

# Reaching Out for Shared Growth in Tourism: South Africa's Tourism Enterprise Programme

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# CONTEXT

- Africa's tourism economy is growing rapidly, approx 10 percent per annum in recent years
- Challenge is to make tourism a source of both sustainable growth and SHARED GROWTH
- A critical theme for shared growth is to ensure that the benefits of tourism expansion flow to small and medium sized tourism enterprises.
- At least 90 percent of African tourism enterprises are SMEs

## AIM, RATIONALE AND ARGUMENT

- **AIM:** To examine the workings of a South African programme – the Tourism Enterprise Programme - which is targeted specifically to support SM(M)E development in the tourism sector of South Africa.
- **RATIONALE:** Within the international scholarship and policy debates on tourism entrepreneurship and tourism small firms, the South African experience is particularly distinctive in two respects; (1) the support of particular groups of tourism SMMEs linked to objectives of transformation, and (2) the introduction of dedicated tourism-specific support programmes for SMME development, most importantly TEP.
- **ARGUMENT:** The TEP experience may offer ‘good practice’ for support of tourism SMEs in other parts of Africa.

# ORGANIZATION

- The analysis unfolds through three core sections of material.
- First, a review is undertaken of international writings and debates on small tourism firms.
- Second, analysis of the structure of the South African tourism economy and the position of SMMEs and positioning of TEP.
- Third, examination of the unfolding activities of TEP.

## SOUTH AFRICA: ROLE OF SMMES IN TOURISM

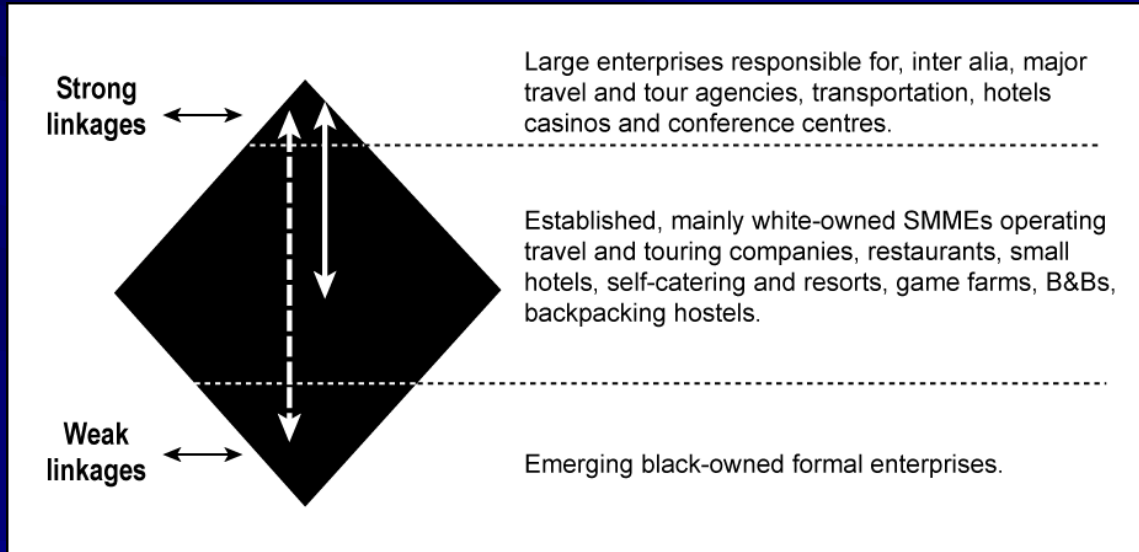
- Definitional issues of tourism SMME
- Scope includes accommodation, travel and tour industry and supplier services
- **Although six companies control 60-70 percent of the South African tourism industry, majority of enterprises are SMMEs**
- **High level of concentration/dominance**
- **This is a pattern recorded in other countries**
- **Accurate data not available but DTI estimates 50 000 tourism enterprises, of which at least 97 percent would be SMMEs**

# STRUCTURE OF RSA TOURISM ECONOMY

- Three tier hierarchy of enterprises
- At the top or apex are the operations of the elite group of large corporates, which are responsible for, *inter alia*, the country's major travel and tour agencies, transportation, hotels, casinos and conference centres.
- The greatest proportion of the business hierarchy, however, is represented by the activities of, at least, two different kinds of SMMEs. The middle tier is formed by groups of established, almost predominantly white-owned SMMEs which operate a host of different establishments from travel and touring companies, restaurants, small hotels, self-catering and resorts, game farms, bed and breakfasts or backpacking hostels.
- The lowest tier or rung in the South African travel and tourism industry is represented by the emerging black-owned tourism economy which constitutes a mix of formally registered micro-enterprises as well as a mass of informal tourism enterprises.
- Evidence of strong growth of new businesses in lowest tier encouraged by government (transformation) and new opportunities.

# STRUCTURE OF TOURISM ECONOMY

## ■ 3- TIER HIERARCHY





# SUPPORT FOR TOURISM SMMEs

- SMME development has been a core policy thrust in post-apartheid South Africa
- Institutional structure set up post-1995 for government-led delivery of financial support and non-financial support in terms of BDS
- Programmes which were introduced for SMME development were of a generic nature rather than sector specific.
- Disappointments surrounding lack of delivery/reach of government SMME programmes as a whole.
- Five years after their introduction, little government support was reaching tourism small firms, despite the 'Mandela' boom in the tourism economy.
- What support programmes were available were largely benefiting the group of white owned SMMEs which had the awareness and capability to access support opportunities.
- Left out were the group of emerging, largely black-owned tourism SMMEs which were a key target for government programmes.



## POST-2000 – A CHANGING SUPPORT ENVIRONMENT

- In 2000 the Tourism Enterprise Programme (TEP) was launched and since then has functioned as a dedicated support initiative to assist the development and upgrading of tourism SMMEs within the national tourism economy.
- TEP is an unusual and innovative institution in two critical respects:
- First, it represents a dedicated institution for the support of tourism SMMEs in the context of a growing tourism economy that was in urgent need of changing its ownership complexion.
- Second, it represents an important break from the existing style of SMME support on offer in South Africa since 1995 in which the focus of support was upon generic packages of assistance rather than tailored support for the needs of enterprises in different sectors of the economy

# DEVELOPMENT OF TEP

- TEP initially was launched as a four year job creation initiative in July 2000 with funding support from the private sector, Business Trust.
- Origins of TEP thus outside of national government SMME support programme
- The primary goal of TEP was to facilitate the growth of SMMEs in the South African tourism economy and thereby to generate employment opportunities.
- In an effort to promote diversity in the tourism sector, however, TEP focuses its support initiatives primarily (but not exclusively) on South Africa's historically disadvantaged black entrepreneurs.
- Until TEP was introduced in 2000 there was no meaningful support programme in South Africa that focused on tourism small firms.
- Six key objectives provided the framework for TEP programme activities.

# OBJECTIVES OF TEP

- To foster job creation through focused marketing and operational linkages within the tourism value chain.
- To assist historically disadvantaged South African SMMEs by promoting commercially viable business relationships with other small and large domestic and international companies in the tourism economy.
- To build the capacity, quality and competitiveness of South Africa's tourism enterprises.
- To create an easily accessible national data bank of both domestic and international companies interested in tourism and tourism-based partnership opportunities.
- To collaborate with other public and private tourism related projects, programmes, institutions and initiatives.
- To foster trade and investment flows as well as technology transfer between established tourism operators and small enterprises.

# THE TEP APPROACH (1)

- The TEP approach was innovative in several important respects.
- It is essentially a demand-driven approach, in which SMMEs are assisted to respond to proven demand for their services.
- TEP seeks to identify, facilitate and ultimately foster commercially viable business transactions between tourism enterprises and other related buyer, supplier, partner and investor firms and corporations linked to the tourism sector.
- The demand-driven approach of TEP is seen as setting the organization apart from supply-side driven programmes where the output of an intervention is often a more skilled SMME rather than an SMME generating new business.

# THE TEP APPROACH (2)

- TEP provides services in two principal ways.
- The core intervention involves “helping large tourism enterprises, investors, small enterprises, and historically disadvantaged enterprises to identify viable linkage or business opportunities, and aiding the parties to turn the linkage or business opportunity into a business transaction”.
- For SMMEs assistance would be provided to obtain necessary professional services for business development including, if needed, quality certification, debt and equity finance, appropriate business planning, packaging, legal advice, marketing and technology support.
- This primary TEP intervention is supplemented by a Training and Technical Assistance Fund (TTAF) which finances the provision of training and technical assistance services to enterprises on a cost-sharing basis.
- TEP also furnishes aftercare services in order to ensure that SMMEs have the necessary planning, production and management capacity in order to meet their contract delivery obligations.

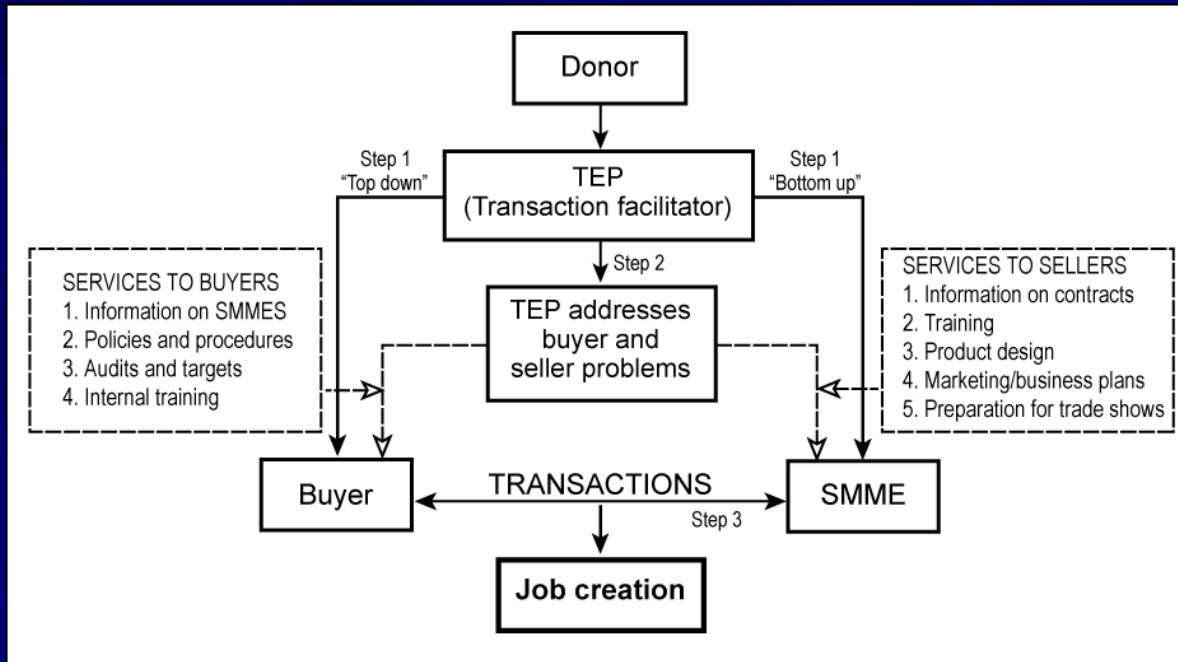


# THE TEP APPROACH (3)

- The process can involve both a 'top-down' and 'bottom-up' approach.
- In the former case, TEP works with buyers of goods and services - usually corporates or large enterprises as well as tour operators wishing to purchase tourism products - that represent the potential market for its SMME clients.
- In the latter situation, TEP assists SMMEs with marketable products to access wider markets.
- In search of a transaction TEP recognizes that are problems that must be addressed and overcome in terms of both buyers and suppliers.
- The key buyers, such as corporates, wishing to secure goods and services from SMMEs often are constrained by factors such as not knowing which goods and services can be supplied by SMMEs, where to find suitable SMMEs or appreciating that SMMEs often need special treatment in terms of simple documentation and speedy payment as well as assistance with quality and technical specifications of the goods and services to be purchased.
- SMMEs are often unfamiliar with the way that corporates or other buyers do business and can be confused by documentation and tender requirements as well as not always understanding the need for reliable service.
- TEP works in various ways with both buyers and suppliers to overcome their problems in making a transaction, developing a data base of SMME suppliers that can be 'introduced' to corporate buyers and seeking to ensure that SMMEs can comply with the requirements of buyers. Many of the services provided to SMMEs, such as training, preparation of business plans and tenders, to overcome their difficulties are undertaken through independent fee charging service providers.



# THE TEP APPROACH (3)



# SUCCESS

- Evaluations of TEP activities have been highly favourable in terms of its progress in supporting growth of tourism SMMEs and associated job creation.
- Exceeded expectations and quantitative benchmarks
- Among its several achievements in the first four years of operation, TEP helped South African SMMEs to secure markets for their goods and services from a range of buyers that included major hotels, casinos, national and provincial parks, and through events such as the 2002 World Summit on Sustainable Development.
- 2003 direct funding for the first time for TEP from national government (DEAT)
- Post-2004 TEP has shifted from private sector funding to major player supported by national government

# EXPANSION AND CHANGE POST-2004

- With national government support TEP emerges post 2003/4 as a joint PPP for job creation and enterprise development in tourism.
- New 5 year cycle of operations.
- At the core of TEP's operations, remains catalyzing the expansion of commercially viable business transactions in search of long-term job creation.
- The organizational focus is “to facilitate supply linkages between large and small firms, providing training, supporting market development, and undertaking other functions that will lead to the longer-term growth of enterprises and job creation in the tourism sector”

# KEY FOCUS AREAS

- Direct transaction facilitation and linkage with individual SMMEs
- Support for tourism clusters through developing local business associations
- Facilitate procurement from large firm and Government
- Sub-sector focus on craft sector, MICE, cultural tourism
- Wider role for TEP in tourism policy development
- Support for municipalities in tourism planning – LED
- New specialized training support courses specific for tourism
- Support to mega-events such as 2010 World Cup to maximise opportunities for SMME development.

# 2010 MAJOR FOCUS

- At 2007 Tourism Indaba, launch of new TEP initiatives for 2010
- 2010 Host city programme – build capacity of SMMEs to benefit from opportunities linked to the World Cup.
- Launch of new Tool Kits to support SMME entrepreneurs in terms of improving access to information
- Launch of new training programmes to build capacity in terms of business skills and tourism awareness

# CONCLUSION

- In the international context of tourism small firm development, the activities of South Africa's Tourism Enterprise Programme provides a significant case study of an innovative approach to supplying assistance for small enterprises in tourism.
- Within the South African context, TEP is increasingly important in re-shaping the tourism economy, especially in terms of national government's goals of transformation and expanded job creation in tourism.
- TEP has been part of initiatives for ensuring a wider distribution of the benefits of growth in the South African tourism economy, of ensuring 'shared growth in tourism'.
- For governments and tourism planners in other developing countries (especially sub-Saharan Africa) there are potential lessons of 'good practice' from the TEP experience which might be replicable in national tourism planning for supporting tourism SMEs.