



# Annual Review of Small Business In South Africa – 2004 A Qualitative Review



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## Part 2: Research Features

### Provincial Profile

Focus on Mpumalanga





## 1. Introduction

According to information provided by the *Annual Review of Small Business in South Africa – 2003*, the small, medium and micro enterprise (SMME) economy of Mpumalanga comprises about 206,000 enterprises. The essential features of this economy are shaped by the province's strongly rural character. Similar to other South African (SA) provinces with a high proportion of rural dwellers (such as Eastern Cape, North-West or Limpopo), the largest proportion of enterprises in Mpumalanga are informal rather than formal businesses. In total, Mpumalanga is estimated to have 15,000 formal businesses compared to 191,000 informal enterprises, a ratio of almost 13 informal for each formal enterprise. In relation to population numbers, the number of formally active businesses is lower than the national average, whereas the enterprise density of informal businesses is higher than the national average of 0.9, as recorded in the 2003 Review. Overall, the provincial government of Mpumalanga considers the SMME economy as 'a vital part of the provincial economy'. Nevertheless, given the challenges faced in terms of SMME development, it has been described as 'a marginalised sector of the regional economy, not contributing optimally to economic growth and employment creation'.

The aim of this chapter is to provide a profile of the status and development trajectory of Mpumalanga's SMME economy and to highlight select issues concerning the development challenges faced by sections of this economy. More specifically, this chapter presents the findings of 90 interviews which were conducted from September to November 2005 with a cross-section of SMME entrepreneurs in the manufacturing and tourism sectors. Both these sectors are important contributors to economic growth and employment creation in Mpumalanga. The sample of interviewees was deliberately structured so as to capture a wide range of issues concerning employment creation amongst SMMEs in the province. Indeed, the survey sample incorporated a cross-section of established white entrepreneurs as well as emerging black entrepreneurs in both manufacturing and tourism. The issues and themes covered in the survey interviews build upon those which were used in the provincial survey conducted for Free State province and reported on in the 2003 Review.

This report is structured into four parts of discussion:

- Section two provides a brief overview of the key features of the provincial SMME strategy and of the existing official support network for SMME development.
- Section three focuses on tourism and issues of SMME development in this sector. Against the background of an examination of the major aspects of the provincial tourism economy, the findings of 45 interviews with tourism SMME entrepreneurs in the province are reported.
- Section four turns to the manufacturing sector. A profile is provided of the role of SMME manufacturing in the provincial manufacturing economy, followed by a presentation of the results of survey interviews undertaken with 45 manufacturing SMME entrepreneurs across the province.
- Section five provides a summary of key policy issues highlighted in this research.





Overall, this provincial profile seeks to provide a set of contemporary information on the SMME economy in Mpumalanga. It is significant that the Provincial SMME Strategy highlights the need for adequate baseline information on the SMME sector in the province and also the existence of ‘so far very few surveys on SMMEs and related issues’. The objective of this chapter is to address – at least in small part – this information gap at the provincial level in Mpumalanga and to offer a contribution towards policy debates and ongoing strategy formulation (and re-formulation) for SMME development in this province.

## **2. SMME development policy in Mpumalanga**

Mpumalanga claims the status of the first province in SA to adopt a provincial SMME development strategy. The essential directions of this strategy were aligned closely with those of the 1995 National White Paper on Small Business Development and its core aims stated as:

- Creating more employment;
- Contributing to the dynamisation of the economy;
- Empowering previously disadvantaged segments of society; and
- Providing a basic social net for the unemployed, poor and destitute.

The major challenges and constraints facing Mpumalanga’s SMME economy have been seen as paralleling those found elsewhere in the country – inhibitive or non-existent policy frameworks in the past and critical internal constraints such as inadequate business and technical expertise, access to markets and suitable infrastructure, as well as what the provincial document describes as ‘grossly inadequate availability and access to capital (finance)’.

In terms of support interventions, it is stated in the Provincial SMME Strategy that, whilst accepting the national challenges facing SMME support as set forth in the 1995 White Paper, Mpumalanga ‘determined its priorities as related to the realities of the specific needs and constraints of the province’. In common with the national challenges of SMME development, however, finance is identified as a critical challenge for the province, as SMME entrepreneurs operate within an environment of ‘inadequate access to finance’ which is linked to ‘inappropriate financing institutions and instruments for different sections of SMMEs’.

To address this challenge, the provincial strategy is committed to facilitate the establishment of financial intermediaries in the province and to co-ordinate and assist such intermediaries to access funds from organisations such as Khula Enterprise Finance or donors. It was stressed that the role of the provincial government in assisting SMMEs to improve their access to finance ‘will be a strictly facilitative one’ as there exists no provincial government capacity to provide direct financial support.

A second important problem for SMME development in the province is identified as the 'marketing of products and services'. The major issues relate, *inter alia*, to poor access to markets, high prices and limited access to inputs, inadequate access to business opportunities, insufficient (or non-existent) networking between SMMEs and large business enterprises, and insufficient networking amongst SMMEs themselves.

The province is committed to assisting SMMEs overcome their marketing constraints through a two-pronged approach. First, the province will identify market or economic opportunities and niches for SMMEs in the province. Secondly, the province will facilitate access to information regarding market opportunities to SMMEs, including through improved tender processes for government contracts and by creating networks for subcontracting opportunities between large business and SMMEs.

Infrastructure improvement and technology enhancement are further challenges for provincial SMME development. Several forms of infrastructure have been recognised as priority needs for the SMME economy, including telecommunications, industrial premises, incubators and affordable business premises. Technological support was identified as requiring 'the right level' to address the production problems of specific kinds or clusters of enterprises.

Land tenure was identified as a further challenge for SMME development, especially in terms of a critical 'lack of access to title deeds'. Finally, problems identified in Mpumalanga include a shortage of skills for business development and the existence of a network of business and technical training deemed 'fragmented and uncoordinated'.

Of special concern is the balance of available training in the province. It is argued that an over-supply of training exists in fields such as needlework, in which the market is already saturated, while an under-supply occurs in economic sectors such as tourism in which the province is seen as having great potential for future development.

Since 1995, a gradual extension of the network of national support programmes has occurred into and across Mpumalanga. Figure 1 shows the pattern of support that is currently available in Mpumalanga through the networks of Local Business Service Centres (LBSCs), Retail Financial Institutions (RFIs) and Manufacturing Advice Centres (MACs) that have been rolled out across the country. In addition to these support institutions for SMME development, the provincial government's website also draws attention to the support offered by seven technical colleges located across the province, as well as 11 non-government institutions that provide a range of different forms of training support.

The Provincial SMME Strategy acknowledges that, in a context of financial and capacity constraints at all levels, the need exists for strategic prioritisation of SMME development in the province. Indeed, it stated that whilst 'the Mpumalanga Government accepts responsibility for ensuring that there is adequate support for SMMEs in all communities', it has a special responsibility 'to address the needs of the disadvantaged and marginalised black business community'. Against this background, five targeted programmes have been selected as strategic priorities for the province.



Figure 1 – Patterns of support for SMMEs in Mpumalanga



- First, the SMME strategy contains a commitment to maximise the impacts for SMME development of the major development initiatives in the province, and more specifically of the Maputo Spatial Development Initiative.
- Second is to develop a targeted SMME manufacturing support programme that is concentrated around linkages, clusters and the beneficiation and downstream development of raw materials.
- In the third place, the urgent need to support SMMEs across the tourism economy has been recognised.
- The fourth programme is a specific commitment to address, through targeted programmes, the needs of disadvantaged and marginalised groups in society.
- Finally, a policy commitment has been made to consider spatial issues of development and the imperative of giving priority to specific parts of the province, such as ‘remote areas’ or those with a particularly serious unemployment problem, such as the former Homelands. Such initiatives would be complemented by a strong emphasis on SMME promotion in urban nodes with high growth potential, such as Witbank, Secunda and Nelspruit.

It is against the backdrop of these key facets of the provincial SMME strategy and of the existing official support network for SMME development in Mpumalanga that our attention turns in the next two sections to some of the contemporary issues surrounding SMME development in the important strategic sectors of manufacturing and tourism.

### 3. Tourism and SMME development

This discussion on tourism SMME development can be divided into two sub-sections:

- First, a profile is given of the tourism economy of Mpumalanga. This discussion is based upon the most recently available information drawn from surveys conducted for SA Tourism, as well as information obtained from websites linked to the provincial government. Themes of interest are patterns of tourism flows, key tourism products and the differences between patterns of domestic as opposed to international tourism in the province.
- Section 3.2 reports the findings of 45 interviews conducted with 30 established white tourism entrepreneurs and a group of 15 emerging black entrepreneurs from September to November 2005. All the interviewees are accommodation providers, the majority operating small guest houses, bed and breakfast establishments, backpacker lodges, or other small forms of accommodation. The sample of emerging black entrepreneurs has been drawn from a special listing that was obtained with the co-operation of the provincial SMME desk.



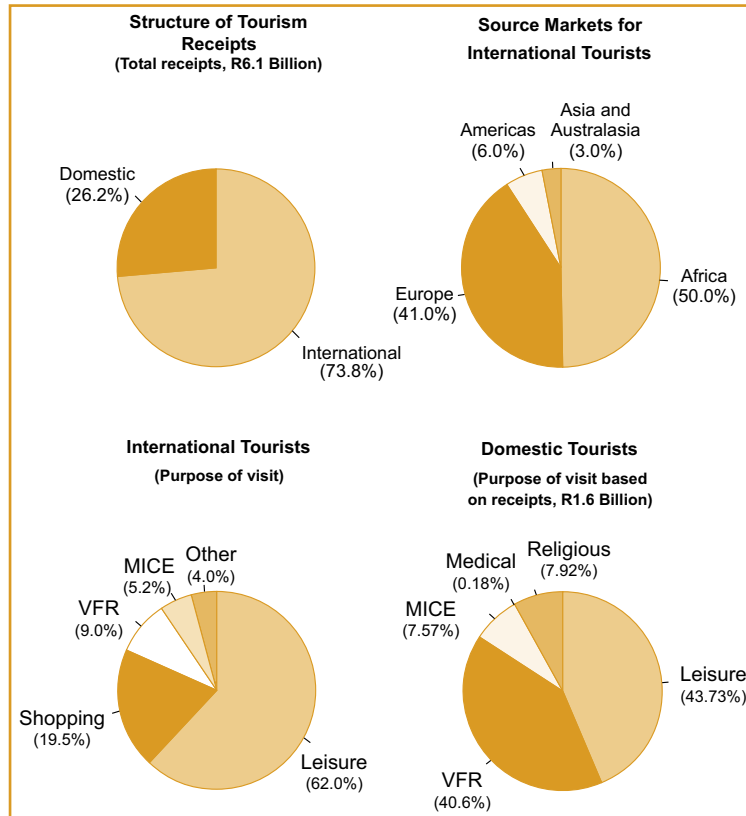
#### 3.1 Key features of the Mpumalanga tourism economy

Regular surveys conducted by SA Tourism highlight the fact that Mpumalanga is a vital province for both international and domestic tourist flows in SA (see Figure 2). The latest information from the *2003 Annual Tourism Report* suggests that tourism generated estimated total receipts of R6.1-billion, of which international tourism contributed R4.5bn and domestic tourism a total of R1.6bn (2003). In terms of provincial league tables, Mpumalanga ranks as the fourth most important SA province as indexed by receipts from international tourism but only manages eighth position for domestic tourism.

The current importance of international tourism and foreign direct spend for the Mpumalanga tourism economy is immediately evident. On average, the province attracts between 14% and 16% of foreign arrivals to SA, as shown by SA Tourism's quarterly reports. It is clear from Figure 3 that for international tourism, the most important destinations are the Kruger Park, the Blyde River Canyon, God's Window and private game reserves, such as Mala Mala or Singita at Sabie Sands.

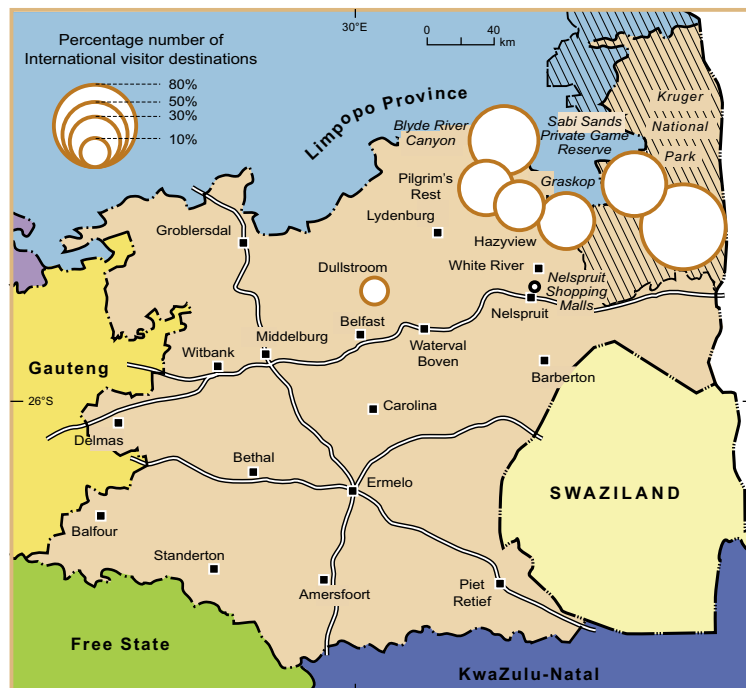
In 2003, these destinations were visited by at least 50% of long-haul international travellers to the province. Other significant tourism nodes for international travellers are Pilgrim's Rest, Hazyview and Sabie-Graskop. A much smaller flow of international tourists occurs to the trout fishing and other attractions of the Highlands Meander, which is focused around Dullstroom. Finally, the importance of cross-border shopping for tourists from Mozambique highlights the role of shopping malls in Nelspruit as another product of significance for international tourism, albeit for the regional African market rather than long-haul travellers.

Figure 2 – Mpumalanga’s tourism economy: key features



Note: MICE encompasses Meetings, Incentives, Conventions and Exhibitions

Figure 3 – Major destinations for international tourists



Flows of regional tourists or tourism from surrounding African countries are noteworthy (see *Figure 2*). Indeed, in terms of the country of residence of international tourist arrivals in Mpumalanga, the two most significant sources of tourists are Mozambique and Swaziland. For long-haul travellers to Mpumalanga, the most important markets are currently the UK, Germany, France, the US, the Netherlands, Australia and Sweden. African tourists from Mozambique are primarily business tourists, with 70% in Mpumalanga for purposes of shopping; for visitors from Swaziland the major purpose is VFR (visiting, friends and relatives) tourism. In contrast, between 80% and 90% of long-haul travellers from Europe visit Mpumalanga for reasons of leisure; for North American visitors the proportion of leisure travellers is slightly lower, in the range of 70% to 75%.

However, the average daily spend of the long-haul international traveller is considerably higher than that of the regional African tourist from Mozambique or Swaziland. Indeed, the potential value of the international long-haul traveller to Mpumalanga is indicated by the fact that during 2004, average monthly incomes of long-haul visitors from Europe were in the range of R20,000 to R40,000 per month, whereas the majority of visitors from Mozambique and Swaziland had monthly incomes of less than R5,000 per month on average.

The international tourist in Mpumalanga makes use of a range of different forms of accommodation, from hotels to self-catering units to backpacker hostels to sleeping on trains. It is estimated that approximately 20% of visitors, mostly the African tourists, stay with friends and relatives. Of the remaining 80%, hotels and luxury game lodges account for the largest segment of accommodation. On the basis of SA Tourism data it is estimated that roughly 35% of international visitors stay in forms of accommodation that are dominated by SMME entrepreneurs. This category includes a range of backpacker establishments, self-catering units, camp sites, bed and breakfast establishments and guest houses across the province. From the listings on the Mpumalanga Tourism website, there are at least 300 such SMME establishments across the province.

Compared to international tourism, the domestic tourism sector is a much smaller contributor in terms of value to the Mpumalanga tourism economy (see *Figure 2*). The major features of the domestic tourism economy can, once again, be gleaned from SA Tourism survey data. Overall, the largest number of trips by domestic travellers to destinations in Mpumalanga are made for purposes of VFR tourism. Of the estimated total of 2.5-million domestic trips in 2003, 1.58-million were for VFR purposes. In terms of the important sector of leisure tourism, a total of 483,000 trips were recorded, which places Mpumalanga fifth amongst SA's provinces as ranked by domestic tourism trips for leisure purposes. Overwhelmingly, the major source market for Mpumalanga VFR travel (nearly half) and for holiday travel (nearly two-thirds) is Gauteng. Using the value of total receipts from different segments of domestic tourism, the most important components of domestic tourism for Mpumalanga are leisure tourism (R699-million receipts) and VFR tourism (R649m); the other segments of health, religious and business tourism are collectively worth about R250m per annum.



Figure 4 – Patterns of domestic tourism



Beyond the value of their respective contributions to the Mpumalanga economy, there are certain other significant differences between domestic and international tourism.

Taken as a whole, the two most important foci for domestic tourism in Mpumalanga are the tourism regions of the Cultural Heartland, which includes Witbank, Middelburg and Groblersdal; and Cosmos Country, which includes Secunda, Delmas and Leslie. The significance of these two destinations, as indexed by numbers of travellers, is a reflection of the weight of VFR tourism in the overall patterns of Mpumalanga domestic tourism.

The area least visited, as indexed by tourism flows, is the Highlands Meander. The lucrative leisure tourism market is, however, overwhelmingly dominated by flows to the Kruger Park and the Lowveld Legogote area. It is notable that Sabie Sands is not as significant for domestic tourism markets as for international tourism.

Although SA Tourism data do not provide detailed information on forms of accommodation used by domestic tourists, on the basis of other investigations it can be assumed that domestic tourists constitute a critical market for SMME tourism providers in the province.

Moreover, given the considerable flows of VFR tourists into the province, the potential exists for 'second-economy' tourism accommodation and other products to be offered, especially in the Cultural Heartland and Cosmos Country regions.

### 3.2 Tourism SMME development

This section presents the major results from the survey of 30 established (white-owned) and 15 emerging (black-owned) tourism SMME accommodation providers in the province. The types of SMMEs captured in the survey were bed and breakfast establishments, chalets, camp sites and guest house providers. In addition, amongst the group of emergent black-owned tourism SMMEs, other forms of accommodation as provided on guest farms and at cultural villages were recorded.

The sample of 30 white entrepreneurs was structured deliberately in order to obtain information on tourism development from different geographical sub-regions of the province. In total, the survey included responses from the following localities: Nelspruit, White River, Sabie, Hazyview, Graskop, Lydenburg, Dullstroom, Belfast, Barberton, Komatipoort, Piet Retief, Wakkerstroom, Ermelo, Standerton and Leandra.

Because of the small number of emergent black-owned tourism SMMEs in Mpumalanga as a whole, the sample of interviewees was constrained to those that were in actual operation rather than in the process of setting up businesses. Geographically, the largest number of respondents were found in and around Nelspruit; other interviewees were dispersed widely across the province including at Middelburg, Moutse, Schoemansdal, Carolina, Hazyview and Lydenburg.

In several respects, the findings from the Mpumalanga survey disclose a picture of a tourism SMME economy not dissimilar from that which has been recorded in other provinces of SA. A profile of 'who are the entrepreneurs' shows that most established businesses are family owned (or owned by same-sex partners). Of the 30 businesses, a total of 22 were operated by a husband-and-wife team. In only one case was the business – a bed and breakfast establishment at Wakkerstroom – operated by an external manager who was not the owner (the owners of this SMME reside in Johannesburg).

Within the group of emerging tourism businesses, a distinction can be made between the individual-owned SMME and community-owned tourism businesses. Four of the 15 sample enterprises were community-owned activities.

A distinguishing feature of the Mpumalanga entrepreneurs as a whole was their age structure. In only three cases of the 30 surveyed white-owned enterprises was the entrepreneur below 40 years of age. A similar age profile could be distinguished amongst the emerging black-owned tourism entrepreneurs; of the 11 individual or family-owned enterprises, in only one case was the entrepreneur below 40 years of age.

As has been found in other parts of SA, in Mpumalanga the largest share of tourism SMMEs, at least in the accommodation sub-sector, is represented by persons over 50 years of age and with a significant segment aged 60 years or more. In one case, a white entrepreneur of a guest house situated in the Lowveld was 78 years old. Of the emerging group of black entrepreneurs, the average age was somewhat younger than that of the established entrepreneurs, calculated at 45.5 years.





Although leisure tourism constitutes the major market for tourism SMME entrepreneurs across Mpumalanga, it was significant that many entrepreneurs also highlighted the importance of business tourism, especially for occupancies during the week. In terms of markets for tourists, the importance of Gauteng (and to a lesser extent KwaZulu-Natal) was evident across the province. Geographical variations did emerge in the source markets for tourism SMMEs. For those SMMEs situated along the major routes traditionally used by long-haul international travellers – in areas such as White River, Sabie, Hazyview and even Nelspruit – the dominance of international tourism reached levels of 60% to 70% of all visitors.

In contrast, in remote areas or those parts of the province situated off the major routes of most international tourists, there was greater reliance upon domestic tourism, including intra-provincial tourist markets. Geography was also a factor in the length of stay of visitors. In the core areas of leisure tourism in the Lowveld, average stays were two to three nights, whereas in 'remote areas' such as Ermelo or Piet Retief – more reliant upon business travellers – the typical visitor length of stay was only one night. A distinctive feature of some of the black-owned tourism SMMEs was that a segment of their market is linked to government.

For the largest share of entrepreneurs – 21 of the 30 surveyed established enterprises – the operation of a tourism SMME represents the primary source of household income. For the remainder, the tourism business is mostly a supplementary household income earned by one partner and often in circumstances where the business has been developed as an adjunct to farming. Amongst the sample of black interviewees, in eight of the 11 cases of individual or family business ownership, the provision of tourism accommodation was the prime source of household income.

Most entrepreneurs – 24 of the 30 sampled enterprises – are running businesses that they have established themselves; in only six cases had the entrepreneur taken over an existing tourism business. Not surprisingly, nearly all of the black-owned tourism establishments represent new businesses. One significant exception, however, was a highly successful bed and breakfast situated in White River in which black entrepreneurs had taken over an existing business initially established by white entrepreneurs.

It is evident that a large number of new tourism SMME businesses have been started in Mpumalanga, especially since 1993. In only three cases of the 30 sampled white-owned enterprises did the business exist prior to 1990. The recent entry of black entrepreneurs into the Mpumalanga tourism economy was highlighted by the finding that, with the exception of two establishments, all of the black-owned enterprises had been established since 1999.

Of significance is the finding that a large proportion of Mpumalanga's white tourism SMME entrepreneurs could be classified as 'lifestyle entrepreneurs'. At least half of the surveyed businesses were operated by entrepreneurs who cited 'lifestyle' choices as the core reason for their involvement in the Mpumalanga tourism economy. Typically, such entrepreneurs stated that their business was established 'hopefully to

make some money while enjoying the lifestyle' of Mpumalanga. Amongst this group of entrepreneurs were several individuals who were variously 'tired of Johannesburg', 'tired of teaching', 'wanted to work from home' or 'always had a dream of running a B & B'. Retirees, many from Johannesburg, seeking to supplement their retirement incomes by operating small accommodation businesses, were a notable feature in the survey. The attractions of 'Mpumalanga living' extend beyond Gauteng, however. In at least three cases the entrepreneurs were immigrants from other parts of the world – two from Europe and an ex-South African returning from Australia.

The start-up of other businesses was linked to supplementing farming incomes or to husbands working in the area with spouses wanting to have an own business. Overall, in only a few instances did white entrepreneurs state 'opportunistic' reasons explicitly for establishing a small tourism enterprise. In contrast, nearly all of the black-owned enterprises had been launched for reasons of searching for business opportunities. The single notable exception was the White River establishment in which several motivations were expressed. Indeed, the owners claimed to have taken over the business 'as a lifestyle choice as the owner likes to entertain'.

In light of the above-mentioned origins of business establishment, one can conclude that the majority of entrepreneurs entered the Mpumalanga tourism industry without any prior direct experience of tourism. In only six of the 45 surveyed enterprises the entrepreneur had been involved in tourism prior to business start-up. The 'new entrepreneurs' in Mpumalanga tourism have a remarkably diverse set of backgrounds. Within the survey, the white entrepreneurs included former company directors, teachers, IT specialists, civil servants, insurance specialists, members of the defence force, mine suppliers, engineers, a town clerk, medical doctors and waste consultants. The career paths of black tourism entrepreneurs included former government employees, teachers, nurses, an owner of a security company and a bottle-store owner.

Close parallels emerged between white and black entrepreneurs concerning the source of capital for business start-up. The source of capital start-up in 26 of the 30 cases of white-owned enterprises was 'own funds' or personal savings, including sales of former property. In four cases, bank loans were used as the basis for start-up, either fully or in combination with the entrepreneur's own funds. Amongst the group of black-owned tourism businesses, once again, family or individual savings formed the critical basis for launching the tourism business.

Government support was a strong factor in the establishment of the community-owned tourism enterprises. At start-up, the most frequently stated problems experienced by entrepreneurs related to marketing and 'getting the business known', a lack of knowledge as to the workings of tourism, and bureaucratic issues surrounding licensing, approval for road signage, or securing telephone access from Telkom, especially in more remote parts of the province. That said, most white entrepreneurs stated that 'no major problems' were experienced at start-up. Lack of finance for upgrading rooms, adding facilities or marketing the business was a common complaint amongst the black tourism business sample.



It is evident that these new entrepreneurs in Mpumalanga tourism are contributing to job creation in the province. In terms of the total number of employment opportunities provided by these tourism SMMEs, the largest individual-owned establishments offered 29 (25 full-time and four part-time), 21 (18 full-time and three part-time) and 13 jobs (12 full-time and one part-time), respectively. One community enterprise was providing 15 full-time and four part-time employment opportunities.

These bigger employers in the Mpumalanga tourism SMME economy often combined the supply of accommodation with the provision of other tourism products, such as running a restaurant, a micro-brewery, or activities such as horse riding, 4x4 safaris, or trout fishing. Overall, the surveyed sample of 45 enterprises offered a total of 235 full-time and 54 part-time opportunities, as well as additional seasonal work. It was noted that the group of black-owned enterprises showed a high level of job creation: an average of eight persons per enterprise compared to 5.5 individuals for the group of white-owned enterprises.

In nearly all cases, the number of jobs was unaffected by seasonal variations. Not surprisingly, in the peak tourism months (which varied across the province), *additional* workers are hired on a short-term basis and, in the case of farms, farm workers often become supplementary part-time tourism workers. On a gender basis, female employment represents the bulk of tourism job opportunities; of the 289 job opportunities, 208 were for women workers and 81 for men. On a racial basis, of the total number of jobs, only 26 were for white employees while 263 represented job opportunities for black workers.

Recruitment of staff is almost exclusively from the immediate locality in which the tourism SMME is situated, with the only exceptions being the recruitment of specialist staff, such as chefs. The most common means of advertising for all enterprises is 'word of mouth'. In particular, those establishments linked to farms indicated that 'it was easy to get staff'. In only four cases of the 45 sample interviews, formal advertising for labour was done through the local press and in one case, recruitment of workers occurred with assistance from the local guest house association. Typically, labour is sought for work of a relatively low-skilled character, with all staff training done 'in-house' by the entrepreneur.

Many entrepreneurs spoke of the limited education of recruited workers as a core difficulty they had to address through in-house training. A significant gap was identified in the wider provision of hospitality training in the province and especially for training in catering as a means for upgrading staff in the Mpumalanga tourism economy. Both white and black entrepreneurs complained about the existing skills base in the provincial tourism economy. One black entrepreneur spoke of problems experienced with staff in terms of customer care or phone etiquette, and highlighted the key gap in good quality local training in the hospitality sector.

One indicator of the business performance of accommodation enterprises is the annual level of occupancy. Of the sample of 30 white-owned enterprises, 27 provided an estimate of overall annual occupancy. The range of occupancy level varied between

10% and 94%. The largest number of enterprises were clustered in the 60% to 80% range of occupancy level, which indicates a relatively healthy state of these small tourism enterprises. Only three enterprises admitted average occupancy levels of less than 20%. The occupancy data patterns show that several of the lowest occupancy levels were recorded in areas such as White River, where a large number of small accommodation providers are situated, suggesting possible 'over-saturation' in this local area. A total of 11 of the surveyed black-owned tourism establishments provided information on occupancy levels, with a general occupancy pattern between 45% and 75% and most entrepreneurs reporting occupancies in the range of 50%.

Both white- and black-owned tourism business groups across the province have seen a recent upturn in occupancy levels and tourism. Compared to the previous 12-month period, occupancy levels improved in 19 of the 30 surveyed white-owned enterprises, were stable in six and declined in only five of the sampled businesses. A very positive picture emerged amongst the group of black entrepreneurs, with 12 respondents reporting healthy improvements in the occupancy levels of their establishments.

This sense of buoyancy in the Mpumalanga tourism SMME economy was also reflected in business profit patterns – 15 of the white-owned enterprises reported an improved performance on the previous business year and only two reported decreased profits. One business was reportedly operating at a loss. Amongst the sample of black-owned establishments, 10 respondents provided estimates on business profits, of whom eight reported improved profits on the previous business year and two recorded 'slow growth'.

Rates of new employment growth were limited across all enterprises. Nevertheless, the survey disclosed that due to improved business performance, eight of the 30 sampled white-owned enterprises and eight of the 10 reporting black-owned enterprises had increased their labour complement (often with temporary workers) compared to the previous business year.

Looking ahead to the next business year, confidence levels were strong, with 12 white-owned establishments expecting an improvement in levels of occupancy and business profits compared to only two entrepreneurs who anticipated a worsened business outlook. Black entrepreneurs were extremely optimistic of future business growth, in particular as a result of the growing marketing initiatives of these entrepreneurs.

This high degree of optimism was manifest in the expansion, upgrading or ongoing improvement of tourism facilities. At 18 of the sampled white-owned enterprises, new or improved facilities included the addition of honeymoon suites, new cottages or chalets, conference centres and, in one case, the introduction of a polo estate in the Highlands Meander. For black entrepreneurs the expansions were often linked to new or renovated restaurants or conference facilities seeking to attract government business.

The capital source for upgrading was largely own funds or retained earnings. In several cases, upgrading tourism businesses involved support through funding assistance from the Department of Trade and Industry (**the dti**). The financial 'self-sufficiency' of



most established enterprises was evidenced by the fact that the majority of the tourism entrepreneurs (18 of the 30 sampled white entrepreneurs) had not sought out any direct assistance from government support programmes for tourism. Nevertheless, seven of the 30 businesses in the sample had secured grants from **the dti** or marketing assistance from the Tourism Enterprise Programme. Although the typical complaints of bureaucracy and complex procedures were voiced, for qualifying recipients, as stated by one entrepreneur, 'the wait was well worth it' and government assistance was viewed in highly positive terms. Perhaps surprisingly, with the exception of support for the community-owned businesses, few of the surveyed black-owned enterprises had received any direct support from government programmes. The most significant support was that of government as a market for their business.

Improvements in the business performance of Mpumalanga tourism SMMEs were attributed to a mix of internal and external factors. Growth of visitors, including repeat visitors, was generally explained by improved marketing by enterprises, the securing of contracts with tour operators, as well as the upgrading of facilities and the addition of new facilities, such as small conference centres. As already mentioned for black entrepreneurs, government contracts have been an important stimulus for the growth of certain enterprises.

External factors such as the greater publicity of Wakkerstroom as a birding venue and the opening of new mines in the Lydenburg area were also factors of growth stimulation. Declines were linked variously to the poor state of the local economy (Piet Retief), the poor condition of local roads, the loss of linkages with particular tour operators or reductions in Mozambican visitors due to restrictions on foreign currency. A strong theme was, however, that of market saturation which was reflected in several parts of the province, including major leisure destinations and even some of the remoter areas.

Enhanced marketing of individual businesses, of localities and of the province more widely was identified as the most critical long-term key to improved business performance of tourism SMMEs. Many entrepreneurs bemoaned the under-funding of tourism marketing in Mpumalanga. Others expressed disquiet at the general quality of provincial marketing. Indeed, several entrepreneurs were highly critical of Mpumalanga Provincial Tourism, variously describing it as 'pathetic', 'useless' or 'poor compared to other provinces'.

Overall, both groups of surveyed entrepreneurs strongly expressed the view that there was a need to market the different and varied tourism products of Mpumalanga more actively rather than to focus narrowly upon the wild-life attractions of Kruger Park. One black entrepreneur highlighted the decline of Mpumalanga in the league tables of provincial tourism and reiterated that 'there is more to the province than Kruger Park'. Beyond the enhanced and wider marketing of Mpumalanga's tourism products, other areas of improvement for government that entrepreneurs flagged related to poor road maintenance in several parts of the province, crime and safety, and issues concerning the reliability of electricity supplies.

## 4. Manufacturing and SMME development

The analysis of manufacturing SMMEs parallels that of tourism in terms of its organisation into two sub-sections of material.

- First, a profile is given of the province's manufacturing SMME economy in relation to the broader manufacturing economy of Mpumalanga. This discussion is based upon an analysis of the establishment level data as provided in the (unpublished) Industrial Register of the University of South Africa (Unisa) Bureau of Market Research. Although this database cannot be claimed to be fully comprehensive, it offers the best available source of information at the micro level of the firm, from which it is possible to construct a detailed picture of the formal SMME economy of the province. Unfortunately, no database exists to track the profile of the informal manufacturing economy.
- Section 4.2 reports the findings of 45 interviews which were undertaken during September to November 2005 with 30 established white SMME manufacturers and 15 emerging black entrepreneurs. The sample of established manufacturers was extracted from the listings as provided in the Industrial Register and was structured geographically to reflect known provincial concentrations of industry. In addition, the sample was structured to capture the major sectors of SMME manufacturing in the province. For the interviews with emerging manufacturers, a partial listing of enterprises was obtained from officials at the Witbank MAC; other potential interviewees were sourced from listings appearing on the website of the Mpumalanga Provincial Government.

### 4.1 The SMME manufacturing economy in Mpumalanga

Several previous investigations have highlighted the major sectoral trends and key clusters that exist in the manufacturing economy of Mpumalanga. The three most important manufacturing clusters in Mpumalanga have been identified as the industrial chemicals cluster around Secunda, the metal/steel cluster around Witbank-Middelburg and the wood products cluster in the Lowveld region.

The macro profile of the manufacturing economy of the province, as derived from analysis of the Bureau of Market Research Registers, confirms this picture. The dominance of the three clusters is reflected both in the overall patterns as shown in the number of manufacturing enterprises (*see Figure 5*) and in manufacturing employment in the province (*see Figure 6*).

It is evident from Figure 5 that, as indexed by the number of manufacturing enterprises, the largest cluster is at Witbank, followed by Middelburg and Nelspruit-White River. The total estimated employment confirms the importance of these geographical clusters, as well as of the Secunda cluster, which is dominated by Sasol's activities (*see Figure 6*).



Figure 5 – Major clusters of manufacturing enterprises

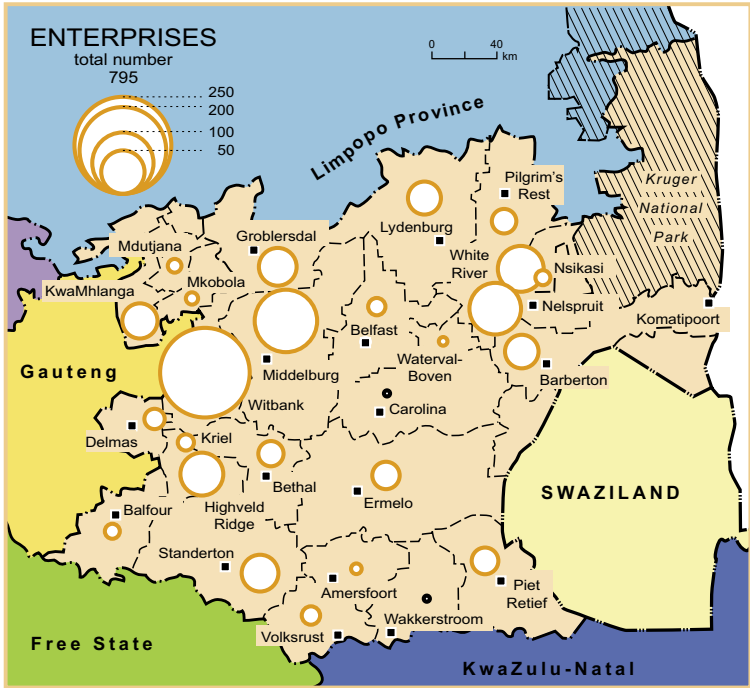
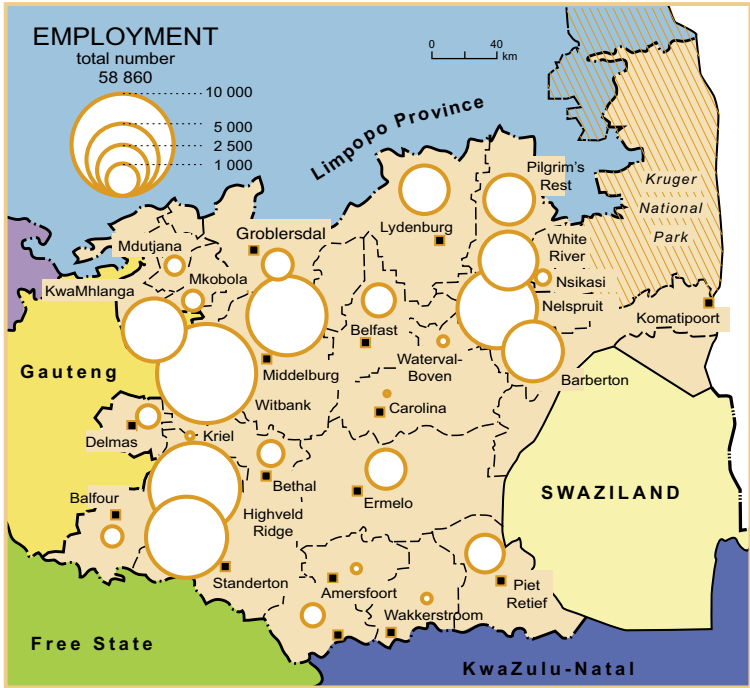


Figure 6 – Major clusters of manufacturing employment



This section presents the findings on the role and features of the ‘lesser known’ SMME manufacturing economy of the province. A profile of the SMME manufacturing economy and an assessment of its position in the overall provincial manufacturing economy are drawn from an analysis of the Register of manufacturing establishments as listed by the Unisa Bureau of Market Research. The most recently available listing for September 2005 discloses a total of 795 formal manufacturing establishments in the province. Of this, 62 enterprises, or 8% of the total, could be classed as ‘large’ in terms of having more than 200 employees; 92% of formal manufacturing enterprises could be categorised as SMMEs (see *Figure 7*).

Using an index of estimated contribution to total manufacturing employment, large enterprises contribute 65% of total manufacturing employment; the share of SMMEs is, however, only 35%. In terms of this large-firm dominance, the critical role of enterprises such as Sasol or Columbus Steel in the provincial manufacturing economy is thus evident.

In terms of the geography of manufacturing, an analysis of the number of establishments (see *Figure 8*) and employment (*Figure 9*) shows quite clearly that the largest cluster occurs in the Witbank-Middelburg region, which accounts for nearly 40% of all manufacturing plants in the Mpumalanga province and nearly 45% of manufacturing SMMEs. The second most significant cluster in terms of enterprise density is at Nelspruit-White River, which accounts for almost 16% of manufacturing establishments and 15% of manufacturing SMMEs. The spatial distribution of manufacturing in the province also continues to reflect the imprint of former apartheid programmes of border area/Homelands industrialisation, especially in terms of industrial developments at KwaMhlanga and White River (Kabokweni).

Overall, it must be concluded that the SMME manufacturing economy is not a major contributor to total manufacturing employment in the province. As mentioned earlier, the analysis discloses that manufacturing SMMEs account for only 35% of employment, despite their numerical dominance of the total number of enterprises.

Differences are apparent in terms of the spatial patterns of employment in manufacturing as a whole compared to the patterns of SMME employment in manufacturing. Although the Witbank-Middelburg cluster is obviously again the most significant, the strength of manufacturing employment in the Secunda area, as a result of Sasol, is evident (see *Figure 9*). In terms of SMME manufacturing employment, the localities which emerge as most important after Witbank-Middelburg are those of KwaMhlanga and White River. Nevertheless, with only minor local exceptions (Carolina and Waterval-Boven), local manufacturing employment throughout the province is dominated by the operations of large firms rather than SMMEs.





Figure 7 – The contribution of SMMEs to Mpumalanga’s manufacturing sector

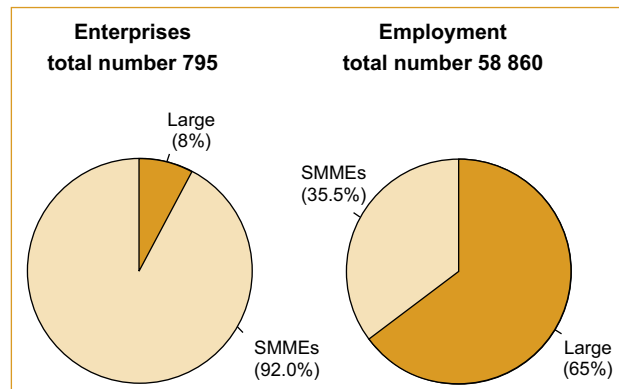
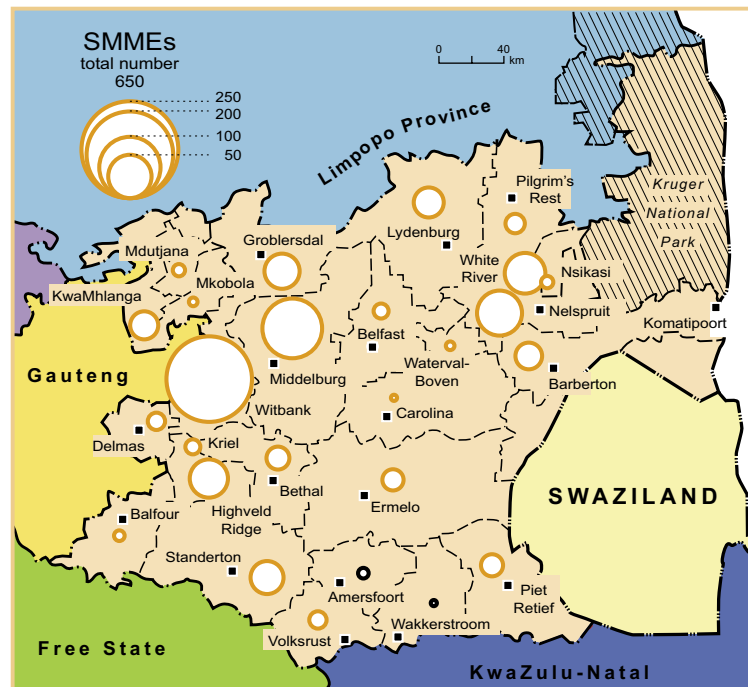


Figure 8 – Number of manufacturing SMMEs in Mpumalanga



Finally, in terms of sectors of manufacturing, it is apparent that whilst manufacturing SMMEs in Mpumalanga occur across a wide range of sectors of production, most of the manufacturing SMME economy is encompassed by only a small number of sectors (see Figure 10). Overall, in terms of sectors of production, as measured by the number of enterprises, the greatest share of SMME manufacturers occurs in the production or working of fabricated metals. In total, the group of fabricated metals SMMEs, which is heavily concentrated around Witbank-Middelburg, constitutes 26% of all SMME manufacturing enterprises in the province. The cluster of over 100 establishments at Witbank-Middelburg represents the single most significant SMME manufacturing cluster in Mpumalanga. The food sector is second in importance to metal-working in Mpumalanga, as indexed by the number of enterprises.

Together with the sector of non-metallic mineral products (such as cement), these three manufacturing sectors account for half of all SMME manufacturing enterprises in the province. The next most significant group of sectors of production, as calculated by number of enterprises, are wood products, machinery, furniture and 'other', which account collectively for an additional one-quarter of all SMME enterprises (see Figure 10).



Figure 9 – Manufacturing SMMEs in Mpumalanga: employment

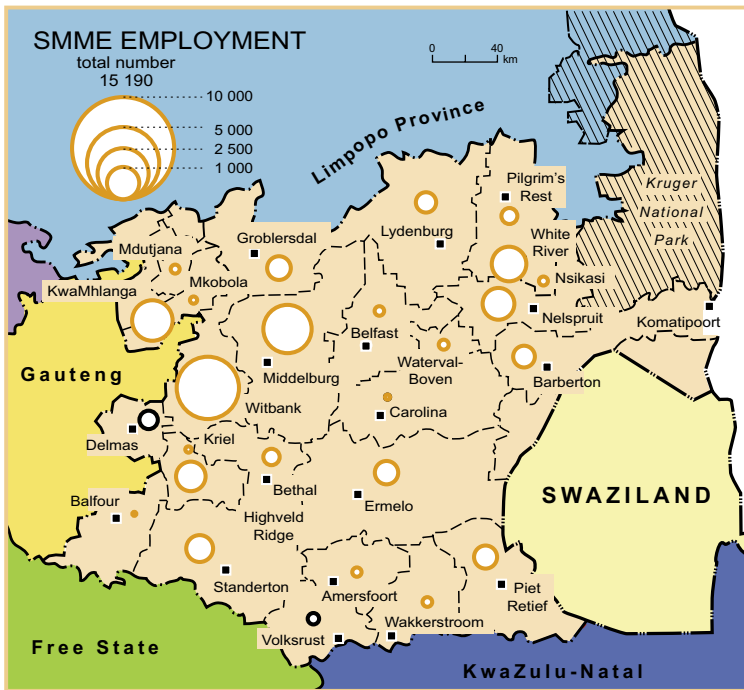
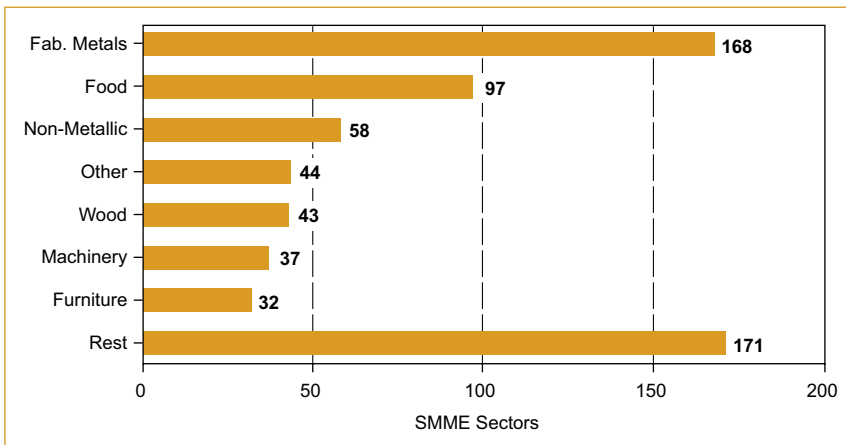


Figure 10 – Mpumalanga manufacturing SMMEs: major sectors of production



## 4.2. Interviews with established and emerging manufacturers

As noted earlier, the sample of 45 interviewees encompassed a total of 30 established (mainly) white-owned SMMEs and 15 emergent black-owned SMMEs. The sample of established enterprises was deliberately structured so as to capture the major elements and profile of the SMME manufacturing economy. In terms of geography, SMME entrepreneurs in the Witbank-Middelburg cluster – where the mines and steel industry offer a range of market opportunities for small producers – comprised nearly half of the sample of interviewees. The second-largest number of interviewees was from the Nelspruit area. The remaining interviews were sourced from Secunda, Groblersdal, Lydenburg, Piet Retief, Barberton, Standerton and White River. Sectorally, the largest number of interviewees was represented by engineering, metal-working, wood-working or food-producing SMMEs. Other forms of manufacturing operations in the survey included printing, brick production, industrial chemicals and clothing.

The sample of 15 emergent black-owned manufacturing SMMEs spanned a diverse range of manufacturing activities. The group of manufacturers included makers of cleaning products, windows, stoves, curtains, bricks, overalls, cultured milk products, trailers, handbags, leather goods and furniture. Overall, the list of manufactured products that was captured in the survey suggests that individual black manufacturers in Mpumalanga are currently participating across an array of production activities, although the largest number would be classed as involved in metal-working or furniture production. Geographically, the sample of interviewees was concentrated mostly around Witbank-Middelburg and Kabokweni; other interviews were sourced at Kriel, Kwaggafontein, Secunda and Balfour.

Striking differences exist in terms of the profile of the two groups of entrepreneurs and their enterprises. Within the group of established SMME manufacturing activities, the majority, or 18 of the 30 sample of enterprises had been established prior to 1994. Indeed, nearly one-third of these enterprises had been in operation for 25 years or longer. Remarkably, only one enterprise in the sample had been established in the twenty-first century. With the exception of an Indian entrepreneur who had taken over a business initially established by white entrepreneurs, all the established SMMEs were run by white (mainly male) entrepreneurs.

Unlike the group of tourism SMME entrepreneurs, the category of established manufacturing SMMEs contains no 'lifestyle entrepreneurs' but is dominated instead by entrepreneurs whose motives for initiating a production SMME were opportunistic in terms of seeing a 'gap in the market' and searching for 'financial gain'. Amongst the group of emergent entrepreneurs, the motives for business establishment include opportunistic reasons because of clearly identified market gaps (variously for trailers, overalls, steel products and cleaning chemicals). Nevertheless, among the group of emerging SMME manufacturers, the largest share is represented by 'reluctant entrepreneurs' who were 'pushed' into entrepreneurship from situations of necessity through retrenchment (especially from mines) or family circumstance. Often the imperative for an income source generated through setting up a business was linked to a desire to address the high levels of unemployment in local communities more widely.

Strong evidence from the survey points to a tradition of family ownership of many established SMME manufacturing enterprises. Typically, two printing and publishing enterprises were family-owned ventures whose origins date back to the pre-1970 period. The strength of family ownership in the established SMME manufacturing economy was also evidenced in the large number of respondents who explained the location of their factory simply in terms of it being 'the original location of the family business' or 'where the owner's family grew up'.



The average age of (established) SMME entrepreneurs was 51.3 years, a finding which points to future problems of succession or take-over of these businesses once the existing group of entrepreneurs elect to retire or sell their businesses. Indeed, the age profile of this group of entrepreneurs is dominated by middle-aged entrepreneurs; of the sample, only three respondents were less than 40 years of age. Overall, the sample of 30 established enterprises provided a total of 1,313 full-time employment opportunities, an average of 43 jobs per enterprise. The profile of full-time employment was 23% white employees and 77% black workers. In terms of gender profile, the sample disclosed that 73% of employees were male and 27% female workers.

The profile of the sample of black-owned SMMEs shows certain contrasts to that of the established enterprises. Most of this group of enterprises was of relatively recent origin in terms of business establishment. Of the 15 sample enterprises, only one had been in existence as an informal, unregistered enterprise prior to 1994 (the business was formally registered only in 2003). In addition, the sample included seven enterprises which were initiated between 1997 and 2000 and a further seven that commenced business after 2000. The more youthful aspect of these emerging manufacturing enterprises was also mirrored in the age profile of entrepreneurs. One-third of the 15 sample entrepreneurs were below 40 years of age; the average age of entrepreneur was 45.4 years. Whereas the sample of established entrepreneurs included four aged over 65 years, the oldest entrepreneur in the group of emerging entrepreneurs was 58 years.

In relation to employment opportunities, the total (full- and part-time) employment opportunities offered by the 15 sample emerging enterprises was 131, or an average of 8.8 jobs per enterprise – considerably lower than that of the average for established enterprises. Not surprisingly, the racial profile of employment also shows marked contrasts; in the group of emerging manufacturing SMMEs only 6% of jobs are held by whites, while 94% of jobs are for black workers. The gender profile of the sample was similar to that of established enterprises, with 67% of jobs held by males and one-third by women workers. With only a small number of exceptions, nearly all labour in SMME manufacturing is recruited within the province and generally from the immediate locality. Word of mouth and advertisements in the local press were the leading means for the recruitment of most workers.

Not surprisingly, nearly all the categories of emergent manufacturing SMMEs experienced problems at the start-up of their business activities. Capital for business start-up was sourced for the majority of enterprises from own savings or loans from friends and relatives. Entrepreneurs spoke of the usual difficulties when establishing

their businesses – lack of finance, lack of knowledge concerning markets and problems of securing affordable space for manufacturing operations. Typically, entrepreneurs also complained that banks were unsympathetic when applications for funding were submitted or ‘wanted too much’ in terms of interest and repayment charges. Only a minority of the entrepreneurs had secured outside support for their operations at business start-up; in one case from Sasol, while another received assistance from the Mpumalanga Equity Fund and a third entrepreneur obtained funding from the Industrial Development Corporation (IDC) as a result of earlier assistance for developing a business plan secured from the provincial MAC.

The majority of SMME manufacturers targeted their outputs at domestic markets, with Mpumalanga as the major provincial market for 21 of the 30 established enterprises and all of the emerging enterprises. Beyond Mpumalanga, the importance of supplying Gauteng as a primary market was recorded in nine established enterprises. Other provincial markets that were of secondary importance were Limpopo and KwaZulu-Natal. A total of 12 SMME manufacturers were involved in exporting; however, the importance of export markets was small in most cases, with only two firms reporting exports as representing more than 50% of total sales.

Survey respondents identified the major advantages of having a factory in Mpumalanga as being linked to market opportunities that exist through some of the province’s major employers – the mines, Sasol and the steel industry. In particular, the sample of established SMMEs in the Witbank area emphasised the critical importance of the mines for the health of their business activities. The second most important locational advantage of the province was identified as the ready availability of sources of labour.

In terms of the disadvantages of operating an SMME manufacturing operation in Mpumalanga, issues concerning the *quality* rather than the quantity of labour supplies were strongly highlighted. Several established SMME entrepreneurs stressed the disadvantages that they faced in terms of skills shortages in the province. Especially the group of engineering and metal-working firms highlighted that ‘skills were hard to find’, ‘little skilled labour’ was available and that there were ‘insufficient qualified tradesmen’ in the province. Shortages were also identified for skilled marketing and advertising personnel to assist in market expansion.

Complaints about the quality of labour supplies were not confined to established enterprises. At least one emerging black manufacturer of trailers strongly expressed the opinion that ‘whilst there are training schools, they do not do a good job and the graduates are not good quality’. Overall, at least half of the sample interviewees indicated that they often experience major problems with the skill levels of locally recruited staff; beyond minimal technical skills, respondents pointed to a set of core problems regarding inadequate levels of literacy, numeracy and English language competence. On-the-job training, as well as assistance through the Sector Education and Training Authorities (SETAs), were indicated as essential for upgrading these firms’ human resource base.



In addition to human resource shortfalls, issues regarding crime against business, vagrancy and the expansion of informal settlements close to business premises were also noted as important disadvantages of being an SMME manufacturer in the province. For those established SMMEs operating in the remoter areas of the province such as Piet Retief, problems of transport costs, infrastructure and distance from suppliers were specific foci of concern. Finally, it was significant that both established and a number of emerging black manufacturers cited corruption in the province, especially at the level of local government, as a major disadvantage of a business location in Mpumalanga.

Overall, the general state of the SMME manufacturing economy is shown as relatively healthy, as indexed by the responses of interviewees to questions about the recent and anticipated performance of their business. A positive trajectory of business development for the majority of established and emerging businesses was recorded. Of the sample of 45 enterprises, over the past five years, 26 SMMEs recorded increases in their number of employees, 11 were stable and only six had reductions in their labour force (two firms were established for less than five years).

In terms of profits, the five-year picture was one of increased profits for 25 enterprises, stagnant or inconsistent growth in profits in 13 cases and declining profits for only four enterprises. The general pattern of growth during the past five years was also reflected in some increasing take-up of factory space – 18 of the sample firms increased the physical size of their operations, while the majority (24 firms) remained in the same sized premises.

A positive business performance was also in evidence during the past year of operations. A total of 19 enterprises expanded their workforce, while only five reduced their labour. 25 firms increased business profits, while three showed a decline. Eight enterprises increased their factory space, while only one, a black manufacturer at Kabokweni whose business faced collapse, reduced his occupation of factory space.

In terms of future business outlook, the sample of interviewees was strongly optimistic about the next business year, with 36 SMME entrepreneurs expecting increased business profits and only two projecting declining profits. 29 were expecting to take on additional labour or, amongst the group of emerging manufacturers, to shift from temporary to full-time workers, and 18 firms were expecting their business growth to require an expansion in factory space.

The two key issues flagged by SMME entrepreneurs as critically necessary conditions for future addition of more workers were the expansion of markets, particularly in respect of government contracts, and the re-evaluation of existing labour laws. Indeed, as a result of labour legislation, a segment of the group of established manufacturers indicated that they 'did not wish to grow the business by taking on additional labour'.

Survey respondents' positive business outlook manifested most frequently in the investment of new capital into the business and, in many cases, the parallel introduction of new production processes or new products. Retained earnings or the

entrepreneur's own funds were the major source for new capital injections into the businesses of established SMMEs, usually for new or upgraded equipment.

For example, even in the case of a printing business run by a 73 year-old entrepreneur at Groblersdal, new capital investment was injected into the business to 'keep up with trends' in the industry. The majority of the group of emerging black-owned SMMEs also committed own funds or retained earnings into the expansion of their business during the previous 12 months, in particular for the purchase of new machinery or transport equipment.

A number of the group of emerging manufacturers acknowledged the Eskom Development Foundation's support for expansion, while for advice the assistance of the Mpumalanga MAC was welcomed. A positive finding was that new product innovation was occurring in several enterprises; for example, one supplier of gloves and overalls to the mines was diversifying in terms of designing a new stretcher to take injured miners from mine shafts.

In terms of the major constraints or obstacles to manufacturing SMMEs' improved business performance, a relatively consistent set of responses was recorded. First are critical issues of market access and increasing levels of competition, which for some firms also include heightened levels of exposure to international competition, particularly from China. For metal-working SMMEs in the Witbank-Middelburg cluster, special concern centres upon budgetary cuts and the decline in local mines.

Second, a common thread regarding improved business performance of SMMEs was the lack of available skilled labour. Although this was a widespread constraint cited by established enterprises, it is notable that even in the case of interviews with emerging black manufacturers, the issue of labour skills was highlighted.

Third, during the past year of operations and looking forward to the next business year, crime was identified as a critical obstacle that needs to be addressed.

In the fourth place, for many established businesses, the question of their lack of compliance with black economic empowerment (BEE) requirements now surfaced as a matter of concern. Other legislative issues that were highlighted included 'the hassle' and 'inflexibility' of national labour regulations.

In addition, for most of the group of emerging SMME manufacturers, the major emphasis in terms of expansion constraints was upon issues of market access (especially access to government tenders), cash flow difficulties, lack of technical knowledge of certain production processes, lack of adequate machinery and infrastructural deficiencies, particularly concerning suitable business premises. Finally, it must be observed that a number of black manufacturers stated that corruption at various levels of government in the province was an additional serious business constraint.

Entrepreneurs' perception of the current and future roles of government was disclosed through a series of questions. Amongst the group of established SMME

manufacturers, little recourse to national government support programmes of any sort was in evidence.

Of the sample of 30 entrepreneurs, only four had ever applied for any support or funding programme, while only two had received any level of support – one from **the dti**'s export incentives and the other from the IDC a decade ago. In contrast, government assistance was prominent in the development of the emerging SMME manufacturing economy. Nearly all of the sample of 15 emerging entrepreneurs had either received support or was in the process of applying for some form of government assistance.

The most widespread support was that provided by the provincial MAC and took the form of training, business advice, marketing support and assistance with the preparation of business plans. Less successful were applications made by black entrepreneurs for direct support from **the dti** or the Department of Minerals and Energy. Most applicants were still awaiting a response, with the exception of one credit blacklisted entrepreneur who was declined funding through the Khula network.

As a whole, the group of emerging entrepreneurs was positive about the usefulness of the assistance that national government organisations provided. In terms of the activities of the provincial MAC, one area of criticism was the lack of follow-up on training and advice that was offered to entrepreneurs. More severe criticism was expressed, however, over the lack of support afforded to these developing businesses by local government in Mpumalanga.

In terms of possible future contributions by various tiers of government to the development of the SMME manufacturing economy, the sample discussed various issues. In light of the above findings, emergent manufacturers perceived the critical role of local government as providing a potential market in respect of tenders and supporting initiatives to 'buy local'. A second issue that was discussed related to the provision and improvement of affordable premises for small manufacturers.

Established manufacturers flagged several different issues as areas of support from local government, including improvements in security, basic infrastructure maintenance, public transport and a decrease in processing time for various applications.

Established and emerging manufacturers' expectations of assistance from provincial and national levels of government tended to vary quite substantially. For established manufacturers, the key issues were those relating to education and the improvement of local workers' skills, infrastructure development, and crime and security. Overwhelmingly, the priority issue that was identified concerned skills shortages. In contrast, the group of emerging manufacturers looks to provincial government for financial assistance as well as for an expansion in market opportunities through the mechanism of public procurement.





## 5. Summary of key issues

At the outset of this chapter it was made clear that the goal was not to undertake an evaluation of the performance of government support programmes for SMME development in Mpumalanga. Rather, against the background of the existence of only fragmentary contemporary survey material concerning SMME development in the province, the major aim was to provide new insight and findings concerning the current state of development of the provincial SMME economy. Like many SA provinces, Mpumalanga is information poor concerning the state of SMME development. In order to address this gap, an analysis was undertaken of SMME development challenges in the two important sectors of tourism and manufacturing in Mpumalanga.

By way of conclusion, this section briefly highlights several of the key findings and policy implications of this report.

### 5.1 General issues

- In view of the provincial government's acknowledgement of the significance of SMME development for future economic development and job creation, Mpumalanga was the first SA province to formulate a provincial SMME development strategy.
- A network of support institutions – LBSCs, MACs and RFIs as well as training institutions – has been rolled out as the anchor for supporting SMME development.
- Support for manufacturing SMMEs and for SMME development in tourism was identified as some of the top priorities for SMME development in the province.

### 5.2. Tourism

- The development of the tourism SMME economy is taking place within a context of the differential roles and patterns of international versus domestic tourism flows in the province.
- Long-haul international tourism is the leading driver of the provincial tourism economy and furnishes a range of opportunities for SMME development.
- The importance of opportunities for SMME development in relation to patterns of domestic and regional tourism flows must not be overlooked.
- The tourism economy is dominated numerically by SMMEs, the majority of which are owned by white entrepreneurs, a segment of whom would fall into the categorisation of 'lifestyle entrepreneurs'.
- Since 1993 a surge has occurred in the establishment of new tourism SMMEs across Mpumalanga, especially for accommodation provision.

- Amongst the new entrepreneurs in the Mpumalanga tourism economy is a small group of black tourism entrepreneurs, many of whom are targets of national and provincial government support programmes.
- Using indicators of occupancy and entrepreneurs' own acknowledgement of recent business performance, the tourism SMME economy has been found to be in a relatively healthy condition.
- One critical policy issue for tourism relates to the shortage of labour with adequate skills in the tourism and hospitality sector.
- As tourism is a marketing-intensive sector, improved and enhanced marketing of Mpumalanga's tourism products is essential.



### 5.3 Manufacturing

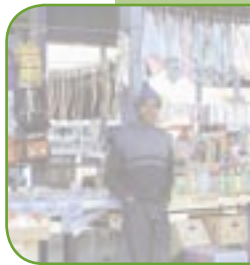
- The Mpumalanga manufacturing economy is large-firm dominant.
- SMMEs represent over 92% of enterprises but only contribute an estimated 35% of manufacturing employment.
- The largest geographical clusters are in Witbank-Middelburg and the most significant sectoral clusters are in fabricated metals and food.
- The SMME economy is overwhelmingly the domain of white-owned enterprise, many of which are long-established family businesses.
- The enterprises and entrepreneurs in the established SMME economy exhibit a mature profile, with the average age of manufacturing entrepreneur over 50 years.
- There is an emerging, more youthful black-owned manufacturing economy with participation across a range of production activities, although a concentration occurs in metal-working and furniture.
- Unlike tourism, lifestyle entrepreneurship is not a feature of the SMME manufacturing economy, as most businesses are founded for opportunistic reasons.
- Within the emergent manufacturing economy, there is a segment of businesses which has been established out of circumstances of necessity.
- Several contrasts exist between the profile of and operational challenges that confront established and emerging entrepreneurs.
- Using various indices of business performance, the recent and current state of the SMME manufacturing economy must be rated as very satisfactory.
- A number of significant challenges surround the future development of the SMME manufacturing economy. The most important relate to labour skills and human resource development, improvement in demand conditions, safety and security, labour regulation and continued assistance to the group of emergent manufacturers.



## Part 2: Research Features

### Sectoral Profile

#### SMMEs in Informal Retailing





## 1. Introduction

The informal retailing sector is simultaneously one of the most important and yet most problematic sectors for government and policy-makers in SA. The significance of informal retailing is anchored upon its sheer size and dominance of the informal economy in particular and of the national SMME economy more generally. Although reliable data on employment in informal retailing is difficult to determine, the Labour Force Surveys (LFSs) produced for Statistics SA suggest that between 900,000 and 1.2-million people could be classed as working in what is called ‘retail trade not in stores’ (Devey *et al*, 2003). According to data from the September 2003 LFS, overall employment in the SA informal economy is heavily concentrated in trading, with just under half of all informal workers located in this sector (Stats SA, 2004). As has been observed, this level of concentration of entrepreneurs and workers in informal retailing across SA is particularly high compared to a cross-section of other developing countries, in which there is often a greater proportion of workers in informal production or services (ILO, 2002).



Informal retailing holds several challenges for the SA government and policy-makers.

- First, nationally, a strong correlation has been shown to exist between being poor and working in informal retailing. Moreover, the high level of women’s involvement in informal retailing highlights the policy significance of the sector (Lund, 1998; Lalthapersad-Pillay, 2004). Of necessity, this makes informal retailing a potential target for pro-poor policy intervention (Lund and Skinner, 2004).
- Second, a number of evaluations of the first decade of SMME development policy have shown that government support programmes managed by **the dti** have bypassed or failed to reach the majority of entrepreneurs engaged in informal retailing (Rogerson, 2004). Support provision through **the dti** institutions and programmes are acknowledged to have missed out the group of ‘survivalist enterprises’ within which would be encompassed the mass of informal retailers. This gap in national SMME policy has, by default, been addressed at the local level. Indeed, with the promotion of ‘developmental local government’ and of local economic development planning, the core policy dynamic for informal retailing has shifted from the level of national to local government (Dewar, 2005).
- Third, it is clear that over the past 15 years, informal retailing has been the focus of considerable policy attention (Skinner, 1999, 2000; Dewar, 2005). Across SA, Skinner and Valodia (2003, p. 432) argue that “local government interventions that target the informal economy have largely focused on street trading”.

It is against this backdrop of the significance of informal retailing as a sector and of its multiple challenges for policy-makers – across both national and local government – that this chapter seeks to provide an overview of the sector nationally and of unfolding policy debates and practice, particularly at the local level. Two major sections of material are presented.

- Section 2 offers a contemporary profile of informal retailing. It examines the structure of informal retailing and the essential features of entrepreneurs and enterprises that make up this diverse and important sector of the SA economy. In addition, it discusses the potential threat that the establishment of new 'modern' retail forms and spaces, particularly in areas that were formerly devoid of such facilities, poses to informal retailing.
- Section 3 shifts the focus to issues of evolving policy and practice. In this section, several promising initiatives are highlighted in terms of policy interventions by local government and NGOs to assist the economic health of informal retailing. Key themes in this section include:
  - emerging 'good practices' by SA local governments in terms of changing historical policy formulation for the informal economy and home-based enterprises; and
  - an analysis of a promising 'market development' approach towards the support of informal retailing in one leading SA city.

Overall, this chapter draws primarily on a set of recently completed research investigations on informal retailing as a whole, and on spazas and street hawkers in particular. The most useful general material is that drawn from research reports produced by the University of SA [Unisa] Bureau of Market Research (Ligthelm, 2002; Ligthelm and Masuke, 2003) and from the recent study of housing entrepreneurs conducted for Finmark Trust (Napier and Liebermann, 2005; Progressus Research & Development, 2005; Shisaka Development Management Services and CSIR Building and Construction Technology, 2005).

Important policy-relevant academic studies are those produced by Skinner (2000), Lund and Skinner (2004), Dewar (2005) and Ligthelm (2005). This source material is supplemented by an extensive search of the financial and property press, as well as the conclusions from a number of stakeholder interviews.

## **2. Informal retailing - a sector profile**

In this section, three sets of material are reviewed. First, a brief discussion is given of the scope and size of SA's informal retail sector. Second, a profile of the key characteristics of the entrepreneurs and enterprises in informal retailing is offered. Finally, the discussion turns to the changing retailing environment and the emergence of new retail spaces, such as the supermarket and the shopping mall, which are introducing new elements of competition into the informal retailing activity.

### **2.1 Definition and size**

The category of informal retailing encompasses a wide variety of activities which can be pursued from a range of different types of business location. Table 1 illustrates the current diversity of informal trading activities that are found in the city of Durban

and shows that such informal retailing businesses may function from a wide array of different locational environments. Within the categorisation of informal retailing, the focus is upon commodities for which no special licensing is required; for this reason, the informal selling of alcohol products through shebeens is not considered in this analysis.

**Table 1 – The diversity of informal retailing in Durban**

<b>Types of informal retailing</b>	<b>Types of business location</b>
Craft sellers	From the home
Second-hand clothes dealers	From a fixed site on a street
Fruit sellers	From a spaza
Drum sellers	At a pension queue
Muthi sellers	At a flea market
Cosmetics sellers	At a built market
Live chicken sellers	In an office block
Newspaper vendors	In a business area
Spazas	
Pinafore sellers	
Sellers of sea water	
Vegetable sellers	
Traditional knob-kierie sellers	

*Source: Modified after eThekweni UniCity Council, 2002, p. 49*

It is evident at the outset that the boundaries of what constitutes informal retailing are often difficult to define with precision. What is clear is that the terminology of ‘informal retailing’ covers a heterogeneous basket of business activities operating from a range of different geographical bases. Common to the sector is that the business practice of such entities entails ‘ordinary’ retailing or, in other words, the buying of consumer goods from manufacturers, wholesalers, producers, distributors, supermarkets or hypermarkets, and the selling of such goods at a profit margin to clients.

Given the definitional uncertainty which surrounds informal retailing, it is not surprising that there are often wide fluctuations in the reported official data of Statistics SA in the category of ‘retail trade not in stores’. As shown by Devey *et al* (2003), the two LFSs conducted in February and September 2001 produced a discrepancy of nearly 450,000 in the estimated number of workers in the sector. The best contemporary estimates suggest that total employment in informal retailing across SA is somewhere in the range of 900,000 to 1.2-million people.

Undoubtedly, the population of informal street traders is overwhelmingly dominated by SA citizens. Nevertheless, in SA’s largest cities – in particular Johannesburg, Durban and Cape Town – there is a sizeable and growing segment of international street traders.





A number of recent investigations have pointed to the new role of immigrant street traders drawn to SA since the early 1990s from an array of sub-Saharan countries, Eastern Europe and Asia. Of significance is that many – if not the majority – of traders from surrounding African countries are engaged in a form of two-way cross-border trading, bringing goods into SA from the home country and purchasing goods here for sale on return. Cross-border trading has been observed as particularly significant in extent from Mozambique, Lesotho, Swaziland, Zimbabwe and even as far as Zambia (see Katongo, 2005). In terms of local impacts, the importance of cross-border shoppers reaches its greatest extent in Johannesburg, where the local government has recognised its significance in the local economy and is planning interventions to facilitate the city's role as a 'shopping Mecca' for Africa. Recent estimates place the size of cross-border trade in Johannesburg in the region of R6bn per year (ComMark Trust, 2006). The internationalisation of informal retailing on the city streets is one dimension of Johannesburg's emergence as an African world city (Rogerson, 2005).

Recent work by Unisa has sought to measure the volume and value of trade accounted for by informal retailing (Ligthelm and Masuku, 2003). For 2002 it was calculated that 'potential retail sales' amounted to R316.6bn; of this amount, R206.7bn or 65.3% was accounted for by retail sales through the network of formal retail outlets, such as supermarkets or retail chain outlets. Accordingly, it was estimated that the remaining R109.9bn was channelled through e-commerce; non-retail establishments such as wholesalers and agricultural or manufacturing outlets; non-store retailers such as mail order or vending machines; and a range of informal retail outlets. Overall, the Unisa Bureau of Market Research estimates that in 2002, approximately R32bn or roughly 10% of total potential retail sales was conducted through informal retail channels. A more recent estimate of the size of the informal retail market in SA was released in November 2004 by the consultancy AC Nielsen, which suggested a total turnover of R34bn.

The importance of informal retailing in township areas should be set against this national figure. In Soweto, the best estimate is that for 2004, informal trading generated an estimated R128m of turnover per year, representing 12% of total turnover in Soweto (City of Johannesburg, 2004). Of this total, it is further estimated that spazas (and shebeens) accounted for R81m, while informal traders operating either on the street (R43m) or in organised markets (R3m) accounted for the balance of R47m.

Within the scope of informal retailing, three types of retail account for the largest volume of activity: hawkers or street traders, spazas and general dealers in township areas.

- Hawkers or street vendors operate from temporary or semi-permanent structures on a street or at a transport terminus, such as a taxi rank or train/bus station.
- Spazas or tuck shops are defined as businesses operating in a section of an occupied residence or in any other structure on a stand zoned or used for residential purposes and where people live permanently.
- General dealers are township retail outlets which are stand-alone businesses that are sometimes located in a business area but may also be located in residential sections of townships. These businesses contain a wider product range than spazas and have more fixtures and fittings, allowing self-service to customers.

The relative importance of these three informal retail establishments will vary markedly between different geographical areas. For example, in the inner city areas of Johannesburg or Durban, street traders are highlighted as the most visible and dominant form of informal retailing. Nevertheless, there is some evidence from recent work in Johannesburg and Pretoria of the growth in inner-city areas of other forms of retailing, such as spazas, which historically have been confined to township areas (Shisaka Development Management Services and CSIR Building and Construction Technology, 2005).

An interview with the leader of a local spaza association confirmed that during 2005, Johannesburg authorities have raided spaza operations in inner city residential areas such as Hillbrow and Yeoville (Nkosi, 2005). Within township areas, an array of different forms of home-based retailing was disclosed. Beyond the general operations of spazas, the research on 'housing entrepreneurs' revealed several other more specific forms of home-based retailing, including take-away cooked foods, sweets and snacks, cakes, clothes, fruit and vegetables, jewellery, furniture, live chickens, crafts, paraffin, cosmetics and nappies.



## **2.2 A profile of entrepreneurs and enterprises**

The sheer diversity of informal retailing – in terms of its activities, its different forms as well as the nature of the entrepreneur – makes it almost impossible to build a single comprehensive picture or profile of the sector. It must be understood that different profiles exist for *different sub-groups* of informal retailing. For example, from the existing body of work on street traders it is clear that there are marked differences between a profile of SA and non-SA enterprises and entrepreneurs engaged in 'mobile entrepreneurship' or street trading endeavours. In addition, the existing research also points to spatial variations in the profile of informal retailing activities and entrepreneurs across different localities, especially between urban and rural areas, or between inner-city versus township locales. In particular, informal traders operating in the inner-city areas of SA confront a much harsher regulatory regime than those trading in township areas (*see Box on The Last Informal Retailer in Braamfontein, Johannesburg?*).

In the absence of any comprehensive national survey across informal retailing, a profile of the structure and features of informal retailing and retailers necessarily has to be constructed more narrowly upon the basis of one sub-set of the broader category of informal retailing. Therefore the focus here presents a profile of informal retailing in township areas – one of the largest geographical zones for such retailing. The profile is presented as disclosed in a recent national investigation of 481 informal retailers conducted by the Unisa Bureau of Market Research (Ligthelm and Masuku, 2003). Although this sample was not structured scientifically across the three categories of spazas, hawkers and general dealers (in fact, it was biased to capture most accurately the profile of spazas), it provides a basis for sketching some of the essential features of the entrepreneurs and enterprises that make up SA's informal retail economy. This sub-section of our chapter draws extensively on the works of Ligthelm and Masuku (2003) and Ligthelm (2005), supplemented by the findings from other locality-specific

research recently conducted on informal retailing in Durban (Skinner 2005 and 2006) and Johannesburg (Gallagher, 2006) and spazas in Cape Town (Smith et al, 2002).

The profile of the entrepreneurs and enterprises operating in township areas discloses a set of commonalities as well as differences between the categories of hawker, spaza operator and general dealer.

- Across all categories, 98% of entrepreneurs were SA citizens.
- In terms of gender, it was observed that women tend to be more strongly represented in hawking than in the more established activity of general dealers. Across all three categories of retailing, however, the 2003 Ligthelm and Masuku survey showed that men were the dominant traders, a finding which stands in contrast to several investigations that have highlighted women's national dominance of SA street trading (also see Lund and Skinner, 1998).
- In terms of location of business operations, sharp differences are observable between the clustering of spazas (mainly in formal residential areas), the concentration of general dealers in formal residential areas or business areas, and the geography of hawkers on the streets or close to transport termini (*see Figure 11*).

Figure 11 – Location, by area

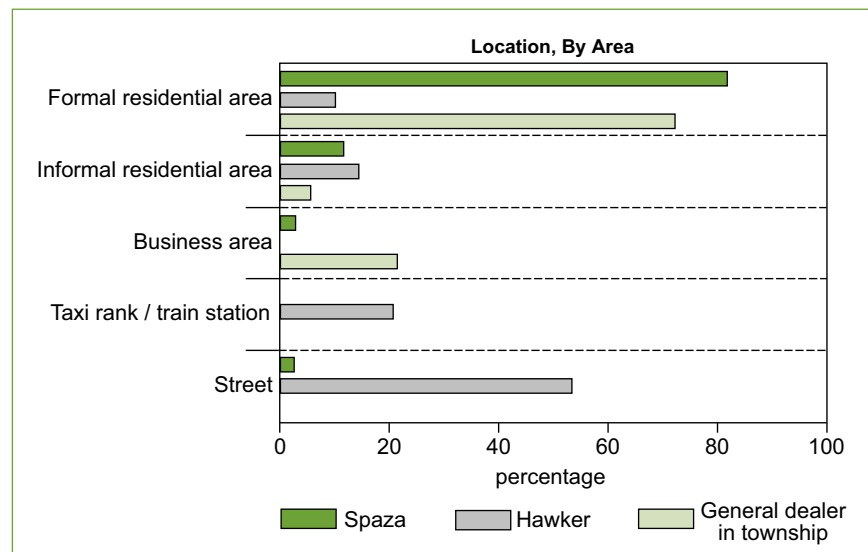
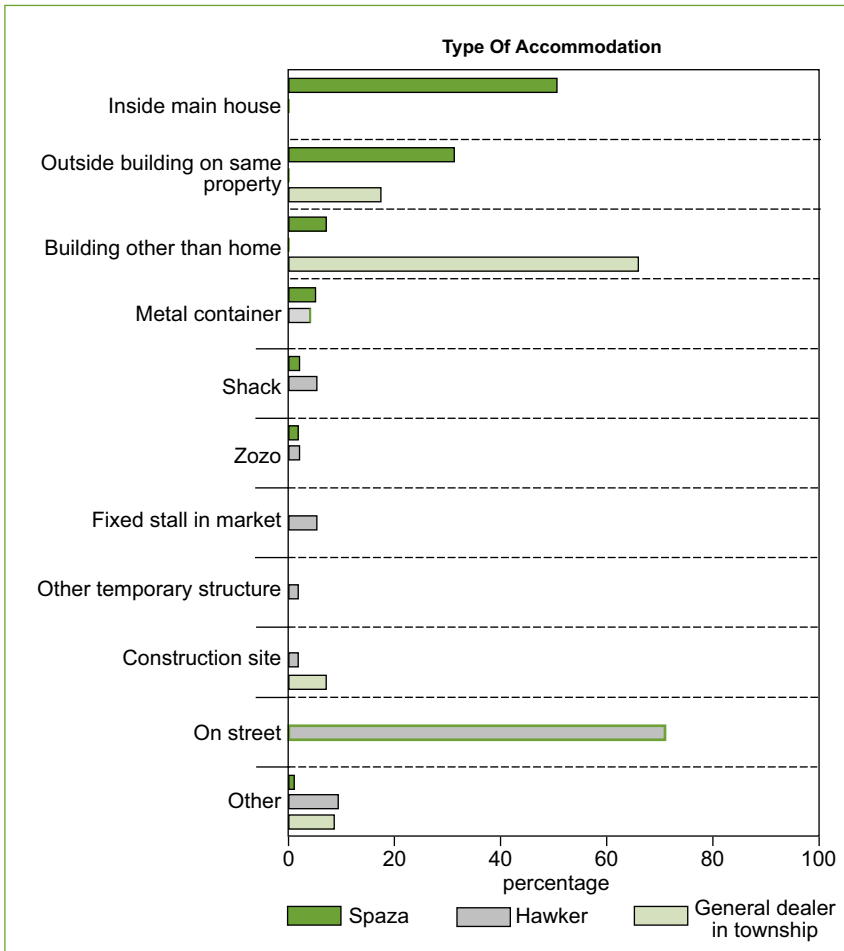


Figure 12 – Type of business accommodation



- In terms of actual types of premises, a contrast is observed between the concentration of spaza activities inside the owner’s residence or in buildings on the property, compared to hawkers on the street and general dealers who mainly function from premises that are not the home of the entrepreneur (see Figure 12).
- Infrastructural access of businesses to water and electricity was variable, with general dealers and spazas generally having reliable access but not hawkers (see Figure 13).
- Available equipment to support the business was markedly uneven, with the major contrast occurring between the relatively well-provisioned situation of general dealers and spaza operators compared to the hawkers (see Figure 14).
- There was a strong correlation between the entrepreneur’s level of education and type of retail activity. On the whole a pattern emerges that general dealers’ level of education is better than that of spaza dealers, who in turn have a higher level of education than street hawkers (see Figure 15).

Figure 13 – Access to water and electricity

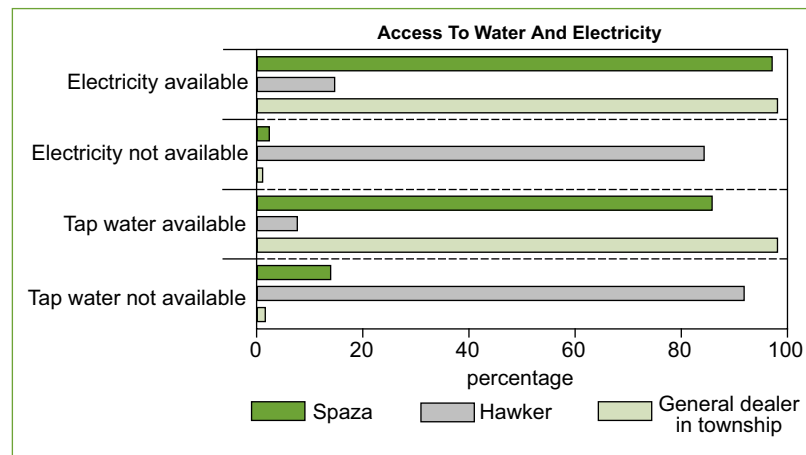
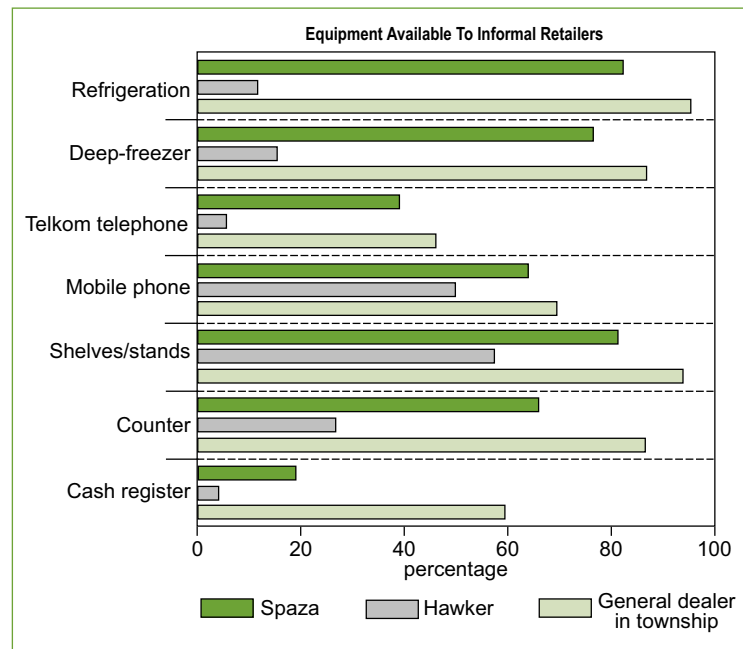


Figure 14 – Equipment available



- A common thread across all forms of retailing was the absence of formal business training, with less than 10% of the sample of entrepreneurs having secured any formal business training.
- Reasons for start-up of businesses show a mix of both opportunistic and survivalist entrepreneurship. It is significant that prior to business start-up, 83% of hawkers and nearly half of spaza owners were unemployed. In contrast, the group of general dealers shows much higher levels of opportunistic entrepreneurship (see Figure 16).

Figure 15 – Educational level of entrepreneur

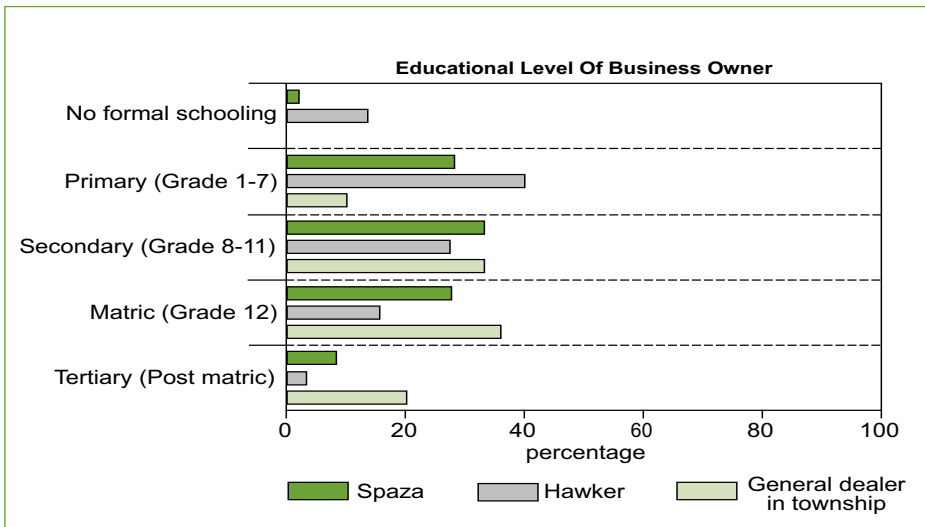
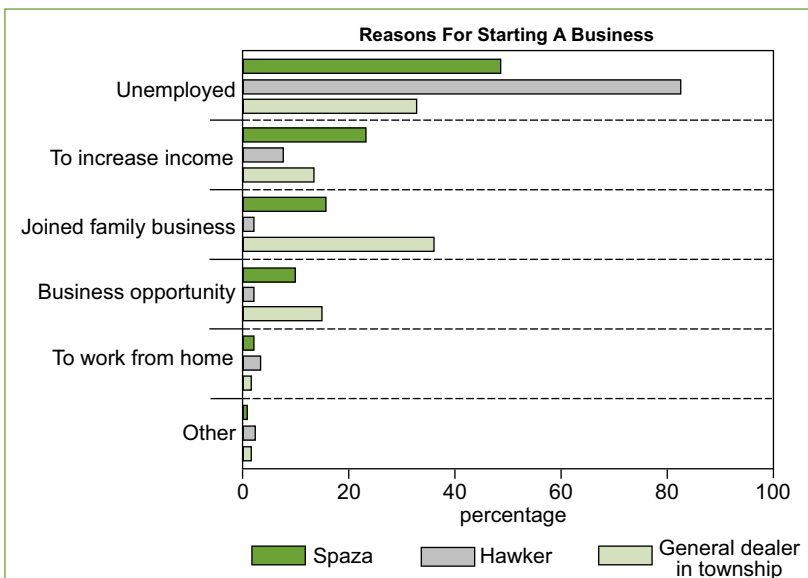


Figure 16 – Reasons for business start-up



- Across all categories of enterprise, start-up capital for business was typically secured from own savings or loans from friends/relatives (*see Figure 17*).
- Average start-up capital varied by type of business, with the largest requirement for general dealers, followed by spazas, while street trading required the lowest start-up capital (*see Figure 18*).
- Finance for business expansion showed a contrast between the use of retained earnings by general dealers and spazas and own savings by hawkers (*see Figure 19*).

Figure 17 – Source of start-up capital

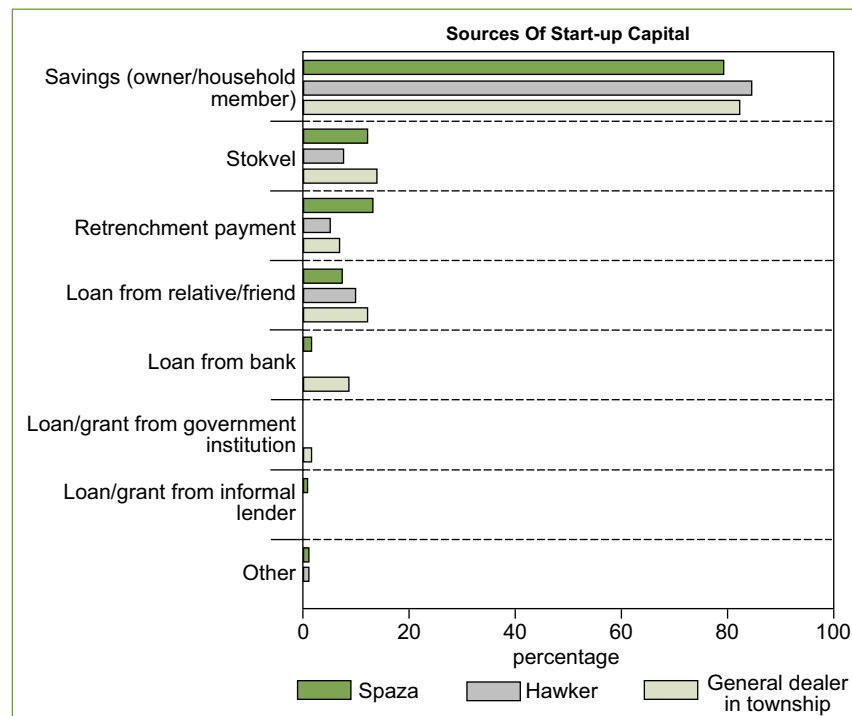
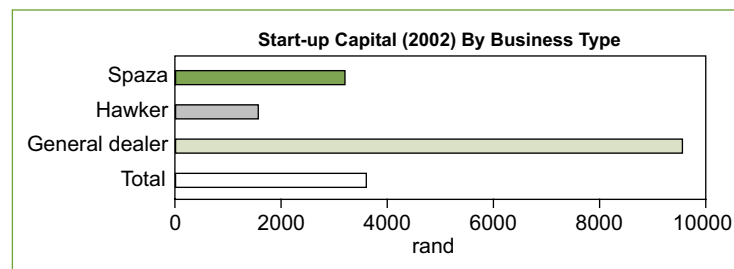


Figure 18 – Amount of start-up capital



- Across all businesses, the number of employees was small, with the mean recorded as 2.46 employees per business, a total that includes part-time as well as full-time workers (see Figure 20). The Durban informal economy survey disclosed that 74% of spazas had at least one employee (Skinner, 2005).
- Women workers dominated employment in spazas and general dealers. The majority of businesses used family or other household members as employees (see Figure 21).

### 2.3 Business constraints and development

The findings from the national survey on informal retailing, as well as the locality-specific studies, point to the heterogeneous nature of informal retailing and the differing support needs of the various segments of informal retail enterprises.

Figure 19 – Sources of capital for business expansion

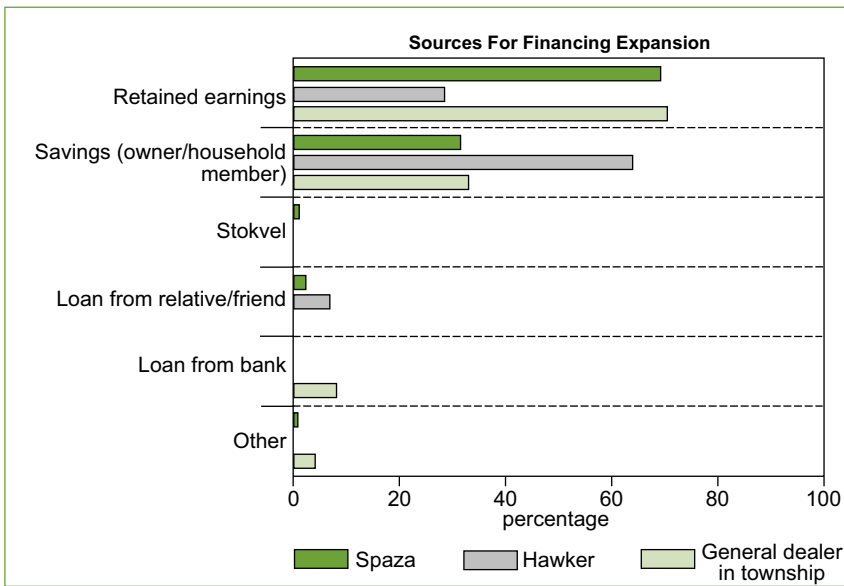
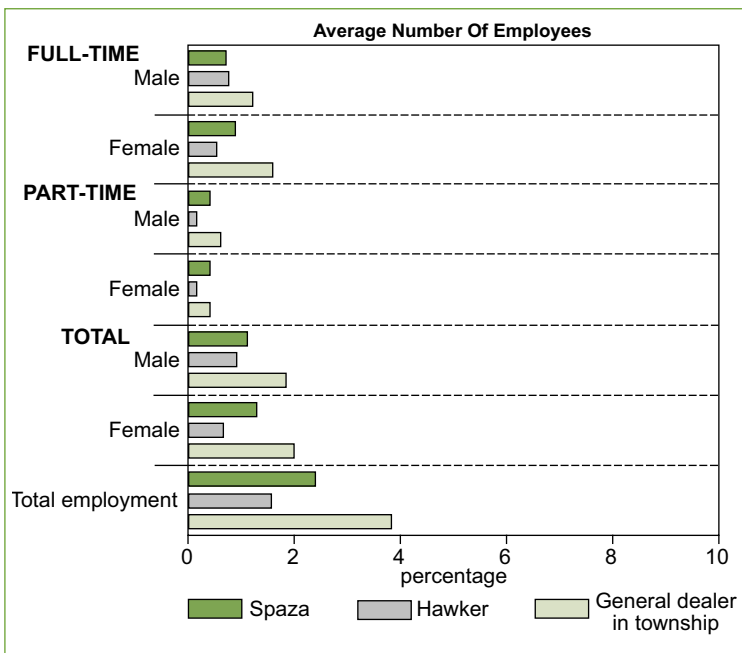


Figure 20 – Employment profile



- High levels of competition in retailing are identified as a critical problem for all categories of retailer. For hawkers, the main competitors are other hawkers, spazas and large chain stores outside townships. For spazas, these are other spazas, township retailers and the large chain stores outside townships, while general dealers face competition from spazas, other general dealers and the large chain stores outside townships.



- Important competitive disadvantages as identified by entrepreneurs were high prices and unavailable stock; in the case of hawkers the poor quality of stock and the often poor quality of the shopping environment were also critical problems.
- In terms of the national survey, the major constraints identified by respondents were variable across the different categories of business. For both spaza dealers and hawkers, the key issues were shortage of stock linked to lack of capital, unavailable or expensive transport and the effects of crime. Major constraints for general dealers were ranked as shortage of stock linked to lack of capital, crime and lack of customers. It is significant that during the previous year, one in every four township retailers had been a victim of crime, most commonly a break-in and theft from the property.

Figure 21 – Use of family members as employees

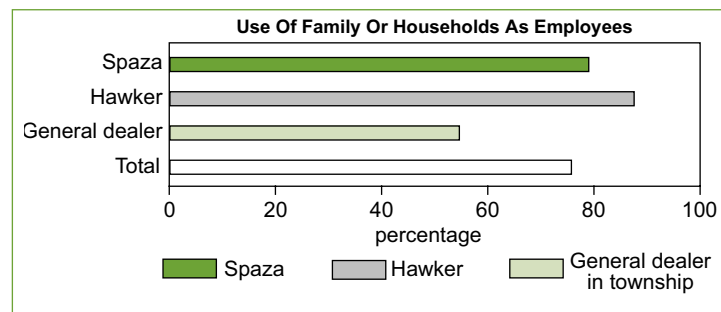
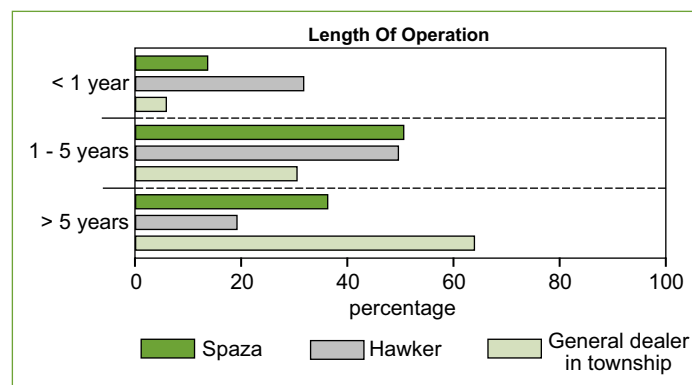


Figure 22 – Length of operation of businesses



- Above all, what these findings point to is that the different segments of informal retailing require different support interventions to assist enterprise development.
- In terms of support interventions, a critical set of findings drawn from research on 300 spazas in Cape Town indicate that the most important need was for discounts from wholesalers. 72% of spaza owners complained that wholesalers did not provide them with discounts (Smith *et al.*, 2002; Van Broembsen, 2005a, 2005b). This issue was followed by assistance with the transport of supplies, as spaza owners typically use taxis to source their supplies, and purchases are thus limited by what owners can hold on their lap.

**The last informal retailer in Braamfontein, Johannesburg?**

The Johannesburg City Council asserts that it supports informal trading, albeit only in those parts of the city which it deems 'suitable'. However, the permitted suitable areas of the city that are agreeable for Council exclude most of the areas where informal traders would like to do business. In 2005, the Council started a campaign of posting 'no trading' signs throughout the city, following on its efforts to ban trading in 27 districts of the inner city, including Braamfontein, which is in the shadows of its offices.

Bongi Jiynane is (potentially) the last remaining informal trader in Braamfontein. She arrived in the city from KwaZulu-Natal in 1994 in search of a job. Initially she sold books in Braamfontein, but subsequently switched to selling a range of food produce once the demand for books faltered.

She works six days a week and earns between R2,400 and R3,600 per month. From this amount she pays R200 for a flat in Berea and sends about R600 home to her family in Durban.

Jiynane claims she has been arrested on more than 20 occasions since 1999. Nevertheless, she has remained in Braamfontein and continues to trade there because she has to support 14 family members.

During 2004 Jiynane had her entire stock confiscated by the police and was arrested once again. On this occasion, the police took 14 apples, six avocados and two oranges. Since 1999 Jiynane said she has been sprayed in the face with a mace-like substance "three or four times". When she was arrested in 2004, she spent three days in jail because she could not pay the R350 fine given to her for trading in one of the city's designated non-trading zones.

*Source: Gallagher, 2006, p. 55*



- Amongst the most interesting set of findings from the national survey are those concerning length of operation of business and entrepreneurs' future business intentions. What is evident is a degree of maturity of enterprises and entrepreneurs engaged in informal retailing, especially of those engaged in spaza retailing and general dealerships (see Figure 22). The survival rates of these businesses over five years were as follows: 63.7% for general dealers, 36% for spaza operators and 19% for hawkers.
- Such results suggest that whereas a decade ago it might have been correct to assert that most informal retailers were merely 'survivalist enterprises', there is now evidence that at least some segment of these entrepreneurs have graduated to a level at which the business no longer functions merely at survival level. Survey research for Coca-Cola, which disclosed that more than half of the owners of informal business enterprises in SA would not look for a job in the formal sector even if they had a choice (Claasen, 2004), confirms this finding.
- That said, the economy of informal retailing must confront the challenges of recent radical changes taking place in the broader context of informal retailing across SA.

## 2.4 The changing retailing environment

From recent evidence, it is apparent that the economy of informal sector retailing in SA is set to catch up with international trends in terms of the greater exposure of informal retailers to increased levels of competition via the growth of new retail spaces. Across Asia and Latin America, the global spread of the supermarket and shopping centre is transforming retail spaces and the economy of informal retailing in both urban and rural areas. The greater exposure of informal retailers – and especially petty traders – to increased levels of competition via the growth of new retail spaces is a widespread and significant phenomenon.

Of considerable significance is the trend observed in SA during the past two to three years of property developers opening up new retail spaces in semi-rural areas and, most recently, in townships. In 2004, for example, the launch of a multi-million Rand shopping complex in the semi-rural Mkhulu township in Limpopo province was announced, bringing to a total of 15 the new developments initiated by a single fund management group (Sukazi, 2004). The pace of such retail property developments, which have taken place in all provinces with the exception of the Northern Cape, continues at a high tempo. The most recent evidence of the continuing growth of new retail property development is a BEE consortium's investment of R150m in a shopping complex to be constructed at Butterworth in the Eastern Cape (Maqhina, 2006).

The 'space' that is becoming most radically transformed in terms of a changing retail environment is that of the urban township. Historically, township retail space has been controlled by general dealers, spazas and the ubiquitous hawkers, and was seen as a 'no go' zone for property investors. Over the last two years this situation has changed fundamentally. In several urban townships – at Motherwell and Mdantsane in the Eastern Cape and Mitchell's Plain in the Western Cape – new retail construction and shopping development have recently been completed (Khuzwayo, 2004).

The most dramatic developments, however, occur in Gauteng, where the rise of the black middle-class consumer has precipitated what some analysts call a 'scramble' by property developers. In Johannesburg, the expansion of formal retail space into township areas has received the blessing of municipal policy. For example, in 2004, the City of Johannesburg issued a retail strategy for Soweto that forms part of the wider Soweto Investment Initiative for promoting economic development. The retail strategy document (City of Johannesburg, 2004) makes a number of critical observations and policy suggestions concerning retailing in Soweto, which have considerable potential ramifications for the future trajectory of the informal retailing economy.

- Soweto residents' total demand for retail goods is calculated at R4.2bn per annum of which about R1.05bn is currently spent within Soweto, 12% of which is attributed to informal trading.
- The strategy seeks to grow the proportion of retail spending in Soweto from the current level of 25% to 50% over a period of five years, thus increasing such spend to R2.1bn.
- The strategy supports the development of an additional 70,000m<sup>2</sup> of retail space

in Soweto over the five-year period 2004 to 2009, of which 30,000m<sup>2</sup> are already under construction.

- The strategy puts forward a series of strategic proposals with an emphasis on creating a framework within which private formal sector retail businesses can be established and function effectively in Soweto.
- It is recognised that these major new retail developments in Soweto will represent competition for established (informal) retail businesses owned by Sowetans. Indeed, the retail strategy speaks of informal sector retailers as under threat as new formal retail space is provided (City of Johannesburg, 2004).

Table 2 shows new shopping mall developments which have recently been completed, are under construction, or represent planned developments in the townships around Johannesburg. A similar pattern of development is occurring in metropolitan Tshwane.



Table 2 – Township mall development projects in Johannesburg

Location	New mall development	Current project status
<b>Soweto</b>	Protea Gardens	In operation: 250,000m <sup>2</sup> retail development by Greenwold Property Development.
<b>Soweto</b>	Jabulani Mall	Under construction: R250m centre with 30,000m <sup>2</sup> of trading space by Greenwold Property Development. Jabulani is seen as 'the centre of Soweto' and reportedly has commitments as tenants from Foschini, Edgars, Truworths, Ackermans, Pep Stores, Checkers and Shoprite.
<b>Soweto</b>	Maponya Mall	Under construction: planned 60,000m <sup>2</sup> shopping centre jointly developed by Soweto entrepreneur Richard Maponya and Zenprop Property Holdings.
<b>Soweto</b>	Orlando Ekhaya Project	Launched in 2005 by the Johannesburg Property Company, this R400m project of 90,000m <sup>2</sup> is proposed to be the largest such development in Soweto. It is to be built on a 300ha site (including housing) stretching from the old power station to the Vista campus of University of Johannesburg. The project aims to merge heritage with retail convenience development. The power station is planned to become the site for a mall, featuring a jazz club, restaurants, theatre, cinemas as well as niche retail stores.
<b>Soweto</b>	Diepkloof Plaza	Planned R60m retail development.
<b>Soweto</b>	Dobsonville	Expansion and upgrading of existing shopping centre by Vukile due for completion by August 2006.
<b>Alexandra</b>	Alexandra Junction Shopping Centre	Planned to start development in 2005 for completion in April 2007. 60% of the space is for retailing; the remainder is for services.
<b>Orange Farm</b>	Palm Springs Mall	Proposed R80m development as a joint venture between Heriot Properties and BEE partner, Sakhisizwe Holdings.

Sources: Various reports in the financial press and available on [www.eprop.co.za](http://www.eprop.co.za).

At present it is not possible to state with certainty the precise impact of such developments on the business of informal retailers. There is anecdotal evidence that Shoprite Checkers' move into township areas has been responsible for killing 'corner stores' (Sukazi, 2004). Not surprisingly, the 'mallings' of townships has received a

hostile reception from spaza shops and informal traders (Laschinger, 2004), and the popular press has been tolling the death knell for the township small shop and spaza (Khuzwayo, 2004). Moreover, the recent assessment of the state of informal retailing in SA concluded that whilst the informal sector remains an important channel, the view is held that this sector may have peaked as more formal shopping centres are being developed in disadvantaged areas (AC Nielsen, 2004).

The international experience of the entry of similar new retail forms in other parts of the developing world (Bromley, 1998; Lyons and Snoxell, 2005) suggests, however, that the long-term horizon will be more complex than that portrayed in the popular SA press. Indeed, the impact upon the informal retail economy of new formal retail developments will depend considerably upon the synergies that emerge between the formal sector and informal retailing and of the support local government and private sector suppliers offer to informal retailing. I

The Soweto retail strategy states that to minimise negative impacts on informal retailers, their requirements must be taken into consideration and, preferably, they should be supported to maintain their share of the market (currently estimated at 12%) (City of Johannesburg, 2004). Overall, it must be concluded that the impacts of new formal retail developments are likely to be differentiated on a geographical basis, with many (especially poorer) areas still likely to remain dominated by spaza shops and informal hawkers. Indeed, a complex of local variation and local difference is the most probable future outcome of these new retail developments taking place across SA.

### **3. Local policy and practice**

Policy and support towards informal retailing are critical matters with important implications for local economic development. Issues of local policy and practice towards informal retailing are the focus of attention in this section. Three sub-sets of discussion are offered.

- First, the challenge of managing policy development for informal street traders is reviewed through the lens of national debates and an examination of a creative policy approach which has been developed in Durban.
- Second, the policy focus turns from the street to the home and to a review of emerging local policy debates and practice around informal home-based enterprises, particularly spazas.
- Finally, an example from Cape Town of good practice for supporting spazas through the application of a market development or business development approach is highlighted.

#### **3.1 Managing informal retailing at local level**

Historically, informal retailing in major SA cities was subject to a tradition of repression with a heavy arsenal of apartheid-linked policies operating to constrain

the activities of groups of particularly emerging black informal retailers in the so-termed 'white spaces' of the country's urban areas. The apartheid years were marked by several targeted campaigns undertaken by SA municipalities – with Johannesburg at the forefront – to destroy groups of informal retailers. One of the most vigorous campaigns was that waged during the 1950s and 1960s, designed to destroy the livelihoods and business of the community of women coffee-cart traders of Johannesburg. Throughout the 1970s and 1980s, the policy environment was unpromising and hostile towards the activities of informal traders.

From the late 1980s, however, there was increasing pressure from national government to encourage or compel local governments to adopt a more liberal approach towards the informal economy. In terms of the 1991 Business Act, the powers of local authorities were reduced in terms of their ability to introduce and implement laws that restricted informal retailing. This Act precipitated a surge of new informal retail activity and represented a complete legal about-turn from a situation in which traders could not trade (with a few exceptions) to a situation where traders could trade freely (with a few exceptions) (Lund and Skinner, 2004).



### **A selection of by-laws affecting informal traders**

The following are extracted from the Johannesburg Metro Police Department Informal Trade Handbook, which was issued in 2005.

- May not trade on a sidewalk where the width of such a sidewalk is less than four metres.
- May not carry on business, or take up a position, or place his or her property on a portion of the sidewalk or public place, in contravention of a notice or sign erected or displayed by the Council for the purposes of these by-laws.
- May not place on a public road or public place, his or her property that is not capable of being easily removed to a storage place away from such public road or public place, at the end of the day's business.
- Ensure that on completion of business for the day, the area or site occupied by him or her for the purpose of trade is free of litter.
- An authorised official may remove or impound any property of a street trader, which he or she reasonably suspects is being used or which is intended to be used or has been used in or in connection with street trading, which he or she finds at a place where street trading is restricted or prohibited and which constitutes an infringement on any such restriction or prohibition.

Local governments across SA are currently struggling with how to regulate or manage the activity of informal retailing. Dewar (2005) stresses that informal trading is an emotive issue, with some policy-makers seeing it as a symptom of developmental

backwardness or a 'problem' that must be resolved, whereas others see the growth of informal retailing as a positive dynamic that enables large numbers of people to secure an economic foothold, particularly in the cities.

Officials are often divided between those who view the promotion of opportunities and spaces for informal retailing as an appropriate development path and others who want to see the streets cleared of hawkers, considering this as a critical step towards achieving better management and thus a healthy climate for investment (Lund and Skinner, 2004). As has been pointed out by Popke and Ballard (2004), underlying these contrasting positions on policy towards informal retailing – particularly in the country's major metropolitan areas – is a profound contest about the image of the city, with a Eurocentric and ordered model being posited against an African and chaotic one (Lund and Skinner, 2004). The struggle for space to trade in SA's cities is represented most clearly in the case of Johannesburg.

### 3.1.1 Towards guidelines for good practice

Since the 1990s, local governments across SA have been grappling with the issue of how to develop a consistent policy approach to deal with informal trading. Dewar (2005) points out that the issue of informal trading can be a problematic one if not thought through; yet, conversely, a pro-active informal trader policy can be an important urban management mechanism in transitional economies. It is argued that for most local governments, the development of such a policy is essential, not only in terms of national requirements to stimulate micro enterprise but also in terms of the regulatory functions of local government. Informal retailing should be considered as an initiating point for SMME development, with the core policy goal that of making people more economically mobile.

Important starting points or guidelines for the formulation of an informal trader policy in SA have recently been set forth.

- Informal retailing should not be viewed in isolation but rather as an integral part of the management, revitalisation and renewal of urban settlements as totalities.
- Informal trading should not be anarchistic; rather, permission should be sought and fairly assessed for all economic activity.
- Assessment should occur only in terms of the criteria of 'public good' and if there are no major conflicts between the public good and criteria of reasonable rights, permission to trade should not be withheld.
- In terms of equity, when informal activity occurs on public land, some form of minimal rental should be sought.

### **Managing or mismanaging informal trading in Johannesburg, SA's aspiring 'world city'?**

The major economic and planning document for Johannesburg, *Johannesburg 2030*, sets forth the vision of putting the city into the ranks of 'world cities' in the coming decades. Nevertheless, the activities of the estimated 8,000 to 10,000 informal traders operating in contemporary Johannesburg fit uneasily into this vision. Although city officials, most notably the Mayor, provide regular assurances that the informal sector has a viable future in the city and that it represents an important aspect of the economy, the caveat is added that it must happen in an organised manner (Masondo, 2004).

Since 1999 there has been a major contest between informal traders and the Council as to the terms under which informal traders might function in the city. At the core of Johannesburg's Informal Trading Development Programme is the city's initiatives – launched in 1999 – to build a set of formalised markets. By 2005, six markets had been opened for traders. According to the objectives of the market programme, the markets were supposed to make traders more financially stable by eliminating competition, since traders on the streets were to be moved to these markets and cease to exist, in line with the aspirations of Johannesburg 2030. This has not occurred despite increased police activity and harassment of those on the street.

The market policy has not been particularly successful, as many are located in hard-to-reach locations which attract few customers and pedestrian traffic. Informal traders oppose being forced into areas, such as the designated markets, that appear to be motivated by an impetus to get traders out of the way, rather than promoting their development (Gallagher, 2006). Overall, the market policy has done more harm than good because it has failed to generate profit for the city and also the traders who operate businesses there (Gallagher, 2006). This has further widened the divide between Johannesburg Council and the community of informal traders. Empowerment of traders has not resulted from Johannesburg's current initiatives for 'managing' the informal sector.

- Institutional arrangements are needed that will facilitate a rapid response to applications. In addition, proactive policy mechanisms should be established to assist independent, survivalist enterprises at the bottom end of the economic spectrum.
- Policy mechanisms should aim to increase the 'manoeuvring space' of individuals and include educational programmes to support a graduation from informal to more formal economic activities.
- Finally, the development of an informal trading policy should be as broadly participative and inclusive as possible.





Although there would be several components of a proactive informal trader policy, it is suggested that the anchor should be a strong, proactive peoples' market programme. This is considered as a potentially powerful instrument of assistance. The term 'markets' here refers to the spatial agglomeration of small retailers into clusters. The potential benefits of vigorously promoting such market agglomerations are multiple:

- Investment in markets can benefit large numbers of informal retailers.
- The stimulation of market clusters is one vehicle through which small traders could potentially access space in central, viable areas of SA cities and thus address the problem of geographical marginalisation.
- The physical concentration of large numbers of traders increases their collective capacity to attract customers.
- Physical proximity in clusters opens up opportunities for developing other forms of mutual co-operation, such as the collective buying of goods/supplies.
- Markets situated in low-income areas can potentially have positive benefits for consumers in terms of lower prices and the potential for comparative buying.
- Clusters provide foci for the channelling of other forms of assistance, such as education or training programmes.
- Properly designed markets can become social and recreational centres for local communities.
- Finally, Dewar (2005) maintains that from an urban management perspective, a positive market policy can contribute to resolving conflicts between the need to assist informal retailing and the need to satisfy demands of other urban interest groups concerning health, traffic congestion or unfair competition. The promotion of markets at carefully selected locations allows such potential conflicts to be resolved at an acceptable level.

### 3.1.2 Durban – a case study of creative policy

A comparative analysis conducted in 1999 to 2000 of the policy and practice of leading municipalities towards informal retailing concluded that Durban had made much greater progress than other SA metropolitan areas (Skinner, 1999, 2000). In particular, Durban had established a dedicated department for the management and support of street traders. Moreover, the city had also allocated more resources to infrastructure development for traders than any other SA urban centre. Further, at Warwick Junction, Durban could boast one of most impressive examples in SA of integrating informal street traders into city planning for urban renewal. At Warwick Junction, the primary transport node of central Durban, between 5,000 and 8,000 traders were provided for in terms of a set of attractive and appropriately designed trader infrastructure, as well as services like child care facilities and affordable overnight accommodation (Lund and Skinner, 2004). Significantly, the design and delivery of these facilities had between undertaken through a consultative process with stakeholders.

The innovative policy stance towards informal retailers has been maintained by the new eThekweni Municipal Council, which during 2001 to 2002 was responsible for the formulation of an effective and inclusive policy for the city's informal economy. Although the specific policy document was defined as a policy for the informal economy, a core target group for the policy was informal traders. The establishment of this policy was grounded upon a clear analysis of the several important contributions made by the informal economy to the city and for the many challenges that it poses. Its starting point was that the informal economy makes a major contribution to the city in terms of jobs and incomes and thus was critical for the city's economic development. Moreover, shopping in informal outlets was recognised as extremely convenient for thousands of commuters and residents. It was argued that whether buying mielies and fruit in town, or buying paraffin and candles from spaza shops in residential areas, the informal operators offer a pro-poor convenient service to many citizens (eThekweni Unicity Council, 2002).

The eThekweni policy recognises the diversity of the informal economy, including across informal retailing, and of the different places where entrepreneurs operate their business. Finally, it was acknowledged that the informal economy of retailing played a positive role as informal outlets for many goods, such as traditional medicine or sea water, which are essential for the cultural and religious life of citizens of (as well as visitors to) Durban.

As a foundation for policy development, the informal economy was conceptualised as part of economic planning and development, rather than being seen as components of poverty alleviation or welfare projects (Lund and Skinner, 2004). In addition, the interdependence of the formal and informal parts of the (urban) economy was reiterated (Lund and Skinner, 2004). Upon these bases the policy begins with the promotion of job opportunities as a priority. Several key levers of change were identified.

- The planning of new markets and trading opportunities was to be the core basis of local government seeking to encourage and promote a diverse mix of markets and trading opportunities (eThekweni Unicity Council, 2002). This emphasis upon developing new built markets, especially in formerly under-developed residential areas, offers common ground with the broader generic guidelines set forth by Dewar (2005).
- Allocations policy concerning sites is vital and recognised as a powerful tool for employment creation and for the inclusion of formerly marginalised groups. The stated aim of the city's allocations policy is to support growth and provide opportunities for new entrants, in an economically sustainable and socially useful way (eThekweni Unicity Council, 2002).
- Registration was viewed as an anchor for the local policy with the goal that all people working in public places will register as small businesses (eThekweni Unicity Council, 2002). Registration, as well as the sustained payment of rentals, are identified as the action which gives permission to operate, and which provides access to services and support (eThekweni Unicity Council, 2002).



- Another policy foundation is that of rentals policy through which the local government of eThekweni is moving towards dealing with informal traders as small business people through a system of differentiated rentals that places value on different informal trading sites, such as pavements (eThekweni Unicity Council, 2002).

In an evaluation of this policy framework, Lund and Skinner (2004) identify several positive innovations:

- The policy commits the city to furnish support services to people who work in very small enterprises, thus filling the gap left by national government support interventions.
- The policy suggests support in the form of provision of basic business skills training, legal advice, health education and assistance in accessing financial services.
- The policy promotes the adoption of area-based management in terms of dealing with the informal economy.
- The policy advocates a sectoral or industry-by-industry approach to assisting the informal economy in much the same way as is done with global value chain analysis for strategic planning in formal industries (Lund and Skinner, 2004). This would necessitate a comprehensive analysis of different forms of informal activities, including different forms of retailing, with a view to the city designing and implementing coherent and focused interventions (Lund and Skinner, 2004).
- Lastly, the important role of supporting capacity building of organisations in the informal economy is another important innovation. As stated in the policy document, the success of area-based management and of support for economic development will hinge on the orderly growth of organisations of workers in the informal economy (eThekweni UniCity Council, 2002)

Overall, it is evident that if this policy framework were to be fully implemented, the environment of those working in the informal economy of the city would improve (Lund and Skinner, 2004). That said, it remains that actual implementation of this 'good practice' in terms of policy development has thus far been patchy and uneven (Lund and Skinner, 2004).

### **3.2 Managing home-based informal retailing enterprises**

As observed in Section 2, the largest share of spazas function from home premises either attached to or in the main residential structure, or operated from a separate structure on the residential stand. Surveys conducted in 2005 of home-based enterprises disclose that spazas represent the most common form of informal retailing operated from home premises. Accordingly, the operations of spazas are crucially affected by the regulatory environment in which they exist. Indeed, it should be recalled that the word 'spaza' owes its roots to township vernacular for 'camouflage' or 'dummy'. This underscores the fact that spaza retailing historically evolved as an illegal

activity in contravention of, and as a form of resistance to, both national and local government regulations (Tager, 1990).

The history and development of spaza retailing has continually been shaped by a policy environment which has been moulded largely by national government. The origins and evolution of spaza retailing remains one of SA's unwritten histories of its 'ordinary people'. Some observers argue that spazas have always been present in urban townships and accompanied their historical development. The niche occupied in the retailing economy by spaza retailers was opened up by inadequate administrative arrangements for the provision of formal retail outlets in developing townships (Rogerson, 1991). For example, in the early development of Soweto, as far back as 1946, it was recorded that there was a sizeable community of persons who were described as trading illegally in a variety of commodities from their township homes or shacks. In the circumstances of post-World War II economic growth and expansion of the townships, the continuing neglect by Johannesburg municipality of the provision of legal sites for trading inevitably catalysed a burst of 'illegal' home-based retailing. Underpinning this neglect was the official national government's racist ideology of Africans as mere 'temporary sojourners' or 'birds of passage' in the ostensibly 'white' urban areas of SA.

A relaxation of the negative regulatory environment that governed the activities of spazas only occurred at the close of the apartheid years. Seemingly, the legal position of spazas was improved by local regulations introduced to control home businesses in Pretoria townships under Act 4 of the Township Establishment and Land Use Regulations. The legislation was unclear, however, as to requirements for legal status, and according to Tager (1990), until 1 January 1989 virtually all SA spazas were illegal businesses which functioned contrary to laws that prohibited the use of residential property for business purposes.

In 1989, new regulatory measures were enacted which, for the first time, allowed residences to be used for businesses, including as spazas, with the caveats that such activities were required to be licensed (in most cases with a hawker's licence) and must not disturb the amenities of the local neighbourhood (Tager, 1990). In enacting this legislation, SA moved a step closer to the norm that in cities of the developing world, home-based enterprises are an accepted component of the informal economy. As has been shown in comparative research, there are clear parallels between home-based enterprises in urban areas of SA and those in other developing world contexts.

Since 1994, the environment within which spaza entrepreneurs function has improved. In research conducted in Mamelodi, Napier and Mothwa (2001) showed that local women, under the new government with new constitutional rights, felt 'more free to take control of their own lives and economic activities', a feeling that contrasted with their experience under apartheid. Several SA cities, including Johannesburg, Durban and Pretoria, are currently reviewing the regulatory environment surrounding home-based enterprises as a whole (Napier and Liebermann, 2005). It can be argued that SA's city authorities need to construct an appropriate enabling legislative or regulatory environment for the secure operations of spaza retailers and the development of their businesses (Napier and Liebermann, 2005).



Informal retailers are now defined and form part of the group of what some observers call 'housing entrepreneurs' (Shisaka Development Management Services and CSIR Building and Construction Technology, 2005).

The development of an appropriate regulatory environment is an ongoing process. In Johannesburg, the state of regulation surrounding spazas is described as vague. Business development in townships is still essentially governed by defunct apartheid legislation in the form of the Black Community Development Act which has been repealed (Whitehead, 2005). The most pertinent legislation is the Annexure F Schedule, which will remain until new legislation is introduced, most probably in July 2007 at the time when a new valuation roll will be applied. Under Annexure F, home enterprises such as spazas are permitted to operate as long as (1) they do not contravene existing health (especially concerning perishable goods with the sale of fresh milk and eggs most problematic) and liquor (not allowed for sale without a permit) regulations; (2) do not spill out on to pavements; and (3) represent a business that is ancillary to the major residential function of premises.

Under the new policy framework, which is currently being drafted for potential enactment in 2007, Council would permit spazas to operate on a consent basis, with owners required to secure a permit by paying a small fee. The controls would seek to avoid the approval of an 'excessive number' of spazas. The definition of spazas is to include both the home-based enterprise and the operation of spazas from containers. The proposed controls on spazas in Johannesburg have been constructed from the perspective that spazas are to be regarded as 'neighbourhood enterprises' (Whitehead, 2005). The controls that will be introduced are designed to protect the essentially residential character of the environment in which spazas are situated:

- Premises would be inspected by Council prior to permit approval and allowed to operate under certain conditions.
- Spazas would be limited in size to 36m<sup>2</sup> or the use of a container.
- Operation of spazas must have due consent, with neighbours raising no objections.
- Restrictions will apply in terms of the sale of certain products which conflict with health and other legislation. Fresh milk, eggs, liquor and potentially fresh meat are the most likely affected commodities.
- Spazas must operate as ancillary to the main residential function and cannot take over the whole residential premise.
- The permit can be cancelled if spaza trading is not practiced for a period of two years after issuance or there occurs a break of spaza trading for 18 months.
- Contraventions of legislation could result in the closing down of businesses.

Overall, it is evident that across SA some progress can be recorded at local level in terms of an improved regulatory environment for spaza retailing. As yet, no SA local authority has implemented any direct supportive measures for assistance to spaza retailers.

### **3.3 A market development or BDS approach to supporting informal retailing**

In terms of support for the development of informal retailers, the most important support for business development has come from the private sector. It was observed in the national cross-section of informal retailers, surveyed by Ligthelm and Masuku (2003), that suppliers to spazas are key sources of support in terms of not only direct deliveries but also the provision of promotional material, shop equipment and signage. In other words the gap left by the absence of government SMME support measures, to some extent, has been filled by market development initiatives led by the private sector.

In Cape Town, a project has been launched which is regarded as good practice for the provision and expansion of business development services (BDS) to spazas. This BDS initiative in support of informal spaza retailing was established by the Triple Trust Organisation (TTO), with a substantial component of USAID funding (Pedro, 2005). The TTO has been assisting informal enterprises in Cape Town for 15 years as a provider of business services and assistance. Nevertheless, as a result of both external and internal evaluations of the limitations of its existing support approach and of exposure to BDS best practice during 2001, the TTO decided to shift from being a service provider to a market development facilitator (Triple Trust, 2002). One of the organisation's first projects has been the market facilitation of the spaza shop market in Cape Town (Tladi and Miehlebradt, 2003).

The activities of this USAID-supported project in SA have been given an international profile as an example of emerging BDS best practice within the seminar documentation produced for the ILO Training Centre in Turin. In addition, the lessons of this evolving case study in BDS support provision have been more widely disseminated through the international BDS website as well as through the US-based Small Enterprise Education and Promotion (SEEP) practitioners' network.

It is clear that the TTO's decision to work in the spaza market was prompted by its potential for impacting upon the lives of the poor. Indeed, spazas are the domain of the poor as both owners and customers of spaza shops are poor and spazas interface directly with the poor on a daily basis (Triple Trust, 2002). Thus, it was considered that an improvement in the spaza market could help both and thereby contribute to the TTO mission of poverty alleviation. In earlier market research, the value of spaza market sales in Cape Town had been estimated at R1.02bn or about 13% of the entire retail economy of the city (Smith *et al*, 2002; Triple Trust, 2002). Nevertheless, it was suspected that there were certain inefficiencies that were reducing benefits to both owners and customers. In order to address those inefficiencies, the project objectives were to improve the efficiency of spazas, stimulate the spaza shop market for BDS, develop the BDS market for spaza shop specialist providers and stimulate economic activity resulting in poverty alleviation. It was considered at the outset that a programme for developing the spaza market in Cape Town might potentially be replicable in other SA urban centres.

The project unfolded through four phases of work, including research on the spaza market and the BDS market, and targeted research on the supply chain, customer



preferences and specific services. A baseline market assessment of the spaza shop market in Cape Town formed the basis of intervention, design and implementation. Survey research involved a mixture of focus groups, qualitative surveys and in-depth interviews with 300 spaza shops in Cape Town. The findings from the baseline research concluded that the spaza shop industry represents a significant player in terms of employment, economic development, and in terms of providing a much needed service in the community (Smith *et al*, 2002). In total, it was estimated that there were 14,000 shops, with the majority functioning as convenience stores as the most common goods were bread, paraffin and matches. The majority of spazas were owned by women (58%) who wanted to build their businesses, although they did not receive any formal support for their businesses and did not know of any organisation that offered business support. Some spazas received signs from suppliers (such as Coca-Cola) and discounted flyers from wholesalers in the city. Indeed, a key finding was that most BDS in the spaza shop market is embedded and linked to suppliers of goods (Tladi, 2003). Nonetheless, the shop owners had few direct links to manufacturers, and shopped with a variety of retailers and wholesalers who rarely provided discounts or special services. Spaza market customers are mainly low-income earners in townships as high-income earners shopped elsewhere.

The research identified a series of major problems/challenges that Cape Town spaza owners have to deal with in their businesses. The key constraints that spaza owners face include:

- Insufficient and limited range of stock.
- Transport-related problems in terms of difficult and costly transportation of goods from suppliers to shops.
- Lack of safe and adequate storage.
- Environmental problems, especially related to rain and pest control.
- Theft and security issues.

This assessment led to a series of proposed interventions for BDS provision:

- In addressing the problem of insufficient stock, the intervention was to link spazas to suppliers and micro-credit providers.
- The organising of group transport facilities would deal with the transport-related problems.
- Storage was to be addressed by seeking improved access to better storage containers.
- The intervention on environmental problems focused upon setting up local pest control services.
- Finally, improving access to and the quality of security services would address the problem of theft.

Each of these proposed market interventions was explored with spaza operators using 'non-conventional' research methods in the form of 'what if' questions to

entrepreneurs to explore their willingness and ability to pay for such services (Bear *et al*, 2004). In addition, spaza operators were approached to test the concept of a changed payment mechanism using a debit card linked to an existing bank account, and of their willingness to join a business collaboration network that might offer collective benefits, such as access to better stock, preferential treatment from stock suppliers and volume discounts through group buying.

Finally, the project examined the implications of six key findings from the spaza survey in terms of possible project intervention.

- **Most existing BDS is embedded and informal:** The response was to work with suppliers in order to leverage BDS in the range of products on sale to spaza owners.
- **Spaza entrepreneurs have a low awareness and understanding of BDS:** The suggested intervention was to conduct a local awareness-raising campaign among spaza owners of the potential benefits of BDS.
- **No suppliers exist for certain BDS services:** The response was to develop potential BDS suppliers to provide that specific service.
- **There is limited demand for general business training:** However, spaza entrepreneurs expressed the need for mentorships.
- **Due to poverty, spaza owners cannot pay upfront fees for services:** The response was to assist BDS suppliers to develop innovative payment options.
- **Suppliers are often reluctant to engage with the spaza market:** This response focused upon the design of appropriate distribution and payment mechanisms to remove these barriers.

Overall, the BDS intervention by Triple Trust in Cape Town offers a promising base for possible replication in terms of LED programming as a 'best practice' model that might assist positively the livelihoods and business prospects of informal entrepreneurs. From the Cape Town experience, however, there emerge certain lessons in terms of possible replication (Tladi and Isaacs, 2004). The two most important lessons are:

- The critical need to understand the market before undertaking any intervention; and,
- The significance of understanding business-to-business relations or embedded services in BDS markets and of their valuable role in the delivery of BDS.







## Part 2: Research Features

### Sectoral Profile

#### SMMEs in Agro-fishing





## 1. Introduction

Before 1994, SA's fishing sector was controlled by a very small number of white-owned enterprises. This pattern of ownership was a consequence of apartheid era resource allocation policies and the integration of the fishery into export markets from the mid-20<sup>th</sup> century, which favoured the formation of cartels (Crosoer *et al*, 2006). These large companies and cartels played an important role in restricting smaller enterprises from participating in SA's important fish resources.

Post-apartheid policies for SA's fish economy have emphasised the importance of transforming the structure of the industry through BEE and by allocating new rights to small and medium enterprises (SMEs). Indeed, one of the empowerment goals identified in the 1997 White Paper on Marine Policy was to 'unbundle' the large and vertically integrated companies to transform both racial ownership patterns and the concentrated structure of the industry.

The legacy of apartheid presented a daunting task for post-apartheid fisheries policy-makers (DEAT, 1997). In 1994, several hundred white-owned companies controlled the total allowable catch (TAC) for the fishery. The total quota allocated to historically disadvantaged individuals (HDIs) was less than 1%. According to one estimate several large companies controlled 90% of the total quota; the 10 largest companies were estimated to generate 70% of the turnover in the industry (Hersoug and Holm, 2000).

In the period since 1994, the Department of Environmental Affairs and Tourism (DEAT) has used the rights allocation process to transform the structure and ownership patterns of SA's important fishing resource. In the last decade it has undeniably succeeded in broadening access to and 'blackening' the fisheries (Van Sittert *et al*, 2006).

Overall, significant strides have been made in transforming the face of the fishing industry from a small number of large, white-owned companies into a large number of smaller, HDI-owned entities (Van Sittert *et al*, 2006). Transforming the structure and ownership pattern has been achieved by increasing the number of rights allocated to historically disadvantaged persons (HDPs) and to smaller enterprises. In the most recent rights allocation – the 2002 medium-term allocation – over 5,000 rights were allocated mostly to SMEs, up from a total rights allocation of only 300 in 1994.

According to DEAT statistics, the new rights allocation policy has succeeded in transforming both the ownership base and the structure of SA's fishing sector. In its most recent announcement, the Ministry declared that 66% of fishing rights were now in the hands of enterprises controlled by HDPs. Significantly, approximately 70% of fishing rights are held by SMEs, a dramatic change from the situation a decade ago (Van Schalkwyk, 2005).

The DEAT's control over fishing rights has provided this Ministry with a strong lever with which to effect change in this sector of SA's economy. The transformation that has occurred in the industry as a result of this process, particularly in relation to the



emergence of many new SMEs owned by HDPs, raises important questions about the challenges and opportunities these new enterprises face in an industry formerly dominated by a very small number of vertically integrated companies and cartels. Since many of these large companies continue to operate – albeit with a smaller fishing quota – a key question is the relationship between these large companies and SMEs in the various fisheries.

A second set of questions relates to whether the rights allocation process has effectively created economically active and sustainable small and medium-sized enterprises. This question must be assessed in the context of ongoing changes in the rights allocation process. Finally, it is important to consider the long-term prospects for SMEs in the fishing sector. While the rights allocation process has always favoured SMEs, the last decade has seen changes in the relationship between the priority for providing opportunities for new entrants and other transformation goals.

This chapter begins with a description of SA's fishing economy. The first section examines the organisation of the 'established companies' in the fishing economy and describes their recent efforts to meet transformation goals.

The second section of the chapter assesses changes in the structure of the fishing sector as a consequence of a democratic rights allocating process. Since these changes are uneven between the various fisheries, this section examines the changing structure of the country's most important fisheries individually. As is the case in other sectors of SA's economy (Rogerson, 2004), data on SMEs in the fishing sector is poor or non-existent. Van Sittert *et al* (2006) have recently bemoaned the lack of annual data on profitability, retained earnings or employment in the fisheries.

The advantage of the fishing sector, however, is that since it is heavily regulated through the rights allocation process, data on SMEs and the rights they hold tends to be much better. Based on this information it is possible to provide a reasonably accurate assessment of the changing structure of the various fisheries. In addition, a major study of the economics of the various fisheries, based on a large sample of enterprises, was undertaken in 2000 and published in 2003 (Sauer *et al*, 2003a; 2003b). Although the report has its shortcomings (Van Sittert *et al*, 2006), it remains one of the only sources of economic data on the country's fishing economy.

The third section of the chapter is based on interviews with a sample of fishing SMEs and secondary material on SMEs. The focus is on the challenges and opportunities facing new and existing SMEs in the fishing industry. The chapter concludes by drawing together the most important themes and by identifying the policy implications.

## 2. SA's fishing economy

Commercial fishing in SA is a small but lucrative industry, and generated around R2.4bn in 2003 (about 0.5% of the gross domestic product [GDP]). The most important sub-sectors are deep sea trawling, mainly for hake; the small pelagic fishery (anchovy and pilchards); line fishing (including hand-lining, tuna and squid) and rock lobster. These four sub-sectors account for around 90% of total value in the industry (Hersoug and Holm, 2000). Four companies dominate commercial fishing in SA – the Oceana Group, Sea Harvest, Premier Fishing and I&J. At the end of the 1990s, three companies controlled 72% of the TAC in the hake sub-sector, three companies controlled 79% of the anchovy and sardine TAC, and three companies controlled 82% of the South Coast rock lobster sector (Hersoug and Holm, 2000).

Larger corporate interests own each of the dominant fishing companies. The food conglomerate Tiger Brands has dominant interests in Oceana and Sea Harvest, Anglo Vaal Industries (AVI) has an 80% shareholding in I&J, and Premier Fishing is 80% owned by Sekunjalo Investments.

All the major companies are generally characterised by a combination of 'elite' BEE ownership and a minority stake held by workers/fishers. Sekunjalo, with controlling shares in Premier Fishing, is a black-owned company. The other 20% of Premier Fishing is owned by a workers' trust. The largest shareholder in Oceana is Ocfish Holding Company, equally owned by black economic group Real Africa Holdings and Tiger Brands. Employees and fishers also have a small direct investment in Oceana Group. Brimstone Investments, a company with majority black shareholding, has a 20% stake in Sea Harvest, while an employees share trust holds a minority share in Sea Harvest. Sea Harvest also has a 50/50 partnership called Sea Vuna with BEE company Vuna Fishing. Sea Vuna had 227 employees in 2003. I&J's majority shareholder, AVI, was 26% black owned in 2003. In addition to that, AVI sold a 20% stake in I&J to a BEE consortium in 2004, including Ntshonalanga Investment Enterprises and Mast Fishing. The latter is a company formed by black fishers in 1999.

At the end of the 1990s it was estimated that in total, around 27,000 people were employed in the commercial fishing sector, distributed almost equally between sea- and shore-based workplaces (DEAT, 1997). Of these, only half were permanently employed (Hersoug and Holm, 2000). In addition, another estimated 60,000 people find employment in related sectors, exclusively or partly dependent on the fishing industry as a market for its supply of stores, equipment and services. Provision of equipment and services to the recreational sector is another add-on to the employment generated by fishing activities in SA. No reliable information is available with regard to employment in the subsistence sector (DEAT, 1997).

There is a high degree of vertical integration between fishing, cold storage, processing and trading, with some extension into shipping. I&J has processing operations in SA, Argentina, Namibia and Australia. It has a sales organisation in Europe and representation in Australia, the Pacific Rim, the US, Europe and Africa (AVI Annual Report, 2003). I&J's subsidiaries include Simplot Seafoods, Snacks and Meals Division



in Australia, Juno Holdings Ltd in Europe (with operations in West Africa, and selling value-added products in Europe, the Americas and Africa), Alpesca in Argentina and Frozen Foods International in Monte Carlo (both of the latter sell and source globally). Oceana has trading operations in SA, Namibia, Uruguay and Taiwan, as well as commercial cold storage and shipping services operations. Sea Harvest operates mainly in SA and Namibia. Premier Fishing has processing and cold storage facilities, but does not have its own facilities in any other country.

The concentration and high degree of vertical integration in the fishing sector is, as noted earlier, a consequence of both apartheid era fishing rights allocations and the integration of the fishery into global markets from the middle of the last century. Although the fishery continues to be dominated by large, vertically integrated companies, a new post-apartheid rights allocation policy has made important inroads in changing the structure of SA's fishing economy.

### **3. SMEs in SA's fisheries**

The rights allocation process has had an important impact on transforming the ownership pattern and structure of all of SA's fisheries. Yet the extent of change varies between each of the fisheries. In this section the impact of new and democratic rights allocation policies is considered for each of the fisheries in turn. The fisheries examined here contribute more than 90% of the value of fish products harvested in SA.

#### **3.1 Abalone**

Abalone is harvested and processed in the south-western Cape coastal region. A long-term problem associated with this fishery is the variability in the resource, which is in part a consequence of illegal fishing.

There has been a significant change in the allocation of rights in this fishery. In 1992, only five rights were allocated to harvest abalone; by 2002 the DEAT had allocated 271 rights, mostly to new entrants. In the 2002 rights allocation, the five original companies maintained almost half of the total allowable effort and the rest was allocated to new SMEs. Currently, almost 88% of the companies in the abalone sector are SMEs (Sauer *et al*, 2003b).

The abalone fishery employs around 1,000 people. In the early 2000s, employees in the sector earned an annual salary of between R18,000 and R26,000 per year. Most abalone is exported, either frozen or increasingly as a fresh product. In 2002, exports were worth R70m, but this figure is likely to be much higher now given price increases and the shift of production to a fresh rather than a frozen product.

In the period after 1998 and the new Marine Living Resources Act (MLRA) of 1998, a proportion of the new entrants to the abalone sector sold their quota to the larger companies. The terms of the sale differed: in some cases it involved an outright sale

of the quota while in others the quota holder was paid at the end of the season. In the latter case the price paid to the quota holder was related to the company's export earnings.

Other new rights holders were more active in the fishery – rather than selling the quota to larger companies, these rights holders established joint ventures with other small rights holders and one of the larger companies. The advantage of this arrangement for the larger companies is that it allows them to secure a regular supply of abalone. For the smaller rights holders, joint ventures represent a more active involvement in the fishery and, given the priority on past performance in allocating medium- and long-term rights, provide a better chance of a successful application for new rights in the fishery (Isaacs, 2006).

Illegal poaching of abalone is a major problem for this fishery: according to one estimate 1,600 tons of abalone is poached per year. The loss to the industry in 2000 was estimated at over R50m (Sauer *et al*, 2003a).

Traditionally, most of the abalone catch was frozen or canned. More recently production methods have shifted to meet the overseas demand for fresh abalone. This demand, and the price premium, has seen a significant shift of production towards fresh product. Exporting fresh abalone involves keeping the fish in holding facilities on shore or on the ship and then packaging it in oxygen filled plastic containers. These containers are flown to importers in East Asia (Sauer *et al*, 2003b).



### 3.2 West coast rock lobster

As is the case with abalone, this fishery remains under significant pressure due to over-fishing and environmental effects that have slowed the growth rate of the species. Given that rock lobster are long-lived animals that grow slowly, rebuilding the stock takes longer than in other fisheries.

The number of rights holders has increased significantly in the last decade. In 1992, 39 permits were issued for the species – mainly to white individuals and white-owned enterprises. By 2003, this number had increased to over 1,000, with most of the new quotas going to HDPs. A large proportion of the quota was allocated to former subsistence fishermen for inshore fishing. The 10 largest enterprises controlled over half of the quota in 1992 but with the allocation of quotas to new entrants, this has decreased to only 36% in 2002.

A consequence of the new rights allocation policy is that the average allocation has declined from 56 tons in 1992 to almost seven tons in 2002. New and mostly historically disadvantaged entrants to the sector have tended to be allocated small quotas of rock lobster (that is, less than 10 tons) while the larger enterprises tend to be allocated larger average quotas. The large difference between the average allocations is, however, being addressed: “In 1992, there was a 200-fold difference between the highest (199 tons) and the lowest (one ton) allocations; in 2002, there was a 66-fold difference between the highest (95.6 tons) and the lowest (1.5 tons) allocations”



(DEAT, 2005a). The large range of quotas allocated to new entrants means that the industry is now characterised by enterprises ranging in size from micro to medium.

The different methods of capturing west coast rock lobster have facilitated the dramatic change in the structure of the industry. While larger quota holders tend to use both traps and boats to harvest the fish, smaller quota holders use traps only, suggesting that they may not have access to a boat. Almost 90% of the quota holders who use traps only have smaller quotas of less than 10 tons (Sauer *et al*, 2003b).

More than 5,000 people are employed in this fishery, divided almost evenly between shore-based and sea-based employees. Harvesting rock lobster is seasonal and fishing occurs between November and July. During this nine-month season, employees earn an estimated income of R26,000. West coast rock lobster are processed in a number of shore-based factories and then exported live, frozen or cooked to the US, Europe and the Far East (in order of importance). The value of the lobster harvest is around R200m per year and the value of the fleet is estimated to be R130m (DEAT, 2005a).

An ongoing problem in this fishery has been the vulnerability of the resource to over-fishing. The highest catches for this species occurred between the 1950s and 1960s. Much lower harvests in the period after 1965 led to the introduction of quotas. Despite the introduction of management measures, harvests in the west coast rock lobster fishery continued to show a steady decline. In the 1990s, the TAC was reduced to allow the species to recover from ongoing over-fishing. This appears to have been successful: in the 2004 season the TAC was increased to over 3,500 tons, up from only 1,500 tons in the 1995 season (DEAT, 2005a).

### **3.3 South coast rock lobster**

Unlike the abalone and west coast lobster fisheries, the south coast rock lobster fishery has very high barriers to entry: fishing for this species requires the use of large boats which cost between R5m and R10m. These vessels have on-board freezing and storage facilities. Harvesting south coast rock lobster involves the use of long line traps. Operating costs in the south coast rock lobster fishery are, not surprisingly, very high (Sauer *et al*, 2003a).

There has been very limited change in the rights allocation process for south coast rock lobster. There were 19 rights holders for the fishery in the 2000 to 2001 season. When medium-term rights were announced in late 2001, 18 enterprises were awarded quotas of between 2% and 10% of the TAC. One of the enterprises controls over 40% of the total quota. Given the high barriers to entry in this sector, transformation has occurred chiefly through changes in the ownership of existing companies and through employee share equity schemes. This appears to have had some success in raising the transformation profile of this sector: 72% of the enterprises awarded medium-term rights in 2002 were owned by HDPs. Surprisingly, 65% of the 18 rights holders are described as SMEs. This small but capital-intensive fishery employs approximately 400 people, most of whom are sea-going personnel. Employees in this sector earn very high wages – approximately R50,000 per annum – relative to workers in other fisheries.

The value of the catch is around R100m per year. The nine boats that are active in this fishery are valued at over R70m (DEAT, 2005b).

Given the high barriers to entry in this sector, the DEAT's efforts have focused on rebuilding the stocks of this small but relatively valuable fishery. Between the 1980s and 2000, the resource was severely depleted due to exploitation by one company. The result of this was an estimated 65% decline in the resource. Stricter control measures have allowed the DEAT to rebuild the resource and steadily increase the TAC to almost 400 tons.

### 3.4 Small pelagics

The small pelagics sector includes the harvesting of both anchovies and sardines. In terms of volume, this is the largest of all of SA's fisheries, and the second-largest after hake in terms of value. The fishery is characterised by dynamic changes in the stock, which in turn has a dramatic impact on the size of the TAC. Small pelagics are harvested off the south and west Cape coast (anchovies and sardines) and off the Eastern Cape coast (sardines).

There have been significant changes in the profile of rights holders in the last decade. In 1992 there were only 12 rights holders; by 2002 the number had increased to 161 (91 for sardine and 70 for anchovy). According to the DEAT (2005c), 85% of the medium-term rights granted in 2002 were awarded to SMEs.

In the pilchard sub-sector, the allocation of new rights to SMEs has not involved the transfer of quotas from the traditional to the new sector and has, instead, been achieved by increasing the TAC for the fishery as a whole. Similarly, the DEAT has been able to allocate new quotas to SMEs in the anchovy sector by increasing the overall quota. The new enterprises, many of which have invested in the fishery's infrastructure, are, however, vulnerable to changes in the TAC, which can change by as much as 50% between seasons.

In announcing the guidelines for the allocation of long-term rights in this fishery, the DEAT warned that, "given the current abundance of anchovy and sardine, together with the inherent variability of stocks of small pelagic fish, it is very likely that the abundance of either or both species will fall substantially in the near future" (DEAT 2005c, 6).

Changes in the allocations of quotas has resulted in the establishment of a relatively large number of SMEs who now operate alongside the traditional companies, some of which have been operating for as long as 50 years. As has been the case in other fisheries, new rights holders have various options, including the sale of their quota to a processing company or establishing joint ventures with existing companies.

Independent SMEs are involved in both the production and processing of fish, or they sell their harvest to a larger processing company. Several new SMEs in this sector will pay the processing company a fee and then market the product under their own label.



While this latter approach is risky, the returns are usually higher than if the fish is sold to the processing company (Sauer *et al*, 2003b).

There are close to 8,000 people employed in the small pelagics sector. Around 2,500 of these workers are employed on a seasonal basis. The salary in this sector is the highest of all SA's fishery and is estimated at R94,000 per year. The value of fish captured and processed in this fishery is around R800m per year. The value of the fleet – which consists of 106 vessels – is estimated to be more than R600m (DEAT, 2005c). All of the fish captured in this sector are processed as fish meal or canned for human consumption.

### **3.5 Deep sea hake**

The deep-sea hake sector is SA's oldest and most important fishery. In the last decade it has accounted for more than half of the value of all fish caught in local waters. Quotas for deep-sea hake were introduced in the late 1970s following the declaration of a 200 mile Exclusive Economic Zone (EEZ), which prohibited foreign fleets from harvesting hake off the SA coastline. Remarkably, the TAC has remained stable for almost three decades, varying between 140,000 and 133,000 tons (DEAT, 2005d).

A key characteristic of the sector is its capital intensity: As DEAT notes, “the hake deep-sea trawl fishery is an extremely capital-intensive fishery. Existing participants have made substantial investments in vessels as well as processing and marketing infrastructure. The total value of assets in the fishery is estimated to be approximately R2.2bn” (DEAT, 2005d). Although smaller vessels do operate in the fishery, most of the boats in the fleet are large at between 45 metres and 60 meters in length.

There have been changes in the structure of the deep-sea hake sector, but these have been limited by the high barriers to entry into the fishery. In 1992, 21 companies controlled the quota; by 2000 this had increased to 56 enterprises. There has also been a decrease in the concentration of the TAC: the total share of the quota controlled by the largest five companies has decreased from 92% to less than 74%. These large companies have high levels of vertical integration and are involved in all stages of the hake value chain (Nielsen and Hara, 2006).

The DEAT has declared that 42% of the rights are held by SMEs. The large companies in this fishery are meeting the DEAT's transformation goals through the sale of shares to companies owned by HDPs through employment equity schemes and initiatives.

The hake sector supports almost 9,000 jobs. Working conditions in the sector are more favourable than in other fisheries in that employees are engaged throughout the year. As a result, workers enjoy relatively high salaries (±R63,000 per year) as well as other employee benefits. Workers in this sector are also organised into centralised bargaining structures.

Enterprises in the hake sector are actively involved in various local and international

certification schemes. Locally, most companies are members of the 'Proudly SA' campaign, which commits these enterprises to nation building and fair labour practices. Internationally, the hake sector has recently been certified by the Marine Stewardship Council, which confirms that the hake harvested in the local fishery is sustainable and subject to responsible resource management (Crosoer *et al*, 2006).

The high value of hake and the consistency in the TAC have politicised the rights allocation process in this fishery. While smaller and medium enterprises have demanded greater redistribution of the deep-sea hake quota, the DEAT has been convinced that "redistribution of the TAC to small companies would not necessarily have compensated for jobs lost to pioneer companies when quotas were reallocated" (Kleinschmidt *et al*, 2003). As is examined in more detail below, the argument that jobs will be lost if the hake quota is redistributed continues to play a role with labour unions and the large companies uniting against efforts to reallocate quotas to smaller enterprises. The prospects for smaller enterprises in the long line hake sector, discussed next, are considerably better and supported by the DEAT.

### 3.6 Long line hake

The hake long line sector was introduced as a new and experimental fishery in the early 1980s. Due to concerns over the status of the resource, access to hake using long lines was discontinued in 1990. The sector was reopened in 2001 and medium-term rights were allocated for four years. Quotas in the hake sector are determined as a whole rather than by capture method. The majority of the quota is reserved for the deep-sea hake sector; the long line sector shares 10% of the quota with hand line fishers (DEAT, 2005e).

Significantly, the long line hake sector was identified by the DEAT as ideal for providing HDPs and SMEs with access to a lucrative fishing resource. The barriers to entry are relatively low and the price paid for fresh hake on the international market is 50% higher than the frozen product harvested by deep-sea hake trawlers. As a new fishery with low barriers to entry, the DEAT was able to meet its policy priorities relating to both ownership and size: 90% of the 141 rights allocated in 2001 were for HDPs; in addition, 80% of the rights holders are small and medium-sized enterprises.

In announcing the criteria for long-term rights in this fishery, the DEAT declared that the "objectives with regard to the empowerment of HDPs and small and medium-sized enterprises were achieved in this allocation process" (DEAT 2005e). Unfortunately for new entrants in this sector, the resource is perceived to be under threat and as result quotas will be managed conservatively.

The long line hake fishery generates almost R300m in export revenues while the market value of vessels in the industry is estimated to be R750m. There are approximately 3,500 people employed on a full-time basis in the fishery and an additional 3,200 people employed on a seasonal basis. Employees earn an average annual wage of approximately R38,000.



### 3.7 Squid

SA's squid export sector is young in comparison to the rest of the country's commercial fishing sector. Local fishermen have always harvested squid (or chokka), but almost exclusively as bait for other line fishing activities. In the 1970s, Japanese and Taiwanese trawler vessels recognised the value of the resource and exploited it as a food commodity for their own domestic markets (Roel and Butterworth, 2000). The exploitation of the resource for human consumption by SA fishermen took off in 1985 and 1986 with the sharp decline in the value of the rand and the simultaneous discovery of a market for SA squid (*'calamari'*) in Italy (Oceanafrica 2005a; 2005b).

Large fluctuations in abundance and availability are a feature of squid fisheries worldwide, and in SA reflects the sporadic nature of inshore migration to the spawning grounds where the catches are made (Augustyn and Roel, 1998). Squid has a highly variable stock-recruitment relationship, and consequently volatile stock levels (Augustyn and Roel 1998). This makes management and stock control difficult.

Although squid harvesting initially involved the use of ski-boats and small deck boats, the fleet has been upgraded to meeting international requirements for sea frozen squid. A consequence of this change has been a decline in the number of boats in the industry from around 200 in 1988 to about 120 in 2004.

Catches in the 1990s averaged around 6,000 tons, although harvests since 2000 have averaged over 8,000 tons, with an average annual export value of about R224m. Both volume and value fluctuate significantly, but on an upward trend. Average yearly volumes increased by over 24% between the 1993 to 1998 period and 1999 and 2003, and the average yearly value of exports rose by 28% in the same period (Oceanafrica, 2005b).

The squid fishery has always been dominated by SMEs and many boat owners are family-owned enterprises. While this satisfies one of the DEAT's goals in terms of transforming SA's fishery, the squid sector has lagged behind in terms of the broader priorities for transformation. The DEAT (2005f) has reported that only 30% of the total quota for squid is in the hands of HDPs.

While the squid sector has contested this figure, suggesting that 42% of rights holders are historically disadvantaged, the DEAT has continued to stress the importance of transforming this fishery. Indeed, due to the slower rate of transformation in the squid fishery, long-term rights allocated from early 2006 will be for eight years only, considerably less than the maximum 15 years permitted under the regulations. As discussed in more detail below, one of the reasons for the slow pace of transformation has been a rapid rise in the barriers to entry, linked to the sector's integration into global markets.

#### 4. Key themes from the sectoral profile

- There has been a significant change in the structure of most fisheries as a result of a rights allocation policy that has favoured new SME entrants. The changes have been more dramatic where the barriers to entry have been lower. In the abalone, west coast rock lobster and the small pelagics (anchovy and sardine) fisheries, there have been very significant changes in the structure of the industry (*see Table 3*). Changes in the structure of the valuable deep-sea hake sector have been slower due to the significant costs involved in participating in the fishery.

Table 3 – Changes in the structure of selected fisheries

Fishery	Number of rights holders		TAC held by SMEs in 2002
	1992	2002	(%)
Abalone	5	271	90
West coast rock lobster	39	745	90
Anchovy	12	70	85
Sardine	12	70	85
Deep sea hake	21	56	42

Source: Sauer et al, 2003b

- Not all of the new rights holders were initially ‘active’ participants in the fishing sector. A proportion of new rights holders sold their quotas to existing companies, while others have allowed larger companies to fish on their behalf in return for a commission. The new medium- and long-term rights policy introduced in 2002 and 2006 emphasises active involvement in the fishery as a criteria for a successful application. As discussed in more detail below, this new policy for medium- and long-term rights places enormous pressure on SMEs to invest scarce resources in fishing infrastructure.
- The establishment of new SMEs has been most successful in fisheries which are, unfortunately, more vulnerable to changes in the resource and as a result changes in the TAC. This is the case in the abalone, small pelagics and hake long line sectors. Decreases in the TAC for SMEs is likely to be more damaging than for larger enterprises with more resources and less debt.
- In several of the fisheries – notably squid and south coast rock lobster – the industry is largely in the hands of SMEs. However, the infrastructure requirement for meaningful participation in these two fisheries makes it very difficult for new entrants to establish themselves as independent enterprises. In other words, even though the fisheries are classified as having a high percentage of SMEs, this does not mean that the barriers to entry into these fisheries are low.
- Many of the new SME entrants to the various fisheries are dependent on shore-based processing factories. The larger companies in the various fisheries own these factories. The next section suggests that the relationship between producers and processors can be both positive and negative.



- In several of the sectors important changes have occurred in the production process for fish, often in response to international market demands. These have had important implications for SMEs involved in the sector, given that they frequently require new investments in infrastructure.
- In allocating rights to the various fisheries, the DEAT has prioritised sectors that are amenable to new entrants and SMEs, while others are deemed to be too capital intensive for this type of transformation.

## **5. Challenges and opportunities for SMEs in SA's fishing industry**

This section of the chapter identifies nine key issues facing SMEs in SA's transformed fishing sector. Several of the issues identified are not unique to the fishing sector and are experienced by SMEs in the other branches of the economy. However, some of the issues are sector-specific and therefore point to the need for customised policies to support SMEs in the fishing sector.

### **5.1 Rights allocations policies: 1998 to 2001**

In the period immediately after 1994, SA's fisheries policy continued to be shaped by the apartheid era Sea Fisheries Act of 1989. Without an effective framework for transformation, fisheries quotas were 'rolled over', which meant rights were reallocated to existing rights holders. The process of establishing a fisheries policy that reflected the country's new and democratic dispensation began in 1996. The policy formation process aimed to establish a new approach to fisheries management, which would afford HDPs access to marine resources while maintaining the stability of the established industry (Witbooi, 2006). The outcome of this process, which involved extensive public input, was the White Paper on Marine Fisheries Policy published in 1997.

In terms of transformation, the White Paper identified several 'methods of empowerment' that should occur through the allocation of rights. Some were particularly relevant to SMEs (DEAT, 1997):

- Allocating a larger proportion of the quota to small-scale fishing operators.
- Encouraging larger companies to establish contracts with enterprises owned by HDPs.
- Improving the efficiency of small-scale fishing enterprises. The White Paper acknowledged the lack of support for small-scale operators and recognised their need for improving technology, as well as the link between innovation and competitiveness. Policy-makers suggested the establishment of a unit dedicated to fisheries development that would meet the various needs of small-scale fishing enterprises.

- Finally, the White Paper recommended that larger, vertically integrated fishing companies could play an active role in transformation through unbundling or by establishing formal co-operation with enterprises owned by HDPs. The process of unbundling could, for example, allow new smaller enterprises to emerge in which the original owners would maintain minority ownership, but the company would now be recognised as fully transformed.

This policy document was shortly afterwards cemented in legislation through the MLRA of 1998. Despite debate over the nature of the rights allocation process, the MLRA favoured strict state control over access, affording significant scope for state-directed redistribution of rights of access (Witbooi, 2006). The MLRA was guided by three key goals: equity, resource sustainability and industry stability (Hersoug and Holm, 2000; Hacuk and Sowman, 2001). In terms of transformation, the MLRA confirmed the commitment to “restructure the fishing industry to address historical imbalances and achieve equity within all branches of the fishing industry” (Paul, 2000; Witbooi, 2006).

The allocation of rights in the period between 1998 and 2000 was, however, dogged by political controversy. On the one hand, existing enterprises that lost rights in the new dispensation mounted many legal challenges against the DEAT and were frequently successful in having these rights restored by the courts. New SMEs and other new entrants to the fishing industry faced a different set of challenges.

In many fisheries, new entrants were allocated quotas for the 1999 season. The rights were for one season only and in most cases the quotas were relatively small so that the DEAT could empower as many people as possible. The insecurity of annual quotas and the ‘sub-economic’ size of most allocations made it extremely difficult for many new entrants to establish viable and independent enterprises. Without longer term and more secure rights, new quota holders were unable to secure the necessary finance to purchase equipment (Sowman, 2006). The small size of the quotas compounded the situation as these were clearly not large enough to sustain a new SME. The result in many fisheries was an active trade in ‘paper quotas’ between new beneficiaries of the rights allocation process and existing large companies.

The problem of small quotas for new SME entrants to the fishing industry must be contextualised within specific fisheries and in terms of the changes that occurred following their re-integration into global markets after 1994. In the deep-sea hake fishery, for instance, a significant portion of the quota was allocated to new SMEs. However, as Nielsen and Hara (2006) have argued, most new entrants were adamant that the quantities allocated to them were usually too low to establish their own processing operations or undertake economically viable enterprises. In other words, the complexity of this fishery, combined with the need to construct or purchase a processing facility, has prevented new SMEs from using their quota to establish independent enterprises. The result of this problem in the anchovy (small pelagic) fishery is that almost half of the new rights holders have sold their quotas to vessel owners or processing factories (Nielsen and Hara, 2006).



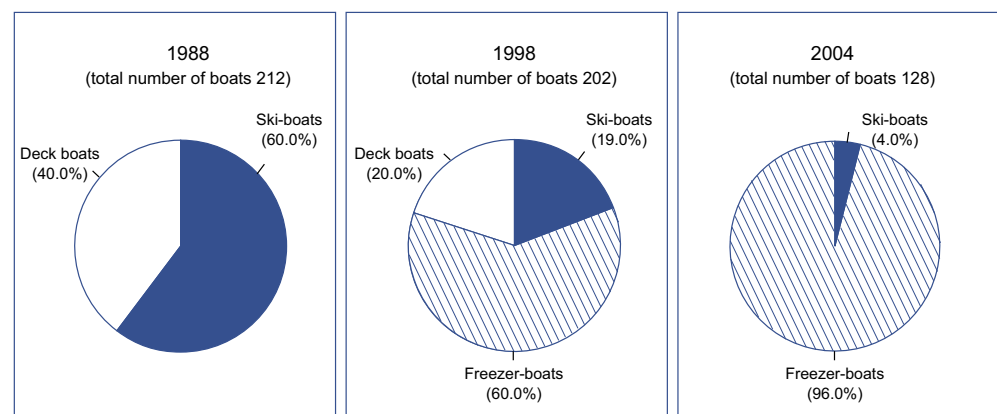


Van Sittert *et al* (2006) argue that the small size of quotas allocated after 1999 may also have undermined the MLRA's goal of maintaining the sustainability of the resource. In the west coast rock lobster sector, for example, quotas of 750kg per person were justified in that it allowed the DEAT to allocate fishing rights to many people, but, as Van Sittert *et al* point out, if they are too small to be viable, there is the immediate temptation to exceed legal allocations. In allocating small quotas, the DEAT may, in some fisheries, have unwittingly increased the chances of illegal fishing, which would have the effect of compromising the sustainability of the resource.

Isaacs (2006) has argued that although new entrants were in a position to pool their resources with a view to establishing viable quotas, many new entrants were unwilling to consider this option. As new entrepreneurs, they would prefer to go it alone but they face enormous constraints such as lack of capital, infrastructure, support systems and skills (Isaacs *et al*, 2005).

The squid sector provides an additional example of the problems facing SMEs in a changing fishery. When this fishery was first established in the mid-1980s, the squid was harvested using ski-boats and deck boats. The fish was then delivered to shore-based factories where it was frozen and exported to Italy and Spain. From the early 1990s, however, market demands for a sea-frozen fish resulted in the fleet being upgraded from ski-boats and deck boats to freezer boats, which had a dramatic impact on the barriers to entry (*see Figure 23*). While a ski-boat could be acquired for several hundred thousand rand, freezer boats cost upwards of R2m. As the fleet was upgraded and the quality of squid improved, local exporters increasingly rejected squid captured using the older methods.

Figure 23 – Upgrading of the squid fleet



Source: *Oceanafrica, 2005b*

Many of the new entrants to the squid fishery after 1999 were allocated quotas that would have allowed them to fish using a ski-boat. By this time, however, the fleet had been transformed significantly, and capturing squid using a ski-boat had become economically unsustainable. Not surprisingly, many of the new entrants sold their quotas to boat owners with freezer boats. In assessing the rights allocation process

for squid in 1999, Mather *et al* (2000) argued that meaningful participation in the industry by new permit holders was in most cases not achieved; the new rights allocation process had become instead a revenue tax on established companies. The consequence of this process in the squid fishery was a relatively low level of transformation compared to the country's other fisheries.

In reflecting on the rights allocation process in the period between 1999 and 2001, the DEAT acknowledged that:

Most of the SMMEs that were awarded fishing rights in the 1990s had one thing in common: their rights were too small to risk investing in the fishing industry. Sub-economic allocations often left SMMEs with limited choices; lacking the security of long-term fishing rights, they were unable to access finance through the normal channels and many had no option but to enter into joint venture agreements with established fishing companies, or sell their rights out of hand (DEAT, 2002).

Ironically, the 1997 White Paper had predicted the problem of short-term rights:

If they [new entrants] were to be given rights on an annual basis they would still suffer from the uncertainties facing others in the industry... Small-scale operators will, if they have real long-term rights, be in a stronger position to negotiate fair prices for their catches (DEAT, 1997).

There are, of course, many exceptions to this situation. Some new rights holders were able to use the proceeds from the sale of paper quotas to purchase fishing infrastructure and were eventually able to establish viable SMEs. As noted in the previous section, other rights holders successfully established joint ventures with other rights holders, which allowed them to build a sustainable small or medium-sized enterprise. Many new rights holders, however, were unable to overcome the challenge of having small and insecure fishing quotas.

## 5.2 Medium- and long-term rights allocations: 2002 and 2006

In 2000, the DEAT announced an important shift in its policy of allocating fishing rights. Recognising the problem of insecurity for both large and small fishing enterprises, quotas from 2002 would be allocated for a medium term of four years. A new branch of the DEAT called Marine and Coastal Management (MCM) was established to oversee and implement the medium-term rights allocation (Kleinschmidt *et al*, 2005).

The new approach was also a response to the need to improve the transparency and legitimacy of the process of allocating rights to the country's fishing resource. Previous rights allocations had been severely marred by legal challenges. It was also, significantly, a response to the problems SMEs had faced in becoming economically independent – with the new approach, the DEAT hoped to control and eliminate the trade in 'paper quotas'.



Additional measures to control paper quotas were built into the new rights allocation for all fisheries. While economic transformation remained a key goal of the rights approach, the new MCM also required that new and existing rights holders could demonstrate their commitment to the fishery through investments in boats, processing facilities and marketing infrastructure. In addition, while existing rights holders were required to prove that they used their previous allocations efficiently, new rights holders were required to demonstrate a prior knowledge of the industry and their ability to become actively involved as fishers.

The new policy for medium-term rights was accompanied by a far tighter definition of transformation for the fishing sector. By defining transformation more tightly, the new policy opened the way for better monitoring of the extent and progress of transformation in the different fishing sub-sectors. In defining transformation, the DEAT relied on three measures:

- *‘Majority HDI owned’* – more than 50% of the company’s shares are owned by HDIs.
- *‘Majority HDI managed’* – more than 50% of a company’s managers are HDIs.
- *Control over fishing rights* – the proportion of TAC or effort controlled by HDI-owned companies (DEAT, 2002).

The new medium- and long-term rights policies have had two important implications for SMEs. First, the emphasis on investment in the fishery has placed enormous pressure on enterprises to demonstrate that they have invested in either boats or shore-based processing facilities. The problem for many SMEs is that, as relatively new enterprises, they have limited resources with which to invest in either boats or processing facilities, which can run into several millions of rands.

The situation is perhaps more complicated for SMEs that have established joint ventures with other rights holders: “if we don’t invest in the industry, we lose our rights. If we do invest, we can’t reap benefits in the short term. The difficulty with having a large number of shareholders is the necessity of realising profits as soon as possible in order for shareholders to survive. These are poor people” (cited in DEAT, 2002). The pressure on joint venture operations to deliver immediate benefits to shareholders is making it difficult to meet the new rights allocation policies.

The second implication for SMEs is perhaps more serious. In defining transformation through the ownership structure of rights holders, the DEAT signalled a shift away from the commitment to establishing viable SMEs towards the transformation of existing companies in the fishing sector. In its 2002 reassessment of the rights allocation process, the DEAT is explicit in describing this shift in approach:

It would be fair to say that between 1995 and 2000 – when DEAT began to prepare for the allocation of medium-term fishing rights – Government’s approach to managing transformation in the fishing industry shifted slightly. Rather than viewing the allocation of fishing rights to new entrants (emerging

black-owned small, medium and micro enterprises or SMMEs) as the primary instrument of transformation, the idea of rewarding established companies that met specific criteria relating to transformation began to take hold (DEAT, 2002).

The impact of the new approach to rights means that the priority to establish new SMEs as a policy goal appears to have weakened. Indeed, the requirement to invest and the need to demonstrate knowledge of the fishery have without question favoured incumbents rather than new rights holders. What the implications of this shift are for existing SMEs is an important question.

### 5.3 Financial support

Lack of finance remains a key problem for new small and medium-sized enterprises in the fishing sector. New enterprises have been unable to use their quotas as collateral for loans and require instead some other form of 'tangible' assets, including most commonly houses and other fishing assets. For many fishing SMEs, the lack of finance is a serious obstacle. Business Partners – the now privatised Small Business Development Corporation – has, however, played an important role in providing finance to new SMEs. This institution's support comes in the form of an equity investment in the new enterprise. Business Partners thus acts as a 'venture capital' agency. The investment by Business Partners takes the form of a shareholder's loan, which also carries an equity component. As a legitimate shareholder, Business Partners receives dividends in the standard way. The advantage of this arrangement for SMEs is that as an investor, Business Partners plays an active role in providing expert advice and business support. Once the loan has been repaid, Business Partners may sell its share in the business back to the enterprise. Fishing SMEs report that they have received excellent financial and business support from Business Partners.

The disadvantage of this form of financing is that Business Partner's support is guided by a strict business model. If the financial situation in the fishery is weak due to a strong exchange rate or due to new process requirements, the agency is unlikely to provide support or it will require an additional investment from the SME. This is certainly the case in the squid sector: the capital requirements of purchasing a new freezer vessel (a requirement of international markets), combined with the strong exchange rate, have virtually ruled out any 'venture capital' form of support for new entrants. New and existing SMEs in the fishing industry may need to seek alternative forms of financial support from agencies willing to invest in order to meet longer term social goals.

### 5.4 Institutional support

One of the key problems facing new SMEs in SA's fishing industry is the lack of institutional support. Isaacs *et al* (2005) note that, from the experience of the last 10 years, it is clear that a definite need for institutional support to new entrants exists. Interestingly, they point out the historical precedence for this in SA's fishing economy.



During the 1940s, the government established the Fishing Industry Development Corporation with the explicit goal of establishing viable rivals to the large and vertically integrated companies that controlled the industry. Based on the success of this initiative, Isaacs *et al* (2005) recommend that similar human and financial support is needed for emerging companies to be able to compete with established companies.

The White Paper on Marine Policy, released in 1997, had in fact called for an integrated strategy of development and a coherent plan of strategy implementation, including the addressing of funding requirements (DEAT, 1997).

To this end, the White Paper proposed forming a Unit for Fisheries and Mariculture Sector Development (UFMD), which would function in the following areas:

- Education, training and transfer of technology.
- The establishment of a decentralised structure of advisory service units to improve the local capacity of small business enterprises.
- The establishment of basic infrastructure facilities to minimise post-harvest loss and improve working conditions, product range and product quality.

For several reasons, the DEAT and, since 1998 the MCM, have not been in a position to provide this kind of support to new SMEs in the fishing sector. First, the period since 1994 has been characterised by considerable restructuring in the government departments responsible for fisheries management. When the MCM was established in late 1998, it became responsible for overall fisheries management as well as the increasingly complex process of allocating fishing rights. This increased mandate created an organisational crisis due to increased time demands, and resulted in high levels of staff attrition and understaffing (Van Sittert *et al*, 2005).

The capacity and resources necessary for establishing the kind of institutional support required by new SMEs in the fishery was compromised by understaffing and continual institutional change in fisheries management structures. An additional problem is that staff in the MCM are experts only in managing the sustainability and biodiversity of fishing resources and marine environments. However, they lack expertise in economics or business sciences demanded by new entrants to SA's transformed fishery.

The special needs of SMEs in this sector – which are markedly different from established companies in the fishing industry – is underlined by the emergence of many new structures aimed at providing SMEs with a voice and support in the industry. For instance, in the small pelagic sector, the industry has established a representative body called the SA Pelagic Fishing Industry Association (SPFIA).

Even though this new organisation represents the interests of all rights holders, new entrants have nonetheless established their own organisations, including the West Coast Fishermen's Association, the East Coast Fishermen's Association and the Small Fishing Companies Coalition. Similarly, in the hake sector new entrants have established the Small Hake Quota Industries group to represent their special interests

(Nielsen and Hara, 2006). Finally, a new organisation – the National SMME Fishing Forum – has been established to represent SMMEs in all of the country's fisheries. While the effectiveness of these independent organisations is uncertain, the fact that they exist points to a serious need for effective institutional support for fishing SMEs.

## 6. Relationship between large and SME fishing enterprises

A key aspect of the transformation of SA's fishing economy has been the establishment of SMEs in all of the country's fisheries. In the previous section it was noted that this process is uneven in the various fisheries and that while many are now dominated by SMEs, several of the country's most important fisheries remain controlled by large companies, largely due to barriers to entry. The research revealed a range of contradictory relationships between large enterprises and SMEs in the fishing economy and these are addressed in turn.

### 6.1 Competition for quota

In several of the fisheries – but most notably the deep-sea hake fishery – there has been intense competition over the quota and resistance by established industries to relinquish quotas to SME fishers. In the lead up to the first democratic rights allocation following the passing of the new MLRA (1998), the large established companies in the deep sea hake sector actively resisted attempts to reallocate a portion of the quota to new SME entrants.

As Nielsen and Hara observe, they were supported in their efforts by workers involved in the hake industry:

The labour unions and established industry joined forces again to lobby against the government proposal [to allocate rights to SMMEs], arguing that SMME enterprises would not be able to generate the same number of employment opportunities as the established industry (Nielsen and Hara, 2006).

Resistance to the reallocation to smaller players has again emerged in the long-term allocations for 2006. As noted earlier, when the DEAT was under the Ministry of Valli Moosa, the emphasis on meeting transformation goals through the establishment of new SMEs appeared to have waned. Yet, as Van Sittert *et al* (2006) have argued, the new long-term rights policy has decisively shifted the criteria for the allocation of access rights from empowerment (favouring big capital) to size (favouring SMMEs). In announcing the new policy, the new Minister of DEAT, Martinus van Schalkwyk, declared that in the lucrative Cluster A fisheries (deep sea hake, small pelagics, south coast rock lobster), 10% of the quantum would be reserved for emerging SMEs. This apparent turnaround in rights allocation policy led to an uproar by the large established companies and labour unions who again argued that jobs would be lost if the quota was redistributed to SMEs (Njobeni, 2005). Van Schalkwyk has subsequently withdrawn the proposal.



## 6.2 Vertical integration

As noted earlier, the fragmentation of the structure of many fisheries means that established companies now operate with SME fishers. A key difference between new entrants and the larger established companies is that the latter have access to processing and marketing infrastructure while the former do not. This dependence of SMEs on marketing and processing infrastructure has led to a concern that the larger companies have used these assets as an additional source of profit. Nielsen and Hara (2006) speculate that in the absence of an open and public fish auction, the terms of trade are unequal, and thus fish prices might be lower than what they would have been in a fully transparent open market. Even where SMEs have been able to establish processing infrastructure, they face the daunting task of competing against well-established brands and aggressive marketing strategies.

The White Paper on Marine Policy had also identified this problem and linked it to the existence of insecure rights:

Some small-scale fishers are currently completely at the mercy of some fish-processing factories because such factories determine the price, place of delivery and other conditions under which the small operators are contracted. These arrangements barely enable small-scale fishers to survive and are unfair. Real rights will improve their bargaining power considerably and tilt the scales in favour of smaller operators (DEAT, 1997).

Evidence from the squid fishery suggests that the relationship between producers and processors and marketers may not always be to the detriment of new and existing SMEs. In this sector, squid is harvested and then 'blast frozen' at sea to produce 10kg to 12kg blocks of high-quality frozen fish. The fish is offloaded at various ports on the Eastern Cape coast and then stored onshore before being exported to Italy and Spain. As noted earlier, the demand for sea-frozen squid has meant that many boat owners have had to upgrade existing vessels or purchase new boats to meet these new process requirements.

The combination of a high demand for SA squid on the overseas market and intense competition between exporters has led to a much more favourable relationship between squid producers and exporters with onshore storage facilities. In order to secure a regular supply of squid from boat owners, exporters have provided these SMEs with loans to upgrade their boats or provide short-term financing during difficult market conditions. There is also evidence to suggest that exporters will provide small subsidies on the price of squid during poor market conditions. Finally, exporters in the squid industry have provided boat owners with support in terms of quality control by providing the skipper and crew with training on market requirements.

The evidence from the squid sector suggests that while many of the large and established companies may use their infrastructure in processing and marketing to squeeze SME suppliers, there are circumstances where exporters are playing a more positive role.

### 6.3 Global integration, competitiveness and protecting quotas

Crosoer *et al* (2006) have provided an important longer term perspective on the nature of integration in SA's fishing sector. The authors argue that the integration of SA's industrial fisheries into global markets from the mid-20<sup>th</sup> century led to the concentration of production and the formation of 'producer cartels'. These large export companies and alliances played an important role in maintaining the status quo by vigorously opposing the granting of access rights to new small capital entrants (Crosoer *et al*, 2006). In the period after 1994, SA's fisheries were re-integrated into global markets. Most of the country's fish products are exported to the European Union thanks in part to a bilateral trade agreement.

Crosoer *et al* (2006) have argued that in re-integrating into global markets, the large integrated fishing companies have taken proactive measures to entrench its international competitiveness as a hedge against transformation. One important measure has been the attempt to secure sustainable fishery certification through the Maritime Stewardship Council (MSC). The importance of various forms of certification in meeting global market demands is now widely recognised, and within the fishing sector certification commonly focuses on sustainable resource management.

Achieving MSC certification for sustainable fishing involves meeting three principles associated with the management and health of the fish stock as well as the overall ecosystem. As is the case with many global certification systems, however, concerns with equity and the impact of fisheries on local communities are vague and defined without reference to historical dynamics. Croeser *et al* (2006) suggest that efforts to meet the MSC's criteria for sustainable fishing have entrenched the more managerial aspects of sustainability [which have] taken precedence over socioeconomic concerns.

The result is that the large integrated fishing companies have been able to defend attempts to redistribute rights to smaller fishing enterprises. In other words, the structure and nature of new certification demands has allowed larger enterprises to justify meeting transformation goals through share options and equity employment rather than by giving up quotas for lucrative fishing resources.

### 6.4 Upgrading production for export markets

The vast majority of SA's fishery is directed towards international markets. Exporters in the developing world are under increasing pressure to meet a range of *process requirements*, which have now become a key component of many global value chains (Wilkinson 2004). Kaplinsky and Readman (2001) have argued that process demands have arisen out of a series of changes in the global economy, including the decline of tariff barriers, demands by consumers that distant producers meet appropriate environmental, social standards and food safety standards, and by the increasing complexity of global supply chains. The result of these different pressures is that developing country supplies face an increasing number of codified process criteria:





Standards, whether over process or product or both, are becoming an increasingly important qualifying requirement for participation in global product markets and global value chains. Moreover, these are dynamic, with new and enhanced standards being introduced continuously. The capacity to meet this changing agenda of standards is an increasingly important category of process upgrading (Kaplinsky and Readman, 2001).

SA fish producers – both large and small – have had to meet a range of codified and non-codified process standards to maintain a presence in global fish value chains. An example of a codified standard is Hazard Analysis and Critical Control Point (HACCP), which is aimed at ensuring that food safety standards are maintained. All SA boats involved in the export of fish products to the EU must be registered by the EU and must be HACCP compliant. Producers and exporters confirm that both codified and non-codified standards are continually being introduced or adapted.

For instance, boat owners with onboard freezing equipment are now required to install digital monitoring devices in their freezer holds to ensure that the temperature does not vary or exceed a certain threshold. This information is then ‘attached’ to the fish consignment as a record of the production process. The challenge facing SMEs in SA’s fishing sector is that the need to meet new process standards is a serious drain on scarce financial resources. Not meeting these new standards is not an option for exporters, as this excludes them from global value chains.

## **7. Resource variability**

In a legal analysis of the MLRA of 1998, Witbooi (2006) points out how SA’s post-apartheid fishing framework is consistent with international and domestic environmental and social priorities. Internationally, the legislation is in line with powerful pressures to improve the sustainability of fishing stocks, given the massive depletion of the resource since the 1970s and the collapse of key fishing stocks, including the North Atlantic cod fishery.

By emphasising the importance of sustainable fishing so as to preserve the sustainability of fishing stocks, the MLRA is in line with various UN conventions on fisheries management, responsible fishing and biodiversity. It also meets the concerns by supermarkets and consumers that the fish products they purchase have been harvested in a sustainable manner. At the same time, the MLRA has been shaped by the domestic priority to redress the injustices of the apartheid era, which were clearly evident in the fishing sector.

In practice, however, it has been very difficult to meet all three of the MLRA’s goals of equity, sustainability and industry stability. As Van Sittert *et al* (2006) argue, balancing the tripod of equity, sustainability and economic stability is in practice difficult because the revolutionary pursuit of social equity is always powerfully opposed by the conservative demands of sustainability and stability.

The problem of balancing this ‘tripod’ may be more difficult in the fisheries where there has been a significant redistribution of rights. For example, the redistribution of

quotas in the small pelagic sector has been facilitated by a significant increase in the overall TAC, thanks in turn to a dramatic recovery of this stock from the late 1990s. In the case of long line hake, transformation was facilitated through the re-establishment of a new fishery.

Both of these transformed fisheries are, however, vulnerable to dramatic changes in stock. Historically there have been significant changes in the abundance of these stocks. While the larger and established companies may weather large decreases in the TAC for these fisheries, new entrants are likely to face severe difficulties managing lower quotas.

### 7.1 Poaching and illegal fishing

There is a second problem relating to fisheries where there has been significant transformation and where SMEs are dominant. Two of these fisheries – abalone and west coast rock lobster – are vulnerable to poaching and illegal fishing. Although abalone was effectively managed between 1985 and 1995, the emergence of an illegal trade in abalone controlled by local and international syndicates linked to broader crime networks decimated the resource (Hauck and Kroese, 2006). One of the reasons why poaching has had such a devastating influence on this resource is that they usually harvest abalone close to shore, which is also the site of egg production.

The impact of poaching and the difficulty of effectively policing the illegal trade have led the MCM to explore a more integrated approach to the problem (Hauck and Kroese, 2006). It was suggested earlier, for example, that one of the reasons for poaching by existing rights holders is that the size of the quotas is too small. Efforts to even out the difference between the largest and smallest quotas may play a role in preventing this form of resource exploitation.

## 8. Conclusions and policy recommendations

The transformation of the fishing sector in terms of both ownership patterns and structure reveals what is possible when the state has a strong lever for change – in this case its power to allocate fishing rights. In the large and established companies, transformation has been ‘internal’ through the sale of shares, affirmative employment practices and through the development of employment equity schemes with workers. By allocating new rights to SMEs in the period since 1999, the DEAT has also effectively changed the structure of the fishing sector. In most fisheries, the large established companies now operate with many smaller fishing enterprises.

The process of establishing SMEs has not, however, been smooth, and problems in the rights allocation process before 2002 made it difficult for new entrants to establish viable small and medium-sized enterprises. New SMEs have also faced a complex set of relationships with larger enterprises, and the research has revealed both positive and negative interactions. As in other sectors of the SA economy, SMEs in the fishing sector thus face a number of key challenges which are on the one hand common to SME enterprises in other sectors of the economy and on the other specific to



this sector. The variability of fish resources and its impact on quotas, the problem of poaching and illegal fishing and the challenge SMEs face in meeting new export requirements are some of the specific hurdles, which in turn require sector-specific solutions.

Several key recommendations have emerged from this study:

- **Financing:** As is the case in other sectors of the economy, fishing SMEs find it very difficult to access capital through the formal financial system. Access to fishing rights has not proved to be an acceptable form of collateral for financial institutions. It remains to be seen whether the allocation of long-term rights from 2006 will change this situation. SMEs in the fishing sector require financial support that reflects the sector within which they operate: the resource is variable and SMEs are vulnerable to dramatic changes in quotas if fish stocks are deemed to be under pressure. These new entrants may require bridging finance to assist them in weathering problems relating to resource variability. In addition, the research highlighted the ongoing process requirements SMEs face in export markets, all of which require new investments in infrastructure.
- **Institutional support:** The lack of institutional support for SMEs was identified as a key problem in SA's fishing industry. It was suggested that the existence of several independent support structures geared to meeting the needs of SMEs in several of the fisheries indicates that their needs are not being met by existing organisations. Given the specificity of the fishing economy, institutional support needs to be provided by the DEAT or MCM.
- **Relationship to large established companies:** The secondary material on SMEs suggests that the relationship between large firms and SMEs in the fishing sector is characterised by competition over quotas and unfair business practices. The proposal to reallocate 10% of the Cluster A quotas to SMEs and the subsequent uproar by large companies and labour unions reflect the ongoing struggle over valuable quotas. At the same time, there is evidence that large companies are playing a more positive role, especially when there is competition for the resource between exporters. The DEAT and MCM need to find ways of stressing the positive linkages between enterprises and the potential these might have in improving the international competitiveness of the sector as a whole.
- **Future of SME policy in the DEAT:** One of the notable aspects of the DEAT's changing fisheries policy has been its approach to SMEs. In the period before 2001, there was a clear commitment to SMEs and the role they could play in both meeting transformation goals and changing the structure of the fishing sector. In 2002, the DEAT's new approach to rights allocation appeared to signal a shift in policy, with transformation now being assessed in terms of 'internal' changes within existing companies. Most recent policy pronouncements appear to suggest a renewed commitment to SMEs in the fishing sector. If this new commitment is real and long term, it must be supported in concrete proposals and structures to support new and existing SMEs in the fishing industry.

## Part II: Research Features

### Chapter 1 - Provincial Profile: Focus on Mpumalanga

The major source material for this report was the 90 interviews that were conducted from September to November 2005 with groups of tourism and manufacturing entrepreneurs.

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