
CASE STUDY 10 – SOUTH AFRICA

Psi (Private Sector Initiative) in Southern Africa

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Introduction

SBP is an independent, private sector development and research company based in Johannesburg. Its programmes combine research, practice and advocacy activities under a generic philosophy known as the Private sector initiative (Psi), and a programme called Cutting Red Tape for business in Africa (CRT).

SBP works with the private and public sectors to promote a policy, regulatory and operating environment conducive to business growth in Africa; through regulatory best practice and empowerment of local SMEs. Much of SBP's current research is focused on regulatory constraints facing private sector – and especially SMEs – development. The SBP has been working in partnership with the Commonwealth Business Council over the last two years on a project to raise awareness of RBP in sub-Saharan countries (CRT).

The Psi: Private Sector Initiative

The Psi is a vehicle for large companies to work collectively in partnership with each other, donor agencies and government. It serves as a catalyst for greater involvement of the private sector in sustainable development and poverty reduction. In Tanzania there are 17 corporations currently participating in the Psi. Stemming from the success in Tanzania, SBP is engaged with nine corporations in Malawi to roll-out a Psi. In South Africa our Psi work incorporates an innovative market approach to SME peer-networking, increasing SME opportunities to engage in corporate supply-chains.

The Psi was included in the Government of Tanzania's 'dialogue matrix' with the private sector, and tabled on the agenda of the President's Investor Round Table meetings. In South Africa, the Psi linkages work started with groups of large companies and local government business support centres and chambers. The results were mixed. In addition, the Psi has created several platforms for dialogue and real-time research from big business to SMEs. SBP's facilitation between these various platforms and the South African government has been critical.

CRT: Cutting Red Tape for business in Africa

CRT has raised awareness of the importance of regulatory best practice. The overriding objective is the removal of obstacles to wealth and job creation, by cutting red tape and creating an enabling business environment. A major strand of CRT has been to ensure that regulatory best practice issues are a key item in debates around economic growth, job creation and the investment climate.

The Cost of Compliance Survey undertaken by SBP during 2004/5 formed a core component of CRT and has achieved visible results in helping to ensure that red tape issues are prioritised on government's agenda. The research was motivated by the need to ensure that both government

policy-makers and organised business are fully aware of the effects of regulations on business and, through business, on the economy.

Systemic change, demonstration effects, sustainability and localisation

Psi programmes create practical opportunities for positive and substantive public-private dialogue, which help to avoid the risks of business and government talking past each other and degenerating into political name-calling.

One of the challenges in selling the Psi is to sell an understanding of the rationale for engaging the private sector – the ‘making good business sense’ argument – to both business and local government/chambers. The agenda to win the ‘hearts and minds’ of the large companies and government is critical. This is helped by being able to point to practical solutions that have delivered definitive benefits to all parties in other places where Psi has been implemented.

An often unrecognised success of the Psi is in building active partnerships between the participating corporations. Regular working group meetings have developed a strong sense of common purpose and shared objectives. This private sector partnership then translates to dialogue with the public sector and government through various platforms and investor meetings. Practical market-led objectives inform the broader enabling environment debate, and can add to the overall knowledge-base of institutions and lead to systemic changes.

Another challenge is when key performance areas/indicators of line and procurement managers in large companies don’t involve targets in relation to procuring local content and working with local SMEs. This makes it an uphill battle to encourage such a change in the direction of doing business. It’s important to gain buy-in from the CEO down.

Once hearts and minds have been won, and buy-in from the top-down achieved, the path to achieving a form of wider systemic change – investing in local economies, and in particular in SMEs – has been partially paved. For example, in Psi Tanzania the 17 corporations represent an estimated 60% of the tax base, and the Psi is demonstrably helping to achieve wider systemic change via a growing multi-firm partnership and local procurement from SMEs. It has demonstrated that corporate social responsibility can go beyond philanthropy – a business case for it can be built.

The dialogue and platforms that were created

The Psi linkages and CRT programmes have added to each other and created platforms for dialogue. The dialogue can be between business themselves, or between the public and private sectors. Both are critically important. As a result of Psi linkages, local government is engaged in facilitating markets for SMEs.

Benefits of the practical linkages between private sector stakeholders and public sector, under the Psi and CRT programmes, included:

- Private sector linkages and dialogue work; national and local government/chambers and municipalities, large corporations and SMEs
- It created a focus for existing business and government interest in regulatory reform and was able to increase and broaden interest through research and evidence-based advocacy
- Business was actively involved in the regulatory costs study and received the results enthusiastically.
- Business organisations used SBP’s findings for their own dialogue with government
- The National Treasury invited SBP to present its findings to a specially convened meeting of senior economists and officials.

- South Africa has a system for regular interaction between government and business – the Presidential Big Business Working Group. Organised business brought these findings to the working group for formal discussion with senior officials in key government departments (Presidency, Treasury, DTI, Labour), organised business and organised labour. This was an important input into a new policy focus for government; ‘lowering the cost of doing business.’ This focus has subsequently been reflected in the 2005 Opening of Parliament Address and the 2005 Budget.
- Business and government are interacting on more detailed, sector-specific results of the research, at another official tri-partite forum
- The growing interest in regulatory good practice led to a decision by the presidency and national treasury to commission a study on the feasibility of introducing RIA into South Africa. SBP was commissioned to lead the work, under the guidance of a reference group under government, business and labour – this provided a regular opportunity for government and private sector interaction regarding regulatory good practice in general and RIA in particular.
- Through the reference group mechanisms and other interactions, government demonstrated commitment to hearing business’ views and taking their concerns on board.
- Overall, the research provided a new dimension to business-government dialogue, based on real evidence gathered from both business and government respondents.

What can be concluded from these various platforms of dialogue is that the Psi and the CRT programmes create exciting opportunities for business-government dialogue on concerns ranging from immediate practical issues to the regulatory environment and the investment climate.

Broader lessons learned

Many informative lessons have been learnt from SBP’s experiences in facilitating regional Psi programmes, in South Africa, Tanzania and Malawi and the CRT programme in general. Extrapolating certain key cross-cutting trends, practices and themes from these various countries results in six high-level recommendations:

Lessons learned for corporations and organised business

1. Particularly in South Africa, several leading corporations have created an impressive body of good practice on SME supplier development and maximising the benefits of procurement from SMEs. This valuable resource should be tapped by other corporations wishing to expand their use of SME suppliers. Key elements of this body of good practice are:
 - SME linkages must make commercial sense; good linkages often reduce costs, and corporations should work toward this
 - Successful and sustained increases in SME linkages require top-level commitment, a willingness to encounter higher costs for a period, and a real effort to change culture and practices throughout the organisation, especially in procurement middle management
 - Corporations should actively identify opportunities to procure goods and services in the local economies in which they are operating and also encourage SME procurement
 - Corporations should aim to simplify procedures and reduce payment turn-around times for SME suppliers.
2. Corporations and organised business should use evidence-based advocacy to reinforce government’s commitment towards cutting red tape for business, and particularly for SMEs.

3. Organised business should take the lead in increasing co-operation as far as possible among large firms on standardising accreditation, health and safety and environmental requirements pertaining to SMEs. This can make a significant contribution to increasing the competitiveness and viability of SMEs.
4. Organised business and corporations should advocate for public incentives to corporations that use SME suppliers, particularly where SMEs meet desirable standards of labour-intensity, where SME products are import substitutes and where corporations transfer skills to SMEs. International experience suggests that positive incentives may well be needed.¹
5. Organised business, corporations and financial institutions should continue to find ways to meet the needs of Africa's growing market for SME finance by developing innovative products that will meet the financial needs of this market efficiently and profitably.
6. Corporate business should support the establishment of institutions which can speak more authoritatively in the interests of SMEs.

Lessons learned for governments

Government should aim to establish and maintain economic and regulatory conditions that facilitate SME growth, rather than providing large-scale programmes of direct financial support and training.

All across sub-Saharan Africa, governments are increasing their commitment to support the growth of SMEs - most notably in South Africa, where the reforms announced in the February 2005 State of the Nation and Budget speeches, particularly a simplification of the tax system, are important steps in the right direction. Any country adopting the five point approach outlined below would create a very favourable environment for business growth in general, and SME development in particular.

As South Africa is a regional leader in economic growth and government reform, there could be a powerful demonstration effect if the South African government were to take the following steps:

1. Continue to improve the macroeconomic and investment climate for both local and foreign investors and find ways to lower input and tax costs for all businesses.
2. Continue to reduce the red tape burden on the private sector. In 2004, a major study of compliance costs in South Africa undertaken by SBP showed that red tape – such as filling in complex forms – cost businesses R79 billion. Red tape costs weigh far more heavily on SMEs than on big firms. The government should move rapidly to reduce the red tape burden on all firms and on SMEs in particular by setting up a Regulatory Impact Analysis system to improve the quality of future regulations. Government should also review the whole existing regulatory system to identify and remove obsolete, unnecessary and inefficient regulations.
3. Remove regulatory barriers that prevent expanding SMEs from formalising and entering the formal economy. Around 45% of South African informal SMEs would like to enter the formal economy, but are put off by the regulatory requirements. Government should make it cheaper and easier to register a small business, to start to pay tax, to receive VAT refunds and to enjoy the other advantages of being formal, such as secure business premises.
4. Re-focus SME support institutions towards advocacy for SME interests, and providing useful and accessible information, while making finance available only in special cases. Phase out the practice of making loans to SMEs simply because they are small or black-owned, and

¹ Committee of Donor Agencies for Small Enterprise Development, 'Update on business linkage programmes,' September 2003

develop specialised expertise in guaranteeing loans made in partnership with the private sector to innovative SMEs that do not fit conventional criteria of eligibility.

5. Publicly commit government to work seriously towards rapid payment of SME suppliers.

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As well as being an executive board member of SBP, Corin Mitchell's activities include designing and facilitating projects and programmes in South Africa, Tanzania, Angola and Malawi. His work has primarily focused on engaging the private sector (multi-nationals and large companies) in market-driven strategies towards SME supply chain development, business linkages and business development services. He managed the Psi Tanzania - a project in which the BLCF played a key partnership role with BP Southern Africa. The Psi Tanzania was recognized by the UNCTAD World Investment Report 2003 as "an innovative and pioneering model of corporate social investment to achieve market-driven local economic growth". Other projects and programmes he is involved with include work for DfID, GtZ and direct work with multi-national companies around sub-Saharan Africa. Corin is also the SBP project manager for the ICF (Investment Climate Facility for Africa), which is currently in its final stages of design. Corin is also an external member of the Springfield Centre's faculty.