

CDS RESEARCH REPORT

LED & SMME DEVELOPMENT

Opportunities, obstacles and action steps for the development and strengthening of SMMEs in the Free State

2004 · NO 2



Centre for Development Support
Sentrum vir Ontwikkelingsteun

Opportunities, obstacles and action steps for the development and strengthening of SMMEs in the Free State

By

Chris Rogerson (Dept of Geography, Wits)

For

Centre for Development Support (IB 100)
University of the Free State
PO Box 339
Bloemfontein
9300
South Africa

www.ufs.ac.za/cds

Commissioned by the Premier's Economic Advisory Council, Free State Province, South Africa

Please reference as: Centre for Development Support (CDS). 2004. Opportunities, obstacles and action steps for the development and strengthening of SMMEs in the Free State. *CDS Research Report, LED and SMME Development, 2004(2)*. Bloemfontein: University of the Free State (UFS).

EXECUTIVE SUMMARY

The aims of this research are twofold:

- First, to gather and provide relevant data in order to understand the existing dynamics and future challenges that confront the SMME economy in contributing towards the wider development objectives of Free State; and,
- Second, to provide the base for an action plan and a set of strategic development interventions designed to assist SMME entrepreneurs and to maximise the impact of the SMME economy within provincial economic development planning.

The research approach that was used involved several stages of analysis:

- First, researching and mapping out the existing institutional and enabling environment that impacts upon the development of SMMEs in Free State. This work involved as a start-point a desk-top survey on the changing frameworks for national support provision for the SMME economy. This survey was supplemented by important focused interviews which were conducted with senior personnel in the Department of Trade and Industry Enterprise Development Unit, which is responsible for the planning and support nationally of the SMME economy. The purpose of these interviews was to clarify the new directions being taken in 2004 of national SMME policy frameworks in order that the provincial strategic interventions for Free State be harmonized with these new institutional frameworks.
- Second, the study researched the underlying dynamics and contemporary challenges facing the provincial SMME economy. This task was informed by the findings of national SMME investigations which showed that the SMME economy must be ‘unpacked’ or segmented into different sub-components for detailed policy analysis. Of greatest importance in this analysis was the distinction that was drawn between the support needs and challenges facing the groups of established SMME enterprises, largely in white ownership, and of the emerging SMME economy, which is dominated by groups of entrepreneurs that previously had been largely excluded from involvement in the SMME economy.
- The analysis of established enterprises was segmented into analysis of the growth dynamics and constraints that face groups of manufacturing and tourism SMMEs. The selection of these two sectors for detailed examination was agreed with PEAC on the basis of the importance attached to these two sectors for future economic development and job creation in the province. In each of these two sub-sectors of manufacturing and tourism, a macro-profile was developed of the provincial SMME economy. Thereafter, detailed micro-level interviews were undertaken with 50 entrepreneurs in each of the two sub-sectors. In total, therefore, 100 interviews were conducted with established SMME entrepreneurs.
- The analysis of the problems and support needs of emerging SMMEs was conducted on the basis of undertaking a detailed cross-sectional survey of the constraints and opportunities that face emerging micro-enterprise and informal sector unregistered enterprises. Although it would have been most appropriate

to conduct this survey in all areas of the Province, for logistical and cost considerations, the decision was taken to geographically focus the interviews in two localities, namely Mangaung and Thabong. In total 147 interviews were successfully completed with emerging entrepreneurs.

- The results from the surveys of both the established and emerging SMME entrepreneurs provide the basis for an assessment of the opportunities and obstacles confronting the SMME economy in Free State. Further, they form the basis for the development of action steps for strengthening the SMME economy in the province. The action steps for strengthening the SMME economy are linked back to the changing national institutional framework in 2004 which must provide the context for future SMME policy interventions.

The results of this study are presented in six chapters of material.

Following the introduction provided in Chapter 1, Chapter 2 provides the necessary institutional context for the establishment of an SMME strategy or of action steps for strengthening the SMME economy of Free State. The chapter argues that strategic interventions for the province are most appropriately situated within the context of national policy interventions and frameworks which have been developed since 1994 under the responsibility of the Department of Trade and Industry. In this chapter the changes are traced in the institutional framework for SMME development from 1994 to the present-day. The key directions and elements are sketched of the 2004 strategy which is due for release by national government only later this year. The key pillars of that strategy are threefold: the creation of motivated entrepreneurs, the unlocking of economic opportunities and the building of the capacity of SMME entrepreneurs. It is argued that these three pillars of the national framework can also provide the organizational base for the development of appropriate action plans for strengthening the SMME economy of Free State.

Chapter 3 and 4 are focused on an analysis of the strengths and opportunities of different groups of established entrepreneurs in respectively the sectors of Manufacturing (Chapter 3) and Tourism (Chapter 4). In Chapter 3 attention centres upon the findings of the macro-profile and micro-level interviews concerning manufacturing SMME development. The macro-profile highlights the key sub-sectors of established SMMEs drawing attention especially to the importance of clothing, food and metal-working activities. In addition, the analysis shows significant geographical clusters of SMME development with the strongest clusters those focused around Bloemfontein and Harrismith-Phuthaditjhaba. The micro-level interviews with established entrepreneurs point out critical blockages on new job creation, particularly concerning the weak state of the macro-economy.

In Chapter 4 the issues concerning the constraints upon and potential for strengthening the tourism SMME economy of Free State are examined. In common with the national picture of tourism SMMEs, it is disclosed that the tourism SMME economy is overwhelmingly dominated by white entrepreneurs. The geographical pattern of tourism SMME development clearly evidences a different pattern to that of manufacturing with a much greater potential for growth also in small towns and certain rural areas. The key constraints identified on the expansion of tourism SMMEs relate principally to the significance of enhanced tourism marketing for the province,

the need to review existing regulations and for improvement in the existing physical and human infrastructure for tourism development in the province.

In Chapter 5 the focus shifts from issues relating to the established SMME economy to analyse the most critical issues that surround the development and prospects of the emerging SMME economy. In terms of support initiatives from national government, it is evident that increased attention must be devoted to supporting the growth and development of this emergent SMME economy both in terms of creating new enterprise births through support for entrepreneurship as a whole and through improving the operational environment for existing SMME entrepreneurs. In Chapter 5 a detailed analysis is given of the major problems that face emerging SMME entrepreneurs as a whole and of the specific issues confronting groups of production, service-based, and construction SMMEs as well as groups of urban cultivators. Overall, the results of the 147 interviews undertaken with emergent SMME entrepreneurs disclose that most enterprises have been set up out of necessity rather than choice as a by-product of the emasculated state of the formal economy of the province. The vast majority of these entrepreneurs operate their businesses from the home and face a constant struggle for survival and operate in narrow localized markets. It is shown that there are sectoral differences in business performance with manufacturing and construction-based SMMEs in general recording better levels of growth than service-based enterprises or the livelihood struggles of urban cultivators. It is clear that certain common problems face entrepreneurs at both business start-up and their contemporary phase of development. Finance, human resource issues, market access, information and premises emerge as critical issues of concern.

In Chapter 6 the key recommendations are drawn together from the results of the research reported in Chapters 3-5. These recommendations are synthesized in this chapter within the context of the major new pillars for guiding SMME development as set forth in the new national SMME framework which was discussed in Chapter 2. Overall, it is argued that whilst the development of the SMME economy cannot be considered a panacea for the economic development problems faced in Free State *as a whole*, this report highlights certain action steps which can strengthen the contribution of the SMME economy towards the achievement of the wider goals of provincial development planning. The major recommendations made for strengthening the SMME economy of the province are presented in the three following figures.

CREATE MOTIVATED ENTREPRENEURS

(Responsibility DTI and Provincial SMME Desk)

ESTABLISHED SMME ECONOMY

No Policy Focus

EMERGING SMME ECONOMY

- Promote and Encourage Learnerships for Target Groups of Youth, Women and Rural Areas.
- Promote Special Learnerships in Declining Localities especially Goldfields and potentially Northern Free State as a whole.
- Expansion of training programmes for how to run small business.
- Expand information flows on new government support programmes for start-up (especially micro-credit).
- Promote and support mentorships.
- Publicize stories of successful entrepreneurs as business role models.

UNLOCK ECONOMIC OPPORTUNITIES

(Responsibility DTI, SMME Desk Department of Tourism, Environmental and Economic Affairs, Local government)

ESTABLISHED SMME ECONOMY

- Sectoral strategies for manufacturing and tourism to enhance provincial competitiveness and market growth.
- Lobby DTI/NAMAC for support of a provincial Manufacturing Advice Centre.
- Review existing Network of Training Institutions.
- Maintain and enhance existing infrastructural bases both for manufacturing and tourism.
- Improve Tourism Marketing for the Province.
- Review Existing Regulations affecting tourism.
- Improve Awareness of Local Governments of Tourism Potential.
- Expand information flows on National Government Support Programmes.

EMERGING SMME ECONOMY

- Establish a local business support infrastructure with advisors, business mentors.
- Improve market access through public procurement (including monitoring).
- Programme support for business linkages.
- Improve information flows on targeted government support for emerging entrepreneurs, especially Black Business Supplier Development Programme, Tourism Enterprise Programme and new micro-credit funding.
- Special support programme to boost women's involvement in emerging SMME economy.
- Initiate a programme for local governments to improve availability of affordable business premises for SMME development.
- Support black economic empowerment and transformation of provincial tourism economy.

BUILD CAPACITY OF ENTREPRENEURS

(Responsibility DTI, SMME Desk, Local government)

ESTABLISHED SMME ECONOMY

- Support for enhanced competitiveness through the Manufacturing Advice Centre.
- Improve access to technology through existing and new DTI technology support programme initiatives.
- Improve information channels of support programmes.
- Introduce regular(annual) monitoring system on state of the provincial (and local) SMME economy.

EMERGING SMME ECONOMY

- Enhance access to finance through existing and new DTI funding programmes.
- Enhancement of Training and Mentorship opportunities.
- Through local business support infrastructure, improve information channels of support programmes.
- Set and monitor targets for reduction of business crime.
- Set up Data base on emergent SMMEs.
- Introduce regular(annual) monitoring system on the state of the provincial (and local) SMME economy.

CONTENTS

CHAPTER 1: INTRODUCTION	2
1.1 RESEARCH APPROACH AND METHODS	2
1.2 CHAPTER OUTLINE	3
CHAPTER 2: THE INSTITUTIONAL CONTEXT	5
2.1 INTRODUCTION	5
2.2 THE NATIONAL SMME FRAMEWORK POST-1994	5
2.3 TEN YEARS ON : A CHANGING NATIONAL SMME FRAMEWORK	8
2.4 CONCLUSION	12
CHAPTER 3: MANUFACTURING SMMEs	13
3.1 INTRODUCTION	13
3.2 MACRO-ANALYSIS OF THE PROVINCIAL MANUFACTURING SMME ECONOMY	13
3.3. SURVEY FINDINGS	21
3.4. SUMMARY OF KEY FINDINGS	28
CHAPTER 4: TOURISM SMMEs	30
4.1. INTRODUCTION	30
4.2 MACRO-ANALYSIS OF THE PROVINCIAL TOURISM SMME ECONOMY	30
4.3. SURVEY FINDINGS	36
4.4. SUMMARY OF KEY FINDINGS	46
CHAPTER 5: EMERGING SMMEs	49
5.1 INTRODUCTION	49
5.2 METHODOLOGY AND SAMPLE	50
5.3 PROFILE OF ENTREPRENEURS AND THEIR ENTERPRISES	50
5.4 BUSINESS PERFORMANCE AND DEVELOPMENT	57
5.5 SUPPORT NEEDS	61
5.6 RECOMMENDATIONS FOR AN ACTION PLAN	65
CHAPTER 6: AN ACTION PLAN	74
6.1 INTRODUCTION	74
6.2. AN ACTION PLAN FOR STRENGTHENING THE PROVINCIAL SMME ECONOMY	74
7. REFERENCES	79

CHAPTER 1: INTRODUCTION

The importance of the SMME economy for economic development and job creation in Free State has been clearly acknowledged in several development strategies and plans for the province. Despite the significance of the SMME economy there have been few detailed research studies on its structure, dynamics and opportunities. In addition, available national data on the Free State SMME economy from Ntsika is unhelpful and even contradictory in terms of estimates of the size of SMME sector in the province. As a result of the poor data base and of the limited nature of recent detailed research on the Free State SMME economy, strategic planning initiatives are difficult to undertake.

It is against this background that the core aims of this research project are twofold:

- First, to gather and provide relevant data in order to understand the existing dynamics and future challenges that confront the SMME economy in contributing towards the wider development objectives of Free State; and,
- Second, to provide the base for an action plan and a set of strategic development interventions designed to assist SMME entrepreneurs and to maximise the impact of the SMME economy within provincial economic development planning.

1.1 RESEARCH APPROACH AND METHODS

The approach that was used here involved several stages of analysis:

- First, researching and mapping out the existing institutional and enabling environment that impacts upon the development of SMMEs in Free State. This work involved as a start-point a desk-top survey on the changing frameworks for national support provision for the SMME economy. This survey was supplemented by important focused interviews which were conducted with senior personnel in the Department of Trade and Industry Enterprise Development Unit, which is responsible for the planning and support nationally of the SMME economy. The purpose of these interviews was to clarify the new directions being taken in 2004 of national SMME policy frameworks in order that the provincial strategic interventions for Free State be harmonized with these new institutional frameworks.
- Second, the study researched the underlying dynamics and contemporary challenges facing the provincial SMME economy. This task was informed by the findings of national SMME investigations which showed that the SMME economy must be 'unpacked' or segmented into different sub-components for detailed policy analysis. Of greatest importance in this analysis was the distinction that was drawn between the support needs and challenges facing the groups of established SMME enterprises, largely in white ownership, and of the emerging SMME economy, which is dominated by groups of entrepreneurs that previously had been largely excluded from involvement in the SMME economy.
- The analysis of established enterprises was segmented into analysis of the growth dynamics and constraints that face groups of manufacturing and

tourism SMMEs. The selection of these two sectors for detailed examination was agreed with PEAC on the basis of the importance attached to these two sectors for future economic development and job creation in the province. In each of these two sub-sectors of manufacturing and tourism, a macro-profile was developed of the provincial SMME economy. Thereafter, detailed micro-level interviews were undertaken with 50 entrepreneurs in each of the two sub-sectors. In total, therefore, 100 interviews were conducted with established SMME entrepreneurs.

- The analysis of the problems and support needs of emerging SMMEs was conducted on the basis of undertaking a detailed cross-sectional survey of the constraints and opportunities that face emerging micro-enterprise and informal sector unregistered enterprises. Although it would have been most appropriate to conduct this survey in all areas of the Province, for logistical and cost considerations, the decision was taken to geographically focus the interviews in two localities, namely Mangaung and Thabong. In total 147 interviews were successfully completed with emerging entrepreneurs.
- The results from the surveys of both the established and emerging SMME entrepreneurs provide the basis for an assessment of the opportunities and obstacles confronting the SMME economy in Free State. Further, they form the basis for the development of action steps for strengthening the SMME economy in the province. The action steps for strengthening the SMME economy are linked back to the changing national institutional framework in 2004 which must provide the context for future SMME policy interventions.

1.2 CHAPTER OUTLINE

Chapter 2 provides the necessary institutional context for the establishment of an SMME strategy or of action steps for strengthening the SMME economy of Free State. The chapter argues that strategic interventions for the province are most appropriately situated within the context of national policy interventions and frameworks which have been developed since 1994 under the responsibility of the Department of Trade and Industry. In this chapter the changes are traced in the institutional framework for SMME development from 1994 to the present-day. The key directions and elements are sketched of the 2004 strategy which is due for release by national government only later this year. The key pillars of that strategy are threefold: the creation of motivated entrepreneurs, the unlocking of economic opportunities and the building of the capacity of SMME entrepreneurs. It is argued that these three pillars of the national framework can also provide the organizational base for the development of appropriate action plans for strengthening the SMME economy of Free State.

Chapter 3 and 4 are focused on an analysis of the strengths and opportunities of different groups of established entrepreneurs in respectively the sectors of Manufacturing (Chapter 3) and Tourism (Chapter 4). In Chapter 3 attention centres upon the findings of the macro-profile and micro-level interviews concerning manufacturing SMME development. The macro-profile highlights the key sub-sectors of established SMMEs drawing attention especially to the importance of clothing, food and metal-working activities. In addition, the analysis shows significant geographical clusters of SMME development with the strongest clusters those focused around Bloemfontein and Harrismith-Phuthaditjhaba. The micro-level interviews with

established entrepreneurs point out critical blockages on new job creation, particularly concerning the weak state of the macro-economy.

In Chapter 4 the issues concerning the constraints upon and potential for strengthening the tourism SMME economy of Free State are examined. In common with the national picture of tourism SMMEs, it is disclosed that the tourism SMME economy is overwhelmingly dominated by white entrepreneurs. The geographical pattern of tourism SMME development clearly evidences a different pattern to that of manufacturing with a much greater potential for growth also in small towns and certain rural areas. The key constraints identified on the expansion of tourism SMMEs relate principally to the significance of enhanced tourism marketing for the province, the need to review existing regulations and for improvement in the existing physical and human infrastructure for tourism development in the province.

In Chapter 5 the focus shifts from issues relating to the established SMME economy to analyse the most critical issues that surround the development and prospects of the emerging SMME economy. In terms of support initiatives from national government, it is evident that increased attention must be devoted to supporting the growth and development of this emergent SMME economy both in terms of creating new enterprise births through support for entrepreneurship as a whole and through improving the operational environment for existing SMME entrepreneurs. In Chapter 5 a detailed analysis is given of the major problems that face emerging SMME entrepreneurs as a whole and of the specific issues confronting groups of production, service-based, and construction SMMEs as well as groups of urban cultivators. Overall, the results of the 147 interviews undertaken with emergent SMME entrepreneurs disclose that most enterprises have been set up out of necessity rather than choice as a by-product of the emasculated state of the formal economy of the province. The vast majority of these entrepreneurs operate their businesses from the home and face a constant struggle for survival and operate in narrow localized markets. It is shown that there are sectoral differences in business performance with manufacturing and construction-based SMMEs in general recording better levels of growth than service-based enterprises or the livelihood struggles of urban cultivators. It is clear that certain common problems face entrepreneurs at both business start-up and their contemporary phase of development. Finance, human resource issues, market access, information and premises emerge as critical issues of concern.

In Chapter 6 the key recommendations are drawn together from the results of the research reported in Chapters 3-5. These recommendations are synthesized in this chapter within the context of the major new pillars for guiding SMME development as set forth in the new national SMME framework which was discussed in Chapter 2. Overall, it is argued that whilst the development of the SMME economy cannot be considered a panacea for the economic development problems faced in Free State this report highlights certain action steps which can strengthen the contribution of the SMME economy towards the achievement of the wider goals of provincial development planning.

CHAPTER 2: THE INSTITUTIONAL CONTEXT

2.1 INTRODUCTION

The objective in this chapter is to discuss and provide the necessary institutional context for the establishment of an SMME action plan for Free State. It is essential to understand that a provincial SMME action plan must be aligned with or harmonized alongside the national directions and frameworks which are guiding SMME development. These national frameworks have been developed under the aegis of the national Department of Trade and Industry, which assumes prime responsibility for the mandate of SMME development.

It must be acknowledged that the preparation of a provincial SMME action plan for Free State takes place at a watershed period in SMME policy in South Africa. It has been announced that DTI will release a new refocused strategy for SMME development to replace the policy approach that has been in operation since 1994 (Damane, 2004). The impetus for this revised approach derives from a process of reflection on the disappointments that have arisen from the implementation and outputs of the post-1994 programmes. In addition, the new revised strategy is a response also to the changing post-1995 environment since the preparation of the 1995 White Paper. Key issues that impact upon SMME development that have emerged since 1995 are those of local economic development, Black Economic Empowerment and DTI's own changing economic frameworks, most importantly the Integrated Manufacturing Strategy (Damane, 2004).

Although the full details of the new DTI approach to SMME development were yet to be released, the essential directions of the revised programme could be gleaned from published material released by the Chief Director of the DTI's Enterprise Development Unit (Damane, 2003) and from official interviews conducted during 2004 (Damane, 2004, Mohoto, 2004). Overall, it is evident that the re-focused programme will seek to address several of the recognized shortcomings in the impacts of the post-1994 programme (Damane, 2004).

This chapter aims therefore to provide the essential organizational basis for the formulation of a Free State SMME action plan. The chapter is structured into two major sections of discussion. In the first section, a brief overview is presented of the main directions and problems experienced by the national government's post-1994 SMME development programme. It is evident from the record of SMME development in Free State, and especially of the problems that have been experienced by emergent SMME entrepreneurs, that the shortcomings of national programmes are writ large and clearly on the landscape of the Free State. In the second section of this chapter, attention turns to draw together the essential known directions of the new 2004 strategy framework and to review some of the most important new support sources for which information is available.

2.2 THE NATIONAL SMME FRAMEWORK POST-1994

Within the macro-economic context provided by the GEAR strategy, the specific framework for SMME development was set forth in the 1995 White Paper on Small Business (South Africa 1995) which together with the National Small Business

Development Act of 1996 paved the way for the launch of a range of new support institutions and initiatives (Damane, 2003). A report for the World Bank argued that the “White Paper has done an excellent job in creating a policy that is based on the particularities of South Africa” (ICC, 1999, p. 27). As Kesper (2002, p. 19) observes, the landmark 1995 White Paper contained the country’s first SMME policy framework which was “informed about the peculiarities of South Africa’s SMME economy, combines South African and international arguments in favour of SMME promotion, but – due to the lack of domestic policy experience – largely relies on international ‘best practice’ with regards to policy objectives and the design of the support framework”.

During the period 1994-2002 the government’s focus on the SMME economy derived from a conceptualization of, at least, three key roles for SMMEs in reconstruction. These relate to SMMEs as agents of employment promotion, redistribution, and for the improvement in global competitiveness. However, as Manning (1996, p 68) observed: “Not only are these very divergent policy objectives, but the policy instruments required to effect them are equally divergent (ranging from technology support, R & D support, to literacy and numeracy training, and access to basic information)”. Whilst it must be acknowledged that each of the policy objectives is both valid and critical in relation to issues of poverty eradication or growth enhancement, “policy-makers necessarily have to impose a hierarchy of importance upon them, in order to decide on the distribution of resources” (Manning, 1996, p. 68). In the absence of clear guidelines for resource allocation, the SMME strategy between 1995-2002 has sought to meet this range of different and sometimes conflicting objectives (Dorfling, 2001).

The White Paper essentially centred around a number of specific strategic considerations. The first was attaining broad-based legitimacy for the government’s new SMME strategy which represented a marked change from the apartheid era. A second critical issue was that of addressing the apartheid legacy of the disempowerment of black business. The final and critical strategic issue was that of establishing a set of new national institutions to support, coordinate and monitor the process. The proposed framework in the White Paper was viewed as generally in line with conventional ‘best practice’ strategies which were pursued in both in developing and developed countries during the 1980s and 1990s and thus replicated international experience (Qualmann, 2000; Dorfling, 2001).

At the core of national government’s SMME support programmes were the policy interventions introduced by the new institutions and structures which were set up to implement the national SMME strategy. The main institutional pillars were Ntsika Enterprise Promotion Agency, which was responsible for non-financial or business development services, and Khula Enterprise Finance which functions as a wholesale finance institution supporting a range of retail finance intermediaries which would deal directly with the SMME entrepreneurs themselves (ICC, 1999). In parallel with international best practice, support was focussed on improved and decentralised access to information, training, markets, finance and technology, improvements in business infrastructure and the market environment, and the strengthening of networks between enterprises.

Essentially, the main delivery mechanisms and key components of the institutional support network that was created through the White Paper to nurture the sustainability of South Africa’s SMME economy were organised primarily around Ntsika and Khula. A

critical component of the support strategy was the establishment of a set of decentralized or localised support service centres, which became styled as local business service centres or LBSCs. The LBSCs were to provide a variety of services to SMMEs and represented the flagship support programme of Ntsika (Bloch and Daze, 2000). The White Paper made clear the significance of LBSCs: “compared to all the other policy areas forming part of the national strategy, the establishment, maintenance and gradual expansion of a national grid of LSCs (Local Service Centres) will constitute the most important vehicle for small business support in the near future” (South Africa, 1995, p. 46). More specifically, it was linked to issues of local economic development with the White Paper considering that LBSCs are “the one programme that can best help to integrate services available for small enterprises at the local level” (South Africa, 1995, p. 46). The services provided by these centres, aimed at both existing and start-up SMMEs, include business information, general business management advice and counselling, aftercare and networking to other service providers (Bloch and Daze, 2000; Dorfling, 2001). By 2003 the number of accredited LBSCs in South Africa had risen to 92 local level service providers (Ntsika, 2002). This total included five accredited LBSCs in Free State, the activities of which were to be strengthened and supported by the roll out of a programme of regional offices to function as one-stop information centres offering a wide range of services including capacity building, access to finance, market access and business linkages. Alongside the network of accredited LBSCs there were a number of Ntsika-funded service providers which are non-accredited organizations financed to supply services, such as training (Dorfling, 2001).

Another institutional component was the set of Tender Advice Centres which were initiated in order to provide, amongst their services, advice on tendering and tender procedures, especially in relation to new guidelines and procedures for public procurement contracts. Further, the group of so-termed Retail Financial Intermediaries or RFIs represent outlets on a retail level which offer finance to SMMEs. Nationally, by 2002 there were 40 such RFIs which were operating throughout South Africa and included a mixture of NGOs, provincial development organisations and banks (Dorfling, 2001). In the Free State, there was one RFI based in Bloemfontein.

The last major institutional element of public sector support was the establishment of Manufacturing Advice Centres (MAC), which were inspired by the small enterprise support structure initiated in Denmark. The MACs are aimed at assisting SMME manufacturers improve their competitiveness in local, national and international markets. The MAC programme was launched in 1997 as a joint initiative of Ntsika, DTI, CSIR and the National Productivity Institute and coordinated by the National Programme Office (NAMAC). Although a national roll-out of MACs was announced by national government, by 2004 there was no Manufacturing Advice Centre in Free State. The focus of new MACs was largely confined to existing large manufacturing clusters or agglomerations (Damane, 2004).

Other newer support institutions have been put forward by the DTI (Dorfling, 2001). In particular, interest has centred on the initiatives such as local industrial parks (LIPs), small business incubation and linked sectoral cluster programmes. The LIPs are a DTI initiative to address the challenges of employment creation and meeting the needs identified in the Reconstruction and Development Programme through the creation of a sustainable SMME sector. The emphasis is firmly on industrial production rather than on any other kind of economic activity. Business incubators are institutions that have

proved effective in other parts of the world and are designed to support the growth of new and emerging enterprises within a controlled work environment and over a limited time period. The development of industry cluster processes by DTI is aimed at national economic growth through competitiveness and involves a collaborative exercise in which firms and organisations in an industry work together to identify obstacles to competitiveness, and to seek to encourage a collective approach to addressing these obstacles (Dorfling, 2001).

In addition, since 1999 the national government has sought vigorously and consciously “at providing an enabling environment” which is designed to support the sustainability of the SMME economy (Ntsika, 2000). This initiative has primarily taken the form of legislative reforms and regulatory reviews (Ntsika 1999, 2001). The main activities of government included a review of its national strategy for the promotion of SMMEs, a review study on access to finance by SMMEs, and a review of laws and regulations that impact upon the SMME economy. As a product of this review process, changes were to be announced in 2004 concerning the directions of national SMME frameworks.

2.3 TEN YEARS ON : A CHANGING NATIONAL SMME FRAMEWORK

The achievements of the SMME programme introduced since 1995 are several and are highlighted especially in reports produced by Ntsika on the state of small business in South Africa (Ntsika, 2000, 2001, 2002, 2003a, 2003b). Over the past four years, however, an increasing amount of criticism has been directed at the poor outcomes associated with the implementation of the national government’s post-1994 SMME strategy (Berry *et al*, 2002; Kesper, 2002). More especially, criticisms were directed at, *inter alia*, the limited progress in terms of the outreach of both financial and non-financial support services, the limited amount of funding that was available, weak implementation, and ineffective coordination of programmes. Above all, a core aspect of delivery failure has been that national government’s SMME programmes simply have not been reaching their target groups, and in particular the target group of emerging Black owned SMMEs (Berry *et al*, 2002). Furthermore, it is acknowledged that the 1995 strategy largely failed to adopt a segmented approach towards SMME development and instead tended to treat the needs of different types of SMMEs in a somewhat undifferentiated fashion (Damane, 2004).

It is against this background of the disappointments associated with national SMME support programmes that DTI has been leading a review of the former approach to supporting SMME development in South Africa (Damane, 2004). In addition, the DTI has recently also been engaged in an important initiative towards a transformation initiative which involves “the introduction of a comprehensive and focused strategy for broad-based black economic empowerment” (DTI, 2003, p. 5). Taken together these two initiatives – for a new approach to SMME development coupled with a transformation initiative provide an important context within which to frame recommendations and an action plan for improving support to SMMEs. Indeed, it will be important that the core elements of the recommendations and action plan for Free State be harmonised ultimately with the new directions being taken in both DTI SMME development support and empowerment initiatives as a whole.

2.3.1 New DTI Directions for SMME Support

The new DTI approach to SMME development was intended to be finalized as long ago as 2002. Indeed, there are published statements made by DTI officials that refer to “a new refocused strategy due to be released later in 2002” (Damane, 2002, p. 17). This position was later amended to say “to be released in early 2003” (Damane, 2003, p. 13). As of May 2004 the final new strategy was still not publically available. Nevertheless, the core outlines of the new DTI approach to supporting SMMEs can be gleaned from statements made by senior officials in DTI publications (Erwin, 2002; Damane, 2002) as well as from a detailed interview given by the Chief Director in May 2004 in which it was stated that the most likely timing for release of the new national strategy would be during September 2004 to coincide with the potential launch of the Annual Review on Small Business..

Key aspects of the re-fashioned SMME strategy include the following:

- Greater coordination across government departments led by DTI (Erwin, 2002)
- The role of DTI will be that of coordinator (Damane, 2004)
- Working in partnership with different tiers of government (especially local government) and the private sector to improve the environment for SMMEs to thrive (Erwin, 2002).
- Improving access to finance by a better coordination of the various DTI financing instruments (Erwin, 2002).
- Shifting from a ‘shotgun’ approach towards financing and instead to “a targeted, project-centred focus which is further informed by the Integrated Manufacturing Strategy, or initiatives such as Industrial Development Zones and Spatial Development Initiatives (SDIs), and with a new emphasis also on cooperatives” (Erwin, 2002 , p. 5).
- A new focus on micro-enterprises which involves strategies that centre on poverty alleviation initiatives and the reform of regulatory systems to reduce the costs of doing business – the costs of compliance (Damane, 2003).
- For mainstream small and medium enterprises, interventions “will focus on business infrastructure facilities, the maintenance of an appropriate regulatory framework and attention to market failures” (Damane, 2002, p. 17).
- “Black economic empowerment will feature strongly” (Damane, 2003, p. 13).
- In ‘new economy’ high growth sectors, including tourism, “SMME development will be incorporated into development strategies. Small business support packages have to be put together to fit local circumstances and the needs of specific sectors, industries or niches” (Damane, 2002, p,17).
- For Khula, the new DTI focus implies restructuring with a new more segmented focus allowing for more tailored products and segmenting Khula’s market into survivalist, micro, growing, and mature enterprise sectors (Damane, 2004).
- For Ntsika, the new DTI focus implies restructuring such that it incorporates DTI’s eight focus sectors, including tourism (Ntsika, 2003a).

Greater clarity is available on the new DTI approach to economic transformation with the release in 2003 of a so-termed “Broad-based Economic Empowerment Strategy” (DTI, 2003). It is argued that the many initiatives for empowerment taken by government and the private sector since 1994 have “tended to be diffused” because of the lack of “a comprehensive black empowerment strategy that draws together the

various elements of government's transformation programme in a more coherent and focused way" (DTI, 2003, p. 11). A central role is given to the question of financing for BEE. It is stated that "government has made a commitment to set aside finance to support the broad-based BEE approach" (DTI, 2003, p. 18) and this will include a variety of financing mechanisms. Commitments are made that DTI will seek to coordinate its range of grants and other incentives to enterprises with other programmes in order to maximize its BEE impact. In addition, as regards state facilitated lending, government acknowledges the primary role of Khula. Attention is drawn to the new distinction made between micro-enterprises and small and medium enterprises and of new DBSA initiatives for an apex fund for micro-lending to the poor.

The need is acknowledged to align current support measures for SMMEs with the broad-based black empowerment strategy. Access to finance is identified "as the core problem" (DTI, 2003, p. 28) and it is acknowledged that "to date the number of BEEs who access the DTI incentives is still unacceptably low" (DTI, 2003, p. 29). The limited access of BEEs is attributed to three factors. First, that of the applications for incentives to the DTI, 80 to 90 percent are submitted by consultants who have limited links or accessibility to black entrepreneurs. Second, that BEEs generally have limited knowledge of government policies and enterprise support measures. Third, the issue of limited distribution channels is seen as a further impediment to progress.

In terms of improving the BEE utilization of existing grant schemes a number of amendments are proposed with a shift from rigidity to flexibility. Of greatest importance is the new financial incentives that are proposed by DTI for the support of BEE enterprises. Under the current proposals for the Empowerment Investment Grant it is stated that "the proposed grant shall be extended to qualifying entities as owner's contribution to investment cost for new investments, expansions or acquisitions of majority shares by black entrepreneurs. The grant will be complemented by loan finance sourced from financial institutions, which may be guaranteed by Khula. The EIG may also complement entrepreneurs who can raise their own finance, which is not adequate to provide for a healthy gearing relative to the interest payable on the loan" (DTI, 2003, p. 31). The objectives of this EIG programme are to be aligned and consistent with government's strategic economic activities as set out in the Integrated Manufacturing Strategy and would be advised by the Broad Based Black Empowerment Strategy to effectively deal with "the exclusion of black persons and women from the mainstream of economic activity" (DTI, 2003, p. 32).

In addition to the EIG a second proposal has been made by DTI for the establishment of a Micro Enterprise Support Programme which is aimed to address the critical shortage of start-up capital for micro-enterprise. A new two-year pilot programme is to be introduced with R50 million allocated "to this programme aimed at enabling qualifying micro enterprises to obtain the necessary funds to start and/or develop businesses" (DTI, 2003, p. 34). Confirmation of the introduction by the middle of 2004 of this apex fund for small and micro-loans was provided in statements released in March 2004 by the (then) Trade and Industry Minister Erwin who stated that "there is a need for smaller cash loans to be issued in a way that is less rigid than applied by the financial sector" (Erwin, 2004). It was made clear by the Chief Director of the DTI's Enterprise Development Unit that the role of the new Apex Fund will be to provide loan funding in the range of amounts from R300 to R10 000. The Fund is

targeted both to assist with new start-ups and for the needs of existing businesses. In the range of funding that exceeds R10 000 – required by either start ups or existing enterprises – the gap will be filled by new financial products to be offered by Khula (Damane, 2004).

2.3.2 The Three Key Pillars

It is apparent that there are three core themes that run through the new national SMME strategy and thus provide critical bases for alignment of a Free State SMME strategy or action plan. These three themes provide the essential pillars of new national strategy and it is proposed that a Free State SMME strategy can be essentially grounded on similar foundations.

2.3.2.1 Theme One: CREATE MOTIVATED ENTREPRENEURS

In this respect, the new national strategy aims to draw into the SMME economy groups of individuals who, because of the apartheid legacy, largely were excluded from the activity of entrepreneurship. Target communities include women, youth, rural populations and communities disadvantaged under apartheid.

The essential policy emphasis is upon clearing blockages and removing obstacles to entrepreneurship in order to foster new start-ups of SMMEs by these target communities. Assistance for nurturing entrepreneurship would be provided by the introduction of learnerships for the youth, of special programmes to support women entrepreneurs (Technology for Women in Business, South African Women’s Network for Entrepreneurship) and of linkages with local Universities to develop new Chairs in Entrepreneurship. DTI sees a critical policy support as that of training and especially of promoting and strengthening mentorships to support the longer-term survival and growth prospects of start-up enterprises. Another key support programme in support of creating motivated entrepreneurs is the promotion of entrepreneurial role models through giving much wider publicity to examples of successful entrepreneurship.

2.3.2.2 Theme Two: UNLOCK ECONOMIC OPPORTUNITIES

The creation of motivated entrepreneurs for the SMME economy needs to be accompanied by a set of programmes which are designed to unlock or create new economic opportunities for emerging entrepreneurs as well as for the support of existing entrepreneurs. In terms of unlocking economic opportunities the major issue is viewed as that of market access.

In addressing market access for unlocking new economic opportunities for SMME entrepreneurs, the new national strategy will focus on the following:

- Maximising opportunities through public sector procurement programmes including at provincial and local government levels.
- Maximising opportunities for SMMEs through support for expanded business linkage programmes with larger business enterprises; and,
- Encouraging and supporting franchising as a potential vehicle to support new SMME development opportunities.

2.3.2.3 Theme Three: BUILD CAPACITY OF ENTREPRENEURS

The final core theme or pillar of the new national SMME strategy relates to further extending or building the capacity of entrepreneurs in terms of operating their businesses.

The key support programmes in this regard relate to the following:

- Improving access to finance through the existing and new DTI funding programmes such as the national government Apex Fund and a parallel apex fund for micro-lending to the rural poor operated by the DBSA.
- Improving entrepreneur's access to information on opportunities and support through new media initiatives to combine radio and press campaigns designed to heighten levels of awareness and knowledge.
- Improving access to technology through the existing and new DTI technology support programmes for entrepreneurs.

2.4 CONCLUSION

This chapter has attempted to provide the overarching framework or context for an SMME strategy for Free State province. The key themes that have been emphasized are as follows:

- A provincial SMME strategy or action plan cannot exist in isolation and must be dovetailed with and harmonized alongside national SMME programmes which are coordinated by the Department of Trade and Industry.
- The post-1994 period witnessed the SMME economy as one of the first policy foci of the democratic government.
- It has been acknowledged by DTI that the impacts of the strategy and programmes introduced after the 1995 White Paper have been disappointing in many respects.
- A review of existing national SMME policy frameworks has been underway for nearly two years and as a result of that review process, a revised national framework for SMME development was to be unveiled by DTI in late 2004.
- Although the full details of that new framework have not been released the outlines of the new strategy have been discerned.
- It is argued that a SMME action plan or strategy for Free State needs to be aligned to the three organizational themes or pillars of creating motivated entrepreneurs, unlocking economic opportunities, and building the capacity of entrepreneurs.

CHAPTER 3: MANUFACTURING SMMEs

3.1 INTRODUCTION

Manufacturing is a sector that has been recognized as of considerable potential for job creation and enterprise development both nationally and in Free State province. The recent history of industrial development in Free State has been strongly influenced by the availability of government incentives through programmes of industrial decentralization. With the changing nature of government incentives for industrial development, a new policy environment has emerged for provincial industrial development. One element of this changing environment is the policy emphasis upon stimulating SMMEs, particularly since 1995 (Kesper, 2002; Berry *et al*, 2003).

Against the background of provincial Free State planning initiatives to support and further grow the manufacturing base, the objective in this chapter is to investigate the development issues and core problems that confront the established manufacturing SMME economy in Free State; issues relating to emerging SMMEs are dealt with in Chapter Four.

This report contains two major sections of discussion and analysis.

- The first section provides a macro-analysis and profile of the manufacturing SMME economy of the province;
- The second section analyses the findings of 50 interviews that were conducted in 2003 with established manufacturing SMME entrepreneurs across the Free State.

3.2 MACRO-ANALYSIS OF THE PROVINCIAL MANUFACTURING SMME ECONOMY

In this section an initial review of data sources and methodology for the macro-analysis is undertaken. This is followed by a discussion of key findings for, respectively, the profile of SMME enterprises and employment, sectoral change, and spatial change.

3.2.1 Data and Methodology

In South Africa the published data from the official census of manufacturing provides only a limited base from which to examine the restructuring of provincial manufacturing economies and, in particular, to undertake a fine-grained analysis of their changing spatial and sectoral composition. The official data provides, at best, information only for the total number of manufacturing establishments at a magisterial district level. Indeed, the industrial census material does not allow for any disaggregated analysis of the sectoral or size profile of manufacturing activity at a provincial level.

As a result of deficiencies in official data, the analysis below draws from the unpublished data of industrial establishments which is provided by the University of South Africa (UNISA) Bureau of Market Research Industrial Register. This database provides information for each listed registered establishment by Standard Industrial

Classification, by magisterial district and further gives an indication of employment at each establishment in terms of a size code. In addition, the UNISA BMR Registers allow recognition of the status of each establishment in terms of whether it is a branch plant, independent enterprise and so on. In this report, data for 1994 and 2003 were analysed in order to provide a picture of the changing profile of manufacturing SMMEs in Free State province. It should be cautioned that whilst the data provide a firm indication of longitudinal trends, the actual statistics should *not* be compared with those drawn from other sources because of the different procedures for data collection.

Overall, therefore, analysis was undertaken of the University of South Africa Bureau of Market Research Industrial Registers for 1994 and 2003. Given the inadequacies of the manufacturing census, currently the BMR database is the best available source for examining detailed change in the manufacturing SMME economy in the province. Nevertheless, it is important to note that the Industrial Registers deal only with what would be described as established manufacturing SMMEs and thus do not capture the dynamics of change of emerging manufacturing SMMEs.

3.2.2 Key Findings – Establishments and Employment

Figure 3.1 shows the macro-profile of SMMEs in the manufacturing economy of Free State province as differentiated by numbers of enterprises and contribution to estimated total provincial manufacturing employment.

The analysis discloses that between 1994 and 2003 there is recorded a considerable net increase in the total numbers of manufacturing establishments in Free State Province. That said it should be noted that the almost near-doubling in the total numbers of establishments must be attributed, in part, to improved data collection procedures. Between 1994 and 2003 it is recorded that the number of manufacturing SMMEs expands from 318 to 845 enterprises. It is significant that the proportion of SMMEs of total manufacturing establishments rises from 69 percent in 1994 to 83 percent in 2003. This is an indication of the growing significance of SMMEs in terms of the overall manufacturing base of Free State province.

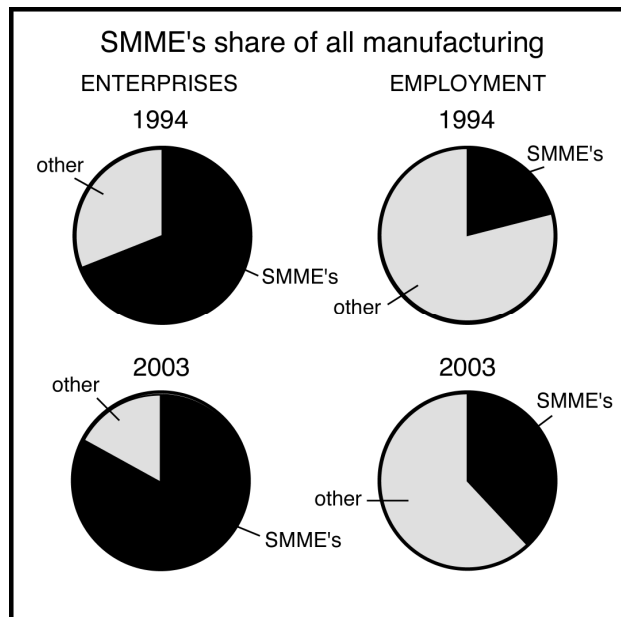


Figure 3.1: SMMEs Share of Total Enterprise and Employment in Free State

Despite the increases in numbers of manufacturing establishments, the picture in terms of its overall total manufacturing employment is of only a marginal increase of jobs between 1994 and 2003. This relatively stagnant picture of provincial manufacturing employment as a whole should be set against the rise in significance of SMME manufacturing in terms of share of total employment. It is disclosed that in the manufacturing SMME economy, the numbers of jobs nearly doubles from 10 200 in 1994 to 18 100 by 2003. Accordingly, in a stagnant provincial manufacturing economy, there is a growing significance of manufacturing SMMEs in terms of their contribution to the overall manufacturing economy; between 1994 and 2003 the share of SMMEs in estimated total manufacturing employment in Free State rises from 20.1 percent to 38.9 percent (see Figure 1). Behind this finding is the decline and closure of many large manufacturing enterprises and especially the closure of many branch plants between 1994 and 2003. Another factor in the 'hidden growth' of the manufacturing SMME economy is downsizing by larger enterprises so that many enterprises defined as large in 1994 become (large-sized) SMMEs by 2003.

3.2.3 Key Sectoral Findings

As the major changes taking place between 1994 and 2003 in the sectoral base of the Free State manufacturing economy as a whole are analysed in detail in the separate Report on the manufacturing economy of the Province, these will not be dealt with here. The focus in this section is upon analysis of the sectoral changes that have been observed in the SMME manufacturing economy.

It is evident from Figure 3.2 that significant changes can be seen in the sectoral composition or structure of the manufacturing economy of Free State. In 1994 the leading sectors in terms of numbers of SMME manufacturing establishments were food, fabricated metals, other non-metallic minerals products and machinery. By 2003 the leading sectors ranked in terms of number of SMME manufacturing

establishments were fabricated metals, food, other (mainly jewellery) and furniture. Overall, it is shown that between 1994 and 2003 the largest growth in numbers of new SMME manufacturers occurs in the sectors of fabricated metals followed by the sectors of food, clothing and other. Although the numbers of fabricated metals SMME establishments expands by a factor of two, the most rapid growth is in evidence in new SMME establishments in the sectors of clothing, other, furniture, printing and wood. In terms of the numbers of SMME enterprises, it is observed that between 1994 and 2003 the relative importance of the food sector is markedly reduced.

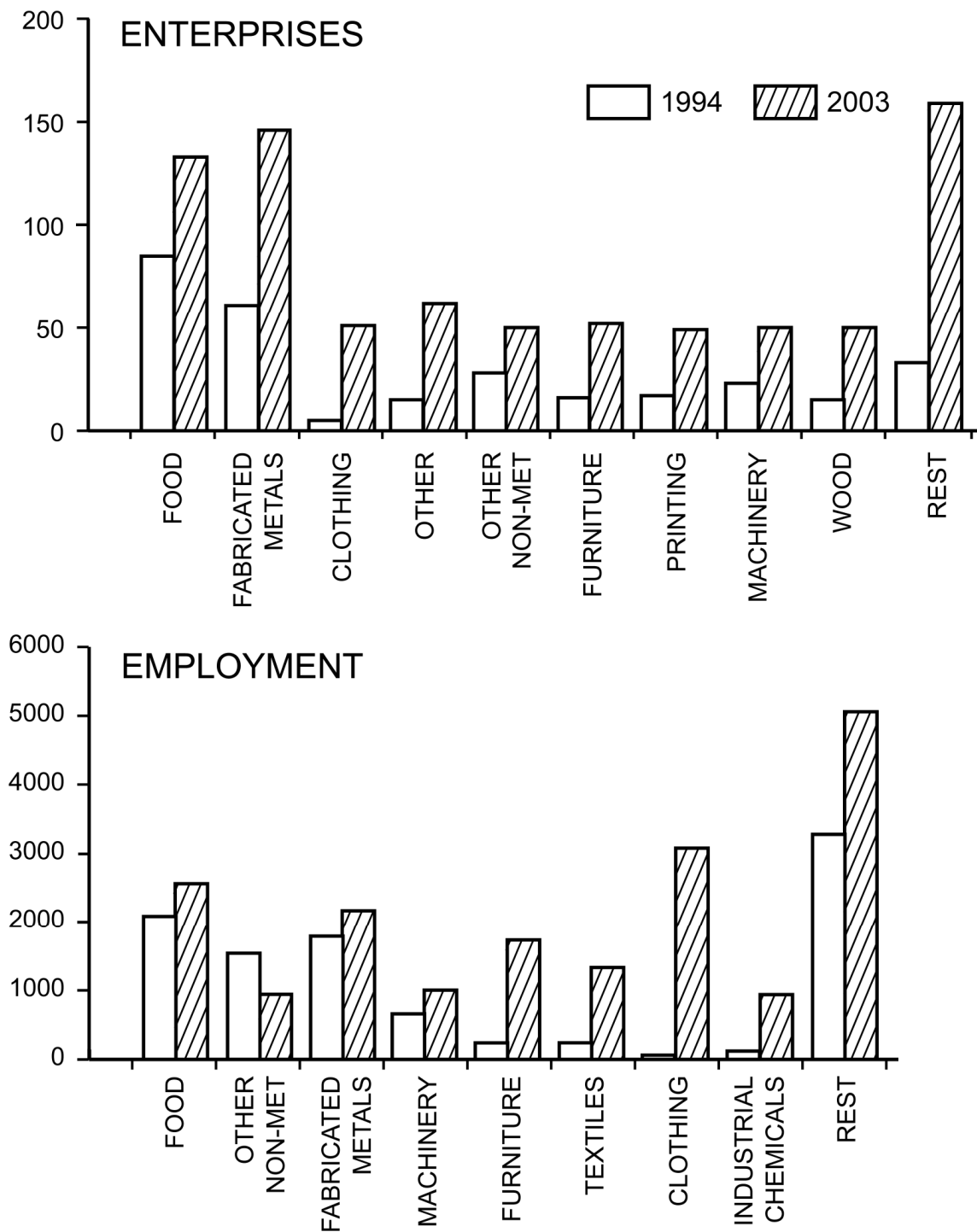


Figure 3.2: Sectoral Composition of SMME Manufacturing 1994-2003

The situation as disclosed in terms of employment in SMME manufacturing enterprises is somewhat different. In terms of 1994 SMME manufacturing employment, nearly 60 percent is concentrated in the three sectors of food, fabricated metals and other non-metallic mineral products. In terms of 2003 SMME manufacturing employment, the situation has changed markedly with, in ranked order, the most important sectors being those of clothing, food, fabricated metals, and furniture. The remarkable rise of SMME employment in the clothing sector is the most significant shift in terms of manufacturing employment in SMMEs in Free State between 1994 and 2003. Healthy increases in SMME manufacturing employment are recorded also in the sectors of textiles and furniture. Although SMME employment in the food and fabricated metals sectors shows a modest increase, their relative significance in terms of their share of overall SMME manufacturing employment is markedly reduced because of the remarkable surge of employment in clothing SMMEs. Finally, two further observations can be offered. First, that the sector of other non-metallic mineral products appears to be in absolute decline in terms of employment. Second, that the notable advance of the 'other' (mainly jewellery) sector in terms of enterprise numbers is not reflected in a parallel rise in its contribution towards job creation in the manufacturing SMME economy as a whole.

3.1.4 Key Spatial Findings

As the salient shifts occurring between 1994 and 2003 in the geographical structure of the Free State manufacturing economy as a whole are analysed in detail in the separate report on the manufacturing economy of the Province, these are not examined here. Rather, the focus in this section is specifically upon an analysis of the spatial changes that are observed in the SMME manufacturing economy.

At the outset, it must be noted that the spatial patterns observed in the SMME manufacturing economy are somewhat different to the patterns for the Free State manufacturing economy as a whole which are influenced substantially by the downsizing and/or closure of many large manufacturing establishments and branch plants. The geographical patterns of SMME manufacturing in the province are shown on Figures 3.3 and 3.4. Figure 3.3 shows the changing patterns of manufacturing in terms of numbers of SMME enterprises whereas Figure 3.4 shows the shifting patterns as indexed by estimated total employment opportunities in SMME manufacturing.

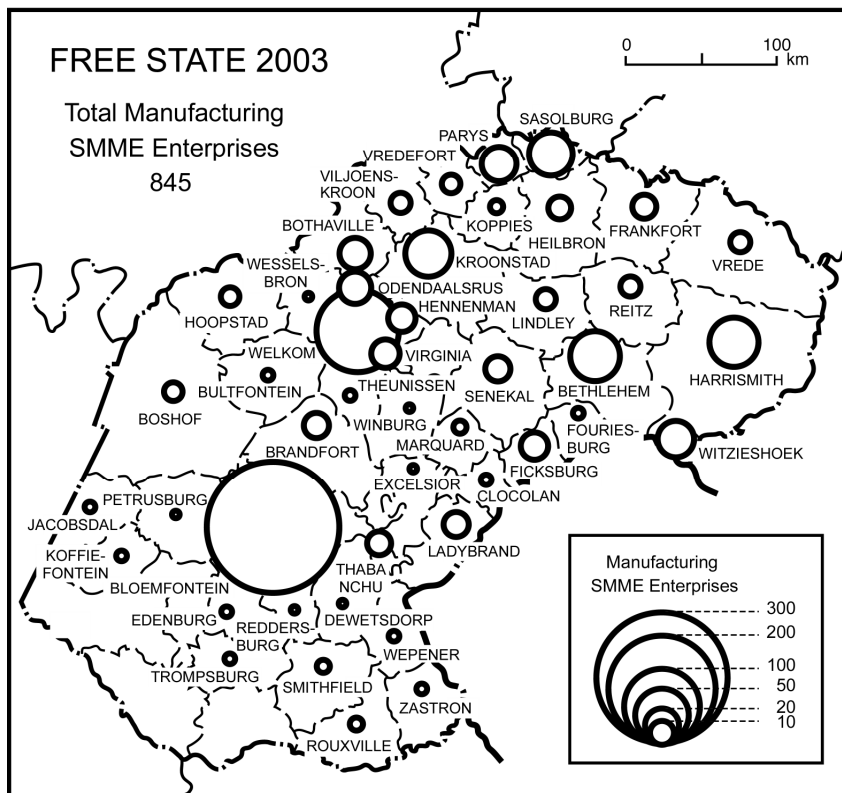
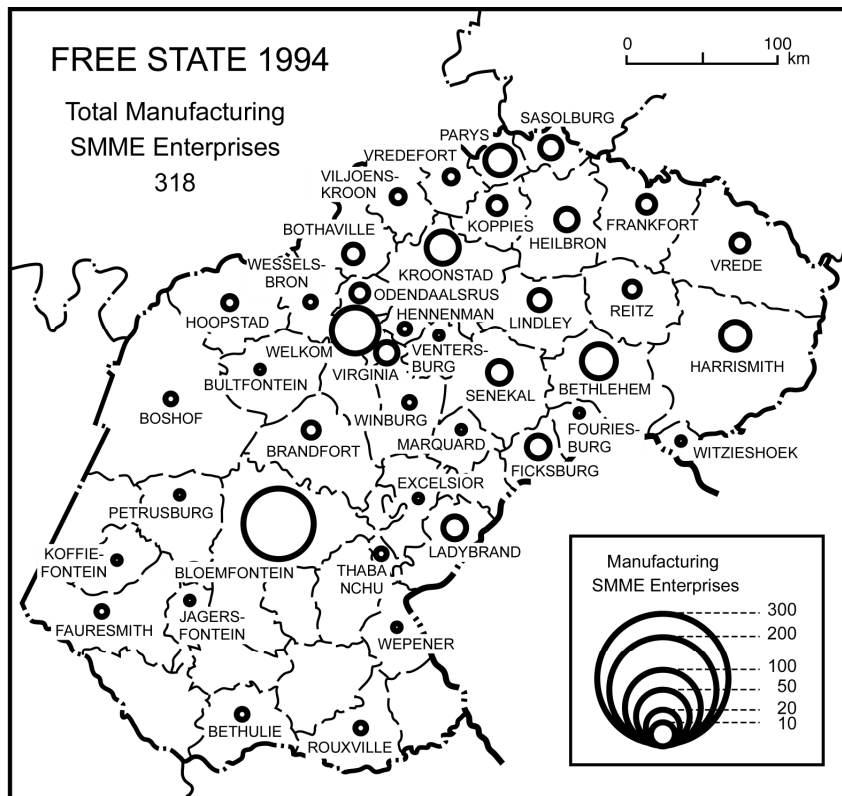


Figure 3.3: Changing geography of SMME enterprises 1994-2003

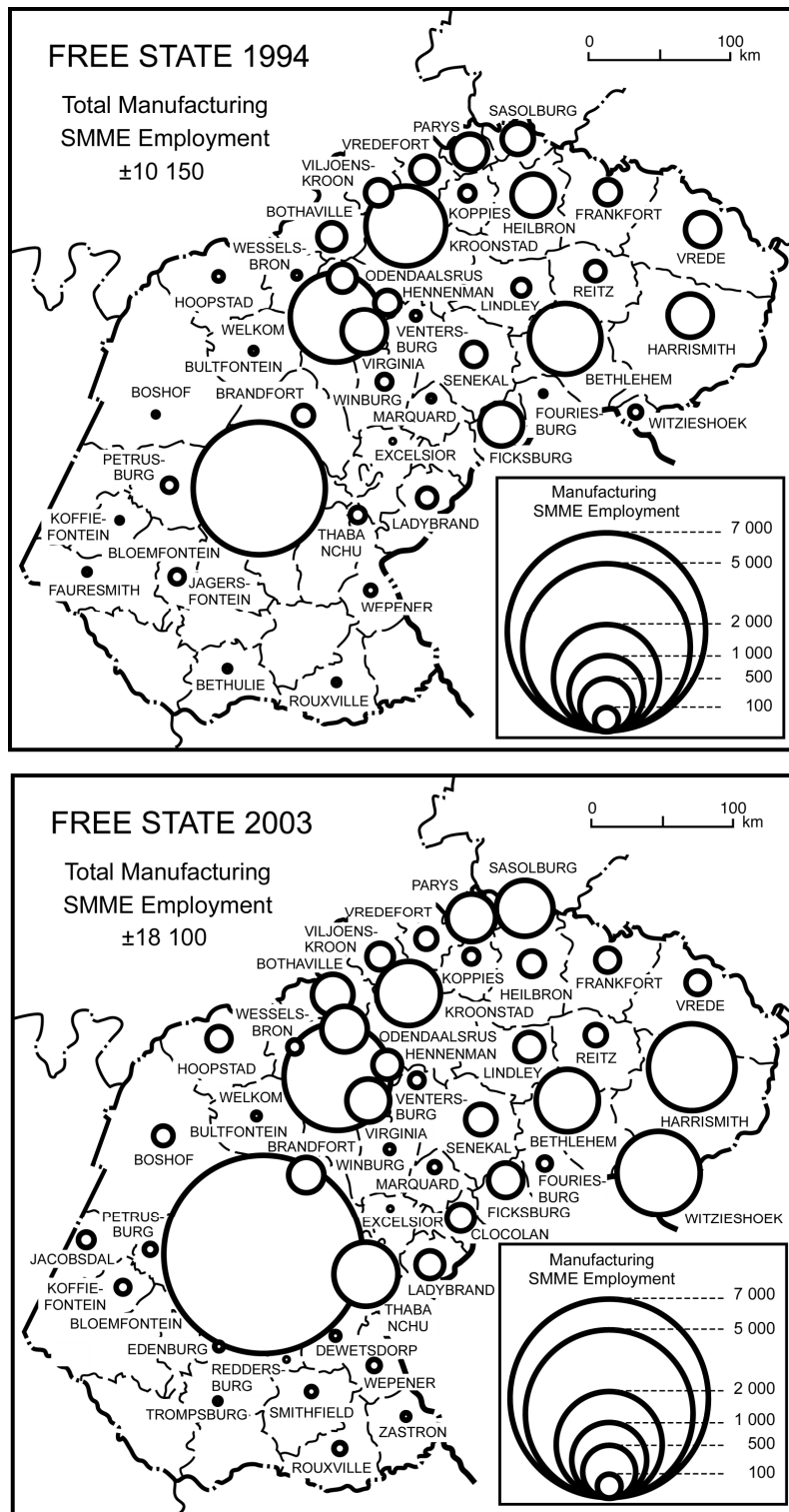


Figure 3.4: Changing geography of SMME employment 1994-2003

Several points emerge in terms of analyzing the changing geography of SMME manufacturing in Free State province over the last decade. In terms of enterprises (Figure 3.3) a number of points are of note. A first observation is that growth in the actual numbers of SMME enterprises is taking place across nearly all areas of the Province, including the province's largest urban centres and in the small towns. Second, the largest absolute growth of SMME manufacturing enterprises is, however,

strongly focused in the Bloemfontein-Botshabelo-Thaba Nchu cluster. This cluster expands markedly from 28 percent of total manufacturing SMME enterprises in 1994 to 37 percent by 2003. Smaller growth is observable in the relative share of SMME manufacturing in the Harrismith-Phuthaditjhaba cluster from 4.7 to 7.7 percent share by 2003, in the Goldfields from 16 to nearly 18 percent by 2003 and Sasolburg from 2.5 to 3.9 percent by 2003. Third, it is significant that apart from these clusters, in relative terms SMME manufacturing has performed poorly in terms of enterprise numbers in Kroonstad, Bethlehem and throughout the small towns of the Free State. Indeed, it is evident that the relative share of numbers of SMME manufacturing enterprises in small towns declines from 37 percent in 1994 to 24 percent by 2003. The overall picture thus emerges that between 1994 and 2003 SMME manufacturing, as measured by enterprise numbers, is increasingly concentrated in the largest urban centres of the province with the most rapid and vibrant growth evidenced in the Bloemfontein cluster.

In terms of the patterns observable from estimated manufacturing SMME employment, as shown on Figure 3.4, a number of parallel comparisons and contrasts may be drawn. First, that absolute growth in total employment in manufacturing SMMEs is less widespread than growth in enterprise numbers across the province. Indeed, significant growth is observed in only two areas of the province, the Bloemfontein-Botshabelo-Thaba Nchu and Harrismith-Phuthaditjhaba clusters. The former doubles its absolute number of employees in manufacturing SMMEs and in relative terms advances from 31 percent to nearly 43 percent of all SMME manufacturing employment in Free State. The Harrismith-Phuthaditjhaba cluster records an equally impressive advance from only a 4 percent share in 1994 of total manufacturing SMME employment to 14 percent by 2003. Beyond these two clusters limited growth is recorded only in Sasolburg and a number of smaller centres including Parys and Ladybrand. For the rest of the Province, including the Goldfields, Bethlehem, Kroonstad and the majority of small towns the situation is of relative if not absolute decline in manufacturing SMME employment. The most marked relative declines are recorded for the group of small towns as a whole – down from 23 percent of total SMME manufacturing employment in 1994 to 17 percent by 2003, the Goldfields (down from 21 percent in 1994 to 15 percent by 2003), Kroonstad (down from 11 percent to 4 percent between 1994 and 2003) and Bethlehem (down from 9 percent to 4 percent from 1994 to 2003).

Overall, two striking conclusions emerge from this analysis of the spatial restructuring taking place in the SMME manufacturing economy of Free State. First, that SMME manufacturing growth is increasingly focused upon the two clusters around Bloemfontein and Harrismith-Phuthaditjhaba. Second, that outside of these two clusters the performance of SMME manufacturing has been weak. More particularly, whilst enterprise growth in numbers is recorded in areas such as the Goldfields, this expansion in the numbers of SMME enterprises has not been reflected in substantive job creation in SMME manufacturing. It is against this backdrop that attention turns in the next section to review and analyse the findings from 50 survey interviews that were undertaken during 2003 with a cross-section of established SMME manufacturers in the province.

3.3. SURVEY FINDINGS

In this section the findings are presented of the total of 50 interviews that were conducted with manufacturing SMMEs across the Free State during 2003. In terms of the evolving manufacturing SMME economy, the focus of the interviews was upon the organization, development and problems of manufacturing SMMEs operating across a range of different sectors and across different spatial locations in the Free State. The selection of interviewees was focused upon the established SMMEs as listed in the 2003 UNISA Bureau of Market Research Industrial Register.

In conducting the survey the interviews were spread geographically in a manner to reflect the overall spatial distribution of manufacturing SMMEs as disclosed by the macro-analysis. Accordingly, the largest number of interviews was targeted in the Bloemfontein, Goldfields and Harrismith clusters. Other interviews were captured at a range of other locations in order to obtain as wide a range of opinions as possible on the core issues surrounding the manufacturing SMME economy. In addition, an attempt was made to secure a limited number of interviews from small towns in order to understand some of the issues around SMME manufacturing across the Free State. In structuring the sample of interviews a deliberate attempt was made to parallel the structural profile of manufacturing in the province as disclosed in the macro-analysis.

The key themes that were addressed in the structured interviews relate to developing a profile of entrepreneurs and their enterprises; an examination of their recent and projected business performance; job creation in manufacturing SMMEs; and, issues of government support. The final sets of issues relating to job creation and the role of government furnish a base for recommending a series of action steps for strengthening the manufacturing SMME economy of the province.

3.3.1. Characteristics of Manufacturing SMME Entrepreneurs and their Enterprises

Several dimensions of the characteristics of manufacturing SMME entrepreneurs were revealed in the sample of 50 interviews. Issues that were examined included the race, gender and age of entrepreneurs; length and reasons for business establishment; the start-up of business operations; and, explanations for their locational selection of the Free State.

In terms of race, given the apartheid legacy and the history of industrial development in Free State, it is not surprising that of the 50 interviews, the vast majority (48 or 96 percent) were white entrepreneurs; one 'coloured' and one 'Black' entrepreneur were captured in the survey. In terms of gender, the manufacturing SMME economy is dominated clearly by male entrepreneurs; of the 50 enterprises, 39 were owned by men, 8 by women and 3 enterprises were co-owned. The fact that women were owners or co-owners of 20 percent of the sample of enterprises is of note. In terms of age of entrepreneur 44 responses were obtained and revealed that the typical manufacturing SMME entrepreneur is in the age range of 31-50 years. In detail of the 44 respondents: 2 were aged between 21-30 years, 17 between 31-40 years; 15 between 41-50 years, 7 between 51-60 years and, 3 were aged over 60 years.

The information concerning length of establishment of businesses reveals that the province's manufacturing SMME economy is a mixture of certain long-established enterprises along with groups of more recently established manufacturing firms. The profile of business establishment in detail showed that the origins of the 50 sample enterprises stretched over nearly a century with the earliest business founded in 1903 and the most recent in 2001. In detail, the pattern of establishment was as follows: 6 firms established pre-1970; 2 enterprises between 1970-79; 8 enterprises founded 1980-89; 30 firms between 1990-99; and 4 enterprises from 2000-03. Overall, nearly two-thirds of sample enterprises were established in the period 1990-98.

The reasons for business establishment were obtained from 40 of the 50 enterprises; in the other 10 cases the original enterprise had been taken over by new owners. Of the 40 responses, three major reasons for initiating a manufacturing SMME were disclosed. First, was the identification of a market opportunity and linked issues of improving the entrepreneurs quality of life. Second, in addition to this group of "opportunistic entrepreneurs", the origins of many other businesses link back to a desire by entrepreneurs for self-employment and a wish to have an independent livelihood. Finally, there was another significant group of entrepreneurs – approximately 25 percent of the sample – who became entrepreneurs in manufacturing out of necessity rather than choice. Indeed, the origins of this segment of Free State manufacturing must be attributed to the results of retrenchments, often linked to the mines, and of the imperative need faced by white entrepreneurs to make a household living.

Typically, at business start-up the source of capital for business operations is from the entrepreneur's own or household funds, which often are supplemented by pension or retrenchment pay outs. In a small number of cases businesses were founded on the basis of borrowed capital and, more commonly, of borrowed equipment. Three kinds of problems were commonly experienced by these start-up entrepreneurs. First, was the issue of 'learning the business'. A second important theme was of establishing markets for the outputs of these manufacturing SMMEs. Third, was the problem of securing sufficient finance for business development and upgrading, more especially as regards the purchasing of new equipment or machinery.

Entrepreneurs were asked to explain the locational choice for their factory and of the advantages and disadvantages of operating a manufacturing SMME in Free State province. The findings disclose that a group of what can be described as 'lifestyle factors' are the most important explanation behind locational choice. Indeed, for nearly half of entrepreneurs the choice of locality for their operations was explained simply either by the fact that it was the place of residence of the owner or that the entrepreneur liked the lifestyle and quality of life offered by the choice of a Free State location. For other entrepreneurs, key considerations for their choice of location related to the closeness of major markets due to the centrality of a Free State location, the availability of cheap land and/or premises, and availability of labour. It is significant that the factor of government incentives was not mentioned by any respondents, despite the fact that several of the interviewees were situated in areas formerly favoured by apartheid decentralization incentives.

The potentially fragile state of the manufacturing SMME economy was signalled by the fact that nearly half of entrepreneurs could offer no special advantages for their

factory operations to be situated in Free State. Indeed, the balance of advantages versus disadvantages that emerges from the interviews was heavily weighted towards the disadvantages of a Free State location. Dissatisfaction was so strong amongst 16 percent of the sample that entrepreneurs were either planning to close down their operations entirely or relocate their operations elsewhere. The preferred choices for relocation from Free State were Gauteng and the Western Cape in South Africa and beyond to Namibia and Botswana. The advantages that were mentioned for a Free State location were led once more by lifestyle considerations, factors of centrality and access to particular markets. The major disadvantages identified by these SMME manufacturers of operating in Free State clustered around the stagnant or declining markets for industrial goods in the province and especially of declines taking place in the Goldfields area, and of the costs imposed by distance to input suppliers and access to markets, often in Gauteng. Other concerns that were highlighted by entrepreneurs related to the lack of any support system offered by government for manufacturing SMMEs and the lack of available skilled labour across the Province. Specific issues were noted for particular kinds of manufacturing; with problems of drought impacting upon agro-industries and the “conservative outlook” of the Free State population that did not offer a local market for the outputs of Goldfields producers of fashion jewellery.

In summary, several of the findings concerning the nature of entrepreneurship, patterns of business development and reasons for establishment are not dissimilar to those reported from other parallel research on manufacturing SMME development in other provinces of South Africa (Kesper 2001; Rogerson, 2001). Indeed, the most distinctive features of the Free State sample are, perhaps, their strong dominance by white entrepreneurs and of the linkage of a segment of business establishment to specific issues concerning the restructuring and decline of the South African mining industry. Of policy concern, however, is the poor and worsening perception of the Free State as a continuing location from which to operate a manufacturing SMME operation.

3.3.2 Recent and Projected Business Performance

The business performance of enterprises was examined for the previous five years, the previous year and in terms of anticipated business performance over the forthcoming year. Following the approach of investigations of SMME manufacturers in other provinces (see Kesper, 2001, 2002), entrepreneurs were requested to provide indicators of business performance across four factors, viz., business profits, numbers of employees, size of premises and volume of sales of products.

Overall, these findings relating to the recent and projected business performance of manufacturing SMMEs in Free State produce a mixed picture of the current state of the manufacturing SMME economy. Of particular interest are the responses of interviewees which serve to highlight a set of potentially significant blockages or constraints that require attention in terms of strengthening the SMME manufacturing economy as a whole.

The key comparative findings on business performance over the last five years and previous 12 months are as follows:

- In last 5 years 32% enterprises grew their labour force, 32% grew profits, 22 % grew premises and 44 % grew sales
- In last 5 years 34% enterprises reduced their labour force, 32% reduced profits, 4 % reduced premises and 20 % reduced sales
- In last 12 months 18 % grew their labour force, 28 % grew profits, 2 % grew premises and 36 % grew sales
- In last 12 months 18 % reduced their labour, 28 % reduced profits, 4 % reduced premises and 22 % reduced sales.

In interpreting these somewhat mixed signals concerning the state of the manufacturing SMME economy a number of points must be made. First, that an improved business performance was explained in terms of, variously, better enterprise marketing; enterprise adjustments made in terms of the innovation of new products; the restructuring of enterprises; and, in the case of jewellery firms in particular, the result of a strong export performance. Second, by contrast, a weakened business performance was linked principally to the poor and declining state of the macro-economy at provincial and local levels; to labour problems; competition from imports; and, in the case of agro-industries, to issues around drought. In detail the fragile state of provincial SMME manufacturers typically was linked, as in the case of one fibreglass moulder, to the fact that “the economy is killing us off”. Of note also is that issues of local economic decline and weakened markets were highlighted especially by those producers located in small towns and in the Goldfields where several interviewees bemoaned the fact that there was “no buying power” in the local economy. In a small number of cases, the decline of employment in businesses was attributed to “massive union problems” which encouraged entrepreneurs to seek to further mechanize their operations.

The responses concerning future business performance offer grounds for some degree of optimism that the worst period of decline and associated employment shake-out for many SMME enterprises may be nearly over. The overall findings were as follows:

- In the next 12 months 42 % of enterprises expect to grow their labour force, 46 % to grow profits, 16 % to expand their premises and 50 % to grow sales
- In the next 12 months only 8 % of enterprises anticipate a reduction in their labour force, 24 % project reduced profits, none a reduction in premises and 8 % reduced sales.

Even discounting for the observed tendency for entrepreneurs to over-exaggerate their anticipated future business activities, these results do offer grounds for some optimism on an improvement in the state of the established manufacturing SMME economy. Although the numbers of interviews in sectors was too small to offer firm conclusions on sectoral performance, it was striking that optimism was most strongly expressed by clothing and furniture producers. Indeed, in the case of one Phuthaditjhaba clothing enterprise an expansion of 150 new jobs was planned in the next 12 months period. As a general observation, optimism for the future was most in evidence from interviewees in Bloemfontein or Harrismith, the two strongest industrial clusters in the province. By contrast, once again, a depressing picture emerged from interviews conducted with Goldfields entrepreneurs who spoke of “everyone running to Johannesburg”, a stream of local business closures and of

people leaving the area, and most depressing, of escalating levels of crime against businesses in the context of local economic downturn and widespread employee retrenchments.

3.3.3 Employment Issues

It is evident that the critical question of expanded job creation in SMME manufacturing ultimately hinges upon the achievement of an improved business performance. Nevertheless, as has been shown elsewhere in South Africa (Kesper, 2001, 2002), there is a potential danger that improved business performance in terms of expanded profits or increased sales may not *necessarily* translate into additional employment opportunities.

In the interview survey an attempt was made to identify the core constraints on the improved business performance of Free State manufacturing SMMEs and to isolate the key specific issues that were impeding job creation. The findings from the 50 interviews produced a host of different problems or constraints on the expansion of provincial manufacturing SMMEs. Some of these constraints were generic and others of a more sector-specific character. The major generic issues affecting the improved business performance can be broadly grouped in terms of four sets of issues. First, are a range of constraints on enterprise performance in relation to market decline and associated business cash flow difficulties. It is apparent that a critical issue is that of geographically expanding the markets which are served by manufacturing SMMEs based in the province. It was calculated that currently the provincial Free State market is the major (if not in many cases the only) market for 78 percent of SMMEs. In 18 percent of the sample the major market was Gauteng; in the other cases KwaZulu-Natal and North-West were identified as the major markets served by these Free State producers. Of concern is the fact that only a tiny segment of SMMEs export any of their outputs outside South Africa. Indeed, only 14 percent of the sample of enterprises undertook any exporting activity whatsoever. The real extent of exporting is further reduced if it is acknowledged that for 5 of the 7 exporters Lesotho is the core export market. Indeed, only two of the surveyed SMME enterprises undertook exporting outside of the SACU Rand currency zone and both of these were jewellery manufacturers which targeted the majority of their production for the US market. At the time of the interviews concerns were expressed by many SMME manufacturers that the strengthened Rand was a deterrent to a growth in export operations.

A second cluster of issues concerning improved business performance surround labour. It was observed that in certain sectors of manufacturing there are distinct shortages of certain types of labour. For example, skilled labour of various forms is in short supply in the Free State with the consequence that it must be recruited from outside the province, normally from Gauteng. Shortages of various types of labour for manufacturing points to the existence of certain shortcomings in existing training institutions in the province which are failing to supply such needs as for tool makers or graphic designers. In one interview the respondent even complained that shortages existed for clothing apprentices in the province. Another prominent set of labour issues related to matters of poor levels of worker productivity, labour costs and the impacts of stringent labour laws. The low levels of worker productivity alluded to by several respondents often were linked to the effects of the AIDS epidemic on workers health. Taken together, these sets of labour problems coalesce and result in a

reluctance by SMME entrepreneurs to take on additional labour and thus create new jobs.

The last group of constraints around improved business performance relate to the weakness of government support structures and unreliable or poor infrastructure. The question of unreliable or poor infrastructure in terms of electricity, water supplies or refuse removal was particularly aired in the cases of manufacturers whose business was located in small towns rather than in the Province's major geographical industrial clusters. If infrastructural issues are of local concern, the question of access to support structures was of widespread concern. The findings disclose that awareness levels of available national government support programmes for SMME development are poor and that there are problems with accessing potential support programmes. The most common support programmes that established Free State SMME manufacturers sought support from were the Small, Medium Enterprise Development Programme grants and export incentives, both operated through the Department of Trade and Industry in Pretoria. It was found that whilst 20 percent of sample enterprises had tried to secure Government support only 6 percent were successful in securing SMEDP grants or export incentives. The disappointments in accessing national government programmes found expression in statements made that national DTI programmes were "all talk and no action" as in many cases no reply to the support request had even been received. Of significance was that the majority of entrepreneurs were unaware of potential support programmes or had never thought of applying or did not know where to go for information regarding possible support.

Finally, entrepreneurs were asked to identify the necessary conditions under which these enterprises would expand their existing work force. In nearly two-thirds of cases, the key conditions relate to achieving an improved macro-economy which would result in an expansion of markets for Free State producers. An improved economy – both at provincial and local levels – would therefore be overwhelmingly the best driver for enhancing job creation in the established manufacturing SMME economy. Better market conditions would also have positive side effects in terms of potentially reducing the rising crime levels which are an associated consequence of economic decline. A second area for attention relates to improving access of entrepreneurs to finance for business development and purchases of new equipment. Third, there are a number of potential suggestions in terms of enhanced labour training or the relaxation of labour laws which are deemed as onerous for SMMEs. Fourth, an improvement is recommended in the application of local economic development programming in terms of encouraging 'buy local' campaigns, not least through affirmative procurement in support of local enterprise. Finally, there is a call from certain quarters for better infrastructural provision and the enhancement of premises suitable for SMME manufacturers.

3.3.4 Towards Action Steps: The Role of Local and Provincial Government

Several issues raised by entrepreneurs concerning the most important contributions that local and provincial governments could make in order to grow their business and correspondingly to grow manufacturing employment provide the starting points of an action agenda for strengthening the SMME manufacturing economy. It should be noted that the majority of the suggested actions as proposed by interviewees reflect

comments that have already been made concerning the core constraints on business performance and job creation.

3.3.4.1 Rebuild the Large Firm Manufacturing Economy

It is evident that some of the observed weaknesses of the provincial SMME economy, notably its emasculated market base, are, to some extent, the product of the declining fortunes of the provincial economy as a whole and of the large firm manufacturing economy in particular. It will be important for the future economic health of the SMME economy that an integrated strategy be developed for the economic development of the province as a whole and of the large firm manufacturing economy in particular. An expansion of the large firm manufacturing economy would offer direct market and linkage opportunities for SMME producers and indirect opportunities through the growth of local markets. The revival of the large firm manufacturing economy as a lever for SMME manufacturing must be one of the outputs of a provincial manufacturing strategy. The spatial patterns of SMME manufacturing suggest that the greatest momentum of SMME manufacturing currently exists in the two strongest clusters which centre around Bloemfontein and Harrismith-Phuthaditjhaba. The vibrancy of these two clusters needs to be nurtured and sustained within a Free State manufacturing strategy.

3.3.4.2 Maximise Local Economic Development Opportunities

The development of local economies and the reversal of the downturn experienced in the fortunes of particular localities can play a critical role in restoring the manufacturing base of these areas. Service-based or local market serving production activities can be stimulated by any lead sector, including agriculture or tourism. Local governments in partnership with other stakeholders must seek to maximize local development opportunities for SMME producers. It is recommended that the stimulation of local sourcing be assisted through the appropriate application of public procurement programmes. Another initiative would be for local governments to institute a regular monitoring of local manufacturing SMMEs in order to understand their problems and potentially to address their support needs. The objective of local business monitoring would be to retain and potentially strengthen existing businesses rather than to face local factory closures or relocations which might be avoided through local government support.

3.3.4.3 Establish a Provincial Manufacturing Advice Centre

Sustaining and facilitating the take-up of new opportunities by SMME entrepreneurs as a result of a strengthened macro-economy, large firm expansion and the creation of opportunities through Local Economic Development initiatives will require an improvement in the existing support structures concerning established SMMEs. The most important action step for directly strengthening the SMME manufacturing economy is to establish a provincial manufacturing advice centre.

The tasks of the Manufacturing Advice Centre would include:

- to enhance the competitiveness of established SMMEs through support for clusters, enterprise re-adjustments and the reorganization of production processes
- to provide information and advice, including on export marketing
- to improve awareness of entrepreneurs of national government support programmes, in particular those operated through the Department of Trade and Industry. In addition to awareness raising, entrepreneurs require facilitative support and information in order to ensure successful applications to DTI programmes such as SMEDP or export incentive support.

In light of the existing patterns of development of established SMMEs it would be recommended that the manufacturing advice centre be most appropriately situated in Bloemfontein.

3.3.4.4 Review the Existing Network of Training Institutions

It is apparent that currently there are mismatches in the provincial labour market which suggest that existing training institutions in the province are not aligned to the needs of the manufacturing economy. In particular, the issue of artisan training and apprenticeships needs to be examined in order to ensure that shortages of labour for manufacturing SMMEs do not result in recruitment from outside Free State province. The improvement of technical skills training facilities across the Province must be an objective that will feed into the upliftment of the SMME manufacturing economy.

3.3.4.5 Maintain and Enhance the Infrastructural Base for Manufacturing

It is evident that at both provincial and local level of government it is essential that the infrastructural needs and environment for manufacturing SMMEs be retained and upgraded. Essential infrastructure supply includes roads, power and water provision as well as ensuring suitable premises for small manufacturers.

3.4. SUMMARY OF KEY FINDINGS

3.4.1 Macro-Analysis

The key findings that were disclosed in the macro-analysis of manufacturing SMMEs in Free State are as follows:

- SMMEs are growing in significance in the provincial manufacturing economy both in terms of their contribution to total manufacturing enterprises and share of total employment.
- The poor state of the province's large manufacturers has contributed in part to the growth in significance of SMMEs through large firm downsizing.
- Significant changes have occurred in the sectoral mix of SMME manufacturing with the most important shift being the relative decline of the food sector and the growth of clothing.
- Notable changes are recorded in the geography of SMME manufacturing, most importantly the concentration of SMME production in two clusters around Bloemfontein and Harrismith.

3.4.2 Survey Findings

The key findings drawn from the survey of 50 manufacturing SMMEs were as follows:

- The typical entrepreneur is white, male and aged between 31-50 years.
- Although the desire for self-employment or the identification of market opportunities is the prime basis for SMME establishment, an increasing number of firms are set up out of necessity due to retrenchments.
- The major issues at start-up relate to increasing knowledge of the business and securing markets rather than access to finance
- Lifestyle factors emerge as important bases for explaining the locational choice of SMME manufacturers.
- The Free State is perceived poorly as a base for SMME manufacturing due to its stagnant and declining provincial and local markets.
- The recent business performance of SMME manufacturers has been mixed with good results achieved through enterprise adjustments and poor results linked to a weak macro-economy and labour problems.
- The poor state of the manufacturing SMME economy in Goldfields must be observed.
- Major problems faced by SMME manufacturers relate to the need to expand markets.

3.4.3 Recommendations for Action Steps

The key recommendations for strengthening the manufacturing SMME relate to five sets of issues.

- First, the need to ensure that markets expand by improving the macro-economy, including through rebuilding the province's large firm manufacturers as an element of the Provincial Manufacturing Strategy
- Second, the importance of maximizing opportunities for industrial development through initiatives for local economic development, including local sourcing and public procurement programmes.
- Third, and most importantly, the establishment of a Manufacturing Advice Centre as an anchor for supporting the improved competitiveness of the existing SMME manufacturing base.
- Fourth, to undertake a review of the operations of existing technical training institutions in the Province and their alignment with the labour needs of the manufacturing economy.
- Finally, to continue to maintain and enhance at both provincial and local levels the infrastructural base for the manufacturing economy.

CHAPTER 4: TOURISM SMMEs

4.1. INTRODUCTION

Tourism has been recognized widely as one of the future key drivers of the South African economy over the next two decades (Republic of South Africa, 1996, 1998). It is viewed as a sector that holds considerable potential for entrepreneurship development and for associated job creation (Rogerson, 2002). Nevertheless, in terms of the tourism space economy of South Africa, Free State province occupies only a marginal position especially for the attraction of international tourists (Visser, 2003). Indeed, domestic tourism is at present the major basis for SMME development in the tourism economy of the Free State. Notwithstanding its current peripheral position in the South African tourism economy, there is clearly considerable future potential for further development of tourism in Free State, a fact that has been recognized alike by tourism scholars (Visser, 2003; Visser and Kotze, 2003) and provincial economic planners. As the majority of tourism enterprises would fall into the category of SMME, it is evident that the tourism sector is a potential source for the nurturing of SMMEs.

In this chapter, it is the objective to investigate the development issues and core problems that confront the tourism SMME economy in Free State. The chapter is organized in terms of three sections of discussion and analysis.

- The first section provides a macro-analysis and profile of the tourism SMME economy of the province;
- Against this backdrop, the second section furnishes the results of 50 interviews that were conducted in late 2003-early 2004 with tourism SMME entrepreneurs across the Free State.
- The final section offers a summary of key themes and recommendations

4.2 MACRO-ANALYSIS OF THE PROVINCIAL TOURISM SMME ECONOMY

4.2.1 The Weaknesses of Available Data Sources

As compared to other economic sectors, such as agriculture, manufacturing or mining for which there is considerable official data at national level, the tourism sector is distinguished by the poor state of official data collection. It is, therefore, not surprising that at the provincial level there is minimal official information upon which to provide a macro-analysis of the tourism economy of the Free State and especially of the tourism SMME economy.

It is against this background that this section aims to provide an initial estimate of the characteristics and profile of the tourism SMME economy of Free State. This section draws much of its information from The Free State Directory which is available on the web site of the provincial Department of Tourism, Environmental and Economic Affairs (Free State, 2004). The Free State Directory offers listings of the providers of various tourism products which are subdivided into the categories of accommodation; arts and crafts; game lodges; restaurants; tourist attractions/tourism marketing

organizations; and, tour operators. In total, the Directory contains a listing of approximately 620 tourism establishments across the province. It is evident that the Directory is an ongoing project for there are gaps and errors which are clearly evident in terms of its overall sectoral and geographical coverage of tourism products. In addition, in terms of researching SMMEs it is necessary to remove from the analysis the activities of such large tourism enterprises as Protea, Aventura, Rennies and others.

Despite its shortcomings the production of this Directory must be welcomed as a first step in terms of producing an adequate and comprehensive data base on tourism enterprises and the tourism economy of the Free State. The analysis below draws upon an analysis of the listings of enterprises in that Directory to provide a profile of certain of the key characteristics concerning the tourism SMME economy.

4.2.2 Characteristics of the Overall Tourism SMME Economy

From an analysis of the listings of the enterprises and tourism products that are provided in the Free State Directory it is possible to tease out the broad outlines of the provincial SMME economy. The themes that can be discussed relate to the importance of SMMEs, their sectoral composition, ownership, and geographical distribution of enterprises.

In terms of the importance of SMMEs in the provincial tourism economy, the Directory shows clearly that, in common with the national pattern of tourism enterprises, numerically the largest segment of tourism enterprises in the Free State would be classified as SMMEs. Indeed, of the 620 establishments listed in the Free State Directory, almost 600 or nearly 97 percent would be categorized as SMMEs.

The sectoral composition of tourism SMMEs in the province is shown on Figure 4.1. It is clear that nearly two-thirds of the total of SMMEs in tourism are accounted for by small accommodation establishments in the form of guest lodges or bed and breakfast operations. The provision of food services through restaurants is the second largest grouping of tourism SMMEs, albeit it should be cautioned that question marks might be raised as to whether most of these establishments would be operating primarily to serve tourists as opposed to local residents. In addition, of all the sub-categories of tourism enterprise the geographical coverage of restaurants appears the least satisfactory as is evidenced by the observation that the Directory fails to list any tourism restaurants in Harrismith! Together, the groups of accommodation and restaurant establishments account for approximately three-quarters of all the tourism SMMEs as listed in the Directory.

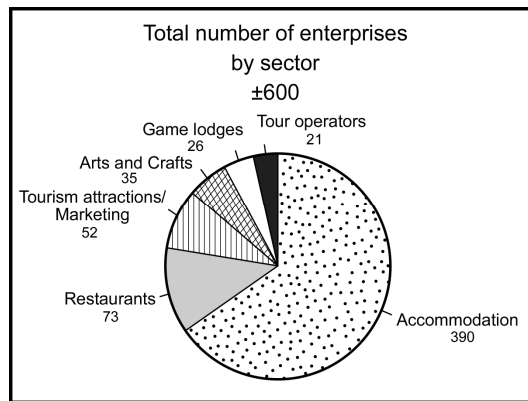


Figure 4.1: Sectoral composition of tourism SMMEs

The remaining groups of tourism SMME enterprise are represented by the operation of a range of tourism attractions and products – from museums to hiking trails to adventure tourism operations (including even a diving academy) – local marketing offices and tourism advice centres; arts and crafts establishments; game lodges and guest farms (many of which also provide accommodation); and travel and tour operators. Overall, it is shown that the structure of the Free State tourism SMME economy encompasses an array of different types of tourism enterprises and offers a host of different entrepreneurship opportunities.

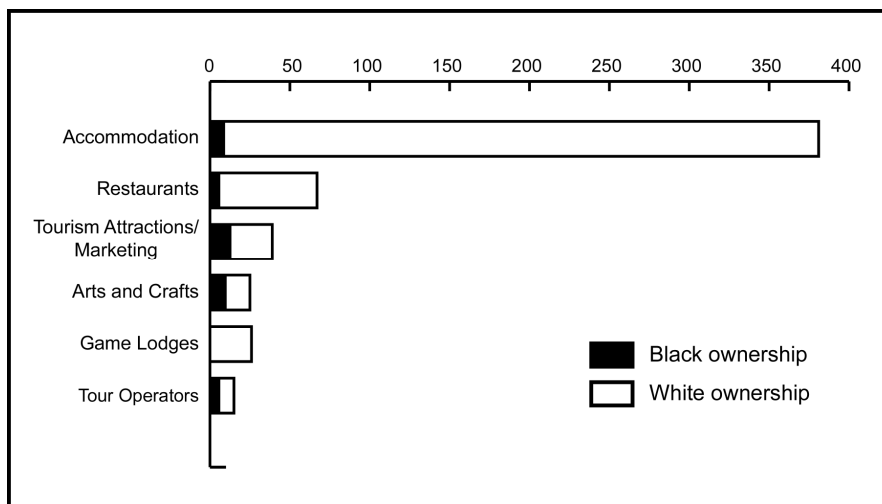


Figure 4.2: Racial patterns of ownership of tourism products

In terms of issues of ownership within the SMME economy, the Directory offers information which allows an analysis of the racial and gender composition of SMME activities. It is clear that the Free State tourism economy is overwhelmingly the domain of white entrepreneurs. Of the total of approximately 600 SMMEs only 45 or 7 percent could be recognized as operated by black entrepreneurs. It is apparent from Figure 4.2 that black ownership of different tourism products varies considerably across the different sub-components of the tourism economy. In relative terms black SMME development in tourism is strongest in arts and crafts, in the travel and tour operations and in the operations of specific tourism products, such as cultural villages or hiking trails. Much weaker representation is found in the accommodation sector, most importantly bed and breakfasts, and the operation of restaurants. Not

surprisingly, in the category of game lodges and the operation of guest farms, no black ownership was disclosed at all. The largest number of individual entrepreneurs, however, are located in the categories of the running of tourism attractions, arts and crafts and accommodation.

The gender patterns of ownership of enterprises are, perhaps, the most difficult to ascertain from the information provided in the Directory. Overall, what is apparent, however, is that especially in the accommodation sub-sector, there is a very high proportion of tourism SMMEs which are operated (if not owned) by white women. An estimate derived from the accommodation sector suggests that levels of female involvement may be as high as two-thirds of all enterprises.

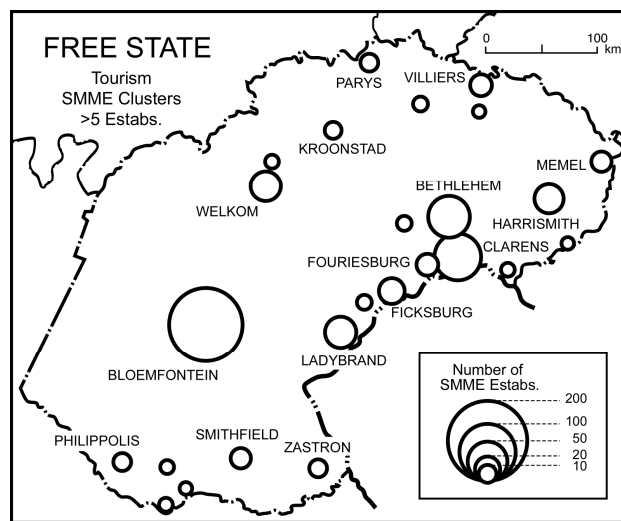


Figure 4.3: Spatial pattern of tourism SMMEs

The spatial patterns of tourism SMMEs in the Free State can be well-understood through an analysis of the listings of enterprises in the Directory. Figure 4.3 presents the overall picture in terms of numbers of SMMEs in particular locations. It is disclosed that there are a number of distinct geographical clusters of tourism enterprises. The largest and strongest cluster is in Bloemfontein, which accounts for approximately 28 percent of tourism SMMEs. The second and third most important tourism clusters are at Clarens and in the Bethlehem area; together these account for a further 21 percent of the provincial total. Currently, therefore almost half of all tourism SMMEs in Free State are situated in one of these three clusters. The other half of the SMME economy is distributed widely across all parts of the province with the Eastern Free State in particular a region of tourism strength and the Northern Free State the region that is, perhaps, most weakly developed as regards tourism SMMEs. In addition to the quality of tourism products a factor that has contributed to the strength of tourism in the Eastern Free State centres of Bethlehem, Clarens, Ladybrand and Fouriesburg is the business tourism flows generated by the Lesotho Highlands Water Project.

On Figure 4.4 the location is given of the existing network of black-owned tourism SMMEs in Free State. It is apparent that the pattern of Black owned emerging tourism SMMEs is different to that of the established fabric of white owned tourism SMMEs. What is evident is that there exists a concentration of black-owned tourism

SMMEs in Bloemfontein, Harrismith-Phuthaditjhaba and Villiers; of note is the weak relative representation of black enterprises in the Clarens and Bethlehem tourism clusters.

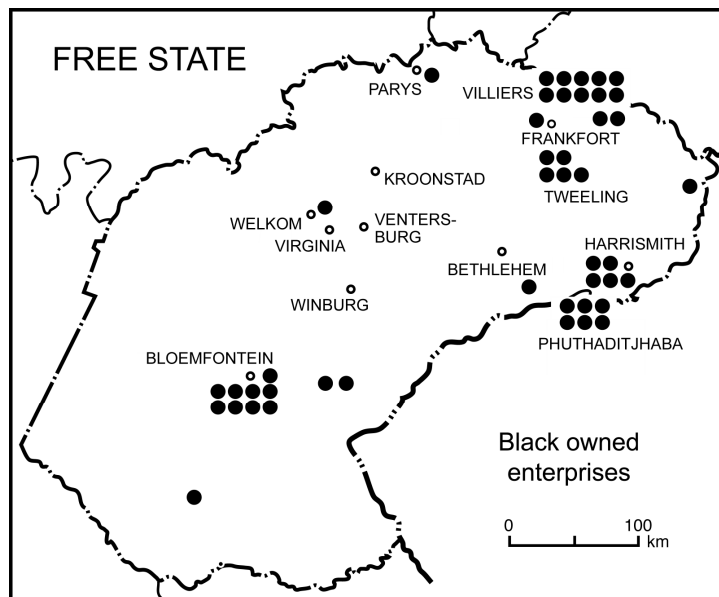


Figure 4.4: Location of Black owned tourism SMMEs

Further insight into the geographical distribution of tourism SMMEs is provided by an examination of Figures 4.5 and 4.6 which unpack the overall tourism SMME distribution to show the profile respectively for the sub-categories of accommodation (Fig 4.5) and arts and crafts and game lodges (Fig 4.6). The two maps reveal different distributions of different types of tourism SMME. On Figure 4.5 is shown the importance, in particular, of the province's major urban centres as the basis for tourism SMMEs in the accommodation sector. Indeed, of the provincial total of accommodation establishments 26 percent is represented by Bloemfontein, an indication of the city's significance for business tourism in particular. The remarkable surge of Clarens as a 'tourism Mecca' both for international travelers and leisure visitors from Gauteng (Marais, 2004) is indicated by the fact that this small town accounts for a further 13 percent of the provincial total of accommodation SMME enterprises.

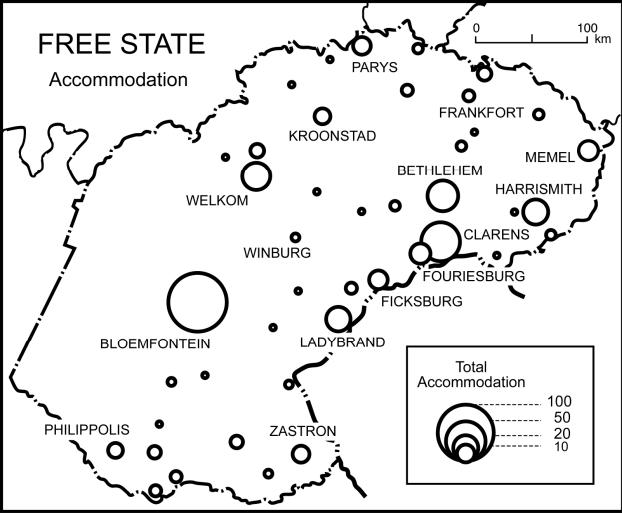


Figure 4.5: Spatial distribution of accommodation SMMEs

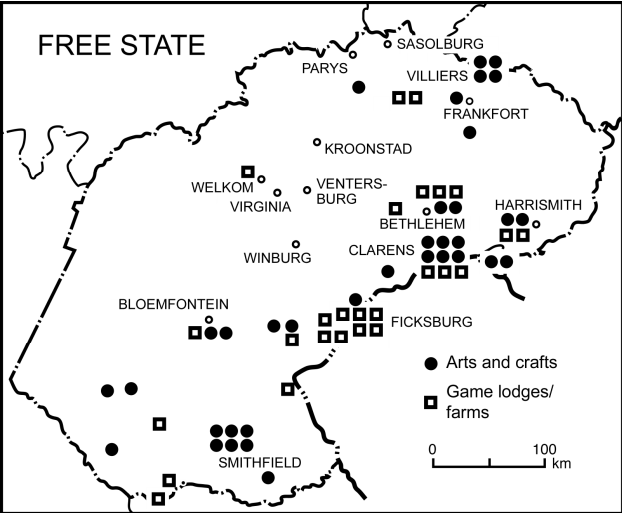


Figure 4.6: Spatial distribution of arts and crafts, and game lodges SMMEs

On Figure 4.6 is shown a markedly different distribution for the sub-category of arts and crafts and game lodges (including guest farms). What is clear is the distinctive small town and rural focus of such tourism SMME operations with Smithfield and Clarens the leading foci for arts and crafts enterprises and the Ficksburg area followed by Clarens and Bethlehem the most notable for game lodges and guest farms.

4.3. SURVEY FINDINGS

In this section the findings are presented of the total of 50 interviews that were conducted with tourism SMMEs across the Free State during late-2003 – early 2004. In terms of the tourism SMME economy, the focus of the interviews was upon the organization, development and problems of tourism SMMEs operating in the accommodation sub-sector, which represents the largest segment of the provincial tourism SMME economy as a whole. The selection of interviewees was focused upon the more established SMMEs in terms of those tourism establishments that advertised in one of the following sources: the Portfolio Bed and Breakfast Collection, the Portfolio Retreats Collection, *Getaway* magazine or the AA national accommodation guide.

In conducting the survey a deliberate attempt was made to spread geographically the range of tourism interviews in order to capture as wide a range of opinions as possible on the core issues surrounding the tourism SMME economy. Overall, the largest number of interviews were conducted with enterprises situated in Bloemfontein, Clarens and Bethlehem. Other prominent centres for interviews were Harrismith, Smithfield, Ladybrand, Memel and Fouriesburg. Nevertheless, beyond these known foci of Free State tourism, interviews were also sourced in other parts of the province, including with tourism SMMEs in Welkom and Sasolburg in Northern Free State. Figure 4.7 shows the number of interviews conducted with tourism SMMEs at various locations in the province.

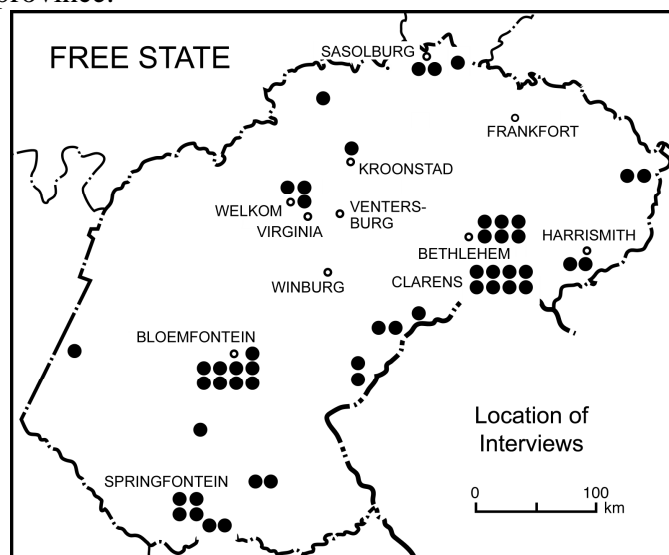


Figure 4.7: Location of tourism SMME interviews

The key themes that were addressed in the structured interviews relate to developing a profile of entrepreneurs and their enterprises; an examination of their recent and projected business performance; job creation in tourism SMMEs; and, issues of

government support. The final sets of issues relating to job creation and the role of government furnish a base for recommending a series of action steps for strengthening the tourism SMME economy of the province. Overall, the themes that were explored in the tourism SMME investigation sought to parallel as far as possible those that were analysed in the survey of established manufacturing SMMEs.

4.3.1. Characteristics of Tourism SMME Entrepreneurs and their Enterprises

In light of the macro-analysis of the Free State tourism economy, it is not surprising that the survey disclosed that all of the entrepreneurs running established tourism SMMEs in the accommodation sub-sector were white entrepreneurs. Although a number of black entrepreneurs are entering into the accommodation sub-sector in terms of the operation of bed and breakfast establishments or of rest accommodation that is linked to cultural villages, currently the most vibrant and visible element of the provincial tourism SMME economy remains in white ownership.

The gender distribution of ownership of enterprises confirms another trend that was disclosed in the macro-analysis, namely the high proportion of female involvement of tourism SMMEs operating in the accommodation sub-sector. Overall, of the 50 enterprises in the survey, 20 were operated by women, 15 by men and 15 as a husband and wife partnership. The age profile of respondents disclosed that tourism SMME entrepreneurship is largely the domain of middle-aged or retirement aged persons. Indeed, of the 50 interviews, only 8 percent were aged less than 40 years. The majority of entrepreneurs – 54 percent of the sample - were aged 50 or more years and 16 percent of the sample was aged over 60 years. These findings suggest that the running of a tourism SMME in the accommodation sub-sector of the Free State, as in other parts of South Africa, is an activity that is commonly practiced by many early retirees or lifestyle entrepreneurs, those who gave up other work because of a household decision to fulfil the desire to run a tourism business living in pleasant countryside surroundings (cf Visser and van Huyssteen, 1997, 1999). This picture of the tourism entrepreneur is further supported by other findings in the survey. Of the 50 interviewees, the operation of the tourism establishment represented the major source of household income for two-thirds of the sample; in the remainder the tourism SMME was a supplement to another source of household income. It was observed that, in many cases, that the income generated from tourism was supplemented by incomes from farming or from a pension.

In terms of the nature of the tourism enterprise, it was shown that most of these tourism SMMEs have been in operation for several years. The distribution of business origins was as follows: 6 enterprises had been in operation for between 1 and 2 years, 12 for between 3 and 5 years, 22 for between 6-10 years and 10 enterprises had been in existence for more than 10 years. It can be observed that the largest group of enterprises (44 percent of the sample) opened their tourism SMMEs in the immediate years following South Africa's democratic transition. In the vast majority of enterprises, the tourism SMMEs have represented new businesses; in 84 percent of cases the entrepreneur established the business and in only 16 percent of cases was there a take-over of an already operating tourism business.

The reasons given by entrepreneurs for establishing a tourism business provide insight into the changing dynamics and potential of the Free State SMME economy. It was

observed that only 28 percent of the sample had spent their entire working lives in the tourism industry. The majority of entrepreneurs – 72 percent – had moved into tourism from prior work in other economic sectors. Among the prior work activities of the tourism entrepreneurs, the most common individual occupations were as housewives, teachers or farmers. Nevertheless, the provincial SMME economy in tourism encompasses an extraordinary range of former professionals, including dentists, psychologists, bank managers, air hostesses, television newsreaders, lawyers, engineers, artists, financial managers, laboratory technicians, mine managers and operators of import-export businesses. The vast majority – over 90 percent of entrepreneurs are South African in origin. Nevertheless, in a small number of cases, the entrepreneurs were non-South Africans (from United Kingdom, Ireland or USA) who had established their tourism businesses in Free State after travelling in the area and being attracted by its natural beauty.

It is notable that nearly 20 percent of the sample were retirees and initiated the tourism SMME as a source of income during retirement. Another 15 percent of the sample chose to enter tourism as a ‘lifestyle’ choice after working in other activities or after children had left the family home. Other reasons for entering tourism were observed in terms of a group of opportunistic entrepreneurs who identified a business opportunity in terms of an unfilled market niche (16 percent of the sample) and those who sought to take advantage of existing properties in terms of their use in part for the provision of tourism accommodation. Of significance is that tourism entrepreneurship represents a choice for only a tiny proportion of entrepreneurs who had lost a job in the formal economy. Indeed, only 6 percent of tourism entrepreneurs had established their businesses after the loss of formal employment.

Overall, start-up capital for most (70 percent of the sample) of the tourism businesses was derived primarily from the entrepreneur’s own savings or sale of a former farm or residential property. In a further 14 percent of the sample the entrepreneur’s savings were supplemented by bank finance. Only in 14 percent of the sample were bank loans the prime source of start-up business financing. One important reason for the limited role of bank finance at start-up is that, as most tourism SMMEs begin operations on a small scale basis, there is little need for such external financing. Indeed, at start-up, access to capital was not a major issue for this sample of Free State tourism SMMEs. Overwhelmingly, the major problems stated by entrepreneurs surrounding the start-up of their business concerned issues of marketing their accommodation establishments and of ‘getting known’ in terms of their operations. Other issues that surfaced in the interviews related to a lack of information concerning tourism and the lack of support for entrepreneurs from local and provincial tourism authorities.

The market for tourists using the SMME accommodation sector in Free State splits almost equally between business and leisure travelers. Of the 50 interviewees, in 20 cases leisure travelers were the prime market, in 19 cases business tourism was dominant and in 11 cases there was an almost equal balance between leisure and business markets. It was evident from interviews undertaken in the province’s major urban centres that for accommodation establishments in Bloemfontein, Welkom, Sasolburg or Bethlehem, business tourism is the core element of their operations. By contrast, in centres such as Clarens, Ladybrand or Smithfield the leisure element represents the prime component. Nevertheless, the market for tourism also varies

temporally with business travel dominant in the week and leisure visitors at weekends. This pattern can also occur in SMMEs operating in primarily leisure destinations such as Clarens. An important component of particularly the leisure sector is the drive-through market and stop-over of travellers primarily from Gauteng to the Western Cape. As one Bloemfontein guest house owner stated: “We are en route that’s all. Arrive at 7pm and leave at 8 am”, which describes the typical flow of visitors.

Overall, domestic South African travelers – with Gauteng massively dominant - are the prime source market for Free State accommodation SMMEs. As a whole, the ratio of international to domestic travelers was reported as approximately 20: 80. Indeed, there are only a handful of enterprises (6 percent of the sample) where international leisure travelers constitute the major market; the enterprises with the highest level of international tourists were found mainly in Clarens or in Bloemfontein, the latter often attracting tourists en route to the Western Cape or parts of the Eastern Cape. As a reflection of the patterns of tourism flows into the province, the predominant length of stay of visitors was disclosed for 80 percent of the sample as only 1-2 nights; for 20 percent of the sample enterprise the average length of stay of visitors was 3-4 days. The short-stay of the majority of tourists in Free State SMME establishments clearly impacts upon business performance and associated job creation.

4.3.2 Recent and Projected Business Performance

The findings concerning the recent and projected business performance of tourism SMMEs in Free State paint a reasonably optimistic picture of the health of the local tourism economy. In addition, the responses of interviewees highlight a number of potentially significant blockages or issues that need attention in terms of strengthening the SMME economy in future.

The business performance of enterprises during the previous 12 months was indexed in terms of three factors, namely occupancy levels, profits and total employment. Overall, in terms of occupancy levels of these accommodation establishments, of 50 surveyed enterprises 28 recorded improvement as opposed to 9 enterprises reporting a decline in occupancy levels. A total of 13 enterprises stated that there had been no change in occupancy levels in the previous year. These occupancy levels were translated into a pattern of business profits that was also relatively satisfactory. In total 22 enterprises reported improved business profits, 17 no change and 11 enterprises indicated a decline in profits during the previous 12 month period. Finally, in terms of employment, once again a relatively healthy picture is disclosed with 21 enterprises taking on additional employees in the previous 12 months, 27 no change in employee numbers and only 2 enterprises stating that employee numbers had fallen in the previous 12 month period. The positive recent performance of these tourism businesses was reflected in the injection of new capital into many of these business. During the previous year, nearly two-thirds of entrepreneurs had invested new capital into the businesses, mostly for the upgrading or addition of new existing facilities and in some cases, the purchase of new property for development as a tourism product. In the majority of cases – nearly 70 percent – the source of new capital was retained business profits; in other cases a mixture of funding sources was applied including reinvested profits and bank loans.

Looking to the future, in terms of the forthcoming business year the situation from the perspective of the surveyed entrepreneurs was viewed relatively well. In two cases the entrepreneur was in the process of selling the business and in a third case, was actively looking for a buyer; thus 47 responses were available to assess future performance. In terms of occupancy levels, of 47 responses 25 entrepreneurs anticipated improvements, 21 no change and only 1 enterprise expected a decline. With respect to business profits, 24 enterprises expected improved profits, 22 the same level and 1 enterprise a decline of profits. Finally, in terms of employment, 14 enterprises expected to take on additional workers in the next 12 months, 33 the same number and no enterprise was projecting employee cutbacks. Overall, the positive future outlook of most enterprises was linked to planned or recent expansions in terms of additional rooms, cottages, new restaurant facilities or improvement of gardens. In some cases the programme of enterprise upgrading was geared specifically to secure an improved accommodation star grading.

Several important sets of issues were highlighted by entrepreneurs in terms of the key existing obstacles to improved business performance. The most significant cluster of issues relate to the marketing of tourism SMMEs. The question of signage for enterprises was raised by over 20 percent of respondents who complained of their difficulties in attracting visitors due to their inability to offer adequate signage for their premises from the national highways. A theme often linked to the signage initiatives of individuals was the disappointment expressed towards the collective marketing efforts of the province for tourism in the Free State. In particular, the interviewees stressed that the province was not reaching its potential for tourism because of both poor marketing and the under-marketing of tourism products and attractions in the province. At local level, further disappointments were expressed towards variously the absence of a strong local tourism office in Clarens, the lack of assistance afforded tourism businesses or the bureaucratic processes exercised by certain local authorities, and the weak state of tourism flows to several localities including Welkom, Bethulie and Edenburg. For the smaller tourism entrepreneurs, in particular those with only a few rooms in a bed and breakfast or small guest house, these disappointments concerning the poor state of official marketing often were felt most strongly because of the escalating costs of private marketing in certain guidebooks. In particular, the costs of R14 000 for a listing in the Portfolio guides with payment to be made 6 months ahead of the publication or R12 000 for advertising in *Getaway* magazine were viewed as especially onerous by many tourism SMME entrepreneurs.

Although marketing was of prime concern, a number of other issues were raised as constraints on the development of existing tourism enterprises. Of greatest significance is that at least 15 percent of enterprises expressed concerns about the reliability of staff and of the lack of training facilities for tourism and hospitality workers. In Bloemfontein, the concern was expressed that the volume of new guest houses and bed and breakfast houses had reached saturation point and that in the bed and breakfast or small guest house sector, a situation of “too much competition” now prevailed. Local problems of a different sort exist in Ladybrand due to the fact that one member of the municipality is also a guest house operator with the consequence that the town’s accommodation sector does not collectively work together to compete against other centres. Rather, the member of the municipality creates blockages for other tourism operators and little assistance is offered to competing enterprises.

Finally, further improvements in the existing road infrastructure were identified as essential to maintain for example the buoyancy of the local Clarens tourism cluster.

4.3.3. Employment Issues

In terms of existing levels of employment the sample of SMMEs ranged from the additional employment of only 1 worker to over 30 employees in one case. In total, the 50 sample enterprises employed nearly 380 full time workers and an additional 53 part-time workers. On average therefore the sample of tourism SMMEs in the Free State employs 7.6 full time workers and a further 1 part-time employee. Nevertheless, the broad pattern discloses that the typical enterprise employs between 3-5 full time workers. The overall distribution of employment was follows: 12 enterprises engaged 1-2 workers, 19 enterprises took on 3-5 employees, 8 enterprises employed between 6-10 workers, 6 enterprises have between 11-20 employees and the 5 largest tourism enterprises provided employment opportunities for over 21 workers. Of the 50 enterprises, 40 percent employed additional part-time as well as full time workers. Most of these casual or part-time work opportunities are for work at weekends and involve maintenance or gardening work for men; for part-time women workers, the major activity is ironing work.

The pattern of work in tourism accommodation establishments in the province exhibits sharp racial and gender divisions of labour. In racial terms whites occupy the managerial positions in the majority of accommodation establishments with black workers undertaking the unskilled and menial work. The gender division of labour is that men predominate in the gardens and maintenance activities whereas women are primarily engaged in kitchen work and cleaning. In terms of South Africa's national guidelines for responsible tourism the tourism SMMEs are in compliance with their preference to recruit local labour. It was observed that all SMMEs recruit their labour force locally and no out-of-province staff recruitment takes place. Vacancies for labour are rarely advertised and are sourced through word-of-mouth contacts. Due to the nature of work opportunities offered in these tourism establishments, the level of skills requirements is relatively low. Most establishments undertake in-house training of labour in order to improve staff skills, for example in terms of cooking or flower arrangements for women workers. In at least one case a teacher was employed to assist with the English language skills of staff.

It is evident that a small market has emerged for skilled tourism workers as certain SMME entrepreneurs complained that once labour had been trained, often staff moved on to secure improved job opportunities with other employers. The weak level of skills of tourism labour has prompted proposals for the development of a formal tourism staff training facility which has been considered by one private entrepreneur at Clarens. The need for such a facility is strengthened by the difficulties experienced by some SMMEs in retaining long-standing Lesotho labour which in one establishment at Springfontein were retrenched in favour of employing unskilled local staff who spoke very little English.

Lastly, in relation to job creation, the important question was explored as to what conditions would be necessary for Free State tourism SMMEs to take on additional labour. The findings disclose that there are a group of factors which influence the job creation potential of the tourism economy. It was evident that growth of the tourism

business, including for job creation, was an objective for at least three-quarters of entrepreneurs. The group of lifestyle entrepreneurs and retirees led the minority of entrepreneurs who stated that they did not wish to expand their existing business beyond their existing level of operations. Such entrepreneurs in general were not seeking any support for their business or seeking to grow their existing labour force.

For job creation, the most critical issue relates, not unexpectedly, to the imperative for expanding tourism flows and correspondingly, of achieving increased levels of occupancy at the accommodation establishments and their associated facilities, especially restaurants. Over 50 percent of the respondents linked a future expansion of their labour force to business extensions, the addition of new restaurants and increased occupancy levels, which were all conditional upon an expansion of tourism markets. Clearly, enhanced tourism marketing is the most critical provincial tourism planning issue with at least one interviewee suggesting the need for creating a 'Free State Meander'. In certain localities, growth in tourism flows is considered also to be inseparable from the need for wider strategies for local economic regeneration particularly in declining centres such as Welkom with a dependency on business tourism or in many Free State small towns, such as Bethulie.

A small proportion of Free State tourism entrepreneurs had successfully accessed support for improved marketing of their operations from the Business Trust supported Tourism Enterprise Programme (TEP). The TEP support programme is increasingly the flagship support initiative for tourism SMMEs of the national Department of Environmental Affairs and Tourism and is mandated explicitly to encourage and facilitate the growth and expansion of SMME enterprises in tourism resulting in job creation and growth in turnover (Rogerson, 2004). Although TEP has a Bloemfontein representative, awareness and take-up of its potential support is limited for 80 percent of entrepreneurs had never sought any support.

Another significant set of issues that affects job creation relates to financing and access to financial support by tourism SMME entrepreneurs. The development of new tourism products by entrepreneurs, in terms of additional rooms, upgraded accommodation facilities, new products (such as offering health treatments) or new restaurants is often contingent upon available financing. As noted earlier, most entrepreneurs normally seek to finance extensions or improvements out of retained business profits. Others look for external support, particularly from government in order to assist their growth and ultimately to assist in job creation; for example an additional ten employment opportunities in one Bethlehem guest house were contingent upon securing financing for a planned new restaurant.

Access to national government support programmes has been difficult, in part because of their bureaucratic procedures and also due to lack of awareness of potential sources for support. Nevertheless, of the small segment of Free State SMME entrepreneurs that had sought to access financing through Department of Trade and Industry programmes, such as the Small Medium Enterprise Development Programme (SMEDP) the results had been disappointing. Applicants complained that despite receiving acknowledgements from DTI of SMEDP grant applications, no further communications were ever received even after periods of up to 18-24 months. The consequence is that job creation is blocked, as is illustrated by the case of one Harrismith guest lodge which seeks SMEDP finance in order to expand its tourism

product offerings through the addition of therapeutic services (manicures and pedicures) that would involve opportunities for local black women to be trained. Other frustrated entrepreneurs bemoaned the ‘red tape’, excessive bureaucracy and paper work that surrounded applications for national government financing initiatives. Finally, it should be noted that, as in other parts of South Africa, the survey disclosed that a number of tourism SMME entrepreneurs had been approached by unscrupulous confidence tricksters who, for a fee, claim that they will assist entrepreneurs and ease them through the government bureaucratic procedures in order to access financing.

A third set of constraints on new job creation relates to what entrepreneurs perceive as excessive regulation by all levels of government concerning their operations. The constraints on signage are one example of regulation that is undoubtedly blocking new job creation in tourism. At another level, several entrepreneurs pointed to the existing labour laws and regulations affecting their operations as a disincentive for the recruitment of additional labour.

4.3.4 Towards Action Steps: The Role of Local and Provincial Government

Several of the issues raised by entrepreneurs concerning the most important contributions that local and provincial governments could make in order to grow their business and correspondingly to grow tourism employment provide the beginnings of an action agenda for change. It should be noted that the majority of the suggested actions as proposed by interviewees reflect comments that have already been made concerning the core constraints on business performance and job creation. In terms of justification for these action steps to support and strengthen the existing tourism SMME economy, the voices of individual entrepreneurs are given through a selection of the statements that were collected in the survey.

4.3.4.1 Improve Tourism Marketing

The first priority concerns the need for both provincial government and local authorities to address the poor state of marketing and imaging of the tourism products of the Free State. It was clear from the views of tourism entrepreneurs that, as compared to other South African provinces, the volume of tourism marketing was perceived as inadequate and the quality of the existing advertising as deficient in several respects.

Overall, a considerable number of entrepreneurs broadly condemned, “the under-marketing”, “the lack of professionalism”, “the lack of organization” and “lack of imagination” in provincial tourism marketing. Equally damning was the state of many local tourism offices which were perceived as “unfriendly” or “lacking any muscle”.

The detailed views of certain interviewees on the unsatisfactory state of provincial and local tourism marketing are instructive.

- “Natal, Western Cape and Mpumalanga have a lot of beautiful brochures and are marketed overseas. The scenery of Free State is not marketed. The current brochure has lots of wild life in it. This is misleading as tourism in the Free State is not about wild life”.

- “Get pro-active. There is competition for tourism. The Eastern Cape has terrific marketing even though a ‘bankrupt’ region. You have to fly your own flag”
- “Government must support and advertise the Free State and market the beauty of the place as overseas visitors are amazed by it but unaware. It is often too late for them to change plans and spend longer time in the area as they have pre-booked the Cape”.
- “Advertise Bloemfontein! A German guest left their South African guidebook behind and Bloemfontein was not on the map or mentioned anywhere in the book”.
- “Provincial marketing does not include the attractions of small towns”
- “Market the town of Clarens, the jewel of the Free State. It is a good thing that Clarens sells itself by word-of-mouth as there has been little help from local or provincial authorities in advertising the town”
- “See how Clarens is marketed. There is not enough marketing for Bloemfontein. The local tourist office has no maps to give to visitors and neither are they printing any more. We have had to make our own copies”.
- “Improve the guide books. We would not need to spend so much money advertising in expensive Portfolio and AA guides if the province did a better job at marketing”.

4.3.4.2 Conduct a Detailed Review of Existing Regulations Affecting Tourism

A second cluster of issues that emerge concern perceived excessive or unnecessary regulations operated by provincial and local authorities which are negatively affecting the current state of tourism businesses.

In terms of regulations that are blocking business development and job creation the most contentious is that relating to signage or advertising on national roads. A large proportion of respondents express their dissatisfaction and lack of understanding of the current regulations concerning signage (some of which reputedly go back to the 1940s), particularly from the national highway. It is evident that the existing regulations are negatively impacting upon tourism development in many localities. For example at Springfontein, which is off the N1 highway, it was argued that improved signage and greater visibility of local accommodation facilities was needed urgently in order to attract visitors and to rejuvenate this locality in which the local Engen garage, situated only 200 metres off the N1, recently had closed down with 30 job losses. Once again, at Bethlehem, the local council’s intransigence on the issue of signage is widely seen as impeding business performance and corresponding job creation.

A second area for review of regulations relates to the structure of existing service charges, especially for small bed and breakfast providers. The profitability and growth potential of many such establishments is under threat by the high current charges for electricity made at business tariff rates for small operations with, in some cases, a maximum of five rooms for tourist use. In these cases the service charge rate for small businesses is the same as that applied to large enterprises.

A third issue for review is that concerning the details of labour regulations as applied to small bed and breakfast operators. It was argued that whilst regulations concerning

minimum wages were acceptable, the regulations that dictate working hours were inappropriate for the circumstances of the small bed and breakfast operation.

A fourth issue relates to the costs of zoning of establishments for purposes of operating a bed and breakfast. In the case of Ladybrand, one interviewee drew attention to the escalation of charges to up to R10 000 for rezoning, an expense that would exclude many new potential business start-ups.

A final issue relates to the need for *increased* regulation in the area of the grading of tourism establishments. The issue of grading was seen as particularly important for the new surge of bed and breakfast establishments for, in some cases, a bad local image can be created by the appearance of sub-standard accommodation facilities.

4.3.4.3 Improve Physical and Human Infrastructure

A number of entrepreneurs flagged the long-term importance of maintaining and strengthening the existing infrastructure for tourism in the Province.

In terms of physical infrastructure there is a need for continued attention to road maintenance and upgrading. In several parts of the Province there was considerable dissatisfaction with the existing state of roads, which were seen as substantially deteriorated. Another area for transport improvement would be to enhance the situation concerning the existing state of air transport infrastructure for the province. It is striking that from Gauteng it is considerably cheaper to travel by air to Cape Town, George or Port Elizabeth than to travel to Bloemfontein. A wider commentary on potential areas for infrastructural improvement in the Free State's major tourism node was offered by one interviewee: "Bloemfontein needs a prestigious conference center. We need for flights and the airport needs jacking up. Bloemfontein looks backward compared to other cities".

In addition to upgrading the physical infrastructure for tourism, there is an important need to address the human resource base. Several interviewees drew attention to the weakness of skills training facilities for tourism in the province. In two small towns – Clarens and Springfontein – local entrepreneurs indicated that they sought to upgrade local tourism skills through establishing a training facility which would include both hospitality training as well as training for home industries and crafts to supply the tourism market. At Clarens the entrepreneur's plans include the use of an existing building to train local people for the tourism industry, train local labour in carpet weaving for home production, and to encourage more local production in the township of foodstuffs for provision to the local tourism outlets. Provincial support for such private sector initiatives needs to be considered.

4.3.4.4 Improve Local and Provincial Authority Awareness of Tourism

It was evident that more effective and committed local level support for tourism entrepreneurship would arise from a greater appreciation by both local and provincial authorities of the real and potential contribution of tourism to economic development. Many tourism entrepreneurs, especially in small towns, were highly critical of the council's attitude towards such businesses given their significance in the general well-being of the locality.

The critical statements made by interviewees are instructive:

- “I pay R10- to 20 000 per annum for advertising the province. We help the town’s economy by bringing people in but the authorities ‘fleece’ us. They charge us fees for everything but do nothing to help. Don’t bite off the hands that feeds them!”
- “There is a lack of information concerning how to start a business. The local tourism office was unhelpful in terms of assistance. The local authority is not much good in terms of offering any help or assistance”.
- “I was keen to go on an advertised workshop for tourism SMMEs but this never happened”.

4.3.4.5 Improve Information Channels on Support to Existing Enterprises

There is a recognized need for a major improvement to be effected in terms of information flows in order to enhance awareness of all aspects of support that can be accessed by existing tourism SMME entrepreneurs. Support for marketing, business linkages and finance is available through a number of national government supported programmes, such as TEP, SMEDP as well as recent initiatives such as the Black Business Suppliers Development Programme (Rogerson, 2004). The wider dissemination of information concerning the availability of such assistance, however, needs to be augmented by dedicated assistance and advice to Free State entrepreneurs as to processes and procedures for accessing such funds from national government programmes.

4.3.4.6 Support Black Economic Empowerment

Finally, there is a need to complement the enhanced support to existing entrepreneurs in the Free State tourism economy by the innovation of parallel initiatives to support the entry and nurturing of new black tourism entrepreneurs. In common with the tourism SMME economy of South Africa as a whole there is a need to foster black involvement in the tourism sector of Free State in line with the national government’s goals for black economic empowerment and transformation (Rogerson, 2003).

The transformation of the Free State tourism economy will necessitate, at the outset, a greater level of understanding of the specific circumstances, markets and tourism products that are the focus of new black-owned tourism SMMEs. As a first action step towards transformation it is recommended that more specific research be commissioned on the problems and constraints of black-owned tourism operators in Free State province.

4.4. SUMMARY OF KEY FINDINGS

4.4.1 Macro-Analysis

The key characteristics that emerged from the macro-analysis of tourism SMMEs in Free State are as follows:

- SMMEs represent by far the largest constituent of tourism enterprises as a whole.
- The accommodation sector is the most significant sub-category of tourism SMME.
- The tourism SMME economy is overwhelmingly dominated by white entrepreneurs.
- The level of ownership and involvement of black entrepreneurs is small and mainly concentrated in three specific areas of the province.
- High levels of ownership of enterprises by women are widely observed
- Bloemfontein, Clarens and Bethlehem have the strongest geographical clusters of tourism SMMEs
- Different sub-categories of tourism SMME exhibit varying spatial distributions with arts and crafts, and game lodges the most distinctive in terms of a small town focus.

4.4.2. Survey Findings

The key survey findings that emerged from the 50 interviews with tourism SMME entrepreneurs were as follows:

- The survey profile follows closely the provincial profile of SMME entrepreneurs.
- Tourism entrepreneurship is primarily dominated by middle-aged or retirement aged persons and includes a segment of lifestyle entrepreneurs
- The majority of tourism SMMEs are new business start-ups
- Most tourism entrepreneurs have prior working experience outside of tourism
- Start-up capital is from own savings or sale of a former property.
- Both business and leisure tourists are the market for tourism SMMEs with spatial and temporal variations observable
- Domestic tourism, with Gauteng the major source, is critical.
- The recent business performance of tourism SMMEs is healthy with many more entrepreneurs reporting growth than decline in occupancy, business profits and employment.
- Future business performance outlook is promising as two-thirds of entrepreneurs recently have invested new capital into developing their tourism products.
- The typical SMME enterprise employs three to five full-time workers and 1 part-time employee.
- Sharp racial and gender divisions of labour are in evidence in tourism SMMEs.
- Labour is locally recruited mainly by word-of-mouth
- The key obstacles to improved performance and expanded job creation relate to the expansion of markets, which is conditional upon improved marketing, including signage opportunities.
- The improvement of tourism products can be assisted by increased access to finance and government support programmes.
- Other issues relate to improving the quality of tourism labour, infrastructure and perceived inappropriate regulations governing the operation of tourism SMMEs.

4.4.3. Recommendations for Action Steps

The key recommendations for strengthening the tourism SMME economy relate to six clusters of issues.

- First, the imperative to enhance all aspects (quality and volume) of the tourism marketing at provincial and local level.
- Second, to conduct a detailed review of existing regulations which are blocking the improved performance and job creation in tourism enterprises. Key issues are signage, service charges, labour regulations, zoning costs and grading.
- Third, strengthen the existing physical infrastructure for tourism in terms of road and air travel and improve the human resource base for tourism through supporting initiatives for the establishment of training facilities.
- Fourth, improve the awareness of local authorities of the contribution of tourism for local economic development and their attitude towards support for the needs of local tourism entrepreneurs.
- Fifth, enhance the flow of information to provincial tourism entrepreneurs of existing support programmes and assist local entrepreneurs through the application processes.
- Finally, seek to obtain a greater understanding of the specific support needs and constraints that surround emerging black tourism entrepreneurs.

CHAPTER 5: EMERGING SMMEs

5.1 INTRODUCTION

Although there is little agreement as to their precise numbers, it is generally considered by most researchers that the emerging SMME economy is the largest component of the overall SMME economy as indexed by numbers of enterprises (Berry *et al*, 2002). Considerable controversy has surrounded the disappointments in the performance of national government support initiatives towards this emerging SMME economy since 1994. Indeed, it is partly as a result of the acknowledged weaknesses or failures in delivery of government support to the large numbers of emerging SMMEs that national government has announced that a new revised support structure for SMME development in South Africa will be released in 2004.

In Free State it is evident that the emergent SMME economy is viewed as of considerable significance, more particularly for achieving the wider objectives of job creation. The provincial Economic Strategy document released in March 2003, for example, includes a target for generating 34 000 new jobs by March 2005 on the basis of the creation, and survival for longer than three years, of 3 400 micro-businesses, 2 720 businesses of less than 20 employees expanding by an average of five employees, and 1 360 businesses of greater than 20 employees taking on an average of an additional 10 employees (Free State, 2003a, p. 24). Similar targets concerning job creation in the SMME economy, including emergent SMMEs, have been issued in the Strategic Plan produced by the provincial Department of Tourism, Environmental and Economic Affairs (Free State, 2003b).

Against the background, nationally and provincially, of the significance of the emergent SMME economy for economic development in the Province, the objective of this chapter is to investigate the profile of entrepreneurs and enterprises in the emergent SMME economy; their business performance, constraints and support needs. This chapter therefore represents a parallel investigation to the two earlier chapters which dealt with established SMMEs respectively operating in the sectors of manufacturing and tourism. In each of those two studies a total of 50 established SMMEs were surveyed. In this investigation the findings are reported from a larger survey conducted with 147 emerging SMMEs across a range of economic sectors. The survey was conducted during October-November 2003 and focused geographically in Mangaung and Thabong as sample areas. It should be acknowledged that this investigation is not the first study of the problems of the emerging SMME economy in Free State. For example, during May 2003 a small survey was conducted of 18 emerging SMMEs in Mangaung as part of a feasibility study for the Local Municipality concerning the development of a Business Development Centre (COMSEC PE, 2003). Where appropriate, therefore, the findings of this investigation are linked to the results of previous research and of earlier recommendations for supporting the creation and expansion of emergent SMMEs

This chapter contains five major sections of discussion and analysis.

- The first section provides details concerning the methodology and structure of the sample of emerging SMMEs.
- Section two provides an analysis of the profile of entrepreneurs and enterprises in the emergent SMME economy.
- Section three examines the findings of the survey concerning the business development and performance of enterprises.
- Section four reviews questions concerning business support issues.
- Section five builds upon the study findings and earlier research in terms of offering recommendations for an action plan to support emerging SMMEs.

5.2 METHODOLOGY AND SAMPLE

In terms of the study methodology a structured interview survey was conducted with a total of 147 emerging entrepreneurs in the two sample localities of Mangaung and Thabong. In total 97 interviews were successfully completed in Mangaung and 50 in Thabong. All interviews were conducted on a face-to-face basis by three fieldworkers recruited from the Centre for Development Support. The sample of interviewees was structured in an attempt to capture a broadly representative sample of SMME entrepreneurs engaged in four economic sub-sectors, namely:

- Production or manufacturing based operations (53 interviews)
- A range of service based activities (59 interviews)
- Construction-related activities (21 interviews); and,
- Cultivation or urban farming (14 interviews)

Table 5.1 provides further detail of the structure of the sample interviews.

Table 5.1: Structure of Interview Sample of Emergent SMMEs in Free State

Sector of Activity	MANGAUNG	THABONG
Manufacturing	38	15
Service	39	20
Construction	16	5
Cultivation	4	10

The survey sought to establish a profile of emerging entrepreneurs and the nature of their enterprises before proceeding to interrogate a set of issues concerning business development and performance; and issues concerning business support, lack thereof and of support needs. These themes provide the focus of discussion in Sections 5.3 to 5.5.

5.3 PROFILE OF ENTREPRENEURS AND THEIR ENTERPRISES

In relation to the profile of entrepreneurs and their enterprises, information was collected variously concerning details of the age and gender profile of entrepreneurs and their sources of household income; the type of business activity, length of operation and reasons for start-up of the enterprise.

5.3.1. The Entrepreneurs

The profile of ownership of different types of businesses as captured in the sample is disclosed on Table 5.2.

Table 5.2: Gender Profile of Sample Interviews

Sector of Activity	Male-Owned	Female-Owned	Co-ownership
Manufacturing	40	8	5
Service	37	20	2
Construction	20	1	0
Cultivation	7	7	0

Several observations may be made of the gender profile of ownership of enterprises

- Male ownership is overwhelmingly dominant as a whole and especially in manufacturing and construction SMMEs
- Female ownership is highest in certain kinds of service based SMMEs, especially retailing and the operation of hair salons, and in urban farming activities.
- Co-ownership of enterprises is only a small element of the emergent SMME economy and is most common in production-based SMMEs.
- No significant geographical variations emerged between the Mangaung and Thabong samples
- In Mangaung 69 enterprises were owned by male entrepreneurs, 26 by female entrepreneurs and 2 in co-ownership.
- In Thabong 35 enterprises were owned by male entrepreneurs, 10 by female entrepreneurs and 5 in co-ownership.

The age profile of entrepreneurs as disclosed by the sample is shown on Table 5.3

Table 5.3: Age Profile of Sample Entrepreneurs

AGE	Manufacture	Services	Construct	Cultivation	TOTAL
<20 Years	0	1	0	0	1
21-30	1	10	2	0	13
31-40	15	13	6	1	35
41-50	17	13	7	0	37
51-60	16	14	4	6	40
61-70	4	7	1	7	19
70>	0	0	1	0	1

Note: One 'no response'.

From Table 5.3 a number of observations can be drawn concerning the age profile of entrepreneurs.

- The age range of entrepreneurs was from 18-75 years, the youngest an entrepreneur involved in running a catering business, the oldest a builder of 25 years.
- Over half of the sample are in the age range 41-60 years and over two-thirds in the age range 31-60 years.
- The largest number of younger entrepreneurs (age range less than 30 years) are involved in the operation of hair dressing salons.
- Certain differences can be observed in the age profile of entrepreneurs across different sectors of enterprises. Of note are the concentration of younger entrepreneurs in service-based SMMEs and of the oldest entrepreneurs in cultivation activities.
- Overall, service-based activities are represented by the broadest age ranges of entrepreneurs.
- Both manufacturing and construction entrepreneurs are most heavily concentrated across the age ranges of 31-60 years.

5.3.2. The Emerging Enterprises

It is apparent from the interviews that the emergent SMME economy of Free State is highly diverse in terms of the operation of a range of different kinds of enterprises, and more especially of an array of manufacturing and service-based enterprises.

- In terms of production-based activities, the most common forms of emergent manufacturing SMMEs are engaged in metal-working (especially welding operations), burglar proofing and brick making operations. Clothing and dress making activities are the largest group of manufacturing SMME operations that are female-owned. Other production-based activities that were captured in the survey included furniture makers, bead workers, producers of floor mats and of coffins.
- The group of emergent service-based enterprises encompassed a group of different types of operations. The most common forms of service-based SMMEs were retailing activities in terms of spazas, tuck shops or general dealers. Another notable group of mainly women entrepreneurs are involved in hair salons and the operation of taverns. Other service-based operations included day-care, the repair of shoes, radio and TV, selling of second-hand tyres, catering and one case of a florist.
- The group of construction entrepreneurs were primarily involved in building construction activity rather than road construction operations.
- Finally, the group of urban cultivators are typically involved in the production of mainly vegetables.

Overall, this pattern of operations within the emergent SMME economy of Free State is typical of that which has been recorded in other urban areas of South Africa. No distinctive features can be discerned in the pattern of activities as a whole or between the Mangaung and Thabong samples.

The majority of enterprises in the emergent SMME economy are unregistered and function as informal businesses. Of the sample of 147 enterprises, only 42 enterprises were formally registered with the largest share of registered enterprises (surprisingly)

represented by the group of service SMMEs. Only 10 of the 53 manufacturers was registered and only 4 of the 21 sample construction enterprises.

The community of emergent SMME entrepreneurs operate their diverse businesses from a range of different types of premises or sites. On Table 5.4 is shown the types of different premises and sites that were recorded in the survey.

Table 5.4: Premises and Sites of Different Kinds of SMME activities

Sector	Manufacturing	Services	Construction	Cultivation	Total
Formal premises	16	20	2	0	38
Home	25	21	18	0	64
Backyard	6	9	1	5	21
Pavement	0	8	0	0	8
Informal Site	5	0	0	0	5
Allocated Land	0	0	0	9	9

Note: Two ‘no responses’.

A number of observations can be made concerning premises used by emerging SMMEs

- Less than one-third of SMMEs are in some kind of formal business premises; at least two-thirds of businesses operate from informal premises, most importantly from the home or in the backyard.
- The largest groups of informal manufacturing, service and construction SMMEs are operating from home-based premises.
- Businesses operating from the pavement are mainly food retailing establishments or shoe repairs.
- Many brickworks operate from informal sites
- A group of cultivators are farming on allocated land, others operate from the backyard.

The length of time that businesses have been in operation discloses wide variations and the existence of groups of ‘emerging SMMEs’ that have been in existence even prior to the 1994 democratic transition. Table 5.5 reveals the results of the findings concerning how long entrepreneurs have been operating their businesses.

Table 5.5: Length of Establishment of Businesses

Sector	Manufacture	Services	Construction	Cultivation	TOTAL
<1 Year	1	6	0	0	7
1-3 Years	16	25	2	12	55
4-6 Years	14	15	5	1	35
7-10 Years	12	7	4	0	23
11-20 Years	8	4	7	1	20
>20 Years	2	2	3	0	7

Based on the results a number of points can be made concerning length of establishment of the sample SMME enterprises

- Although the largest number of enterprises are in the category of their businesses having been in operation for between one and three years, there do exist groups of long established SMMEs, with nearly 20 percent of the sample of enterprises founded pre-1994.
- The tendency is for most service, manufacturing and cultivation enterprises to fall into the category of 1-3 years for length of establishment.
- The group of construction enterprises show the longest period of establishment; the median age for a construction enterprise is 10 years.
- The most long established enterprises were respectively a male-run hairdressing enterprise (32 years) and two construction enterprises (30 and 25 years).

It is evident that the operation of an SMME is, for most households, the major source of household income. Table 5.6 shows the significance of SMMEs for household incomes

Table 5.6: SMME as Major Source of Household Income

Sector	Manufacture	Services	Construction	Cultivation	TOTAL
YES	35	48	18	9	110
NO	18	11	3	5	37

Some observations are useful on the results concerning the significance of incomes earned through operating SMMEs in relation to total household income.

- For the majority of entrepreneurs the SMME represents the major source of household income.
- In construction enterprises especially the trend is for business to be the major source for household incomes
- In nearly 30 percent of the sample enterprises, however, the income earned from the SMME business is as a supplement to another source of household income.
- The most common alternative source of income was pensions or the operation of another SMME enterprise. It was observed that the running of a production SMME was combined also with the operation of taxis, shebeens, spazas or

animal farming. In the case of one hair salon operator in Mangaung the major source of income was a parallel hair salon that the entrepreneur operated in Klerksdorp.

- In a small number of cases the SMME is a supplement to part time or full time formal sector employment. The most unusual case was of one builder in Mangaung whose major income was as a priest.

The reasons provided by entrepreneurs as to why their SMME was originally established clearly show that it is the push of joblessness and the search for alternative or new income sources that is the key factor that underpins the growth of the provincial SMME economy. Indeed it is significant that few entrepreneurs stated opportunistic reasons for the founding of their businesses. The key findings broken down on a sectoral basis are shown on Table 5.7.

Table 5.7: Major Reasons for SMME Establishment

Sector	Major Reasons	Comment
Manufacturing	<ol style="list-style-type: none"> 1. Joblessness and Retrenchment 2. Need for Money in Household 	Although there is a small group of production based SMMEs that owe their origins to demand-pull considerations, such as having certain skills for running a SMME or the desire for self-employment, the majority of businesses are started out of necessity.
Services	<ol style="list-style-type: none"> 1. Joblessness and retrenchment 2. Need for Money within the Household 	A clear picture emerges of the mass of service-based SMMEs linked to start-ups out of necessity rather than choice.
Construction	<ol style="list-style-type: none"> 1. Joblessness and retrenchment 2. Need for Money and Desire to be Own Boss 	Once again, supply-push factors dominate but there is a distinct element in construction of entrepreneurs wishing to enter self-employment
Cultivation	<ol style="list-style-type: none"> 1. Need for Money/or to support family 2. Keep busy 	The group of cultivators is the most distinctive for it includes a large group of older entrepreneurs. None the less, issues of household survival are prominent themes for urban cultivation operations.

The prior work of current SMME entrepreneurs points both to the diverse backgrounds of these entrepreneurs. Equally important, it draws attention to the fact that many entrepreneurs are shifting into spheres of SMME activity with little prior experience. The select 12 examples below serve to illustrate the shifts that occur in the work trajectories of those involved in the Provincial SMME economy (Table 5.8). It is the exception that an individual moves directly from a formal job and is able to apply those skills in a business in the SMME economy.

Table 5.8: Changing Work Trajectories of SMME Entrepreneurs

SECTOR	Gender	SMME Activity	Former Work
Manufacturing	M	Welding	Chef
Manufacturing	F	Dressmaker	Domestic Worker
Manufacturing	M	Brickmaking	Mine Worker
Manufacturing	M	Brickmaking	Nightwatchman
Manufacturing	M	Welding	Delivered Newspapers
Services	M	Shoe Repair	Cleaner
Services	F	Florist	Florist
Services	M	Spaza	Car Repair
Services	M	Upholstery	Carpet Laying
Construction	M	Builder	Post Office
Construction	M	Builder	LTA Construction
Construction	M	Builder	Mine Electrician

In total the 147 sampled enterprises provide full or part-time work opportunities to 499 persons, an average of just over 3 persons per SMME. There is a marked gender imbalance in terms of work opportunities with 397 of these work opportunities undertaken by men and only 102 work opportunities for women. Even in the traditionally female dominated sphere of service-based SMMEs male employment in SMME enterprises exceeds that of women. Indeed it is only in the small segment of urban cultivation that women outnumber men. Overall, Tables 5.9 and 5.10 show key features of the size of enterprises and their employment patterns.

Table 5.9: Employment Opportunities in the Emergent SMME Economy

SECTOR	No. of Enterprises	Employment-Men	Employment-Women	Total Employment
Manufacturing	53	147	22	169
Services	59	106	66	172
Construction	21	135	3	138
Cultivation	14	9	11	20

Table 5.10: Size of Enterprise in terms of Numbers of Employment Opportunities

SECTOR	Single-Person	2-5 Employees	6-10 Employees	11-20 Employees	>20 Employees
Manufacturing	12	34	5	2	0
Services	14	39	6	0	0
Construction	0	14	5	1	1
Cultivation	8	6	0	0	0

A number of observations must be made concerning the size of enterprises and employment opportunities created in the emergent SMME economy

- Although the average size of enterprises, as indexed by numbers of employees, is largest in the construction sector, this finding needs to be looked at with the caveat that many of these work opportunities are on a casual or part-time basis and that the average for construction is weighted by one enterprise that employs 40 people. If that single enterprise is excluded from the analysis the average numbers of employees in a construction enterprise is approximately 5 workers per enterprise, which is still higher than the average for manufacturing (3 employees per enterprise), services (between 2-3 employees per enterprise) or cultivation, where most entrepreneurs are single person enterprises with no employees.
- Only a small fraction of the sample of SMMEs have graduated to the point that they create 5 or more job opportunities. In total only 20 of the 147 sampled enterprises have reached such a position and only 4 enterprises provide employment opportunities for more than 10 workers. In addition, to two construction enterprises that engage over 10 workers, the largest enterprises are to be found in manufacturing in terms of one metal working enterprise and one brickworks. In services the largest single enterprise was a liquor tavern.
- Overall, these employment profiles on the emergent SMME economy in Free State highlight the enormous challenge of reaching the optimistic targets for job creation through the growth of existing enterprises, that have been put forward in Provincial planning documents. The extent of this challenge can be further understood through a more detailed analysis of the recent business performance and development trajectories of the emergent SMME economy.

5.4 BUSINESS PERFORMANCE AND DEVELOPMENT

Several issues were explored regarding the start-up and current operations of the sample of emergent enterprises. The cluster of issues concerning the problems regarding start-up and of the recent and contemporary business performance of enterprises forms the focus of discussion in this section.

In terms of the major problems that entrepreneurs experience at the start-up of their business, there emerge both common themes across the different segments of the SMME economy and certain significant differences in start-up issues that need to be understood. Table 5.11 presents the major problems identified at start-up by the different kinds of SMME enterprises.

Table 5.11: Key Problems Experienced at the Start-Up of Enterprises

Major Problem	Manufacture	Services	Construction	Cultivation	Total
Access to Finance	22	22	9	3	56
Inadequate Premises	10	12	1	0	23
Lack of Equipment/Tools	14	2	7	2	25
Inadequate markets or marketing	4	9	2	0	15
Theft	5	5	0	1	11
Customers not paying	5	5	1	0	11
Lack of Business Knowledge	1	6	0	0	7
Transport	5	1	0	0	6
Registration	1	2	2	0	5

Note: Many enterprises stated more than one problem

Several observations can be made concerning issues at start-up.

- Shortage of and access to finance is clearly the core issue at the start-up of SMME enterprises. This applies across all the major sectors of SMME development, with the exception of urban farming in which sector-specific issues are paramount.
- Inadequate or non-availability of premises is a major problem particularly for the operations of manufacturing and retail SMMEs, the majority of which start out their existence as home-based or backyard enterprises.
- Lack of equipment (or finance for such equipment) is a blockage that is strongly felt at the start-up of manufacturing and construction enterprise. It also applies in the case of implements for urban cultivation.
- Problems of inadequate markets are most strongly pronounced within the highly competitive market environment of service SMMEs.
- The issue of theft is of particular concern to manufacturers and retailers with a number of entrepreneurs complaining that had resulted in the loss of all their equipment or stock.
- Other generic issues related to problems experienced by entrepreneurs in becoming formally registered, lack of knowledge of the particular businesses that they were operating and, for manufacturing enterprises in particular, problems relating to transport of materials or goods.
- Finally, for cultivators there is a set of specific issues which relate to the fertility of the soil, access to water and the need for seeds and fertilizers.

The major source of capital for business start-up of SMMEs is shown on Table 5.12

Table 5.12: Major Source of Enterprise Start-Up Capital

Capital Source	Manufacture	Services	Construction	Cultivation	TOTAL
Own Savings	35	32	16	7	90
Family/Friends	6	12	2	2	22
Other Businesses	4	1	0	1	6
Support from Formal sector/former employer,	3	0	0	0	3
Pension/Retirement Funds	3	11	0	2	16
Bank Loan	0	0	1	0	1
Other	2	3	2	2	9

In terms of start-up capital, several points are worth noting:

- As is typical, the major source of start-up capital for business is the entrepreneur or the family's own savings. In at least 70 percent of start-ups the owner's savings or funds secured from family or friends provided the foundation for business start up.
- Pensions and retirement funds are often an additional source of finance for SMME start-ups especially in service SMMEs and in cultivation
- In a small number of cases capital is sourced from the operations of other SMMEs or from support given by a former employer.
- Welfare support or disability grants offer another means of support.
- It is significant that support from banks is recorded in only one case.
- Finally, the most unusual source of start-up capital was that of one Mangaung spaza owner who stated simply that he "had been lucky in gambling".

The recent trajectories of business performance were examined in terms of three indicators relating to income, sales and numbers of employees. The results are shown in Tables 5.13 through to 5.15.

Table 5.13: Recent Business Performance (last 12 Months) : Income

SECTOR	Increased	Same	Decreased
Manufacturing	26	21	6
Services	26	14	19
Construction	8	8	5
Cultivation	10	4	0

Table 5.14: Recent Business Performance (last 12 Months) : Sales

SECTOR	Increased	Same	Decreased
Manufacturing	28	19	6
Services	26	14	19
Construction	8	10	3
Cultivation	10	4	0

Table 5.15: Recent Business Performance (last 12 Months) : Employment

SECTOR	Increased	Same	Decreased
Manufacturing	2	48	3
Services	3	52	4
Construction	4	13	4
Cultivation	0	14	0

Several important observations can be made of the findings concerning recent business performance of emerging SMMEs.

- In terms of indicators of income and sales from businesses, the best relative performance, albeit from a low base, is that of the group of cultivators.
- The performance of manufacturing and construction firms is satisfactory in relative terms
- The performance of service SMMEs is the weakest of all the segments of SMMEs with a substantial number of SMMEs recording a downturn in business income and sales.
- Despite increases in income and sales by nearly half of the sample enterprises, there is little impact in terms of the expansion of enterprises as regards job creation.
- In only 9 cases of the 147 sample interviewees was there recorded any increase in employment in the SMME.
- Even this marginal increase in employment as recorded by these growing enterprises should be set against the fact that 11 SMMEs record a reduction in employment in the previous year.
- The interviews with manufacturers indicated that the trend is to take on part-time or casual workers rather than full-time employees if the volume of business orders was expanding.
- In many cases reductions in employment were linked to business downturns related to mine closures or retrenchments.
- The overall conclusion must be that, at best, employment levels in existing SMME have remained constant in the last 12 months and there are few signs of increased labour absorption or expansion.
- This finding would point to the significance of new enterprise births rather than simply a reliance on the expansion of existing enterprises as the basis for achieving the goals of employment creation within the SMME economy.
- Some of the key factors behind the improved performance of existing enterprises were as follows: access to government tenders; new infrastructure

construction; improved quality and design of manufactured goods; and, increase in skills;

- Some of the key factors behind the decreased performance of existing enterprises were as follows: outdated equipment and machinery; increasing levels of competition (especially in service SMMEs); and specifically in Thabong the effects of mine closures in terms of reducing local demand, particularly for service SMMEs.

In terms of planning by SMME entrepreneurs to enhance their business performance during the next 12 months the following emerged as significant themes:

- Initiatives to expand the geographical scope of existing narrow local markets
- Change in product mix by manufacturers to address changing demands (eg in clothing for more traditional clothes; production of different styles of bricks)
- The registration of enterprises with the hope of accessing government contracts
- Improvement in record keeping and general running of the business.
- General expansion of advertising to improve business marketing
- Secure access to training to improve designs
- A search for linkages with established businesses in order to access greater market opportunities
- Improvement in quality of performance for service SMMEs and by construction SMMEs.

Overall, an improvement in the performance of the emergent SMME economy in the province will depend upon a set of internal or external initiatives designed to address the major constraints affecting these enterprises. Issues concerning the core constraints and support needs of the groups of emerging SMMEs form the focus of analysis in Section 5.5.

5.5 SUPPORT NEEDS

It is significant that entrepreneurs identified different themes as constraints to an improvement in their business performance as compared to the key problems which they experienced at the initiation of their businesses. The key constraints identified by entrepreneurs as challenges facing their business development are indicated on Table 5.16.

Table 5.16: Key Constraints on Improved Business Performance

Major Problem	Manufacture	Services	Construction	Cultivation	Total
Access to Finance	19	10	4	0	33
Inadequate Premises	6	13	0	0	19
Lack of Equipment/Tools	7	3	4	1	15
Inadequate markets or marketing	3	15	5	0	23
Theft	6	4	0	0	10
Customers not paying	5	4	2	0	11
Lack of Business Knowledge	2	8	1	0	11
Transport	7	1	4	0	12
Lack of Water	0	0	0	11	11
Lack of Materials	2	0	1	0	3

Note: Many enterprises stated more than one problem

Several important observations can be drawn from the results reported in Table 5.16.

- Access to finance is identified as the most important issue in the sample overall. Nevertheless, it is the most important constraint on business performance only for the group of manufacturing SMMEs.
- Issues concerning poor market conditions, lack of customers and too much competition emerge strongly as an important constraint on the emergent SMME economy. In particular for service-based SMMEs and for construction SMMEs poor market conditions are of paramount importance. For construction SMMEs, in particular, poor market conditions were often linked to lack of government tenders.
- Poor market conditions were emphasised by the group of Thabong entrepreneurs and linked to local conditions of rising joblessness associated with the declining mine economy.
- Lack of equipment and tools is a constraint that particularly affects the group of manufacturing and construction enterprises.
- Theft and burglary of premises remains a pressing issue for groups of manufacturing and service SMMEs (especially retailers).
- Lack of training and business knowledge is seen as a constraint particularly for service SMMEs.
- Lack of transport is a constraint that affects several manufacturers and construction SMMEs.
- Poor payment by customers, especially linked to credit, is an issue for both manufacturers and service SMMEs.
- Finally, the group of cultivators report a distinctive set of constraints which relate primarily to poor rainfall and the lack of water.

The importance of the poor state of the markets is underscored by information collected concerning the geographical source of markets, and linkages outside of the immediate locality of the business. The findings on these issues are shown in Tables 5.17 to 5.19.

Table 5.17: Major Markets for SMMEs (as indicated by percent of enterprises)

SECTOR	LOCAL	NON--LOCAL
Manufacturing	100	0
Services	100	0
Construction	100	0
Cultivation	100	0

* It is clear from Table 5.17 that in all cases the emergent SMMEs are operating within the confines of narrow local markets defined by their immediate locality.

Table 5.18: Number of Enterprises with Markets Beyond Local Market

SECTOR	ALL LOCAL	OTHER FREE STATE	OTHER RSA	EXPORTS
Manufacturing	35	16	0	2
Services	54	4	0	1
Construction	12	6	1	2
Cultivation	14	0	0	0
TOTALS	115	26	1	5

- Table 5.18 shows that only 32 of the 147 emergent enterprises have markets beyond the immediate locality in which they are situated.
- Those clusters that have managed to expand geographically tend to be the manufacturing and construction SMMEs.
- In the case of exports, of the 5 enterprises with sales outside of South Africa, in 4 of these cases the business was in Lesotho. Exporters to Lesotho included retailers of second-hand tyres, construction enterprises and producers of furniture.
- The most exceptional case was one Mangaung-based producer of ornamental metal work whose outputs from a backyard operation included some small volume of exports to Namibia, Germany and the United Kingdom.

Table 5.19: Number of Enterprises with Business Linkages Beyond Immediate Locality

SECTOR	NO EXTRA-LOCAL LINKS	OTHER FREE STATE	OTHER RSA	OUTSIDE RSA
Manufacturing	50	3	0	0
Services	55	2	1	1
Construction	21	0	0	0
Cultivation	14	0	0	0
TOTALS	140	5	1	1

- Table 5.19 highlights the business isolation of the emergent SMMEs. It is evident that only a handful of enterprises have regular linkages (to suppliers) with businesses outside of their locality.

Table 5.20 shows the numbers of enterprises that have sought to expand their markets through access to government contracts or tenders.

Table 5.20: Number of Enterprises Applying for Government Tenders

SECTOR	APPLIED	NOT APPLIED
Manufacturing	10	43
Services	1	58
Construction	9	12
Cultivation	0	14
TOTALS	20	127

- It is evident that the issue of contracts or tenders has relevance for only a small segment of the emergent SMME economy. Indeed, it is only a small group of registered manufacturing and construction enterprises that have sought out government tenders.
- Most entrepreneurs reported that their applications for tenders had not been successful (in many cases because enterprises were not registered) with the few successful tenderers confined to construction enterprises.
- Overall, it must be concluded that, at present, local or provincial government procurement contracts are not having a major impact in terms of the development of the emergent SMME economy of Free State.

In terms of addressing the critical issue of creating more jobs, entrepreneurs were asked to identify the conditions needed for them to take on added labour within their enterprises. The results from the interviews on this highly important issue for provincial economic planners are shown on Table 5.21.

Table 5.21: Key Conditions for Taking on Additional Workers

Major Problem	Manufacture	Services	Construction	Cultivation	Total
Access to Finance	11	14	6	0	31
Better Premises	21	16	0	0	37
Better Equipment/Tools	8	1	2	2	13
Improved markets	14	23	11	0	48
Improved training/business knowledge	0	3	4	0	7
Registration	4	2	2	0	8
Improved Space for Cultivation	0	0	0	14	14

Note: Many enterprises stated more than one condition

A number of points should be noted:

- Overall, the most important factor that will influence new job growth within existing enterprises is improved market conditions, which links to the state of the macro-economy in the province.
- It is striking that the majority of manufacturers and a notable group of service SMMEs highlight the significance of improved available premises for their businesses (often including access to electricity).
- Access to finance emerges as only the third most important factor for growing jobs in the existing enterprises of the emergent SMME economy
- The numbers of firms seeking registration was often influenced by the (unrealistic) expectation that formal registration would automatically bring access to government tenders.
- The situation in urban farming is once more distinctively particular in that the key issues relate to better access to productive land, with water for cultivation purposes.

5.6 RECOMMENDATIONS FOR AN ACTION PLAN

The findings in the previous section contain several major pointers in terms of recommendations for an action plan. In this section two sets of material are presented. First, further findings are presented from the interviews concerning the following issues: the key needs for the start-up of businesses; awareness of and access to existing support structures; the core support required by enterprises in terms of their existing operational phase of business development; and, the identified major support interventions that entrepreneurs feel could be offered by local and provincial government. Second, a summary is provided of the key recommendations that emerge from this investigation concerning an action plan in support of emergent SMME entrepreneurs.

5.6.1 Core Support Required at Start-up and Operational Phases.

It was reported earlier (see Tables 5.11 and 5.12) that at business start-up, entrepreneurs confront a number of major hurdles in terms of getting their businesses off the ground. Table 5.22 presents the key support interventions that entrepreneurs identify for assistance at start-up of businesses.

Table 5.22: Core Support Interventions Identified for Business Start-Up

Key Intervention	Manufacture	Services	Construction	Cultivation	Total
Finance (Micro-Credit)	32	30	18	7	87
Business Advice/Training	23	31	6	2	62
Premises	10	12	1	1	24
Marketing Assistance	6	2	8	0	16
Land	0	0	0	4	4

Note: Several respondents identified more than one form of support intervention.

A number of points emerge from an examination of Table 5.22:

- A fairly consistent set of support interventions are identified by all the different groups of SMME entrepreneurs.
- Two primary and two subsidiary sets of interventions are consolidated.
- The two primary forms of support intervention to assist business start-up relate to the provision of micro-credit and to improved access to business advice as well as training.
- Secondary support interventions for enhancing business start-up surround issues of the provision of suitable premises and of marketing/linkage support.
- Certain sectoral differences appear with production based SMMEs highlighting micro-credit followed by business advice/training; service-based SMMEs prioritizing business advice training and finance almost equally; construction SMMEs strongly identifying finance and marketing issues; and cultivation entrepreneurs requiring micro-credit and access to land.

It was clear from the interviews that businesses entrepreneur's are isolated to the extent that they are largely unaware of any potential sources for support of their enterprises. Knowledge of government or other support programmes was extremely limited and only a tiny proportion of entrepreneurs (5 percent of the sample) were aware of or could name any organization that could potentially support the development of their businesses. The organizations that were named most frequently by entrepreneurs were the Free State Development Corporation, Khula, Ntsika, the (former) Small Business Development Corporation (now Business Partners), the Land Bank and the Development Bank of Southern Africa. Even the awareness of the existence of these organisations was tempered by the caveat that entrepreneurs had no knowledge of how to approach them or of where these organisations were based. Moreover, the few entrepreneurs in the sample that had managed to apply for assistance were unsuccessful, with the greatest disappointments surrounding the rejections or lack of response received from the provincial Development Corporation. Finally, in terms of awareness of support programmes, it is significant that not a single entrepreneur mentioned support received from (or even awareness of) the existing network of Local Business Service Centres in the province.

Overall, these findings point to a number of conclusions:

- Among emergent SMMEs there is only extremely limited awareness of the existing support structures that have been introduced by national and provincial government for supporting the SMME economy.
- The 'invisibility' and poor outreach performance of the existing network of SMME service providers are issues that demand urgent attention.

In terms of the most urgent support intervention that is required for existing SMME enterprises in terms of their operational phase, Table 5.23 reports the findings from the interviews across the different types of emergent SMMEs engaged variously in production-based, service-based, construction and cultivation activities.

Table 5.23: Core Support Interventions Identified for the Operational Phase of Business Development

Key Intervention	Manufacture	Services	Construction	Cultivation	Total
Finance (Micro-Credit)	25	33	14	5	77
Business Advice/Training	16	24	4	3	47
Premises	23	16	0	0	39
Marketing Assistance	6	2	5	0	13
Land	0	0	0	8	8

Note: Several respondents identified more than one form of support intervention

In reviewing the findings on Table 5.23 there are several points that are worth noting:

- Improved access to finance in the form of micro-credit is identified by entrepreneurs as the number one priority for intervention to support the business development of existing enterprises.
- Significant importance is attached also to the critical need for improved levels of business advice, support and training as well as for access to improved premises for business development.
- Once again, there are differences in emphasis that emerge in terms of the core support intervention that is identified by different kinds of emergent SMME businesses. Of greatest significance are the relative importance of premises for supporting manufacturing enterprises and of business advice for emergent service-based SMMEs.

Finally, entrepreneurs were asked to identify the major support interventions that might be offered by the local as opposed to the provincial sphere of government. The results of these interviews are reported on Tables 5.24 and 5.25.

Table 5.24: Key Support that might be delivered by Local Government

Key Intervention	Manufacture	Services	Construction	Cultivation	Total
Finance (Micro-Credit)	8	10	5	0	23
Business Advice/Training	8	9	10	0	27
Premises	23	16	4	0	43
Assist with Markets for Business	8	14	4	0	26
Land	0	0	0	8	8
Improve Water or Electricity Infrastructure	9	3	0	0	12
Reduce Crime	0	7	0	0	7
Assist with equipment	3	0	0	4	7

Note: Several respondents identified more than one form of support intervention.

The key findings in relation to the expectations of entrepreneurs from local government are as follows:

- Although finance is a critical support need in general, the expectations from local government are mostly for the provision of non-financial means of support.
- The critical role of local governments in terms of the provision of adequate business premises that might be used by SMME entrepreneurs is a strong finding.
- Entrepreneurs also look to local government for assistance in terms of market development, most commonly through allocation of tenders and in some cases through the blocking out of competitors, such as ‘foreigners’ or ‘Indians’ in certain areas.
- Local government clearly plays an important function in terms of ensuring adequate or improved services concerning electricity and water supplies.
- The improved provision of advice and information on potential business opportunities is a further function for local government.
- Reduction of crime is another issue that needs attention of local government, especially from the perspective of service SMMEs.
- Finally, it should be noted that several entrepreneurs expressed misgivings on the existing operations of local government and especially of local councilors. For example one Mangaung brickmaker expressed the view that “Our councilors keep relevant [business] information to themselves”. A similar criticism was offered by one construction entrepreneur who stated that members of local government “only look after their friends and family”.

Table 5.25: Key Support that might be delivered by Provincial Government

Key Intervention	Manufacture	Services	Construction	Cultivation	Total
Finance	19	29	5	6	59
Business Advice/Training	16	12	4	3	35
Premises	12	8	0	0	20
Assist with Markets for Business	10	9	8	0	27
Land	0	0	0	6	6
Assist with Equipment	2	2	0	4	8
Reduce Crime	5	5	2	0	12

Note: Several respondents identified more than one form of support intervention.

The key findings in relation to the expectations of entrepreneurs from provincial tier of government are as follows:

- It is apparent that entrepreneurs have different expectations of support delivery from provincial as opposed to local government
- Provincial government is seen as a major vehicle for delivery of potential improvement concerning access to finance
- Provincial Government is also seen as an important institution for the market development of enterprises, especially through the award of tenders.
- The role of provincial government as potential source for business advice, training support is again highlighted.
- Relative to local government, the role of provincial government in terms of support for business premises is reduced.

5.6.2 Concluding Analysis and Major Recommendations

A summary of key findings and conclusion is presented. This is followed by major recommendations which are synthesized into an action plan for the emergent SMME economy.

5.6.2.1. Summary of Key Findings and Conclusions

Taken together, the results of this detailed investigation do not provide a very positive picture of the existing state of emergent SMMEs in the Free State. In particular, the record of this set of enterprises in terms of labour absorption is particularly poor. Overall, a picture emerges that most enterprises were set up out of necessity rather than choice in a context of the weakened state of employment-creation in the formal economy. A striking finding is of the much higher representation of male entrepreneurship in the Free State SMME economy than has been observed in other parts of South Africa (see Berry *et al*, 2002).

The vast majority of enterprises are unregistered home-based businesses in which there is a constant struggle to provide their owners and their (mainly) family helpers a basis for improved living standards. Nearly all enterprises function in narrow localized markets with few, if any, 'exports' or sales of goods and services beyond the immediate locality in which they are situated. There is some evidence that the groups of better performing SMMEs are those which are involved in production-based or construction-related activities where the stimulus of new infrastructure development and of the award of government contracts (or subcontracts) has afforded a foundation for some enterprise growth, albeit with little spin-off as regards new job creation. With the service-based SMMEs – mainly retailing operations – the trend, however, is towards poor performance due to a surfeit of competition. This suggests that for these operations the potential for enterprise growth is rapidly diminishing as 'involution' occurs. This means that, as with the urban farmers, an increasing number of service-based SMMEs are probably functioning at levels approaching the survivalist.

A consistent thread in the survey findings surrounds the enormous constraints faced by this group of emergent SMME entrepreneurs. A key constraint at both start-up and the operational phase of business is that of access to finance in the form of micro-credit. Shortage of finance, and the capacity to access funds, impacts upon the quality of equipment and machinery of both manufacturers and builders, and on the services that are offered by service-based SMMEs. The issue of finance further impacts upon entrepreneurs' capacity to seek out and secure improved premises. This is another major factor in the limited growth achieved by enterprises. Human resource issues are a further area of concern relating to entrepreneurs' knowledge of business operations. This issue is underpinned by poor information and absence of training opportunities. The outlook for expansion of these emergent SMMEs is further reduced by the enduring issues of crime, poor infrastructure and lack of access to government support programmes. The Free State interviews underscore very strongly the abject failure of national government-led SMME support initiatives to reach an important target group. Lack of information, and lack of any means of accessing the limited national government support programmes, is a striking theme that emerged from the 147 interviews. Especially disturbing is the failure of the existing network of local support institutions – the Local Business Service Centres – to reach out and offer any real means of support to the entrepreneurs of Mangaung and Thabong.

It must be recognized that there are certain sectoral differences in terms of the core areas of support need for SMMEs engaged in manufacturing, construction, service activities and urban farming. Nevertheless, there are clear sets of priorities that are set forth by entrepreneurs as needing attention by both provincial and local levels of government. These priority areas for intervention constitute the basis of the sets of major recommendations that are presented below.

5.6.2.2 Major Recommendations

The action plan for the emergent SMME economy seeks to address the most important constraints that were identified by entrepreneurs upon their business operations and the associated support needs across both start-up and operational phases of business development. It should be emphasized that the action plan is framed within the context of an acknowledgement of the limits of provincial

government intervention as compared to national government which must provide the overarching institutional context and the core funding for SMME development programmes.

The major recommendations that flow from this investigation are as follows:

- To revise existing targets for job creation in the emergent SMME economy and develop a set of specific, measurable objectives that will be monitored
- To identify at both provincial and local government levels the most promising sectors for encouraging and advising SMME entrepreneurs concerning business opportunities, especially for the start-up of enterprises.
- To ensure that all provincial sectoral planning includes specified targets for the upgrading of emerging SMME entrepreneurs and enterprises.
- To introduce provincial shadow programmes that align with national SMME initiatives that are geared towards (1) enhancing SMMEs market access and business linkages, (2) targeted assistance of specific groups (unemployed, school-leavers, youth, women, disabled), (3) management and entrepreneurial development, and (4) technology support for acquiring basic technologies.
- To lobby DTI for the initiation of special targeted assistance programmes for SMME development within localities in decline.
- To improve massively the access of SMME entrepreneurs – existing and potential – to information about business and market opportunities.
- To publicise widely success-stories of emergent Free State entrepreneurs.
- To enhance, through the establishment of a network of business information centres, the awareness and access of entrepreneurs to business information and existing SMME support.
- To enhance, in particular, the opportunities for women entrepreneurs, who are seemingly under-represented in the provincial SMME economy.
- To enhance greatly the access of entrepreneurs to sources of micro-credit both for start-up of new SMMEs as well as for the support of existing business operations.
- To upgrade the capacity and quality of existing business development service providers in the province.
- To support a programme of training workshops on the most promising sectoral and local opportunities identified for the start-up of emergent SMME entrepreneurs.
- To initiate a programme designed to encourage local governments to provide suitable and affordable business premises in the form of business incubators or local industrial parks for emerging entrepreneurs.
- To establish and monitor targets for the reduction of business crime against SMME entrepreneurs.
- To establish and monitor targets for the access of emergent SMMEs to government tenders and for local and provincial public procurement.
- To establish and maintain a data base of the emergent SMME economy in the Free State both for purposes of encouraging business linkages with established SMMEs and large business enterprises and for potential tender awards as well as for setting up a regular monitoring system of the problems of SMME entrepreneurs.

5.6.2.3 Action Plan

The action plan below is organized in terms of Tasks to be achieved, recommended actions, responsible organizations or institutions and suggested time-frames. In terms of the timeframes short-term refers to a period within six months time whereas medium-term refers to a period of between six months and one year.

ACTION PLAN FOR THE EMERGENT SMME ECONOMY

TASK TO BE COMPLETED	RECOMMENDED ACTIONS	RESPONSIBILITY	TIME FRAMES
For the emergent SMME economy, develop specific measurable, achievable objectives and monitor progress towards these objectives	<ol style="list-style-type: none"> 1. Review existing targets for job creation in existing enterprises. 2. Identify the most promising sectors for encouraging and advising SMME entrepreneurs concerning business opportunities, especially for the start-up of enterprises. 3. Ensure that all provincial sectoral planning includes specified targets for the upgrading of emerging SMME entrepreneurs and enterprises. 4. Establish data base of SMMEs for monitoring. 	PEAC, Provincial SMME Desk, Provincial Department of Tourism, Environmental and Economic Affairs, and Local Governments	Short-Term
Align Provincial SMME Support Programming to National Programmes	<ol style="list-style-type: none"> 1. Introduce provincial shadow programmes that align provincial with national SMME initiatives that are geared towards (1) enhancing SMMEs market access and business linkages, (2) targeted assistance of specific groups (unemployed, school-leavers, youth, women, disabled), (3) management and entrepreneurial development, and (4) technology support for acquiring basic technologies. 2. Lobby DTI for the initiation of special targeted assistance programmes for SMME development at localities in decline. 3. Re-align and adjust provincial SMME strategy to harmonise with new national SMME strategy. 	Provincial SMME Desk	Short-Term

<p>Enhance the Workings and Efficacy of Existing SMME Support Programmes</p>	<ol style="list-style-type: none"> 1. Establish a network of business information/advice centres to improve access to information about business and market opportunities as well as networks of SMME support. 2. Publicise success stories of emergent Free State entrepreneurs. 3. Introduce a special programme to assist women entrepreneurs 4. Improve awareness of existing and new DTI sources of support for micro-credit. 5. Enhance quality of existing business development service providers 6. Introduce training programmes for entrepreneurs in those sectors identified as having greatest provincial potential. 	<p>Provincial SMME Desk, DTI, Existing Service Providers</p>	<p>Medium-Term</p>
--	--	--	--------------------

<p>Align Local Government Initiatives for Support of Emergent SMME Economy</p>	<ol style="list-style-type: none"> 1. Initiate a programme designed to encourage local governments to improve availability of suitable and affordable business premises 2. Set and monitor targets for reduction of business crime . 3. Set and monitor targets for emergent SMMEs access to government tenders. 	<p>Provincial SMME Desk and Local Governments</p>	<p>Short-Medium Term</p>
<p>Improve Data Bases and Monitoring</p>	<ol style="list-style-type: none"> 1. Set up a data base on emergent SMMEs. 2. Introduce a regular system of monitoring on the state of the SMME economy 	<p>Provincial SMME Desk and Local Governments</p>	<p>Short-Medium Term</p>

CHAPTER 6: AN ACTION PLAN

6.1 INTRODUCTION

The core aims of this project were twofold. First, the gathering and analysis of primary information concerning the current state of the SMME economy, in particular concerning the changing dynamics and obstacles facing SMME enterprises. Second, upon that foundation, to prepare an action plan for strengthening the provincial SMME economy.

In Chapters 3 through to 5 steps towards an action plan were put forward respectively for the established SMME economy of manufacturing (Chapter 3) and tourism (Chapter 4) and for the emerging SMME economy (Chapter 5). The task of this final chapter is to synthesize the recommendations that have already been offered within the broader context of the changed national framework for SMME development which will be released in 2004 and which was discussed in Chapter 2. The rationale for this is to harmonize and align the provincial action plan and strategy for SMME development within the core directions of new national SMME frameworks and programming.

6.2. AN ACTION PLAN FOR STRENGTHENING THE PROVINCIAL SMME ECONOMY

The summary action plan for strengthening the SMME economy of the Free State is best presented diagrammatically in terms of four figures. These relate in turn to:

- The Conceptual Framework of the Three Pillars for Supporting the SMME Economy (Figure 6.1)
- The Action Plan in Support of Pillar 1 : Create Motivated Entrepreneurs (Figure 6.2)
- The Action Plan in Support of Pillar 2: Unlock Economic Opportunities (Figure 6.3)
- The Action Plan in Support of Pillar 3: Build Capacity of Entrepreneurs (Figure 6.4).

Taken together these four figures encompass the conceptual base and summarized key action plans for strengthening the SMME economy of Free State. These strategic recommendations should form the core measures for implementation over the period 2004 to 2008 for the development of the SMME sector in the province.

Overall, the recommendations are designed to address the major obstacles that were identified as impeding the expansion of the SMME economy. Moreover, the recommendations are designed to develop and harness the energy of SMME entrepreneurs for the long-term goal of a vibrant, sustainable and job creating sector in the Province. Finally, in alignment with the new national SMME framework to be released in 2004 the recommendations collectively should further contribute towards the promotion of black economic empowerment in the Free State economy.

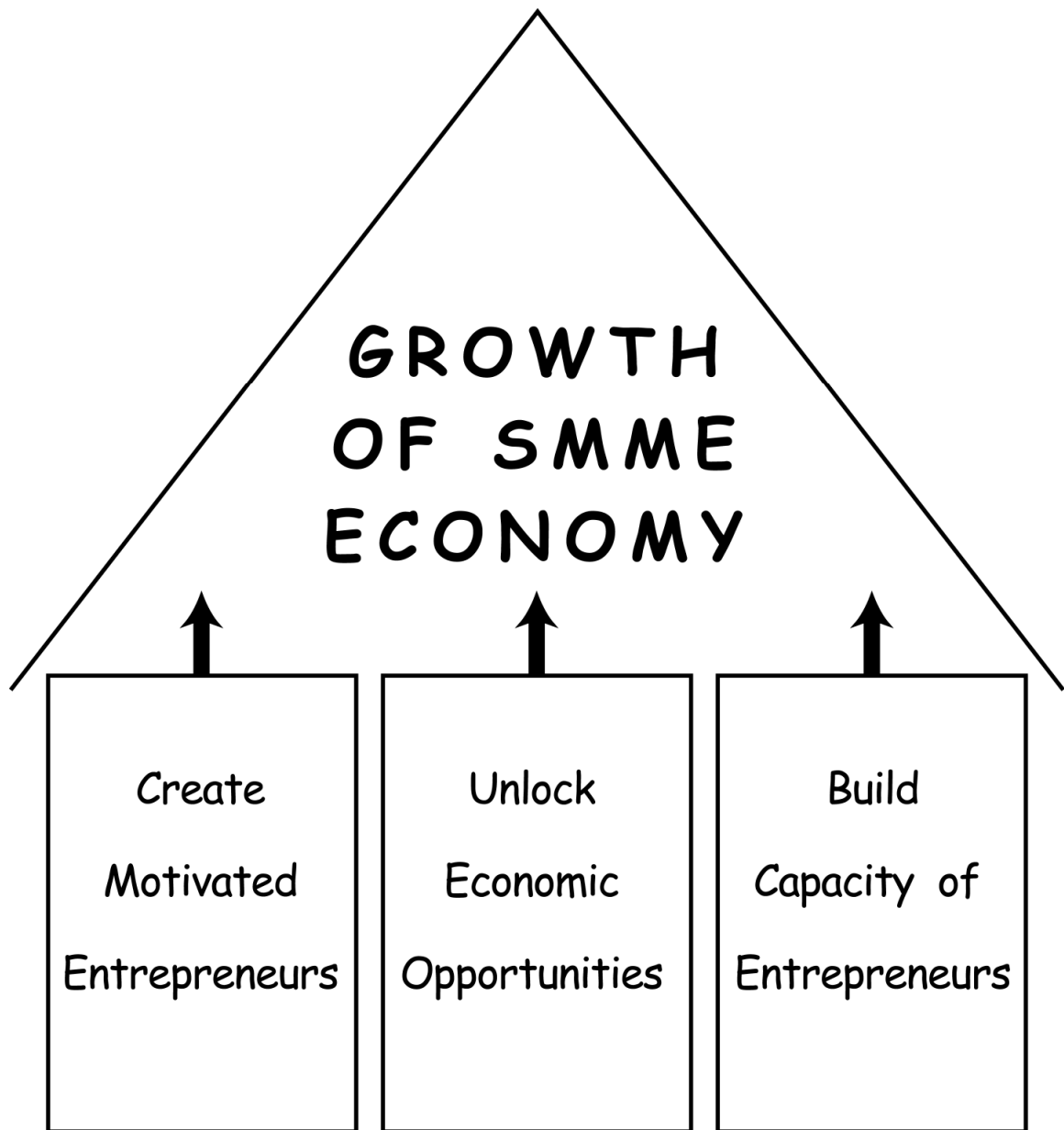


Figure 6.1: Conceptual basis of three pillars

CREATE MOTIVATED ENTREPRENEURS

(Responsibility DTI and Provincial SMME Desk)

ESTABLISHED SMME ECONOMY

No Policy Focus

EMERGING SMME ECONOMY

- Promote and Encourage Learnerships for Target Groups of Youth, Women and Rural Areas.
- Promote Special Learnerships in Declining Localities especially Goldfields and potentially Northern Free State as a whole.
- Expansion of training programmes for how to run small business.
- Expand information flows on new government support programmes for start-up (especially micro-credit).
- Promote and support mentorships.
- Publicize stories of successful entrepreneurs as business role models.

Figure 6.2: Action plan for creation of motivated entrepreneurs

UNLOCK ECONOMIC OPPORTUNITIES

(Responsibility DTI, SMME Desk Department of Tourism, Environmental and Economic Affairs, Local government)

ESTABLISHED SMME ECONOMY

- Sectoral strategies for manufacturing and tourism to enhance provincial competitiveness and market growth.
- Lobby DTI/NAMAC for support of a provincial Manufacturing Advice Centre.
- Review existing Network of Training Institutions.
- Maintain and enhance existing infrastructural bases both for manufacturing and tourism.
- Improve Tourism Marketing for the Province.
- Review Existing Regulations affecting tourism.
- Improve Awareness of Local Governments of Tourism Potential.
- Expand information flows on National Government Support Programmes.

EMERGING SMME ECONOMY

- Establish a local business support infrastructure with advisors, business mentors.
- Improve market access through public procurement (including monitoring).
- Programme support for business linkages.
- Improve information flows on targeted government support for emerging entrepreneurs, especially Black Business Supplier Development Programme, Tourism Enterprise Programme and new micro-credit funding.
- Special support programme to boost women's involvement in emerging SMME economy.
- Initiate a programme for local governments to improve availability of affordable business premises for SMME development.
- Support black economic empowerment and transformation of provincial tourism economy.

Figure 6.3: Action plan for unlocking economic opportunities

BUILD CAPACITY OF ENTREPRENEURS

(Responsibility DTI, SMME Desk, Local government)

ESTABLISHED SMME ECONOMY

- Support for enhanced competitiveness through the Manufacturing Advice Centre.
- Improve access to technology through existing and new DTI technology support programme initiatives.
- Improve information channels of support programmes.
- Introduce regular(annual) monitoring system on state of the provincial (and local) SMME economy.

EMERGING SMME ECONOMY

- Enhance access to finance through existing and new DTI funding programmes.
- Enhancement of Training and Mentorship opportunities.
- Through local business support infrastructure, improve information channels of support programmes.
- Set and monitor targets for reduction of business crime.
- Set up Data base on emergent SMMEs.
- Introduce regular(annual) monitoring system on the state of the provincial (and local) SMME economy.

Figure 6.4: Action plan for building capacity of entrepreneurs

7. REFERENCES

- Berry, A., von Blottnitz, M., Cassim, R., Kesper, A., Rajaratnam, B. and van Seventer, D.E., 2002: *The Economics of SMMEs in South Africa*. Trade and Industrial Policy Secretariat, Johannesburg. (available at www.tips.org.za)
- Bloch, R. and Daze, S., 2000: A review of the South African Local Business Service Centre Programme: current status, future prospects, Unpublished report for the Regional Office Southern Africa, International Development Research Centre, Johannesburg.
- COMSEC PE, 2003: Feasibility Report Mangaung Local Municipality 2003, Unpublished report submitted to Mangaung Local Municipality.
- Damane, W., 2002: Better, smarter, together, *Sisebenza Sonke*, August, 11-23 available at www.dti.gov.za
- Damane, W., 2003: Better, smarter, together, *My Business*, January, 13.
- Damane, W., 2004: Interview with Chief Director of the DTI's Enterprise Development Unit, Pretoria, 5 May.
- Department of Trade and Industry, 2003: South Africa's economic transformation: a strategy for broad-based economic empowerment, available at www.dti.gov.za
- Dorfling, T., 2001: Enhancing small, medium and micro enterprise support provision: the case of Port Elizabeth, South Africa, Unpublished MA dissertation, University of the Witwatersrand, Johannesburg.
- Erwin, A., 2002: Making a difference: an introduction to an integrated approach to small, medium and microenterprise (SMME) development in South Africa, *Sisebenza Sonke*, August, 3-9, available at www.dti.gov.za
- Erwin, A., 2004: Township businesses flex muscles, available at www.thedti.gov.za
- Free State Province, 2003a: *Economic Strategy*, Department of Tourism, Environmental and Economic Affairs, Bloemfontein.
- Free State Province, 2003b: Strategic Plan for the Period 2003/2004 to 2005/2006, Unpublished report of the Department of Tourism, Environmental and Economic Affairs.
- Free State Province, 2004: The Free State Directory, available at <http://www.freestateprovince.co.za/home.htm>
- ICC, 1999: Supporting South Africa's small, micro and medium enterprise strategy: Khula Enterprise Finance Ltd and Ntsika Enterprise Promotion Agency- Discussion Points on the Way Forward, Unpublished Confidential Report for the World Bank.

- Kesper, A., 2001: Failing or not aiming to grow?: manufacturing SMMEs and their contribution to growth in South Africa, *Urban Forum*, 12, 171-203.
- Kesper, A., 2002: Tracing trajectories of successful manufacturing SMMEs in South Africa, Unpublished PhD Dissertation, University of the Witwatersrand, Johannesburg.
- Manning, C. 1996: Market access for small and medium-sized producers in South Africa: the case of the furniture industry, Unpublished Ph.D. dissertation, University of Sussex, Brighton.
- Marais, L., 2004: Clarens – tourism Mecca of the Free State. In Rogerson C.M. and Visser G. (eds), *Tourism and Development Issues in Contemporary South Africa*, Africa Institute of South Africa, Pretoria, in press.
- Mohoto, M., 2004: Interview, Policy, Research and Legislation, Enterprise Unit, DTI, Pretoria, 5 May.
- Ntsika Enterprise Promotion Agency, 1999: *National Small Business Regulatory Review*, Ntsika Enterprise Promotion Agency, Pretoria.
- Ntsika Enterprise Promotion Agency, 2000: *The State of Small Business in South Africa 1999 Annual Review*, Department of Trade and Industry, Pretoria.
- Ntsika Enterprise Promotion Agency, 2001: *The State of Small Business in South Africa 2000 Annual Review*, Department of Trade and Industry, Pretoria.
- Ntsika Enterprise Promotion Agency, 2002: *The State of Small Business in South Africa 2001 Annual Review*, Department of Trade and Industry, Pretoria.
- Ntsika Enterprise Promotion Agency, 2003a: *Ntsika Annual Report*, Ntsika, Pretoria.
- Ntsika Enterprise Promotion Agency, 2003b: *Ntsika Local Business Service Centres: Success Stories*, Ntsika, Pretoria.
- Qualmann, R., 2000: Economic development and employment promotion in South Africa: analysis with special reference to SMME promotion and strategy options for German Development Cooperation, Unpublished report prepared for the GTZ, Bonn.
- Republic of South Africa, 1995: *National Strategy for the Development and Promotion of Small Business in South Africa*, Department of Trade and Industry, Cape Town.
- Republic of South Africa, 1996: *White Paper on the Development and Promotion of Tourism in South Africa*. Department of Environmental Affairs and Tourism, Pretoria.
- Republic of South Africa, 1998: *Tourism in Gear: Tourism Development Strategy 1998-2000*, Department of Environmental Affairs and Tourism, Pretoria.
- Rogerson, C.M., 2001: Growing the SMME manufacturing economy of South Africa: evidence from Gauteng province, *Journal of Contemporary African Studies*, 19, 267-291.

Rogerson C.M., 2002: Tourism – a new economic driver for South Africa. In Lemon, A. and Rogerson, C.M. (eds), *Geography and Economy in South Africa and its Neighbours*, Ashgate, Aldershot, pp. 95-110.

Rogerson C.M., 2003: Tourism and transformation: small enterprise development in South Africa. *Africa Insight* 33(1/2): 108-115.

Rogerson C.M., 2004: Financing tourism SMMEs in South Africa: a supply-side analysis. In Rogerson C.M. and Visser G. (eds), *Tourism and Development Issues in Contemporary South Africa*, Africa Institute of South Africa, Pretoria, in press.

Visser G., 2003: South African Tourism and its role in the perpetuation of an uneven tourism space economy. *Africa Insight*, 33(1/2): 116-123.

Visser G. and Kotze N., 2003: A road runs through it: tourism infrastructure development in the Golden Gate Highlands National Park. *Africa Insight* 33(1/2): 55-60.

Visser G. and Van Huyssteen K., 1997: Guest houses – new option for tourists in the Western Cape winelands. *Acta Academica* 29(2): 106-137.

Visser G. and Van Huyssteen K., 1999: Guest houses: the emergence of a new tourist accommodation type in the South African tourism industry. *Tourism and Hospitality Research* 1(2): 155-175.