

Small Enterprise Development Agency (SEDA)



Analysis of the Needs, State and Performance of Small and Medium Businesses in the Agriculture, Manufacturing, ICT and Tourism Sectors in South Africa

Final Report

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EXECUTIVE SUMMARY

Introduction

Looking ahead, the Small Enterprise Development Agency (SEDA) plans to divert considerably more resources and effort to supporting SMEs in order to have a greater impact in stimulating job creation. In line with the national government's Industrial Policy Action Plan (IPAP) and the New Growth Path, SEDA is placing increased focus on developing programmes and support products and services for SMEs in the high-growth agriculture, manufacturing and services sectors.

Within this context, SEDA commissioned Mthente Research and Consulting Services (Pty) Ltd to undertake research in the form of an analysis of the needs, state and performance of SMEs in the agriculture, manufacturing and services sectors, with the latter focused on the information and communication technology (ICT) and tourism sectors. Ultimately, the research is designed to provide guidance to SEDA as to how these enterprises can be better served and supported to create jobs and contribute to the national government's objectives of sustained economic development and employment creation.

Methodology

The methodological approach utilised in undertaking this research study centred on two core components: a comprehensive process of desktop research and an extensive fieldwork process involving engagements with a diverse range of stakeholders. The latter involved a total of 56 stakeholder interviews spread across the following groups:

- 15 interviews with representatives of SMEs operating in one or more of the agriculture, manufacturing, ICT and tourism sectors (in Gauteng, the Free State and the Eastern Cape).
- 21 interviews with SEDA's Business Advisors currently working in the organisation's provincial branches and satellite offices across the country's nine provinces.
- 20 interviews with representatives of institutions and organisations that are involved in supporting SMEs or that boast expertise within the SME segment or the selected sectors.

Key Findings

Through a diverse range of stakeholder interviews, the study generates new knowledge on the SME segment, particularly with respect to SMEs in the agriculture, manufacturing, ICT and tourism sectors. Specifically, the study provides a number of pertinent findings related to the challenges and constraints faced by SMEs in South Africa; the relevance and effectiveness of SEDA's existing support to SMEs; and future market and value chain opportunities that SMEs should be assisted to capitalise on more fully.

Barriers to entry and challenges to operations and growth experienced by SMEs

The research study identifies a number of general barriers to entry and challenges that are faced by SMEs in South Africa and that cut across the agriculture, manufacturing, ICT and tourism sectors. These include:

- Lack of business planning during start-up.
- Difficulty accessing finance.
- Difficulty accessing markets or meeting industry requirements or standards.
- Lack of experience among owners and managers.
- Lack of sector-specific expertise.
- Inconsistencies in cash flow.
- Lack of entrepreneurial skills and mindset as well as business acumen.
- Lack of capacity to undertake market research, resulting in a lack of understanding of market needs and characteristics.
- Skills shortages, particularly with respect to technical skills and business management skills.
- Fragmented and uncoordinated support from entities tasked with providing assistance.
- Lack of innovation and creativity.
- Difficulty accessing land or securing operating premises.
- Red tape and cumbersome regulatory processes and procedures.

Turning to the individual sectors that form the focus of the study, in the agriculture sector SMEs typically face barriers to entry or constraints related to:

- A lack of planning capacity.

- Inconsistent cash flow.
- Adverse climatic conditions affecting production.
- Difficulty gaining access to arable land.
- High cost of agricultural inputs and machinery.
- Difficulty accessing target markets and linking into supply chains of retailers.
- Shortage of technical skills and capacity.
- Difficulty adopting new methods of production.
- Poor quality of supporting infrastructure.
- Competition from large enterprises.

In turn, in the manufacturing sector, the research study finds that SMEs typically face barriers to entry or constraints related to:

- The high cost of inputs.
- Lack of access to finance.
- Lack of access to appropriate equipment and technology.
- Limited product differentiation.
- Insufficient opportunities for training staff.
- Shortage of technical skills.
- Difficulty competing with large, established manufacturers and foreign imports.
- Poor quality and inconsistency of supporting infrastructure.
- Difficulty securing industry-specific accreditation or certification.

In the ICT sector, the research study highlights the following as the main barriers to entry or constraints faced by SMEs in the country:

- Shortage of skills and capacity, particularly with respect to technical skills.
- Lack of access to finance.
- Network connectivity problems.
- Lack of access to internet and ICT support services in rural areas.
- Inadequacy and inconsistency of supply of supporting infrastructure.
- Limited demand for certain ICT services, particularly in rural areas.
- Shortage of skilled workers in rural areas.

Finally, with respect to the tourism sector, the main barriers to entry or constraints confronting SMEs include:

- Lack of marketing skills and tools.
- Competition from dominant large enterprises.
- Inconsistent cash flow.
- Lack of resources to upgrade or purchase new equipment.
- High cost of inputs.
- Limited market and customer base in rural areas.
- Lack of market-related information and industry data.
- Difficulty meeting tourism grading and accreditation standards.

Needs and support requirements of SMEs

In general, across the agriculture, manufacturing, ICT and tourism sectors, the research study shows that the key areas in which SMEs require additional or improved support include sector-specific incubation and mentorship; assistance to improve the quality of products and services to meet recognised industry standards; support to improve their understanding of existing markets; assistance to develop new, innovative product and service offerings to meet market needs; and support to build or strengthen relationships and supply chain linkages with large enterprises.

In terms of sector-specific needs, in the agriculture sector the study finds that key areas in which SMEs require additional support to enter markets, overcome challenges or grow their businesses include:

- Financial assistance, particularly in order to acquire production inputs and machinery.
- Assistance to adhere to industry standards and requirements.
- Training and support to develop human resources.
- Technical support and skills transfer through mentorship.

In turn, in the manufacturing sector, the support needs of SMEs are shown to be most urgent with respect to:

- Financial assistance.
- Support to develop industry-specific skills and knowledge.
- Assistance to comply with industry standards, regulations and accreditation requirements.
- Training and technical skills development.

- Support to access raw materials.
- Support to strengthen supplier relationships with large enterprises.
- Industry-specific incubation.

Turning to the ICT sector, the research study shows that the key areas in which SMEs require additional support to enter markets, overcome challenges or grow their businesses include:

- Financial assistance.
- Training in business management processes.
- Marketing support.
- Technical skills development.
- Assistance to access markets.

Finally, with respect to the tourism sector, the support needs of SMEs are shown to be most acute in the areas of:

- Financial assistance.
- Financial and non-financial support to market tourism products and produce marketing material.
- Business mentoring support.
- Capacity building training in basic business skills.
- Assistance to register with professional bodies.
- Support for networking and the development of partnerships.
- Assistance to comply with grading requirements.
- Support to lobby government to ring-fence procurement opportunities.
- Assistance to understand and comply with industry regulatory standards.

SEDA's Existing Support to SMEs

The results of the study suggest that the level of awareness of SEDA's programmes, products and services is relatively high, at least among the SME respondents interviewed during the course of the research. Only two out of 15 representatives of SMEs were unaware of *any* of SEDA's product and service offerings. In turn, 10 out of 15 SME representatives indicated that they have made use of specific programmes, products or services offered by SEDA. However, among those that indicated that

they were not aware of any of SEDA's support offerings, there was a feeling that SEDA is not pro-active in communicating to SMEs about the products and services that it offers.

Relevance and Effectiveness of SEDA's existing support to SMEs

The prevailing view of a number of SME respondents across the agriculture, manufacturing, ICT and tourism sectors is that the assistance provided by SEDA has been very effective in supporting their businesses. The corresponding views of the SEDA Business Advisors and institutional stakeholders are somewhat more muted, but generally positive.

However, the study highlights several deficiencies and problematic factors that diminish the relevance and hamper the effectiveness of SEDA's current product and service offerings. The most prominent of these are:

- Communication on upcoming training courses arrives too late.
- There are concerns about the extent to which SEDA's business plans are implementable in practice.
- A lack of follow up support and mentorship after initial support has been provided.
- Too much focus within SEDA on targets in terms of the *numbers* of SMEs supported rather than on the *quality* of support.
- Length of time that SEDA takes to respond to applications for support.
- Products and services are pitched at a level that is too high for some SMEs.
- Support caters more appropriately for established businesses rather than start-ups.
- Time constraints prevent Business Advisors from adequately assisting their clients.
- Too much focus on supporting SMEs in urban areas at the expense of targeted support for SMEs in rural areas.
- Use of English as the principal language of communication with SMEs is problematic.
- Limited impact in promoting sustainability of SMEs.
- A lack of staff capacity within SEDA to effectively support SMEs.
- A lack of sector-specific expertise, knowledge and experience among some of SEDA's Business Advisors.
- The work of SEDA's business practitioners is constrained by insufficient resources.
- Certain Business Advisors and practitioners are over-burdened with administrative work.

- Budgetary cap values are too low for certain support interventions that are costly to provide to SMEs.
- Ability of some SMEs to access support is constrained by their distance from SEDA's district and provincial branches.
- A 'one size fits all approach' to the provision of support to SMEs and targets in terms of the numbers of SMEs supported that are not specific to particular regions.
- The implementation of support programmes is not good.
- Support provided is not sufficiently hands-on.
- Insufficient integration of support offerings with that provided by other government departments and SME development organisations.
- Insufficient marketing of SEDA's various support offerings to SMEs.

Market Opportunities and Value Chains for SMEs

The general perception of stakeholders consulted during the course of this research study is that SMEs currently only have a marginal presence within the South African economy, particularly when measured in terms of their contribution to national GDP. This marginal presence can be attributed, at least in part, to the continued dominance of large enterprises in South Africa.

Future market and value chain opportunities for SMEs

Nevertheless, the findings of this study show that there are a range of opportunities available to expand the presence of SMEs in each of the agriculture, manufacturing, ICT and tourism sectors. In the agriculture and manufacturing sectors, in particular, there is scope for SMEs to engage more significantly in value adding processes.

The study shows that in the agriculture sector specific market and value chain opportunities for SMEs include:

- Agro-processing activities to produce products such as fruit juice, essential oils, dried fruit, bio-composites, bio-fuels and medicinal products.
- Packaging, transport, distribution and logistics services for agricultural produce.
- Provision of warehousing and storage facilities and services.

- Production of organic foods.

In turn, in the case of the manufacturing sector the market and value chain opportunities for SMEs most widely cited by stakeholders include:

- Manufacture of vehicle parts, components and accessories.
- Manufacture of recycling equipment.
- Downstream production and conversion of minerals.
- Manufacture of components to support the green economy (e.g. solar panels).
- Leather products.
- Manufacture of furniture.
- Packaging for a variety of finished products.
- Manufacture and supply of corporate clothing.
- Production of customised machinery and provision of after sales repair services.

In the ICT sector, the following market and value chain opportunities are highlighted by stakeholders as those which SMEs have not yet fully capitalised on:

- Systems development.
- Products and services linked to the broadcasting digital migration.
- Development of software applications and embedded software.
- e-commerce services.
- Supply of converged ICT solutions.
- Provision of training in information technology.
- Design and production of meter parking devices.
- Design of hardware and software components.

Finally, in the case of the tourism sector, the findings from the stakeholder interviews suggest that the presence of SMEs could be enhanced with respect to the following activities and services:

- Cultural heritage tours.
- Township tourism and rural accommodation.
- Conference facilities and services.
- Low-cost guest accommodation.
- Catering services.

- Transport services for tourists on behalf of larger tourism enterprises.
- Niche accommodation services and activities such as eco-tourism, adventure or medical tourism.

Conclusion

SMEs are seen as critical drivers of job creation and, more broadly, economic growth in South Africa. However, across the agriculture, manufacturing, ICT and tourism sectors, SMEs continue to be hamstrung by difficulties accessing finance as well as markets for their products and services. The former is a contributory factor to the difficulties that many SMEs, particularly in the agriculture and manufacturing sectors, face in purchasing much needed inputs, machinery and equipment, or upgrading existing technology. These challenges are exacerbated by skills shortages, particularly with respect to technical and business management skills; a lack of experience and sector-specific expertise among owners and managers; and a lack of capacity to undertake market research.

Within this context, SMEs in South Africa would benefit greatly from additional or improved support in securing finance; sector-specific incubation and mentorship; assistance to improve the quality of products and services to meet recognised standards; support to improve their understanding of, and ability to access, existing and new markets; assistance to develop new, innovative product and service offerings; and support to build or strengthen relationships and supply chain linkages with large enterprises.

As the centre of excellence for small enterprise development in South Africa, SEDA should be at the forefront of renewed efforts to provide SMEs in South Africa with a more comprehensive range of support services in line with their varied needs in each of the agriculture, manufacturing, ICT and tourism sectors. There is a degree of consensus that there is room for improvement in terms of enhancing the relevance and effectiveness of SEDA's support interventions. Concerns have been raised about the sustainability of the support provided by SEDA to SMEs, with criticism aired by a number of stakeholders about a perceived lack of follow up support interventions and mentorship for SMEs after SEDA has provided initial support. This would seem to stem from too much focus within SEDA on targets in terms of the *numbers* of SMEs supported rather than on the *quality* of support that is delivered to SMEs. At the same time, concerns have been expressed about the capacity of SEDA's Business Advisors and practitioners that work with SMEs on the ground across South Africa's nine provinces.

In looking to expand the contribution of the SME segment to the South African economy, SEDA's focus should be on encouraging and supporting SMEs to capitalise more fully on specific market and product-level opportunities; undertake value adding processes, particularly in the agriculture and manufacturing sectors; and link more effectively into existing industry value chains and the vertical supply chains of larger enterprises.

Recommendations

Based on the findings outlined in this study, the following recommendations are designed to improve the relevance and effectiveness of the current support provided by SEDA to SMEs:

- ❖ Address geographical constraints to the provision of support to SMEs by introducing more satellite offices to improve the reach of programmes, products and services.
- ❖ Improve the alignment of SEDA's support strategies to the context and needs of SMEs operating in rural areas of the country.
- ❖ Use other official languages, in addition to English, as mediums to communicate with SMEs and provide support to them.
- ❖ Introduce sector-specific SEDA Business Advisors, with knowledge and expertise in designated sectors.
- ❖ Move away from a numbers-driven approach that is focused on the quantity of SMEs supported and towards a focus on the quality and sustainability of support.
- ❖ Provide follow-up support services to SMEs after initial support has been provided.
- ❖ Review and, if necessary, raise budget caps for support interventions.
- ❖ Develop stronger linkages between SEDA and other institutions and entities tasked with providing support and assistance to SMEs in South Africa.
- ❖ Allow greater freedom for provincial offices to customise their support offerings to the unique circumstances and needs of SMEs operating in their province.
- ❖ Develop a more pro-active marketing strategy for SEDA's programme, product and service offerings.
- ❖ Introduce more stringent assessment and qualifying criteria for SMEs seeking support with a view to 'picking winners'.



In turn, the following are recommended as new support programmes, products and services that SEDA can look to offer to SMEs:

- ❖ Consider providing direct financial assistance to SMEs.
- ❖ Initiate sector-specific technical skills development and mentorship programmes for each of the agriculture, manufacturing, ICT and tourism sectors.
- ❖ Introduce a specific service to make market-related information available to SMEs and also share SEDA's market assessment tools with SMEs.
- ❖ Introduce a match-making service to facilitate the development of supply chain linkages between SMEs and larger enterprises.

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List of Acronyms

BEE	Black Economic Empowerment
CASP	Comprehensive Agricultural Support Programme
CPPP	Community Private Public Partnership
CTCIP	Clothing and Textile Competitiveness Programme
DOC	Department of Communication
DTI	Department of Trade and Industry
FDA	Farmers Development Act
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
ICT	Information and Communication Technology
IT	Information Technology
IPAP	Industrial Policy Action Plan
MAFISA	Micro Agricultural Financial Institutions of South Africa
MIP	Manufacturing Investment Programme
MTSF	Medium Term Strategic Framework
NIPF	National Industry Policy Framework
NTSS	National Tourism Sector Strategy
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprise
SMEPD	Small and Medium Enterprise Development Programme
SMME	Small, Medium and Micro Enterprise
TEP	Tourism Enterprise Programme
UNWTO	United Nations World Tourism Organisation

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1. Introduction

Job creation has been placed at the centre of the South African government’s policy and strategic priorities. These are enshrined in the New Growth Path, which looks to orient South Africa’s capital and capacity towards activities that “maximise the creation of decent work opportunities.”¹ To this end, a key objective is to identify areas where employment creation can take place on a large scale. This should contribute to the government’s goal of creating five million decent jobs in South Africa by 2020 and, in the process, bring down the country’s unemployment rate to 15 percent.² To achieve this, the New Growth Path prioritises labour-absorbing economic sectors such as agriculture, manufacturing and services as key drivers of job creation.

At the same time, it is widely recognised that small and medium enterprises (SMEs) can serve as crucial engines of economic development and job creation. In particular, small businesses are seen as the principal creators of *new jobs*.³ The realities that SMEs can adapt more easily to market conditions, typically employ more labour-intensive production processes, and have “lower capital costs associated with job creation” in comparison to larger firms are seen as the primary reasons for their strength as creators of new, productive employment opportunities.⁴ Moreover, the development of the SME sector can make an important contribution to accelerating the achievement of wider socio-economic goals, including those related to rural and urban development and the alleviation of poverty.⁵

SMEs already have a significant presence in the South African economy, accounting for close to 91 percent of all formal business entities in the country, making an estimated contribution of between 51 percent and 57 percent to national gross domestic product (GDP), and providing approximately 60 percent of employment in South Africa.⁶ However, there is empirical evidence to suggest that, given the right support and conditions, SMEs could make an even greater contribution to employment in the country. Specifically, it has been shown that SMEs and informal enterprises can contribute as much as 70 percent to GDP and 95 percent of total employment in middle income countries; and empirical studies have shown that SMEs contribute more than 65 percent of total employment in some of these countries.⁷

The development of SMEs in South Africa forms an important element of the national government’s strategy to create jobs and ensure a better life for all its citizens.⁸ Since its inception in late 2004, the Small Enterprise Development Agency (SEDA) - an agency of the national Department of Trade and Industry (dti) - has played an important role in implementing the national government’s small business

strategy. More specifically, in line with its mandate, SEDA has set about designing and implementing a standard national service delivery network for small enterprise development in South Africa; and integrating government-funded small enterprise support agencies across all tiers of government.⁹

In keeping with its mandate, SEDA is looking to refine the support and enterprise development services that it provides to SMEs (defined as those businesses employing more than 20 but fewer than 200 people). At present, the SME segment accounts for just 20 percent of SEDA's target market for the provision of support programmes, products and services; with the bulk of support directed towards micro enterprises. Moreover, currently just 4 percent of SEDA's clientele are SMEs.¹⁰ Going forward, SEDA is actively looking to shift resources away from micro enterprises and towards support for SMEs on the basis that they are seen to have the greatest potential to grow employment in South Africa.

Within this context, SEDA commissioned Mthente Research and Consulting Services (Pty) Ltd to undertake research in the form of an analysis of the needs, state and performance of SMEs in three key sectors: agriculture, manufacturing and services, with the latter focused on the information and communication technology (ICT) and tourism sectors. Ultimately, the research is designed to provide guidance to SEDA as to how these enterprises can be better served and supported to create jobs and contribute to the national government's objectives of sustained economic development and employment creation.

To this end, the core objectives of the research study include the following:

- Identify potential business opportunities for SMEs in the agriculture, manufacturing, ICT and tourism sectors.
- Identify value chains in the selected sectors and how SMEs can maximise opportunities within these value chains.
- Clarify the needs of SMEs in these sectors and identify existing barriers to entry as well as challenges and constraints that they currently face.
- Provide guidance on how SMEs can penetrate markets and barriers to entry in the selected sectors.
- Investigate whether SEDA's current programmes, products and service offerings are still relevant to the needs of SMEs.
- Identify and recommend specific areas in which SEDA can provide additional support for SMEs in the sectors and align its programmes, products and service offerings with the needs of SMEs in the selected sectors.

The next section outlines the methodological approach adopted in carrying out the study. Thereafter, the remainder of the report is structured into three parts. Part I presents a contextual overview of the existing knowledge on the SME segment, collated from previous studies. In this respect, Part I includes an outline of SEDA's current strategic direction and thinking in relation to its support strategies for the SME segment and presents an overview of the key national priorities, policies and strategies that are currently in place to guide the development of the agriculture, manufacturing, ICT and tourism sectors in South Africa, and the role of SMEs in these sectors. The contextual analysis then turns to a brief overview of the current state and recent performance of each of the agriculture, manufacturing, ICT and tourism sectors in South Africa; before outlining previously documented barriers and challenges faced by SMEs in the country.

Part II of the report presents the findings from an extensive process of stakeholder engagement which formed the basis for the new knowledge on the SME segment that is generated through this study. To this end, Part II documents the findings from interactions with representatives of SMEs operating in each of the four selected sectors; representatives of institutions and organisations that are involved in supporting SMEs or that boast expertise within the SME segment; and SEDA's Business Advisors currently working in the organisation's provincial branches and satellite offices across the country. These findings include a focus on the challenges and constraints faced by SMEs in South Africa, together with their needs and support requirements; perceptions of the relevance and effectiveness of SEDA's existing support to SMEs; internal organisational challenges within SEDA that affect the delivery and effectiveness of the support provided by SEDA; and specific market and value chain opportunities that SMEs should look to capitalise on in the future in each of the four selected sectors.

Finally, Part III concludes and presents a series of recommendations designed to assist in improving the quality, effectiveness and relevance of the support provided by SEDA to SMEs in the agriculture, manufacturing, ICT and tourism sectors.

2. Methodology

The methodological approach utilised in undertaking this research study centred on two core components. First, a comprehensive process of desktop research was conducted to consolidate and summarise the existing knowledge that has been generated on SMEs within the agriculture, manufacturing, ICT and tourism sectors; and to provide a contextual understanding of the national government policies and strategies, development priorities and prospects underpinning each of these sectors. This was followed by an extensive fieldwork process involving engagements with a diverse range of stakeholders. Each of these phases are outlined in more detail below.

2.1 Desktop Research

The desktop research phase began with a thorough review of existing national policies and strategies guiding the growth and development of the agriculture, manufacturing, ICT and tourism sectors in South Africa. This provided an opportunity to develop an understanding of the government's strategic priorities for developing each of these sectors in South Africa and enhancing the role and contribution of SMEs in these sectors. This was followed by a brief assessment of SEDA's existing support strategies that underpin the programmes and interventions that the organisation offers to support the development of the SME segment in South Africa.

Thereafter, the focus of the desktop research shifted to a review of previous research on the SME segment in South Africa. This included an analysis of recent performance trends in the agriculture, manufacturing, ICT and tourism sectors, together with a review of the results of previous studies documenting the market prospects and opportunities for SMEs in these sectors. The review of previous research on the SME segment also included an analysis of previous attempts to identify areas within existing value chains where SMEs are active as well as potential opportunities for SMEs within these value chains. Finally, the desktop research documented the market entry constraints and challenges identified in previous research studies as affecting SMEs in each of the agriculture, manufacturing, ICT and tourism sectors.

2.2 Stakeholder Interviews

The fieldwork stage of the research study involved a total of 56 one-on-one interviews with a diverse range of stakeholders. The engagements with these stakeholders were undertaken through a combination of telephonic interviews conducted directly by Mthente's research team with individual stakeholders and electronic responses to interview questionnaires returned by those stakeholders that were unable to conduct the interviews telephonically.

More specifically, the 56 stakeholder interviews were spread across the following groups (see Annexure I for full lists of stakeholders interviewed):

- 15 interviews with representatives of SMEs operating in one or more of the agriculture, manufacturing, ICT and tourism sectors (in Gauteng, the Free State and the Eastern Cape).
- 21 interviews with SEDA's Business Advisors currently working in the organisation's provincial branches and satellite offices across the country's nine provinces to assist SMEs through SEDA's various programmes, product and service offerings.
- 20 interviews with representatives of institutions and organisations that are involved in supporting SMEs or that boast expertise within the SME segment or the selected sectors, including national, provincial and local government departments, economic development agencies, industry and sector associations, and providers of business support services.

Once completed, all stakeholder interviews were transcribed, coded using the Atlas.ti® programme, and analysed thematically using best practice qualitative research techniques.

2.3 Scope and Limitations

It is important to note that the small sample sizes of stakeholders interviewed in each of the groups of SEDA Business Advisors, SME representatives and institutional stakeholders mean that the findings outlined in this research study should not be construed as representative of the views of the national populations of each of these groupings. Furthermore, based on the contact lists provided by SEDA, the interviews with representatives of SMEs were confined to those operating in the agriculture, manufacturing, ICT or tourism sectors in just three provinces: Gauteng, Free State and the Eastern Cape. Nevertheless, by undertaking in-depth, one-on-one engagements with key stakeholders with current experience, knowledge or expertise, the stakeholder interviews did provide an opportunity to



derive a number of pertinent insights into the existing challenges and support needs of SMEs in the four selected sectors; the potential market and value chain opportunities available to SMEs in these sectors; prevailing perceptions of the relevance and effectiveness of SEDA's existing support offerings; and recommended areas in which SEDA can look to improve the support that the organisation currently provides to SMEs in South Africa.



PART I: Contextual Overview

3. SEDA’s Current Support Strategies for Small and Medium Enterprises

At present, SEDA is committed to serving as the centre of excellence for small enterprise development in South Africa. To this end, SEDA’s mission is “to develop, support and promote small enterprises to ensure their growth and sustainability in coordination and partnership with other role players.”¹¹ In a large part, this is achieved through the provision of business related information, advice, consultancy, training and mentoring services to small, medium and micro enterprises (SMMEs) in all areas of business development.

To date, the majority of SEDA’s support programmes, products and services have been targeted towards very small, micro and survivalist enterprises. Looking ahead, however, SEDA plans to divert considerably more resources and effort to supporting SMEs in order to have a greater impact in stimulating job creation. In line with the national government’s Industrial Policy Action Plan (IPAP) and the New Growth Path, SEDA is placing increased focus on developing programmes and support products and services for SMEs in the high-growth agriculture, manufacturing and services sectors.

In terms of specific support programmes, products and services, SEDA has prioritised efforts to increase its support to SMEs in the following three areas:¹²

- Boosting its incubation footprint throughout the country.
- Identifying market gaps and opportunities for collectively owned enterprises.
- Providing a greater number and range of services to more established and sophisticated SMEs.

With respect to upscaling its incubation programme, SEDA has recognised that in comparison to countries that are at a similar level of economic development to South Africa, the country’s SMEs are underserved in terms of incubators. For example, in comparison to Brazil, where there are 4 000 incubators, SEDA currently operates just 30 business incubators across South Africa. Even though Brazil’s population is approximately four times that of South Africa, the contrast is stark. Furthermore, the majority of the existing incubators in South Africa are sector specific and only capable of creating sector value chains in the areas in which they are located.¹³ With this in mind, SEDA is looking to create “two new incubators per province per year from the 2012/13 financial year and increasing this figure to five incubators per province per year by 2019/2020”, in the process establishing 250 new business incubators in South Africa by 2019/2020.¹⁴ According to SEDA:

“Scaling up the incubation programme will create more local value chains, focusing on resources that exist in the locality and thus create sustainable jobs. Creation of new incubators is needed to bring in more entrants, work with them over a longer period and increase SMME presence in key growth sectors.”¹⁵

Another key strategic priority for SEDA in the 2011/2012 - 2013/2014 period is to assist in mainstreaming collectively owned enterprises in South Africa, including cooperatives. Already, in recognition of the fact that community driven enterprises can play an important role in alleviating poverty and unemployment, SEDA revived the Community Private Public Partnership (CPPP) programme in 2008 with a view to developing rural enterprises by identifying locally available resources that can be used to create a successful commercial enterprise. Looking ahead, SEDA has placed emphasis on creating secondary cooperatives and directing “collectively owned enterprises to markets where there are opportunities to grow”.¹⁶

Finally, in recognising that the national government’s support programmes and efforts over the past decade have tended to focus largely on the very small and micro enterprise segments, with little to show in terms of job creation and boosting the contribution of SMMEs to national GDP, SEDA has resolved to direct specific interventions to the SME segment in South Africa. Specifically, SEDA’s Strategic Plan for the 2011/2012 - 2013/2014 period includes a focus on the following areas:¹⁷

- Assisting SMEs to access financing and business opportunities.
- Preparing SMEs to possess both the human and technical capacity to take on additional work.
- Shifting focus away from short or once off interventions for small enterprises in favour of devising goals for specific enterprises and programmes in order to ensure that these goals are achieved.

Based on these strategic priorities, SEDA has committed to refining and directing a number of programmes and support towards SMEs, including those in the following areas:¹⁸

- Franchising.
- Facilitating access to markets (local markets and export development) .
- Facilitating access to supply chains of private sector institutions.
- Developing key partnerships to benefit SMEs.



At this point in time, as SEDA looks to deliver on these strategic priorities and refine its programmes, products and service offerings in order to meet the needs of the SME segment in South Africa, the importance of this research in providing information that SEDA can use to better understand the SME segment and to inform future decisions related to its product and service offerings to SMEs cannot be underestimated.

4. The Policy and Strategy Framework for Developing Small and Medium Enterprises in South Africa

Going forward, as SEDA looks to revise its strategic focus and refine its programmes, products and service offerings, these efforts must remain aligned to the broader national policy and strategic framework underpinning the development of SMEs in South Africa. With this in mind, this section presents an overview of the key national priorities, policies and strategies that are currently in place to guide the development of each of the agriculture, manufacturing, ICT and tourism sectors in the country, together with the role of SMEs in this development process. The policy and strategy frameworks in place in each of these sectors are outlined separately below.

4.1 Agriculture

At the national level, it has been argued that agriculture should continue to play a fundamental role in facilitating industrialisation and development in South Africa. In broad terms, agriculture is seen as a key vehicle to undo unequal land distribution (a legacy of apartheid) and ensure the continued productive use of agricultural land, both of which are key national priorities.¹⁹ Within this context, agriculture represents one of the six pillars of growth that form the focus of South Africa's New Growth Path.

More specifically in terms of agricultural production, the South African Agricultural Production Strategy provides direction as to the envisaged role that agriculture should play in contributing to the achievement of key national development goals and objectives. In this respect, the South African Agricultural Production Strategy seeks to position the country's agricultural sector to ensure national food security and contribute to economic growth and development, particularly in terms of rural development.²⁰

Based on these objectives, the agro-processing sub-sector is considered to be a key strategic sector in efforts to both grow the economy and provide food security in South Africa.²¹ Consequently, agro-processing is given priority attention within the country's IPAP, particularly in terms of its linkages with both up-stream and down-stream sub-sectors such as food processing, beverages, aquaculture, horticulture and medicinal, aromatics and flavourants.

4.1.1 National support programmes, policies and strategies to support SMEs in the agriculture sector

A handful of national programmes, policies and strategies are targeted towards support for small enterprises and smallholder farmers within the agriculture sector. For instance, the Comprehensive Agricultural Support Programme (CASP) was initiated in 2004 to provide support to new farmers in the country. The programme design is centred on six pillars and four categories, with the former comprising information and knowledge management; technical and advanced assistance; financial mechanisms; training and capacity building; marketing and business development; and on-and-off farm infrastructure. In practical terms, the implementation of the comprehensive support package offered through the programme has focused primarily on the provision of on-farm infrastructure support.²²

Similarly, the Farmers Development Act was introduced to improve the rate of entry of smallholder farmers into the sector in order to ensure a competitive and growing commercial agriculture sector in South Africa.²³ The Act is designed to assist farmers in the country in a number of areas and through several programmes, including the following:²⁴

- Market development programmes with specially generated markets for smallholder farmers.
- Infrastructure development programmes aimed at smallholder farmers.
- Improved access to development finance for smallholder farmers.
- Improved access to information, knowledge and training resources.
- Improved planning and implementation of farming practices.
- Improved natural resource management, through spatial information management and planning systems.

In addition, a key priority of the Farmers Development Act is to boost rural economic growth “by stimulating agricultural development through a commodity based, value chain approach to spatial planning, both at a provincial and local level.”²⁵

Some attention has been given to the provision of financial support and products to small-scale farmers and enterprises operating in the agriculture sector in South Africa. At the provincial level, the Micro-Agricultural Financial Institutions of South Africa (MAFISA) has been launched in the Limpopo, Eastern Cape and KwaZulu-Natal provinces. The core focus of the scheme is on the provision of short-term production inputs. Financial support is also provided through the Land Bank, a specialist agricultural

bank that provides financial services to the commercial farming sector and to agri-business. A key priority of the Land Bank is “to make available new, appropriately designed financial products that would facilitate access to finance by new entrants to agriculture from historically disadvantaged backgrounds.”²⁶

Furthermore, Khula offers two loans for small enterprises operating in the agriculture sector. The Khula-Akwandze Fund provides agricultural development loans to small and medium scale sugarcane growers and contractors within the sugarcane production value chain in the Nkomazi region of the Mpumalanga Province.”²⁷ In turn, Khula’s Land Reform Empowerment Facility is a Black Economic Empowerment (BEE) Fund capitalised by the Department of Rural Development and Land Reform and supported by the European Union. The Facility is designed to broaden the control, management and ownership by black South African citizens of land-based high-value income generating assets in the agricultural sector.”²⁸

4.2 Manufacturing

As in the case of agriculture, the New Growth Path identifies manufacturing as one of the six core pillars of growth to drive the South African economy.²⁹ The New Growth Path envisages that as many as 80 000 jobs can be created in South Africa in the manufacturing sector by 2020.³⁰ Moreover, according to the national government’s IPAP, “a long term increase in employment in all sectors needs to be underpinned by high growth in production sectors and be led by manufacturing.”³¹

In recognition of this, a key policy objective of the national government is to strengthen the manufacturing sector, facilitate the diversification of South Africa’s manufacturing base and, ultimately, develop the country’s capabilities in both labour-absorbing and higher value added manufacturing activities. In this respect, the IPAP2 looks to increase beneficiation and value addition in the national economy with a view to addressing the decline in South Africa’s industrial manufacturing capacity. In turn, light manufacturing, in particular, has been identified in the current Medium Term Strategic Framework (MTSF) as a key area in which South Africa can be competitive on both a regional and global level.³²

4.2.1 National support programmes, policies and strategies to support SMEs in the manufacturing sector

The dti provides a number of support programmes that are designed to give effect to national policies and strategies related to the development of SMEs within the manufacturing sector. While not exclusively available to SMEs, an important component of the dti’s Manufacturing Investment Programme (MIP) is to “enhance the sustainability of manufacturing investment projects by small enterprises.”³³ The overriding objective of the MIP is to stimulate investment within manufacturing;³⁴ and, to this end, the programme provides investment support to both local- and foreign-owned entities.³⁵ This support is provided through investment grants that may total up to 30 percent “of the value of qualifying investment costs in machinery, equipment, commercial vehicles, land and buildings required for establishing a new production facility; expanding an existing production facility; or upgrading production capability.”³⁶

Focusing exclusively on SMEs, the dti’s Small and Medium Enterprise Development Programme (SMEDP) provided investment incentives in the form of cash grants to support new investments as well as to expand operations.³⁷ While these grants were targeted to SMEs, it is important to note that no more applications for this incentive programme were entertained after August 2006.³⁸

At the level of specific manufacturing sub-sectors, the Clothing and Textile Competitiveness Programme (CTCIP) looks to subsidise activities aimed at improving the competitiveness of small, medium and large companies in the clothing and textile manufacturing industry that would otherwise not be able to finance these interventions. This is provided to both locally and foreign-owned entities in the form of a cost-sharing grant incentive of 75 percent of project cost for cluster projects and 65 percent of project cost for company-specific projects. Similarly, in the case of the automotive manufacturing industry, the Automotive Production and Development Programme provides support to the automotive industry in line with the National Industrial Policy Framework (NIPF) and the IPAP.

4.3 ICT

The ICT sector has received growing prominence in the national government’s strategic priorities. The development of ICT industries in South Africa forms part of the NIPF’s broader objective to develop advanced technological capabilities in the country. Moreover, the MTSF highlights ICT as a key sector in its South Africa Vision 2025. In this respect, as part of Vision 2025 it is stated that “the country’s

natural wealth and its human resources must be harnessed to ensure a growing economy which benefits all, and uses natural resources and modern technology, including information and communications technology (ICT) in a beneficial and sustainable manner.”³⁹

According to South Africa’s Information Technology Industry Strategy (SAITIS), the ICT sector is seen as having the potential to “make a significant and growing contribution to economic growth in both domestic and export markets.”⁴⁰ The ICT sector is also seen as an important contributor to job creation in South Africa. Indeed, the New Growth Path aims to create 100 000 new jobs from the broad knowledge-intensive sectors of which ICT is an important component along with healthcare, mining related technology, pharmaceuticals and biotechnology.⁴¹

More formally, the national government has outlined several key objectives and priorities to underpin the development of the South African ICT sector. These include the following:⁴²

- To create a favourable ICT environment that ensures South Africa has the capacity to advance its socio-economic goals, support the renewal of Africa and contribute to building a better world.
- To position South Africa as a global leader in the development and use of ICT for socio-economic development.
- To build a better life for all through an enabling and sustainable world-class ICT environment.

4.3.1 National support programmes, policies and strategies to support SMEs in the ICT sector

At the broadest level, the Telecommunications Act (1996) makes provision for the promotion of SMMEs within the telecommunications industry.⁴³ More recently, the Department of Communication (DOC) has devised a number of strategic plans to facilitate greater involvement of SMEs in the ICT sector. These include strategies to facilitate ICT business linkages, establish two ICT hubs in underserved provinces and ensure that SMMEs benefit from the Broadcasting Digital Migration value chain.⁴⁴ Furthermore, a key priority of the strategic plan of the DOC’s Enterprise Development Programme is to facilitate the growth and development of SMMEs in the ICT sector.⁴⁵

Strategic support for black-owned or empowered SMMEs in the ICT sector has also been prioritised, and is enshrined in the ICT Charter, which makes provisions for enterprise development. This is defined in terms of the ICT Charter as “the voluntary establishment of and/or support through financial and/or

other means for existing and/or new black-owned, and/or black empowered and/or black engendered SMMEs as well as SMME enterprises owned by marginalised groupings.”⁴⁶

More targeted support for technological development is provided through the Support Programme for Industrial Innovation (SPII), an initiative of the dti that was introduced in April 1993 following the restructuring of the Innovation Support for Electronics (ISE). The SPII, which is managed by the Industrial Development Corporation (IDC), provides financial assistance for projects that develop innovative products and/or processes; and is focused on the provision of support for innovation in the phase between the conclusion of basic research and the development of pre-production prototypes. The support provided through the SPII has been extensive. In the financial year ending March 2010, the SPII supported 57 projects (albeit down in comparison to the 70 projects supported in the financial year ending March 2009).⁴⁷

In practical terms, the SPII is divided into three schemes: the Product Process Development (PPD), Matching and Partnership schemes. The intention of the PPD scheme is to promote innovation and technology development through the provision of financial assistance to enterprises whose total assets (excluding fixed property) do not exceed R5 million in value, have an annual turnover of less than R13 million, and employ fewer than 50 people.⁴⁸ The financial assistance available through the scheme is provided in the form of a non-repayable grant of between 50 percent and 85 percent (depending on shareholding by BEE, women and persons with disabilities) of the qualifying costs incurred by these enterprises during the technical development stage.⁴⁹ The maximum value of each individual grant is R1 million.⁵⁰

Similarly, the Matching scheme under the SPII provides non-repayable grants to the value of between 50 percent and 75 percent of qualifying costs (up to a maximum of R3 million) incurred during activities linked to the pre-competitive phase of technological development. Finally, the SPII’s Partnership scheme provides financial assistance through a conditionally repayable grant of 50 percent of the qualifying cost incurred during activity related to technology development, with a minimum grant amount of R3 million per project, repayable on successful commercialisation of the project.⁵¹

In addition to the government-backed support for ICT enterprises, broader support targeted towards ICT development in South Africa is also provided through the private sector. For instance, both the MTN Foundation and the Vodacom Foundation, elements of the mobile cellular operators’ respective social investment strategies, look to assist communities in South Africa to connect to ICT. This is achieved

through a diverse range of projects and initiatives that are focused in areas such as education, health, arts and culture, and entrepreneurship. In addition, assistance provided through the Telkom Foundation, a Trust registered in 2002, includes support for small business development initiatives in the ICT sector.

4.4 Tourism

As in the case of the agriculture and manufacturing sectors, the tourism sector is also one of the six core pillars of growth identified in the New Growth Path. The importance attached to the sector is echoed in the IPAP, which places great emphasis on tourism as a priority sector to advance job creation and economic growth. In this respect, the labour-intensive nature of the tourism industry means that it has great potential and capacity to grow the economy and to create jobs. The National Tourism Sector Strategy (NTSS) sets out a plan to create some 225 000 additional jobs in the tourism sector by 2020.⁵² At the same time, the NTSS seeks to raise the total direct and indirect contribution of the tourism sector to the national economy from R189.4 billion (as of 2009) to R318.2 billion in 2015 and R499 billion by the year 2020.⁵³

Within this context, the national government has placed significant emphasis on the contribution that the tourism sector can make to the “delivery of the government mandate on creation of decent work, sustainable livelihood and rural development.”⁵⁴ In turn, the development of the tourism sector is also seen as an economic priority on the basis of its potential to drive domestic consumer spending and serve as a source of considerable foreign exchange earnings for South Africa.⁵⁵

At the same time, the IPAP acknowledges the contribution that the development of the tourism sector can make in terms of strengthening related industries. In this respect, the national government has prioritised efforts to strengthen linkages with cultural industries such as the craft industry and the film and television industry.⁵⁶ Furthermore, the MTSF highlights the role that tourism can play in developing a green economy in South Africa. This stems from the ability of the sector to create jobs with lower or no carbon emissions.⁵⁷

More broadly, the national government is looking to make South Africa one of the top 20 global tourism destinations by 2020. In order to do so, the government’s strategy is centred on accelerating the growth of tourism in the country through a focus on the following three core thematic areas:

- To grow the tourism economy.

- To enhance visitor experiences.
- To strive for sustainability and good governance.

4.4.1 National support programmes, policies and strategies to support SMEs in the tourism sector

SMEs can continue to play a prominent role in the process of advancing the tourism sector in South Africa if they are provided with the necessary support. This is acknowledged in the NTSS, which includes a strong focus on the facilitation of support for rural tourism development and assistance for tourism SMEs to access markets and funding.

A significant level of support to tourism enterprises is provided through the dti's Enterprise Investment Programme (EIP), which was launched in 2008 to provide sector-specific financing in order to encourage growth in key areas. The programme operates under two sub-programmes - the MIP (introduced above) and the Tourism Support Programme (TSP). Through the TSP, the EIP offers support to new and expanding projects in the tourism sector.⁵⁸ In this respect, the primary objective of the TSP is to "promote sustainable job creation outside of the traditional tourism destinations of Durban, Cape Town and Johannesburg", while at the same time encouraging a greater level of transformation within the sector.⁵⁹ In practical terms, the TSP offers investment support in the form of grants to qualifying enterprises outside the country's three traditional tourism destinations. Specifically, the grants are provided to support investment related to the cost of plant, own property and vehicles, and on the value of leased property; and is calculated on a regressive sliding scale, from 30 percent to 15 percent, depending on the size of the investment.⁶⁰ In this respect, the value of the grants depends on the value of the assets associated with the investment, with projects boasting assets below the value of R5 million defined as small, and allocated a 30 percent grant over a three-year period."⁶¹ In turn, in the case of investment projects that have assets that exceed R5 million up to a maximum value of R200 million, a grant of between 30 percent and 15 percent is provided over a two-year period.⁶²

In addition to the TSP, the Tourism Enterprise Programme (TEP), through its unique enterprise development model, has looked to assist tourism enterprises to grow. The TEP was developed through a partnership between the national Department of Environmental Affairs and Tourism and the Business Trust and focuses on supporting small business development in the tourism sector. To date, the provision of support through the TEP has focused on building existing tourism enterprises rather than creating new businesses. In this respect, the TEP includes a variety of programmes designed to provide



“hands-on, step-by-step” support to tourism SMEs “to improve product quality, operational efficiency, and provide greater market access.”⁶³ Furthermore, the TEP has provided matchmaking support to tourism SMEs to assist them in the establishment of linkages with larger enterprises.

5. The State and Performance of the Agriculture, Manufacturing, ICT and Tourism Sectors in South Africa

This section presents a brief overview of the current state and recent performance of each of the agriculture, manufacturing, ICT and tourism sectors in South Africa. This information provides initial insight into how these sectors are performing at an economy-wide level and what roles SMEs can play in these sectors. This, in turn, provides a contextual base from which possible opportunities for SMEs within each of these sectors can be further identified and assessed during the fieldwork component of the research study.

5.1 Agriculture

The agriculture sector in South Africa is comprised of a number of activities and value-adding processes. These range from primary agricultural production (such as field crops, horticulture and animal production) to agro-processing (which includes food processing and beverage manufacturing), the provision of agricultural inputs, and the processing and distribution activities that add value to agricultural products.

The bulk of agricultural activity in South Africa, when measured in terms of value-added, is concentrated in the KwaZulu-Natal and Western Cape provinces. Figure 1 compares the regional distribution of value added by the broad agriculture, forestry and fishing sector across South Africa's nine provinces in 2009. The figure shows that KwaZulu-Natal (26.7 percent) and the Western Cape (21.9 percent) collectively accounted for almost half of the total value added in South Africa's agriculture, forestry and fishing sector. The Free State (11 percent) and Mpumalanga (9.1 percent) were also relatively large contributors to value added in the broad sector; while, in comparison, Gauteng (5.8 percent) and the Eastern Cape (5.1 percent) made much smaller contributions.

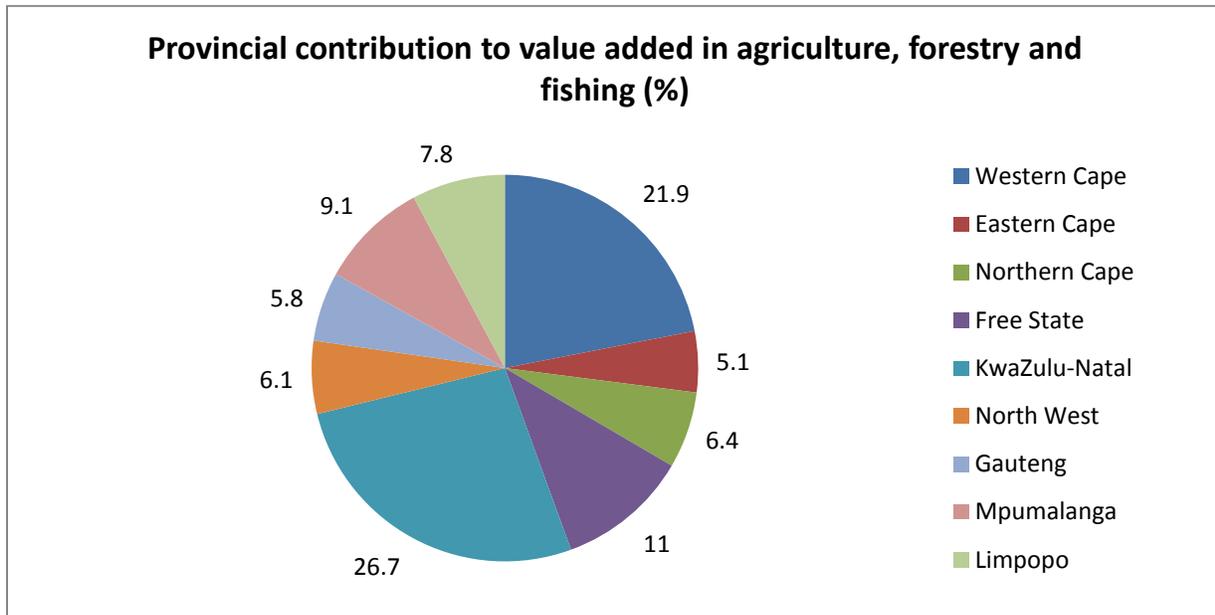


Figure 1: Provincial contributions to total value added in agriculture, forestry and fishing, 2009 [Mthente, 2011 based on data from Statistics South Africa]

The provincial distribution is somewhat different when measured in terms of the number of farming units in the South Africa. According to data from Statistics South Africa’s Census of Commercial Agriculture (2007), there was a total of 39 966 farming units in the country in 2007 (down from 45 818 in 2002). Table 1 shows that the highest number of farming units was located in the Free State (7 473), followed by the Western Cape (6 653) and Northern Cape (5 128) provinces, respectively.

Table 1: Number of commercial farming units by province, 2007

Province	Number of Commercial Farms
Eastern Cape	4 006
Free State	7 473
Gauteng	1 773
KwaZulu-Natal	3 574
Limpopo	2 934
Mpumalanga	3 523
Northern Cape	5 128
North West	4 902
Western Cape	6 653
TOTAL	39 966

Source: Statistics South Africa, 2007

While there is a paucity of recent data to present a more disaggregated picture of the distribution of agricultural enterprises by size in South Africa, data for the period 2000-2001 indicates that small (32 percent) and medium (3 percent) enterprises collectively account for 42 percent of all agricultural enterprises in South Africa in that period.⁶⁴ In comparison, as many as 56 percent of the enterprises in the sector were classified as micro enterprises and a further 2 percent as large enterprises.⁶⁵

5.1.1 Recent economic performance of the agriculture sector

In the past few years, the country's agriculture sector has performed poorly. According to the national Department of Agriculture, the sector recorded negative growth in the first quarter of 2011 on the back of a disappointing field crop season.⁶⁶ Furthermore, the contribution made by the agriculture sector to national GDP has declined in recent years, falling from 2.7 percent in 2005 to 2.5 percent of total GDP in 2010.⁶⁷

Despite the declining share of agriculture in national GDP in South Africa, it has been argued that the true value of the sector extends beyond its contribution to national output. In this respect, the sector's contribution in terms of food supply, economic linkages and multipliers; its employment creation capacity; and its importance as a foreign exchange earner should not be underestimated.⁶⁸

According to Statistics South Africa's Census of Commercial Agriculture (2007), the country's formal agriculture sectors sported a total of 796 806 employees in 2007, comprising 431 664 full-time workers and 365 142 casual employees.⁶⁹ In the case of full-time workers, the highest shares were located in the Western Cape (90 943), KwaZulu-Natal (66 685), Free State (53 994) and North West (53 741) provinces.⁷⁰

In spite of this, and the agriculture sector's potential job creation capacity, employment in the sector has declined. According to the national Department of Agriculture, the sector shed some 55 000 jobs between the first quarter of 2010 and the first quarter of 2011. Across the broader agriculture, forestry and fisheries sector, a quarter-on-quarter decline in employment of 3.8 percent has been recorded over this period.

According to Statistics South Africa's Census of Commercial Agriculture (2007), total gross farming income in South Africa's agricultural sector exceeded R79 billion in 2007, growing handsomely from approximately R53.3 billion in 2002.⁷¹ Table 2 shows that across the country's nine provinces, the

Western Cape, Free State, Mpumalanga and KwaZulu-Natal were the largest contributors to gross farming income, respectively. In terms of broad agricultural product groupings, across the whole country, livestock farming was the largest contributor to gross farming income by a considerable margin, followed consecutively by horticulture products and field crops.

Table 2: Gross farming income (in R'000) by province and product, 2007

Province	R' 000					
	Total gross farming income	Field crops	Horticulture	Animals	Animal products	Other farming income
Eastern Cape	5 229 987	234 858	1 290 983	1 771 509	1 907 940	24 697
Free State	11 742 136	4 632 627	890 073	4 840 090	1 374 538	4 808
Gauteng	6 459 665	312 824	962 282	4 212 542	922 311	49 706
KwaZulu-Natal	9 557 768	2 992 580	916 898	3 805 660	1 550 390	292 240
Limpopo	5 770 702	541 321	3 040 295	1 881 011	280 344	27 731
Mpumalanga	10 230 383	2 985 884	1 956 486	4 469 604	722 077	96 332
North West	9 174 417	2 303 594	573 758	5 567 608	720 918	8 539
Northern Cape	4 780 825	1 177 316	1 164 837	2 035 285	389 159	14 228
Western Cape	16 658 901	1 298 828	8 285 015	4 739 811	2 245 810	89 437
TOTAL	79 604 784	16 479 832	19 080 627	33 323 120	10 113 487	607 718

Source: Statistics South Africa, 2007

5.1.2 Potential opportunities for SMEs to enter segments and value chains in the agriculture sector

In spite of the generally poor performance of the agriculture sector, there remain a number of potential opportunities to increase the presence of SMEs in specific sub-sectors and niche areas of agriculture in the country, particularly in terms of activities related to agro-processing. Indeed, the growth outlook for the agro-processing sub-sector in South Africa looks promising. Although the performance of the sub-sector is strongly linked to consumer preferences and changes in the levels of consumer demand, it has been suggested that the domestic market for agro-processing remains favourable.⁷²

Furthermore, aquaculture - a segment of the agro-processing sub-sector - currently presents an attractive prospect as a result of declining wild catch fisheries on a global level. This has resulted in

significant growth in demand for ‘farmed’ fish and related products in global markets; thereby improving the viability of farming a range of fish species in the South Africa. According to the IPAP 2, South African aquaculture production has the potential to create an estimated 20 000 jobs over a ten-year period, with many of these in economically depressed rural areas. Moreover, certain aquaculture species are in high demand in global markets thus fetching high prices and boosting export revenues.

In addition to the positive outlook for the agro-processing sub-sector, there remain attractive opportunities to produce high-value products for the medicinal, aromatics and flavourants markets. Furthermore, the IPAP 2 has identified quality wines, indigenous Rooibos and Honeybush tea, and certain fruits as high-value agricultural products with strong potential for export growth.⁷³ There is also potential for small enterprises to enter relatively new sub-sectors with niche market potential but that still rely on small-scale production such as ostrich meat, indigenous flowers, biofuels, essential oils, olive oils and medicinal extracts.⁷⁴

5.2 Manufacturing

The broad manufacturing sector in South Africa can be broken down into a number of distinct segments and sub-sectors. The major sub-sectors in this respect include:⁷⁵

- Food and beverages.
- Textiles, clothing, leather and footwear.
- Wood and wood products, paper, publishing and printing.
- Petroleum, chemical products, rubber and plastic products.
- Glass and non-metallic mineral products.
- Basic iron and steel, non-ferrous metal products, metal products and machinery.
- Electrical machinery.
- Radio, television and communication apparatus and professional equipment.
- Motor vehicles, parts and accessories and other transport equipment.
- Furniture.

Manufacturing activity in South Africa is heavily concentrated in certain parts of the country. Recent estimates suggest that as much as 40.6 percent of South Africa’s manufacturing activity is concentrated in the Gauteng province. The regional distribution of manufacturing activity across South Africa’s nine provinces in 2009 is compared in Figure 2. After Gauteng, the KwaZulu-Natal (21.4 percent) and

Western Cape (14.5 percent) provinces are the most prominent contributors to manufacturing activity in the South African economy. In contrast, there is only minimal manufacturing activity in the North West (2.6 percent), Limpopo (1.4 percent) and Northern Cape (0.4 percent) provinces.

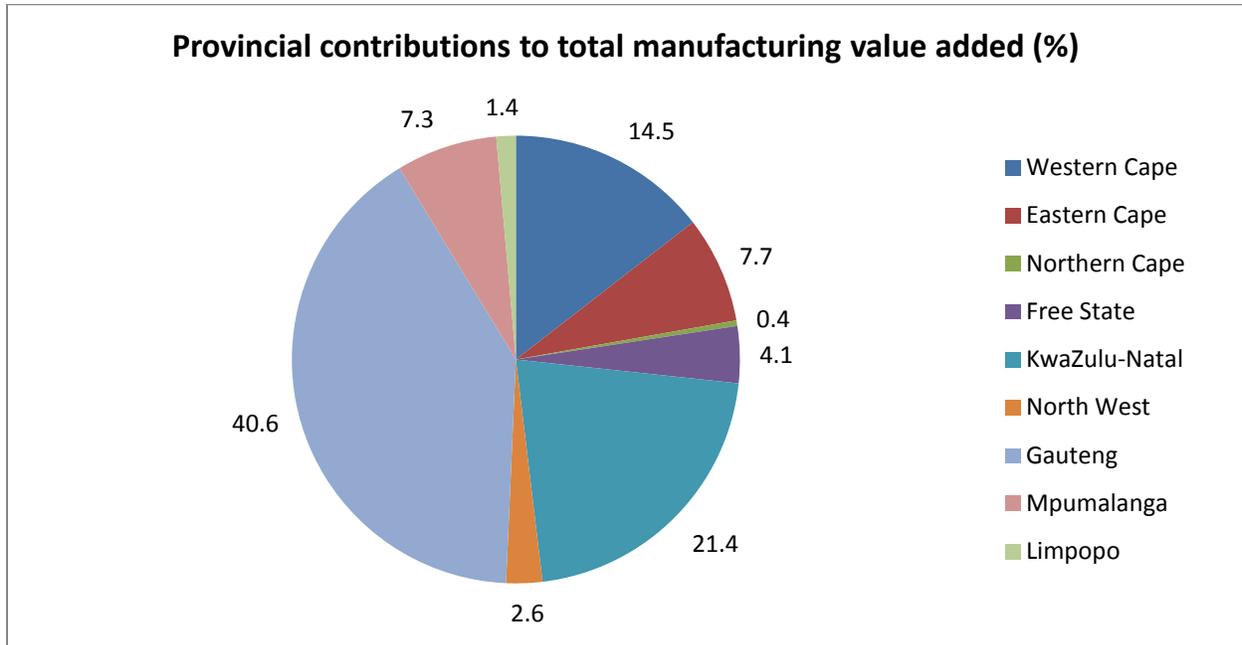


Figure 2: Provincial contributions to total manufacturing value added, 2009
 [Mthente, 2011 based on data from Statistics South Africa]

In terms of manufacturing exports, according to one study, in 2000, 84 percent of the country’s total exports of manufactures were generated by just 22 magisterial districts.⁷⁶ More specifically, certain urban agglomerations in South Africa are responsible for the majority of the country’s manufacturing activity. Focusing on manufacturing exports, in 2000, the Johannesburg, Randburg, Boksburg, Germiston and Kempton Park areas of Gauteng contributed almost one third (32.7 percent) of South Africa’s overall manufacturing exports.⁷⁷ In addition, the Durban-Pietermaritzburg (11.3 percent) and Cape Town-Belville (6 percent) urban agglomerations were found to contribute significantly to manufacturing exports in 2000.⁷⁸ In turn, manufacturing activity in the Eastern Cape - principally in Uitenhage, Port Elizabeth and East London - is largely confined to manufacturing activities within the automotive industry.

Focusing at a more disaggregated level, data is also available outlining the geographic clustering of the main manufacturing sub-sectors in South Africa, based on their contribution to manufacturing exports in 2000 (see Table 3).

Table 3: Geographic clustering of key manufacturing sub-sectors in South Africa

Manufacturing Sub-Sector	Areas of Geographic Specialisation (% contribution to manufacturing exports in 2000)
Food, beverages and tobacco products	Durban (10.9%); Johannesburg (10.1%); Cape Town (9.5%); Stellenbosch (8.20%); Paarl (6.94%); Randburg (5.9%)
Textiles, clothing and leather goods	Port Elizabeth (29.5%); Cape Town (10.8%); Zwelitsha (7.4%); Durban (7.1%)
Wood, paper and printing	Umzinto (19.5%); Johannesburg (15.9%); Durban (15.3%)
Fuel, petroleum, chemical and rubber products	Durban (23.3%); Cape Town (13.2%); Johannesburg (13%)
Other non-metallic mineral products	Pretoria (27.5%); Port Elizabeth (14.5%); Johannesburg (14.2%).
Metal products, machinery and household appliances	Johannesburg (24.23%); Lower Umfolozi (Richardsbay) (14%); Randburg (10.5%)
Electrical machinery and apparatus	Pretoria (16.2%); Port Elizabeth (12.8%); Johannesburg (10.6%); Randburg (10.3%); Kempton Park (5.3%)
Electronic, sound/vision, medical and other appliances	Randburg (20.8%); Pretoria (20.6%); Inanda (15.4%)
Transport equipment	Pretoria (26.9%); Uitenhage (24.6%)
Furniture and other items NEC and recycling	Johannesburg (28.7%); Kimberley (14.5%); Pretoria (7.5%)

Source: Naudé and Gries, 2004

5.2.1 Recent economic performance of the manufacturing sector

Since 2005, the performance of the manufacturing sector in South Africa in terms of the growth rate of manufacturing value added has been disappointing. Over the period between 2005 and 2010, manufacturing value added - which measures net manufacturing output after adding up all outputs and subtracting intermediate inputs in the manufacturing process - fell from 6.2 percent in 2005 to a staggering negative 10.7 percent in 2010.⁷⁹ In the intervening years, annual growth in manufacturing value added fell from 6.4 percent in 2006 to 5 percent and 2.7 percent in 2007 and 2008, respectively.⁸⁰

Similarly, according to the African Economic Outlook, the contribution of value added manufacturing to GDP in South Africa also declined between 2005 and 2010. Specifically, the sector's contribution to national GDP fell by 3.9 percent over the five-year period, dropping back from 18.5 percent in 2005 to

just 14.6 percent in 2010.⁸¹ This was accompanied by a steady decline in the contribution of manufacturing value added to GDP in the intervening years, falling from 17.5 percent in 2006 to 17 percent in 2007 and 16.5 percent and 15.2 percent in 2008 and 2009, respectively.⁸²

In contrast, after severe job losses in South Africa's manufacturing sector in 2009 on the back of the debilitating effects of the global economic crisis, employment in the sector rebounded strongly between the first quarters of 2010 and 2011. Indeed, over this period employment in the sector increased by 48 000 to reach more than 1.8 million.⁸³

Furthermore, the most recent available statistics on manufacturing production and sales released by Statistics South Africa indicate that there has been steady year-on-year growth in both the physical volume of manufacturing production and in the total estimated sales of manufactured products. Specifically, the volume of manufacturing production in the country increased by 7.7 percent between September 2010 and September 2011, while the total estimated sales of manufactured products (measured in R millions) rose by 16.6 percent over the same period.⁸⁴

The increase in manufacturing production stemmed primarily from higher levels of production in several key manufacturing sub-sectors. Specifically, the following sub-sectors recorded the largest increases in production volumes between September 2010 and September 2011:⁸⁵

- Motor vehicles, parts and accessories and other transport equipment (production increased by 51.1 percent).
- Radio, television and communication apparatus and professional equipment (production increased by 28.5 percent).
- Electrical machinery (production increased by 10.6 percent).
- Basic iron and steel, non-ferrous metal products, metal products and machinery (production increased by 6.3 percent).
- Glass and non-metallic mineral products (production increased by 5.4 percent).

Statistics South Africa's manufacturing survey (2008) provides some insight into the presence of SMEs within the country's manufacturing sector. In particular, the survey emphasises the dominance of large enterprises within the sector. For instance, when income is analysed by enterprise size in the manufacturing sector, large enterprises accounted for 86 percent of the total income earned in the sector, with small (3 percent) and medium (9 percent) enterprises contributing a combined 12 percent to total manufacturing income in 2008.⁸⁶

The dominance of large enterprises in terms of total income earned is also evident across all of the most manufacturing sub-sectors (see Table 4). Of these, SMEs account for the smallest combined shares of total income in the coke, petroleum, chemical products, rubber and plastic (5 percent) and transport equipment (5.6 percent) sub-sectors. In contrast, SMEs contribute the largest shares of total income within the telecommunication and professional equipment (28.6 percent); textiles, clothing, leather and footwear (28.2 percent); furniture, tobacco, other manufacturing and recycling (20.8 percent); and basic metals, metal products, machinery and equipment (20.4 percent) sub-sectors.

Table 4: Income by enterprises size per manufacturing sub-sector, as at end of June 2008

Manufacturing sub-sector	% of Total Sub-sector Income			
	Micro	Small	Medium	Large
Food products and beverages	1.4%	2.0%	5.9%	90.8%
Textiles, clothing, leather and footwear	6.3%	8.6%	19.6%	65.4%
Wood and wood products, paper, publishing and printing	4.3%	5.5%	12.4%	77.8%
Coke, petroleum, chemical products, rubber and plastic	0.5%	1.0%	4.0%	94.5%
Glass and other non-metallic mineral products	3.5%	3.9%	12.0%	80.6%
Basic metals, metal products, machinery and equipment	4.4%	5.3%	15.1%	75.2%
Electrical machinery and equipment	2.7%	3.6%	14.9%	78.8%
Telecommunication and professional equipment	7.9%	7.2%	21.4%	63.5%
Transport equipment	0.9%	1.3%	4.3%	93.5%
Furniture, tobacco, other manufacturing and recycling	6.7%	7.2%	13.6%	72.5%

Source: Statistics South Africa, 2009

Interestingly, however, when employment in South Africa's manufacturing sector is disaggregated by enterprise size, the proportional contribution of SMEs to employment within the sector exceeds their equivalent contribution to total income.⁸⁷ Indeed, small (11 percent) and medium (19 percent) collectively accounted for 30 percent of total manufacturing sector employment in 2008 in comparison to 57 percent in the case of large enterprises.⁸⁸ At the level of individual manufacturing sub-sectors (see Table 5), SMEs make the most significant combined contributions to employment within the telecommunication and professional equipment (39.7 percent); furniture, tobacco, other manufacturing and recycling (38.5 percent); basic metals, metal products, machinery and equipment (36.9 percent) glass and other non-metallic mineral products (32.7 percent); textiles, clothing, leather and footwear (31.2 percent); and wood and wood products, paper, publishing and printing (30 percent) sub-sectors.

Table 5: Employment by enterprises size per manufacturing sub-sector, as at end of June 2008

Manufacturing sub-sector	% of Total Sub-sector Employment			
	Micro	Small	Medium	Large
Food products and beverages	6.0%	5.6%	13.3%	75.1%
Textiles, clothing, leather and footwear	18.7%	13.6%	17.6%	50.1%
Wood and wood products, paper, publishing and printing	12.5%	11.7%	18.3%	57.5%
Coke, petroleum, chemical products, rubber and plastic	6.3%	6.4%	18.8%	68.5%
Glass and other non-metallic mineral products	9.0%	10.5%	22.2%	58.4%
Basic metals, metal products, machinery and equipment	18.5%	15.2%	21.7%	44.7%
Electrical machinery and equipment	7.4%	5.5%	17.6%	69.6%
Telecommunication and professional equipment	15.4%	11.2%	28.5%	44.9%
Transport equipment	9.0%	7.0%	16.0%	68.0%
Furniture, tobacco, other manufacturing and recycling	21.8%	15.1%	23.4%	39.7%

Source: Statistics South Africa, 2009

More broadly, in terms of total employment at the industry level, as of June 2008 the largest shares of the 1 352 152 persons employed in South Africa's manufacturing sector were employed in the following industries:⁸⁹

- Metals, metal products, machinery and equipment (24 percent of total manufacturing employment).
- Food products and beverages (14 percent of total manufacturing employment).
- Textiles, clothing, leather and footwear (13 percent of total manufacturing employment).
- Wood, wood products, paper, publishing and printing (12 percent of total manufacturing employment).
- Coke, petroleum, chemical products, rubber and plastic (12 percent of total manufacturing employment).

Finally, focusing on profitability, data from 2008 indicates that profit margins differ significantly across the broad manufacturing industries. Specifically, profit margins were highest in the base metals, metal products, machinery and equipment (10 percent); glass and other non-metallic mineral products (9.2 percent); coke, petroleum, chemical products, rubber and plastic (9.1 percent); food products and beverages (9.2 percent); and furniture and other manufacturing (including tobacco and recycling) (8.3 percent) industries.⁹⁰

5.2.2 Potential opportunities for SMEs to enter segments and value chains in the manufacturing sector

Despite the stumbling performance of the South African manufacturing sector in recent years, the national government's IPAP 2 has placed significant emphasis on developing the country's strengths in advanced, higher value added manufacturing. In particular, the IPAP 2 has identified opportunities for growing South Africa's manufacturing capabilities and capacity in the following areas:

- Nuclear component and equipment manufacturing, with significant scope for new investment and joint ventures to supply both local and foreign markets.
- Airport development and upgrading activities, including services, within the aerospace industry.
- Local manufacturing of set top boxes and digital televisions. This, in turn, will create opportunities for growth in other supporting industries such as plastics, packaging, metals and support manuals.

5.3 ICT

An efficient and suitably advanced ICT sector is seen as an important necessary condition for economic growth and development. The ICT sector in South Africa can be divided broadly into the information technology (IT), telecommunications and electronics sub-sectors. For its part, the IT sub-sector in South Africa is dominated by the private sector, predominantly in the form of multinational enterprises.⁹¹ The majority of companies in the IT sub-sector supply either software or services, while comparatively fewer companies provide hardware.⁹²

In contrast to the IT sub-sector, South Africa's telecommunications sub-sector remains heavily controlled by the national government.⁹³ However, in a similar manner to the IT sub-sector, the bulk of the companies operating in the telecommunications sub-sector in South Africa supply software or services in comparison to those that are focused in providing hardware.⁹⁴

Specific production services and activities within the ICT sector can be disaggregated into ICT manufacturing, which includes new product design and development, assembly and software production; software consultancy and supply; hardware consultancy; maintenance and repair of computing and telecommunications machinery; and services related to various forms of business processing, including data entry, accounting, transcription, web design and hosting.⁹⁵

5.3.1 Recent economic performance of the ICT sector

Previous estimates suggest that there are a total of 6 374 enterprises in the broad ICT sector.⁹⁶ Across the three main sub-sectors that comprise sector, the IT sub-sector accounts for the majority of this total, with 5 597 IT enterprises representing 87 percent of the enterprises in the ICT sector.⁹⁷ In comparison, there are an estimated 612 enterprises operating in the telecommunications sub-sector, accounting for 10 percent of the total number of enterprises in South Africa's ICT sector.⁹⁸ The majority of the enterprises within this sub-sector are involved in landline telephony, television signal distribution and wireless telecommunications activities, with a comparatively smaller share involved in activity related to cable network services.⁹⁹

There has been strong and steady growth in labour productivity in the ICT sector in South Africa since 1995. At the same time, employment in the sector has fluctuated significantly in the past two decades. For instance, in 1996, total employment in the ICT sector was estimated at 217 236; but had fallen to just 164 245 by 2000.¹⁰⁰ By 2005, employment in the sector had returned to, and marginally exceeded, its 1996 level, reaching 217 715.¹⁰¹

Over the period between 2000 and 2005, the telecommunications sub-sector accounted for the largest relative share of employment (41 percent) within the ICT sector, with a total of 94 468 employees in the sub-sector in 2005.¹⁰² In comparison, the ICT services sub-sector (75 627 employees in 2005) contributed 39.9 percent of total employment in the sector over the same period, with IT services such as software consultancy and software supply, as well as businesses servicing general hardware and network needs (including hardware consultancy, wholesale trade in equipment, maintenance and repair services, and equipment rental) representing strong sources of employment.¹⁰³ In turn, employment within the ICT manufacturing sub-sector, which accounted for 19.1 percent of total employment in the ICT sector and totalled 34 494 employees in 2005, was driven predominantly by the manufacturing of computer machinery and insulated wire and cable, with four out of every 10 ICT manufacturing workers employed in these areas.¹⁰⁴

More detailed data on employment in 2005 within various sub-groups within each of these sub-sectors is outlined in the tables below. Table 6 compares employment levels in six sub-groups of the ICT manufacturing sector in 2005. Thereafter, Table 7 outlines the numbers of individuals employed in various sub-groups that comprise the IT services sector.

Table 6: Employment by sub-group in ICT manufacturing sub-sector, 2005

ICT Manufacturing Sub-group	Total Employment
Manufacture of office, accounting and computer machinery	15 437
Manufacture of insulated wire and cable	4 313
Manufacture of electronic valves and tubes and other electronic components	3 106
Manufacture of television and radio transmitters and apparatus for line telephony and line telegraphy	3 539
Manufacture of television and radio receivers, sound or video recording or reproducing apparatus and associated goods	3 508
Manufacture of medical appliances and other instruments and appliances for measuring, checking, testing, navigating and for other purposes (except optical instruments)	6 358
TOTAL	34 494

Source: Paterson and Roodt, 2008

Table 7: Employment by sub-group in IT services sub-sector, 2005

ICT Manufacturing Sub-group	Total Employment
Wholesale trade in machinery, equipment and supplies	5 558
Renting of other machinery and equipment	5 667
Computer and related activities	173
Hardware consultancy	3 216
Software consultancy and supply	38 602
Data processing	1 793
Database activities	1 147
Maintenance and repair of office, accounting and computing machinery	3 593
Other computer related activities	15 878
TOTAL	75 627

Source: Paterson and Roodt, 2008

Micro and small companies account for the majority of the enterprises within the broad ICT sector when measured in terms of numbers. In the case of the IT sub-sector, previous estimates have suggested that as many as 88 percent of the enterprises employ fewer than 10 employees.¹⁰⁵ However across the ICT sector, SMEs only account for a relatively small share of total employment in the sector. In turn, while there are comparatively few large enterprises operating in the sector, these enterprises account for the bulk of employment - with one estimate in 2005 suggesting that large enterprises

contribute more than two thirds (68.8 percent) of total employment in the broad information systems, electronics and telecommunications technologies sector (ISETT).¹⁰⁶ Across all enterprise sizes, it is estimated that nearly two thirds (65 percent) of employees in the broad ISETT sector are employed as technical employees.¹⁰⁷ Across the individual sub-sectors that comprise the ICT sector, the telecommunications sub-sector is regarded as the greatest contributor to employment in South Africa.¹⁰⁸

ICT is regarded as a significant contributor to development in South Africa due to its direct influence on the performance of the economy. In line with this, the ICT sector has made a positive contribution to stimulating economic growth and development in the country in recent years.¹⁰⁹ This has been accompanied by a marginal increase in the contribution of the sector to national GDP. Specifically, between 2005 and 2008, the contribution of the ICT sector to the country's GDP increased from 1.8 percent to 2 percent.

Growth in the South African ICT sector has been stimulated predominantly by domestic consumption rather than through exports.¹¹⁰ Within the domestic market, growth has been “concentrated mainly in communications and IT services, less in software development, and least in hardware.”¹¹¹ The dominance of domestic consumption is contrasted by the fact that ICT goods exports as a share of total goods exports in South Africa remain low in comparison to exports from other sectors. Indeed, despite recording marginal growth between 2008 and 2009, South Africa's ICT goods exports as a percentage of the country's total goods exports reached just 2 percent in 2009.¹¹² In comparison, the country's ICT service exports recorded more impressive growth, rising steadily from 2.7 percent of total service exports in 2005 to reach 2.7 percent of South Africa's total service exports in 2010.¹¹³

5.3.2 Potential opportunities for SMEs to enter segments and value chains in the ICT sector

Industry commentators have suggested that the short-term outlook for the South African ICT sector looks positive.¹¹⁴ There also appears to be significant scope for SMEs to play a more dominant role within the sector. In the past, the information technology (IT) space in the country in areas such as retailers and IT equipment suppliers has been dominated by multinational companies. Recently, however, as a consequence of the global economic crisis “multinational ICT vendors have pulled back operations in the developing world, including Africa.”¹¹⁵ This has created an opportunity for local ICT vendors, particularly SMEs, to fill the breach.

More specifically, a major area requiring further expansion in the next few years is that of broadband connectivity in South Africa. An anticipated increase in broadband users is expected to present a number of diverse opportunities for ICT firms in the country; and SMEs may be in an advantageous position to capitalise on these opportunities.

Within the ICT manufacturing value chain, there remain opportunities for design and research, with significant scope for new product design and development. Further down the value chain, there are opportunities for SMEs to serve as manufacturers of chips and integrated circuits that are included in hardware components such as switches, routers and other telecommunications or computer equipment. Specific product and system development opportunities within the ICT value chain that SMEs could look to capitalise on include:¹¹⁶

- The development of access control systems and security equipment.
- Automotive electronic sub-systems.
- Systems and software development for the banking and financial services sector.
- Silicon processing for fiber optics, integrated circuits and solar cells.
- Exporting hardware and associated services.
- Exporting software and peripherals.

More generally, across the ICT sector, the following technical functions and services can potentially be provided by SMEs:¹¹⁷

- Research.
- Design and development.
- Procurement.
- Manufacturing/production.
- Product assembly.
- Integration of products into systems.
- Customisation/configuring.
- Installation.
- Commissioning/testing.
- Maintenance and repair.
- IT infrastructure support.
- Quality assurance.

- Sales and marketing.
- Education and training.

Of these, areas with high estimated potential for growth in demand are commissioning/testing; the integration of products into systems; and customisation and configuring.¹¹⁸

5.4 Tourism

The tourism sector in South Africa is comprised of a range of sub-sectors, including transport and travel distribution services (incorporating services such as airline services, car rental services, transfer services, travel agents and tour operators); hospitality (including accommodation, food and beverages, meetings and event services); and various other services related to specific tourist attractions and activities.

SMEs already play a prominent role within many of these sub-sectors in South Africa. It has been noted that while just six companies control between 60 and 70 percent of the tourism sector in the country, the majority of enterprises operating within the sector are SMMEs.¹¹⁹ Indeed, the dti has estimated that of the some 50 000 tourism enterprises operating in the country, at least 97 percent are SMMEs.¹²⁰ In the catering and accommodation sub-sector, small (46 percent) and medium (2 percent) enterprises collectively accounted for close to half of the enterprises in the sub-sector in 2001-2002.¹²¹ In comparison, in this period 50 percent of the enterprises in the catering and accommodation sub-sector were classified as micro enterprises, while just 1 percent were large enterprises.¹²²

5.4.1 Recent economic performance of the tourism sector

In 2009, South Africa ranked among the leading countries in Africa in terms of both tourism arrivals and tourism receipts. With respect to the former, however, South Africa's share of Africa's total international tourism arrivals did fall from 20.5 percent in 2008 to 15.4 percent in 2009. In terms of the latter, according to the United Nations World Tourism Organisation (UNWTO), at a total of more than US\$7.5 million, South Africa accounted for more than one quarter (26.1 percent) of Africa's tourism receipts in 2009.¹²³ The country's tourism receipts for 2008 and 2009 were, however, significantly lower than those for 2006 and 2007 - the periods preceding the global economic recession.¹²⁴

Focusing on international tourist arrivals in South Africa in 2010, on average, international tourists stayed in the country for 8.5 days and spent R1 094 per day.¹²⁵ This occurred on the back of strong growth in the value of international tourism expenditure (including capital expenditure) in South Africa between 2008 and 2009, which reached R76.3 billion in 2009.¹²⁶ The largest shares of this expenditure fell within the categories of personal shopping, resale shopping, accommodation and food and drink.¹²⁷

Despite this, there was a decline in the absolute number of domestic tourism trips undertaken in 2010, which fell from 30.3 million in 2009 to 29.7 million trips in 2010. Domestic tourism accounted for 79 percent of the total volume of tourist activity in 2010, but only 23 percent of tourism value in that year. The dominance of international tourist activity in 2010 was, in all likelihood, due to the staging of the 2010 FIFA World Cup in South Africa. Indeed, foreign tourist arrivals to South Africa grew by 15.1 percent in 2010 to reach more than 8 million tourists.¹²⁸

According to the World Travel and Tourism Council (WTTC), after strong growth in the contribution of South Africa's tourism sector to national GDP in 2005 and 2006 (9.9 percent and 12.1 percent, respectively), which expanded from R50 billion in 2005 to reach R57.3 billion in 2006,¹²⁹ this dropped back significantly between 2007 and 2010 (turning negative in 2009 and 2010). Nevertheless, as of 2010, the value of the total contribution of travel and tourism amounted to R303.4 million. Moreover, strong future growth is expected in the contribution of the tourism sector to South Africa's GDP in the next decade.¹³⁰ By 2021, it is expected that the value of the contribution of travel and tourism to national GDP will reach R831.7 million.¹³¹ The sector is expected to grow at a rate of 4.8 percent per annum over the next decade.¹³²

Estimates of the direct and indirect employment contribution of the tourism sector are inconsistent. For instance, the WTTC estimated in 2006 that the sector's direct contribution to total employment in South Africa was 425 930, while the indirect contribution of the sector was more than double that at 947 530 in the same year.¹³³ In comparison, according to the dti's estimates for 2006, the tourism sector created 539 017 direct jobs and a further 699 683 indirect jobs, suggesting that the sector's total contribution to employment in South Africa was 1 238 700 in 2006.¹³⁴ More broadly, estimates provided by Pan African suggest that, since 1994, the contribution of the tourism sector to total employment in South Africa has increased, peaking at 11.6 percent in 2001 and dropping back to 8.6 percent in 2005 as other sectors added jobs at a faster rate in the economy.¹³⁵

Looking ahead, by the end of 2011, the tourism sector in South Africa is expected to have generated in the region of 594 000 jobs. It is anticipated that this employment creation will stem primarily from the hotels, travel agencies, airlines and passenger transportation services sub-sectors.¹³⁶ By 2021, the WTTC estimates that more than 790 000 jobs will have been created in the travel and tourism sector in South Africa.¹³⁷

While there is a paucity of data on the number of enterprises operating in the tourism sector, a variety of estimates have been provided at the sub-sectoral level for certain sub-sectors in particular years since 2000. These estimates are summarised in Table 8, which also presents a limited number of estimates of the level of employment in each of these sub-sectors. Focusing on the most recent estimates provided by Prodigy-Grant Thornton for 2007, the bulk of the tourism enterprises (28 000) in South Africa operate within the hospitality sub-sector, which is also the most substantial contributor to total employment, albeit with the contribution of the sub-sector down significantly since 2000. In comparison, an estimated 6 200 tourism enterprises were operating in the tourism and travel services sub-sector in 2007, which employed approximately 28 000. Finally, while estimates suggest that the number of enterprises operating within the conservation and tourism guiding sub-sector has increased markedly since 2000, this number was still substantially lower than the equivalent numbers of enterprises in the hospitality and tourism and travel services sub-sectors. Nevertheless, the 2007 estimates suggest that a greater number of people were employed in the conservation and tourism guiding sub-sector in comparison to the tourism and travel services sub-sector.

Table 8: Comparison of estimates of numbers of tourism enterprises and total employment by sub-sector

Sub-sector	Year	Total number of enterprises	Total number employed	Source
Hospitality	2000	35 830	477 800	Grant Thornton
	2004	34 471		Monitor
	2005	35 830	477 800	Department of Labour
	2007	28 000	290 000	Prodigy-Grant Thornton
Tourism and Travel Services	2000	2 870	36 000	Grant Thornton
	2006	3 942		Qubelisa
	2007	6 200	28 000	Prodigy-Grant Thornton
Conservation and Tourist Guiding	2000	900	30 300	Grant Thornton
	2006	3 459		Qubelisa
	2007	3 500	30 000	Prodigy-Grant Thornton

Source: Earle, 2008

5.4.2 Potential opportunities for SMEs to enter segments and value chains in the tourism sector

In broad terms, the IPAP2 has noted that opportunities exist in the tourism sector to diversify the local tourism economy and create new markets by giving attention to high growth and high yield niche markets.¹³⁸ At present, the tourism sector in South Africa is largely organised into a three tiered structure. At the apex of this structure are large enterprises that dominate the country's major travel and tour agencies, transportation, hotels, casinos and conference centres.¹³⁹ The next tier, which accounts for the majority of the tourism enterprises in the country, is dominated by established, predominantly white-owned SMMEs "which operate a host of different establishments from travel and touring companies, restaurants, small hotels, self-catering and resorts, game farms, bed and breakfasts or backpacking hostels."¹⁴⁰ The third tier is dominated by emerging, black-owned formal tourism enterprises.¹⁴¹ Previous research suggests that there are significant opportunities to strengthen the horizontal linkages between these emerging, black-owned formal tourism enterprises and both the white-owned SMMEs in the second tier and the large tourism enterprises operating in the country.¹⁴²

In terms of specific market opportunities, there remains significant scope for SMEs operating within the tourism sector and its related industries to supply goods and services to a range of buyers that include major hotels, casinos and national and provincial parks. Key to this will be the facilitation of supply chain linkages between large and small enterprises operating within the tourism sector.

In addition, the Global Competitiveness Project report (2007) identified a range of 'product gaps' in which there is significant potential to develop tourism products in South Africa. These include:¹⁴³

- Conference facilities offering good services outside of the existing International Convention Centres.
- Improved and more diverse products offering cultural experiences, particularly in the form of museums, South African cuisine, African curio shops and township experiences.
- Development of world heritage sites.
- Adventure tours.
- Holiday resources, particularly in the form of world class beach resorts and family resorts.
- Themed entertainment parks.
- Tours of rural areas.
- Niche tours.

6. Barriers and Challenges faced by Small and Medium Enterprises in South Africa

South Africa currently has the dubious distinction of boasting one of the highest failure rates of new SMEs in the world, at 75 percent.¹⁴⁴ Moreover, the probability of a new SME surviving beyond 42 months in South Africa is the lowest among all the countries sampled in the Global Entrepreneurship Monitor (GEM).¹⁴⁵ Unsurprisingly, given this record, the challenges faced by SMEs in South Africa have been well documented.

The results of a survey of 5 000 business and financial decision makers in SMEs in South Africa undertaken in 2007 revealed that SMEs in the country face a variety of challenges related principally to operational issues. Specifically, the most commonly reported challenges faced by SMEs in the 2007 SME Survey were crime (cited by 27 percent of respondents), cash-flow difficulties (19 percent) and the related issue of debtors (13 percent).¹⁴⁶

More recently, the 2010 FinScope SMME Survey highlighted a number of challenges and constraints that are currently faced by SMEs in South Africa, including:¹⁴⁷

- Accessing finance during both the start-up and expansion phases of the business.
- Unmet skills development and training needs.
- An onerous regulatory environment.

Problems accessing finance appear to be particularly widespread for SMEs in the country, most notably among new SMEs. In this regard, SMEs face significant constraints in accessing external finance. At present, the majority of new SMEs in the country are heavily dependent on internal finance from owners, family or friends, which is often “inadequate for new SMEs to survive or grow.”¹⁴⁸ At the same time, SMEs’ access to external equity and debt finance from commercial banks and trade creditors remains very limited in South Africa, particularly for new SMEs.¹⁴⁹

In addition to these constraints, other previously identified challenges facing SMEs in South Africa include:¹⁵⁰

- Difficulty developing relationships with customers.
- Low production capacity.
- A lack of recognition by large companies.

- Difficulty dealing with government bureaucratic processes.

In terms of the latter, significant barriers related to starting a business and business registration have been identified in South Africa. In this respect, business licensing and registration appear to be particularly problematic for SMEs in the country. Specifically, it has been argued that “high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs.”¹⁵¹

Certain challenges have been cited as particularly problematic in constraining the growth of SMEs in the country. Specifically, previous research has highlighted challenges related to accessing finance; a lack of managerial skills; inadequate equipment and a lack of access to appropriate technology; regulatory issues; and access to international markets as major constraints to SME growth in South Africa.¹⁵² Similarly, the World Bank has found that the vast majority of small enterprises in the country report that difficulties gaining access to credit represent a major constraint to new investment, a key determinant of growth in SMEs. This forms part of a broader issue that SMEs looking to expand in the country remain “significantly underfinanced.”¹⁵³ In this respect, according to Kongolo (2010):

“The conditions set by most financial institutions to acquire credits/loans disqualify most applicants from getting needed finances. These limitations disproportionately affect small businesses given their scarce financial and human resources.”¹⁵⁴

More generally, it has been argued that the SME sector in South Africa does not currently receive the support that it requires from government departments, the banking sector, financial institutions and the corporate sector.¹⁵⁵

What is less clear are the specific barriers to entry and challenges and constraints that currently affect SMEs operating in, or looking to operate in, specific sectors in South Africa. Indeed, out of the agriculture, manufacturing, ICT and tourism sectors that form the focus of this research study, it is only the latter for which specific constraints and challenges faced by SMEs could be identified from previous studies. In the tourism sector, the following challenges and constraints have been identified through the Tourism Enterprise Programme (TEP) as affecting SMEs operating in the sector in South Africa:¹⁵⁶

- A lack of access to information, leading to loss of business opportunities (tenders, events).
- A lack of understanding of market requirements, particularly in terms of poor awareness of market needs, opportunities and how to access them.

- Red tape associated with legalisation.
- A lack of access to finance.
- Difficulty establishing credibility and reputation.
- Limited access to affordable business services.

The fieldwork component of this research study will look to uncover insight into sector-specific barriers faced by SMEs operating in the agriculture, manufacturing, ICT and tourism sectors by engaging directly with representatives of SMEs operating within these sectors as well as a range of other stakeholders with intricate knowledge of these sectors.

PART II: Fieldwork Findings

Part I of this report presented a summation of previous research on the challenges, needs, state and performance of SMEs within the context of the agriculture, manufacturing, ICT and tourism sectors in South Africa, as well as the policy context underpinning the participation of SMEs in these sectors. Part II of the report presented below aggregates the findings drawn from a comprehensive process of engagement with a variety of stakeholders with broad knowledge, expertise or experience related to the SME segment. These stakeholders can be divided into three broad groupings:

- Representatives of SMEs operating in one or more of the agriculture, manufacturing, ICT and tourism sectors.
- SEDA's Business Advisors currently working in the organisation's provincial branches and satellite offices across the country's nine provinces to assist SMEs through SEDA's various programmes, product and service offerings.
- Representatives of institutions and organisations that are involved in supporting SMEs or that boast expertise within the SME segment or the selected sectors, including national, provincial and local government departments, economic development agencies, industry and sector associations, and providers of business support services.

The views and input provided by these diverse groups of stakeholders are discussed together in the sections below. This includes a discussion of the challenges and constraints currently faced by SMEs in South Africa; perspectives on the relevance and effectiveness of SEDA's existing support to SMEs based on their unique challenges and needs; and an identification of prospective value chain and market opportunities (on a sector-by-sector basis) that SMEs should be supported to capitalise on in the future.

7. Challenges and Constraints Faced by SMEs in South Africa

The stakeholder interviews provided an opportunity for the SME respondents, SEDA Business Advisors and institutional stakeholders to highlight, based on their experiences, the main challenges and constraints that are currently faced by SMEs operating in the agriculture, manufacturing, ICT and tourism sectors in South Africa. For their part, the SME respondents provided insight into the unique challenges and constraints that they face within the context of the sectors in which they operate. In turn, the SEDA Business Advisors provided insight into both general challenges and barriers to entry reported by SMEs that seek their assistance, as well as specific challenges faced by SMEs in the respective sectors. Finally, the institutional stakeholders were able to offer a broad perspective based

on their knowledge and experience of the barriers to entry and challenges to operations and growth experienced by SMEs.

Based on the input from these broad groups of stakeholders, general challenges and barriers to entry confronting SMEs across the four sectors as well as sector-specific challenges and barriers to entry identified through the stakeholder engagement process are outlined in Tables 9 and 10, respectively.

Table 9: General challenges and barriers to entry faced by SMEs as identified by SME respondents, SEDA Business Advisors and institutional stakeholders

GENERAL CHALLENGES AND CONSTRAINTS ACROSS ALL SECTORS
<ul style="list-style-type: none"> • Lack of access to finance. Much of this stems from an inability to access the credit facilities offered by formal financial institutions as a result of being unable to meet the lending criteria stipulated by these institutions. For instance, some SMEs do not have sufficient assets to to serve as collateral when securing credit, or boast poor credit records, and are thereby precluded from accessing formal credit facilities. At the same time, it was noted that some SMEs lack knowledge and information on how and where to access finance. • Difficulty accessing markets due, in part, to products and services that do not meet the required industry regulations and standards and a lack of access to funding and equipment to improve product quality and make products more competitive in the market; both of which result in an inability to access core supply chains. Similarly, in the case of certain SMEs, access to markets is affected by a lack of demand or market opportunities for their products. At the same time, competition from big businesses, which drive prices in many markets, was noted as stifling the development of SMEs. • Lack of experience among owners and managers in enterprise management. • Lack of sector-specific expertise. • Inconsistencies in cash flow, stemming largely from long payment cycles and delays in payment for completed work. In some instances, cash flow problems faced by SMEs are also affected by a lack of financial management skills (for instance, in basic areas such as understanding cash flow, income statements and the company’s financial position). • Lack of entrepreneurial skills and mindset as well as business acumen. This includes a lack of skills, expertise and experience within some SMEs to market their product offerings effectively to end users.

- Lack of **business planning** during start-up phases.
- **Lack of capacity to undertake market research**, resulting in a lack of understanding of information on market needs and characteristics and a lack of understanding of pricing logic.
- **Skills shortages**, particularly with respect to technical skills and business management skills (such as financial management skills) required to operate a business effectively.
- **Fragmented support** stemming from a lack of coordination of support provided by various entities tasked with assisting in SME development.
- Lack of **innovation and creativity**, particularly with respect to product development.
- Difficulty **accessing land or securing operating premises**.
- **Red tape** and regulatory processes and procedures that stifle business growth.

Source: Mthente, 2012

Table 10: Sector-specific challenges and constraints faced by SMEs as identified by SME respondents, SEDA Business Advisors and institutional stakeholders

SECTOR-SPECIFIC CHALLENGES AND CONSTRAINTS			
Agriculture	Manufacturing	ICT	Tourism
<ul style="list-style-type: none"> • A lack of planning capacity and a lack of understanding of what is required in terms of service delivery. • Inconsistent cash flow. • Adverse climatic conditions affecting production. • Difficulty gaining access to arable land. In some cases, this is hampered by an inability to secure leases from municipalities. • High cost of agricultural inputs (such as seedlings) and machinery. • Difficulty accessing target markets and linking into supply chains of retailers 	<ul style="list-style-type: none"> • High cost of inputs, which prevent SMEs from buying in bulk. • Lack of access to finance. One implication of the difficulty faced in securing finance and capital is that many SMEs are unable to engage in value-adding manufacturing activities. • Lack of access to appropriate equipment and technology. Much of this stems from an inability to afford the purchase of new manufacturing equipment and machinery. • Lack of meaningful market research leading to limited product differentiation and 	<ul style="list-style-type: none"> • Shortage of skills and capacity, particularly with respect to technical skills, as well as well as relevant skills for administration, human resources management, financial management and business processes. • Lack of access to finance. This affects the ability of some ICT SMEs to finance research and development activities and market research as well as the purchase of advanced ICT equipment. • Network connectivity problems. • Lack of access to internet and ICT support services for SMEs 	<ul style="list-style-type: none"> • Lack of marketing skills and tools. This extends to difficulty conceptualising and exploiting market opportunities. • Competition from dominant large enterprises operating in the sector. • Inconsistent cash flow and long delays in receiving payment for completed work. • Lack of resources to upgrade equipment and purchase new equipment. • Rising prices of inputs such as fuel. • Limited tourism market and customer base for SMEs operating in rural

SECTOR-SPECIFIC CHALLENGES AND CONSTRAINTS

Agriculture	Manufacturing	ICT	Tourism
<p>stemming, at least in part, from an inability to produce to the stringent quality and volume requirements of buyers.</p> <ul style="list-style-type: none"> • Shortage of technical skills and capacity. • Difficulty adopting new methods of production. • Poor quality of supporting infrastructure, particularly in terms of roads and trains required for transporting produce, which creates difficulties in terms of getting products to market. • Competition from large enterprises, with larger enterprises able to benefit from economies of scale and supply produce at lower cost. 	<p>heightened competition.</p> <ul style="list-style-type: none"> • Insufficient opportunities for training staff members. • Shortage of technical skills. In some cases, this manifests in an inability to keep up with industry trends due to a lack of appropriate skills and knowledge. • Difficulty competing with large, established manufacturers as well as with foreign imports (particularly from China). • Poor quality and inconsistency of supporting infrastructure. • Red tape associated with securing industry-specific accreditation or 	<p>operating in rural areas.</p> <ul style="list-style-type: none"> • Inadequacy and inconsistency of supply of supporting infrastructure such as electricity. • Limited demand for certain ICT services particularly in rural areas, with demand concentrated in the urban parts of the country. In some areas the limited demand is juxtaposed with high levels of competition from other ICT service providers. • Shortage of skilled workers in rural areas, with skilled graduates leaving for jobs in urban areas. 	<p>areas. This is exacerbated by poor quality supporting infrastructure in many rural areas.</p> <ul style="list-style-type: none"> • Lack of market-related information and data on tourist and industry trends. • Difficulty meeting tourism grading and accreditation standards.

SECTOR-SPECIFIC CHALLENGES AND CONSTRAINTS			
Agriculture	Manufacturing	ICT	Tourism
	certification such as International Organisation for Standardisation (ISO) certification.		

Source: Mthente, 2012

It is clear from Tables 9 and 10 that difficulty accessing finance is a recurring challenge confronting SMEs across the agriculture, manufacturing, ICT and tourism sectors. The majority of the SEDA Business Advisors consulted during the course of the research process highlighted the fact that many of the challenges and constraints reported by SMEs that seek their assistance relate to accessing finance, and that this is widespread across all four sectors. This is illustrated clearly in the following comments made by individual Business Advisors:

“There are mainly challenges around finance. Access to finance is difficult, across the sectors.”¹⁵⁷

“Whenever they [SMEs] come to the [SEDA] office [for assistance] they look for funding, which SEDA does not have.”¹⁵⁸

“Access to finance by all sectors is a problem. Five out of ten clients who come to us [SEDA] want finance.”¹⁵⁹

These challenges in gaining access to finance were echoed by many of the SME respondents and institutional stakeholders, with several respondents highlighting the adverse impact that a lack of access to finance has on business expansion. For instance, according to one SME respondent, an inability to access finance has represented a major constraint to her efforts to expand her business:

“Financially, it is unbelievable. There is so much potential in my company, but because of the lack of finance, we can’t expand.”¹⁶⁰

The inability of many SMEs to secure the necessary finance to expand or to improve their internal processes and production is often exacerbated by cash flow problems. To a large extent, these problems are due to delayed payment cycles, with SMEs often waiting for extended periods before being paid for completed work. In addition, a lack of financial management skills and capabilities within some SMEs exacerbates the challenges that they face in overcoming cash flow difficulties.

In many instances, difficulty accessing finance contributes to, or is linked to, other constraints faced by SMEs in South Africa. For instance, several SME respondents indicated that they require finance to purchase much needed equipment and technology or to expand their business premises or corporate footprint. In this respect, an inability to secure finance can prevent SMEs from upgrading equipment or purchasing new equipment and technology that can improve production processes and competitiveness within SMEs. Similarly, without the financial support to expand their business premises or service offerings, some SMEs are unable to grow and, ultimately, employ more people.

“The main challenge is access to finance in attempting to buy equipment. If you don’t have enough money to buy equipment, you cannot produce or manufacture.”¹⁶¹

“In manufacturing, they [SMEs] have problems with capital equipment...which they need to produce the products. [For example], you find women who say ‘we cannot do this or that kind of embroidery because we do not have the right machines. They can’t compete in the market because they don’t have access to modern technology.”¹⁶²

“Right now my company is only functioning at 10 percent of its potential. We have potential for a big project, with a big group, but they said if we can’t deliver they will end our contract. And we just don’t have the equipment to undertake the project, and no finance to purchase the equipment we need.”¹⁶³

The comments above also allude to another challenge - accessing markets and linking into supply chains is problematic for many SMEs. This stems primarily from their inability to supply their products or services at the level of quality demanded or in the required volumes to meet the requirements and expectations of large companies. These difficulties are illustrated in the following comments provided by SEDA Business Advisors:

“I do not think that entering into the market is a problem, but accessing the target markets is a problem. Sometimes [when farmers are looking to] supply the retailers, there are high standards that they probably cannot meet. These are things like high numbers of orders that they are not able to supply immediately, or even very strict requirements.”¹⁶⁴

“In agriculture, there is no understanding [among SMEs] of quality [requirements]. In poultry, for instance, the technical skills to produce a quality product to buyers can be found missing. Some entrepreneurs can produce products like eggs, but when it comes to [supplying] large volumes to buyers they can struggle to produce the numbers.”¹⁶⁵

In some cases, these difficulties are exacerbated by shortages in the appropriate skills, particularly technical skills, which represents a cross-cutting constraint facing SMEs operating in the agriculture, manufacturing, ICT and tourism sectors. This appears to be particularly problematic for SMEs operating in rural areas, with one SME respondent from the ICT sector bemoaning the outflow of skilled graduates from rural areas looking for suitable employment opportunities in South Africa’s urban centres.

Furthermore, a number of SMEs expressed unhappiness at the lack of opportunities available to train staff members as a means to up-skill their staff complements.

“The most common barrier is the lack of experience and skills to run their businesses. The most common scenario is that the entrepreneur has heard from a friend or relative that ‘that business makes money’ and they try to start their business with no skills or experience.”¹⁶⁶

7.1 Needs and support requirements of SMEs

Notably, when the SME respondents were asked to provide feedback on whether or not the existing support that they receive is sufficient to overcome these challenges and constraints, the majority of the respondents (11 out of a total of 15) indicated that the existing support is insufficient. Moreover, a handful of these respondents indicated that they are currently receiving no support whatsoever.

In light of this, the SME respondents were also asked to indicate what support they would require in the future to overcome the challenges and constraints currently affecting their businesses and to expand their businesses. Based on their responses, the key areas in which they require additional support to overcome these challenges and grow their businesses are summarised, by sector, in Table 11.

Table 11: Support needs highlighted by SMEs operating in the agriculture, manufacturing, ICT and tourism sectors

SUPPORT NEEDS ACCORDING TO SMEs			
AGRICULTURE	MANUFACTURING	ICT	TOURISM
Assistance with financial gearing.	Financial assistance.	Assistance to access finance.	Assistance to access finance.
Assistance to adhere to industry standards and legal requirements.	Assistance to develop industry-specific skills and knowledge, particularly on the factory floor.	Training in book-keeping, business processes and the use of accounting software.	Financial and non-financial support to market tourism products and produce marketing material (such as brochures, business cards, website).
Assistance in terms of ways to ensure and maintain a constant and stable cash flow.	Assistance to upgrade compliance with industry standards and registrations.	Assistance with marketing, particularly in terms of the development of brochures and interactive websites.	Business mentoring support.
Support to develop human resources and	Training workshops on accreditation.	Technical skills development for staff	Training in basic business skills,

SUPPORT NEEDS ACCORDING TO SMEs			
AGRICULTURE	MANUFACTURING	ICT	TOURISM
training for staff.		(in areas such as software engineering).	including book-keeping, networking, communication and maintaining client relations.
Assistance to acquire equipment.	Training for staff.		Assistance to register with professional bodies within the sector.
			A ready supply of suitably trained individuals to work within SMEs (to be facilitated, for example, through a Tourism SETA).
			Support for networking and the development of partnerships to secure business contracts.

Source: Mthente, 2012

The institutional stakeholders that were interviewed during the course of the research process also offered a number of opinions on the current support needs of SMEs operating in South Africa, highlighting both cross-cutting needs relevant for SMEs operating in all sectors as well as sector-specific support needs. In terms of the former, at the most general level, one institutional stakeholder felt that SMEs require greater access to information on the support that is available to them, such as that provided by the dti to finance the purchase of equipment.¹⁶⁷ Unsurprisingly, several institutional stakeholders also emphasised the need to improve the level of financial support available to SMEs and to raise the level of assistance available to SMEs seeking start-up capital.

In addition, a number of institutional stakeholders emphasised the importance of providing training to develop skills and capacity within SMEs. One stakeholder highlighted the need to provide more specialised training to develop specific technical skills within SMEs. Another institutional stakeholder emphasised the importance of capacity building training that is more relevant to SMEs operating in the South African context, arguing that the existing support that is available is “too Eurocentric”:

“Capacity building, capacity building, capacity building. I can’t stress this any more. This is needed across different sectors, not just tourism. Businesses should be provided with training for business plan development. However, such capacity building needs to be contextualised to

*South Africa's needs and cultural background. The current model of business development is too Eurocentric and does not speak to the local context.*¹⁶⁸

A variety of other areas where SMEs require additional or improved support over and above that which is already available to them were highlighted by the institutional stakeholders. These include:

- More sector-specific incubation and support.¹⁶⁹
- Assistance to improve the quality of products and services and to meet recognised quality standards and requirements.¹⁷⁰
- Support to improve SME owners' and managers' understanding of existing markets;¹⁷¹ and to identify and access new markets for products and services.¹⁷²
- Assistance to develop new, innovative product and service offerings.¹⁷³
- Support to build or strengthen relationships with large enterprises.¹⁷⁴

Turning, to the unique needs of SMEs in specific sectors, Table 12 summarises the support needs of SMEs in each of the agriculture, manufacturing, ICT and tourism sectors that were highlighted by institutional stakeholders. While a number of the support needs emphasised by the institutional stakeholders are unique to the individual sectors, there are also several areas of commonality across the four sectors, including the need for greater financial support and capacity building to develop the relevant technical skills.

Table 12: Views of institutional stakeholders on sector-specific support needs of SMEs operating in the agriculture, manufacturing, ICT and tourism sectors

SUPPORT NEEDS ACCORDING TO INSTITUTIONAL STAKEHOLDERS			
AGRICULTURE	MANUFACTURING	ICT	TOURISM
Financial support to purchase production inputs.	Assistance to access finance.	Assistance to access finance.	Financial assistance to entrepreneurs looking to explore underdeveloped areas as potential tourism destinations.
Assistance to meet the requirements stipulated by agricultural departments and municipalities to access resources (land, water and electricity) required for agricultural activities.	Support to access raw materials.	Technical skills training.	Assistance to comply with grading requirements of tourism boards and authorities.
Technical support and	Training and skills	Assistance to access	Support to lobby

SUPPORT NEEDS ACCORDING TO INSTITUTIONAL STAKEHOLDERS			
AGRICULTURE	MANUFACTURING	ICT	TOURISM
knowledge and skills transfer through mentorship.	development support, particularly in areas related to technical skills and product development and costing.	markets.	government to ring-fence procurement opportunities for tourism SMEs.
	Support to strengthen relationships with large enterprises, particularly with respect to long-term arrangements and supplier contracts between SMEs and larger enterprises.		Assistance to understand and comply with industry-specific regulatory requirements and processes.
	Information and advice on product development and how to survive global competition.		Support to identify opportunities, access markets and develop tourism products.
	Infrastructure support.		Capacity building support to develop business skills.
	Industry-specific Incubation.		

Source: Mthente, 2012

7.2 Summary of challenges and constraints faced by SMEs in South Africa

The box below presents a summary of stakeholder perceptions of the primary barriers to entry and challenges faced by SMEs in the agriculture, manufacturing, ICT and tourism sectors in South Africa, as well as their perceptions of the specific support needs of SMEs operating in these sectors.

SUMMARY

Barriers to entry and challenges to operations and growth experienced by SMEs

- General barriers to entry and challenges faced by SMEs in South Africa that cut across the four selected sectors include:
 - Lack of **business planning** during start-up.
 - Difficulty **accessing to finance**.
 - Difficulty **accessing markets** or meeting industry requirements or standards.
 - Lack of **experience among owners and managers**.
 - Lack of **sector-specific expertise**.
 - **Inconsistencies in cash flow**.
 - Lack of **entrepreneurial skills and mindset as well as business acumen**.
 - **Lack of capacity to undertake market research**, resulting in a lack of understanding of market needs and characteristics.
 - **Skills shortages**, particularly with respect to technical skills and business management skills.
 - **Fragmented and uncoordinated support** from entities tasked with providing assistance.
 - Lack of **innovation and creativity**.
 - Difficulty **accessing land or securing operating premises**.
 - **Red tape** and cumbersome regulatory processes and procedures.

- In the **agriculture** sector, SMEs typically faced barriers to entry or constraints related to:
 - A **lack of planning capacity**.
 - **Inconsistent cash flow**.
 - **Adverse climatic conditions** affecting production.
 - Difficulty **gaining access to arable land**.
 - **High cost of agricultural inputs and machinery**.
 - Difficulty **accessing target markets and linking into supply chains of retailers**.
 - **Shortage of technical skills and capacity**.
 - Difficulty **adopting new methods of production**.
 - **Poor quality of supporting infrastructure**.
 - **Competition from large enterprises**.

- In the **manufacturing** sector, SMEs typically faced barriers to entry or constraints related to:
 - High cost of inputs.
 - Lack of access to finance.
 - Lack of access to appropriate equipment and technology.
 - Limited product differentiation.
 - Insufficient opportunities for training staff.
 - Shortage of technical skills.
 - Difficulty competing with large, established manufacturers and foreign imports.
 - Poor quality and inconsistency of supporting infrastructure.
 - Difficulty securing industry-specific accreditation or certification.

- In the **ICT** sector, SMEs typically face barriers to entry or constraints related to:
 - Shortage of skills and capacity, particularly with respect to technical skills.
 - Lack of access to finance.
 - Network connectivity problems.
 - Lack of access to internet and ICT support services in rural areas.
 - Inadequacy and inconsistency of supply of supporting infrastructure.
 - Limited demand for certain ICT services, particularly in rural areas.
 - Shortage of skilled workers in rural areas.

- In the **tourism** sector, SMEs typically face barriers to entry or constraints related to:
 - Lack of marketing skills and tools.
 - Competition from dominant large enterprises.
 - Inconsistent cash flow.
 - Lack of resources to upgrade or purchase new equipment.
 - High cost of inputs.
 - Limited market and customer base in rural areas.
 - Lack of market-related information and industry data.
 - Difficulty meeting tourism grading and accreditation standards.

- Difficulty accessing finance is a recurring challenge confronting SMEs across the four sectors; and in many cases stifles business expansion.
 - Difficulty accessing finance contributes to, or is linked to, other constraints such as difficulty purchasing much needed equipment or upgrading technology.

Needs and support requirements of SMEs

- In general, across the four sectors, key areas in which SMEs require additional or improved support include:
 - Sector-specific incubation.
 - Assistance to improve the quality of products and services to meet recognised standards.
 - Support to improve understanding of existing markets.

- Assistance to develop new, innovative product and service offerings.
- Support to build or strengthen relationships with large enterprises.
- In the **agriculture** sector, the key areas in which SMEs require additional support to enter markets, overcome challenges or grow their businesses include:
 - Financial assistance, particularly in order to acquire production inputs and machinery.
 - Assistance to adhere to industry standards and requirements.
 - Training and support to develop human resources.
 - Technical support and skills transfer through mentorship.
- In the **manufacturing** sector, the key areas in which SMEs require additional support to enter markets, overcome challenges or grow their businesses include:
 - Financial assistance.
 - Support to develop industry-specific skills and knowledge.
 - Assistance to comply with industry standards, regulations and accreditation requirements.
 - Training and technical skills development.
 - Support to access raw materials.
 - Support to strengthen supplier relationships with large enterprises.
 - Industry-specific incubation.
- In the **ICT** sector, the key areas in which SMEs require additional support to enter markets, overcome challenges or grow their businesses include:
 - Financial assistance.
 - Training in business management processes.
 - Marketing support.
 - Technical skills development.
 - Assistance to access markets.
- In the **tourism** sector, the key areas in which SMEs require additional support to enter markets, overcome challenges or grow their businesses include:
 - Financial assistance.
 - Financial and non-financial support to market tourism products and produce marketing material.
 - Business mentoring support.
 - Capacity building training in basic business skills.
 - Assistance to register with professional bodies.
 - Support for networking and the development of partnerships.
 - Assistance to comply with grading requirements.
 - Support to lobby government to ring-fence procurement opportunities.
 - Assistance to understand and comply with industry regulatory standards.

8. SEDA's Existing Support to SMEs

At the outset of the engagements with SEDA's Business Advisors, they were asked to articulate the existing areas of focus characterising SEDA's strategy for stimulating job creation among SMEs in their respective provinces. In response, a clear message was that SEDA's focus is on the provision of non-financial support to SMEs.¹⁷⁵ This is provided in the form of products and services that are designed to assist businesses, broadly encompassing marketing support; assistance to improve the quality of systems and processes; help with product development; human resources support; assistance to improve productivity; and business planning support.¹⁷⁶ Explaining SEDA's support strategy in broad terms, one Business Advisors emphasised the organisation's focus on opening up access to markets for SMEs.¹⁷⁷ Another Business Advisor highlighted SEDA's strategic approach to training both start-up businesses and more established businesses in aspects of business management and administration, including training in basic business skills, operational processes and financial management.¹⁷⁸

When probed to explain more specific programmes and strategies offered by SEDA to support SMEs, the Business Advisors highlighted several areas of support. For instance, one Business Advisor pointed to the support that SEDA provides to enterprises to assist them to access technology with a view to enhancing the innovation, creativity and competitiveness of these enterprises.¹⁷⁹ This same Business Advisor also highlighted the support that SEDA provides in terms of facilitating business linkages between SMEs and larger businesses, both as a means to generate business opportunities for SMEs and to facilitate skills transfer.¹⁸⁰ This focus on skills development is also facilitated through an incubation system,¹⁸¹ as well as through the provision of in-house training held at SEDA's district offices or provincial branches wherein entrepreneurs and enterprises operating in different industries are identified and grouped on a sector-specific basis or in line with specific skills needs for the purposes of training.¹⁸²

In terms of sector-specific support, one Business Advisor stationed in the Free State noted the partnership that the provincial office has established with the National Agricultural Farmers Union of South Africa (NAFU), an organisation dedicated to agricultural development, and the local municipality in the province to promote the establishment of cooperatives as a means to promote cooperation, expand existing enterprises and, ultimately, create more jobs.¹⁸³ This was echoed by another Business Advisor, who indicated that SEDA provides cooperatives in the agricultural sector with support to

access finance as well as through interventions to develop skills and improve governance within these cooperatives. Two Business Advisors working in the Eastern Cape indicated that SEDA is currently running projects to support agro-processing in SMEs in the essential oils industry in the province.¹⁸⁴ Another Business Advisor stationed in the Eastern Cape explained that SEDA is providing assistance to agricultural SMEs in the form of information on specific products that are in demand in overseas export markets, and looking to develop an ‘export club’ for SMEs operating in the Cacadu area of the province.¹⁸⁵ Focusing on skills transfer initiatives, the same Business Advisor mentioned the implementation of a support programme hailing from the Netherlands (known as *PUM.eu*) whereby Chief Executive Officers (CEOs) of foreign companies are brought in to assist local farmers.¹⁸⁶

In the case of support provided by SEDA to SMEs in the manufacturing sector, interventions to assist SMEs to access finance were highlighted by one Business Advisor in the Free State.¹⁸⁷ In turn, in the tourism sector, SEDA’s support in the form of the provision of training on industry standards as well as marketing support was highlighted by the Business Advisors that were interviewed. For example, it was noted that SEDA provides training to SMEs on Hazards Analysis Critical Control Points (HACCAP) to comply with ISO 2 200 standards within the food industry.¹⁸⁸ In turn, with respect to marketing support, non-financial support in areas such as assistance with website development and the development of marketing material is provided by SEDA, together with training on customer relations and customer management.¹⁸⁹

In the tourism sector, two Business Advisors in the Eastern Cape indicated that SEDA is working in collaboration with municipalities in the province to provide training to SMEs running bed and breakfast operations and to provide them with marketing material.¹⁹⁰ Another Business Advisor in the province highlighted efforts to group SMEs operating in the Eastern Cape together into clusters to encourage them to work together.¹⁹¹

8.1 Awareness and use of SEDA programmes, products and services

In line with this array of support products and services offered by SEDA, it is important to assess the extent to which SMEs are currently aware of the organisation’s programmes, products and services available to them. Encouragingly, of the 15 representatives of SMEs that were interviewed during the course of the research process, just two indicated outright that they were not aware of any of SEDA’s product and service offerings. Another respondent reported being only “vaguely aware” of the existing SEDA programmes, products and services that are available to support SMEs.¹⁹² This respondent

indicated that her lack of awareness of the products and services offered by SEDA was due to the organisation not communicating or advertising the products or services that it offers effectively to potential clients.¹⁹³ In this regard, the respondent felt that SEDA is not pro-active in communicating to SMEs about the products and services offered to these enterprises, noting that:

“...I needed help with my advertising, and I was not aware that they [SEDA] can do advertising. If I did not ask, I would not have known.”¹⁹⁴

The remaining 12 representatives of SMEs were all aware, at least to some degree, of the products and services offered by SEDA. Across these SME representatives, some level of awareness of the following broad areas of support provided by SEDA was reported:

- Business management support, including assistance with business planning and mentoring.
- In-house training on exporting.
- Training and assistance in the development of marketing material.
- Capacity building and training.
- Financial advice.

Further encouragement can be taken from the fact that the majority of the SME respondents that were interviewed (10 representatives out of 15) indicated that they have made use of specific programmes, products or services offered by SEDA. Across these SME representatives, it was indicated that they had made use of the following support services:

- Website design.
- Development of marketing material (company logo, pamphlets, signage) and advertising support.
- Assistance with the development of business plans.
- Analysis of business performance and gap identification.
- Training in the form of workshops on costing and marketing.

8.2 Relevance and effectiveness of SEDA’s existing support to SMEs

The effectiveness and relevance of the existing support programmes, products and services offered by SEDA was assessed internally from the perspective of the organisation’s own Business Advisors and externally through both the perceptions of representatives of SMEs that have been exposed to this support and stakeholders from institutions involved in SME development in the country. The views of

these broad groups of stakeholders are presented in turn below, beginning with those of the SME respondents.

8.2.1 Perceptions of SMEs on the relevance and effectiveness of SEDA’s existing support offerings

Despite the relatively high levels of awareness and use of SEDA’s product and service offerings among the SME respondents, their range of opinions on the effectiveness of these support offerings were diverse. Encouragingly, a number of SME respondents across the agriculture, ICT, manufacturing and tourism sectors indicated that the assistance provided by SEDA has been very effective in supporting their businesses. For example, among SMEs operating in the agriculture sector, one respondent noted that her business’ association with SEDA has been useful in securing finance and that, more generally, SEDA’s services are “excellent”.¹⁹⁵ It was also noted by another respondent operating in the agriculture sector who has recently begun to receive support from SEDA that the organisation’s “current accounting programme is working well.”¹⁹⁶

Among SMEs operating in the ICT sector, one respondent indicated that SEDA’s support had been “very effective” in improving the image of the company.¹⁹⁷ Another respondent noted that SEDA’s mentorship programme had been helpful in terms of providing relevant insight into other aspects of running his business.¹⁹⁸ In turn, among SMEs operating in the manufacturing sector, one respondent reported that SEDA’s workshop programme was particularly useful when she was starting her business.¹⁹⁹ Finally, a handful of respondents representing SMEs operating in the tourism sector praised the support provided by SEDA, with one respondent indicating that it made a “huge difference” to her business, and another citing the usefulness of the assistance provided by SEDA in terms of branding and marketing support.

Despite these general impressions that the support provided by SEDA has been effective, several deficiencies and factors were highlighted by SME respondents as hampering the effectiveness of the product and service offerings provided by the organisation. For instance, one respondent indicated that the communication by SEDA on upcoming training courses arrives too late, reporting that by the time his business receives messages about SEDA’s training courses they have already been completed.²⁰⁰ A couple of respondents explained that while the support provided by SEDA in the area of business planning was useful, they were concerned about the extent to which the business plans are implementable in practice. As one respondent remarked:

“SEDA helped us when it came to business planning; unfortunately, the business plan was not easily implementable.”²⁰¹

In addition, one respondent expressed unhappiness at a lack of follow up support provided by SEDA after initial support has been provided:

“What is mostly needed from my side is support. For example, when SEDA is sending someone to me [such as a Business Advisor] they come one week and then they are gone and we do not see them again. It’s killing us.”²⁰²

Similarly, another SME respondent bemoaned the length of time that SEDA takes to respond to applications for support. Specifically, the respondent stressed that:

“... SEDA’s] slow response time is really discouraging. I have found that I no longer go to them for support; I just do my own thing. Businesses are not asking for much from SEDA, but SEDA cannot react.”²⁰³

8.2.2 Perceptions of SEDA Business Advisors on the relevance and effectiveness of SEDA’s existing support offerings

For their part, the SEDA Business Advisors consulted during the course of the research processes generally felt that, in broad terms, the support provided by SEDA is somewhat effective in assisting business to enter markets and to grow. In this respect, the success of SEDA’s programme offering grants to cooperatives,²⁰⁴ and the effectiveness of assistance in terms of costing for manufacturing SMEs were cited as specific areas of success by individual Business Advisors.

“...manufacturing concerns were operating without even knowing their break-even point, but now [after the support provided by SEDA] they are able to do costing and then plan appropriately and, hence, grow.”²⁰⁵

In addition, two Business Advisors in the Eastern Cape felt that the mentorship and capacity building training that SEDA offers to SMEs is invaluable and cannot be replaced or substituted by other support.²⁰⁶ Another Business Advisor in the Eastern Cape felt that the assistance provided by SEDA to tourism SMEs with bed and breakfast operations to create websites and develop professional branding has been effective in assisting these SMEs by boosting their exposure to new clients and markets, both domestically and internationally.²⁰⁷ The same Business Advisor also noted that SEDA’s Quality Systems

Implementation support programme has been effective in assisting SMEs to grow by enabling them to meet the accreditation and quality standards demanded by retailers.²⁰⁸

Nevertheless, the Business Advisors did highlight a number of factors that currently serve to prevent the support services that they provide from being fully effective. For instance, it was suggested by one SEDA Business Advisor that SEDA's products and services are pitched at a level that is too high for some SMEs, particularly those operating in the rural parts of the country. According to this advisor, this is primarily due to low levels of literacy, a lack of understanding of business processes and, more broadly, a lack of business acumen.²⁰⁹ Similarly, another Business Advisor lamented the low level of education of many representatives of SMEs that they assist as well as their lack of willingness to take initiative:

*"...the level of education of the people [owners or employees within SMEs] is also a problem and they want you to hand-hold them and do everything for them. They are not even willing to go themselves to sit at the bank and see a consultant for finance."*²¹⁰

Another Business Advisor noted that the support that SEDA provides caters more appropriately for established businesses rather than start-ups.²¹¹ According to this respondent, some start-ups struggle to use SEDA's services; which then has a knock-on effect in terms of adversely affecting their ability to secure funding from institutions such as the Industrial Development Corporation (IDC) and commercial banks.²¹² Perhaps more worryingly, this same respondent also indicated that time constraints prevent Business Advisors from adequately assisting their clients:

*"We as Business Advisors are unable to assist clients to enter markets because we do not have the time to do meaningful work with them."*²¹³

Furthermore, a couple of Business Advisors expressed the view that there is currently too much focus within SEDA's programmes on the provision of support to SMEs in the urban parts of South Africa. This was seen to be at the expense of targeted programmes to support SMEs in the country's rural areas.

Citing the Eastern Cape as an example, one SEDA Business Advisor also highlighted to problems associated with SEDA's current use of English as the principal language of communication with SMEs:

*"In the Eastern Cape, Transkei, the use of English by SEDA as a medium of communication, particularly in their brochures is a problem. We, as Business Advisors, then have to make sure that we do a good job translating messages - a skill that varies among Business Advisors."*²¹⁴

More generally, a handful of Business Advisors expressed concerns about the limited impact of SEDA's programmes and support in promoting the sustainability of SMEs in the country, with one respondent arguing that SEDA's non-financial support has to be complemented by actual financial support if it is to be effective in developing sustainable SMEs in South Africa. This was echoed by a further two Business Advisors, who argued that SEDA's expenditure on the provision of non-financial support products and services can "become futile" if it is not accompanied by effective channels for financial support. Emphasising this point, one of these Business Advisors stated that:

*"If a SME is trained by SEDA but still needs funds and can't access them, then the training may be a waste."*²¹⁵

In the view of another respondent, SEDA's mentorship programme has failed to promote sustainability:

*"Our mentorship programme is a tool for sustaining businesses, especially for those who have received finance from us. This has been a failure as 40 percent of people in this programme fail to sustain their businesses."*²¹⁶

Concern was also raised by several Business Advisors about a lack of staff capacity within SEDA to effectively support SMEs through the organisation's programmes, product and service offerings. In the view of one Business Advisor, there are simply not enough Business Advisors to adequately service particular areas in the country.²¹⁷ Furthermore, a number of Business Advisors admitted that a lack of sector-specific expertise among SEDA's Business Advisors affects their ability to effectively assist SMEs with the unique challenges and needs that they face in the sectors in which they operate.

At the same time, it was argued by some Business Advisors that the work of the organisation's business practitioners is constrained by insufficient resources, such as a lack of consultation rooms or no mobile internet facilities or equipment to provide services to SMEs "offsite".²¹⁸ Another concern was that Business Advisors and practitioners are over-burdened with administrative work which prevents them from focusing fully on implementing SEDA's programmes and providing counseling and support to SMEs.²¹⁹ Furthermore, a handful of Business Advisors expressed dissatisfaction at the budgetary cap values currently placed on support interventions, which were widely regarded as too low for certain services that are costly to provide to SMEs.

Similarly, a couple of Business Advisors noted that in some cases the ability of SMEs to access support from SEDA, particularly in more remote parts of certain provinces, is constrained by their distance from district and provincial branches:

“The penetration of resources into communities is a big problem. For example, the main branch is in town, so others have to then travel 400 kilometres to get to us.”²²⁰

“Speaking from where I am, we need more satellite offices. We are three Business Advisors covering 18 rural towns and so we are not able to actually reach the clients and they are not able to reach us because they have to travel very far. SEDA has a car-pooling policy and there is only one vehicle per branch. In addition, the difficulty for the areas where I am in, there are large distances and no public transport. When one Business Advisor is out, then the others are stuck at the office and cannot do anything.”²²¹

Certain internal organisational challenges within SEDA appear to have played a part in constraining the effectiveness of the various programmes, products and services that the organisation offers to support SMEs in South Africa. Most notably, several Business Advisors echoed the concern raised by one SME respondent about a perceived lack of follow up support from SEDA. According to two of the Business Advisors, this problem stems from an approach within SEDA that places too much focus on targets in terms of the *numbers* of SMEs supported rather than on the *quality* of the support that is provided to SMEs. A number of illuminating comments were made by the Business Advisors in this regard:

“...we are target driven. The focus is on numbers and it is a top-down approach - from [the] dti to SEDA, to provinces, to branches. We have numbers to push and when we implement interventions we are unable to follow-up because we are more number driven.”²²²

“It is about how many SMEs you help and not what you do with them.”²²³

“Our work is target driven and we do not fully do it because of the targets. For example, in mentoring, we don’t have the real time to spend with the SMEs because we have targets to meet and then we are not really giving them much skills or help.”²²⁴

“The targets are also a problem because we are chasing numbers. We are not really adding value.”²²⁵

“...we have been focusing on numbers more than quality interventions.”²²⁶

Similarly, one Business Advisor raised a concern about the targets themselves. Specifically, he noted that the existing targets in terms of the numbers of SMEs supported are not specific to particular

regions and, thus, do not take into account practical considerations about these regions such as the geographical location of SME clients and SEDA branches and satellite offices.²²⁷ Aligned to this, one Business Advisor was critical of a perceived ‘one size fits all approach’ to the provision of support to SMEs:

“[A] one size fits all approach sometimes makes it difficult for SMMEs to achieve their maximum potential. Different regions have different dynamics and at times must be treated as such.”²²⁸

8.2.3 Perceptions of institutional stakeholders on the relevance and effectiveness of SEDA’s existing support offerings

When asked to indicate how effective and relevant they felt SEDA’s existing support programmes, products and service offerings are in meeting the needs of SMEs, a number of institutional stakeholders indicated that SEDA’s support is broadly effective. Specifically, SEDA’s assistance in developing business plans and marketing materials, and facilitating access to markets for SMEs were most widely cited as effective by the institutional stakeholders. The training course that SEDA provides, as well as the assistance that the organisation provides to SMEs to comply with regulations and to set up administrative systems were also highlighted as effective by smaller numbers of institutional stakeholders.

“[SEDA’s existing programmes, products and services]...are very effective, especially their assistance with business plans, training and assistance with marketing materials.”²²⁹

“The marketing material that they [SEDA] provide and the training they conduct is effective.”²³⁰

Despite this, the institutional stakeholders also highlighted several areas of weakness related to SEDA’s existing support offerings; with one stakeholder suggesting that in their current form SEDA’s support programmes, products and services are only “40 percent effective.”²³¹ These weaknesses relate both to the relevance and effectiveness of SEDA’s support programmes, products and services, and to the capacity within the organisation to effectively deliver its existing support offerings. With respect to the former, the following concerns were raised regarding the relevance and effectiveness of SEDA’s existing support to meet the needs of SMEs:

- The support is not sufficiently effective in assisting SMEs to grow and graduate “to the next level.”²³²

- There are question marks over the ultimate relevance of the support that SEDA does provide given that it does not provide direct financial assistance to SMEs.²³³
- The implementation of support programmes “is not good.”²³⁴
- The effectiveness of support provided by SEDA is hampered by slow responsiveness and lengthy turnaround times.
- The impact of SEDA’s training courses is muted by a lack of follow-up mentorship. According to one stakeholder, “training without mentorship is not good for these guys [SMEs].”²³⁵
- The support that SEDA provides is not sufficiently “hands-on.”²³⁶
- SEDA’s support is not sufficiently integrated with that provided by government departments and other stakeholders.²³⁷
- The targets that SEDA sets with respect to the numbers of SMEs that should be supported are too high and compromise the quality of support that is provided to these SMEs.²³⁸
- The reach of SEDA’s programmes and services varies from region to region, and in many cases is insufficient in rural areas in comparison to urban parts of the country.²³⁹
- There is insufficient marketing of SEDA’s various support offerings to SMEs, with the result that many SMEs are not aware of the support that is available to them through SEDA.²⁴⁰
- The support provided by SEDA is ineffective in facilitating export development among SMEs.²⁴¹
- The support that SEDA provides is too general and not sufficiently informed by industry intelligence. Specifically, in the view of one stakeholder:
“The main concern is that the support [provided by SEDA] remains too general as there is not enough industry intelligence to inform [the] development of [the] most effective intervention [programmes, products and services].”²⁴²

In terms of the capacity within SEDA to effectively deliver its existing support programmes, products and services, several institutional stakeholders expressed the view that SEDA has insufficient capacity - reflected most visibly in a limited number of staff - to effectively meet the needs of the large numbers of SME clients that visit the organisation seeking assistance. This is reflected in the remarks of two separate stakeholders:

“...one can’t ignore that fact that they [SEDA] have limited [numbers of] staff to address the needs of many SMEs.”²⁴³

“The only weakness I think is that there is a limited number of staff to assist the high number of clients that visit SEDA so what happens is that people become very impatient when they don’t get assisted in the time that was projected.”²⁴⁴

Not only are the numbers of SEDA staff that are available to assist SMEs seen as insufficient, but several institutional stakeholders also felt that, in general, the level of capacity and experience among SEDA’s Business Advisors needs to be improved. According to one stakeholder, some of the Business Advisors are poorly skilled and have insufficient experience in the South African context to effectively support South African SMEs.²⁴⁵ Similarly, another stakeholder argued that many Business Advisors lack industry-specific experience, affecting the quality of delivery of SEDA’s programmes, which are ultimately delivered by these Advisors.²⁴⁶ In the words of one stakeholder:

“Honestly, I think there is an issue of capacity within SEDA. Sometimes the quality of the services provided does not meet market demands and standards.”²⁴⁷

8.3 Summary of SEDA’s existing support to SMEs

The box below presents a summary of the levels of awareness, as well as perceptions of the relevance and effectiveness of SEDA’s existing programmes, products and services for SMEs.

SUMMARY
<p>Awareness and use of SEDA programmes, products and services</p> <ul style="list-style-type: none"> • Only two out of 15 representatives of SMEs were unaware of <i>any</i> of SEDA’s product and service offerings. <ul style="list-style-type: none"> ○ Among those not aware, there was a feeling that SEDA is not pro-active in communicating to SMEs about the products and services that it offers. • Awareness of SEDA’s product and service offerings was most widespread with respect to the following: <ul style="list-style-type: none"> ○ Business management support, including assistance with business planning and mentoring. ○ In-house training on exporting. ○ Training and assistance in the development of marketing material. ○ Capacity building and training. ○ Financial advice. • 10 out of 15 SME representatives indicated that they have made use of specific programmes, products or services offered by SEDA. <p>Relevance and Effectiveness of SEDA’s existing support to SMEs</p> <ul style="list-style-type: none"> • A number of SME respondents across the four sectors indicated that the assistance provided by SEDA has been very effective in supporting their businesses. • The SEDA Business Advisors generally felt that the support provided by SEDA is somewhat effective in assisting business to enter markets and to grow. • A number of institutional stakeholders indicated that SEDA’s support is broadly effective. <ul style="list-style-type: none"> ○ Assistance in developing business plans and marketing material and facilitating access to markets most widely cited as effective. • Several deficiencies and problematic factors were highlighted as hampering the effectiveness of SEDA’s product and service offerings: <ul style="list-style-type: none"> ○ Communication on upcoming training courses arrives too late. ○ There are concerns about the extent to which SEDA’s business plans are implementable in practice. ○ A lack of follow up support and mentorship after initial support has been

provided.

- **Too much focus within SEDA on targets** in terms of the *numbers* of SMEs supported rather than on the *quality* of support.
- Length of time that SEDA takes to respond to applications for support.
- Products and services are **pitched at a level that is too high** for some SMEs.
- Support caters **more appropriately for established businesses** rather than start-ups.
- **Time constraints** prevent Business Advisors from adequately assisting their clients.
- **Too much focus on supporting SMEs in urban areas** at the expense of targeted support for SMEs in rural areas.
- Use of **English as the principal language of communication** with SMEs is problematic.
- **Limited impact in promoting sustainability** of SMEs.
- **A lack of staff capacity within SEDA** to effectively support SMEs.
- **A lack of sector-specific expertise, knowledge and experience** among SEDA's Business Advisors.
- The work of SEDA's business practitioners is constrained by **insufficient resources**.
- Business Advisors and practitioners are **over-burdened with administrative work**.
- **Budgetary cap values are too low** for certain support interventions that are costly to provide to SMEs.
- Ability of some SMEs to access support is constrained by their **distance from SEDA's district and provincial branches**.
- A **'one size fits all approach'** to the provision of support to SMEs and targets in terms of the numbers of SMEs supported that are not specific to particular regions.
- The **implementation** of support programmes is not good.
- Support provided is **not sufficiently hands-on**.
- **Insufficient integration of support offerings** with that provided by other government departments and SME development organisations.
- **Insufficient marketing** of SEDA's various support offerings to SMEs.

9. Market and Value Chain Opportunities for SMEs

This section outlines stakeholder perceptions related to the current presence of SMEs in the agriculture, manufacturing, ICT and tourism sectors in South Africa, focusing on views of their existing market share in these sectors and the products and services that they currently provide. It then goes on to highlight specific market opportunities and areas within value chains that SMEs can look to capitalise on, if provided with the necessary support, in the future.

9.1 The existing market share of SMEs

The findings from the stakeholder engagement process suggest that there is significant scope to expand the market share of SMEs in the South African economy. In general, it was felt by several institutional stakeholders that while there are a significant number of SMEs operating in the country (particularly in sectors such as tourism), they currently only have a marginal presence within the South African economy, particularly when measured in terms of their contribution to national GDP. In terms of market share, one institutional stakeholder estimated that across all sectors SMEs account for roughly 30 percent of total market share.²⁴⁸ For many, the marginal role played by SMEs is primarily due to the continued dominance of large enterprises in the economy, with one stakeholder remarking that the “major businesses are running the show.”²⁴⁹

The views of the institutional stakeholders were somewhat more mixed when discussing the market share of SMEs in specific sectors. Echoing the comments made about the market share of SMEs in the broader economy, three institutional stakeholders argued that SMEs only play a marginal role in the agriculture sector. In the view of one of these stakeholders, “large companies are dominating the market” in the sector, primarily as a result of economies of scale.²⁵⁰ A couple of institutional stakeholders pointed out that agricultural SMEs are more dominant in rural parts of the country where agriculture is the primary economic activity, but not in the more urban areas. For instance, as one stakeholder from KwaZulu-Natal explained:

“In rural areas such as Umkhanyakude District Municipality in KZN [KwaZulu-Natal] province, the majority of small and medium businesses are agriculture related. They are dominant. However, in the urban areas such as Durban it is not the case.”²⁵¹

With respect to the manufacturing sector, the majority of institutional stakeholders indicated that SMEs continue to play only a marginal role in the sector. However, a couple of stakeholders did note that SMEs play a more dominant role in the manufacturing sector in South Africa in comparison to the agriculture, ICT or tourism sectors. The view expressed by several of these stakeholders was that manufacturing activities in the country are predominantly undertaken by large enterprises, but SMEs are involved in the value chains of these enterprises as suppliers. This is illustrated in the comments made by two institutional stakeholders:

“Large players dominate manufacturing, but they are dependent on supplies from SMEs.”²⁵²

“In the Eastern Cape, there are three or four big automotive manufacturers and SMEs are involved in their value chains as suppliers.”²⁵³

In the case of the tourism sector, a couple of institutional stakeholders estimated that the market share of SMEs in the sector is between 10 and 15 percent; while other stakeholders described the market share of SMEs in tourism as “marginal” or insignificant in comparison to the dominance and control of the sector by “big players”. In contrast, two institutional stakeholders intimated that SMEs play a more “dominant role” in the sector.

Finally, in the ICT sector, the overwhelming majority of institutional stakeholders indicated that SMEs only hold minimal market share in the sector; with one stakeholder estimating the combined market share of ICT SMEs at 20 percent.²⁵⁴ Again, the general feeling was that the sector is dominated by large enterprises, with the presence of SMEs mostly confined to niche areas such as design.

9.2 Products and services currently supplied by SMEs

The institutional stakeholders were asked to specify what products and services are chiefly provided by the SMEs that do operate in each of the four sectors. In the agriculture sector, there was an overwhelming consensus among these stakeholders that, at present, SMEs are predominantly involved in primary agricultural production, supplying fresh produce (vegetables and fruits), poultry and livestock to markets and retailers. Similarly, according to one SEDA Business Advisor in the Eastern Cape, most of the SMEs operating in the agriculture sector in the province only produce primary agricultural products and do not currently add any value to their products. In some cases, this is due to a lack of appropriate equipment to undertake value-addition. As one Business Advisor explained:

“...one of my clients was growing strawberries and she was approached by Weet-bix to supply freeze-dried strawberries for their product line and we searched for the freeze-drier [machine] and couldn’t find it...[as a result] there was a limit in terms of how...I could help her.”²⁵⁵

In the case of the manufacturing sector, which is comprised of a diverse range of sub-sectors, the list of products and services supplied by SMEs are more varied. In general terms, however, it was noted by a couple of institutional stakeholders that SMEs operating in manufacturing industries in South Africa typically undertake very minimal value adding activities, with some SMEs supplying components that are used by larger enterprises to produce finished products. As one institutional stakeholder explained:

“A lot of them [SMEs in the manufacturing sector] are supplying components that fit into a value chain. So they are manufacturing things that are then used in other products.”²⁵⁶

The most commonly cited products and services highlighted by institutional stakeholders included:

- Manufactured furniture (principally for use in schools and offices).
- Bricks.
- Clothing.
- Toilet paper.
- Automotive parts (such as vehicle parts, leather).
- Cleaning materials.
- Plastics.

In the case of the ICT sector, the products and services highlighted by institutional stakeholders as currently being supplied by SMEs in the sectors included:

- Internet services provided through internet cafes.
- Fax and telephone services.
- Photocopying services.
- Development of applications for mobile phones.
- Network, software and system installation services.
- Computer upgrading, repair and maintenance services.
- Development of embedded software.

In the tourism sector, the most widely cited products and services currently supplied by SMEs across the sector and its respective value chains included:

- Transport services.
- Accommodation services (predominantly provided through bed and breakfast operations and small hotels).
- Catering services.
- Tour guide services.
- Food and beverage products supplied to larger tourism enterprises.
- Arts and craft products.

9.3 Future market and value chain opportunities for SMEs

Despite the general feeling across all four sectors that SMEs currently play only a marginal role in the agriculture, manufacturing, ICT and tourism sectors, there was widespread consensus that there are significant opportunities to expand the presence of SMEs in each of these sectors. In the broadest sense, it was emphasised by a number of stakeholders that there is significant scope for SMEs to engage in value adding processes in the agriculture and manufacturing sectors. In the case of agriculture, for instance, agro-processing activities represent a particularly promising area to grow the presence of SMEs, with the potential to create products for sale in both local and export markets.

More specifically, a variety of market and value chain opportunities and gaps linked to particular products or services that could be supplied by SMEs in the future were highlighted by both the institutional stakeholders and the SME respondents themselves. These opportunities are summarised for each of the agriculture, manufacturing, ICT and tourism sectors in Table 13, and provide insight into the areas in which attention could be focused in looking to support SMEs to capitalise on these opportunities.

Table 13: Market and value chain opportunities and gaps for SMEs as identified by institutional stakeholders and SME respondents, by sector

Agriculture	Manufacturing	ICT	Tourism
Transport and distribution services for agricultural produce.	Manufacture of innovative equipment for recycling.	Systems development.	Cultural heritage tours.
The provision of warehousing and storage facilities for agricultural produce.	Downstream production and conversion of minerals to produce products such as jewellery.	Products and services linked to the broadcasting digital migration.	Township tourism and rural accommodation.

Production of organic foods .	Manufacture of components to support the green economy (e.g. solar panels).	Development of software applications (such as open source software and programmes) and embedded software .	Conference facilities and services.
Agro-processing and adding value to primary agricultural produce to produce products such as: <ul style="list-style-type: none"> - Fruit juice - Essential oils - Dried fruit - Bio-composites - Jams and chutneys - Bio-fuels - Medicinal products - Beauty creams - Unique South African products such as rooibos and honeybush tea. 	Leather products .	e-commerce services .	Low-cost guest accommodation .
Packaging, transport and logistics services for distribution of agricultural products.	Manufacture of furniture to supply government offices or schools.	Supply of converged ICT solutions .	Catering services .
Supply of seedlings.	Packaging for a variety of finished products.	Provision of training in information technology , particularly in rural areas.	Transport services (such as shuttle services) for tourists on behalf of larger tourism enterprises.
	Manufacture and supply of corporate clothing and gifts for government and other consumers.	Design and production of meter parking devices for payment of street parking.	Niche accommodation services and activities such as eco-tourism, adventure or medical tourism.
	Manufacture of vehicle parts, components and accessories for supply to large manufacturers in the automotive industry.	Design of hardware and software components .	
	Production of customised machinery and provision of after sales repair services.		

Source: Mthente, 2012

A small number of institutional stakeholders also felt that there is scope to further develop inter-sectoral value chains through the promotion of horizontal and vertical linkages across sectors such as manufacturing, tourism and construction. For instance, specific suggestions are encapsulated in the following comments made by individual stakeholders:

“There should be a strong link between the manufacturers, constructors and the tourism sector locally to ensure that these sectors complement each other...i.e. brick makers [could] link with constructors towards the development and maintenance of tourist attractions such as the Kouga Cultural Centre. The constructors [could] also link with the transport department as well as the tourism departments to ensure that the roads, for instance, are maintained and signage is on at all necessary points.”²⁵⁷

“The farmers [could] link with the tourism departments to sell the ‘leftovers’ of the slaughtered sheep such as the bones, to be dried up and used as some sort of ornaments for tourists.”²⁵⁸

The institutional stakeholders provided a number of pertinent sector-specific suggestions related to what is required to support SMEs to link into the value chains and capitalise on the market opportunities highlighted above. For instance, in the agriculture sector, several stakeholders emphasised the need to facilitate the development of vertical supply chain linkages between small and medium scale farmers and larger enterprises and retailers. These vertical linkages can place SMEs operating in the sector in a better position to negotiate business,²⁵⁹ and serve as an important means to develop the capacity of SMEs through a mentorship relationship between the SMEs and the larger enterprises. As one institutional stakeholder explained:

“I think the small agricultural players could do well if they could partner with big companies in order to develop their capacities. These mentors could help the smaller farmers not only with production but in also linking them to international markets.”²⁶⁰

Similarly, in the manufacturing sector, it was suggested by one SME respondent that she requires support in terms of facilitating meetings with large buying companies as well as training on how to generate business leads and capitalise on business opportunities.²⁶¹ In the case of the tourism sector, one SME respondent highlighted the importance of gaining access to the supplier databases of large corporations and government departments in order to link into value chains as suppliers for these organisations.²⁶²

9.4 Summary of market and value chain opportunities for SMEs

The box below presents a summary of stakeholder perceptions of the existing market share and future market and value chain opportunities for SMEs operating in the agriculture, manufacturing, ICT and tourism sectors in South Africa.

SUMMARY
<p>The existing market share of SMEs</p> <ul style="list-style-type: none"> • The general perception is that SMEs currently only have a marginal presence within the South African economy, particularly when measured in terms of their contribution to national GDP. • The marginal role played by SMEs is primarily due to the continued dominance of large enterprises. • In the agriculture and manufacturing sectors, in particular, SMEs operating in these sectors currently undertake very little value addition to their products or services. <p>Future market and value chain opportunities for SMEs</p> <ul style="list-style-type: none"> • There is widespread consensus that there are a range of opportunities available to expand the presence of SMEs in each of the agriculture, manufacturing, ICT and tourism sectors. <ul style="list-style-type: none"> ○ In agriculture and manufacturing, for instance, there are opportunities for SMEs to engage in value adding processes. • In the agriculture sector, the most widely cited market and value chain opportunities for SMEs include: <ul style="list-style-type: none"> ○ Agro-processing activities to produce products such as fruit juice, essential oils, dried fruit, bio-composites, bio-fuels and medicinal products. ○ Packaging, transport, distribution and logistics services for agricultural produce. ○ Provision of warehousing and storage facilities and services. ○ Production of organic foods. • In the manufacturing sector, the most widely cited future market and value chain opportunities for SMEs include: <ul style="list-style-type: none"> ○ Manufacture of vehicle parts, components and accessories. ○ Manufacture of recycling equipment. ○ Downstream production and conversion of minerals. ○ Manufacture of components to support the green economy (e.g. solar panels). ○ Leather products. ○ Manufacture of furniture. ○ Packaging for a variety of finished products.

- Manufacture and supply of **corporate clothing**.
- Production of **customised machinery** and provision of **after sales repair services**.
- In the **ICT** sector, the most widely cited future market and value chain opportunities for SMEs include:
 - **Systems** development.
 - Products and services linked to the broadcasting **digital migration**.
 - Development of **software applications** and **embedded software**.
 - **e-commerce** services.
 - Supply of **converged ICT solutions**.
 - Provision of **training in information technology**.
 - Design and production of **meter parking devices**.
 - Design of **hardware and software components**.
- In the **tourism** sector, the most widely cited future market and value chain opportunities for SMEs include:
 - **Cultural heritage tours**.
 - **Township tourism** and **rural accommodation**.
 - **Conference facilities** and services.
 - **Low-cost** guest accommodation.
 - **Catering** services.
 - **Transport** services for tourists on behalf of larger tourism enterprises.
 - **Niche accommodation services and activities** such as eco-tourism, adventure or medical tourism.
- In the **agriculture, manufacturing and tourism** sectors, there is a need to facilitate the development of **vertical supply chain linkages** between **SMEs and larger enterprises and retailers**.

PART III: Conclusions and Recommendations

10. Conclusion

Amid the renewed emphasis in national government policies and strategies on generating employment within the context of the New Growth Path, SMEs are seen as critical drivers of job creation and, more broadly, economic growth in South Africa. At the same time, the challenges and constraints faced by these SMEs are already well-documented. The sector-specific focus in this research study confirms many of the barriers to entry and operational challenges that SMEs encounter within the South African economy, while also generating new knowledge on the specific challenges confronting SMEs in each of the agriculture, manufacturing, ICT and tourism sectors in the country.

Across these four sectors, SMEs continue to be hamstrung by difficulties accessing finance as well as markets for their products and services. The former is a contributory factor to the difficulties that many SMEs, particularly in the agriculture and manufacturing sectors, face in purchasing much needed inputs, machinery and equipment, or upgrading existing technology. These challenges are exacerbated by skills shortages, particularly with respect to technical and business management skills; a lack of experience and sector-specific expertise among owners and managers; and a lack of capacity to undertake market research.

Mindful of these challenges, the stakeholders consulted during this research study have articulated a clear agenda in terms of the support needs of SMEs. In this respect, across the agriculture, manufacturing, ICT and tourism sectors, SMEs in South Africa would benefit greatly from additional or improved support in securing finance; sector-specific incubation and mentorship support; assistance to improve the quality of products and services to meet recognised standards; support to improve their understanding of, and ability to access, existing and new markets; assistance to develop new, innovative product and service offerings; and support to build or strengthen relationships and supply chain linkages with large enterprises.

As the centre of excellence for small enterprise development in South Africa, SEDA should be at the forefront of renewed efforts to provide SMEs in South Africa with a more comprehensive range of support services in line with their varied needs in each of the agriculture, manufacturing, ICT and tourism sectors. Generally, perceptions among the diverse range of stakeholders interviewed during the fieldwork phase of this research study suggest that, to date, SEDA's bouquet of programmes, products and services has been relatively successful in supporting SMEs in South Africa. However, there is a degree of consensus, even internally from SEDA's own Business Advisors and practitioners that

interact with SMEs on a daily basis, that there is room for improvement in terms of enhancing the relevance and effectiveness of SEDA's support interventions.

This will require a number of problematic factors to be addressed that have served to undermine the extent to which the existing programmes, products and services offered to SMEs by SEDA are relevant and effective within the context of their desired goals and objectives. Most fundamentally, concerns have been raised about the sustainability of the support provided by SEDA to SMEs, with criticism aired by a number of stakeholders about a perceived lack of follow up support interventions and mentorship for SMEs after SEDA has provided initial support. This would seem to stem, at least in part, from too much focus within SEDA on targets in terms of the *numbers* of SMEs supported rather than on the *quality* of support that is delivered to SMEs.

At the same time, concerns have been expressed about the capacity of SEDA's Business Advisors and practitioners that work with SMEs on the ground across South Africa's nine provinces. These concerns relate both to the absolute numbers of Business Advisors available to provide support to SMEs and their availability across the country, with the spread of provincial branches and satellite offices meaning that some SMEs, particularly in South Africa's rural areas, are located hundreds of kilometres away from the nearest branch or office in SEDA's support network. Furthermore, limitations in terms of sector-specific expertise, knowledge and experience among SEDA's Business Advisors have also been identified. Similarly, there is a perception among some stakeholders that SEDA does not include sufficient variation in its programmes, products and services, with a 'one size fits all approach' to supporting SMEs regardless of the sector or circumstances in which they operate.

Looking ahead, the development of strategies to address these problematic factors should form the focus of efforts to refine SEDA's programmes, products and service offerings to SMEs in the agriculture, manufacturing, ICT and tourism sectors in South Africa. There remains great scope to expand the contribution of the SME segment to the South African economy. Generally, the focus should be on encouraging and supporting SMEs to capitalise more fully on the specific market and product-level opportunities identified in this research study; to undertake value adding processes, particularly in the agriculture and manufacturing sectors; and to link more effectively into existing industry value chains and the vertical supply chains of larger enterprises.

11. Recommendations

This final section outlines a number of recommendations designed to improve the quality, effectiveness and relevance of support provided by SEDA to SMEs in South Africa. In this respect, the recommendations are grouped into two core areas: recommended ways to improve the relevance and effectiveness of the current support provided by SEDA to SMEs; and recommendations for the introduction of new SEDA support programmes, products and services to SMEs. The recommendations relevant to each of these broad categories are outlined separately below.

11.1 Recommended ways to improve the relevance and effectiveness of support provided by SEDA to SMEs

Address geographical constraints to the provision of support to SMEs by introducing more satellite offices to improve the reach of programmes, products and services

At present, some SMEs operating in the rural areas of certain provinces have to travel large distances to reach SEDA's branches and obtain support while, in turn, SEDA's Business Advisors often have to travel large distances to reach these SMEs and offer their assistance. This suggests that there is an urgent need for SEDA to establish a greater number of satellite offices and branches, particularly in the rural areas of the country. Such a move should be preceded by an in-depth investigation and categorisation of the areas at both the provincial and district level that are most in need of an enhanced presence of SEDA branches and offices. This would help to prioritise the development of new SEDA branches and offices across the country.

In addition, consideration should be given to establishing enterprise information centres operated by SEDA in areas that are currently under-serviced in terms of support for SMEs. These centres could provide pertinent information and training to SME owners or managers, meaning that they would not need to travel vast distances to gain access to basic support and assistance.

Improve the alignment of SEDA’s support strategies to the context and needs of SMEs operating in rural areas of the country

One view expressed by some SEDA Business Advisors during the course of the research process was that too much focus in terms of support within SEDA’s programmes is targeted towards SMEs operating in the urban parts of South Africa at the expense of targeted programmes to support SMEs in the country’s rural areas. Mindful of this, SEDA should look to revisit its existing resource allocations towards more specialised support programmes, products and services that are tailored to the context of SMEs operating in rural areas across South Africa. This may necessitate a more detailed study of the support needs of rural SMEs vis-à-vis their urban counterparts in the country.

Use other official languages, in addition to English, as mediums to communicate with SMEs and provide support to them

At present, much of SEDA’s communication with SMEs is conducted in English. For example, communication material such as information brochures are currently published in English. In some instances, this means that SEDA’s Business Advisors are forced to translate information to their clients. This information could be communicated more effectively to SMEs were it made available in a more diverse range of South Africa’s official languages.

Introduce sector-specific SEDA Business Advisors, with expertise in designated sectors

In the opinion of several SEDA Business Advisors consulted during the course of the research process, the organisation’s ‘general’ or one-size-fits-all approach to the provision of support to SMEs across South Africa has not been effective. At the same time, question marks have also been raised by several key stakeholders surrounding the level and quality of human resource capacity available at SEDA to provide support to SMEs. Based on these concerns, one way in which SEDA could provide more specialised support for SMEs in the country would be through the introduction internal training programmes in order to develop sector-specific Business Advisors and practitioners with specialised expertise, technical skills, knowledge and experience in particular sectors. In this case, the expert Business Advisors would serve only those SMEs operating within their particular sector of specialisation. This will enable the Business Advisors to grow their knowledge, skills, experience and expertise in a specific sector over time.

More generally, greater effort should be made to build the capacity of Business Advisors to deliver high-quality support to SEDA's client base. As one means to achieve this, it was suggested that SEDA's Business Advisors should be exposed, through a structured programme, to cases of international best practice in the support of SMEs in their own sectors of specialisation. In practical terms, this could be facilitated through expert local mentors and international mentors to train and up-skill the sector-specific SEDA Business Advisors. This should be complemented by moves to boost the numbers of Business Advisors employed by SEDA to ensure that they are able to allocate sufficient time to assist SMEs appropriately.

Move away from a numbers-driven approach that is focused on the quantity of SMEs supported and towards a focus on the quality and sustainability of support

In the view of several SEDA Business Advisors, an over-emphasis on targets in terms of the numbers of SMEs supported in a given year currently has an adverse impact on the quality and effectiveness of the support provided by the organisation to its SME clients. This suggests that there is a clear need for SEDA to revise its support strategy away from a focus simply on the number of SMEs supported through its programmes, products and services in favour of a greater focus on the quality and sustainability of the support that it provides.

Furthermore, maintaining the focus on enhancing the sustainability of support, SEDA should consider introducing a flexible system for the determination of limits on the numbers of its products, services and support projects from which that SMEs are permitted to benefit. This may serve to address the concern expressed by certain Business Advisors that, currently, individual SMEs are limited to five support programmes, which can constrain the growth and development of highly promising SMEs. One possible approach in this regard would be for individual branch or regional managers to be empowered to use their discretion in making exceptions in certain cases for SMEs to benefit from a more extensive level of support.

Provide follow-up support services to SMEs after initial support has been provided

One of the major criticisms emerging from this study of SEDA's existing support to SMEs is that it is 'once-off' and does not include the follow-up assistance required to ensure that individual SMEs remain sustainable entities in the long term. In order to address this, SEDA should consider increasing the length of its intervention programmes to include repeat support interventions over a sustained period in order to provide more sustainable support to SMEs.

Review and, if necessary, raise budget caps for support interventions

In the view of many SEDA Business Advisors, the presence of low capped values on expenditure for specific support interventions that are costly to provide has an adverse effect on both the quality and effectiveness of these interventions. This suggests that there is a need to undertake a thorough review of these existing caps to establish whether or not they are still appropriate given the current costs required to provide specific support interventions for SMEs. Should such a review suggest that the caps are too low, measures should be implemented to increase these cap values where necessary as a means to improve the quality of programmes and interventions.

Develop stronger linkages between SEDA and other institutions and entities tasked with providing support and assistance to SMEs in South Africa

The findings contained in this research study suggest that there is an urgent need to develop stronger linkages and coordination and a common strategic direction across SEDA and the relevant municipalities, academic institutions, training institutions, financial institutions, development agencies, government departments and non-government organisations (NGOs) that provide support to SMEs in South Africa in order to ensure that there is a greater level of coordination and complementarity of support for SMEs in the country. This would serve both to avoid duplication of support and unnecessary competition between institutions, and ensure that the providers of support to SMEs do not work in silos. In this regard, a compelling motivation for a more coordinated and integrated approach to supporting SMEs was provided by one institutional stakeholder:

“We need a more integrated approach towards servicing SMEs, an integrated approach which ensures that SEDA stops working in a silo. So many agencies are autonomous and function in silos...Its time to end these silos and for SEDA to take the reins in saying ‘let’s work together’. The way in which they can do this is to provide services in an integrated way so that SEDA no longer becomes an overarching body, but an authority on the subject of SMEs. SEDA should talk to CEOs and align the strategic direction of similar organisations.”²⁶³

The scope for improvement in the coordination of support appears to be particularly strong with respect to the relationship between SEDA and financial institutions in South Africa, given the reported difficulties faced by SMEs in gaining access to finance. In this respect, SEDA should consider revising the existing Memoranda of Understanding (MOUs) between SEDA and financial institutions in South Africa with a view to strengthening its engagements and relationships with these financial institutions.

SEDA should also look to work in partnership with development finance institutions to prepare SMEs to access finance as well as in the provision of post-finance support. This requires SEDA to more clearly examine and define its relationship with development finance institutions with respect to pre- and post-finance support. Specifically, development finance institutions and SEDA should work in tandem; referring SMEs to the relevant institutions should they require support either before or after that have gained access to finance.

In addition, SEDA should also look to further develop its relationships and engagement with industry bodies and associations as well as major players within key industries. More generally, SEDA could also play a more prominent role in informing and educating SMEs about changes and new developments in government initiatives; in effect, serving as a central ‘communication channel’ between the government and SMEs.

Allow greater freedom for provincial offices to customise their support offerings to the unique circumstances and needs of SMEs operating in their province

Given that the experiences and needs of SMEs may differ on a province-by-province basis, instead of offering a standard bouquet of support programmes, products and services to SMEs across the whole of South Africa, SEDA should consider granting greater autonomy to its provincial offices and branches to allow them to develop customised programmes, products and services. This would facilitate the organic development of programmes, products and services that are better aligned to the specific market nuances and circumstances that SMEs encounter in the provinces in which they operate.

Develop a more pro-active marketing strategy for SEDA’s programme, product and service offerings

The problem of a lack of awareness of SEDA’s products and services among many SMEs in South Africa is evident from both the findings of this research study as well as previous research. In particular, there appears to be evidence of a lack of understanding among some SMEs of what SEDA does and the nature and potential benefits of the programmes, products and services that it provides to SMEs. This suggests that it is necessary to develop and publicise simple and clear messages that convey SEDA’s service offerings and their benefits effectively to potential SME clients. One way in which this could be achieved is through a greater use of electronic mediums to convey information. This could include, for example, frequently asked questions on SEDA’s website and electronic forums that document and

discuss the specific programmes, products and support services that are available to SMEs. At the same time, SEDA should look to develop strategies designed to publicise its support offerings more effectively to SMEs located in rural areas.

Introduce more stringent assessment and qualifying criteria for SMEs seeking support with a view to ‘picking winners’

In looking to make a major contribution to job creation efforts in South Africa by supporting the development and expansion of SMEs, SEDA should direct its support interventions towards SMEs that demonstrate the most potential for sustained growth. This should be facilitated through the development and implementation of a comprehensive programme to assess and identify potential SME clients for support in each of the agriculture, manufacturing, ICT and tourism sectors. In this respect, the programme could include unique qualifying criteria for the identification of both pre-start up and existing SMEs for support.

11.2 Recommendations for new SEDA support programmes, products and services offered to SMEs

Consider providing direct financial assistance to SMEs

SEDA should give consideration to providing direct financial assistance to SMEs over and above the existing non-financial support provided by the organisation. This could be facilitated through the establishment of a financial division within SEDA that offers financial support to SMEs with less stringent requirements than those demanded by commercial banks and other financial institutions. Such a division could be tasked with providing financial support to SMEs on a sector-by-sector basis. For instance, SMEs in the agriculture sector would benefit from funding provided by SEDA to assist in the purchase of production inputs. Similarly, SEDA could provide funding to SMEs operating in manufacturing industries for the purchase of materials, machinery and equipment.

Initiate sector-specific technical skills development and mentorship programmes for each of the agriculture, manufacturing, ICT and tourism sectors

There was consensus among many stakeholders consulted during the course of the research process that the effectiveness of standard or generic business training programmes and support interventions for SMEs is likely to be limited. In this context, the provision of training, skills development

programmes and mentorship on a sector-specific basis would be more beneficial. Such support would facilitate the development of technical skills and knowledge within SMEs that is specific to the respective sectors in which they operate.

Introduce a specific service to make market-related information available to SMEs and also share SEDA's market assessment tools with SMEs

A number of diverse stakeholders highlighted a lack of access to market information as contributing to a lack of understanding of market needs within many SMEs in South Africa. At the same time, according to one SEDA Business Advisor, the organisation is in possession of a wealth of data on market trends that it does not currently share with SMEs.²⁶⁴ This suggests that SEDA should look to develop innovative ways to ensure that this valuable market-related information is made available to SMEs in order to generate knowledge and understanding of markets within SMEs. In practical terms, this could be achieved, for example, by making SEDA's information on market trends together with its existing assessment tools available on the organisation's website for SMEs to access. Furthermore, SEDA could develop frequent and up-to-date reports on market trends and sector-specific opportunities that would then be distributed to SMEs to inform them of key developments, trends and opportunities within the markets that they currently operate in, or within which they are looking to establish a presence in the future.

Introduce a match-making service to facilitate the development of supply chain linkages between SMEs and larger enterprises

The findings contained in this research study indicate that many SMEs struggle to supply products or services of the requisite quality or in the required volumes to effectively penetrate markets. In the cases of the agriculture and manufacturing sectors, in particular, difficulty meeting industry standards and requirements constrains the ability of SMEs to supply larger enterprises. One way in which SEDA could look to play a more active role in addressing this problem would be through the introduction of a match-making service to directly link individual SMEs with relevant large corporations through a mentoring relationship. Such a mentorship arrangement, which would be facilitated by SEDA at each stage, would be predicated on the large enterprise providing guidance, advice and assistance to the selected SME to upgrade its products and services to the point where the large enterprise would be willing to enter into a supplier arrangement with the SME. The support provided by larger enterprises through such an initiative could form part of their individual corporate social responsibility initiatives.

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Annexure I: Stakeholders Interviewed

The following three tables outline the SME respondents, SEDA Business Advisors and institutional stakeholders that provided input during the course of the research process.

Table 14: Representatives of SMEs Interviewed

Name	Business	Position	Sector	Province
Collin Mashikinya	CMS Solutions	Owner	Services	Gauteng
Collen Pheza	Rommekas Manufacturing	Owner	Manufacturing	Free State
Eben Pieterse	REB Hides and Skins	Owner	Manufacturing	Free State
Joslyn Sulton	KJS Manufacturing	Owner	Manufacturing	Eastern Cape
Mr. Moabelo	-	Owner	Tourism	Free State
Patience Radebe	-	Manager for Specialist Support Services	Agriculture	Free State
Renay van der Berg	Public Relations and Business Consulting	Owner	Services	Free State
Sydwell Maqula	ICT Choice	-	ICT	Eastern Cape
Florence Netshiokho	IFA Construction and Projects	Owner	Manufacturing	Gauteng
Lwazi Mtsolongo	Ngini Media	Owner	ICT	Eastern Cape
Phumza Zihlangu	Shoes Guest House	Owner	Tourism	Eastern Cape
Sello Malatji	Rothe Plantscapers	-	Agriculture	Gauteng
Steven Nyembe	Ebuhleni tours	Owner	Tourism	Gauteng
Blossom Zihle	Afrizona Guest House	Owner	Tourism	Eastern Cape
Martha Ledwaba	Time Response SME Service Provider	Owner	Manufacturing & Services	Gauteng

Table 15: SEDA Business Advisors Interviewed

Name	Organisation	Position	Province
Afika Siziba	SEDA	Business Advisor	Eastern Cape
Andile Zondani	SEDA	Business Advisor	Eastern Cape
Thando Ngobo	SEDA	Business Advisor	Eastern Cape
Vuyokazi Zozi	SEDA	Branch Manager	Eastern Cape
L Thekiso	SEDA	Business Advisor	Free State
Jaime Webber	SEDA	Business Advisor	Eastern Cape
Ramabilikoe Mosola	SEDA	Business Advisor	Free State
Siphiwo Sixishe	SEDA	Business Advisor	Eastern Cape
Siyabulela Lazarus	SEDA	Business Advisor	Eastern Cape
Kate Masopha	SEDA	Business Advisor	Gauteng
Nokwanda Cekwana	SEDA	Business Advisor	Kwazulu-Natal
Nwabisa Matyolo	SEDA	Business Advisor	Gauteng
Hlanganani Buthelezi	SEDA	Business Advisor	Kwazulu-Natal
Nhlanhla Buthelezi	SEDA	Business Advisor	Kwazulu-Natal
Themba Skhosana	SEDA	Business Advisor	Mpumalanga
Brian Tlakula	SEDA	Business Advisor	Mpumalanga
Caren Coetzee	SEDA	Business Advisor	Gauteng
Jacobus Oelofse	SEDA	Business Advisor	Mpumalanga
Eva Ramalepe	SEDA	Business Advisor	Mpumalanga
Gloria Ndzumeni	SEDA	Business Advisor	Mpumalanga
Zanele Khoza	SEDA	Business Advisor	Mpumalanga

Table 16: Institutional Stakeholders Interviewed

Name	Organisation	Position	Province
Sipho Ngcai	Furntech	-	Eastern Cape
Constance Ngqele	SEDA	Information Officer	Eastern Cape
Thulani Zondi	South African Micro-Finance Apex Fund (SAMAF)	-	Kwazulu-Natal
Akhona Mqwazima	Tourism Enterprise Partners (TEP)	Provincial Manager	Eastern Cape
Bancamile Madwe	Gauteng Department of Economic Development	Agency Oversight	Gauteng
Fezile Mbuli	Agri Business Development Agency KZN (ADA-KZN)	Legal and Corporate Services Manager	Kwazulu-Natal
Jimson Dube	VPK Business Ventures	Business Manager	Gauteng
Mbulelo Jolingana	Eastern Cape Dept of Economic Development and Environmental Affairs	-	Eastern Cape
Michael Zondo	SEDA	Branch Manager	Kwazulu-Natal
Mpumi Fundam	Eastern Cape Development Corporation (ECDC)	Programme Head: Enterprise Development Services	Eastern Cape
Mr T. Lehari	SEDA	Branch Manager	Gauteng
Mr. Rau	South African Chamber of Commerce and Industry (SACCI)	-	Gauteng
Nomfundo Dlatu	SEDA	Branch Manager	Kwazulu-Natal
Sinegugu Ndlovu	Khula Enterprise	Business Analyst	Kwazulu-Natal
Sipelo Lupondwana	SNMBICITI	-	Eastern Cape
Ftienzeke Samuel	National Youth Development Agency	Director: Micro Finance	Gauteng
Tello May	Gauteng Economic Propeller	Business Development Manager	Gauteng
Vuyani Bekwa	Mogale City Local Municipality	Manager: Enterprise	Gauteng
Wayne Oosthuizen	SEDA	Branch Manager	Eastern Cape
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