Chapter 1

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.

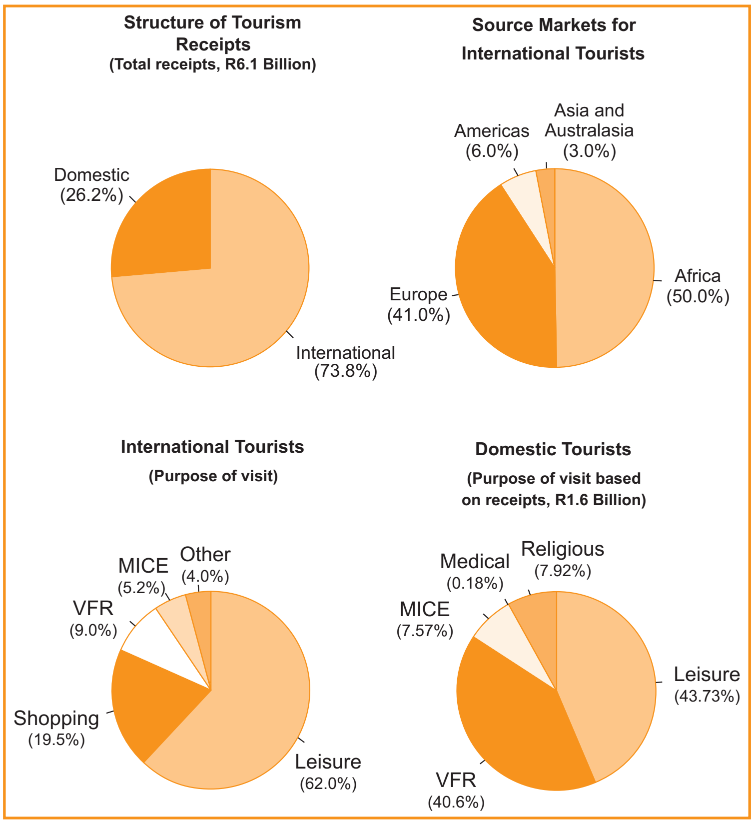
3.1 Key features of the Mpumalanga tourism economy

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.

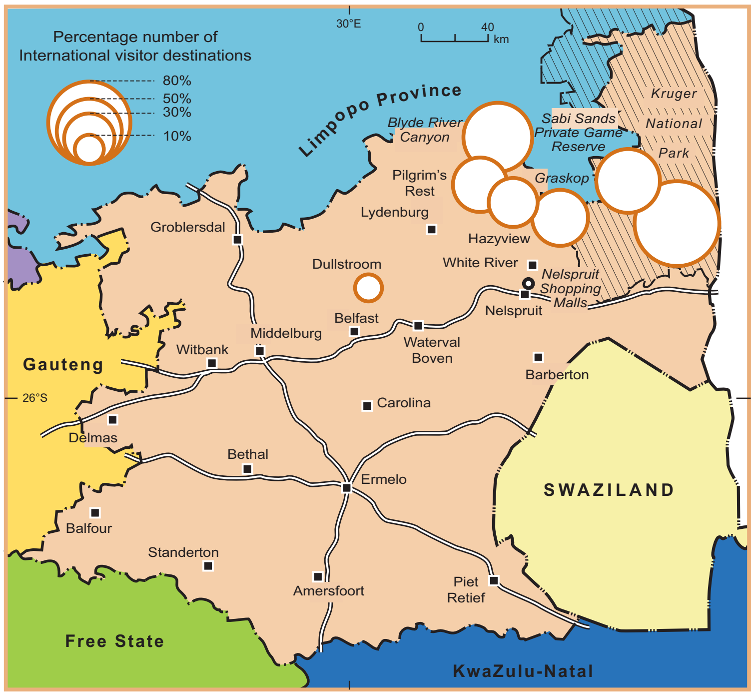
In 2003, these destinations were visited by at least 50% of long-haul international travellers to the province. Other significant tourism nodes for international travellers are Pilgrim's Rest, Hazyview and Sabie-Graskop. A much smaller flow of international tourists occurs to the trout fishing and other 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



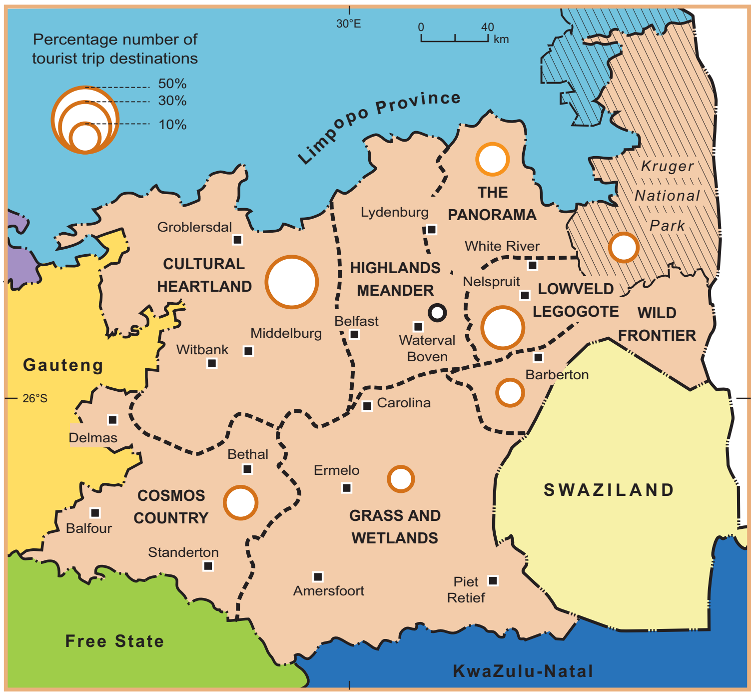
Flows of regional tourists or tourism from surrounding African countries are noteworthy (*see Figure 2*). Indeed, in terms of the country of residence of international tourist arrivals in Mpumalanga, the two most significant sources of tourists are Mozambique and Swaziland. For long-haul travellers to 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

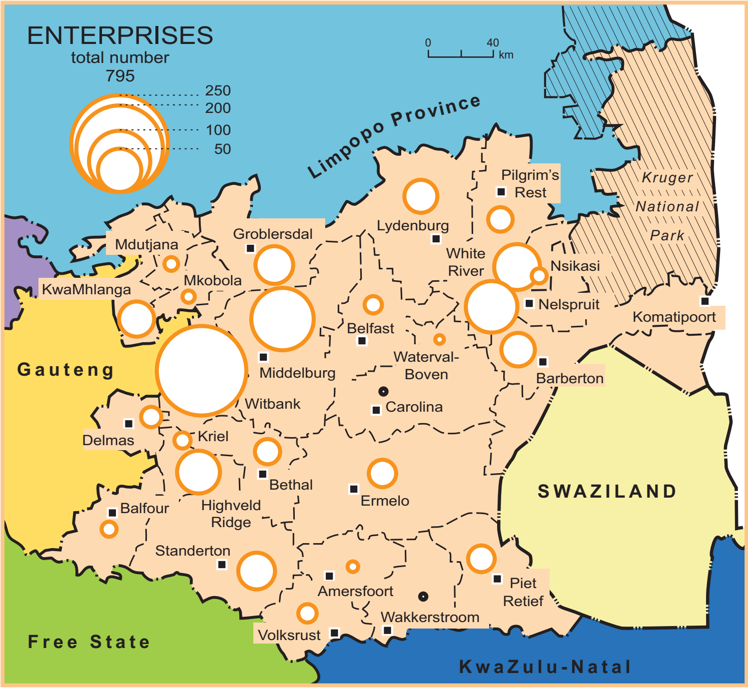
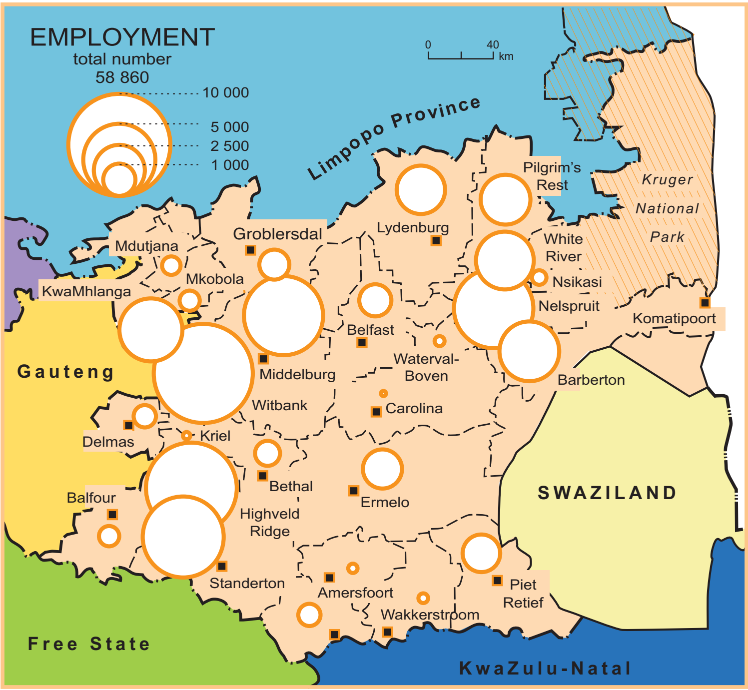


Figure 6 – Major clusters of manufacturing employment



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

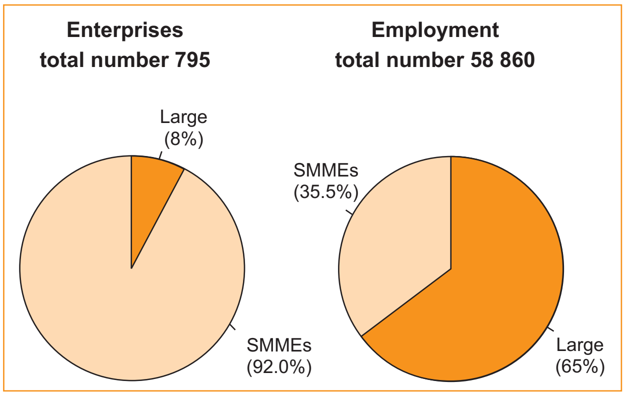
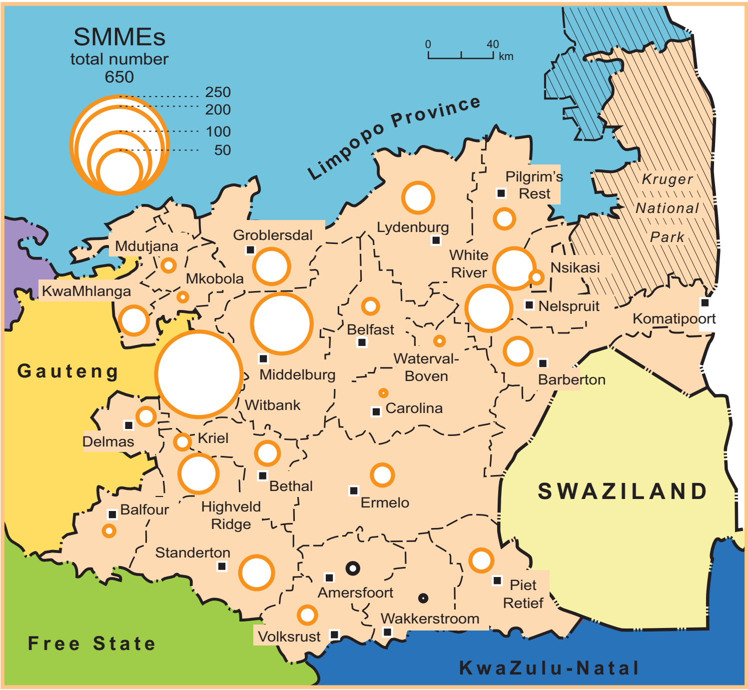


Figure 8 – Number of manufacturing SMMEs in Mpumalanga



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

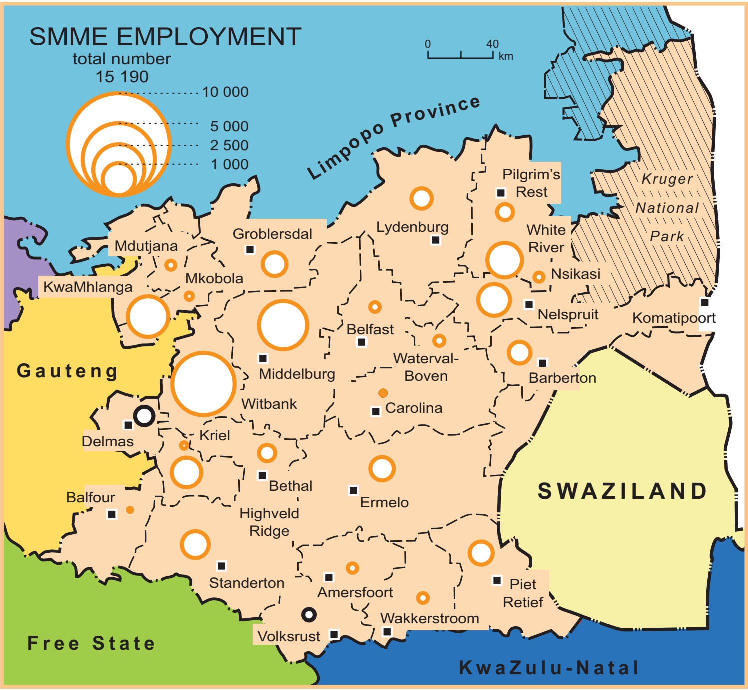
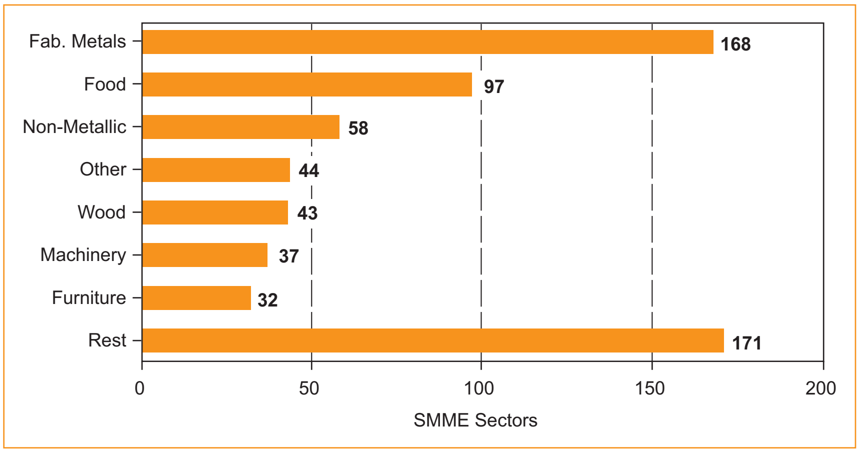


Figure 10 – Mpumalanga manufacturing SMMEs: major sectors of production



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.