

**CRITICAL FACTORS FACILITATING AND  
IMPEDING YOUTH ENTREPRENEURSHIP IN SOUTH  
AFRICA**

**MAIN REPORT**

**A project undertaken on contract to the  
*SWISS-SOUTH AFRICAN CO-OPERATION INITIATIVE***

**Lawrence Schlemmer**

*With assistance from*

**Gillian Hamilton  
Libby Husemeyer  
Monica Bot  
Bees Consultancy**

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## 1. The challenge: unemployment, youth unemployment and the search for appropriate strategies in South Africa

Entrepreneurship development lives in the shadow of a major contradiction in the debate on small business promotion. On the one hand it is widely and superficially perceived as the answer to problems of chronic unemployment in general and youth unemployment in particular. The respondents to the Global Entrepreneurship Monitor survey (GEM, 2001) estimated that new firm entrepreneurs would create 780 000 jobs over the subsequent five years. Indeed this is a major reason why governments make special efforts to promote small business development.

On the other hand, however, many authors with experience in the field argue very firmly that entrepreneurship cannot be an answer to problems of significant unemployment. Had the GEM estimate above been correct South Africa's unemployment level would have been significantly lower than it is today. Mike Savage, former Director of the Open Society Foundation has called the argument that small business development, without the addition of significant new value-adding technology, can alleviate unemployment a "hoax" (quoted in Schlemmer and Hudson, 2002). A striking finding from studies in Southern Africa is that less than 1% of firms graduate from the micro-enterprise seedbed to become employers of more than 10 workers (Mead and Liedholm 1998). Nafukho and Wright (1991, 1998) warn that an over-optimistic emphasis on entrepreneurship as a panacea for poverty and unemployment could become yet another elusive solution like prior programs in "vocationalisation," "education for rural development," and manpower planning. Richard Tomlinson ("*Small Business creates jobs and other myths*", *Business Day*, 19 July, 2000) warns against naïve assumptions that small business development can address unemployment.

This contradiction in interpretations of the potential of entrepreneurship development can be disillusioning, and it is necessary to formulate a motivating reconciliation of these positions. The very experienced researcher Chris Rogerson (1999, also quoted in Schlemmer and Hudson 2002) offers such a resolution, arguing that the micro-enterprise sector, if nothing else, has the capacity to make very many poor people "*a little less poor*". This is a very basic point of departure in the review that follows.

South Africa's current official unemployment rate at September 2004 was 26,2% or 4,14 million people. This figure reflects an improvement in the situation since 1993 when the figure was 28,2%. A recent report suggests that the economy as a whole has created around 345 000 jobs over the past three years, and the formal sector of the economy added 2,7% to its labour force (Report by economist Mike Schussler of T-Sec, *Business Day*, April 29, 2005). One may assume that the rise in unemployment over the past decade may have been halted and if the economy maintains or raises its current levels of growth, unemployment will decline very slightly but surely from now on. What this means, however, is that the stress of unemployment may ease very slightly and slowly but only for the upper levels of the unemployed – the people who are in the formal sector jobs queue.

For the bulk of the unemployed, the situation will not change significantly, and the most significant effect might be that higher levels of demand in the economy will perhaps stimulate the informal sector marginally. The South African unemployment rate is still one of the three or four highest recorded rates in the world. Worse still, it excludes a further 3,94 million, this

being what is termed “expanded” unemployment, substantially made up of “discouraged” unemployed – people who have given up looking for work, who cannot afford to look for work or for whom sitting around has become a way of life.

Furthermore, the official criterion of employment is set very low and if one works for one hour in a week one joins the fortunate group of the “employed”. Does a person who washes one large car a week have a career?. Therefore there is a margin among the employed that is in fact are critically “under-employed”.

Encouraged by the rise in economic growth and a very slight upturn in labour absorption, the emphasis in government is shifting towards strategies to stimulate labour demand in the competitive private sector. Ravi Naidoo, the Head of Economic Research and Policy Co-ordination in the Department of Trade and Industry explains that “A major element in the reform strategy is reducing the cost of doing business, particularly for those firms that can expand and create jobs” (“*State chipping away at the edifice of unemployment*”, *Business Times*, April 24, 2005). These firms will not be larger employers of rudimentary labour but companies in the more sophisticated sectors. There is a long queue of job seekers with at least moderate skills and experience in line for those jobs, however, and there will be scant opportunity for the army of people who have never seen a pay check.

Hence the situation is that with current growth and the easing of unemployment at the higher levels of labour supply, the priority as regards special job creation or employment stimulation is shifting more clearly towards the 6 to 7 million people who are “unemployable” in the contemporary economy. Under the most favourable of economic scenarios, this mass of people is so to say redundant.

This latter day scourge is particularly hard on the youth. In the *Stats SA Labour Force Survey* of September 2003 (no significant change has occurred since then among the mass of the unemployed), the figures show that among the people unemployed in terms of the “official” definition, 60% were aged between 15 and 30 years. Only 25% of these young people had ever worked before, compared with 63% among the older unemployed. Even those who had worked, however, had on average been unemployed for slightly longer than one year and nearly one quarter of them had been unemployed for 3 years or more. Among all the unemployed, including those who had once worked, 59% had been looking for work for more than a year.

Aside from the tiny minority with exceptional qualifications, work experience is the final and most important attribute that success in possible future employment requires. For the unemployed up to 30 years of age, the results above show that no fewer than 87% have either never worked or worked more than a year ago. This percentage increases if one considers the nearly four million “discouraged” unemployed outside the official definition. Hence we can safely say that well over 90% of our young unemployed people have no exposure or no recent exposure to work of any kind. If these surveys are right they have not even washed cars or picked up cardboard for recycling. We are not talking about a vagrant fringe – we are talking about over 7 million young people -- **a discarded majority of slightly over 50% of all people aged 15 to 30 years.**

The officially unemployed have another disadvantage. Among Africans only 28% have school-leaving qualifications of grade 12 and higher, and among coloured people only 21% have achieved this level. Just below one third in both these groups of unemployed have no

high school education, compared with a zero percentage among unemployed whites and Indians. Broadly then, three-quarters or more among the high need group of Africans and coloured people are educationally disadvantaged. But the situation is in fact worse than the statistics just quoted suggests. The 2004 *Global Entrepreneurship Monitor* (GEM) report concludes: "...independent surveys suggest that the South African school system performs poorly in international comparisons ... (resulting in) ... low levels of entrepreneurial confidence" (p28). In fact the experience of employers is even those products of the high schools in the poor township and rural areas with grade 12 school leaving qualifications are at best marginally employable, and their weaknesses are particularly in the arithmetic, quantitative, scientific and technological fields.

The enormity of this problem deepens if we consider the contemporary South African economy. Unlike many other developing economies, South Africa is dominantly a country of large government, large modern businesses and increasingly sophisticated production. More and more small businesspeople or farmers today have to be computer literate and even semi-skilled work in industry requires an ability to read and understand instructions for complex machinery and production processes. South Africa no longer has sweatshops, large armies of manual labour, a large peasant farming sector or other rudimentary labouring tasks in which people with little education and less work experience can find some source of survival. South Africa is unlike say an India or Ecuador in these respects. Our wage rates are high by emerging world standards and hence our labour needs have been rationalized to fall into line with the costs of labour and the need for international competitiveness in production.

No other country with an excess of labour the size of South Africa's has so few opportunities for low level employment in which young people can start to learn the culture and ways of work. Furthermore, the would-be low-level work seekers are often in competition with unregistered migrants from neighbouring countries who have very low expectations and who have shown the initiative to endure risk and hardship to be in the country.

The government is obviously aware of this challenge and has committed itself to a massive labour-intensive public works scheme. This author's enquiries suggest, however, that this scheme, while showing some progress is hampered by a lack of the necessary co-ordination of inter-departmental state activity. Few people are holding their breath, however, because integrated state programme management is not one of the things South Africa is particularly good at.

The government has another strategy, according to Naidoo of the DTI quoted above, that of "supporting small and micro-enterprises ... and the promotion of co-operatives, not only in agriculture, with new instruments for making available small loans for micro-enterprises and co-operatives". This latter strategy is not really new, however. In its various forms it stretches back to the eighties and earlier. The demography of our micro and small business sector shows very clearly that the successes among the people needing the intervention most have been marginal. The small business ventures that yield an income clearly above that of survival or subsistence activity have maintained their profile – dominantly skilled and largely non-African. And evidence quoted later suggests failure rates among emerging entrepreneur beneficiaries of over 70% within 3 years.

Existing government programmes are theoretically sound, but do not appear to have the capacity to significantly reduce youth unemployment. The "SETA" based "Learnerships" reflect an inconsistency of performance across sectors. Compared with the old apprenticeship

system, with all its shortcomings, learnerships have yet to fully convince employers that the output is readily employable. The learnerships do not have what employers found reassuring in the old apprenticeship system, namely that the long years of assisting an artisan/journeyman instilled sound habits of work and experience in all the practical detail of a trade.

This analysis, therefore, will focus on the people beyond the reach of labour absorption in our improving economy – the well over 5 to 6 million young people who are extremely unlikely to find a job in the formal sector. The major challenge therefore is that of stimulating youth self-employment and entry-level entrepreneurship. And because government programmes, throughout the world have underperformed in this area (see ahead) the attention will have to be on what the voluntary, NGO and private sectors can deliver.

As already argued, the need is particularly for programmes that could be effective at inferior levels of educational readiness and life skills among socio-economically disadvantaged youth. There may still be significant unemployment among African graduates and those with post school diplomas, but as the economy absorbs more labour these people will be first in line for recruitment. The crisis is in the area of the millions of young people that are likely to remain unemployable in the current and future labour market.

This perspective may imply a futile challenge, but other realities suggest otherwise. The spontaneous, market driven **informal sector** demonstrates that there is potential for otherwise unemployable people, and the next section of this report will illustrate this with brief evidence. There is hope for the unemployable!

Accordingly, this **Main Report** will proceed as follows:

- A brief note on methodology
- Evidence on the spontaneous market-driven Informal Sector in South Africa as a pointer to possibilities and as a context in the setting of objectives
- A broad review of general guidelines in the literature bearing upon small business development and facilitation, both internationally and in South Africa
- A review of international projects and programmes that illustrate ways of meeting the challenge
- A review of local projects and programmes that should be assessed as possible models for an intensification of efforts to stimulate youth self-employment, concentrating on Gauteng and the Western Cape
- Analysis and conclusions
- Suggested models for development

This report has to be as brief as possible and therefore most of the detail of our investigation is contained in **Appendixes A to D**.

## **2. A brief note on methodology**

In a report on a project of this nature it might be expected to find a systematic analysis of interviews with project beneficiaries. Some 60 interviews were indeed conducted with entrepreneurs and trainees on projects reviewed, but not all have been systematically

recorded. This is because the interviews generally confirmed previous experience that an alternative approach yields better insights. The reasons are firstly that beneficiaries, particularly young and inexperienced ones, are always “grateful” for any attention or help that they get and find it very difficult to be critical about the support or training being discussed. Second most of them tend to be a little fixated on the possibility of financial support and cannot assess their own longer run needs as far as business development is concerned.

Hence these types of interviews have to be impractically long and probing, running into multiple sessions, that the project duration did not allow for. Better insights can be obtained by a mixed approach in which interviews with the project organisers are blended with selected interviews with beneficiaries and an assessment of the outcomes of the projects – an approach based on an interpretation of all available indicators of the success or otherwise of the projects. This is the approach that was adopted for this analysis.

### **3. The informal sector as a benchmark of scale and beacon of hope**

In 2003, the senior author, with MarkData (Pty) Ltd, undertook a fully representative national survey that covered roughly 6 750 households, aimed at providing a basis for estimating the size and scope of the informal sector in South Africa. A stratified probability sample of 2 250 households was asked to report on informal self-employment in its own house and in two adjacent households (with double-counting avoided). Responses on the types of self-employment in these households were carefully grossed-up to provide estimates of numbers in the population. The following were the results (see overleaf):

**Informal self-employment in South African households: national estimates based on a MarkData survey among 6750 households, 2003**

<b>Type of informal activity</b>	<b>Estimated numbers in SA</b>
Selling vegetables and fruit	423 000
Selling packaged food or beverages	258 000
Selling liquor and Sorghum beer	149 000
Selling loose cigarettes	62 000
Selling flowers	23 000
Selling wood/coal/household fuel	12 000
Selling trinkets, cheap manufactured items and other merchandise on street	124 000
Running a "Spaza" shop or stall (informal general dealer)	196 000
Running a tavern ("shebeen")	11 000
Selling goods to which value has been added (cooking food to sell, collecting and repairing old clothes, sewing, basket-making, handicrafts, etc.)	77 000
Handymen, self-employed artisans and builders	231 000
Small manufacturers – variety of goods (e.g. burglar guards, gates, furniture)	67 000
Small gardening activity and livestock production	48 000
Traditional healing	11 000
Renting out telephones/telephone calls	77 000
Taxi driving and transport activity	104 000
Running crèches/child-minding	12 000
Hairdressers/photographers, services	58 000
Other and mixed activity	168 000
Precise self-employment not known or illegal	95 000
<b>Estimated total informal self-employment</b>	<b>2 206 000</b>

Of this 2,2 million people, 85% were Africans, 7% coloured, 5% white and 3% Indian. Africans are thus over-represented in the numbers of informally self-employed, as one would expect. This estimate of 2,2 million may be compared with the official September 2003 Labour Force Survey. According to this official survey, among all races, excluding employees in the informal sector and those working without pay in family businesses (also employees in a sense), there was a total of 1,495 million people informally self-employed, significantly lower than the MarkData survey estimate. Self-employment tends to be understated in official surveys, however, because of fears of tax repercussions, and for this reason the results of the MarkData survey are very plausible.

On the basis of these MarkData results, it would seem as if around 18% of working people are self-employed in the informal sector – a considerable achievement in a sophisticated economy like that of South Africa's. Without the 2,2 million self-employed people (and their employees) the rate of unemployment would be substantially higher.

**The experience of the informal sector:**

Feedback from the 2003 study and from other studies of the informal micro-sector<sup>1</sup> suggest the following reality of the operating circumstances of emerging informal businesses:

- Over half of the operations are not growing or are economically marginal. With a minority of exceptions, even the more successful operations at best yield monthly net incomes slightly below lower level unskilled wage employment
- Among the more or less successful operators, their present businesses are the result of between three and five previous false starts and failures. The informal sector is no instant solution
- There are indications that many of the more profitable and diversified operations have benefited from some form of material support and mentoring from middle class voluntary organisations with benevolent inclinations
- Many would like financial assistance in the form of soft loans (or grants) but the other constraints strongly suggest that, all else being equal, injections of capital would not result in sustainable growth
- The major constraints, all at roughly the same level of salience, are that they:
  - Face very stiff competition – in fact most of the markets in which they operate are heavily over-traded
  - They generally do not obtain their stock or materials at trade or wholesale prices, and the cost of these inputs plus high costs of transport and fuel places them in an even more negative competitive situation relative to the larger formal sector operators
  - They have huge problems of secure storage of stock
  - They are most often trapped in poverty markets with very low spending power. And if their customers advance they tend to lose them to the supermarkets and large formal sector discount stores and services. In fact the supermarkets and discount stores have destroyed the typical small black (or white) “general dealer”
- Hence, at the typical level of operations of micro-business start-ups, the problems are not a lack of business skills, because the operators pick up the rudimentary essentials quite quickly. The need is to be able to begin to operate in the formal sector markets at a much higher level of “market exposure” and commercial “image”. This applies to the non-poverty black consumer market as much as it does to the white market.
- The real challenge for the informal sector, then, is not at the level of lower level business and bookkeeping skills. The promising operators in this sector need packages of strategic and technical support that will assist them to access the significant FORMAL niche markets of the middle, lower middle and non-poor working classes, against stiff competition from the sophisticated supermarket and small business sectors.

All these constraints notwithstanding, the informal sector is not simply a strategy of survival in the face of high unemployment. In the *SBP* report “*Counting the cost of Red Tape*” (SBP, 2004) in which the senior author participated, some 57% of the informal sector entrepreneurs said that they preferred their own businesses to the option of a salaried job in the formal

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<sup>1</sup> The senior author is an executive in a research company and over time has accumulated insights from the field that are specifically relevant to the challenges facing the informal and emerging micro-sectors.

sector. The economic returns in the sector are fairly disparate: median turnover was found to be a very modest R8500 per annum, but 8% had annual sales of over R50 000 and 3% showed an annual turnover of R100 000 or more. Half of the sample employed between one and five people.

Some crucial points for this review arise out of the evidence. First the enormous size of the spontaneous informal sector illustrates the power of the market to generate results with highly significant impacts on livelihoods. It would be no exaggeration to say that the size of the “spontaneous” informal sector dwarfs the performance of all opportunities created by state, private sector and NGO facilitation in the field of entrepreneurship.

Second, the informal sector is dominantly a sector of very low returns. Its potential, however, is illustrated by the up to roughly 10% of operators that break through to a level of comfortable livelihoods. As such, the upgrading and expansion of the informal sector is a self-evident priority. Given the size of the sector, if such upgrading were to occur on scale, the impacts would be dramatic.

Strategies in support of self-employment and small-scale entrepreneurship must respect the sheer scale and potential of existing spontaneous self-help in the informal sector. While new formal business start-ups should never be neglected, the onus on support programmes is to develop models and strategies that can be applied at a scale to match the groundswell of economic activity that the informal sector displays.

Thirdly, the strategic challenge is to assist the emerging start-up businesses with promise to cross the existing divide – the deep gulf – between the informal sector and the competitive formal small business sector.

Fourthly, an inspection of the table of 2003 results above reflects one of the very great weaknesses of the informal sector, and one that must be overcome if there is to be significant development in the sector. This is the relative lack of **value-added** activity -- small manufacturing and small-scale agricultural production in particular. Altogether the **value-added activity is 9% of all operations but rises to 20% if one includes handymen, repairs and building.**

Fifthly, a problem from the youth perspective is the fact that only a small minority of operators are under 25 years of age. This is partly due to the fact that it takes the average participant in the informal sector some years of trial and error before they become established in viable niches.

Finally, this very process of initial failure, trial and error reflects the fact that a rigorous process of self-selection occurs within the “spontaneous” informal sector. The immediate implication of this is that business support services to the emerging sector must either respect this self-selection or develop adequate and appropriate methods of selecting people with the persistence and personality-based aptitudes for entrepreneurship.

The context of the informal sector is most useful in setting a benchmark of scale and for the insights it gives into the challenges of self-employment. The upward age bias, the lack of diversification into value-added activity, the evidence of heavy overtrading in retail and personal services, the rigorous self-selection and the low level “business development

services” that middle class benefactors often provide, all give crucial insights into the strategic challenges to be explored in this report.

#### **4. Lessons from the relevant literature**

**(See Appendix A for more detail and supporting references)**

The literature on the topic of youth self-employment and entrepreneurship is surprisingly sparse. There is a great deal of writing that takes the form of advocacy but careful analyses, case studies and evaluations that are more than mere accounts of well-intentioned projects are hard to find.

Fortunately the task of exploring previous experience is made somewhat easier by the fact that it is inappropriate to limit this part of the review to youth. Being on a continuum with adults of more mature age, what works for mature adults in stimulating self-reliance and entrepreneurship can offer useful guidelines for youth as well. Hence we have concentrated our search on best practice in general rather than only on youth projects in particular.

There are obviously special factors that apply in the case of young people, however. A word or two on this is necessary before proceeding to the literature.

##### **4.1 The particular problems of young people in self-employment.**

Youth and young adults obviously have certain advantages as far as goal directed activity is concerned, namely high levels of energy and probably high levels of ambition. At the same time, however, youth, and youth from poor backgrounds in particular, have marked disadvantages as far as entrepreneurial activity is concerned – see among others White and Kenyon (2000), Smith (2004) and Curtain (2004):

- Youth have fewer role models of young men and women in successful businesses
- A lack of familiarity with the commercial and industrial world. This applies particularly in the case of African youth from poor homes in townships, informal areas and rural subsistence areas. The schools that they attend are similarly isolated from commercial and industrial realities. Whereas middle class youth live in households in which there is always some interaction with public and commercial life, youth in the modern socio-economic ghettos of the township and the tribal area may know only one or two shops and an occasional visit to a supermarket if they are lucky.
- Youth from middle class homes are also more likely to take ad hoc work in school vacations and over weekends, whether it be “waitressing” or delivery work of various kinds. The senior author once investigated this practice among university students and found that over 60% of white and Indian middle class students had part time work, and that they were more likely than non-working students to get higher grades. Poor African youth have no such exposure, not from choice but simply because of the non-availability of opportunities.
- Young adults have generally not yet developed the social and communication skills to interact with adults in the marketplace, which is essential in any form of self-employment. They also do not have the social networks that are so essential in

any business venture. Here again the youth from poor homes are at a relatively greater disadvantage.

- Due to lack of experience, a particular problem with unemployed African youth as we have seen, young people do not have the awareness of constraints and limitations under which they will have to operate. Hence their judgment can let them down in any commercial or self-employment venture.
- Young people face additional operating challenges because of their limited financial resources, lack of access to credit, lack of own transport and age discrimination.
- Finally, young people are less likely than older adults to exhibit the patience to work long hours on their own or to be able to handle the stress of business life on their own. This would indicate that possibilities for collective self-employment have to be explored.

It goes without saying that these particular disadvantages must occupy pride of place in the design of programmes to support youth entrepreneurship.

#### **4.2 General guidelines on small business promotion in the literature**

The accumulated evidence bearing upon small business support programmes and self-employment covers a very wide range of vital factors. While many of these are often self-evident, it is surprising how frequently this background of evidence is ignored in development interventions. We will proceed, therefore, to review this accumulated wisdom very briefly, and refer readers to **Appendix A** for an expanded review of the literature on General Guidelines.

It is appropriate to commence on two sobering notes, however.

First, the international *Committee of Donor Agencies for Small Enterprise Development*, composed of 20 bilateral government agencies with wide and thoroughgoing experience of successes and failures all over the world, has noted the “*generally unsatisfactory performance of past interventions*” and the “*shared recognition that traditional interventions have failed to provide quality, affordable business development services to a large proportion of the target population of small enterprises*”. Intervention aimed at stimulating and strengthening emerging micro-enterprises is a field littered with good intentions and sparse results. The need to learn from past mistakes and successes is palpable.

Second, a large number of international analysts have concluded that:

- Youth entrepreneurship should not be seen as a magical cure for youth unemployment
- Youth entrepreneurship policies and programmes should complement broader youth employment strategies and policies
- Only a small proportion of young adults can become real entrepreneurs, although more could achieve some satisfaction and reduced dependency in informal self-employment
- It is of paramount importance to develop policies and policy instruments that are flexible and selective enough to ensure that large numbers of young people are

provided with an appropriate set of skills and business awareness if not relevant experience prior to their entry to the real world of business

Youth self-employment is not a panacea. It is a high-risk sphere field of programmes that if well implemented have a vital contribution to make to the overall strategy in dealing with the economic alienation of developing world youth and their dependency.

Some of the risks can be ameliorated if we take careful note of the reasons for the failure of self-employment projects. The report that follows is intended to assist in this. Before proceeding, it might be appropriate to take note of some of the reasons for failure given by the *Commonwealth Youth Programme* in 1991:

- Programmes inadequately funded, with insufficient resources and staff.
- Too much bureaucracy - administrative procedures and operational styles that are too rigid, and inappropriate.
- The ongoing lure of wage-employment even among youth who stand no chance of getting such opportunities.
- Programmes that are poorly designed or where young candidates are incorrectly recruited for support, resulting in a high failure, dropout, or default rate.

These challenges are picked up in the review that follows.

➔ **The necessity of an economic, social and cultural environment that encourages, rather than discourages entrepreneurship.**

The international evidence suggests that the national cultural environment has a significant impact on entrepreneurship levels. A culture of entitlement, and a widespread view that the state should look after people are counter-indicators for a vibrant business climate.

More important, however, is the immediate culture in the communities of target groups. Where young people are exposed to positive role models of small businesspeople who have made good or of relatives and family members in business there is more interest in self-employment. In communities in which children are given significant responsibilities, not merely chores, a spirit of self-sufficiency is fostered. In most poor communities it is generally less likely, however, that young people will emerge from school with an integrated sense of individual purpose and the self-confidence to pursue life activities that involve individual risk taking.

South Africa is an ambiguous situation in these respects. While the national society is replete with many role models of successful entrepreneurship, until recently the whites and Indians have dominated the successful formal business sphere. Black economic empowerment is changing the face of business at the higher levels of control but without providing role models of small people making good. Government sends a dual message to the population – on the one hand entrepreneurship is both encouraged and promoted, but on the other hand it emphasises its responsibility to be a caring state, “delivering” a better life for all people, and hence unwittingly perhaps, encouraging dependency.

At poor local community levels, there are few role models of successful self-made entrepreneurs, and although the informal sector is a powerful presence, the vast majority of its participants are seen to struggle on much lower incomes than can be earned in unionised

employment. In schools in poorer communities most sports and expressive activities are either team games or choirs. A sense of individual purpose and confidence would be surprising in communities dominated by material insecurity and a strongly collectivist political consciousness.

In motivating young people for self-employment, therefore, an emphasis on individual achievement and the pursuit of intrinsic rewards of independence in business is not likely to be effective. The security of collective entrepreneurship or the social status and material rewards of business would possibly be more powerful motivators.

### ➔ **Education and training**

While middle class education in South Africa ranks among the best in the world, despite intensive reforms and a high level of state expenditure, education at mass level is among the very weakest judged by comparatively measured Maths and Science performance. Although the integration of middle class schools is bridging the racial divide at the top, standards in the mass school system among have not yet begun to improve. Entrepreneurship education is in its infancy and is not yet effectively focused. The state of education among the poor communities that contain most unemployed youth does not ease the challenge of small business development or self-employment.

Generally the international and local experience is that effective technical training is a sound basis for self-employment, as noted by a host of authors. However little has been done to focus on self-employment in technical training except apparently in Spain. The weakness of maths and science education in schools in poor communities in South Africa, however, may well close this avenue to self-sufficiency. Entrepreneurial education and training at school level has expanded dramatically in many Eastern European countries, but here again the qualifications of South African teachers in the poor communities probably means that such training, if and when provided en masse, will be of limited value.

Skills training should include management of business finances; time management; stress management; improvement of sales; management and reduction of costs; debt recovery techniques; stock control techniques; marketing; recruiting the correct staff and decision-making regarding more technical aspects of managing a business. Only professional trainers could offer such support effectively. Our schoolteachers may just encourage over-simple notions about business start-ups and in the end create cynicism.

### ➔ **The role of the state: facilitation rather than direct engagement:**

Almost overwhelmingly, the evidence from around the world is that government failure in small business development is more frequent than market failure. The dominant view is that governments should not attempt to provide small business support and facilitation directly but should concentrate on enabling policies, the legal and regulatory environment and the provision of public goods such as basic infrastructure, education and information services. State subsidization of programmes to compensate for market failure is accepted as a temporary measure, but otherwise small business development should be pursued within the framework of the competitive market. Contrary examples from East Asia are difficult to replicate in other cultural environments.

Hence government interventions should firstly support, not replace the market and secondly have a 'light touch' through decentralisation and outsourcing of services intended to compensate for market failure. The task of stimulating self-employment among disadvantaged youth in South Africa will, however, require some state or donor subsidization given the low levels of income in the early stages of development, but such support should not distort the market.

Up to now the government has partly respected these lessons by outsourcing business development services and subsidizing the provision of start-up finance, but it has done so within large, well-advertised national programmes of its own design, which have suffered from weaknesses in the professionalism of the agencies responsible for delivery of services – agencies that may very well not survive without the incomes that they derive from large government contracts. The over-arching government approach has favoured equity, and hence has also not encouraged rigorous selection of beneficiaries and trainees.

### ➔ **The regulatory environment**

As elsewhere in the developing world, South Africa's regulatory environment imposes fairly severe costs on formal sector businesses, and these costs are relatively much higher for smaller businesses. This disincentive for small business start-ups is avoided to some extent by the informal sector. Even in this sector, however, there are costs of non-compliance in the form of fines and interference by officialdom.

Perhaps the greatest cost for the informal sector is that regulations help to keep it pinned to a level from which it cannot compete effectively with the formal sector in mainstream markets. As an informal sector it cannot escape the marketing stigma of being associated with street and backyard activity.

### ➔ **The issue of loans and finance**

International lessons are that access to business finance for small business start-ups should not shelter emerging businesspeople from the discipline and the rigours of the market. In the South African situation, however, relatively high reigning rates of interest and the low likely initial income levels of young beneficiaries make this a tough criterion to apply. Nevertheless, the international lessons are that handouts are to be avoided.

As far as possible commercial loans, assisted or otherwise with guarantees or interest subsidies, should also be avoided wherever possible. Most micro-businesses in the world mobilise their own finance through their families and other networks, or savings or community loan clubs of various kinds. A 1992 study in South Africa showed that most successful small black businesses did the same.

Hence despite the widespread pleas for easier access to start-up loans from banks, the dangers of debt-ridden start-ups should be avoided for youth entrepreneurs. Soft loans are not a panacea both internationally and in South Africa. Various studies demonstrate that programmes of minimalist credit may not necessarily assist the poor and may even serve to worsen their plight. The poorer the borrowers, the less is the increase in income from small loans, and among the very poorest, people become worse off as a result of receiving loans.

More reliance should be placed on Rotating Savings and Credit Associations (ROCSAS) that have a proven record in Africa and South Africa, with the further advantage that the members are automatically involved in networks that are useful in other ways as well.

➔ **Interdependence: linkages, clusters, networks**

It is often assumed that independence is vitally necessary to small business. The facts are, however, that “interdependence” is an even more critical factor. It has been observed that the problem with small enterprise stems not from its size as such, but that the owners are “lonely”. This is a particularly vital consideration in youth enterprise, for reasons already given.

Interdependence embraces clusters, networks and other linkages. The physical concentration of young entrepreneurs in **clusters** can give rise to locally concentrated labour sharing, a division of labour between operators and economies of scale. Buyers and sellers can gravitate to the cluster, while the proximity of firms creates opportunities for efficiency enhancing collaboration. For example, clusters have enabled co-operation of issues as diverse as training, finance, new product processes, product design, marketing and distribution, as well as simpler considerations like security against crime and peer group support. When micro-firms operate near to each other, and the frequency of interaction is high, familiarity, trust and social norms may reduce the costs of contract negotiation, enforcement and facilitate dealing with authorities.

**Networks** by contrast may exist independently of physical clustering, and even more stress is placed on trust relationships that can link entrepreneurs in similar sectors or of similar age and circumstances. Networks affect enterprise performance directly by providing entrepreneurs with information about operating problems, about techniques and emerging market opportunities. They can also offer many of the advantages mentioned for clusters above.

However, not all networks are helpful. A distinction has been made between “**energising**” networks in which competence is expected from all members, and “**dissipating**” networks in which non-contributing members consume resources without contributing anything. Extended families and youth peer groups may fall into either of these categories, but in Africa extended families have often been a drain in networks, having the effect of levelling the circumstances of members to the lowest common denominators.

Social capital - the resources acquired through networks, may include entrepreneurial role models, informal training in various community activities, financial support and introductions to suppliers and buyers, which are all crucial for emerging entrepreneurs that historically have had restricted access to established business networks.

**Business linkages** are another form of interdependence -- commercial dealings between separate profit-oriented enterprises. Business linkages are the positive result of market forces compelling businesses to seek the most efficient means of sourcing the components and services that form part of their products and services. Good business linkages result in specialisation, diversification, efficiency, and wide benefit dispersion, as well as access to higher value-added opportunities in both markets. A big advantage for young entrepreneurs is what is called “buyer-mentoring” – the practice of buyers advising their suppliers in an ongoing market-related form of capacity building. Reducing the need for credit, supplying credit directly, facilitating access to credit are all forms of buyer mentoring. It is also possible

for buyers to supply equipment or raw materials to their suppliers, thereby reducing the supplier's need for working capital from a third party.

Another large advantage of linkages and networks is the possibility of arranging multiple buying of inputs in which entrepreneurs will be less dependent on any single source. Linkages can also teach the emerging operator the disciplines of the market and work against any attitude of charity or entitlement.

Linkages can also involve non-commercial participants -- government, formal business, and local communities can be both supporters and customers, giving feedback and ongoing mentoring.

**Business incubators** can be a very useful way to support groups of young entrepreneurs, who probably need a more comprehensive and integrated range of services and technological support than more experienced operators. However incubators often fail through weak management and should only be considered if support and facilitation of the incubators is trustworthy and highly skilled or professional. Under ideal circumstances they have been known to reduce failure rates very dramatically.

#### → **Developing a tolerance for failure and the long haul**

In South Africa the impression of small business consultants is that no more than 50% of start-ups survive over any extended period. Even more telling is the estimate of former senior employees of the state-financing organisation, Khula, who estimated that the failure rate of businesses supported is between 70% and 80% within three years. South Africa is not unique in this respect, however and failure can be a very steep but useful learning curve.

The tough question must be raised, however, of whether or not business failure should not perhaps be seen as a vital selection process that is essential for the emergence of a competitive small business sector. Whatever the case, these realities have to be incorporated into the counselling and mentoring in all small business start-ups and particularly those that involve highly impressionable young people. It is also a constant reminder that high failure rates are best avoided by careful and professionally based **selection of beneficiaries**.

#### → **“Business Development Services”: the most vital component in the mix**

As defined by the international *Committee of Donor Agencies, Business Development Services (BDS)* include training, consultancy and advisory services, mentoring, marketing assistance, information provision, technology development and transfer, product development and design and business linkage promotion. One may also include the facilitation of networks and clusters.

Far too few small business promotion projects make provision for an adequate and integrated range of Business Development Services (BDS) at an appropriate level. Rudimentary business training with a little marketing thrown in are woefully insufficient.

In the past donors and governments have attempted to provide BDS themselves, with some remarkable failures, but more recently it has become accepted that wherever possible markets for BDS have to be developed at the right level and that they should be used voluntarily by small enterprises according to their needs. Facilitating the provision of services by private

providers and stimulating the demand for these services by small enterprise clients is an effective way to raise the coverage, quality, and sustainability of these services and increase their impact on small enterprise performance. But the BDS should never be an ongoing free handout -- as one experienced commentator put it, "BDS is not for everyone, it is not a right to be provided to everyone".

It has also been observed that contrary to popular belief, markets and a demand for BDS at commercial rates exists among even the lowest level of producers. The 1992 *BMI* study of small black business showed that the most successful operations were those that purchased the right services at the right times.

Unfortunately, public provision of services has distorted BDS markets. When services are highly subsidised, existing and potential private service providers may find it difficult to compete against them, so that the private provision of services is crowded out. The funding of NGOs to provide BDS has also often saddled small emerging businesses with politically correct and idealistic but incompetent service providers.

The provision of BDS to lower levels of emerging businesses requires a high level of enthusiasm and commitment, well-selected experienced professional staff and a focus on the bottom line. Small business may need to be counselled on the need for BDS but it should never be provided as a donation, except in the very initial stages. One of the features of paying for services its capacity to empower the small business customer, putting him or her in a position to demand quality.

The market for business development services may be divided into strategic and operational services. The latter are routine day-to-day activities such as management of accounts and tax records, compliance with labour laws, information and communications, freight and mail forwarding, printing and publishing and bookkeeping. The market does not generally fail for routine services. The failure is more likely with strategic services that are outside the regular experience of small firms and are used by the enterprise to address medium- and long-term issues in order to improve the performance of the enterprise, its access to markets, and its ability to compete. Strategic services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing. These include such as diagnostic analysis, financing, reorganisation, specialised market planning and the identification of partners, networks and linkages.

Earlier in this report the challenge was stated of assisting informal sector entrepreneurs to bridge the deep divide between the survival sector and the competitive sector which has access to much more powerful markets. Strategic Business Development Services have an essential role to play in meeting this challenge.

BDS providers may be individuals, private for-profit firms, NGOs or business associations. There may be a need for BDS facilitators to design the right programmes and to train and support BDS providers, for example by developing new service products, promoting good practice, and building provider capacity. BDS facilitators can also work on the demand side, for example by educating small businesses about the potential benefits of services or providing incentives to try them. Other BDS market facilitation functions include the external evaluation of the impact of BDS providers, quality assurance, and advocacy for a better policy environment for the local BDS market.

The financing of BDS should ideally be in the form of fees or invoices for services rendered. In the early stages of micro-business or informal sector projects, however, the beneficiaries may simply not be able to afford routine services let alone strategic services or the facilitation of new services. Here donors can come in to compensate for this market failure on a temporary basis, by providing funding for BDS projects and facilitation programs. Governments can do the same as long as they do not attempt to develop the BDS themselves.

The general conclusion has been that **strategic** BDS facilitation can be donor based or **temporarily** subsidised by governments because it does not distort the BDS market as easily as the case with operational BDS.

Accepted best practice in micro-finance and BDS encourages separation of non-financial and financial services for SMEs. The main reason is the different skills involved and the fact that some non-financial services may involve support and aftercare for businesses that are not necessarily part of the market discipline, and may be subsidised without distorting markets to the same extent as is the case with subsidised interest or other devices to provide soft loans. It has been possible, however, to achieve synergy between financial and non-financial services in the same support organisation provided that the operations are clearly distinct and operate according to their own rules.

The problem in South Africa, and in some other developing situations, however, is a critical shortage of skilled and experienced commercial BDS providers with a grasp of the requirements in micro-business operations of a less-formal kind. This is where NGOs have fitted in. The challenge is for NGOs to improve their professionalism in the strategic BDS field (see ahead).

**➔ The role of NGOs in Mentoring and in providing Business Development Services**

Not only appropriate BDS but more specifically, sound and experienced mentoring, are of great value particularly in supporting youth entrepreneurship, because mentors help to overcome two of the major problems young people face: limited life and business experience and the lack of networks and contacts.

As Wolfgang Thomas and others have argued, the NGO sector has traditionally been the most appropriate provider of mentoring and other services for lower level emerging enterprise, as set out below :

**Areas of Small Business Support by NGOs (following Thomas in Schlemmer and Hudson (2002))**

1. Information	7. Business linkages (Corporate-SMME)	15. Deregulation and regulatory streamlining
2. Advice	8. Public-sector procurement	16. Protection against unfair competition
3. Mentoring	9. Finance	17. Labour supply (incl. IR)
4. Training	- Starting capital	18. Risk sharing
5. Infrastructure facilities - Markets	- Working capital	

<ul style="list-style-type: none"> <li>- Hives/incubators</li> <li>- Access to water/electricity</li> <li>- Business premises at affordable rentals</li> </ul> <p>6. Marketing</p> <p>7. Export assistance</p>	<ul style="list-style-type: none"> <li>- Venture capital</li> </ul> <p>10. Joint Venture Partnering</p> <p>12. Technology transfer R&amp;D, patenting, etc.</p> <p>13. Sector-focused support</p> <p>14. Networking/lobbying, Sector associations</p>	<p>19. Entrepreneurship mobilisation</p> <p>20. Black empowerment in small business</p> <p>21. SMME involvement in privatisation and mega-projects</p>
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This has been an ambitious mission for NGOs that, by and large, has not been able to be sustained, for reasons set out by Thomas (2002).

In particular, there is a critical shortage of suitable mentors available to support business start-ups and an equally inadequate system for projects to gain access to mentors with different types of expertise when needed. This is also a field where the NGOs are assumed to have capacity and professionalism but often disappoint.

Regular funding bases for NGOs have been weakened by a tendency among donors to support projects have media appeal but that have limited scope. There is always a problem in raising funds for sound “backroom” BDS services that cannot display the image-enhancing impact of grateful beneficiaries. The NGOs that have received funding have often been those that are high on commitment, developmental ideology and good intentions, but light on expertise and specialised professionalism. These NGOs have a role in facilitating networking and information exchange among simpler SMEs, but are certainly well short of the skills to supply Business Development Services to emerging businesses.

The realistic abilities and shortcomings of NGOs in the small business development field, as outlined by the very experienced Wolfgang Thomas, are that they can achieve:

- Supportive action, projects or programmes;
- Pave the way for lasting action, even though their own funding may be uncertain and often erratic;
- Can muster support from different sources, including different levels of government, parastatals, statutory bodies and a wide range of private or community organisations – much of it may be short lived, but even that can be critical for the success of an initiative;
- Can be vehicles for the channelling of foreign support; much of such support would not be given to government or the private sector directly, but it is support that seldom runs over more than about three years;
- NGOs can pilot experience and create models of support which might be adopted (or modified) by other bodies, thereby reducing their start-up cost;
- NGOs can attract partners for the further unfolding of (SMME) support; such partners might even take over initiatives and/or determine the further evolution of support programs.

At the same time the NGO sector cannot achieve:

- The longer run funding or the ‘survival’ of support programs;

- The expansion/multiplication of support programs to reach satisfactory spatial or sector coverage;
- NGOs simply do not have the scale or scope of operations to satisfy the ‘basic needs’ of survivalist entrepreneurs or those hundreds of thousands in need of at least some minimum support;
- NGOs, generally, are not very effective at fully costing their services and maintaining a ‘business-like’ approach to their programs;
- And one cannot expect NGOs to have the required level of technical and professional expertise in training, mentoring and the establishment of a full range of business development services, unless they are linked to professional, sector-based or other specialised agencies.

Hence, Thomas expects that:

- The total number of NGOs is likely to decrease, as non-viable ones cease to operate or merge with others;
- As has occurred abroad, more dynamic or entrepreneurial NGOs will ‘privatise’ (or profitably handle) at least some of their functions and shed others (which are difficult to get funded);
- NGOs will strengthen strategic alliances with institutions which have a longer time horizon, are financially viable in the longer run or which have assured access to public sector co-funding;
- The corporate sector as well as public institutions are likely to take over or internalise some functions currently fulfilled by NGOs; and, finally,
- Foreign funding of NGOs will further decline, in particular bilateral support. What remains will tend to be focused on the alleviation of basic needs, for which NGOs do not necessarily have the economies of scale to be effective.

If all these forces gain momentum we will move towards far greater market-driven services to SMMEs, with public support ideally limited to the compensation of market failures and the alleviation of the starkest poverty. But the NGOs that deserve to be strengthened for this role will not necessarily have the right political profile to obtain adequate and sustained funding.

The challenge is clear. In order to provide BDS in areas of clear market weakness in the early stages, such as micro-level youth business start-ups, NGOs will have to secure longer run continuity of funding and professionalize their services by linking up with sound service providers and training programmes based on specialised expertise. There may be a need for linkages with tertiary educational institutions (but not everyone is convinced that they have the expertise either). This leads to a broad conclusion that there is a need for the corporate sector to get serious in its social responsibility spending by giving greater support to the design and mobilisation of Business Development Services for the micro-sector that cannot be commercially viable at the early stages. In particular specialised training, mentoring and programme and product design in the informal micro-business sector has to be strengthened and expanded.

## 5. A review of the record of support projects in the literature

Over 50 projects, programmes and models have been inspected or reviewed in order to establish, if possible, which models could be most useful in the South African situation (see **Appendix B**). We avoided inspecting finance only projects, or projects based simply on conventional training, simply because they would be predictably inadequate in providing adequate support in the highly demanding area of emerging micro-enterprise in our local situation.

The need for brevity as well as that fact that the literature does not provide full information in many cases means that the information recorded is telegraphic. Even so it is impossible to include the specific notes on these projects in the body of this main report. The separate report by team member Hamilton in Appendix B provides descriptions and where possible assessments of these projects. In this main report, broad strategic conclusions will be drawn.

Various introductory points are necessary:

- Almost all the project and programmes encountered have undoubted value. Almost none of them would leave the beneficiaries unchanged and without some new insights or understandings that they would be able to put to good use in micro-business undertakings. All of the projects taken together amount to a massive flood of information and new perspectives, often with excellent manuals and other documentation, that have no doubt contributed to the quality of employees and businesspeople and possibly to social change in the host societies.
- It has proved to be difficult to identify many projects in Africa. An evaluation of model projects by the Washington-based *International Youth Foundation* in 2000 identified 150 model projects, only 10 of which were in Sub-Saharan Africa. Subsequent analysis of even these few projects, however, suggested that there was little proof of sustained impact on youth livelihoods.
- The irregularity and inconsistency of information available in the literature mean that systematic quantitative analysis is impossible. The assessment that follows is necessarily impressionistic. Nevertheless, some tendencies are clearly evident and valid.

Our assessment of the projects reviewed in the literature is as follows:

- ➔ Some projects are aimed at a general sensitisation of young people to the benefits of entrepreneurship and the need for economic development. As such they are useful but do not offer the kind of models that would be useful in our local situation, where the large size of the informal sector and the pervasive debate about self-employment as an alternative to rampant unemployment have already positively influenced perceptions of business. South Africa has a problem with the perceptions of low-level micro-enterprise (see later) and as such needs very particular sensitisation strategies.
- ➔ Some others are international programmes, such as those of the FAO, that interact with state agencies in developing countries and as such help to improve and orientate local bureaucracies.

- It is clear that a wealth of resources is available for Information Technology and ICT training, and projects in this field are mostly serious and vitally important inputs in the modern global economy. Given the generally high level of IT/ICT sophistication in South Africa, it is doubtful whether such projects would have the same impact in the local situation, however. Firstly, the market in South Africa for new ICT enterprises, including emerging black operations, is relatively speaking fairly saturated. Secondly, for the relatively few African school-leavers with maths and science subjects who do not secure places at universities and technical universities, such programmes could be useful. They are not appropriate, however, in the area of mass need where the problem of innumeracy has yet to be overcome.
- Some of the programmes and projects involve shorter courses or periods of exposure and are useful as “top-up” inputs for people already in business, but clearly would not have an impact on youth employability or skills for self-employment.
- Many other projects are aimed at a higher level of education than the target groups conceptualised for this review. Many are also educational “top-up” courses. As such they will increase the formal sector occupational readiness of better -educated unemployed youth, but certainly could not prepare such people for business start-ups.
- A large number of projects involve vocational or technical training, and as observed in the previous chapter, are valuable in the sense that competitive technical and vocational training is very frequently the basis on which small enterprises are started. The projects would have to be very well designed to outperform the relatively well-resourced South African Seta-based Learnership programmes, however. We have noted that there are misgivings about the quality and utility of some of the Learnerships, but the same can be said about much of the non-core vocational training offered internationally.

Nevertheless, the value of appropriate and professionally designed technical and vocational training is incontestable as a basis for small business start-ups. The literature confirms this.

A healthy problem in South Africa (which is a serious problem for black middle level empowerment) is the fact that all shorter technical and vocational courses and programmes are assessed against the standards of a more or less fully developed technological society at middle class level. Competition at the technical and vocational level is tougher in South Africa than it is in most of sub-Saharan Africa, and many of the courses reviewed would not be seen to be entirely adequate locally. The technical businesses that could start may not be able to compete in mainstream markets.

Nevertheless, the kind of training offered would certainly be a basis for successful businesses serving what the government refers to as the “second economy” As our dualistic economy begins to converge, the value of these types of courses will increase. Therefore we would again state the view that technical and vocational training is useful and projects based in such courses are useful. In South Africa they would have to gain certification within the National Qualifications Framework in order to realise their full value and to assist the convergence of the first and second economies.

- From the often sparse and inconsistent information on the scope of output from the programmes, one gains the impression that numbers trained and actual business start-ups are fairly modest. This inclines us to suggest that the emphasis should be on models that can be replicated on scale, if necessary by organisations other than the initiating agencies.
- The Canadian Open for Business model (see description later), also established in South Africa, is also useful because it involves a synergy between support and BDS organisations that form part of a network for referrals. A shortcoming is that the rather loosely integrated association of service providers in the networks (in SA) mean that the necessary continuity and follow through in support can break down. The individual components have value, however, and large numbers of people can be assisted.
- The international literature and the projects reviewed both give a variety of indications that appropriate Business Development Services (BDS) are the key to success in developing entrepreneurship.
- It also seems clear from the selection of projects reviewed that the most useful models are the integrated and highly supportive **centre-based programmes** that combine hard training, business training, mentoring, the application of business plans, appropriate BDS and other ancillary inputs.

Examples may be the **“Entrepreneurial Training Centres of Pisani and Patrick (2002) in Central America, The Bhratiya Jubo Shakti Trust in India, the Calcutta Youth self Employment Centre also in India, possibly the Caritas project in Bangladesh, the Australian Slingshot programme, the Prince’s Youth Trust Start-up programme in the UK, possibly the Small Business Centres founded by the Organisation of American States in Latin America, possibly the Thanat Samkee Club in Thailand, and also possibly the Bal Vikas Bank in India.** These examples are all tentatively given because it is difficult to judge programmes from inconsistent levels of information.

These projects are all intensive and probably rather expensive, but their highly structured nature is probably necessary to develop models for later application on scale. More comments in the application of such projects will be made in the concluding sections of this report.

No conclusions will be drawn on this review of programmes and projects until the South African projects have also been reviewed, which follows.

## **5. An exploration of South African projects and programmes**

The exercise that follows does not claim to be comprehensive, simply because projects differ in their visibility and it would have required exhaustive and exhausting investigations to establish a complete universe of projects. The projects included are a “purposive” sample -- a cross-section of projects -- aimed at providing the variation necessary to begin to make judgements about alternative strategic approaches to youth self-employment and business start-ups.

Limiting criteria were set for the inclusion of projects. Projects that delivered a singular service like run of the mill training or credit extension, etc. were not covered in favour of project with multiple components, on the grounds that it is unlikely that any single component of support, no matter how good, would be adequate for the hypothetical target market set for the review. Many general business training and work placement projects were consequently excluded.

Once again the projects cannot be presented in detail in this main report. Readers are referred to **Appendix C and Appendix D** for the presentation of projects in Gauteng and the Western Cape respectively. These two regions were selected because Gauteng is the economic hub of the country, and the Western Cape a secondary hub with particular features such as a vibrant tourism industry and a rather different ethnic mix in the poor populations.

Initially it was planned to place far more emphasis on interviews with project beneficiaries in the field. It soon became clear that relatively more attention had to be given to the structure and rationale of the projects, which many beneficiaries could not articulate or describe. There is also a tendency for poor beneficiaries to be so “grateful” for the attention or assistance that they have received from projects that they are not able to reflect critically on the value of the projects. Very often they did not understand the structure and financing of the programmes. Hence the evidence is a judicious mix of insights drawn from project managers and beneficiaries, depending on which category could provide the most useful information.

The data collection involved roughly 20 to 30 pre-interviews to identify projects, followed by some 60 interviews with project organisers and roughly the same number of formal or informal interviews with participants and beneficiaries.

As before, this report will contain only the major trends and the summary evidence of the projects, which follows. **Note that the short descriptions cannot do justice to the projects and reference to the Appendixes is essential.**

## **5.1 Gauteng Projects**

### **Introductory comment:**

It proved to be very difficult to identify projects for assessment that met the criteria set out above in Gauteng. The Business Place/Open for Business was consulted on the assumption that their networks would include a large variety of projects (Director, former director and consultant). When the criteria were explained the comment of the consultant was “**you are going to have a very short list!**” Many projects were considered but in the end only 15 were assessed in any detail.

Another aspect that was striking about Gauteng was that in about half of all the contacts, the research assistant as told that there is very little enthusiasm for business start-ups or small entrepreneurship among the youth because “people” look down on little businesspeople and everyone has the expectation of jobs in big companies.

### **The projects: (fuller details available in Appendix C)**

- ***Dynamic Business Start-up Project.*** A successful rurally oriented programme self-employment development programme that involves a very careful selection, a structured course on entrepreneurship, tightly planned facilitation and mentoring and an equally structured evaluation of outcomes, measured on the basis of improvements in socio-

economic circumstances of families. A key to its success is the incorporation of local community organisations into the networks that support entrepreneurs. This project seems very well organised and managed.

- ***Eskom Development Foundation/ Eskom Youth Development Programme: Automotive Training College.*** The project is well resourced and involves structured and recognised mechanical skills training followed by rather poor follow through and mentoring. The major problems seem to lie in the organisation and co-ordination of inputs.
- ***Eskom Development Foundation/ Eskom Youth Development Programme: The Cullinan Jewellery School.*** Aimed at training formerly disadvantaged youth as goldsmiths, there seems to be mediocre follow-through and virtually no entrepreneurship content. While the opportunity exists for the skills to be deployed in niche market enterprises, the trainees are probably reliant on obtaining paid work.
- ***Eskom Development Foundation: SAFIC BEE.*** An empowerment-outsourcing programme in which young retrenched employees and others are prepared, trained and mentored by a facilitating/mentoring company for providing cleaning services for Eskom and other companies, with the option to buy the businesses back from the special facilitating company that coordinates the project. The project has the advantage in theory of providing an almost fail-safe entry to business plus a package of marketable skills. At present, however, the project seems to be beset by fairly general problems of co-ordination between the mother company and the project.
- ***The Business Opportunities Centre (BOC).*** Provides demand-driven short business courses, provided on an outsourcing basis by ***Business Skills SA***. The main market is among existing small entrepreneurs who need upgrading. There is some light and probably less than professional mentoring, and very little else. The training exposure suffers from superficiality.
- ***The Springs Business Linkage Centre.*** A business linkage and training project for emerging contractors and other businesses with an emphasis on tendering and business plans. Training is outsourced to a Further Education and Training College, and there is follow-up facilitation, but not really professional mentoring. The major strength of the project lies in the considerable network exposure of the director who is highly regarded.
- ***My Next S: Business development (Pty) Ltd.*** A religiously motivated ICT centre-based project with computer and business training and some “counselling” with a view to small business start-ups or salaried employment. There is in fact very little structured training and the major attraction is the opportunity for township youth to gain exposure to computers. It is based in strong links with community leaders.
- ***Technoserve Entrepreneurs Education Project/Maths Centre.*** A school-based entrepreneurial training project in 40 schools, with some additional training of out of school youth. Teachers are trained to train in schools and also to offer mentoring to young start-up entrepreneurs. Training is offered in business skills as well as vocational and technical subjects, with an emphasis on practical and marketable products. Mentoring is offered to start-up businesses but it is difficult to assess the quality of this aftercare.
- ***The Sedibeng Training Centre.*** This offers Ntsika sanctioned training courses based on the ILO-“Start Your Business”/ “Improve your Business” manuals. Mentoring and aftercare are both rather ad hoc. No records are kept on which to assess results. The training is largely classroom based with some additional workshops.

- ***The Katorus Literacy and Employment Creations Organisation.*** This centre in a township offers a variety of standard courses but includes entrepreneurship training for candidates sent by DTI and the Department of Labour. There is no selection and many of the beneficiaries are unsuitable. There is some light mentoring where requested or needed but generally of less than professional quality.
- ***The Da Vinci/Schaeffer Consultancy.*** This programme is linked to a major corporation. It is driven by a very committed director and the programme involves careful selection followed by a series of more and more serious action-learning business experiences in active business experience, in which candidates are expected to start and run businesses with fairly intensive support and mentoring. The project is supposed to run with considerable community leadership involvement, but the co-ordination of the interaction has proven to be problematic.
- ***“Mogale City”/ A “Project Rave” satellite project of the Wholesale and Retail SETA.*** Trainers are trained and then recruit would be entrepreneurs selected by the community, for business skills training with some light mentoring of unknown quality. The training design was outsourced to Business Skills SA. There seems to be potential but might be problems in the management and co-ordination of the process.
- ***The Nations Trust.*** This project is based on an extensive micro-financing operation with pre-loan counselling that evolved to include mentoring of business start-ups. The mentoring has changed to a voluntary basis with assistance from the National Business Initiative (NBI). Despite a long history and considerable resources the results seem to be fairly mediocre. There is a very careful monitoring of candidate progress, however. There are problems in respect of loan repayments. This project is bound to improve as the problems are ironed out because of the high levels of professionalism involved.
- ***The Business Beat/Deloitte and Touche.*** This is a well-resourced and potentially highly professional operation that has undergone successive restructuring of projects in order to improve output. The previous programmes included a franchising experiment for emerging entrepreneurs, a transportation outsourcing initiative that failed to be supported by corporations and a link with the Umsobomvu Youth Fund that was discontinued because it involved endless preparation of business plans with uncertain outcomes. At the time interviewing a new programme was being designed, about which we have no details.
- ***Kickstart/SABMiller.*** This is a very large and well-established programme that yields successful output. It has an upward bias towards the tertiary level. The programme is based on a careful selection and recruitment process, followed by the submission and selection of business plans, business start up grants for approved projects, competent mentoring by specialist mentors on the basis of declining frequency and the assessment of results based on the performance of the new business start-ups.

To this list, drawn from Appendix C, one might add two projects not part of the interviewing process because the senior author knows them quite well. These are:

- ***Bees Johannesburg Inner City Fashion District project.*** This involved support for groups of informal seamstresses, including immigrant operators in the clothing field, to start their own clothing design and manufacturing operations, with formal technical and business training outsourced to a Technikon, overall guidance by a very experienced clothing entrepreneur, mentoring by Technikon students involved in the project, support in securing contracts, all in a co-ordinated and managed project run by Bees. The programme

has been a success although the earnings and commitment to the project by the beneficiaries, while varied, are some cause for concern.

- ***The Business Place/Open for Business.*** This is a resource and referral centre, incorporating a variety of clients offering various technical and business inputs to which people approaching the Business Place/Open for Business are referred. The elements and the model, derived from the original Canadian concept, are sound and there is no doubt that it offers great value to those emerging entrepreneurs who know roughly what they want and need. However, to offer optimal value for inexperienced youthful candidates, the process of referral and the use made of the available service providers should perhaps be more systematically supervised.

In each case interviews were conducted with the project leaderships and both formal and informal interviews were conducted with beneficiaries where possible. The broad picture emerging will be held over until the Western Cape projects have been set out.

## 5.2 The Western Cape projects

More suitable projects are run in the Western Cape than in Gauteng. The descriptions offered below are once again too brief to do justice to the programmes, but readers are referred to **Appendix D** for more detailed outlines of the projects. In most cases both the project managers and a selection of beneficiaries were interviewed:

- ***The Business Place/Open for Business (Investec and other organisations as co-owners.*** As in Johannesburg this is a multi-purpose advisory and referral centre that contains within it nine more specialised service providers. Further details need not be repeated here, except to say that its growth in Cape Town has been dramatic, attesting to the need for such a referral centre. Possibly the same drawbacks exist as in Johannesburg in that the co-ordination of consultations might have to be firmer for youth and other inexperienced start-up candidates.
- ***Kick Start/SABMiller:*** As in Johannesburg, it selects candidates for intensive business skills training, after which they prepare business plans, a selection of which are chosen for the award of business start-up grants of R10 000 to R50 000. Eight months of intensive mentoring follows, after which they all enter a further competition for the finals in which winners can win R100 000 and get an additional 6 months of mentoring. Some 22 000 people have been trained and 2000 new businesses have been started.
- ***Business Beat.*** A project that links selected emerging businesses needing support to final year Commerce students at UCT (business strategy), who then assess the needs of the businesses and develop strategy concepts. Businesses are charged for the service. The organisation also offers professional business consulting, and offers a Business Challenge competition in which entrants submit a business concept, after which selected candidates receive R1000 to start a small business, with 4 months of intensive mentoring, ending with a competition. The success of this project has led to it being replicated by the City of Cape Town and the Provincial Administration under the name of the ***Red Door*** Challenge.
- ***The Matie Community Service: Youth Entrepreneurship.*** A project based on Rag funds that offers business training to grade 11 learners at schools and unemployed out of school youths. The training is done in partnership with other organisations able to offer specialised training based on their ongoing operations. There is no systematic mentoring although people are available to offer advice.

- ***Logra Community Skills Training programme.*** Run by community members in poor suburbs, the programme offers three different eight-week courses in hard technical skills by skilled trainers, a sound basis for some kinds of business start-ups. In addition Logra sponsors selected students to the Micro MBA (see ahead).
- ***Uthango Enterprise Project (Febdev):*** This project, now financially independent of Febdev, identifies potential entrepreneurs for business and life skills training of 6 months a year, after which they apply to join Uthango for an Access Enterprise Course, with hive type facilities, access to credit, assisted market access and very intensive mentoring by three full time specialised mentors. Assessments of the sustainability of projects are made at key intervals. This course is not cheap but beneficiaries seem happy to pay. The project is also business-mapping the local township in order to improve operating strategy. The project has been recognised or commended for its quality by the Cape Town municipality and two universities.
- ***The SA Institute for Entrepreneurship:*** a subsidiary of the ***Triple Trust organisation.*** It develops and markets business training and entrepreneurship materials used in 75 countries in 17 languages. As part of the Triple Trust Organisation a Schools programme is run called business ventures for grades 2 to 12. It also runs a Best Game programme in which a trained facilitator guides a group through a starter plan, a micro plan and master plan for starting a business with the addition of an Agri-plan. It is now working through communities with partners to train trainers. The Institute also launched the very widely used ***Micro-MBA.***
- ***The Triple Trust Organisation.*** After a long and successful history in technical, craft and business training, the organization has latterly redirected its efforts to making markets work for poor people. This programme is currently focused on upgrading the marketing and competitiveness of hundreds of Spaza shops. In addition it is involved in a “sachet” programme of marketing smaller quantities of cleaning materials in sachet hampers to make the materials affordable to the poor. These are used as examples to demonstrate its conviction that a meaningful growth in business opportunities for the poor requires above all that emerging business can base its sustainability on an appropriate exploitation of market forces.
- ***The Micro-MB.*** This very widely used programme consists of a 5 day course with eight modules, using trainers trained by the organization. The organization works with a network of 80 organisations, which supply the people to be trained and purchase the materials.
- ***Raymond Ackerman Academy of Entrepreneurship.*** This offers MBA type training for students unable to gain access to universities in a practical business oriented module format with fully-fledged MBA students as mentors. The project has just started but plans include small business incubators for beneficiaries, securing access to seed capital and other business development elements.
- ***Zenzele Training and Development.*** This programme offers vocational, practical skills and business training to unemployed community level students, with aftercare, counselling and accommodation in business incubators with a subsidized rental in the initial stages. Its throughput is very large and it is working in cooperation with the Cape Town City Council in providing additional support services for emerging entrepreneurs. Given the humble educational status of its beneficiaries, its success rates of 40% are commendable.

- ***The Tourism Enterprise Programme.*** This is a diversified linkage programme putting buyers in contact with sellers and assisting micro-enterprises to access professional and financial services. It also runs a tourism stakeholder forum, a tourism showcase, and a mentorship programme (outsourced). It is more than a referral agency because it monitors and evaluates the progress of clients, and considerable development synergy has been established within the stakeholder Forum. A major problem is the relatively bureaucratic mode of operation of some of the official partner agencies.
- ***JobStart/WorkLink.*** This is a training operation that identifies unemployed women and youths and gives them training in the hospitality industry, with networks to assist them in finding employment. It also does business skills training and the preparation of business plans in conjunction with the Micro-MBA. The scheme offers access to a skilled mentorship programme.
- ***Junior Achievement SA.*** Although now closed for totally extraneous reasons, JA has until recently offered school-based business skills training, including a Cambridge recognized course, and a Business Establishment and sustainability programme for unemployed youth offering business plan development, access to credit, assistance in establishing a micro-business, plus counselling and mentoring.
- ***Ziphelele:*** Working with community-based partner organisations, Ziphelele offers arts and crafts support and training, business training and life skills support, using ILO training programmes. It recruits students in communities who are willing to commit some capital of their own. After the training period the students are assisted by with mentorship support. The mentors are all MBA graduates and therefore competent but not necessarily specialised.
- ***Ikizo Lo Lwazi Craftworkers, Hout Bay.*** This project started as a literacy programme but expanded to include craft skills to enable the women participants to earn while they were studying. A variety of very high-level craft skills are taught including high quality papermaking, patternmaking, bookbinding, frame making, jewellery making, photograph album making, etc. The training also includes basic numeracy and bookkeeping as well as English communication skills. Careful selection is made on the basis of motivation and demonstrable handicraft skills. The participants once trained purchase raw materials and sell the finished products back to the project or market them themselves. The participants also run a stall collectively to sell their goods. The women include youth but older people also participate. They are trained and work in a centre close to tourism and craft markets.
- ***Hout Bay Business Opportunities Forum (not included in Appendix).*** This is essentially an informal network of linkages and mutual support between small businesses in a local community and the community leaders that organize the forum. The forum also offers training in cooking skills, general counselling and informal mentoring. The businesses include cleaning businesses, clothing manufacture, a funeral service, and a catering service. The interaction in the forum is high as are trust levels.

### 5.3 Assessment of both Gauteng and the Western Cape

The operations reviewed are a very mixed bag, and deliberately so. Some very large organizations are mixed with community level operations in both provinces. The mix was intended to demonstrate the components that can enter into the mix of entrepreneurship facilitation.

Furthermore, the brief exposure to the projects and briefer descriptions given above do not allow the value of each of the projects to be validly rated or compared. This, in any event was not our intention. The intention rather was to assess the projects or their elements for their suitability as vehicles for the development of sustainable self-employment for youth of the type envisaged as the target group.

In reviewing the evidence from the programmes, judgements are exercised that do not flow directly from the brief descriptions but that rely rather on impressions and indications gained during the interviews and discussions between team members.

The projects reviewed include the best and some of the worst of small business development practices. One or two of the projects in Gauteng, particularly those supported by government funding, are little more than very leisurely employment creation schemes for the organizers of the projects. They keep no records because none are ever asked for. They do no evaluations because that too is not required. They might do selection of candidates because often the government refers people to them sight unseen, as it were, but some of them claim that the government departments do not want them to select candidates. Among some the training is often outsourced and the courses offer little more than standard exposure to standard curricula. Sometimes consultants at a distance design the courses at offices or university desks. Candidates endure the courses because they know no better or in the faint hope that the pieces of paper they get will help them to find a job. It is often little short of a scandal. Mentoring, if offered at all, is very light and undertaken by some or another businessperson or former trainee with no training in the demanding skills of mentoring. Students are seldom available for interviewing because there is nothing to keep them at the project offices, and no records seem to exist of addresses. Defunct cell phone numbers are the only ongoing "connection". Clearly, not having to justify the use of funds received, as one has to with private sector or foreign donors, is the first step to mediocrity.

At the other end of the scale of quality are at least 12 types of projects:

1. **Mainstream Technical Training to a level of adequate competence.** A very long time ago the senior author evaluated one of the old training centres for "**artisan assistants**", which existed because black people were not allowed to acquire the skills of a fully fledged artisan, and discovered that even those dubious courses allowed over 70% of the output to find employment or employ themselves relatively profitably in sustainable livelihoods within a year. One must never under-estimate the value of technical training in mainstream trades. A good example of this type of project is the Logra Community Skills Training Programme in the Western Cape.
2. **Business Skills Training.** Some programmes are based only or mainly on business skills training or the production of business training materials. With some projects the level of training and the quality of the materials can be exceptionally high, the result of thorough research and sometimes internationally recognized. Particularly for people already running businesses who wish to improve their performance, this type of training can be very useful. A very limited, and dubious version of this type of project, would involve assistance in drawing up business plans for purposes of seeking finance. The ILO training materials, SA Institute for Entrepreneurship, which also developed the widely used Micro-MBA, would be examples of this type of project.
3. **Finance facilitation projects.** Some organisations specialise in providing or facilitating access to finance, often without any additional elements of significance. Obviously there is a place for such programmes in the mix on offer. However, if such

organisations are really concerned about the subsequent careers of their beneficiaries, they will or should take steps to provide some form of finance aftercare. It was recently announced, for example, that the Nations Trust had decided for precisely these reasons to introduce mentoring among the recipients of its business finance (*Business Day*, May 24, 2005).

4. **Community-based projects.** The next type are programmes that are close to communities, lodged in networks of trust and support and which are able to enhance morale and confidence. Even though the technology of such projects may not be high, the impact and utility for small businesspeople trying to build their enterprises is impressive, based on a sharing of experience and all the effects of informal “incubators”. An example of a project that is based on this dynamic, although it has other sound elements as well, is the Dynamic Business Start Up project in Gauteng. Another very modest but useful example would be the Hout Bay Business Opportunities Forum. What has to be borne in mind here is that the projects must be genuinely community-based and not be attached to some or another category of community leaders. It can happen that where community leaders are involved they are often tempted to use projects to extend a form of patronage.
5. **School-based projects.** These often involve curriculum based or approved business skills modules. Their greatest benefit is that they can raise awareness of business as a career, and one should not attempt to convey hard knowledge on business practices when the context is obviously hypothetical. The knowledge will be very poorly absorbed or recalled. The training situation can be made less hypothetical if there are practical exercises or business games involved.
6. **Outsourcing enterprise creation.** Where types of operations in industry lend themselves to packaged outsourcing, these can form the basis of new enterprises specifically structured to perform a singular function. It can often be the quickest and most painless entry into business for the former employees who have day-to-day experience of the function. In order to call it enterprise creation, however, there should be sufficient training and mentoring to enable the beneficiaries to vary the service in order to explore additional market opportunities. An example of this type of project is the SAFIC-BEE project in Gauteng.
7. **Comprehensive or “Multiplex” programmes.** These are programmes with multiple elements and inputs that can include pre-selection exercises, selection on the basis of an early module, core training, interactive training or activity based training, social skills training, mentoring at an expert level, possibly facilitated access to finance, access to networks or incubators or the like, marketing facilitation and facilitated access to other Business Development Services. The less business experience the trainees have the more elements of preparation have to be built in. Hence the adequate development of youth entrepreneurship almost inevitably requires more comprehensive or multiplex programmes. The highest quality examples of the Comprehensive approach are **Kickstart** in Gauteng and the Western Cape, the **Bees Inner City fashion District project**, and the **Uthango Enterprise Project** (Febdev) in the Western Cape.
8. **Comprehensive Referral Centres.** A variant of the seventh type above is the “*Business Place*”/“*Open for Business*” model. It embraces all the elements of the seventh type by virtue of referrals to a comprehensive network of service providers but does not necessarily closely co-ordinate the exposure of candidates to these service providers. It therefore assumes a degree of initiative on the part of the beneficiaries,

which is not surprising considering its Canadian origins.<sup>2</sup> However, for the development of young businesspeople a more closely co-ordinated programme of the multiplex type is desirable.

9. **Structured and supervised group production.** This kind of project comes close to being informal “franchises” in which a group involved in a project develops a type of product and collectively or singly markets it with assistance from the development organization. Uncertainty and risk are considerably reduced and the interaction between participants once again has the quality of an informal hive or incubator. The best example of this type of project is the Ikizo Lo Lwazi Craftworkers of Hout Bay.
10. **Facilitation of Markets Forces.** A tenth type is exemplified by one of our projects, the Triple Trust Organisation in the Western Cape, which has moved away from business development directly, in the belief/knowledge that the power of markets have to be captured on behalf of the development of small and struggling enterprises like informal Spaza shops and the packaging of affordable quantities of household materials.
11. **Action learning.** Another type is the “throw them in at the deep end model” – projects in which the candidates are given a sum of money and, with short but intensive briefing, required to go out and make more within a short space of time, in return for which they win an award of start-up finance and more intensive training, mentoring or briefings prior to going out and starting a business for real. This is not for the timid or uncertain people struggling to make a survival income in informal business but it can be a remarkably effective launching pad for more ambitious people with higher basic education and/or social skills. The Da Vinci/Schaeffer/Sasol project in Gauteng is a good example of this kind of approach.
12. **New product based enterprises.** Depending on the attractiveness of the products, this can also be a relatively painless entry to entrepreneurship. If a new technology or product is available or can be designed, it can be used as a vehicle for the introduction of youth to business with a sound chance of success. Obviously other elements of preparation are necessary or desirable. An informal sector example in Cape Town is found in a group of street sellers who developed a range of new designs in decorative items made of recycled tin cans. They now market to shops and cannot keep pace with demand.

Provided that there is integrity and an insistence on quality, all six of these models have a place and should be supported. Each model has a particular applicability to a category of need and demand in the market of emerging businessmen and women. We would simply emphasise, and will do so again, that the best option for the cultivation of business start-ups among inexperienced youth is the Comprehensive/Multiplex model.

The largest variations between projects are not variations of type, however, but variations of quality. Almost any type of project can have utility if the organisers of the project are

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<sup>2</sup> According to Jocelyn Smith, consultant to the Business Place in Johannesburg, the Canadian model, originated in Nova Scotia as an attempt to assist people, particularly young people, retrenched from the fishing industry and to keep them in the region. The basic model is the same as that of South Africa (the South African rights were purchased from Canada) but the Canadian operation involves a greater variety of programmes, including Business Camps for youth, school-based courses, and active “business for a day” exercises, as well as a heavy emphasis on internet-based networking. Rather than being located in centres, the Canadian operation operates from storefronts with very visible advertising. The Canadian model is one towards which the South African operations might evolve.

motivated to provide a service, have professional skills or professional approaches, and take the trouble to monitor and evaluate their own outputs.

The 34 projects listed above are together turning out at least 2000 – 3000 empowered, trained or semi-trained people per annum in the two regions. If they were all effective they would be making a material difference to the density and viability of micro-business and informal business in these two areas, as well as having the knock-on effect of providing examples of success and role models. Above all perhaps they would by their examples be changing the climate of attitudes to entrepreneurship in the two economic hubs of the country.

Why is the Western Cape apparently more active in the field of enterprise promotion than Gauteng? First, it may not be the case. The interesting projects may well exist in Gauteng but the conurbation is so massive and impersonal and inter-project networking is so weak that it is much more difficult to find them than is the case in the more human scale of Cape Town, which has active and interlinked city-wide networks through which projects can be identified. It is entirely possible that if the team had enjoyed more time for the project they would have found the projects in particular local authority areas in Gauteng. Another reason may be that Cape Town is further away from the DTI/Ntsika/DOL and therefore is less crowded by the unselected referrals to state endorsed training projects with NQF or SETA certification. Then again, there may simply be more retired or semi-retired people with experience and resources to offer in Cape Town who turn their energies to enterprise development. In some of the project interviews it was also pointed out that Johannesburg is so dominated by large companies that the culture of enterprise is inimical to the development of a vibrant small business culture.

Other comments on these local projects will be incorporated into the concluding comments on the entire field of evidence for this review.

## 6. Concluding Assessment

As implied in the points of departure for this project, the most relevant targets for support for self-employment and micro-business start-ups are formerly disadvantaged young unemployed people. Hence any evaluation has to be made within this context. The implication is that projects and programmes cannot assume “ideal” candidates for assistance. Purely from the perspective of small business facilitation, ideal candidates would be young people either with employment experience and a record of satisfactory performance as evidence of commitment and a work ethic. Alternatively, they would be young people with superior levels of education, preferably technical, vocational or commercial education and or those that have proved an ability to run a viable small enterprise above the level of survival enterprise. These “ideal” candidates, however, are not the critical problem in South Africa. **The real challenge in South Africa is to develop models to empower people among the mass of non-ideal candidates.**

The implications for our evaluation and recommendations is that projects have to:

- Start at a low level of beneficiary skills
- Cannot assume that candidates will be able to put conventional training to good effect
- Have to build in additional components of social and networking skills, personal management skills and marketing skills,
- Cannot possibly succeed without dedicated mentoring

- And that the mentoring required is more exacting than that required for more self-sufficient candidates.

Looking back on the projects reviewed, therefore, one general lesson in development becomes very clear. Many people feel that in working with “under-development” one can afford to be less rigorous, on the assumption that anything is better than nothing. This assumption is massively wrong. It is precisely when one is dealing with developed and established fields of activity that one can often afford to rely on established practice and rather more conventional and even lazy handbook approaches. It is when one is dealing with the least developed candidates and economic situations that one must use the greatest creativity and employ the most innovation. A good auditor can understand a complex established corporation, whereas teams of experts can be baffled by the challenges of an impoverished squatter camp.

The first lesson from both the literature and the projects reviewed is that more varied and more complex inputs are required in approaching emerging business than in dealing with the established formal sectors of the economy. The tasks in facilitating start-up enterprises in developing sectors of society are almost more multiplex and require a greater concern with quality than in any other field of challenge.

There seem to be five key trade-offs in emerging micro-enterprise facilitation:

- Multiplex projects with mutually reinforcing and varied business development services, or
- Single inputs of dedicated quality, like carefully designed training, or
- Supportive networks and interdependence that provide collective confidence, or
- Technology and marketable technical skills, or
- Highly structured and supervised solutions that carry and shepherd emerging enterprises

Emerging enterprise development has to proceed along at least one of these tracks, properly laid. Half measures have not only little short term impact on the situation but can have destructive longer-run consequences by deepening the helplessness of the intended beneficiaries.

Therefore the entire civil society-based development community should fight and oppose dolefully delivered and unresponsive NQF approved courses that seem to be the bureaucratic answer to enterprise development. The development community should also raise its voice against the odd retired or leisurely businessman of uncertain success, or the “former trainee” that is roped in to deliver “mentoring”, which is quite possibly a more complex task than that of a psychiatrist. And in order to protect the viability of the task of emerging enterprise development, the same community should cry out against recruitment to programmes without a careful selection of candidates. Lastly “NGOs” that exist as a form of sheltered employment for NGO and CBO careerists are a form of soft corruption and should be dealt with as such.

Selection on personal merit is sometimes a dirty word in development circles and this may be valid in many situations. But when it comes to enterprise development, where risks have to be taken against judgment, personality counts. If careful selection is ignored, as it clearly is in some of the projects reviewed, the projects will never yield results with the capacity to employ others on any meaningful scale. Regrettably perhaps, enterprise development is not a field where help one, help all, makes any sense at all.

Thank goodness, however, that the review of the projects shows that in both the North and the South of the country there are programmes that pass the tests that emerged in our review of the international literature.

There is room for improvement, however. While there are skilled mentors, mentoring agencies and Business Development Service consultants, there are not enough good ones to be drawn down-market, as it were, into the field of informal sector upgrading and enterprise development for chronically unemployed youth. They are probably too expensive for these sectors anyway. At the end of the literature review we quoted Wolfgang Thomas on the need for NGOs to raise their professionalism to become a source of trained and skilled mentors and BDS practitioners at the most disadvantaged rungs of the development chain. Thomas' recommendation must be repeated: **there is a critical need for corporate and foreign donors to fund NGOs, not for their quivering good intentions, but where they have the aptitude, knowledge and commitment to become valuable backroom service providers to all the projects that have started and the more that should be started in the least promising economic situations.**

Finally, data not set out for technical reasons suggests that the earnings of the products of informal micro-enterprise projects are very limited, and rather inferior to unskilled wages in the formal sector. A very large proportion of the beneficiaries still have to jump the huge gap between the "first" economy and the "second" economy of micro-enterprise in the informal sector. This challenge does not require any change in the criteria for enterprise programme development – it simply means that we have to have more of it and more well-designed projects. Competition is very tough beyond the gulf between the informal economy and the traditional formal small business sector.

## 7. Models of Development

In section 6 we identified five trade offs or tracks along which enterprise development for the youth should proceed:

- a. **Multiplex or Comprehensive projects with business development strategies, mentoring and other features in addition to training and finance.** There are local projects in our review that meet these more complex criteria, but there should be more of them.
- b. **High quality, carefully designed training modules with activity based components, tutoring and other additions.** Here too there are projects that meet these criteria. We are not sure that there should be more training courses and modules, but there is definitely a need for greater access to this high quality training in the informal micro-sector. Training materials will have to be adapted or there will have to be more tutoring.
- c. **Highly supportive networks and linkages between small entrepreneurs.** Curiously, networking seems to occur more readily in sophisticated business than in the informal micro-sector. It may be a case of the struggle for trading space and survival and the loneliness of the tomato seller by the roadside. Here is a challenge for community development to come in to compliment typical technocratic business strategies to work for more synergy and support at the bottom end of the market, including collective entrepreneurship.

- d. **Technology, vocational training and production skills.** This has always been the quick fix in enterprise development, and it works. Somebody who can make or repair a “widget” has a hard advantage. The greatest problem, though, is that the skills that exist or may be developed in the poorer sections of the market do not have the neon signs, the expensive double cab bakkies and the other imagery that gives the technology sector marketing weight. Joseph the painter and the expert wall-cladding firm are not all that far apart. The challenge is to adapt marketing strategy to point this out.
- e. Finally we referred to **highly structured and supervised solutions that “shepherd” the vulnerable emerging entrepreneur.** The formal sector equivalent is a consortium that buys a franchise. The craft workers of Hout Bay, reviewed in the projects, have a kind of “franchise” – a product line with proven designs that they make and sell as a group.

There is little doubt in our minds that the **Multiplex Comprehensive projects** with good BDS are the ideal vehicle for youth enterprise facilitation. At the same time, however, the last track needs for more attention than it has received up to now in the various strategies of enterprise development. The experienced consultant, Alfredo Angel- Semco has this to say: “In my experience, the important thing is to focus resources on the actual creation of companies...when the "coaching" exists, it is mostly focused on creating a business plan, which is not the same as creating a business.”

We need more appropriate level R&D work to come up with design and product development solutions that can form the basis of the design of small emerging companies. Craft production has paved the way but it is becoming overtraded. More options have to be produced.

These conclusions and suggestions are intended for consideration at various levels of enterprise, but hopefully they will be particularly applicable to the informal sector and to vulnerable youth enterprise in general. The sheer size and dogged viability of the informal sector should make it an attractive target for enterprise upgrading, with significant returns for the entire society and economy.

However, there are also untapped potentials for the entry of emerging enterprises into the market for youth products and services, including the performing arts. Here again, we do not need more structures of delivery designed by bureaucrats, but the competent and well-funded NGO facilitation discussed earlier.

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