

Transforming the South African Tourism Industry Through SMME Development

**An SME TradeLinks Presentation at
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Introduction

- ❖ Small, Medium and Micro Enterprises (SMMEs), also referred to as small business, play an important role in an economy.
- ❖ In South Africa, importance of SMMEs is demonstrated by the establishment of a new Ministry of Small Business Development in 2014.
- ❖ The aim of the Ministry is to facilitate the promotion and development of small businesses.
- ❖ These enterprises contribute significantly to national GDP (34% contribution) and have proved to be major contributors to job creation (60% of jobs).

Definition of an SMME in South Africa

- ❖ The definition for SMMEs is very broad and encompasses a range of firms that includes both formally registered and informal organisations.
- ❖ dti general definition/guidelines: Enterprises with annual turnover of up to R50m are classified as SMMEs (Ref. B-BBEE Codes).
- ❖ Small businesses range from medium-sized enterprises, such as established traditional family businesses employing over a hundred people, to informal micro-enterprises.
- ❖ Informal micro-enterprises include survivalist self-employed persons from the poorest layers of the population.

Definition of an SMME in South Africa (cont.)

- ❖ In South Africa, a large majority of SMMEs are concentrated on the very lowest end of the range, where survivalist firms are found.
- ❖ Survivalist firms can take the form of street trading enterprises, backyard manufacturing and services, and even home-based evening jobs.
- ❖ Survivalist firms (the informal sector) have very little growth potential and are less likely to hire staff, beyond the owner.

dti Categorisation of South African SMMEs

Category of SMME	Description
Survivalist enterprises	Operates in the informal sector of the economy. Mainly undertaken by unemployed persons. Income generated below the poverty line, providing minimum means to keep the unemployed and their families alive. Little capital invested, not much assets. Not much training. Opportunities for growing the business very small.
Micro enterprises	Between one to five employees, usually the owner and family. Informal - no license, formal business premises, labour legislation Turnover below the VAT registration level of R300 000 per year. Basic business skills and training Potential to make the transition to a viable formal small business.
Very small enterprise	Part of the formal economy, use technology Less than 10 paid employees Include self-employed artisans (electricians, plumbers) and professionals.
Small enterprise	Less than 100 employees More established than very small enterprises, formal and registered, fixed business premises. Owner managed, but more complex management structure
Medium enterprise	Up to 200 employees Still mainly owner managed, but decentralised management structure with division of labour Operates from fixed premises with all formal requirements.



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Size of the South African SMME Sector

❖ KEY INDICATORS 2015:

Number of SMMEs	2 251 821
Number of formal SMMEs	667 433
Number of informal SMMEs	1 497 860
SMME owners as % of total employment	14%
% operating in trade & accommodation	43%
% operating in community services	14%
% operating in construction	13%
% operating in fin. & business services	12%
% contribution to GVA*	21%
% black owned formal SMMEs	34%

Source: BER, StatsSA *GDP before taxes and subsidies

- ❖ Tourism SMMEs are most likely included in the category “Trade & Accommodation”, the largest category of SMMEs operating in South Africa.



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Government Policy SMMEs

- ❖ The SA government policy on SMME development was initially documented in the 1995 White Paper on SMME development called the Integrated Small Business Development Strategy (ISBDS).
- ❖ This strategy provided an action plan with focus on:
 - 1) Increasing financial and non-financial support to SMMEs,
 - 2) Creating a demand for the products and services provided by SMMEs,
 - 3) Reducing regulatory constraints facing SMMEs.
- ❖ In line with this action plan, government established a number of institutions mandated to support and promote SMMEs

Institutions Established to Support SMMEs in SA

- ❖ The Small Enterprise Development Agency (SEDA) is an agency of the Department of Small Business Development.
- ❖ SEDA was established in December 2004, and mandated to implement government's small business strategy by designing and implementing a standard and common national delivery network for small enterprise development.
- ❖ The Small Enterprise Finance Agency (SEFA) was established in 2012 to cater for small businesses requiring funding up to a limit of R5 million.
- ❖ SEFA offers bridging finance, revolving loans, term loans, asset finance and funds working capital needs.

Institutions Established to Support SMMEs in SA (cont.)

- ❖ The **National Youth Development Agency (NYDA)** was formed with the purpose of assisting young South Africans between ages 14 and 35 to start businesses and to finance existing businesses.
- ❖ In order to enable and support technological innovation, as well as to enhance the global competitiveness of South African businesses, the Department of Science and Technology established the **Technology and Innovation Agency (TIA)**. The formation of the TIA was through a merger of seven entities which were previously tasked to do the same.
- ❖ Lastly, the **National Empowerment Fund (NEF)** was founded with the intention of offering financial and non-financial support to black empowered businesses.

Institutions Established to Support SMMEs in SA (cont.)

TEP

- ❖ Non Profit Company
- ❖ Flagship public private partnership
- ❖ One of the longest standing and most successful enterprise development partners for small tourism businesses in South Africa until it ceased operating from end December 2016 due to lack of adequate funding
- ❖ TEP's mandate was to facilitate the growth, development and sustainability of small tourism businesses
- ❖ Offered a number of interventions that provide hands-on, step-by-step support and guidance to small tourism businesses

The TEP Approach to Transforming the Tourism Sector

TEP's approach to transforming the tourism industry in South Africa could be summarised as follows:

- ❖ Access to information - Wikitourism
- ❖ Access to skills and advice – Skills development, Training programmes, Mentorship
- ❖ Access to finance – BDF and later Ikwezi Tourism Facility
- ❖ Access to Market – Business linkages, SA Hidden Treasures & ESDS
- ❖ Motto: Step Up to Your Potential (or small today, big tomorrow)

TEP's Cumulative Impact 2000-2015

- ❖ More than R550m invested in tourism SMME development
- ❖ Contributed to the generation of over R7 billion in turnover
- ❖ Supported the creation of 83 000 jobs
- ❖ Trained over 25,000 SMME operators and employees
- ❖ Mentored over 450 tourism SMMEs
- ❖ Client base of over 4 000 SMMEs spread across all sectors of the tourism industry

Figures verified & audited by Sizwe Nsaluba & Gobodo.

Challenges facing SMMEs in SA

Lack of Skills

- ❖ Most SMME entrepreneurs lack the skills, mindset and business acumen to run a business (necessity vs opportunity-driven entrepreneurship).
- ❖ This lack of skill is exacerbated by the lack of experience of the business owners, including lack of expertise of the sectors in which they operate.
- ❖ This in turn leads to the owners not doing proper planning for the business, and experiencing difficulty in accessing markets or meeting industry requirements or standards.

Challenges facing SMMEs in SA (cont.)

Access to Finance

- ❖ Limitations of access to finance for SMMEs are very common in South Africa.
- ❖ Given their highly conservative nature, South African banks and lenders are more likely to lend to small businesses in their later stages of development.
- ❖ Clear bias against start-ups, particularly tourism start ups.
- ❖ In general, typical hindrances towards small businesses obtaining finance include:
 - ✓ inadequate collateral on the part of the entrepreneur,
 - ✓ a lack of credit history
 - ✓ the inability to produce an acceptable business plan according to financial institutions,
 - ✓ poor market research
 - ✓ the absence of a viable business idea,
 - ✓ and lack of access to vibrant markets (GEM, 2014).

Challenges facing SMMEs in SA (cont.)

Profitability and Sustainability

- ❖ Majority of SMMEs are barely 'making it', especially the small, and micro enterprises.
- ❖ Cash flow is a big problem, and profits are hardly realised.
- ❖ Without proper cash flow and profits, the business cannot be sustained, and most entrepreneurs find themselves having to close their doors.
- ❖ Five (5) out of seven (7) small businesses started in South Africa will fold in the first year.
- ❖ 80% will close by the time they turn 5.

Challenges facing SMMEs in SA (cont.)

Lack of Access to Markets

- ❖ The inability for SMMEs to access markets is one of the major factors threatening their longevity.
- ❖ Access to markets is one of the fundamental requirements (by credit providers) to accessing funding and mentorship at early stages.
- ❖ Small businesses located in rural areas are at a greater disadvantage compared to their urban counterparts.
- ❖ Government policy is to ensure that 30% of government procurement is set aside for SMMEs (poorly implemented).
- ❖ Private sector companies are required to source 40% of their procurement for goods and services from SMMEs (poorly implemented).

Challenges facing SMMEs in SA (cont.)

Red Tape

- ❖ South Africa, like any other country, has mandatory and regulatory requirements that every business has to comply with.
- ❖ However, the poorly administered regulations that SMMEs have to contend with hinder their ability to grow, prosper and be successful.
- ❖ Famously, a panel of SMME owners participating in the 2013 Small Business Project (SBP) SME Growth Index reported that they spend '75 hours a month dealing with red tape'.
- ❖ Red tape can be anything from loads of paper work that have to be completed, the number of laws (up to 45) to be complied with, and the number of returns (up to 24) that have to be submitted in a year.
- ❖ Irony is that government is the main culprit when it comes to red tape and bureaucracy – and if government is your client, you'd be lucky if you're paid within 30 days – payment can take anything between 60 and 365 days.

Challenges facing SMMEs in SA (cont.)

Ineffective Support

- ❖ There are at least thirty two (32) government initiatives that provide support (financial and non-financial) to entrepreneurs across all sectors and industries.
- ❖ This support is however, fragmented and uncoordinated, and most of the intended (would be) beneficiaries don't even know about the programmes and how to access them.
- ❖ For the majority of those that have participated in the initiatives, there is no direct evidence that the support has enhanced their growth.
- ❖ In fact, many of the start-ups have closed down even receiving support from these initiatives.
- ❖ Tourism Enterprise Partnership (more than R550m invested, 4000 enterprises supported, R7b cumulative addition to GDP, 83000 jobs created) by the time the NDT support was ended.

SME TradeLinks

- ❖ A Small Business Support Services Provider.
- ❖ Incorporated in 2016.
- ❖ Started operations in January 2017.
- ❖ Promotors have extensive professional experience in entrepreneurship, small business development, and finance.
- ❖ We address three areas of challenge to SMMEs:
 - ✓ Access to Market through our ESD Services (based on B-BBEE Codes)
 - ✓ Access to Finance through SME TradeLinks Finance (in partnership with financial institutions)
 - ✓ SME business incubation and support through our TradeLinks Entrepreneurship Support Centre (in partnership with global financial services giant, Credit Suisse).
- ❖ Our aim is to contribute to the further development and transformation of the tourism sector in SA and Africa.



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In Conclusion

- ❖ The huge potential of SMMEs, including tourism SMMEs, to create employment and wealth in SA is well recognised.
- ❖ A number of public and private sector initiatives to support and boost SMME development and sustainability have been established.
- ❖ Still, SMMEs in SA face many challenges that prevent them from achieving their full potential:
 - ✓ Access to finance
 - ✓ Access to skills
 - ✓ Access to markets
 - ✓ Access to information
 - ✓ Effective business development support.
- ❖ Renewed efforts must be brought to bear by the public sector as well as the private sector in order to address the status quo
- ❖ The requirement that 30% of public sector contracts must be reserved for SMMEs is a step in the right direction.



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Q & A



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