GAUTENG SMME POLICY FRAMEWORK (2010-2014)
Table 1: Review Information

<table>
<thead>
<tr>
<th>Policy Name</th>
<th>GAUTENG SMALL MEDIUM AND MICRO ENTERPRISE POLICY FRAMEWORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Originator department</td>
<td>ECONOMIC DEVELOPMENT</td>
</tr>
<tr>
<td>Approval Date</td>
<td>TBC</td>
</tr>
<tr>
<td>Implementation Date</td>
<td></td>
</tr>
<tr>
<td>Review Date</td>
<td></td>
</tr>
</tbody>
</table>
Table of contents

Foreword by MEC .................................................................4

1  Introduction ........................................................................6

2  Context for provincial SMME development .........................11

3  Critical factors affecting SMMEs in the province ....................13

4  Long-term vision and policy mission ....................................24

5  Pillars of the policy framework ..........................................25

6  Principles informing SMME development in Gauteng ............28

7  Key stakeholders and institutional arrangements ...................30
Foreword by MEC

Despite the economic successes achieved in South Africa since 1994, the country still has to contend with a myriad of economic problems. This includes pockets of poverty, inequality, insufficient economic growth which has been compounded by the 2008 global economic crisis. The fundamental cause of these problems is scarcity. There are unlimited wants and needs that must be satisfied with scarce resources. Therefore, we should use what we have to address our social and economic problems effectively and efficiently.

The primary objective of the Gauteng SMME Policy Framework is to develop an economic strategy towards accelerated and sustainable shared growth for Gauteng using entrepreneurship as a pathway. The SMME Policy Framework offers evidence-based policy options which will allow us to make informed decisions for the acceleration of entrepreneurship as a means for employment generation and creating sustainable livelihoods.

The strategy proposed is to target the different segments of businesses based on the Business Sophistication Measure (BSM) to stimulate entrepreneurship across the province. The SMME Policy Framework is proposing a six-pillar framework in order to address challenges faced by SMMEs, these are:

- Non-financial entrepreneurial support initiatives with a particular focus on entrepreneurial training;
- Financial entrepreneurial support initiatives;
- Capacity building initiatives;
- Regulatory reform and supporting the informal economy SMME sub-sector;
- Research on specific sectors and the role of SMMEs in building partnerships;
- Employment retention and linking with the National Training Layoff Scheme.

These pillars or focus areas are programmatised accordingly and resources determined in order to ensure effective implementation and accountability through monitoring and reporting. All interventions will focus on inclusivity by linking the second and first economies and ensuring a more equitable distribution of income. The interventions
will require a coordinated and concerted effort from both the social and economic intervention departments of Gauteng in ensuring success.
1. Introduction

The Gauteng SMME Policy Framework provides a comprehensive qualitative and quantitative framework for the development of small, medium and micro enterprises (SMMEs) in Gauteng Province. It recognises the unique roles performed by this diverse and dynamic sector in the province in the creation of employment, contribution to economic growth, and the provision of sustainable livelihoods. The policy framework builds on the unique features of the province and demonstrates the ways in which key national, provincial, district and local actors in the province can work together. It displays the province’s commitment to innovation and strengthens its strategic positioning as the “smart province”.

The policy framework establishes a basis for the design, implementation and assessment of mechanisms and processes that support the development of a more competitive and sustainable SMME sector. It provides a basis for collaboration and coordination among public, private and community actors and creates the space for these actors to contribute to SMME development in Gauteng in a mutually reinforcing and synergistic manner, while enhancing the opportunities for mobilising resources that can be used to boost the contribution SMMEs make to sustainable social and economic development in the province.

The provincial policy framework recognises the national policy and legislative framework in which SMMEs are defined, promoted and monitored. Thus, the definitions tabled in the National Small Business Act of 1996 are used to define the sector. The Act defines a “small business” as ‘a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy’. The Act sets criteria that should be used to classify businesses into four categories – see Table 1. While cooperatives represent an important and unique form of enterprise, and are included in the national definition for small business, as cited above, support services
for these enterprises are specifically addressed through the Gauteng Provincial Government’s Cooperate Development Strategy.

Table 1: National Small Business Act Definitions

<table>
<thead>
<tr>
<th>Category of SMME</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprises</td>
<td>Between one to five employees, usually the owner and family. Informal - no license, formal business premises, labour legislation Turnover below the VAT registration level of R300 000 per year. Basic business skills and training Potential to make the transition to a viable formal small business.</td>
</tr>
<tr>
<td>Very small enterprise</td>
<td>Part of the formal economy, use technology Less than 10 paid employees Include self-employed artisans (electricians, plumbers) and professionals.</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>Less than 100 employees More established than very small enterprises, formal and registered, fixed business premises. Owner managed, but more complex management structure</td>
</tr>
<tr>
<td>Medium enterprise</td>
<td>Up to 200 employees Still mainly owner managed, but decentralised management structure with division of labour Operates from fixed premises with all formal requirements.</td>
</tr>
</tbody>
</table>


Previous investigations into the small business market have classified small business typically by “informal” and “formal” type business or “registered” and “unregistered” business. The following graph demonstrates this single dimension typology. Informal businesses is characterised by being a street vendor, a market or a stall trader or an individual that has not registered the business. Formal Business include those businesses that have registered their business with the Companies and Intellectual Property Registration Office (CIPRO) as a sole proprietor, a partnership, a co-operative, a close corporation or a (Pty)Ltd.

It is apparent that the single parameter of “formal” and “informal” is not robust enough. A further breakdown of the standard criteria in the table below clearly indicates the need for an enhanced segmentation to support effective analysis.
Table 2 Further breakdown of SMME characteristics

<table>
<thead>
<tr>
<th>Informal street vendors, hawkers etc. (64%)</th>
<th>Unregistered individuals (18%)</th>
<th>Registered Business (17%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>673 576</td>
<td>195 250</td>
<td>184 992</td>
</tr>
<tr>
<td>• Survivalist – street market, stall market</td>
<td>• Many involved in sale of goods however activity seen in other sectors such as services or landlords</td>
<td></td>
</tr>
<tr>
<td>• Predominantly involved in the sale of goods</td>
<td>• Not inclined to employ others</td>
<td></td>
</tr>
<tr>
<td>• Operate in the informal sector of the economy</td>
<td>• More inclined to run business from home</td>
<td></td>
</tr>
<tr>
<td>• Won’t employ others in the running of their business</td>
<td>• Never registered the business</td>
<td></td>
</tr>
<tr>
<td>• Income generation below the poverty line – average of R1 500 per month</td>
<td>• For 30% income derived from business is not sole sources of income</td>
<td></td>
</tr>
<tr>
<td>• No training, high school education</td>
<td>• Average monthly turnover R2 600</td>
<td></td>
</tr>
<tr>
<td>• Approximately half have access to a bank account</td>
<td>• 55% banked</td>
<td></td>
</tr>
<tr>
<td>• Part of the formal economy</td>
<td>• Registration of business a sole proprietor or a close corporation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 90% banked</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Higher predominance of White and Indian business owners</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• More likely to be professionals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Skills learnt from post matric education or training programmes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Employ approximately 5 other people in the business</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• R21 500 average turnover of business</td>
<td></td>
</tr>
</tbody>
</table>

While the above criteria are useful for categorising SMMEs on the basis of size, the Gauteng SMME Policy Framework recognises that the SMME sector is diverse and can be stratified based on a number of other features, which are important to identify when designing development interventions. This includes distinguishing between “opportunity entrepreneurs”, i.e., those who have established their business based on a perceived opportunity, and “necessity entrepreneurs”, i.e., those who have established their business as a last resort because there are no other employment opportunities available to them.

A key innovation of the Gauteng Small Business Study (2006) conducted by Finscope on behalf of the Gauteng Enterprise Propeller, differentiates small businesses according to
the business sophistication measure (BSM). The BSM developed a continuum of small businesses through effective identification of market segments. The BSM depicts the different segments of small businesses from informal street vendors to sophisticated and sustainable enterprises. Below is an outline of this continuum:

**The BSM and illustration of the Landscape of Small Business**

The BSM has identified 7 different segments plotting the growth of small business sophistication and sustainability.

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12%</td>
<td>9%</td>
<td>26%</td>
<td>23%</td>
<td>10%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>123 522</td>
<td>97 370</td>
<td>278 291</td>
<td>247 075</td>
<td>110 512</td>
<td>100 171</td>
<td>96 876</td>
</tr>
</tbody>
</table>

**BSM and the formality of the business**

![chart showing the formality of the business across different segments]
Business enterprises in the lower BSM tiers are primarily informal vendors. 100% vendors and hawkers are found in BSM1. The upper BSM tiers have representation of formally registered businesses. In BSM 7, 94% of businesses are registered.

The above classifications of SMMEs are presented as potential broad target groups for SMME development in the province.
2. Context for Provincial SMME Development

The Government of the Republic of South Africa has established a comprehensive policy framework for economic growth and development, which mobilises the resources of the private sector and SMMEs. This includes broad, overarching strategies such as the Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR), Broad-Based Black Economic Empowerment (BBBEE), the Accelerated and Shared Growth Initiative for South Africa (ASGISA), and the Joint Initiative on Priority Skills Acquisition (JIPSA). In addition, the National Skills Development Strategy and the National Local Economic Development Framework establish an important foundation for SMME development.

The national SMME development framework was initially established by the White paper on the national strategy for the development and promotion of small business in South Africa (1995) and the National Small Business Act (1996, and amended 2003). In 2004, government adopted the Integrated strategy on the promotion of entrepreneurship and small enterprises, which acknowledges the need for focused support to designated target groups and special institutional arrangements. The strategy assigns high priority to the promotion of an integrated and coordinated approach to service delivery. It urges all government agencies operating in a decentralised structure to be guided by the mantra: “Think Synergy First”. This means that no new support programme, no new products and services, and no new delivery mechanism should be developed and implemented without first assessing the following:

• How the new initiative adds to existing support or delivery mechanisms, and how its introduction will close gaps that cannot be closed by existing offerings (inside and outside the initiative's sponsoring institution)

• How the new initiative ensures that duplication of existing support and delivery mechanisms - across the spectrum of role players - is avoided at all costs

• How the new initiative complements/reinforces/adds value to existing support and delivery mechanisms in a manner that ensures “seamless” delivery across all role players and offerings
• How the resources deployed to the initiative will be accounted for in the national small enterprise service-delivery report

The Gauteng Provincial Government has established a sound policy platform for growth and development upon which the Gauteng SMME Policy Framework is built. The elements of this platform include:

• The Gauteng Employment, Growth and Development Strategy (GEGDS) 2009 - 2014, adopted in May 2010, sets a coordinated and integrated approach to provincial development informed by the Gauteng Medium Term Strategic Framework (MTSF).

• The Draft Gauteng Industrial Policy Framework 2009 focuses labour-intensive industrial development that seeks to promote localisation and reverse de-industrialisation.

• Gauteng Broad-Based Black Economic Empowerment (BBBEE) Strategy builds on the national framework and describes specific provisions designed to transform the economy by increasing the number of black people that own and manage their own businesses. This is complemented by the Gauteng Preferential Procurement Policy Framework Act (PPPFA), Act 5 of 2000

• Gauteng Local Economic Development Strategy

• Gauteng Co-operative Development Policy

• The Draft Gauteng ICT, Employment, Growth and Development Strategy (ICTEGD)

• Proposed strategic procurement initiatives in order to promote increased localisation of supply

• Targeted Gauteng Township Economy Interventions, complemented by the 20 Priority Townships Programme (20PTP)

In addition, the Gauteng Provincial Government recognises the critical role of district, metropolitan and local municipalities in SMME development. Many of these have introduced growth and development strategies, spatial plans, local economic development strategies and integrated development plans, which deal with SMME development. Metropolitan and local municipalities located in the Gauteng Province also provide regulatory create local policies, bi-laws and regulations that govern the
SMME sector. Thus, the provincial government seeks to support and collaborate with sub-provincial government agencies to ensure the policy, legal and regulatory framework is consistent and conducive to SMME growth and development.

2.1 **Alignment to the Gauteng Industrial Policy Framework (GIPF)**

In line with the new mandate, the GIPF has at its core the creation of decent work opportunities. The GIPF is informed by and aligned to the National Industrial Policy Framework (NIPF) and the Industrial Policy Action Plan 2 (IPAP2) as championed by the national Department of Trade and Industry (the dti).

The GIPF is envisaged to be complementary to the SMME Policy as both policy documents have overlapping policy thrusts. The strategic thrusts of the GIPF include, but are not limited to:

- Expansion of decent work opportunities;
- Development and expansion of medium tech labour-intensive manufactures;
- Strengthening inter-sectoral linkages through supply chain development;
- Enhancement of value addition and upgrading along supply chains; and
- Creation of an integrated and diversified industrial base in Gauteng.

The GIPF is instrumental in the achievement of the new economic growth path as Gauteng has the largest concentration of manufacturing and service industries. Specific sectors have been chosen based on a sound economic analysis, complemented by an input – output analysis.

Sectors were chosen on the basis of highest linkages (backwards and forwards), employment multipliers and where the most jobs can be created through the direct, indirect and induced multiplier effects. Potential target sectors were consequently identified as:
<table>
<thead>
<tr>
<th>Potential sectors for policy targeting based on backward linkages and employment multipliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Transport equipment</td>
</tr>
<tr>
<td>- Wood &amp; paper, publishing &amp; printing</td>
</tr>
<tr>
<td>- Textiles, clothing &amp; leather</td>
</tr>
<tr>
<td>- Food, beverages &amp; tobacco</td>
</tr>
<tr>
<td>- Other non-metal mineral</td>
</tr>
<tr>
<td>- Construction</td>
</tr>
<tr>
<td>- Metals, metal products, machinery &amp; equipment*</td>
</tr>
<tr>
<td>- Transport services*</td>
</tr>
<tr>
<td>- Catering and accommodation*</td>
</tr>
<tr>
<td>- Electrical machinery and apparatus*</td>
</tr>
<tr>
<td>- Radio, TV, instruments, watches and clocks*</td>
</tr>
<tr>
<td>- Furniture and other manufactures*</td>
</tr>
</tbody>
</table>

The emphasis is clearly on the manufacturing sectors of the provincial economy, the reason for this is that these sectors are highly labour intensive. Further work that DED undertook modelled the sector portfolios on the NIPF approach where portfolios provide a balance between so-called services and manufacturing sectors. New policy areas such as the green economy are also being targeted in order to ensure that industrial development becomes more sustainable.

Dedicated sector desks will be put in place to give effect to the strategic thruts of the GIPF, investigated in conjunction with those identified by the SMME policy. Sector specific strategies will be developed complemented by key action plans (KAPs) outlining the interventions that the Gauteng Provincial Government (GPG) will undertake in order to develop the targeted sectors. There will be an explicit emphasis on supplier development focusing on SMMEs and cooperatives to be undertaken.

### 2.2 Alignment to the Draft Gauteng Strategic Procurement Framework

The role of the strategic procurement programme is to maximise the developmental impact of Government expenditure on new infrastructure as well as ongoing expenditure on the maintenance of infrastructures and consumables used in schools, hospitals etc. Strategic procurement should also be closely linked with SMME support programmes in terms of supply chain development with the aim of maximising local content along the supply chain.

The establishment of a detailed and up to date supplier database is necessary across the range of goods and services procured both directly and indirectly through government expenditure.
Government procurement and localization will be optimally leveraged to support SMMEs and cooperatives within the province. It has been recognized that such an intervention can be used to:

- stimulate economic activity;
- protect the national and provincial industries against foreign competition;
- improve sector competitiveness – particularly those elaborated within the GIPF;
- and remedy regional disparities.

Such interventions will be undertaken within the legal framework of the Preferential Procurement Policy (PPPFA) Framework Act (Act 5 of 2000). The Act gives effect to section 217(3) of the constitution section 2(1) (d) of the PPPFA provides that any organ of the state may:

- contract with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability; and
- implement the programmes of the RDP as published in Government Gazette No. 16085 (dated November 23, 1994).

The Gauteng Provincial Government will therefore ensure that the procurement of its key services promotes SMMEs, BBBEE and local content (localization) and encourages the private sector to do the same. In summary, special consideration has to be given to combining preferential procurement, enterprise development (SMME’s and Cooperatives) and localization to enable meaningful participation within government supply chains and the industrial growth trajectory. A synergistic approach will be followed in linking preferential procurement, the creation of decent work, localization and industrial policy.

An implication of the “synergistic approach” is that the current PPPFA and the Broad Based Black Economic Empowerment (BBBEE) Strategy be reviewed and where applicable, customized, to exploit enterprise development (SMME's and Cooperatives), as well as serve as a model for the private sector. The convergence between procurement policy and enterprise development is therefore of critical importance, in
conjunction with an alignment to provincial policy and strategy documents to ensure full optimization of interventions.

2.3 Alignment to the Draft Gauteng ICT Strategy

Information and communication technology (ICT) is a critical enabler of economic growth and development and its widespread availability can assist SMMEs to achieve certain efficiencies. ICT provides the scope for lowering communication and transactional costs, furthermore it also reduces turnaround times thereby reducing the costs of business. It is imperative that the design and implementation of the SMME Policy Framework be considered within the ICT context, given that the provincial economy is essentially service based with a large number of SMME’s operating from the household as a production unit.

The ICT Strategy has the primary aim of lowering participation cost in the economy; with a particular focus on reducing communication barriers. In 2006, Gauteng was estimated to have 673,576 informal traders, 195,250 unregistered individuals and 184,992 registered small businesses i.e. a total of more than a million SMMEs. Thus, ICT infrastructure and services can provide a valuable resource to a sizeable portion of the Gauteng economy.

The goals of the ICT Strategy are:

- Economic productivity: to create the environment for ICT-focused economic development through broadband mobilization to SMMEs;
- Economic networks: to foster the diffusion of ICT fixed and mobile broadband infrastructure and the connectedness of SMMEs;
- Economic capacities: To address the demand for skills in the broad ICT infrastructure and ICT services sectors, as a means to increasing South Africa’s competitiveness and laying the foundation for ICT innovation and sector development; and
- Monitoring and evaluation of the Information Society and e-Development can all be better served by ICT networks and services.
It follows that by investing in provincial ICT infrastructure, barriers to information can be reduced, knowledge of and access to business information can be increased as this can lead to an increase in income for SMMEs. Furthermore, government can leverage on the ICT infrastructure in order to improve inter – governmental relations, communication between the government & citizens and the general enhancement of monitoring and evaluation.

The ways in which ICT can assist the development of SMMEs include amongst others:

- Lower mobile and data charges to reduce the cost of doing business, while free Internet zones and hotspots must aim to make broadband Internet access available to the BSM 1-3 segments
- Affordable broadband Internet access through mobile devices should also be promoted as it will improve the conduct of business by most BSMs. Approximately 34% of businesses are operated from home.
- Own websites for SMMEs will be enhanced by cheaper broadband and data.
3 Critical Factors affecting SMMEs in the Province

There are a number of critical factors that influence the priorities and focus of this policy framework. These factors are presented in detail in the Finscope Gauteng Small Business Survey Report 2006 and are briefly summarised below.

Problems faced by small business

The problems faced daily by small businesses are diverse. By far the largest problem experienced is the need for capital in the business. 25% of all small business feels that crime and theft are major problems in the running of their business. 19% of small business owners feel that there is too much competition. This could be due to the fact that almost 70% of small businesses are involved in the sale of goods. Only 7% add value to a product before selling it on. Very little innovation is evident in the differentiation of products and services, limiting the business’ ability to be competitive.

Problems experienced in the business are exacerbated by the fact that 68% of all business owners have taught themselves the skills they are using in the daily running of
their business. Only 1 in 10 business owners have had any business skills training specifically related to their business.

It is however encouraging to see that almost half of small businesses plan to expand and grow their business in the future. 39% would like to improve their profits and margins. A substantial proportion of small businesses are showing signs of increasing competitiveness, by innovation. 25% have stated that would like to develop new products and services in the future and 12% would like to improve their technological capacity within the business.

**Future aspirations of the business**

Small business owners when asked what they perceived as requirements for a successful business, 72% stated that the business must be profitable; loyalty of customers was also seen as important; 35% claimed that the location of businesses was critical for success. Only 18% felt that staying ahead of the competition was crucial.
The opportunities for providing support for small business are numerous. Below is a table of business skills and the current skills rating by business owners for each.

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Black</th>
<th>Coloured</th>
<th>Indian</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve funds for emergencies</td>
<td>5.6</td>
<td>5.3</td>
<td>5.9</td>
<td>7.6</td>
<td>7.3</td>
</tr>
<tr>
<td>Good contacts</td>
<td>5.5</td>
<td>5.2</td>
<td>6.1</td>
<td>8.3</td>
<td>7.5</td>
</tr>
<tr>
<td>No or low debt</td>
<td>5.3</td>
<td>5.1</td>
<td>5.6</td>
<td>7.8</td>
<td>7.1</td>
</tr>
<tr>
<td>Reputation for quality</td>
<td>5.2</td>
<td>5.0</td>
<td>5.4</td>
<td>7.4</td>
<td>7.1</td>
</tr>
<tr>
<td>Stay ahead of the competition</td>
<td>5.1</td>
<td>4.8</td>
<td>5.8</td>
<td>8.2</td>
<td>7.4</td>
</tr>
<tr>
<td>Good staff</td>
<td>5.0</td>
<td>4.7</td>
<td>5.5</td>
<td>8.2</td>
<td>7.1</td>
</tr>
<tr>
<td>Good products or services</td>
<td>4.5</td>
<td>4.4</td>
<td>5.1</td>
<td>8.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Good equipment</td>
<td>4.4</td>
<td>4.1</td>
<td>4.3</td>
<td>6.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Good location</td>
<td>4.3</td>
<td>4.1</td>
<td>4.3</td>
<td>6.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Increase in sales</td>
<td>4.2</td>
<td>4.1</td>
<td>4.3</td>
<td>6.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Loyal customers</td>
<td>4.1</td>
<td>4.1</td>
<td>4.3</td>
<td>6.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Profitable</td>
<td>4.0</td>
<td>4.1</td>
<td>4.3</td>
<td>6.4</td>
<td>4.3</td>
</tr>
</tbody>
</table>
Gauteng SMME Policy Framework (2009-2014)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Black</th>
<th>Coloured</th>
<th>Indian</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n=711</td>
<td>n=591</td>
<td>n=30</td>
<td>n=12</td>
<td>n=78</td>
</tr>
<tr>
<td>Customer relations</td>
<td>6.3</td>
<td>5.9</td>
<td>5.4</td>
<td>8.1</td>
<td>7.5</td>
</tr>
<tr>
<td>People management</td>
<td>6.0</td>
<td>5.5</td>
<td>4.7</td>
<td>8.0</td>
<td>7.6</td>
</tr>
<tr>
<td>Computer literacy</td>
<td>4.9</td>
<td>4.1</td>
<td>4.7</td>
<td>7.7</td>
<td>6.9</td>
</tr>
<tr>
<td>Legal expertise</td>
<td>4.5</td>
<td>3.9</td>
<td>3.9</td>
<td>6.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Labour laws/ regulations</td>
<td>4.4</td>
<td>3.9</td>
<td>3.7</td>
<td>7.0</td>
<td>5.6</td>
</tr>
<tr>
<td>Procurement or tendering</td>
<td>4.3</td>
<td>4.0</td>
<td>3.7</td>
<td>7.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Import/exporting regulations</td>
<td>4.0</td>
<td>3.7</td>
<td>3.0</td>
<td>6.2</td>
<td>4.8</td>
</tr>
</tbody>
</table>

On the basis of these findings from the study it is believed that focus should be placed on, amongst others:

- The need for an **approach** that recognises the different specific characteristic of SMMEs. The BSM segmentation is a useful way of approaching SMME development as it recognises those specific characteristics. Interventions must then be tailored specifically so as to develop all BSM segments with the interventions required by that BSM.

- The need for **better information** on the SMME sector: currently, it is extremely difficult to collect reliable and up-to-date data on the sector within the province. While some specific studies have been conducted, there is a dearth of information concerning the dynamics of the sector, its contribution to provincial investment and employment, or the issues affecting the development of the sector.

- The need for **integration and transformation**: Gauteng Province remains one of South Africa’s least integrated economies, displaying glaring disparities between the established, predominantly white and formal economy
(sometimes referred to as the “First Economy”) and the emerging, predominantly black and informal economy (also known as the “Second Economy”). Immediate efforts are required to integrate these two sides of the economy through stronger commercial linkages, more effective markets and improved business performance.

- The need to **improve access to SMME development services**: while there are a wide range of financial and business development services on offer to SMMEs in Gauteng, demand continues to exceed supply. Attention must be given to enhancing the access SMMEs have to development services, including those provided by the public, private and community sectors.

- The importance of **lowering the cost of doing business including addressing crime** as these threaten the survival of many SMMEs. The complexities of local government regulations are another constraint faced by SMMEs, informal businesses are hit hardest.

- The need to **broaden the range of SMME development service providers** in the province: this includes, for example, the increased provision of online entrepreneurial training and linking any other support to the successful completion of training, the use of private managing agents that provide services to SMMEs on behalf of public agencies, improving access to markets, building market for private sector delivery of SMME development services, and the use of group-based SMME development services to increase impact.

- The need for **better provincial and local business environments**: because most SMMEs in the province start-up and operate without the support of any business development programme or service, it is essential to consider the systems in which these firms operate, including the markets they operate in and the influence of the business environment. Government authorities working at provincial, district and local levels should consider the influence their policies, laws and regulations have on SMMEs within their jurisdictions and do whatever they can to make these more conducive to the successful establishment and growth of SMMEs.

- The need for a **more entrepreneurial society**: entrepreneurship focuses on the attitudes and skills business owners develop; it promotes the development of businesses that are based on market opportunity, the innovative use of
available resources, and creative ways to overcome obstacles. Just as businesses can be managed in a more entrepreneurial way, SMME development services can also be designed and delivered in an enterprising manner. Thus, entrepreneurship and entrepreneurial approaches to business development are required.

• The need to improve the institutional framework for SMME development: SMME support in Gauteng has been frustrated by a fragmented and poorly integrated approach to service delivery across national, provincial and local levels. Thus, in line with the national SMME strategy, greater attention has to be given to improving the collaboration and coordination of SMME services providers from the public, private and community sectors.

• The need for better business representation and public-private dialogue: effective SMME development requires regular dialogue between government and the business sector. SMMEs in Gauteng need to be better organised, better represented, and better able to liaise with government on the issues that are important to them and their future. This is an issue at provincial, district and local levels.

• The need for better facilities and infrastructure, especially in areas that were marginalised by, so-called “apartheid planning”: many SMMEs in the province operate in informal or illegal locations simply because there are insufficient or poor premises available. This is particularly common in formerly disadvantaged locations, such as townships, as well as in informal settlements. In addition, access to power, water and sanitation are concerns for many micro and small business owners. These issues contribute to a lack of access many SMMEs have to broader, mainstream markets that are essential for their development.
4 Long-term Vision and Policy Mission

The long-term vision for SMMEs in Gauteng Province is as follows:

“Gauteng's entrepreneurial spirit drives SMME development and growth in the province”.

In working toward this vision, the policy framework has the following mission:

“To promote the development and transformation of the provincial economy by promoting the SMME sector, ensuring SMMEs located in the province are better able to contribute to and benefit from sustained economic growth by becoming more competitive, profitable, and able to create more and better employment opportunities”.

---

Gauteng SMME Policy Framework (2009-2014)

---

24
5. **Strategic Pillars and Programmes of the Policy Framework**

In order to establish a more vibrant and dynamic SMME sector that contributes to the province's growth and development, SMMEs located in the province need to be able to compete successfully in provincial as well as national and international markets and provide a diverse range of new and lasting decent employment opportunities for women and men. Gauteng's importance as a central hub for businesses in Africa both large and small must be enhanced.

The interest in SMME development by government is informed by the growth and development potential of these entities. The potential and ability of SMMEs to create employment opportunities, increase total entrepreneurial activity (TEA) index, support sustainable livelihoods is extremely critical in addressing poverty and unemployment. It must be noted however, that generation of employment opportunities is not the cardinal criteria in deciding to focus on entrepreneurial initiatives and SMME support in particular. Increasing entrepreneurial activity is also important as South Africa is not ranked amongst the world’s most entrepreneurial nations.

The average number of jobs created by small business is 1.3, this implies that on average SMME’s in the province provide one additional job to the owner. The statistics show that 70% of SMMEs actually do not create any jobs, only 4% of SMMEs employ more than five other. This would largely be the SMMEs in the higher BSMs, particularly BSM 6-7. Clearly the employment share of SMMEs is not stellar. Figure XX below shows the job creation potential of SMMEs by segments:
It must be noted that those SMMEs that are capable of generating some job opportunities, are also quite capable of raising the required finance through private sector lenders. This implies that the policy choice facing GPG is to promote SMMEs for the sake of increasing entrepreneurial activity. The lower segments that are in need of funding are not capable of creating sizeable job opportunities and they are also the enterprises most dependent on government for support. Clearly therefore, BSM 1-6 should be supported for the sake of increasing the TEA and not expecting significant employment opportunities.

The provincial SMME sector should reflect the racial and gender patterns of the province and strong commercial linkages should formed between firms of different sizes and along strategic value chains. The province should contain effective, independent business associations that represent and support a wide range of business-members and provincial, district and local governments will liaise with these associations on a regular basis. Furthermore, SMME ownership and management should become a desired career for many young women and men in the province and no longer an option of last-resort.

In responding to the critical concerns of SMME development in the province and achieving the above policy aim, a five-pillar framework is established:

Pillar 1: Non-financial entrepreneurial support initiatives with a particular focus on entrepreneurial training.

Pillar 2: Financial entrepreneurial support initiatives.

Pillar 3: Capacity building initiatives.

Pillar 4: Regulatory reform and supporting the informal economy SMME sub-sector.

Pillar 5: Research on specific sectors and the role of SMMEs and building partnerships.

Pillar 6: Employment retention and linking with the National Training Layoff Scheme.
## Programme 1: Support to Micro Enterprises (BSM1-3)

<table>
<thead>
<tr>
<th>Programme 1.1</th>
<th>Entrepreneurial Opportunities and First-Steps Training Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme 1.2</td>
<td>Micro Enterprise Development Initiative (MEDI)</td>
</tr>
<tr>
<td>Programme 1.3</td>
<td>Regulatory Impact Assessments and Gauteng Informal Economy Initiative (GIEI)</td>
</tr>
</tbody>
</table>

## Programme 2: Support to Small Enterprises (BSM 4-5)

<table>
<thead>
<tr>
<th>Programme 2.1</th>
<th>Online Business Training Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme 2.2</td>
<td>SMME Funding (BSM 4-5)</td>
</tr>
<tr>
<td>Programme 2.3</td>
<td>Sector Research and Information Sharing</td>
</tr>
</tbody>
</table>

## Programme 3: Support to Medium-Sized Enterprises (BSM 6-7)

<table>
<thead>
<tr>
<th>Programme 3.1</th>
<th>Provincial Mentor Database and Accreditation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme 3.2</td>
<td>Entrepreneurial Back Office Support</td>
</tr>
<tr>
<td>Programme 3.3</td>
<td>Tender Submission Support</td>
</tr>
<tr>
<td>Programme 3.4</td>
<td>SMME Funding (BSM 6-7)</td>
</tr>
</tbody>
</table>

## Programme 4: Support to Medium-Sized Enterprises and Boosting Innovation

<table>
<thead>
<tr>
<th>Programme 4.1</th>
<th>Boosting Innovation Among Micro and Small Enterprises</th>
</tr>
</thead>
</table>

## Programme 5: Cross Cutting Programmes

<table>
<thead>
<tr>
<th>Programme 5.1</th>
<th>Gauteng SMME Information Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme 5.2</td>
<td>Consolidated Entrepreneurial Portal</td>
</tr>
<tr>
<td>Programme 5.3</td>
<td>Gauteng SMME Development Forum</td>
</tr>
<tr>
<td>Programme 5.4</td>
<td>Training Layoff Scheme Support</td>
</tr>
<tr>
<td>Programme 5.5</td>
<td>Gauteng SMME Observatory</td>
</tr>
</tbody>
</table>
6. **Principles informing SMME Development in Gauteng**

The following principles inform the design and management of SMME development interventions in the province:

- The Gauteng Provincial Government provides oversight and leadership in the development of the SMME sector in the province, liaising closely with key national government departments and agencies, as well as with all district, metropolitan and local municipalities.

- SMME development services enhance the potential for economic transformation in the province, removing the dualism that is currently found in the economy and practically supporting opportunities for broad-based black economic empowerment (B-BBEE).

- Wherever possible, systemic and sustainable approaches to SMME development are applied in order to address the underlying constraints and barriers experienced by the sector and ensuring all SMMEs in the province benefit from these interventions.

- The creation of provincial and local business environments that enable the growth of SMMEs within the province is a continuous process of assessment, reform and dialogue with the business community.

- All SMME development services are carefully targeted, demand oriented, responsive, and integrated.

- Wherever possible, all actors engaged in the SMME sector – public, private and community, as well as national, provincial and local agencies, and the SMME sector itself (as represented by business membership organisations) – work together to ensure their actions are complementary and coordinated.

- Regular and structured dialogue between provincial and local governments and the SMME sector is essential to the design of effective support interventions and a better business environment.

- Provincial SMME development pays special attention to the constraints and challenges facing women, young people, people with disabilities, and enterprises operating in previously disadvantaged areas in the province.
• New methods and instruments are developed to promote SMME development in the province, including the use of pilot and flagship projects, which test new approaches to SMME incubation, innovation and development.

• Investments are made into the generation and management of knowledge concerning the provincial SMME sector and development interventions.

• SMME development interventions in the province is aligned with the targeted sectors and clusters as specified in the Draft Gauteng Industrial Policy Framework. Specific SMME development strategies are formulated in each of the identified sectors and development targets set and monitored:
  - Transport equipment
  - Wood and paper
  - Publishing and printing
  - Textiles, clothing and leather
  - Food, beverages and tobacco
  - Other non-metal mineral products
  - Construction

• The Gauteng Provincial Government, as well as all district, metropolitan and local municipalities, perform regulatory impact assessments on all new local policies, laws and regulations to clarify the positive and negative impacts these will have on the SMME sector before they are introduced.

• Clear targets are set for the development of SMMEs in the province, which shall be regularly monitored and reported.
7. **Key Stakeholders and Institutional Arrangements**

A detailed Gauteng SMME Implementation Plan has been developed and seeks to ensure that the policy priorities spelt out in this document are achieved. The focus on the different segments of the SMME market, financial and non-financial support measures, capacity development and other policy priorities are detailed as programmes in the Implementation Plan. The programmes are costed with relevant champions and support agencies assigned to ensure proper implementation to achieve the objectives.

The policy framework recognises the full range of actors engaged in the development of the SMME sector in the province. To be effective SMME development in Gauteng requires an institutional framework that builds on the strengths of all actors and promotes a platform for improved integration, collaboration, coordination and partnership. The Government of South Africa's *Integrated strategy on the promotion of entrepreneurship and small enterprises* promotes an integrated and coordinated approach to service delivery. The principle of integration articulated in the strategy refers to three levels of integration:

- Integration of different socio-economic policy areas
- Integration of programmes within the public sector (cutting across national, provincial and local government), and between the public and private sectors
- Integration of the activities of different entrepreneurship and small enterprise promotion institutions

7.1 **National Government**

The Government of the Republic of South Africa sets the macroeconomic and constitutional framework in which SMMEs operate, which displays a commitment to open markets, private enterprise, freedom of association and sound property rights. The national government also establishes the policy and legal framework for SMME activity through instruments such as the White paper on national strategy on the development and promotion of small business in South Africa (1995), the National Small Business Act (1996), National Small Business Amendment Act (2004), and the
Integrated strategy on the promotion of entrepreneurship and small enterprises (2005). These national instruments guide the efforts of the Gauteng Provincial Government and the district, metropolitan and local municipalities operating in the province, as well as other private and community-based actors, in the development of the provincial SMME sector. National government also supports the SMME sector through development agencies that have a specific mandate.

7.2 Provincial Government

The Gauteng Provincial Government performs the following functions in relation to SMME development:

- Leadership in provincial SMME development: SMME development cannot be expected to occur naturally. It requires leadership and direction. The Gauteng Provincial Government, through its Department for Economic Development, will oversee the development of the SMME sector and engage all actors on a collaborative basis. Leadership in this context involves the following specific roles:
  - Oversight and accountability
  - Identification of provincial priorities
  - Liaison with key National Government departments and development agencies to ensure provincial priorities and concerns are reflected in their SMME development services and annual work plans
  - Coordinate the engagement of other departments of the Gauteng Provincial Government in SMME development activities
  - Liaise with district, metropolitan and local municipalities regarding their SMME development policies, programmes and services, promoting information sharing and collaborative approaches
  - Coordination and harmonisation of all national and provincial SMME development service providers

- SMME development services: Provincial SMME development requires a network of providers to deliver financial and business development services to the SMME sector. This includes national agencies, provincial SMME development agencies, such as the Gauteng Enterprise Propeller and Gauteng Tourism Agency, and local agencies, such as The Business Place. It also includes
public, private and community-based service providers as well as, in some cases, business membership organisations. These agencies are required to perform the following roles in relation to SMME development:

- Identify and respond to the specific needs and development constraints experienced by targeted SMMEs
- Provide services in a sustainable, practical and business-like manner
- Identify strategies for maximising outreach and impact on the provincial SMME sector
- Share information with other service providers operating in the province
- Participate in partnership projects and collaborative approaches to SMME service delivery
- Set targets for service delivery and report on these on a regular basis

• Pilot and flagship projects: Success in SMME development requires a commitment to trialling new methods and approaches. The Gauteng Provincial Government will work with the Gauteng Enterprise Propeller as well as key national and local agencies to identify and test new approaches, which if proven successful, can be replicated to other locations in the province. The provincial government will also consider the development of flagship projects, which provide a focus for key strategic approaches, such as the development of an SMME incubation centre or innovation centre.

• Public-private dialogue: The importance of regular and structured dialogue between government and the business community is well recognised. This should occur at provincial, district and local levels. This requires the following:
  - A well organised business sector that effectively represents the business community – this requires business organisations that represent firms of all sizes and sectors
  - A platform within government that creates the space for dialogue with the business community – this requires government commitment and leadership that demonstrates that business views will be heard
7.3 **Sub-provincial Government Authorities**

District, metropolitan and local municipalities in Gauteng have a critical role to play with regard to SMME development. While there are varying powers and mandates prescribed to these bodies based on the Municipal Structures Act, all have the capacity to contribute to, promote and constrain the development of SMMEs. Most district, metropolitan and local municipalities in Gauteng have recognised the role SMMEs play in their local economy and have included SMME development in their local economic and integrated development plans. Some have provided direct support to SMME development agencies such as The Business Place, which has centres in Johannesburg, Kliptown and Bronkhorstspruit.

In line with the principles of co-operative government, national and provincial government must support and strengthen municipalities’ capacity to manage their own affairs. This concerns SMME development as well as other social and economic development plans and programmes. Thus, the Gauteng Provincial Government will liaise with district, metropolitan and local municipalities to determine the correct support measures it can provide in relation to SMME development in the province.

7.4 **Academic and Research Agencies**

Gauteng Province enjoys the presence of a wide range to academic and research agencies. These include public agencies such as teknikons, FET colleges and universities, as well as non-governmental and private consulting and research firms. These agencies provide basic, technical, and tertiary education, training, advice and research to SMMEs as well as to other actors in the SMME development arena. Many of these agencies have begun to pay greater attention to business development issues, SMME development and the development of entrepreneurship skills.

The development of the SMME sector in Gauteng requires close collaboration between the business community, in particular the SMME sector, and academia. Support should be provided by public agencies and private investors to promote innovation and technology transfer that improves the competitiveness of SMMEs in the province. Special attention should be given to the creation of SMME incubators, innovations
centres (such as those currently promoted by the national Department of Science and Technology and the Small Enterprise Development Agency), and the creation of technology based clusters.

In addition, the Gauteng Provincial Government will take steps toward the development of an entrepreneurship strategy, which engages key education and training institutions (at all levels – from primary school through to tertiary institutions) and research agencies in the promotion of a more entrepreneurial province. This strategy will cover a wide range of social and economic domains and will complement the Gauteng SMME Policy Framework and Development Strategy.

7.5 Private Sector and Business Membership Organisations

The SMME sector in Gauteng Province is represented through a range of business membership organisations, which reflect the diversity of the sector. Business membership organisations provide important services to their members and, in some cases, provide SMME development services. In addition, they present provincial and local governments with an opportunity to discuss concerns directly with the business community.

Provincial, district and local government authorities should liaise with business membership organisations on a regular basis. SMMEs are encouraged to join local associations and, wherever possible, these associations should ensure the voice of even the smallest member-business is heard within their structures. Where possible, support services should be provided to help business membership organisations become better organised and equipped to provide sustainable membership and development services to SMMEs.

7.6 International Donor and Development Agencies

It is recognised that there are a number of SMME development initiatives in Gauteng that benefit from the support of international donor and development agencies. These agencies are encouraged to work with key provincial, district and local actors – public, private and community-based – in their efforts to promote the sustained development of a more competitive SMME sector. Support from agencies such as these should focus
on the trialling of new methods and instruments for SMME development, as well as on disseminating lessons from international best practice. Support for the building and strengthening of provincial and local business membership organisations is also required.