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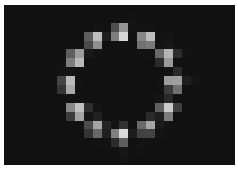

SMME MODEL FOR ECONOMIC DEVELOPMENT AN EMPIRICAL CASE FOR THE NORTHERN CAPE PROVINCE OF SOUTH AFRICA

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List of Acrynoms

NCEDA	*Northern Cape Economic Development Agency*
NOCCI	*Northern Cape Chamber of Commerce*
SMME	*Small, Medium and Micro Enterprises*
BDS	*Business Development Services*
LED	*Local Economic Development*
LBSC	*Local Business Service Centres*

List of Major Stakeholders

DEAT	*Department of Economic Affairs and Tourism*
KBIC	*Kimberley Business Incubator Centre*
KBSC	*Kimberley Business Service Centre*
KIMSEC	*Kimberly Self-Employment Centre*
NCMAC	*Northern Cape Manufacturing Advice Centre*
NDA	*National Development Agency*
NTSIKA	
DTI	*Department of Trade and Industry (National)*
SIYEDA	*Siyanda Economic Development Activator*
FAMDA	*Fishing and Mariculture Development Agency*
FBDT	*Frances Baard Development Trust*
DoT	*Department of Transport (Provincial Office)*
Remmogo	
Local Municipalities	*Kimberley*
	Kuruman
	Namaqwoi
	Siyanda
De Beers	
NAFCOC	

1. Introduction

South Africa has been facing the double challenge of integrating into global markets as a competitive economy and of overcoming the internal problems created and constantly reinforced by the previous regime. To realize the objective of economic growth through competitiveness on the one hand and employment generation and income distribution on the other, the small business sector assumes a critical role. In order to be conducive to economic growth and employment creation, small business development has to be integrated into national industrial policies.

The White Paper on the National Strategy for the development and promotion of Small Business in South Africa (1995) was an initial attempt to create an enabling environment for the creation of small, medium and micro enterprises. During the past few years the Department of Trade and Industry and its agency have undertaken a number of studies to assess the progress made in the Small, Medium and Micro Enterprise (SMME) sector. Reviews generally indicate that the SMME policy has not had the desired impact i.e. the creation of an environment conducive for a self-sustainable SMME sector.

Amongst other things, one reason for such failure can be identified in the fact that despite the existence of the White Paper, the actions implemented have lacked a coherent and integrated approach resulting in the creation of several support structures for SMME, often not liked by one another and in competition with one another. This is particular evident at provincial level where in the years between the 1996-2001, with the support of national and provincial departments as well with the support of the private sector, a plethora of SMME server providers have been created, not taking in consideration the services already provided by existing Non Governmental Organisations (NGO) This situation has lead to poor performances by the service providers with the end result that those who were suppose to receive assistance were often left without the necessary support.

The document is the result of a consultation process that saw a first draft being circulated amongst the relevant stakeholders in April 2003. This was followed by a presentation of the model at a provincial workshop held in Kimberley in June 2003, after which inputs were received and consultations undertaken with both national and provincial stakeholders.

2. LBSC Restructuring

Although it is true that the Local Business Service Centres (LBSCs) have not been able to live up to the expectations for which they were created at national level, it is also necessary to acknowledge the fact that in the Northern Cape the LBSCs have been able to produce some tangible results.

These achievements have been recognised at national level bringing leading SMME organisations such as Ntsika to extend programmes initiated and successfully tested in the Northern Cape province (in touch); the National Development Agency (NDA) and NTSIKA have also acknowledged the relevance for the success of the LBSCs in the province with the creation of a clustering organism, namely the NC Coordinating body.

These elements have to be considered when reassessing the role of the SMME service providers (i.e. LBSCs) in the province.

The approach indicated in this draft document, which is in line with the process initiated by the Northern Cape Department of Economic Affair and Tourism (DEAT) since the end of 2000, as indicated in the budget speech of the MEC for Economic Affairs and Tourism for 2001/2002, and with the new thinking of the Business Development Services (BDS) produced by national government, tries to rationalise some of the operations of the LBSCs via a strategic alliance/merger of service providers in the province. It also focuses on incubation mechanisms, whose services are added to the function of a typical LBSC, to support new and existing SMMEs and to capacitate them in order that they can face both national and international competition[1].

The model that the Department has in mind with regard to the repositioning of the SMME service providers operating in the province is based on a holistic approach that is linked to the municipality's Local Economic Development (LED) strategy and also includes the major public and private stakeholders operating in the SMME sector.
A relationship with the municipalities it is of the utmost importance as they can assist in identifying opportunities for small and medium entrepreneurs (especially in the service sectors) and capacitating them.

In this picture the LBSCs assume a central focus for local government support, and whilst few authorities will have substantial resources to invest in them, they can provide premises, second staff and contribute in identifying specific sectors and /or geographical areas to be targeted[2].

In the proposed model the LBSCs are thus seen as the pivotal element of Regional Economic Structures/Agencies for SMME Development, structures that will receive all the necessary support from the DEAT. However, these structures should be a separate entity with a separate autonomy of operation from the DEAT. The reason for this being that a system for creating private business should have a business-like image and not be seen as a "government department".

In such a context the incubation programme described below, which will differ according to the specific dynamics and needs of the five Northern Cape regions, would be an integral part of the activities of such structures.

The proposed model and the related transformation of the activities of the LBSCs is also coherent with:

[1] The incubation model will be developed according to the specific needs of the five Northern Cape regions, however, for simplicity the model indicated in the pilot phase applies specifically to the Frances Baard region.
[2] This is particularly true in the case of local municipalities.

1. the development among SMME actors in the province. In particular with the development in the Siyanda region where the Local Economic Development Agency, SIYEDA is fully operational;
2. the developments in the Frances Baard region, where the existing service providers, namely the Kimberley Business Incubator Centre, the Kimberley Business Service Centre and the Kimberley Self Employment Centre, have finalised the merger process with the creation of the Frances Baard Development Trust;
3. the development in the Namaqua District where the local municipalities, led by the Springbok municipality are in the process of finalizing the LED strategy; and
4. the development in the Kgalagadi region where the local municipality is already using the LBSC as a strategic partner for the implementation of the municipality's development policy.

2.1 The incubation Model

Business incubation is a relatively new and innovative system in the South African context derived from the earlier SMME support programmes developed both in the developed and developing countries. Typically in economic literature a business incubator is introduced with the purpose of nurturing early stage entrepreneurial ventures with good growth potential towards success in the market.
Incubators provide local, on-the-spot treatment of business problems, thereby lowering the early stage failure rate of enterprises and increasing their chances of survival and growth.

The incubation idea described here belongs to what is known as a "third generation" incubation system[3], which brings a full range of support services for enterprises under one roof. For this reason it forms an integral part of the new development structure proposed in this document (the LBSC being the other core element, as indicated below) and aims to directly support small and medium businesses and lead them to be viable, profitable and self-sustainable export oriented enterprises[4].

The distinguishing characteristics of the incubator can be summarised as follows:

- A careful selection of enterprises enter the incubator and should graduate after two/three years;
- A managed workspace providing shared facilities, focused advisory services and interaction amongst tenants. Initially rent and services will be subsidised until tenants are able to cover the costs;
- A small management team competent in providing diagnosis and treatment or referrals with regard to business threats and opportunities.

[3] See "Lesson from International experience for the promotion of business incubation systems in emerging economies" Rustam Lalkaka UNIDO 1997
[4] The definition of "export oriented" has to be interpreted in its broader sense, namely that the aim is to make sure that entrepreneurs hosted in the incubator are able to face local (regional and national) as well as international competition.

In other words the identified enterprises hosted in the incubator will receive direct and indirect assistance, (i.e. rent, marketing, business support etc), both financial and non-financial from the newly created support structure (LBSC and Incubator staff). These services, which may initially be subsidised, will eventually be phased out.

Ideally at least 400 enterprises, throughout Northern Cape Province[5] will be targeted over a five-year period. These enterprises will be hosted in the selected incubation areas within the five Northern Cape regions, over a period of two/three years, after which they should be able to face external markets.
Export readiness and job creation potential as well as innovative products, good market analysis and the integrity of entrepreneurs will be some of the criteria used when identifying potential enterprises.

Given the particular needs and characteristics of the five Northern Cape regions, specific sectors within each area will be targeted to be part of the incubation programme; the table below provides an indication of potential sectors from which entrepreneurs will be selected in each region

Table 1 Sectors of intervention[6]

REGION	MAIN TOWN	SECTORS*
Kgalagadi	Kuruman	Arts and crafts, semiprecious activities, tannery
Siyanda	Upington	Arts and craft, manufacturing of crates and crafts, agro-processing
Frances Baard	Kimberley	Clothing, Arts and craft, Steel production, Furniture
Namaqua District	Springbok/Port Nolloth	Arts, and craft, agro processing (fishery), semi precious activities
Boo Karoo	De Aar	Tannery, arts and crafts

*: See DTI Discussion Paper May 2002, where specific sectors are targeted for growth

2.2 Institutional Support and Structural Reforms

Institutional support and structural reforms are envisaged in order to implement the new approach to sustain SMME economic development in the Northern Cape Province.

Institutional support will focus on the DEAT/Provincial Government advocacy for the constitution of regional SMME development structures, formed on the basis of public/private partnership. These

[5] Assuming an average of 5 workers per enterprise, this should ensure the employment of 400 people per year and therefore a minimum of 2000 new jobs created at the end of the five year period.
[6] These sectors are not exhaustive - they can be further discussed with each regional structure.

structures, whose long-term goal is to be self-sufficient, will however initially, be supported directly/financially and indirectly/non financially by the DEAT[7].

At central (provincial) level an SMME Development Coordinating structure should also be put in place, formed by representatives of the DEAT, as well as other relevant government departments, regional LED representatives and major parastatal representatives (NDA, NTSIKA, Khula). They will make sure that proper coordination of national and provincial policies takes place; major private stakeholder representation (NOCCI, NAFCOC, Banks, Eskom, Mining Companies) will ensure that rigorous business principles are put into place[8].

A representative from each of the five regional SMME development structures will also be part of the coordinating structure - being the implementing actors of policies discussed at the coordinating level.[9]

The objective of the provincial structure would be to coordinate the implementation of SMME development policies, create a clear communication line from national policy level to the DEAT and the regional LED, out to the SMME regional structure; at the same time it should also facilitate the "amalgamation"/coordination of SMME projects proposed by the different stakeholders via the regional SMME structures. Over and above this they will be required to source and coordinate funds.
The coordinating structure should be a very flexible and lean structure with an executive board and a secretariat to facilitate/convene meetings and relate with the regional structures.
It is important to stress that, from an institutional point of view, this structure, and in particular the regional one, has been created to support private business. They must therefore have a business-like image and must be run on business-like principles[10]. During the implementation phase, and until they are fully self-sustainable[11], they will receive government support. All the structures (provincial and regional) should therefore take the legal form of a non-profit foundation/trust.

At central/provincial level, together with the coordinating structure, it would be necessary to create a research unit to facilitate the work of the regional SMME development structure.
The existence of a research structure is very important in order to provide both the incubation units and the LBSC units with all the relevant information in terms of new sectors, markets needs, market research, etc. necessary to properly support the development of SMMEs.

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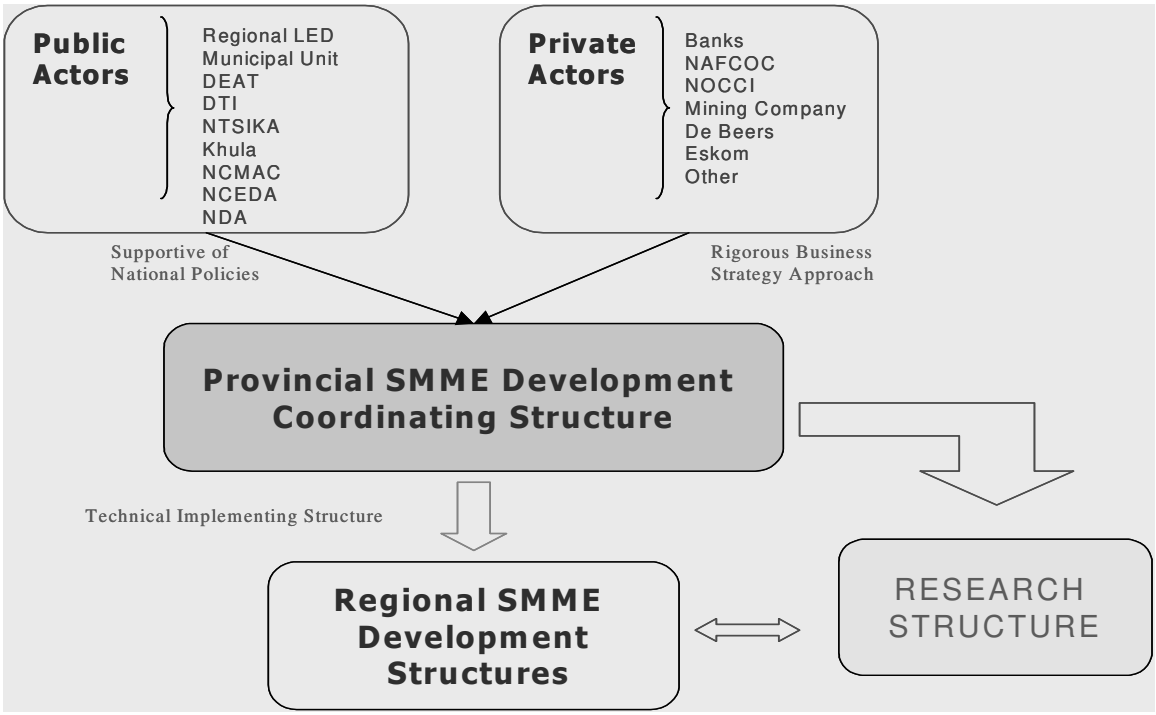
[7] DEAT will also lobby other public institutions in order to ensure the necessary funds are obtained for the new structures.
[8] Representatives of structures such as NC MAC and NC EDA should also be included in the provincial structure on a consultative basis
[9] It is important to stress that the regional structures will maintain their regional autonomy while being part of the provincial structure in order to ensure that proper coordination of activities takes place in the Province.
[10] At the same time it is important to underline that the business principle/image the proposed structures have to respect does not derogate them from their mission (objectives and targets) for which they have been created, namely promoting growth and development, particularly amongst previously disadvantaged individuals.
[11] This is the case of the regional structure whilst the coordinating structure, by virtue of its mandate/mission, cannot be self-stainable.

Such a research unit would be instrumental in providing information regarding the status of the SMMEs as well as primary and secondary economic data to the DEAT other government department, the private sector and municipalities.

It is important to note that initially the existing research unit already present in the provincial administration could either be strengthened to fulfill such a role or these activities could be outsourced to an existing research institution operating in the province.

The figure below gives an idea of the proposed provincial coordinating structure with an indication of the potential stakeholders[12].

FIG 1 SMME Provincial Structure



Note that representatives of the Northern Cape NGO coalition as well as of the Labour organisation could be included in the governing body of the provincial structure

At regional level SMME development structures[13] will have a stronger participation of private actors (identified according to the specificities of the regions) and the local municipalities; government participation will be limited to the DEAT representation which should act as liaison officers between the coordinating provincial structure and the regional one[14].

As previously mentioned, these structures should be run on business-like principles and should have the legal entity of a non-profit/trust institution. It is important to acknowledge that initially

[12] Other stakeholder can be added later on.

[13] In some instances e.g. the Upington case, the existing Siyeda structure needs only a few changes to operate in the way described in the document presented, while in other instances such as in the Bo Karoo case it is necessary to start from scratch.

[14] Full government participation at different level of representation, is better accomplished in the provincial structure where the provincial policies for SMME development should be elaborated and coordinated.

government support will be necessary for them to operate, however, their medium-long term objective is to be self-sustainable.

From an institutional point of view the regional structures should have a Board of Trustees/Directors with the mandate to implement/adapt SMME policies as discussed in the provincial structure to the regional context, as well as support the management of the operational units with policy guidelines, strengthen the linkages with government departments, help mobilize resources and monitor the progress of the operational units in achieving the overall objective in terms of SMME development (job creation, growth and uplifting previous disadvantaged individuals).

For this reason each regional SMME development structure will have an operational, built-in SMME support units led by the existing LBSC[15] which, while maintaining a generalist approach (i.e. continuing to provide non financial support to existing and new/potential SMMEs, such as business training, financial referrals, mentorship etc), will be more sector and target oriented, providing financial and non financial support to the identified target.

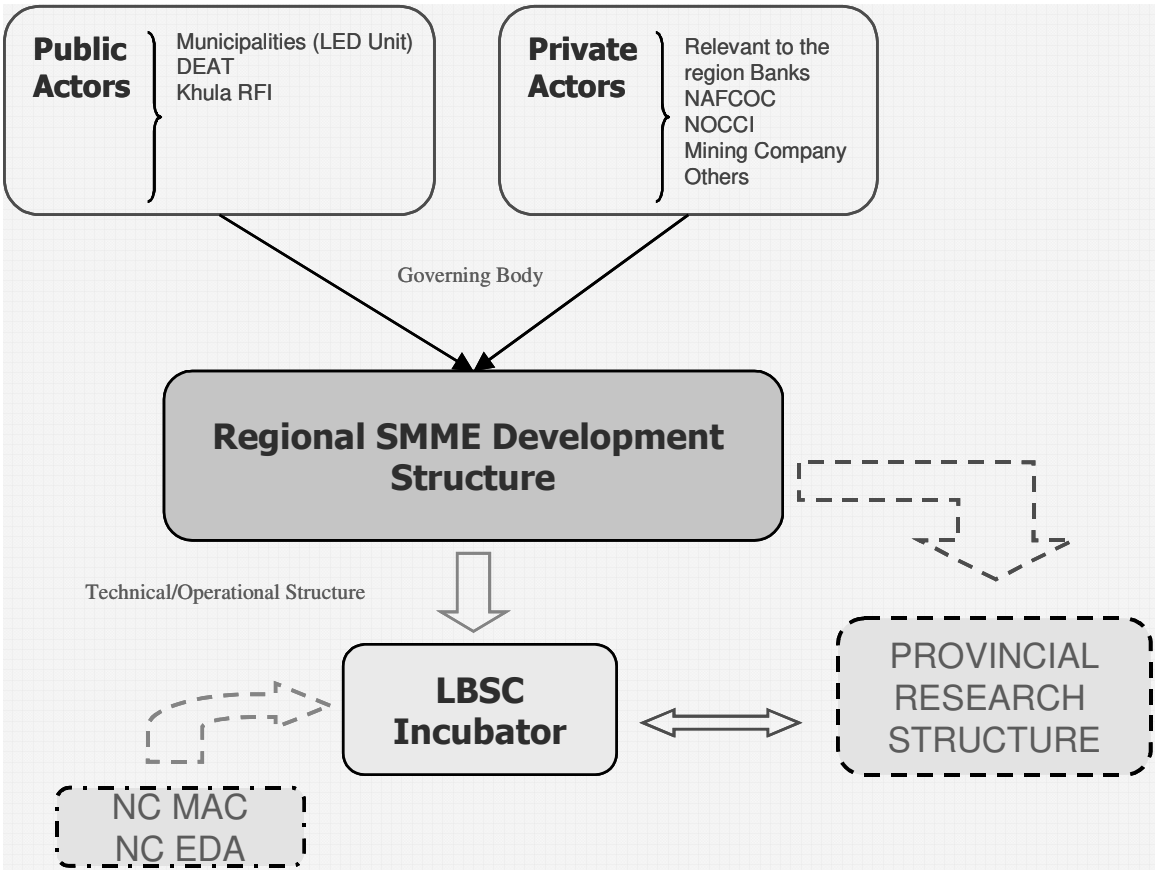
The incubation programme described in point 2.1 will be an integral part of the activities of the operational units although, as indicated in the description of the pilot phase below, each regional SMME development structure will assess the readiness of the region for such an instrument and the timing and the modality for the implementation of the incubation unit.

Existing nationally support structures such as NCMAC and the Northern Cape Economic Development Agency (NC EDA) which are also part of the Provincial structure, would provide the necessary support to the operational units when needed.

The redeployment of DEAT officials in each support structure will also be considered in order to strengthen the visibility and effectiveness of the DEAT intervention.

Ideally a Regional SMME Development Structure could be similar to the example depicted in the figure below, with a governing body formed by public and private actors identified at regional level with a strong participation/commitment from the LED units/municipalities, and with an operational structure centered on the LBSC[16] and the incubation system.
FIG 2 REGIONAL SMME DEVELOPMENT STRUCTURE

[15] In the case of Bo Karoo the creation of a LBSC in De Aar still has to be finalised.
[16] LBSCs are identified as the principal element of such support structures because they are recognised at national level (see various papers on SMME development) as the instrument by which SMME development can be facilitated. In the Northern Cape they have received the full support of the DEAT. However, this does not mean that where other SMME support organisation exist and prove to be efficient, they should not be considered to be part of the regional SMME support structure.



Note: the box with the dashed lines represent structures that are present at provincial level and can be used or not by the operational units according to their perceived need

2.3 The Pilot Phase

The implementation of the new regional structure, which includes the incubation programme, could be implemented on the pilot phase in the Frances Baard region, where incubation structures have already been identified and the process of a merger between the existing services providers has been completed. This resulted in the creation of the Frances Baard Development Trust (FBDT). To ensure the smooth operation of the new FBDT[17] and to strengthen the relationship between such a structure and the Municipal LED unit, a strong commitment on the part of the DEAT would be necessary[18].

However despite the implementation of the incubator structure in the Frances Baard region, there is still little co-operation between the LBSC and the Municipal LED units; for this reason the pilot phase could be implemented in both the Namaqualand region and the Siyanda region were the cooperation between the Municipal LED unit and the SMME service providers is at an advanced stage.

[17] In particular to make sure that the human resources component necessary to implement the activities of the structure is fully in place

[18] The constitution of the Provincial coordinating SMME development structure should however go hand in hand with the implementation of the regional structure.

The modus operandi of the existing support structure for SMME development that is in place in the Frances Baard region is described below. With a few small changes in the executive structure it could be used to pilot the model described in the document.

At present the FBDT encompasses the activities of the LBSC and the two incubator structures present in the region. Ideally the Board structure should be enlarged in order to meet the criteria of the regional SMME development structure described in the document[19].

Three units are part of the FBDT:

1. Business Development Service Unit

This unit undertakes the role of the LBSC (KBSC). It provides services to the entrepreneurs located at the Micro Incubator and the Industrial Park, as well as external entrepreneurs. It focuses on training activities as well as service support for the entrepreneurs including tender advice services, access to finance via referrals, access to markets and new technologies via the services of both the NCMAC and the NC EDA[20].

2. Micro Incubation Unit

This unit (KBIC) is going to provide accommodation and service support to micro entrepreneurs who should after a maximum period of two years, graduate to move into the formal economy or to the Small Industrial Park, namely KIMSEC. The business development unit will provide support to the entrepreneurs.

3. Small Industrial Park Unit

This unit (KIMSEC) focuses on the light manufacturing activities of small and medium sized enterprises[21]. Light and heavy manufacturing SMMEs, with the support of the business unit, will be trained, mentored and counselled while obtaining any other business support they require. It should therefore be considered as a natural evolution from the micro incubator. As with the latter, entrepreneurs should graduate after a period of two/three years to move into the open economy.

With the exception of the incubation element, the LBSCs in the other regions operate in a similar fashion to the FBDT Business Development Service Unit.

[19] Minimal changes would be necessary as all the most important stakeholders are presently represented in the Board of Directors; a more strong commitment on the side of the municipal LED unit would however be requested.

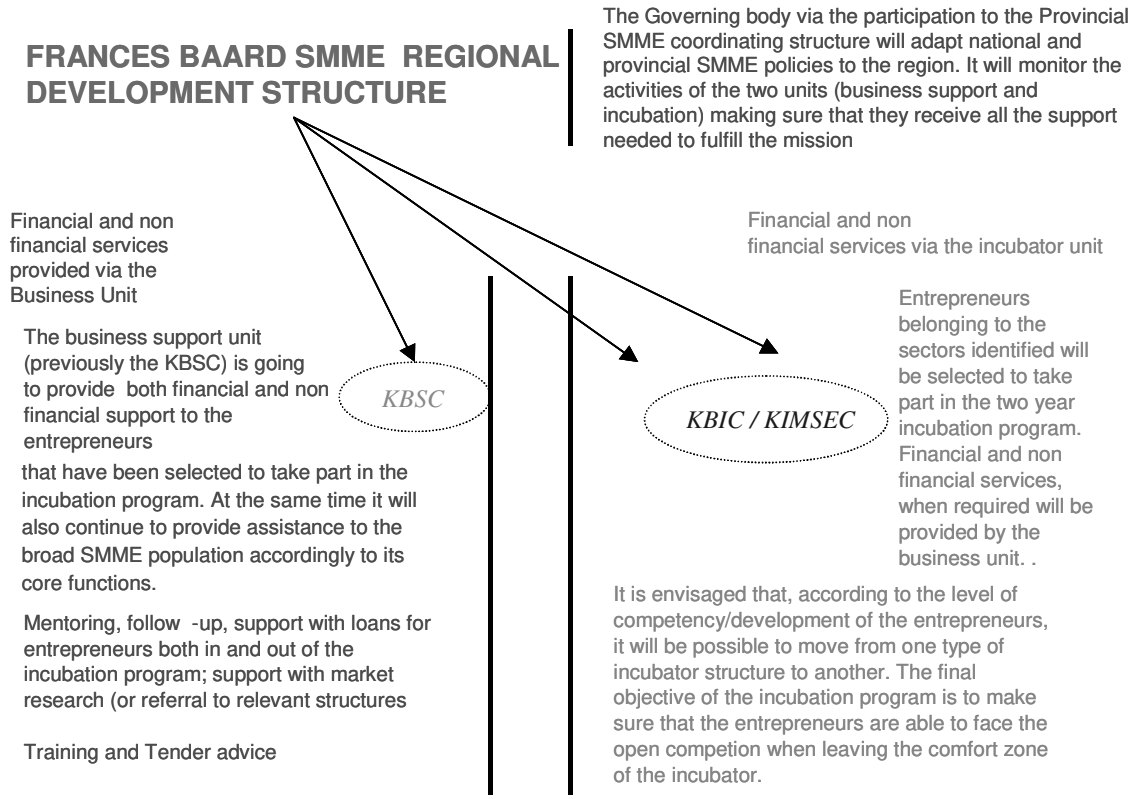
[20] Direct access to finance for the entrepreneurs should also be one of the functions to be included in the new proposed SMME support structure. Existing credit scheme mechanisms developed for the Northern Cape province should make this idea easy to implement.

[21] If in need of additional space, the premises of Hodgetts Timbers could be used. This industrial area could also be used as the location of a one stop centres, relocating all the existing service providers to facilitate communication and service delivery to SMMEs.

This means that while continuing their operations they could adjust their structure in order to facilitate the diffusion of the model in their respective areas. Where necessary they could, in particular, initiate the enlargement of the board structure to include the municipal LED and other regional role players and assess the readiness of the region to host an incubation unit.

Using the Frances Baard model as an example, the figure below attempts to summarizes the proposed way in which a regional SMME Development structure should operate at its full potential.

FIG 3 FRANCES BAARD SMME DEVELOPMENT STRUCTURE



Note: the name in the dashed box refers to the old structures names

3 Concluding remarks

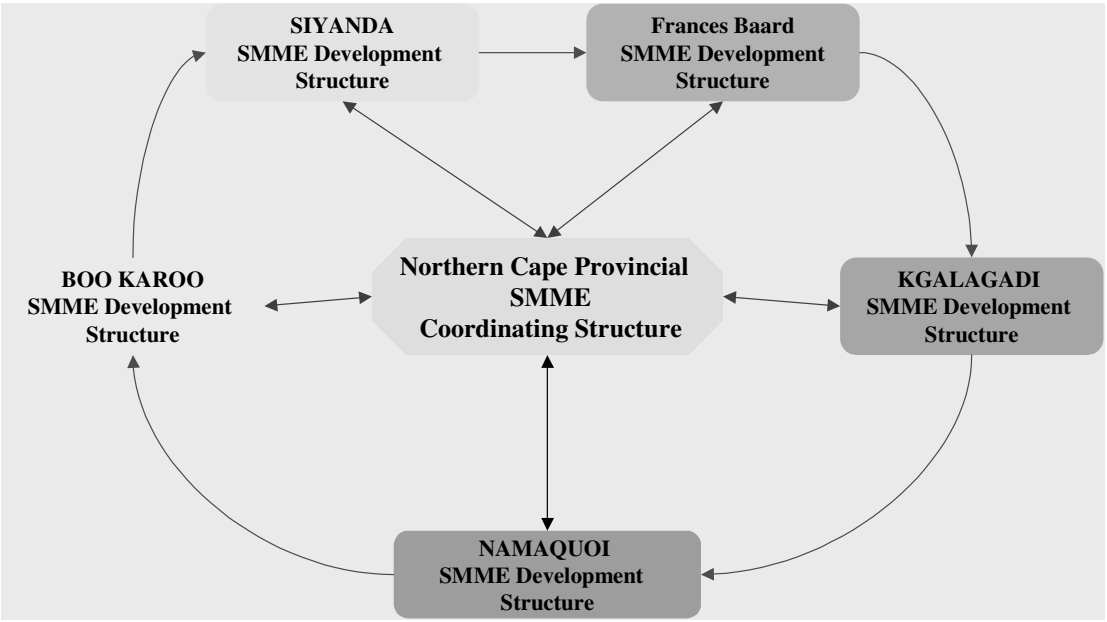
The process of transformation amongst Northern Cape service providers should not be seen in isolation but as one leg in the process of minimizing the duplication of efforts and optimizing resource utilisation by existing SMME operators throughout the Northern Cape Province.
The DEAT has to continue to provide guidelines for SMME development and priority areas for the new/revitalized organisations as well as coordinating and maintaining a clear source of information from national level out to the regional and municipal levels.
In particular it should:

- Enhance and further develop a provincial structure to pull the regional initiatives of the SMME development organisations together. The role of DEAT will be that of a facilitator. The regional

development structure should enjoy a high degree of autonomy in prioritizing and determining focus areas, in full consultation with Government;

- Liaise with the Department of Local Government to develop a joint strategy to optimise the complementarities between the LED strategy and the SMME development strategy;
- Liaise with other departments within Government who are stakeholders in the SMME development initiative. The objective for this being to creating opportunities for SMMEs to market their services within Government. An example of this would be linkages with the Department of Public Works;
- Engage the private sector in developing a strategy to address SMME sustainability e.g. access to finance and markets.

FIG 4 SMME WEB MODEL IN THE NORTHERN CAPE PROVINCE



Central to the successful process of creating new structures, will be the DEAT's ability to monitor and evaluate the running and effective management of the structures, the tracking and implementation of the work plan, the impact SMME development is making and the sustainability of the SMME businesses started. This would also assist in monitoring the extent to which jobs are created and the contribution made towards poverty alleviation. This is a key government/political expectation from the SMME development initiative.

The figure above give an idea on how the SMME model should look in the province when fully implemented; with a coordinating structure and five regional development structure linked to each other.

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