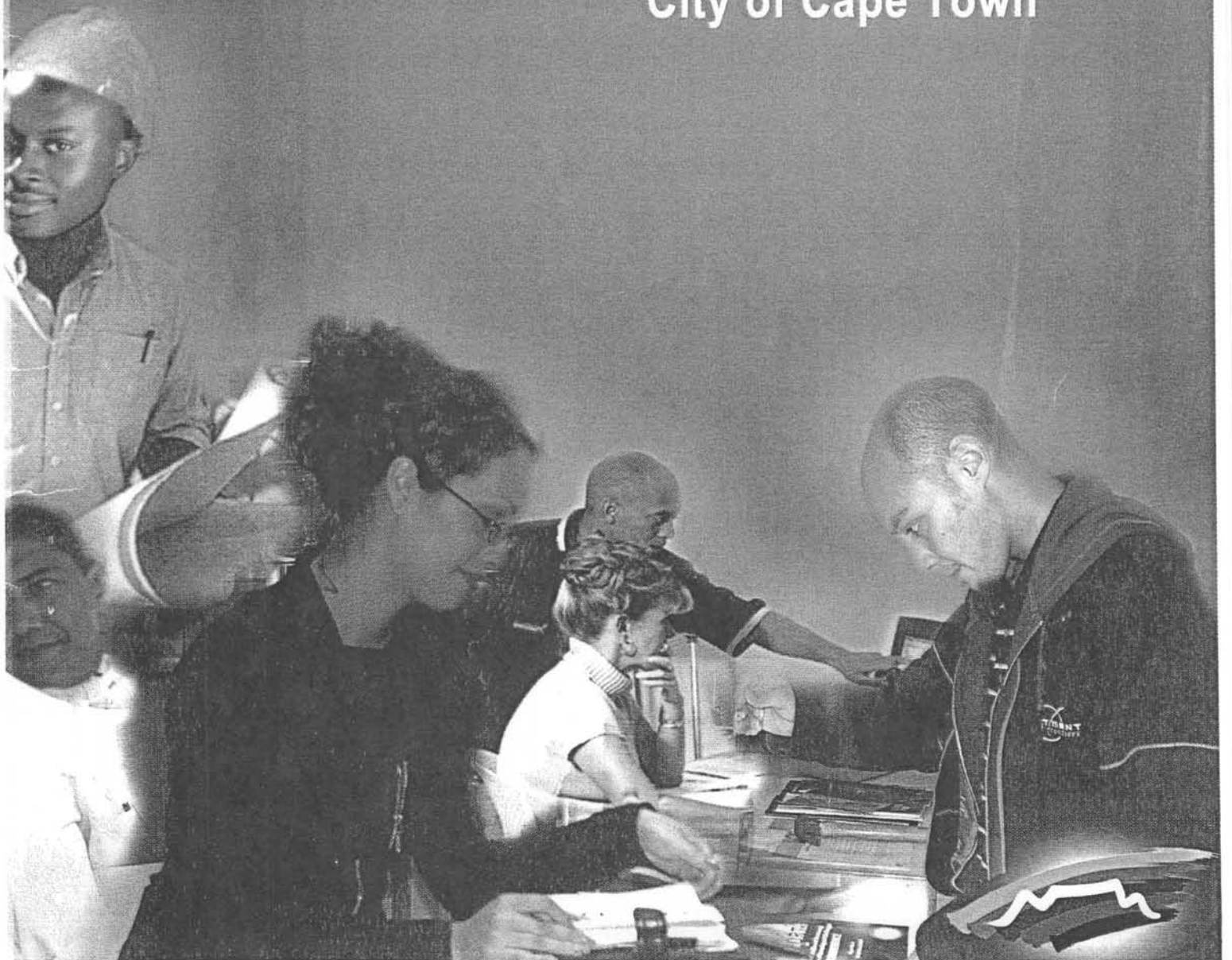


Business Support Policy

City of Cape Town



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**City of Cape Town
October 2003**

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Context

2. Context

2.1 Cape Town

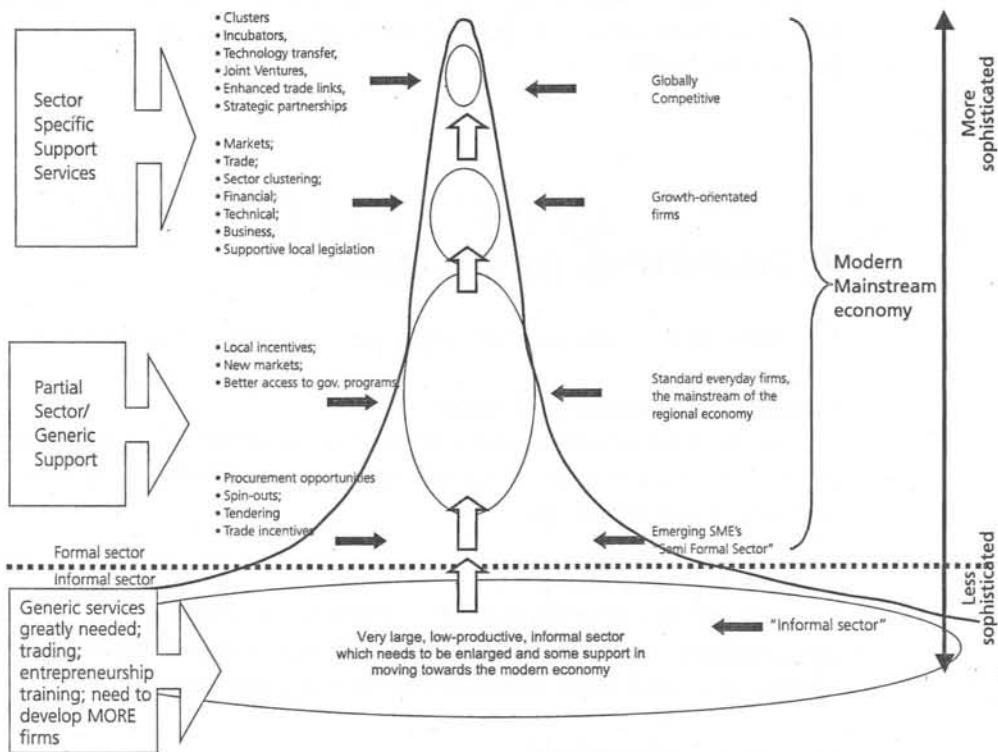
In 2001 the City of Cape Town had the highest economic growth rate, i.e. 3% per annum, in the country. The R94 billion annual production of goods and services contributes 75% of the Western Cape's economy. Yet, despite this above average growth rate, the city falls short of the 7% growth required to prevent the current unemployment rate of 19.7% from worsening. The key challenge facing the city remains to develop strategies to strengthen the economy and further boost employment (Department of Trade and Industry (DTI), South African City Economies, SA, 2002).

Unlike many other major cities, Cape Town's businesses are predominantly small (93% of total), with small businesses contributing approximately 50% of total output and 40% of total formal employment (DTI, 2002). There is often an assumption that all of these small businesses need support. Research by the city indicates, however, that business support needs differ, based on the level of sophistication of the firm.

2.2 Business

Four categories of businesses have been identified, namely, survivalist entrepreneurs, emerging businesses, growth-oriented businesses and globally competitive firms. In general, more sophisticated firms do not require additional support. Those needs that are not adequately addressed tend to be of an industry-specific nature. Support for less sophisticated firms is inadequate. Needs tend to be generic, focused on financial support, business skills and market access. Annexure 1 provides a breakdown of the expressed needs per category and the availability of services in 2002. All businesses need access to economic infrastructure and services; while less sophisticated firms need generic business skills and more sophisticated firms need special business services, as depicted in the diagram in Annexure 1.

Figure 1: The continuum of demand for business development services by businesses of varying sophistication



The primary objective is to grow businesses along the development continuum to be globally competitive. While the secondary objective is, of course, to contribute to poverty reduction. It must be noted that, economic development and poverty reduction cannot be collapsed or approached in the same fashion. Therefore Council's business development role and its role in pursuing equity and reducing poverty within society are two separate processes.

Not all businesses are successfully entrepreneurial, however. Recent research estimates that only 5% of survivalist and emerging business will succeed in maturing and developing into growth-oriented businesses. It is this 5% that is most likely to create jobs for others and positively impact on poverty (Global Entrepreneurship Monitor: 2001; South African Report, Graduate School of Business, University of Cape Town, November, 2001). Any service developed therefore needs to focus on those businesses that want and are able to grow and develop.

The City of Cape Town's mandate

The City of Cape Town's mandate is to ensure sustainable economic development through increasing global competitiveness and reducing levels of poverty. Key to this is ensuring effective business support to facilitate business growth and development.

In order to become established and grow, businesses need:

- Knowledge of how to run a business and about business opportunities
- Capacity to run a business and deliver a competitive product or service
- Business opportunities.

This requires:

- **Addressing market failures** by providing information required by business, providing or facilitating the provision of services and providing or encouraging skills and business training.
- **Improving equity** by engaging in technology transfer and development, and providing access to infrastructure.

The need for intervention is well explained using the example of black economic empowerment (BEE). Without intervention, South Africa's post-apartheid economy would have taken decades to present equitable opportunities to black firms. Government has intervened by introducing a range of policies and programmes aimed at promoting greater equity.

Five basic elements have been identified as a prerequisite to encouraging and assisting the development of successful business:

- The legal and regulatory environment (property rights, contract law, taxation and labour laws)
- The physical environment (roads, water, electricity and telecommunications infrastructure)
- The provision of basic services (law enforcement, refuse disposal and cleansing)
- The social context (education standards, technical and vocational training)
- The entrepreneurial culture, or understanding and respect for the role of business in general, and entrepreneurs in particular.

For less sophisticated businesses, the issue of access to supportive economic infrastructure is even more crucial than for more sophisticated businesses, as the former are more likely to rely on the public sector to meet these needs.

The third task is creating an enabling environment, which requires a champion of business within the City bureaucracy. This is one of the roles played by the Economic Development and Tourism Directorate's Business Support Branch to ensure a truly "business-friendly" city. This role is focused on:

- Ensuring high quality economic infrastructure and services to support business development
- Constantly seeking to reduce bureaucracy and simplify processes and procedures, and providing up-to-date information that allows businesses to interact with the City
- Fostering closer relationships between business (especially less sophisticated business) and local government.

The City also needs to be a champion outside of the Administration to lobby for an enabling business environment. This includes:

- Assisting other stakeholders to create an enterprising and learning Cape, for example, through entrepreneurship training in schools
- Working with the police to enhance safety and security
- Ensuring social stability in partnership with communities and other spheres of government.

(ii) Business information

In addition to its regulatory role, the City needs to focus on its informational role. It will provide business information to entrepreneurs, small and medium businesses on:

- The way the City works, including procurement, administration and customer liaison
- Industry-specific information for targeted sectors
- Existing support organisations and services
- Economic trends and market opportunities.

The collection of information will be a direct responsibility of the City. Wherever possible, however, the provision of information will be outsourced through referrals to accredited service providers.

(iii) Initiating and conducting research and development

Ongoing research is needed to identify the constraints facing, and requirements for successful local area economic development, along with updated assessments of the market. Conducting the research remains a responsibility under the City's Local Economic Development (LED) strategy. This will be focused on:

- How the City can get the most out of existing programmes
- The impact of current services on economic development and the market
- Market trends and needs as these affect small business and skills requirements
- The development and design of new services required.

7. Planning and implementing the strategy

A three-pronged implementation strategy has been adopted, namely:

- Identifying service gaps and facilitating the development and provision of the services needed
- Designing and developing programmes to target groups with special needs, for example, women entrepreneurs
- Maximising resource and impact. To ensure success in this regard ED&T will:
 - Co-ordinate activities with other service providers. This is important where there are several roleplayers, such as all three spheres of government, or where a variety of stakeholders are active, all with divergent approaches.
 - Avoid overloading existing service providers with whom the City wishes to co-operate or out-source work to, by imposing unrealistic objectives and targets.
 - Avoid excessive up-front investments to develop new services that are neither wanted nor viable or sustainable in the long-term.
 - Employ a portfolio approach by working with multiple partners to spread capacity and risk. Single channel delivery mechanisms stifle choice and diversity.

8. Roles and responsibilities

The Business Support Branch of the ED&T Directorate is responsible for driving business support in the city. They cannot, however, fulfil the role on their own and must work in partnerships with other functional areas, other spheres of government and non-governmental stakeholders to deliver the full service.

8.1 Role of the Business Support Branch

The Business Support Branch has both a direct role and a facilitative role to play.

Direct role:

- Policy development and review
- Lobbying other functional areas in Council
- Liaison with provincial and national government
- Identification of business infrastructure needs
- Identification of generic business support needs
- Data collection and business information research
- Marketing small businesses.

Facilitative role:

- Skills development programmes
- Dissemination of business information
- Business counselling
- Supplier development
- Provision and management of business and economic infrastructure
- Facilitating partnerships between large and small enterprises and enterprises across sectors.

Institutional arrangements

9. Institutional arrangements

The provision of business support will always need to be a partnership arrangement. The City is responsible for identifying needs, creating an enabling environment, research, and monitoring and evaluation. The bulk of business support service provision, however, is a private sector and non-government function. Consequently, research suggests that business support services would be most efficiently and effectively facilitated through a public private partnership agency.

The agency would be a not-for-profit entity and would not deliver services directly. Instead it would act as an intermediary working with existing service providers to ensure:

- Flexibility and responsiveness
- Market-driven services
- Quality
- Value for money
- Mobilising and channelling of resources and funds.

