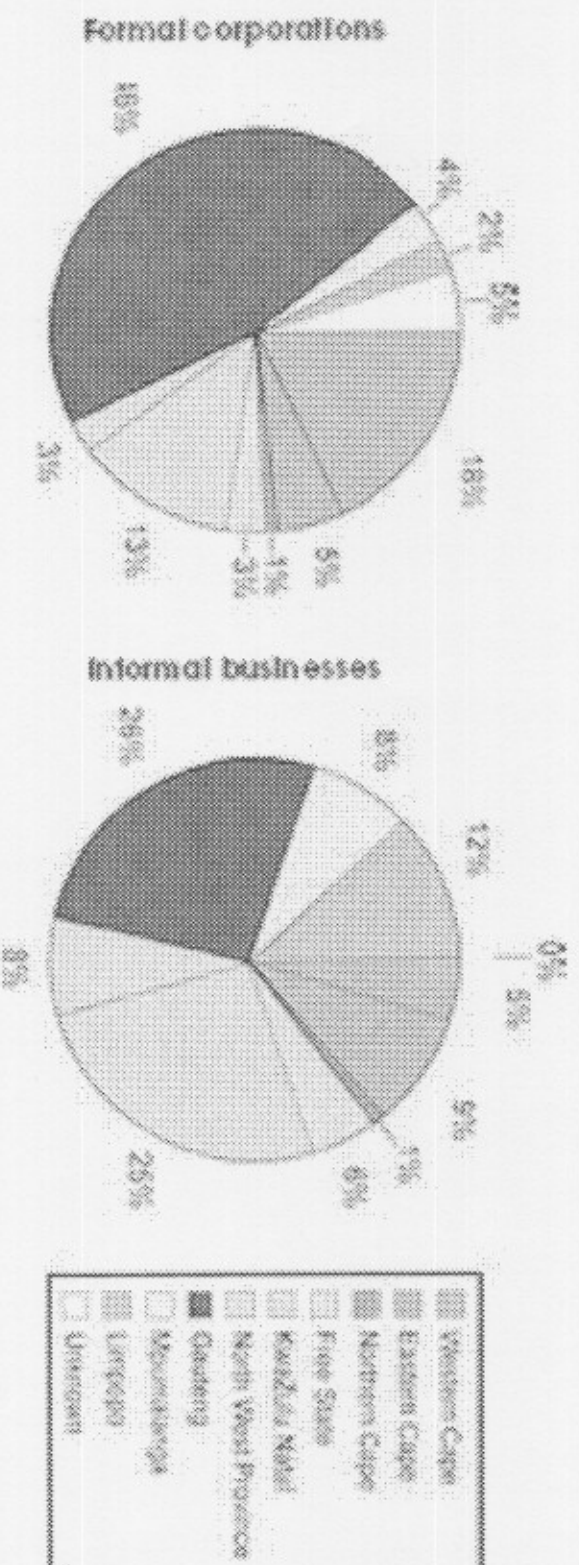
# IN WHICH SECTORS ARE SMALL BUSINESSES OPERATING?

Figure 9 – Main industries for formal and informal businesses



# WHERE ARE SA SMALL BUSINESSES SITUATED?

Figure 10 - Number of formal and informal businesses per province



Source: Census SA: International Business Register 2007/08

Source: Census SA: CIBSD Guide 2008

# CONTRIBUTION TO EMPLOYMENT PER CLASS CATEGORY

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Table 16 – Contributions to employment: comparison of Stats SA  
with Ntsika 2002 Report

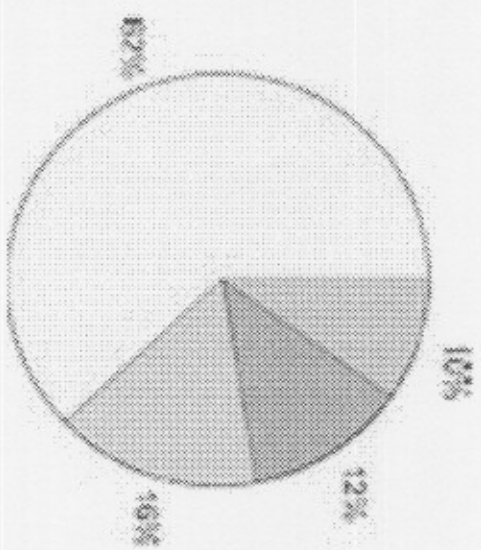
	Micro (%)	Very small (%)	Small (%)	Medium and large (%)	Unspecified / don't know (%)	Total (%)
2008 (based on LFS)	33	23	16	25	2	100
2002 (based on Ntsika)	32	10	14	44	–	100

Source: IES November 2008 and Ntsika 2002

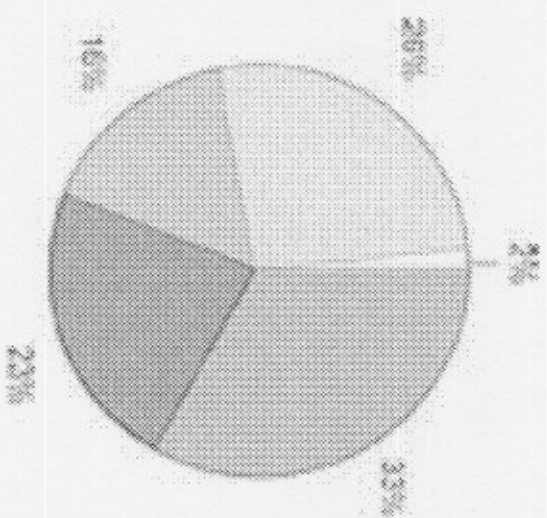


# CONTRIBUTION TO GDP AND EMPLOYMENT

Contribution to GDP: GVA 2

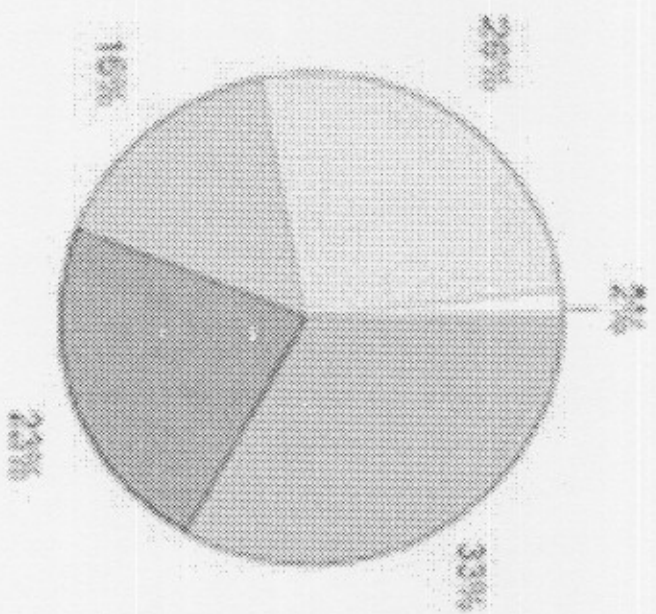


Contribution to total employment



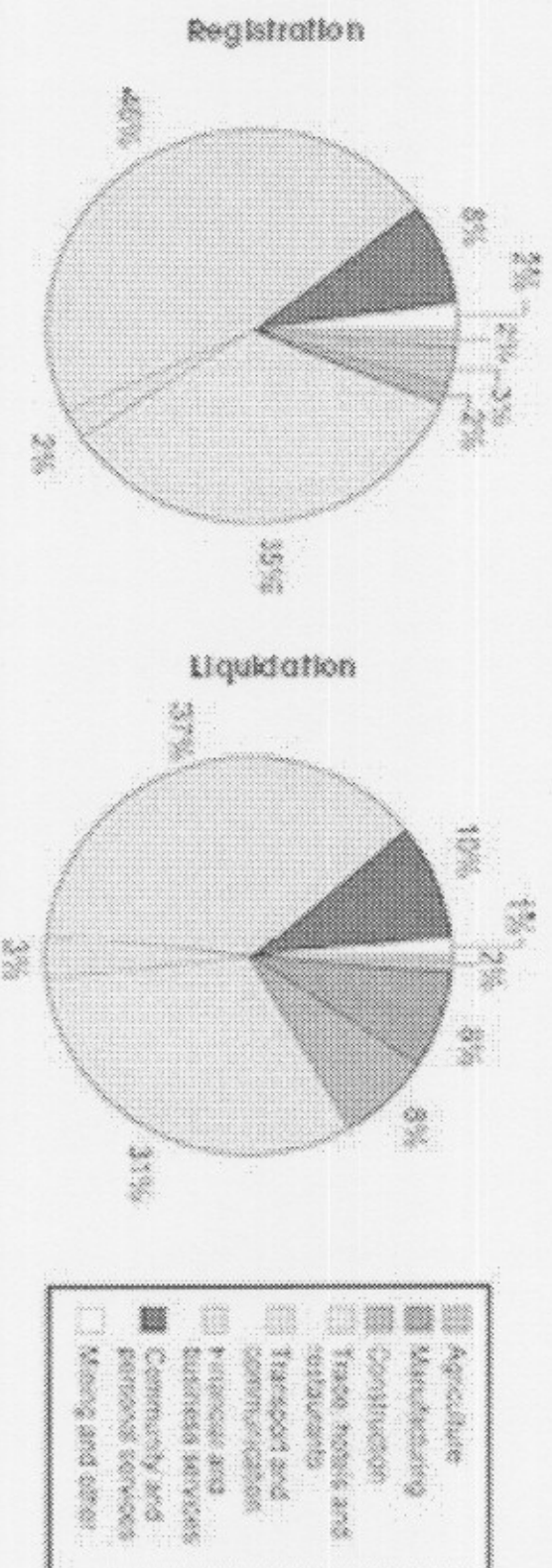
# CONTRIBUTION TO TOTAL EMPLOYMENT

Contribution to total employment



# HOW MANY SMALL BUSINESSES APPEAR AND DISAPPEAR EACH YEAR?

Figure 14 – Registrations and liquidations of Companies and CCs by sector, 2003

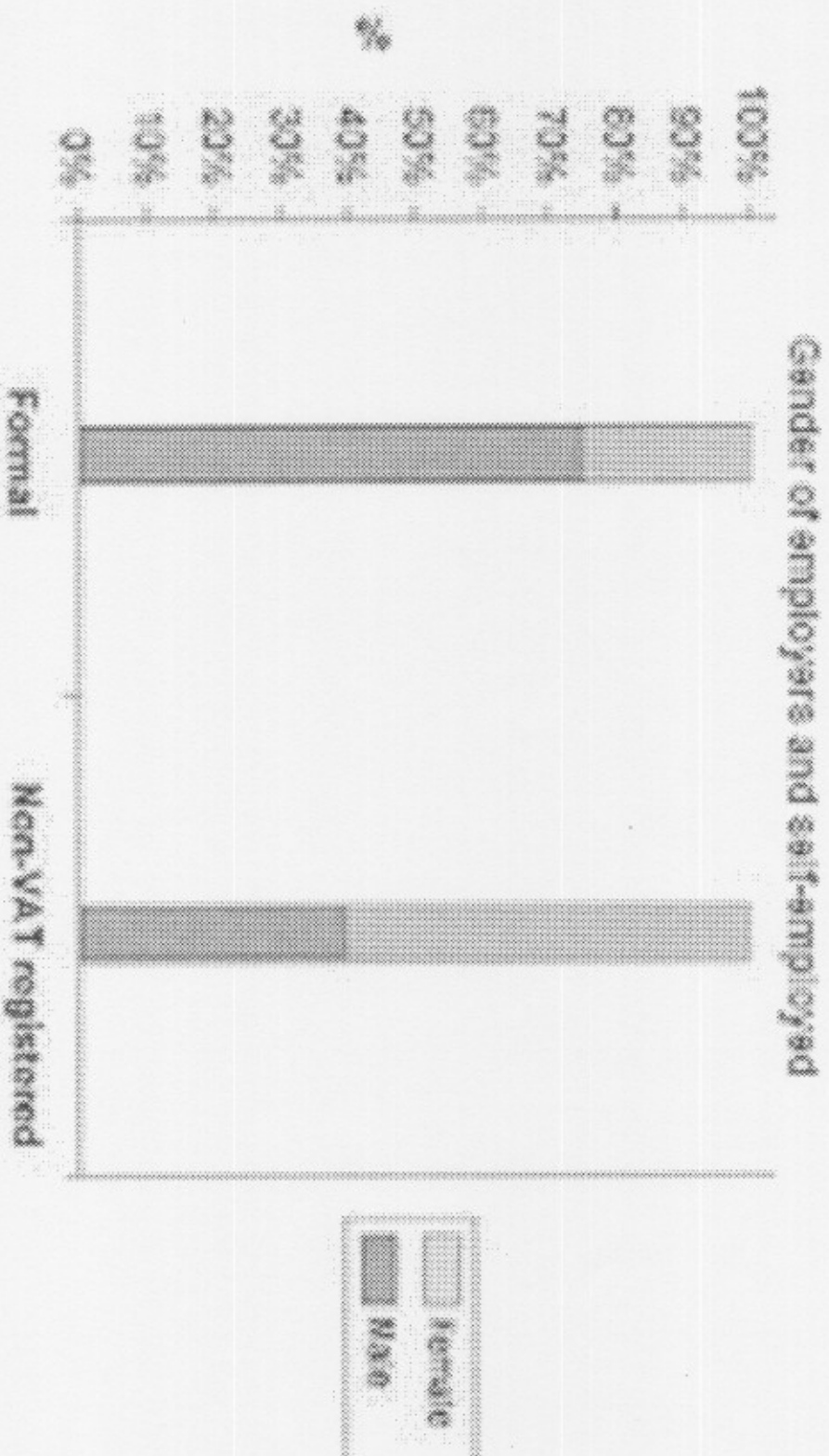


Source: Compiled from CIRRO 2004

Source: Compiled from Sars SA 2004



# GENDER DISTRIBUTION OF OWNERS OF FORMAL AND INFORMAL BUSINESSES



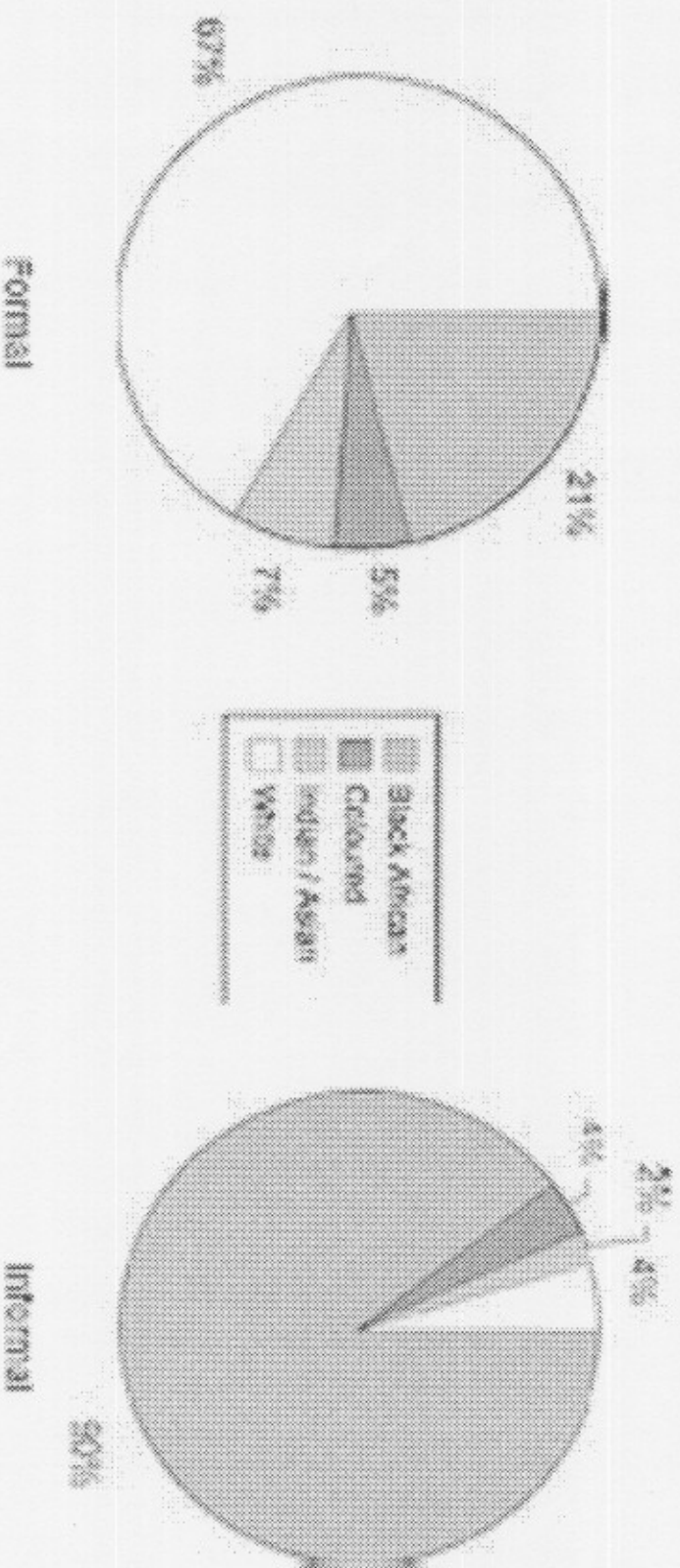
Source: *Sasa SALES, September 2003 and Sasa SA SESE Survey, 2001*

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# Formal and informal businesses by ethnic background of owner

Figure 18 - Formal and informal businesses by ethnic background of owner



Source: Stats SA LFS, 2003

*Formal businesses are defined here as those registered as formal by their workers*

Source: Stats SA SENSE Survey, 2002

# CABINET PRESENTATION OUTLINE

## Objectives of revised strategy

- Create an enabling environment for small enterprises
- Create sustainable jobs in the small business sector
- Ensure that blacks are equitably represented in the small business sector
- Increase the competitiveness of the small business sector
- Improve co-ordination of government initiatives of supporting the small business sector
- Increase small business' contribution to GDP

# CABINET PRESENTATION OUTLINE

## Proposed strategic approach ...

### Challenges

- Over-concentration of black small businesses in micro category
- Inadequate segmentation of the market and support requirements according to size and type of entrepreneur

### Strategic Responses

- Promote alternative forms of enterprise ownership (coops and franchise)
- Encourage graduation of informal enterprises
- Develop youth entrepreneurship strategy
- Target the following categories of SMME's
  - Micro enterprises
  - Informal enterprises
  - Black, women and youth-owned enterprises
  - Small enterprises in the following sectors
    - Agriculture and agro-processing
    - Construction
    - Small-scale manufacturing
    - Tourism
    - Crafts and cultural industries
    - Minerals beneficiation
    - ICT

Align to ASGISA priorities

# CABINET PRESENTATION OUTLINE

Proposed strategic approach ...

## Challenges

- Need for support targeting to address spatial disparities
- Poor alignment and co-ordination of government initiatives
- Lack of a coherent voice for small businesses
- Continued unfavourable regulatory environment

## Strategic Responses

- Roll-out of Seda access points to provinces and districts
- Roll out of micro finance support through APEX Fund and MAFISA
- Establish Small Business Council
- Sec 18 on identification of insensitive regulation



# CABINET PRESENTATION OUTLINE

Proposed strategic approach ...

## Challenges

- Continued lack of access to finance
- for black entrepreneurs
  
- High failure rates

## Strategic Responses

- Adopt a targeted approach
  - Apex Fund to service survivalists and micro enterprises
  - Khula to service Small and medium size enterprises through a partnership approach with banks and provincial and national DFIs
- Exploring possibilities of reviewing and consolidating access to finance activities
- Review appropriateness of dti incentive schemes for small enterprises
- Handholding support
  - Business plan development
  - Mentoring
  - Tendering support
  - Export support
  - Technical and management skills

# CABINET APPROVAL

## CONDITIONAL TO THE REFINEMENT OF THE FOLLOWING STRATEGY ELEMENTS

1. Augmenting the government's procurement policies enabling preferential procurement in favour of SMMEs and government adherence to the 30 days payment cycle.
2. Improving access to finance, specifically to the loan size range of R10 000 –R250 000
3. Encouraging the creation of women-owned, rural and community enterprises

### Additional to the above

1. Refinement of coordination arrangements at the following levels
  1. Institutional
  2. Programmes
  3. Research with focus on Regulatory Impact Assessment

WORK IN PROGRESS FOR NECESSARY INPUTS INTO THE FINAL STRATEGY .... NEXT SLIDES

# 1. Facilitating Market Access-Set Asides

## Background:

Cabinet Memo in Dec 2005

Memo referred back for its refinement with regard to the following,

- Cabinet Memo be re-drafted as a joint memo between the Minister of Trade and Industry and the Minister of Finance.
- The revised memo be submitted for consideration by the end of February 2006
- Consultations with other Departments be strengthened co-opting other Cabinet Members to assist
- A preferential framework favoring procurement of 10 specified products from SMMEs be developed with respective implementation arrangements
- The amendment of the Procurement Act be expedited

## Update:

Joint Cabinet Memo the DTI and National Treasury – March 05

A joint working group has been established between the National Treasury and the Department of Trade and Industry. The working group has adopted a phased approach in its recommendation as follows;

# 1. Facilitating Market Access-Set Asides (Cont.)

## Phase 1:

**Outcome by 30 April 2006: 10 Products for the National programme identified**

**And policy framework defined**

- Public sector contract segmentation for the identification of strategic products for SMME preferential supply
- Establishment of contract value thresholds for the purposes of establishing SMME preferential supply goals
- Establishment of a clear definition for the preferential supplier SMMEs for the SMME preferential procurement policy

## Phase 2:

**Outcome by June 2006 : Preferential Procurement Policy Framework Act regulations ammended enabling SMMEs as a preferred groups for specified 10 products for the National programme**

- Consultations with other Departments
- Establishment of preferential procurement mechanism, payment cycle monitoring mechanism and information portal
- Programme implementation arrangements locating the programme within the National Treassury Unit responsible for procurement

## Phase 3:

**Outcome by July 2006: Cabinet Memo**

- Preferential Procurement Policy Framework Act review for the Act to align with Broad Base Black Economic Empowerment

## 2. Improving Access to Finance- Loan Size (R10 000- R250K)

### Background:

Strategy proposal for the consolidation of DFI small business finance activities and network expansion through Post Bank services and the establishment of the Small Business Bank as a National Small Business Finance Agency

### Update:

Process to effect the above is covered in the strategic re-positioning of Khula Enterprise Finance Limited as a DFI dedicated to the finance needs of Small Enterprises which seeks to maximize impact and outreach through the combination of the following:

#### Strengthening Outreach

- Utilization of the Business Partners infrastructure
- Utilization of SEDA infrastructure
- Utilization of Khula provincial offices
- Utilization of provincial DFI's offices

#### Strengthening Target Impact (finance products 66% R10K – R250 K) 60% underserved provinces

- Target use of credit indemnity scheme ( A revised agreements with commercial banks will come into effect on the 1 April 2006 for lower loans categories- MAX R250 000
- More direct wholesale funding through selection of RFIs and capacity building thereof
- Establishment of KHULA direct channel (Quasi-retail strategy)
- A R150m Fund dedicated to SMEs start-ups launched in February, and already approved 3 investments totaling R2,2M
- Increase in joint venture and partnerships supporting the cascade of SMME share benefit from the financial services charter commitments for SMME finance
- Consolidation of state funded small business finance for delivery through a common national network

# 3. Encouraging the Creation of Women-owned, rural & community Enterprises

## Background:

SAMAF, Cooperatives, Gender and Women Empowerment Strategy

## Update:

SAMAF –

- Enabling mobilization of community enterprises and access to micro-finance, loans up to R10 000
- 20 partner organizations identified
- Capacity building programme for Partner Organizations commenced
- Disbursements to commence in the following financial year
- Capitalization R180m
- Consultations for partnerships
  - Post Bank, enable Post Bank for Micro-finance link-banking
  - Social Development - Enable Social Pension pay-direct through village banks
  - USA – use of ICT Hubs as micro-finance hubs
  - IDT and other sector Departments – conversion of funded projects into micro enterprises
  - Seda- identify appropriate interventions for the micro-enterprise groups

# 3. Encouraging the Creation of Women-owned, rural & community Enterprises

## Background:

SAMAF, Cooperatives, Gender and Women Empowerment Strategy

## Update:

Cooperatives:

- Finalization of the strategy
- Market testing of the cooperatives incentive scheme on 100 cooperatives
- Upscale support to 10 growth potential cooperatives
- Capacity Building

Gender and Women Empowerment

- Finalize strategy
- Network Capacity Building

This is taken care of by the Gender and Woman Empowerment Strategy currently being developed by the Gender and Women Empowerment Unit as well as the Co-operative strategy being developed by the Cooperative Unit

## Time lines:

All processes covered in the above strategy updates are planned for completion by July 2006. This will enable the refinement of the Integrated Small Enterprise Development Strategy and effect of necessary modifications as modifications as recommended

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**Thank you**