

31/03/2016



PROFILE OF SMME'S FUNDED BY THE DEPARTMENT OF
ECONOMIC DEVELOPMENT AND TOURISM
(NORTHERN CAPE)

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BACKGROUND

The National Development Plan clearly states the need for South Africa to change its game plan and place small businesses and co-operatives at the centre of war against the triple challenges (poverty, inequality and unemployment) that plague the country. As part of government's commitment to place the economy and job creation at centre stage, the President established the Ministry for Small Business Development. Small, Medium and Macro Enterprises (herein referred to as SMMEs) can be a backbone of any economy and an important driver of economic growth. This was affirmed by Research conducted by Global Entrepreneurship Monitor which showed that small businesses are significant contributors to job creation in any country.

PURPOSE

The primary role of Programme 2 within the Department of Economic Development & Tourism (herein referred to as DEDaT) is to co-ordinate, facilitate and stimulate the sustainable development of Small, Medium and Macro Enterprises. The SMME sector provides a platform for local communities to enter and play a meaningful role towards the development of provincial economy. In order to provide meaningful support towards SMME development, there is a need for an up to date profile of all departmentally funded SMMEs. This is because any intervention concerning the development of SMMEs requires accurate information about their location, size, structure as well as their distribution across industries.

This report analyses the profiles of all departmentally funded SMMEs, to give insight on firstly, their physical location, secondly, sectors within which they operate and lastly, an account of the products or services they offer. This is in order to outline the progress made by the department in supporting SMMEs with the aim of understanding the dynamics of the provincial SMME sector. It is anticipated that such will assist DEDaT to strengthen its efforts in increasing the competitiveness, capacity and capability of our local SMMEs.

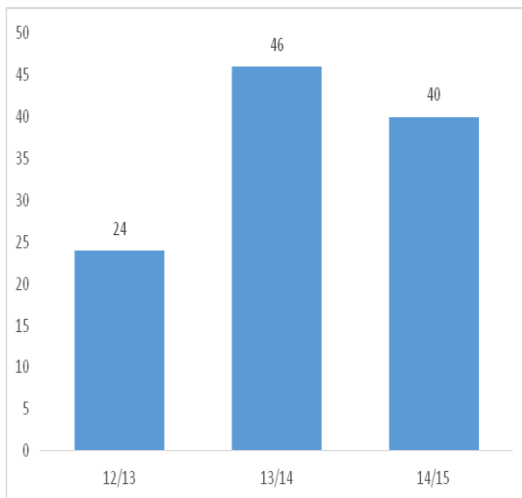
METHODOLOGY

The report analyses a database of SMMEs obtained from the Enterprise Development Unit. The database is in respect of three consecutive financial years from 12/13 to 14/15 financial years. The database consisted of a total of 110 SMMEs spread as 24 in 2012/13, 46 in 2013/14 and 40 in 2014/15.

STATISTICAL PROFILE OF SMMEs

1. OVERVIEW

According to the database there has been an upward trend in terms of the Rand value amounts disbursed to support SMMEs from R30.5 million in 2012/13 to R47.5 million in 2014/15 financial year. This indicates an increase of 55 percent in the studied reporting period.



Financial Year	Amount
12/13	R 30 554 800.00
13/14	R 38 113 734.00
14/15	R 47 465 025.64
TOTAL	R 116 133 559.64

Figure 1 and Table 1 above, indicate that there has been an increase in both the number of SMMEs supported (from 24 to 46) and the Rand value of such support (from R30.5 million to R38.1 million) between 2012/13 and 2013/14 financial years. Whilst, between 2013/14 and 2014/15 financial years, the number of SMMEs supported declined from

46 to 40 whereas the Rand value of support increased from R38.1 million to R47.4 million.

It is worth noting however that the financial support with Rand value totaling R116.1 million was not disbursed to all the listed 110 SMMEs over the reported period. In 2012/13, the entire R30.5 million supported only 7 of the 24 enterprises. Similarly, the R38.1 million supported 25 of the 46 enterprises in 2013/14 and 24 of the 40 enterprises in 2014/15. The remaining enterprises were offered non-financial support ranging from revising substandard business plans, referrals and assistance with filling application forms from other institutions also concerned with the growth and development of SMMEs for example Seda, Sefa, Anglo American Zimele Community Fund and the IDC.

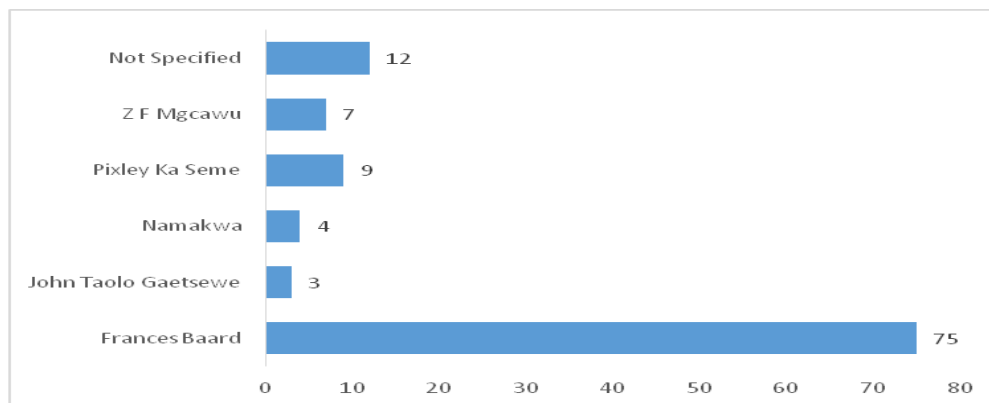
Further analysis of the financial support reveals crucial distress as there is no even distribution between the numbers of supported SMMEs and the amounts. To elaborate on this, in 2012/13, 94% (R28.6 million) of the R30.5 million was disbursed to only 3 enterprises, with one enterprise accounting for 59% (R18 million) of the total financial support. The same is true for the 2013/14 financial year, as 84% (R32.1 million) of the R38.1 million was disbursed to only 3 enterprises, with one enterprise accounting for 66% (R25 million) of the total financial support. In 2014/15, 70% (R33.2 million) of the R47.4 million was also disbursed to 3 enterprises, with one enterprise accounting for 59% (R28 million). Added up this means the 9 enterprises all together accounted for 81% (R93.9 million) of the R116.1 million funding support in the period 2012/13 to 2014/15.

It is just as concerning that 47% (R54.7 million) of the total amount R116.1 million meant for financial support to SMMEs was disbursed to a total of 13 SMMEs with neither details of the sectors within which they operate, nor details of business activity (goods or services offered). Broken down this translates to R28.6 million paid out in 2012/13, R25.3 million in 2013/14 and R812 000.00 in 2014/15. In certain instances there are no contact details of the owners of such enterprises, which compromises the Monitoring and Evaluation mandate amongst others.

Another crucial concern is the fact that financial support to the tune of R3.6 million was reported as disbursed to enterprises with a non-operating status. Broken down, this amounts to R2 million in 2012/13, R380 thousand in 2013/14 and R1.2 million in 2014/15.

2. GEOGRAPHIC DISTRIBUTION OF SMMEs

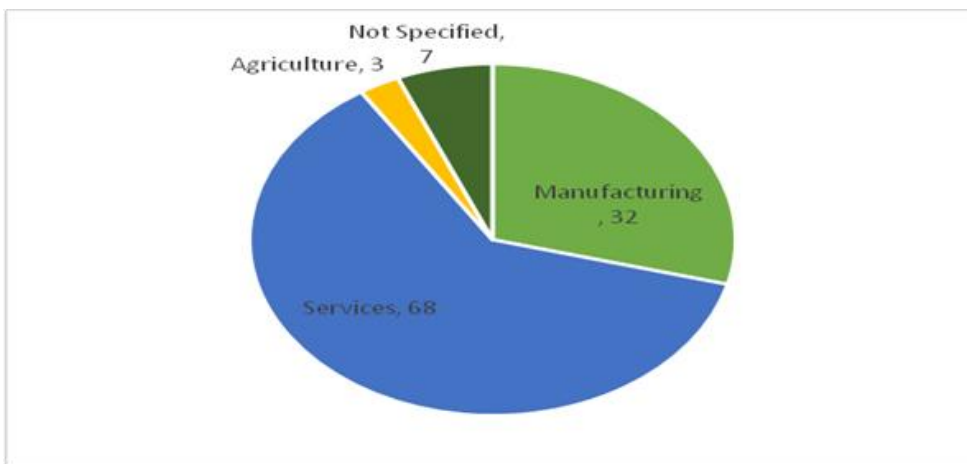
Considering the geographic location of supported SMMEs both financially and non-financially, one observes that most SMMEs supported operate within the Frances Baard district at 75, followed by Pixley Ka Seme at 9 and ZFM at 7 while JTG had the least number of SMMEs at 3. It is worth noting that a total of 12 SMMEs were not referenced according to their location but merely reported as not specified.



Furthermore, most SMMEs supported within the Frances Baard district largely fall in Sol Plaatje and Dikgatlong municipalities. In Pixley Ka Seme district the enterprises are located in Renosterberg and Siyancuma municipalities. In the ZFM district, SMMEs supported are mostly located in Tsantsabane, Kheis and Mier municipalities. Only one local municipality namely Nama Khoi is specified within the Namakwa district and no specification is made for local municipalities within JTG district. However, the number of SMMEs supported in JTG and Namakwa is noticeably low, indicating a need to increase SMME support in these districts.

3. DISTRIBUTION OF SMMEs PER SECTOR

The services sector represents the largest pool within which SMMEs supported in the province operate, followed by manufacturing and agriculture. This is illustrated in Figure 3 below.



Of the 7 enterprises financially supported in the 2012/13 financial year, majority of enterprises (4) fall within manufacturing of beds, bricks, granite and biscuits, 1 in agriculture (pig farming) and 2 in services. Of the 24 enterprises granted financial support in 2013/14 financial year, majority of enterprises (15) fall within the services sector, 3 in manufacturing, 3 in education, 2 in entertainment and 1 in agriculture. Similarly in 2014/15, majority (17) fall within the services sector, 4 in manufacturing, 1 in agriculture.

The need to properly classify our SMMEs in line with recognized industry classification systems is highlighted by the 7 SMMEs that were not referenced according to their relevant sectors, despite the financial support rendered. The potential of SMMEs for economic development can only materialize if an accurate and credible account of their contribution is measured. The not specified category suggests that there might be an under-estimation on the sectoral contribution of SMMEs, which might be problematic because activities by SMMEs are not captured within their relevant operating sectors.

Surprisingly, although mining is one of the key sectors within the province, there are very few SMMEs operating within that space. The same can be said of agriculture as one enterprise within this sector has been continuously supported in the 3 respective financial years. This points towards a need to identify and address the challenges and barriers that hinder the growth of small businesses within the anchor sectors of the provincial economy. Economic opportunities related to increasing the presence SMMEs in these sectors must be explored and exploited. Investments in renewable energy projects and the SKA also present the province with opportunities to shift over dependence on specifically the services sector, thereby diversifying our local SMME landscape.

In order to maximize the support of SMMEs and its effectiveness as such the Enterprise Development unit should possibly consider consolidating their SMME promotion efforts with Programmes 3 specifically Sector Development subprogramme and 6 (Tourism), this is based on the absence of data on interventions for the benefit of SMMEs overseen by both these sub-programmes in the analysed SMMEs database. The sectors mentioned above are all of particular significance not only for SMME as a sector but for the development agenda of the province as well, hence the need to customize support interventions to suit the specific needs of SMMEs in each sector.

Comment [S1]: It's to be noted that the prevalence of SMME activity in services may be correlated with government procurement and the state is largely active in this space. Is there a way to verify this? Does the report on government procurement prepared by R&D shed any light on this?

Comment [S2]: What are the proposed modalities and mechanisms for this consolidation? Make more specific recommendations please i.e. how should this be conceptualized?

4. PRODUCTS / SERVICES RENDERED BY SMMEs

The database shows that a number of SMMEs are involved in manufacturing of the following products bricks, window frames, roof sheets, toilet paper, wood products, gloves and safety apparel, granite products, making of bread, biscuits and clothing and lastly the manufacture of beds. All these items are indicative of strong potential for our manufacturing output in the province. Owing to their non-specialized nature as well as little capital requirements printing services, hiring of catering equipment, catering, fixing of tyres, re-filling of gas and laundry services appear to be popular amongst provincially supported SMMEs.

CONCLUSION

The analysis of the SMME database reveals a total of 110 enterprises supported both financially and non-financially between 2012/13 and 2014/15 financial years. The financial support totaling R116.1 million has been offered to 56 of the 110 enterprises in the database. It is concerning however that 9 enterprises account for 81% (R93.9 million) of the R116.1 million funding support. Again, the indication of a total of R3 million funds dispersed to SMMEs classified as non-operational is a concern.

The geographic location of supported SMMEs is largely dominated by the FB district, as 75 of the 110 enterprises in the database are based in this region. The number of SMMEs supported in JTG and Namakwa (4 enterprises) is noticeably low, indicating a need to increase SMME support in these districts. The 12 enterprises whose location is recorded as not specified in the database needs correction, particularly given that five of these have been rendered financial support to the tune of R3.2 million.

SMMEs supported largely operate within the services sector specifically catering, printing, laundry, security and others. This is followed by SMMEs in the manufacturing sector specifically manufacturing beds, granite, brick, window frames, bread, clothing and safety apparel. One enterprise in the agriculture (pig farming) has been consistently supported throughout the financial years. Despite the huge investment opportunities presented by the SIPS, especially the renewable energy, it is concerning that no enterprises have been reported as supported within this sector.

Comment [S3]: This calls for diversification of location!!

RECOMMENDATIONS

The situational analysis has highlighted various factors influencing the structure and functioning of departmentally funded SMMEs and suggests the following:

- To update the SMME database and also properly classifying SMMEs according to their size as well as relevant sectors in line with recognised industry classification systems.
- To have a support method that ensures even distribution of the financial support as opposed to the current scenario.
- Level the playing field by ensuring meaningful growth of small businesses afforded support in specifically Namakwa and JTG districts. This may be a much more involved process than just financial and/or no-financial support as those enterprises may be faced with more adverse challenges than the norm is.
- To diversify the existing SMME base by increasing the number of small businesses operating within the Agriculture, Mining and Tourism sectors. This needs a coordinated approach with the responsible Programmes.
- To make SMMEs aware of opportunities in **agroprocessing**, the SKA and related major infrastructure investment initiatives by government in the province. It's also critical that SMMEs pursue more private sector opportunity and rely on government programmes to upgrade their capacities to successfully pursue such opportunities. Non-financial support programmes will assist SMMEs to improve their capabilities and competencies to gain greater shares of private sector contracts and sub-contracts.

Comment [S4]: Refer to the opportunities mentioned in the agroprocessing report.

REFERENCES

Mthente Research and Consulting Services, [2012] Analysis of the Needs, State and Performance of Small and Medium Businesses in the Agriculture, Manufacturing, ICT and Tourism Sectors in South Africa.

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Department of Economic Development & Tourism: SMME Register