SSACI NEWS

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This newsletter aims to keep SSACI's partners informed about what the Initiative is doing, and why.

It seeks to give sponsors and project-holders a better understanding of one another's perspectives.

It highlights issues in the fields of education, training and skills development that affect SSACI's work.

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Focus on a Project: DBSP

Khanysile Khumalo makes and hires out wedding outfits for brides and grooms. Recently she added a new product to her range – funky handbags made from discarded containers. Khanyisile's natural business acumen was fostered by training she received from the Dynamic Business Start-Up Project (DBSP), a non-profit training agency that specialises in developing young entrepreneurs. Khanyisile credits DBSP with helping her to manage her finances and provide excellent customer service. It is the latter, she says, that keeps her ahead of the competition.

DBSP began in 1995 when Dr Stephen Black, then CEO of Junior Achievement South Africa, saw the need for training in entrepreneurship for youths. He commissioned a team of business specialists to develop the curriculum, which they subsequently named the Dynamic Business Start-Up Programme, The programme was piloted by Chris Black, who now serves as CEO of DBSP and has overseen its further evolution.

DBSP provides business start-up training to youths in Gauteng, North-West Province and northern KwaZulu-Natal. As part of its 4-week training course, DBSP challenges learners to start a business with R50. Participants are assessed on their ability to develop and implement a business idea and generate a profit using this small amount of money. Aspirant entrepreneurs are then trained to identify other business opportunities in their communities, develop a business plan and start the business. After their initial training, they receive follow-up advice and support for up to a year to help them develop their enterprise.

SSACI has committed a total of R1'090'000 to DBSP over three years, 2003-5, for the training and support of young entrepreneurs A survey of the 156 SSACI-funded entrepreneurs trained to date indicated that 69 % were running sustainable businesses, i.e. drawing from their trading an income higher than the national minimum wage. Just over half (57%) were in a retailing business, 25% were providing personal services such as hairdressing, 13% were in production (including clothing, sunglass accessories and CD stands) and 5% were providing technical services such as repairing electrical appliances and cell phones.

SSACI's support of DBSP is in line with its goal of promoting youth enterprise as a vehicle for creating employment.

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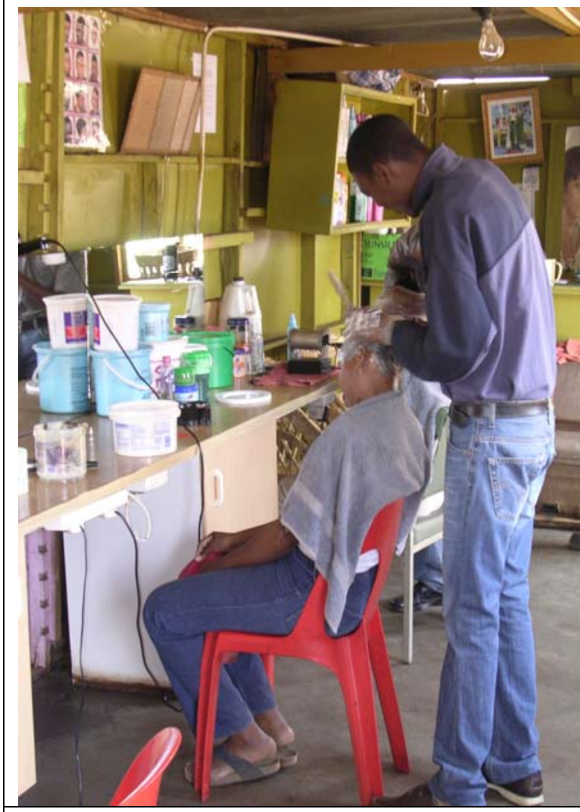
"Getting Ahead"

Themba Sithole, graduate of DBSP business training, does a client's hair at his "New World Unisex Hairdo Salon" in Stanza Bopape, Mamelodi



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How Can Government Help Small Business?

Currently about 45% of all working South Africans are employed in the small business sector. Although this is a lower percentage than in most developing countries (where figures as high as 80% are common) and even than in many European countries (where the norm is about 60%), it still means that small business is an important source of employment. More importantly, it is the fastest growing sector of the economy and therefore the most likely to generate new jobs in the future. According to research conducted in 2000 by the Department of Trade and Industry, annual growth in employment was 3.4% for micro-businesses and 1.2% for small businesses compared to 0.9% for medium-to-large enterprises. As a result, much hope has been placed in the small business sector to absorb the over 800'000 youths who annually enter the labour market for the first time,

Government has tried to encourage small-scale enterprise by establishing a number of agencies responsible for disbursing loans and support services. These include the Centre for Small Business Promotion, the Small Business Council, the Ntsika Enterprise Promotion Agency and Khula Enterprise Finance, all of which stemmed from the National Small Business Act of 1996. Although these agencies have undoubtedly accomplished some good, their overall effect on the growth of the small business sector has fallen far short of expectations, a fact tacitly acknowledged by government when it decided to transform Ntsika into a new structure, the Small Enterprise Development Agency at the end of 2004.

A recent authoritative study by the Centre for Development and Enterprise (CDE) in Johannesburg, published in June 2004 under the title ***Key to Growth: Supporting South Africa's Emerging Entrepreneurs***, highlights some critical weaknesses in the government's current strategy for promoting small businesses and suggests ways in which more could be done.

According to the CDE research, the widely-recognised underperformance of government programmes is largely due to:

- Confusion of purpose, arising from efforts to use small business as a vehicle for economic development, poverty-relief, job creation and black empowerment simultaneously
- A misplaced belief that difficulty in accessing finance is the largest single obstacle to small business growth, despite overwhelming evidence to the contrary from South Africa and elsewhere
- A piecemeal rather than a holistic approach to enterprise development (exemplified by a cabinet calls for higher levels of entrepreneurship while immigration policy largely prevents foreign entrepreneurs from coming into the country)
- Concentration on state-driven instead of demand-driven supply of services to small businesses
- Failure to give attention to the need for a more enabling regulatory environment, especially with regard to the complexity and consistency of legislation, and the need for more effective means of enforcing business contracts
- Lack of capacity and skills within the government agencies charged with promoting small business and a further lack of co-ordination and synergy between them.

From its empirical research in South Africa and a review of international best practice, CDE recommends that the government adopt the following strategies for helping small businesses:

- Rationalise and reprioritise policies for supporting entrepreneurship, separating out welfare and empowerment objectives and concentrating on the central goal of expanding the small business sector in the most efficient way possible
- Find ways of reducing the costs of doing business in South Africa, including the costs of security against crime, complex tax and labour regulations, cumbersome procedures for enforcing contracts and a variety of special levies that have a disproportionate impact on small businesses.
- Establish a high-level unit - ideally within the presidency – to review the likely impact of all draft legislation on the costs of doing business, especially for small enterprises (A key research finding is that only one other factor – a nation's level of available skills – correlates as strongly with per capita income growth as an appropriate regulatory environment)
- Encourage the immigration of entrepreneurs and skilled people to develop the economy and train the populace in scarce skills
- Shift support for enterprise away from state or parastatal agencies to competitive private-sector service providers and provide large companies with incentives to sub-contract to emerging small businesses.

- Promote a positive public image for entrepreneurship by identifying, publicising and celebrating the achievements of successful entrepreneurs, especially those who have 'made it against the odds'.

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Quo Vadis the SETAs?

Criticism of the Sectoral Education and Training Authorities (SETAs) is no longer news. The latest information to come out of independent research on skills development in South Africa is likely to expose them to more of the same:

- a year-long study conducted by the South African Qualifications Authority (SAQA) has revealed that, as of September 2003, only 17% of graduates from SETA-funded learnerships had received the certificates to which they were entitled
- Data from the National Skills Authority, published in the ***Mail & Guardian*** newspaper in October, indicates that only 9'502 of the total of 70'000 learners enrolled since the system began to be implemented in March 2001 had completed their learnerships by June 2004 – a completion rate of 14% in 3 years for courses that typically last one year each.
- A recent research publication from the Human Sciences Research Council, ***An Overview of South African Human Resources Development***, notes that, at most, only 11% of firms that pay the mandatory skills levy have claimed back a skills-development grant and less than 7% of levy-paying small businesses have done so. This suggests that very few companies are actively participating in the system.
- The same research report also questions the quality of the training being funded by SETAs: "Much of the training was of the short-course variety and narrow in focus to meet specific employer requirements. It included training of the 'soft' variety – for example, training in health and safety issues or on industrial relations – and far less of the hard variety that would lead to whole qualification acquisition and significant upskilling of the workforce along the National Qualifications Framework"
- Another HSRC publication, ***Changing Class: Education and Social Change in Post-Apartheid South Africa***, states that "Although detailed information about the successes and challenges of SETAs is not currently available, the overall picture is not a positive one. SETAs are having great difficulty with the implementation of the NSDS and are most likely to fail in meeting the set targets. They have become new bureaucratic structures preoccupied with the development of administrative and policy systems which have not only hindered the implementation of the National Skills Development Strategy, but have also created barriers to providers [seeking] to fast-track education and training programmes and projects".

Unsurprisingly, the opposition Democratic Alliance has called for the complete scrapping of SETAs, describing them as expensive, ineffective bureaucracies. Equally unsurprisingly, government insists that they are here to stay.

But changes are inevitable when the SETAs' current mandate expires in mid 2005. The National Skills Authority has proposed reducing the existing 25 SETAs to 20 and rationalizing their constituencies by:

- retaining 11 in their present form, *viz* those for the chemical industry, health and welfare, food and beverages, mining, textiles and footwear, IT, business and personal services, construction, wholesale and retail, education and training, and transport
- splitting MERSETA (manufacturing and engineering) into two SETAs, one for steel-based and auto-manufacturing industries, and one for all non-steel based manufacturing industries, including printing and packaging and the milling of forestry products
- transferring sport from the tourism and hospitality SETA to that for media, advertising, publishing and the creative arts
- merging the three existing SETAs for agriculture, fishing and forestry into a single body
- merging the two existing SETAs for the banking and insurance sectors into a single financial services SETA
- establishing a single, consolidated SETA for each of the following: public safety, public services and energy

SSACI's experience of dealing with eight SETAs over the past four years leads us to conclude that what is needed is not just a reshuffling of constituencies and portfolios but, more importantly, a dramatic increase in their management capacities and a corresponding reduction of their bureaucracies. This may require more radical surgery than the Minister of Labour appears to be contemplating at present.

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Good News on the Jobs Front

It has often been reported that, over the past decade, the South African economy has shed jobs relentlessly. But that may be changing.

Figures released recently by StatisticsSA provide welcome good news about employment:

- The *Labour Force Survey*, a biannual assessment of 30'000 households across the country, shows that the number of people with jobs was 11.9-million in March this year, 363'000 higher than in September 2003.
- The July *Survey of Employment & Earnings*, a quarterly survey of 10'000 private businesses and public institutions registered with SARS, showed an increase of 195'000 jobs over the past year.
- The December *Survey of Employment & Earnings* corroborated the trend by revealing that a further 112'000 jobs were created in the formal non-agricultural sector in the third quarter alone.

StatisticsSA attributes this growth in employment to the rise in GDP, which rose sharply in the second and third quarters and is currently calculated at 3.9% for the year. Sectors experiencing the biggest boost in value-added turnover were services, retailing and manufacturing, with mining and agriculture not far behind.

The December survey also revealed a 1.3% increase in gross earnings to R136.7-billion in the formal non-agricultural sector. The growth therefore seems to be largely driven by domestic demand, fuelled by low inflation and lower-than-before interest rates.

It is too early to say whether this positive trend will continue. Many economists believe that job creation will only happen on a significant scale if the economy grows at more than 2.5% p.a. for three or more consecutive years. StatisticsSA itself believes that the figures are more likely to indicate a process of stabilization than a significant change.

It should also be remembered that unemployment in South Africa is still one of the highest in the world. StatisticsSA reports that, in terms of an expanded definition that includes people who have given up looking for work after repeated unsuccessful attempts, unemployment remains at 41.2%. Each year, 826'000 school-leavers enter the labour market for the first time, of whom only about 520'000 obtain jobs. The success rate ranges from 29% for young African entrants to 75% for white youths.

Nevertheless, there is some reason to believe that young people's prospects for employment – at least in some sectors of the economy – are better now than they have been for several years.

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Overview of SSACI's Funding Portfolio

To date, SSACI has funded a total of **46** projects, of which **26** have run to completion and **20** are currently active. To these projects, we have committed a total of R40'118'000 out of the R42'293'000 we have received.

SSACI's total operating costs amount to 8% of funds expended, the remaining 92% going directly to projects.

This outlay of funds has resulted in:

- **2'972** youths being enrolled for training
- **1'637** of these youths graduating from training (96% of those scheduled to graduate)
- **1'223** (75%) of these graduates generating regular incomes through wage- or self-employment
- **219** new enterprises being started up
- **85** pre-existing enterprises receiving business-development services
- **480** entirely new jobs being created

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