

**THE IMPACT OF SMALL, MICRO AND MEDIUM ENTERPRISES (SMMEs)
ON POVERTY ALLEVIATION THROUGH EMPLOYMENT CREATION: A
CASE STUDY OF THE TOURISM SERVICES SECTOR IN THE TOWNSHIP
OF UMLAZI, DURBAN**

BY

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Abstract

Poverty alleviation through employment creation is the focus of the South African government and other developing economies. The SMME sector has been identified as the leading vehicle for the creation of employment opportunities. South Africa in particular went through a phase when economic growth did not translate into employment creation. Consequently the benefits of economic growth did not filter through to the unemployed. In South Africa there is a strong link between unemployment and poverty. Essentially the country experienced jobless growth and it is the poor who missed out on the possible benefits of economic growth. The challenge then for South Africa is to come up with a revolutionary approach to ensure that the country's poor are not excluded from the of benefits economic growth.

Almost half of the South African population lives in poverty. Poverty and the consequences thereof are most pronounced among the African population. This is due to the South African history of apartheid which systematically excluded them from accessing economic opportunities. Bringing development to communities is the thinking behind local economic development (LED). The urgency for the country to address poverty lies in the fact that poverty is not a static phenomenon and if left unaddressed it may lead more people being poor when the numbers are already overwhelming. Government has come up with various strategies for poverty alleviation, employment creation being the chief strategy. The SMME sector is the most prominent employer in South Africa, said to be responsible for over 61% of all employment. Even given these figures of there are still high levels of unemployment in the country. Growing industries like the tourism sector present a lot of hope for the ambitions of employment creation and poverty alleviation in developing countries including South Africa. The focus of this study will be the South African tourism sector.

PREFACE

DECLARATION

I, Sikhulile Nombuso Dlamuka declare that

(i) The research reported in this dissertation, except where otherwise indicated, is my original work.

(ii) This dissertation/thesis has not been submitted for any degree or examination at any other university

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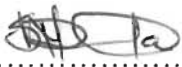
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As the candidate's Supervisor I have approved this dissertation/thesis for submission

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Date:

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LIST OF ACRONYMS AND ABBREVIATIONS

APEC - Asia-Pacific Economic Corporation

ASGISA - Accelerated Shared Growth Initiative in South Africa

B&B – Bed and Breakfast

CDE - Centre for Development and Enterprise

DTI – Department of Trade and Investment

GDP - Gross Domestic Product

HSRC - Human Science Research Council

IBR - International Business Report

IPC - International Poverty Centre

KZNB - KwaZulu-Natal Business

LED - Local Economic Development

MDG - Millennium Development Goals

NGO - Non-Governmental Organisation

PGDS - Provincial Growth and Development Strategy

SASSA - South African Social Security Agency

SMMEs - Small Medium Micro Enterprises

StatsSA - Statistics South Africa

UIF - Unemployment Insurance Fund

UN - United Nations

UNCTAD - United Nations Council for Trade and Development

WTO - World Tourism Organisation

WTTC - World Travel & Tourism Council

Chapter 1

1.1 Introduction

Poverty and unemployment are among the foremost challenges facing South Africa and poverty alleviation is the focal point of most government efforts. The area of focus for this paper will be SMMEs as far as they contribute to employment creation and thus poverty alleviation. The main factors of consideration for the purpose of this study that refer to development are job creation and improvement of quality of life. This research focuses on tourism SMMEs that operate within the township of uMlazi.

1.2 Background and Statement of Problem

An understanding of South African history in order to comprehend the country's current economy cannot be by-passed. The economic trends and patterns of poverty that can be seen today are deeply embedded in the history of South Africa. Inequality and poverty and uneven economic and spatial development can be explained by the history of apartheid in the country. The architects of apartheid justified it by asserting that it was a way of preserving the individual identities of the different cultures in South Africa and further rationalized it by branding it as system of separate development (Smith 1992) for the different people groups. Consequently this led to political and economic marginalisation of certain people groups within the country as evidenced in the patterns of underdevelopment that can be seen in the country today. For the purpose of this research a brief background will be given about the concept of townships as they relate to the country's economy.

The focus of this research is the township of uMlazi. This is the second biggest township in South Africa; uMlazi is situated about 17 kilometres south from the Durban city centre. Umlazi has a population of about a million people and 67% of this population has an income of less than R2000 per month (Maharaj 2008).

South Africa is experiencing a situation where unemployment levels are on the increase along with income poverty and income inequality (Posel and Casale, 2005). There have been rising poverty levels and it is estimated that 70% of the poor are 'dynamically' poor

that is, unable to exit their state of poverty (Cater and May, 2001). In South Africa there is a strong link between poverty and unemployment. The poor are mostly unemployed and therefore have no income. According to Geldenhuys (2008) many studies have found that poverty prevalence and depth in the country have increased.

During the period 1995 to 2001 the country experienced an average of 5% growth measured in Gross Domestic Product (GDP); this growth however has been largely jobless (Nattrass, 2003) . Amidst this growth, between 1990 and 2001, more than one million jobs were lost (Cant, Erdis, 2005). Consequently this type of economic growth has not effectively dealt with the challenges of inequality and poverty, meaning the benefits of economic growth have not had a positive impact on the problems of unemployment and poverty. The problem of unemployment is largely visible in rural areas and certain parts of urban areas namely townships. Within the urban context, townships have the highest concentration of unemployment; it is where the majority of the urban unemployed reside.

1.3 Urban-rural Migration

South Africa consists of nine provinces which contain rural and urban areas. Urban areas consist of cities, suburbs and township areas. In urban areas townships are where the majority of the poor reside, as already mentioned. Urban migration is a global phenomenon; past research shows that the percentage of total population in urban areas has increased in Southern Africa (Gilbert and Gugler, 1992). According to research during the period 1993 to 2002, there was an escalation in the migration of labour in the country (Posel and Casale, 2005). This migration resulted in an increase in urban unemployment and urban poverty. Developing countries display a trend of wide differences in income and economic activity between urban and rural areas (Gilbert and Gugler, 1992). A number of studies conducted at different points in time show that the key reason why people move from rural to urban areas is economic; to seek employment (Posel and Casale, 2005; Gilbert and Gugler, 1992). The majority of job-seekers often find themselves unemployed or underemployed in urban areas due to scarcity of jobs and the outcome of this is increasing poverty and unemployment levels. Umlazi township is one such area where levels of poverty and unemployment are extensive.

South Africa has a lot of spatial underdevelopment and in order to induce a process of development the government has adopted a concept of local economic development (LED). The LED approach is to “harnesses strategic economic sectors and social agents within the community using existing resources to create critical mass toward inward investment needed to drive a sustainable process of LED in uMlazi township” (Maharaj, 2008). LED is a consequence of decentralisation of governance and service delivery; an effort to involve communities in the development of their own areas as the consequences of unemployment and poverty are mostly manifest there (Meyer-Stamer, 2003, cited in Rogerson, 2006). Umlazi township has its own LED programme which attempts to involve all business activities within uMlazi.

1.4 Justification for the Project

It is the ambition of the South African government to halve the poverty and unemployment rate by 2015, this being in alignment with the Millennium Development Goals (MDG) of the United Nations (UN) (Adelzadeh, 2007). The International Poverty Centre (IPC) in its report states that a sustainable way of reducing poverty in developing countries is to create employment for the poor (2008). The report further states that countries that have been able to reduce poverty levels significantly are those countries that have had good pro-poor employment policies. South Africa has a small informal economy compared to other developing countries (Rogerson, 2001). The nature of the South African informal sector is that it is effective insofar as generating income but employs a lesser number of people on average compared to the formal sector and is therefore very ineffective when it comes to employment creation (Cant and Stanford, 2004). Because in the case of South Africa it is the formal SMME sector that has so far been able to create more jobs than the informal sector, focusing on enhancing the formal sector which has proven to play a crucial role in creating employment, is a motivating factor for this project.

SMMEs are an expression of entrepreneurship and an increase in entrepreneurial activity at SMME level will lead to job creation (TIPS, 2002). Previous research shows that there is a strong link between economic development and entrepreneurship. Economic development is driven by entrepreneurship and encompassed in economic development is

job creation (Dahms, 2008). According to the Max Planck Institute of Economics, 2007: 11:

Entrepreneurship typically involves the application of knowledge created in one context to a very different context. Thus, entrepreneurial activity can account for the transformation of inventions to marketable innovations... Thus, entrepreneurship can be considered as one of the engines of economic and social development throughout the world. The role of entrepreneurship has changed dramatically between the traditional and contemporary economies.

1.4.1 The Tourism Sector

This study will focus on the tourism sector. South Africa is currently bracing itself to host the soccer world cup in 2010. Though the focus of this study is not the upcoming world cup, the findings of the study will speak about the degree of accessibility of the tourist market to township tourism businesses. Township tourism is a relatively new concept that is still gaining momentum and the uMlazi tourism sector is still in its early stages of development. Consequently the likely outcomes are that the businesses involved in this sector are not yet big enough to create large volumes of employment. The overall South African tourism industry is about to benefit greatly from the 2010 event and investigating the status, readiness, and positioning of township tourism SMMEs to exploit potential business opportunities, is of interest in this study.

Tourism is globally recognised as one of the industries that can create employment by generating quality jobs. There are many SMMEs that operate within the tourism industry making it a sector that has the potential to support a large scope of SMME business activity (WTTC, 1998). According to the World Travel & Tourism Council (1998) “tourism can generate jobs directly through hotels, restaurants, nightclubs, taxis, and souvenir sales, and indirectly through the supply of goods and services needed by tourism-related businesses.”

The KwaZulu-Natal provincial White Paper on tourism is based on the national White Paper on the development and promotion of tourism in South Africa, the Accelerated Shared Growth Initiative in South Africa (ASGISA), the Tourism Growth Strategy, the

Provincial Growth and Development Strategy (PGDS), the Broad-Based Black Economic Empowerment Act of 2003, the Tourism Growth Strategy, the Provincial Growth and Development Strategy (PGDS), and the Broad-Based Black Economic Empowerment Act of 2003 (Department of Environmental Affairs and Tourism, 2008). The underlying principle for tourism is that it must be “....government led, private sector driven and community based” (White Paper on development and promotion of tourism, 2008:19). This principle reveals the approach on which policy on tourism is formulated and implemented; the main stakeholders being government, the private sector, and communities. The conceptualisation of tourism as a sector that ought to benefit communities through job creation especially at provincial and municipal levels of government, informs the policy.

1.4.2 Description of SMMEs

The South African Department of Trade and Industry (DTI) categorises SMMEs in the formal sector in the following manner:

- **Very small enterprise:** Part of the formal economy, uses technology. Less than 10 paid employees. Includes self-employed artisans (electricians, plumbers) and professionals.
- **Small enterprise:** Less than 100 employees. More established than very small enterprises. Formal and registered, fixed business premises. Owner managed, but more complex management structure
- **Medium enterprise:** Up to 200 employees. Still mainly owner managed, but decentralised management structure with division of labour. Operates from fixed premises with all formal requirements (DTI, 2005).

There is some overlap in the descriptions offered above. For the purpose of this study however the focus will be on SMMEs that fall within the formal sector.

1.4.3 Hypothesis and Research Question

The broad hypothesis of this research is that the expansion of the formal SMME sector in the tourism industry contributes to poverty alleviation in uMlazi through job creation.

The research question to be addressed is: what has been and what is the contribution of formal SMMEs to employment creation in the township of uMlazi? The tourism industry in the township will be the focal point

1.5 Aims and Objectives

Past research has contributed to developing the conceptualisation of entrepreneurship and linking it to economic growth. The aim of this research is to contribute to the body of knowledge concerning the input made by SMMEs to development insofar as employment creation in the township of Umlazi and the impact on peoples' quality of life is concerned. This study takes into account that SMMEs in townships often face a combination of hurdles that hinder their capacity to mature and thrive and ultimately create employment. Given the legacy of apartheid and the extent of underdevelopment evident in South African townships, discovering the effectiveness of SMMEs as far as employment creation is concerned, particularly in the tourism industry, is the intent of this thesis. As the economy of the country evolves, the nature and functioning of SMMEs will also change, and ongoing analysis of the impact of SMMEs on development is relevant.

1.6 Conclusion

The rationale of this study is that SMMEs have the capacity to create employment opportunities that are accessible to the poor. This chapter has provided a brief history of the South African economic trends and has explained the concepts of urban-rural migration, and LED and SMMEs. The following chapter will focus on the literature relevant to the research question.

Chapter 2

Literature Review

2.1 Introduction

Developing countries are faced with the challenge of creating effective and sustainable strategies aimed towards alleviating poverty. It is generally accepted that a booming economy is key in creating an environment that is conducive to economic development that will reach and benefit the country's poor (Lazonick 2008). The World Bank classifies South Africa as an upper middle income country (Frye 2006, May *et al* 1998, Gilson, McIntyre 2001), which implies a relatively good standing when compared with other developing economies, yet regardless of this classification, the country still has high levels of poverty, inequality, and unemployment. The South African history of apartheid has contributed to the establishment of deep-seated patterns of poverty among black communities who were targets of political and economic marginalisation (Gilson, McIntyre 2001). Consequently enduring poverty is high among African communities. In the racial context poverty manifests as follows: 61% of the South African black community is poor, 38% of the coloured community, 5% of the Indian community and 1% of the white community (Gilson, McIntyre 2001). In 2002, 48.5% of the South African population was living in poverty according to the national poverty line measure which is R354 per month per adult (Frye 2006). The South African government has two definitions for unemployment: there is the broad definition which includes the unemployed who are actively looking for work and those who are not, and the narrow definition which excludes those who are not actively looking for work. In 2007 it was estimated that South Africa has an unemployment rate that is between 36 % and 41% including the unemployed who are no longer actively looking for work (Stats SA 2007 cited in Surender 2008). Unemployment is the main attribute of the South African poor (Frye 2006, Larsson and Nybom 2006), and unemployment keeps people in poverty robbing them of the opportunity to work their way out of their state of poverty. As part of the solution the South African government particularly focuses on expanding the SMME sector in order to create employment for the unemployed. The key component

for employment creation is the promotion of SMMEs in the country's policy (Biekpe 2006); employment creation is the main strategy for poverty alleviation. Opportunities for employment creation often exist in industries that have not been fully explored and are on a growth path (DTI 2007). These industries are identified as having growth potential, meaning their ability to provide entrepreneurial opportunities for new business, expanding businesses that already exist within the industry, and creating new opportunities for employment. Tourism is one such industry in South Africa and throughout Africa (WTTC 1998). This research focuses on the tourism industry, particularly township tourism. This chapter gives an exposition of some of the literature that connects employment creation with poverty alleviation and SMME sector growth with employment creation, as well as the growth potential of the tourism industry in developing countries with possible economic benefits.

2.2 The relationship between unemployment and poverty in South Africa

The rise of unemployment in South Africa was mainly influenced by the country's declining economic performance during the 1980s. Falling investments in the economy beginning from the late 1970s through to the 1980s and 1990s (May *et al* 1998), hindered economic growth and gave way to a continual rise in unemployment in the 1990s. The country also shed more than a million jobs since the 1990s (Comiteau *et al* 2000 cited in Cant and Stanford 2006). According to the Human Science Research Council (HSRC), in 2004 only 37% of school leavers were able to secure employment (Cant and Stanford 2006). An additional factor that exacerbates unemployment in South Africa is the fact that there has been a global decline in the demand for semi-skilled labour (Cant and Stanford 2006). The country's literacy levels are problematic as significant numbers of the population are illiterate and can only provide unskilled or semi-skilled labour (IPC 2008); in South Africa the rate of poverty is highest among the illiterate (May *et al* 1998). People often move from rural areas to seek employment opportunities in urban areas (IPC 2008); this contributes to a rapid growth of urban surplus labour which cannot be absorbed quickly enough by the labour market.

Poverty is the inability to access basic means for living such as nutrition, education, health and other basic needs. In South Africa, as already mentioned, the poor are mainly characterised by unemployment. Research has shown that 55% of individuals from poor households are unemployed while only 14% of individuals from non-poor households are unemployed (May *et al* 1998). The poor mainly consist of households that are unable to secure employment in the formal sector or are employed in the informal sector with low wages that do not cover basic needs or sustain a minimum standard of living.

“Unemployment and the inability to earn a regular income is closely related to why people end up in poverty and also why they are unable to move out of poverty, especially in developing countries which fail to provide a social safety net...”, (State of the Nation, 2005: 488 cited in Larsson and Nybom 2006: 4). Unemployment is one of the main factors that not only keeps households and individuals in poverty but also causes many to end up in poverty. There is widespread consensus in literature that there is a strong correlation between poverty and unemployment in the South African context.

Employment creation then becomes the obvious solution to poverty reduction in the country.

2.3 Employment creation and poverty alleviation

The employment creation and poverty alleviation nexus has been a subject of much exploration as job creation is deemed to be the most sustainable solution to reducing poverty (Ehrenprels 2008). Employment creation as a solution to poverty alleviation not only affects the income of households but also serves to promote dignity in individuals (Surender 2009). The creation of opportunities of employment for the poor would not only benefit poor households but also advance the country's economy as more people will be able to consume what is being produced in the country and will also be able to afford their children the opportunity to acquire education and skills that will in turn meet the need for skilled labour.

South Africa's macroeconomic policy reflects the country's goal of poverty alleviation through employment creation as set out in the Accelerated Shared Growth Initiative for South Africa (ASGISA). In this policy framework the aim of the government is to halve

poverty and unemployment by the year 2014 (DTI 2007). ASGISA emphasises shared growth which affords the opportunity for employment creation and redistribution of resources.

Poverty means extreme scarcity or a total lack of resources; poor households commonly have a limited number of resources, labour being the most valuable and marketable (Moser 1998 Ehrenprels 2008, Fourie, Mohr 1997). It is on this basis that there is such a strong association between poverty alleviation and employment creation. Employment creation therefore is one of the most viable solutions to poverty alleviation because it creates a demand for labour, which is a resource most poor people have and can sell in the factor market where production inputs or factors of production are sold.

The path to employment creation as a solution to poverty is not without its own challenges. The efficiency of job creation as tool for poverty reduction is affected by other factors in the economy, such as economic downturn periods which result in decreases in the demand for labour. Other factors pertain to the make-up of the poor themselves. One of them is the issue of human capital which refers to the capacity of the available labour to participate in the economy. Included in this capacity is the labourer's state of health, level of education and skills, all of which affect an individual's ability to work or to be employable (Moser 1998). In South Africa there are high levels of unemployment accompanied by vast skills shortage; the surplus labour force does not have the skills the labour market demands. According to the Grant Thornton International Business Report (IBR), businesses in South Africa have identified lack of skills as one of the major threats to the sustainability of their businesses (2007). The poor are also the most vulnerable when it comes to health issues because health care is often not easily accessible to them (Gilson and McIntyre 2001) which affects their ability to sell their labour in exchange for income. These are the main hindrances to job creation which can be compensated by creating and implementing effective health and education policies.

Except for the concerns raised about the ability of the poor to engage in the labour market due to skills shortage and health care issues, job creation remains the universal tool for poverty alleviation. It is not the only tool that developing countries use to deal

with poverty; apart from employment creation developing economies also use social safety nets in the form of social grants in an attempt to manage poverty levels. In South Africa welfare mainly exists in the following categories: child support, pensions, and disability grants. The Unemployment Insurance Fund (UIF) provides for people who have been previously employed and are no longer employed, for a certain period. There are no grants for the unemployed *per se* unless they fall in the abovementioned categories; this has created a vacuum in government efforts regarding the poor who have no disabilities and are of working age. Beyond the fact that a significant percentage of the poor is excluded from receiving social grants, there is still an increase in the demand for grants (Surender *et al* 2008). In 2006 the government was paying out 11 million grants per month to only a quarter of the country's population accounting for 3.5 % of the South Africa's Gross Domestic Product (GDP), (Surender *et al* 2008). According to the South African Social Security Agency (SASSA) in the township of uMlazi alone, the child support grant was paid out to 87 865 people, the old age pension to 26 651, and the disability grant to 37 3115 people in the first four month of 2009 (SASSA 2009). This increases government expenditure and puts a strain on government spending and if the demand for social grants continues to increase as has been the pattern, the sustainability of welfare as the sole and permanent solution to poverty alleviation may prove not to be feasible. Given the abovementioned challenges of government social safety nets, employment creation emerges as an additional tool that complements welfare in reducing poverty. According the International Poverty Centre (IPC), countries that have achieved significantly decreased levels of poverty are those that have had good employment creation policies (2008).

There is a counter-argument to the concept of employment creation as a tool for poverty alleviation. The main reason presented is that the South African economy is busy modernising and jobs created in this kind of economy are unlikely to be low-skilled or labour intensive, so those who benefit the most from jobs created will be from the semi-skilled category, and the educated (Grawitzky 2006). The poorest of the poor are unlikely to benefit from this kind of employment because they are the ones that do not have required the skills. There is a strong correlation between an individual's level of education and employment (May *et al* 1998). In South Africa illiteracy is highest among

the poor. This however does not explain graduate unemployment and raises questions around the efficiency of the country's education system. It raises questions about the extent to which employment creation will reduce poverty rather than disputing or dismissing the whole concept of poverty alleviation through employment creation. It highlights substantial facts that need to be taken into account in the process and is valid in highlighting areas of vulnerability. No poverty alleviation strategy is foolproof; proper management and contingency plans must be put in place to cover the precarious aspects of the strategy and in order for the benefits of employment creation to be maximised.

2.4 Employment Creation and SMMEs

SMMEs are an expression of entrepreneurship. Greater business and entrepreneurial activity in the economy is crucial for economic growth. There is widespread recognition of the role of SMMEs in the economic and social development of developing countries, their main contribution being job creation, and augmentation of growth and poverty alleviation (Rogerson 2001). The relationship between economic development and entrepreneurship is advocated by most development theories, and research shows that increases in the number of firms mostly lead to economic growth and employment creation (Venesaar and Loomets 2006, Lazonick 2008). The link between entrepreneurship and economic development is strengthened by the fact of improved quality of life through employment or absorption of labour (Lazonick 2008). The strong link between SMMEs, and employment creation, and poverty alleviation has caused policies on SMME development to take centre stage in the development plans of developing countries (Rogerson 2001).

The focus of the South African government is on the expansion of the SMMEs sector resulting in the creation of employment and by and large improvement in the performance of the country's economy (DTI 2007, Berry *et al* 2002). According to KwaZulu-Natal Business (KZNB), there are over 2.5 million SMMEs in the country, and they contribute 52% to 57% of the country's GDP (2008). In South Africa the SMME sector is said to be responsible for 61% of all employment in the country, and 91% of all business entities are SMMEs (Biekpe 2006, KZNB 2008). The importance of SMMEs to

employment creation in South Africa is signified by the fact that they are already responsible for over half the employment in the country and an increase in the number of SMMEs is likely to create more opportunities for employment in the country. Through the ASGISA policy framework, government has set out its goal for not only economic growth but also growth that will be shared by all and will also benefit the poor (DTI 2007). It is this goal of shared growth that magnifies the importance of SMMEs in employment creation in the country. The government's White Paper on the National Strategy for the development and promotion of small businesses in South Africa sets out the objectives of SMME promotion which include job creation, equity, and economic growth; it is the view of the national government that SMMEs are an important tool for the achievement of the abovementioned objectives (1995). A lot of literature supports the view that there is a positive relationship between SMMEs and employment creation. Empirical evidence shows that in regions like Estonia the growth of the SMME sector has correlated positively with the growth of employment opportunities (Venesaar and Loomets 2006).

There are debates about the relationship between SMMEs, poverty alleviation, and economic growth. The first point of contestation is that though much research has been done in the area of SMMEs, the degree to which they are able to bring about poverty alleviation, particularly employment creation and economic growth in South Africa, is still indistinct (Berry 2002, Cant and Stanford 2006). This raises questions about whether developing economies should be investing in the promotion and development of their SMME sectors. The argument also raises questions about the validity of the South African government's SMMEs policies if the economic rationale upon which they are based is questionable (Berry 2002).

Other debates on SMMEs and employment creation are based on their performance in the area of job creation. The point of contestation raised is that there is a general overestimation about the extent to which the SMME sector can create employment. In South Africa predictions made concerning the extent to which SMMEs could create jobs, have not been realised (Cant and Stanford 2006). SMMEs do not usually grow to be big enough to create significant numbers of jobs. Other counter-arguments are based on

factors like industry based problems, national economy problems, and organisational problems (Cant and Stanford 2006). However varied the reasons for the underperformance of the SMME sector concerning job creation in the country, the end result is that the creation of employment opportunities is severely undermined. Most literature and government practice do not dismiss the SMME sector as a tool for employment creation because of the aforementioned counter-arguments. Factors that hinder SMMEs from creating employment must be identified and strategies need to be fashioned in order to deal with all the emerging hindrances.

2.5 The Tourism Sector and Employment Creation

Tourism is the world's biggest industry (DTI 2007). It employs around 340 million individuals (DTI 2007) globally. Historically the tourism sector in the African economy has not been viewed as a sector which could make a meaningful contribution to the economies of the continent; the growth and development of sectors like manufacturing and agriculture were always given priority over the tourism sector (UNCTAD 2007). In recent years however developing countries have been showing a growing interest in the tourism sector as a significant industry that can contribute meaningfully to the growth and development of their economies. This growing interest is mainly due to the industry's steady growth pattern in recent years. The World Tourism Organisation states that in 2000 more than 478 billion United States dollars was spent by tourists globally. There has been a pattern of increased revenues and tourist numbers in developing countries in recent years (UNCTAD 2007). In the African region it is estimated that this sector grows yearly at an estimated 10% (Rogerson 2008). The World Tourism and Travel Council (WTTC) in its report on tourism in the Asia-Pacific Economic (APEC) region states that the growth and development of this sector will bring about job creation, new capital investments and foreign trade (1998). According to the United Nations Council for Trade and Development (UNCTAD) the tourism sector not only has potential for employment creation and export revenues but is also an industry that could include the poor, women, and the youth in the kind of labour force it absorbs (2007). The poor, young people and women are the most vulnerable groups as the highest rates of unemployment are among them. There exists a widespread view that if developing

countries can properly build up and manage their tourism industries it could lead to economic growth, employment creation and human development (TKZN 2003, UNCTAD 2007, WTTC 1998, Rogerson 2008).

In South Africa tourism has evolved in terms of the type of tourist it attracts. According to Ramchander (2007) tourists who come into South Africa have become more interested in the cultural context of the country. Before democracy in 1994 tourists mainly constituted of those who had environmental interests like the wildlife and scenic beauty, and those who came solely for leisure (Gauteng Tourism Authority 2002 cited in Ramchander 2007). After democracy there was a rise in the number of tourists who came to the country with the purpose of exploring different cultures; the percentage of socio-cultural tourists rose from 21% to 46% (Lubbe 2003 cited in Ramchander 2007). This translated into township tourism and cultural village tourism (Hughes 2005). Township tourism encourages community involvement as it focuses on their cultural heritage and way of life. Heather Hughes states that “tourism has become deeply embedded in this effort: it can provide jobs and therefore hope for the future, based on the one resource that poor communities are thought to possess in abundance: their past and present culture” (2005: 2). Even though township tourism is a fairly new concept, its potential of directly impacting on poor communities in townships through employment creation has been widely recognised by government and other stakeholders.

The tourism industry extensively involves the SMME sector. According to research in South Africa there are approximately 50 000 tourism enterprises, 97% of which can be classified as SMMEs (Rogerson 2008). The tourism industry consists of diverse business activities. Stakeholders involved range from international and transnational corporations to SMMEs (UNCTAD 2007, WTTC 1998). This diversity manifests in the form of services and goods that are traded. The “cross-cutting” nature of the business activities that take place in the tourism industry increases its desirability for developing economies because it introduces diversification of economic activities and evolves economies towards being more service orientated (UNCTAD 2007). The global pattern is that economies that have been growing steadily are those that have an expanded services industry (WTTC 1998). Economic diversification is important for developing economies

because due to their given history of colonialism their economies have been limited in their growth as the theory of “comparative advantage” which set up the colonised countries primarily as suppliers of raw materials hindered economic diversification and the development of service industries (Simon 1995). Given this history, developing countries have ended up with economies that are mainly orientated towards the production and supply of primary commodities (Simon 1995). This among other factors has retarded economic growth in Africa; the stimulation of sectors that bring about economic diversification and development of the services sector is therefore crucial for substantial economic growth and development.

Tourism in South Africa is estimated to make up about 8% of the country’s Gross Domestic Product (GDP). Within the ASGISA framework the goal of government is to increase this contribution to 12% and in the process create 400 000 jobs (White Paper on the Development and Promotion of Tourism 2008). In the province of KwaZulu-Natal tourism contributes about 10 % of GDP which is R18 billion (White Paper on the Development and Promotion of Tourism 2008). This is a significant contribution to the economy of the province not only in monetary terms but also in terms of employment creation. Advocacy for employment creation through the tourism sector is not only evident in South Africa, but also in other developing economies. The Asia-Pacific Economic Corporation (APEC) has also targeted their tourism sector for employment creation. The contribution of tourism to employment creation in the APEC region was forecast to be 123.9 million jobs by 2010 (WTTC 1998). The WTTC projected the economic impact of travel and tourism on employment regionally (1998):

	Percent	Millions
World	42.3%	97.62
South Asia	71.5%	24.12
Northeast Asia	27.0%	20.93
Southeast Asia	83.1%	18.42

Eastern Europe	52.5%	7.97
Sub-Saharan Africa	42.2%	5.61
North America	26.2%	5.47
Latin America	55.0%	5.45
European Union	14.6%	3.23
Other Western Europe	51.4%	2.24
Middle East	48.4%	1.49
North Africa	42.0%	1.24
Caribbean	26.1%	0.77
Oceania	25.7%	0.70

The above figures presented by the WTTC consist of an estimation of the number of jobs that could be created by the tourism industry in each region projected for 1998-2010.

The main advantage of the tourism sector in relation to employment creation is that it creates skilled and semi-skilled or labour intensive jobs (WTTC 1998), which means that the largely unskilled South African unemployed labour force could be absorbed in this industry.

The potential of the tourism industry for economic growth and employment creation has been subject to dispute. The debate around tourism and economic development and employment creation is mainly based on the nature of this industry. The tourism industry's main weakness is that it is vulnerable to externalities. According to the UNCTAD the tourism industry is easily affected by 'economic, political and environmental shocks' (2007: 11). Most developing economies are already facing challenges in economic, political and environmental areas and are already vulnerable in these areas which threatens the growth potential of tourism sectors and the economic benefits that could be realised. Consequently the level of job security in the tourism

industries could be lowered because of the high level of 'sensitivity' of this industry (UNCTAD 2007), this fact can hinder employment creation in the tourism sector.

Another question raised concerning the relationship of the tourism sector and employment creation pertains to the quality of employment created in this sector. Research has found that the quality of employment in the tourism industry has at times been low. In some instances the industry is characterised by jobs that pay low wages and have bad human resource practices (UNCTAD 2007). This is an obstacle to employment creation as the quality of jobs created should improve the quality of life of the people employed and the wages should be reasonable enough to help people move out of poverty. If low paying jobs are created and the human resource practices are inadequate then job security is compromised and the purpose of alleviating poverty is defeated. This however does not negate the potential of the industry to create jobs but it is an area that calls for government management through implementation of good labour policies.

The relationship between tourism and employment creation also hinges on the availability of skilled labour that can be absorbed into this sector. The growth of the tourism industry in South Africa may not necessarily benefit the poor in terms of employment creation. As mentioned earlier the issue of human capital is one of the stumbling blocks that prevent the majority of the poor from participating in the economy. The nature of the South African labour market is such that there is excess demand for highly skilled labour and lesser demand for low skilled labour (Hoogeveen, Ozler 2006). The poor often lack the skills that are in demand in the labour market of the various economic sectors. Previous research conducted in the township of Alexandra that focuses on the relationship between labour skills and tourism in South Africa has shown that one of the crippling factors to the growth of this industry is the shortage of skills (Kaplan 2004). There is a shortage of skilled labour supply in the tourism industry as this industry is expanding. In 1996 it was estimated that the tourism sector would require a hundred thousand skilled individuals annually over a period of five years in order to meet the demand for labour however training in the required skills could only be provided for approximately ten thousand people annually (Kaplan 2004). The discrepancy between

labour demand and available labour supply challenges the relationship between tourism and employment creation.

The distribution of employment and economic opportunities presented by the tourism sector within the township is another area of consideration when looking at the relationship between tourism and employment creation. Research has shown that black-owned tourism SMMEs like B&Bs are mainly concentrated in townships like Inanda, Soweto and Khayelitsha (Rogerson 2005) but are not evenly distributed within the townships themselves. A study carried out in the tourism sector of the Soweto township showed that some of the residents had a concern about the disparate distribution of employment opportunities created by the industry (Ramchander 2007). If then employment opportunities created in the township tourism industry were accessible to only a few and were not equitably distributed this would also weaken the impact of the industry on job creation.

It has also been argued that though the tourism industry involves a lot of SMMEs, the bulk of benefits that are enjoyed in this industry go to big dominating transnational corporations. In South Africa 60% to 70% of the tourism industry is said to be controlled by a small number of corporations and the SMMEs get the remaining 30% to 40% (Rogerson 2008). This puts SMMEs at a disadvantage and makes it critical for government to create policies that will ensure that whatever growth is realised in the tourism sector it is shared by all the stakeholders including SMMEs (Rogerson 2008). It is a crucial objective that SMMEs share in the growth of the tourism sector because as already mentioned above they are responsible for over half of the total employment in South Africa.

The involvement of transnational corporations also creates a situation of capital outflows, when money leaves the country or area from which it flows. In the case of capital outflows whatever wealth is created does not benefit the area within which it is created but the profits are harvested by external players resulting in little or no economic development for that area. The reluctance of transnational corporations to reinvest profits in the same area is a disadvantage for developing economies and tourism is one of the sectors in which capital can leave (UNCTAD 2007). The effect if investment does

not take place is that the opportunity for employment creation is reduced. This also requires that measures be put in place to counter the negative effects that come with the involvement of transnational corporations.

The focus of most research in the area of tourism has not included township tourism. Very little literature focuses on the latter and how it may impact on local communities at grass root levels. The literature reviewed in this study mostly contains information about employment creation in this sector at an aggregate or macro level. This stimulates questions around the micro and local impact of tourism specifically to the unemployed poor. Township tourism is a fairly new concept in South Africa and very little research has been directed towards it. The bulk of studies regarding the economic and developmental significance of the tourism sector in developing countries mainly focus on the overall contribution of this sector to national economies and GDP of the countries. There is not much focus on local areas and how individual communities are impacted. It is hoped that this study will contribute in defining the current tourism sector as it exists in the uMlazi township, and the extent to which SMMEs that operate in this sector have been able to create employment bringing to light the challenges and hindrances that hamper the growth of this sector. Umlazi township being the second largest township in South Africa has a potentially big role to play in the South African tourism industry as it makes up part of the image of the country. Research covering the impact of tourism on employment creation in local communities will contribute to the process of policy formulation.

2.6 Conclusion

In this section various debates concerning the relationships that exist between employment creation and poverty alleviation, and the role of SMMEs, in the tourism sector, have been discussed. The main theme that consistently emerges is that all poverty alleviation efforts need to be monitored and effectively managed in order for them to yield optimal results. Concerns raised by the debates do not negate the potential benefits that could be realised by the SMME tourism sector but they highlight the need for awareness concerning areas of vulnerability in the strategy.

Chapter 3

Research Methodology

3.1 Introduction

The research methodology used in this study was informed by the nature of the research and the purpose of the study. This is a qualitative study. The nature and purpose of the study are to inquire into the impact of SMMEs that operate in the tourism sector, on poverty alleviation insofar as employment creation is concerned in the township of uMlazi, as well as to understand the relationship between SMMEs in this sector and employment creation. The research methodology was selected in order to maximise accuracy in the process of information gathering and data collection and to reduce margins of error. The methodology is important as it influences the quality of data collected which will be analysed and from which conclusions will be drawn so that possibilities of further investigation into the particular area of research can be created.

3.2 Qualitative Research

Qualitative research is popularly employed in social science studies. It differs from quantitative research in that the data collected is positivist or objective in nature and the interviewer seeks to detach him/herself from the phenomena being studied as much as possible (Cresswell 1994). The natural sciences often employ quantitative methods of research as this is where they are most relevant. On the other hand a qualitative study entails coverage of the views of the respondents concerning their world or experience (Cresswell 1994). An additional dimension of qualitative research as mentioned by Denscombe is that this type of research is more a “process of ‘discovery’ rather than the testing of hypotheses” (1998: 25) though a study may have a hypothesis. The qualitative approach is most relevant as the current study is a discovery or an inquiry into tourism SMMEs and employment creation as mentioned above.

The qualitative method used in the research process of this study is the case study method. Case study methods are described as instances whereby the researcher focuses and investigates a particular unit or event which is the case “bounded by time and

activity...and collects detailed information by using a variety of data collection procedures during a sustained period of time” (Merriam 1998, Yin 1989 cited in Cresswell 1994: 12). Often the purpose of using case studies as research tools is to contribute to the body of knowledge about a particular phenomenon (Yin 2003). The focus and area of investigation of this study is the tourism sector in the township of uMlazi. One of the main concerns about employing the case study method is that inferred conclusions cannot be readily generalised to populations as the focus would have been on a single particular case and not necessarily a sample representing the whole (Yin 2003). This concern is valid especially if the aim of the research is to come up with scientific statistical generalisations that entail “enumeration of frequencies” (Yin 2003). In instances where the aim of the research is to “expand and generalise theories” (Yin 2003) this concern becomes immaterial. In the instance of this particular study the aim is to contribute to the body of knowledge concerning SMMEs in the tourism industry this; in other words, an expansion of theories around this area. It has been mentioned in the preceding chapter that very little research has been directed towards township tourism and employment creation. The method of data collection was interviews.

3.3 Interviews

Mainly interviews were mainly employed in this study. As this is a qualitative study, qualitative interviewing tactics were used. According to Gaskell the latter are a commonly used system of data collection in empirical social sciences (2000). Qualitative interviews are semi-structured, which was relevant to this study as this type of interviewing allows for more opportunity to gain insight into the perceptions of the interviewees concerning their environment (Oakley 1987). This gives the researcher the opportunity to understand the respondent’s world or environment beyond technical and statistical information; from their perspective, and in keeping with the objective of the research namely to discover and make inquiry into the phenomenon being studied. For this study respondents were employers and employees from businesses in the uMlazi tourism industry, and also included individuals who work for supporting SMME organisations and banking institutions.

Interviewing as a data collecting tool is advantageous as it does not confine the researcher to exclusive usage but can be used in conjunction with other data collecting tools.

“Beyond the broad objectives of description, conceptual development and testing concepts, qualitative interviewing may play a role in combination with other methods” (Gaskell 2000: 39). Gaskell adds that information acquired from qualitative interviews can enhance the value of survey design and interpretation (2000). The open-ended questions that dominated the interviews in this study allowed for the respondents to give information of their experience and also their expertise regarding the area of research. The interviews were conducted on a one-on-one basis by the interviewer.

3.4 Sampling

The purpose of research is to bring about understanding of a particular phenomenon and ideally to bring about more accuracy or precise understanding; the whole population or all the elements involved in the scope of the research should be studied. This is however often not practical due to the vastness of the size of the population studied and limitations of time and resources. In order to mitigate these limitations researchers use the process of sampling in order to get a portion that will be representative of the whole population in which each member of the population should have an equal chance to participate in the research. Probability samples have been described as subsets that have universal representation of the entire population (Bailey 1987). This means that the sample is an approximation of the entire population rather than the population itself. This kind of sampling is referred to as probability sampling whereby the researcher has measured and knows the probability of each component within the population being chosen for research. According to Babbie and Johann probability sampling “...remains the primary method for selecting large, representative samples for social science research, such as political polls...” (2001: 166)

Sampling is mainly two-fold; the researcher has a choice between probability sampling and non-probability sampling methods. As mentioned earlier, if at all possible the whole population present in the particular area of research should be interviewed but because of logistical challenges researchers often have to settle for studying a sample of the whole population. There are instances of research whereby probability sampling is neither

feasible nor appropriate. In these instances non-probability sampling methods are used. The purpose of the study or research informs which method will be used. In studies where the findings are intended to be generalised to the whole population, probability sampling is most appropriate. Quantitative studies often employ probability sampling methods. The purpose of most qualitative studies is to discover more information about phenomena being studied (Denscombe 1998) rather than making an effort to produce findings that can be generalised to the whole population. The scale or scope of a study also determines the choice between probability and non-probability samples. Small scale research often uses non-probability sampling methods (Denscombe 1998). This is a small scale study and the non-probability sampling method was used. Purposive sampling was chosen.

Purposive sampling means the researcher selects the respondents based on information attained beforehand, concerning the particular area of research. This kind of sampling is also referred to as judgement sampling. As a precautionary measure pre-selection questions were conducted in order to identify stakeholders in the uMlazi tourism industry which helped ensure that the respondents were relevant to the purpose of the research, namely individuals who are knowledgeable about the focus of the study.

In this research a total number of 15 interviews were conducted. Identifying major stakeholders in the uMlazi tourism sector was the initial step. The interviewees consisted of four business owners, six employees, two financial institutions business consultants, and three employees of tourism support organisations. Umlazi has a relatively small tourism sector. An organisation that registers tourist SMMEs was approached for the contact details of tourist SMMEs registered with them that operate in uMlazi and this is how the SMME owners were identified. The six employees were approached for interviews based on their availability. The business consultants work for major banking institutions. Organisations that are actively involved in the uMlazi tourism sector were identified and individuals working directly with the uMlazi tourism industry were interviewed.

3.5 Techniques of Analysis

Analysing data is a research process whereby the researcher analyses or examines data collected in order to “discover patterns and in some cases identify cause and effect relationships.” (Ulin *et al* 2002). The process of analysing data in research is an important part of the study. It is through the process of data analysis that the researcher has the opportunity to make sense of all data collected in the field and convert it into meaning and knowledge that can be used for further investigations and other purposes. There are two main streams of data analysis: quantitative and qualitative data analysis. The type of study that the researcher embarks on determines the stream or form of data analysis that is used.

In this study qualitative data analysis techniques were used. As mentioned before, this is a qualitative study and the method of data collection was interviews with selected respondents. Precautions in analysing data need to be taken by the researcher in order to ensure that the process is not unduly influenced by the researcher’s own perspectives and that knowledge drawn from the data is truly reflective of the perspectives of the respondents as they understand and interact with their own context. Qualitative analysis is guided by the following principles:

- The researcher needs to be aware of the fact that individuals differ in their encounters and conceptualisations of reality; therefore there may be differences between how they define their situation and the researcher’s assumptions (Ulin *et al* 2002). Awareness of the researcher’s own cultural filters through which they may be viewing or perceiving the respondents, will help the researcher improve the accuracy of the process of data analysis.
- The researcher must be aware of the relevance of context in the study of the chosen subject (Ulin *et al* 2002). The context refers to the geography, ideology, beliefs, value systems, history, and cultural framework within which the respondents function. Qualitative analysis does not seek to isolate any of these factors but operates on the premise that they are interrelated and have bearing on one another. The multidimensional nature of contexts needs to be

taken into account by the researcher as well as factors that influence the respondents.

- Qualitative analysis can be directed and based upon theory or it can also produce theory (Ulin *et al* 2002). As a result qualitative analysis may give rise to new concepts.
- In qualitative analysis cases that deviate from the norm are viewed as an opportunity to give rise to new insights and further understanding of the phenomenon being studied (Ulin *et al* 2002). The purpose of this study was to make an inquiry into the impact of tourism SMMEs on employment creation in uMlazi inclusive of any factors that may have been unobserved by previous research.
- Due to the complex nature of human behaviour, qualitative analysis does not follow a straightforward course. The researcher needs to have an adaptable and blended approach, and the process of analysis should start during data collection and continue beyond it (Ulin *et al* 2002). This may lead the researcher to refine and edit interview questions to gain more precise information or new angles and outlook as the study continues.

The abovementioned standards assisted in ensuring that the process of analysing the data was free from the researcher's own perspectives and that data was analysed in its authentic form as far as possible.

3.6 Conclusion

In this chapter the research methodology was discussed. The strengths and limitations of the chosen methodology were pointed out and how those shortcomings were to be mitigated. Justification and explanations on the choice of research methodology, data collection tools, sampling approach, and data analysis were given. One theme that emerges in discussing research methodologies is that no method is foolproof; however precautionary measures can be taken in order to ensure the integrity of the research and to curb any deficits in the study arising from the intrinsic limitations of methodologies.

Reasons for choosing one method over another were given; these were fundamentally and essentially informed by the nature and purpose of the study.

Chapter 4

Findings

4.1 Introduction

This chapter will provide a descriptive presentation of the findings obtained from the field work done for this study. The study was conducted on the tourism industry and its impact on poverty alleviation through employment creation within the township of uMlazi was investigated. Fifteen interviews were done in the field. The respondents were SMME owners and employees in the tourism industry in uMlazi, employees of financial institutions who deal with loaning money to SMMEs, and individuals who work for SMMEs supporting organisations. The method of data collection was interviews.

4.2 SMME Owners

Four SMME owners were interviewed. The purpose of interviewing business owners was to gain insight into their experience in the industry as employment creators by way of their businesses. The aim of the researcher included acquiring knowledge concerning the experience of business owners insofar as accessing finance to establish and further their businesses is concerned. Two bed and breakfast (B&B) establishment owners, one restaurant owner, and one tour operator were interviewed. One of the owners of the B&B was female, the other was male, and both the restaurant owners and the tour operator were male. All the above businesses operate in the township of uMlazi.

4.2.1 Employment

The following table is a representation of the approximate time that each business has been in operation, and the number of employees that each business employs:

EMPLOYER	DURATION OF OPERATION	NUMBER OF EMPLOYEES
Bed & Breakfast	1990s – to date	6
Bed & Breakfast	2009 – to date	3

Restaurant	2006 – to date	9
Tour Operator	2005 – to date	1

The longest running enterprise is one of the B&Bs; the other one has been in operation for only a few months. The first B&B has been in operation since the 1990s. The restaurant and tour operating enterprises have been in existence for an average of 4 to 5 years.

It can be noted from the above table that none of the enterprises employ more than 10 people; the restaurant employs the most number of employees the number being 9. The tour operating business employs only one person. These figures do not include the employers themselves. Most employers stated that the highest qualification their employees had was matric. In the instance of the restaurant, the owner stated they preferred individuals who had matric or grade 12 because they have their own in-house training programme for the cooking and preparation of South African local cuisine. The main responsibilities of the employees in the restaurant include taking orders at the till, cooking and assisting with orders, and cleaning. Employees had clearly defined job-descriptions in the restaurant. A similar pattern of employees with grade 12 was found in the instances of both B&Bs. All the business owners reported employing people between the ages of 20 years and 30 years. Three of the owners pointed out that their employees remained in their employ for an average of 1 or 2 years. In the case of the tour operating business, the one person employed is mainly responsible for co-ordinating the tours and other office duties, and holds, in addition to a high school education, another qualification, namely an office administration certificate. The tour operating business owner does all the driving for tours. The B&Bs and restaurant reported that their employees stay for an average of one to two years and then move on.

The restaurant owner and one of the B&B owners are both involved in other professions, and although the other two business owners run their businesses on a full-time basis, they are also involved in other business activities. All the business owners have other sources of income besides their tourist businesses.

4.2.2 Accessing capital for business

The question of how the business owners were able to build their businesses particularly on the point of acquiring capital to start their businesses was asked. The purpose was to give the researcher some insight into the challenges that exist for entrepreneurs in accessing funding and what bearing this has on the SMMEs in the tourism industry. The manner in which the SMMEs acquired capital to fund and start their businesses varied. All four of the businesses reported that they were partly financed by bank loans. Except for the restaurant owner, all the other business owners reported having had difficulties in securing funding from financial institutions. The owner of the newest B&B had to resort to making loans in her personal capacity because the banks she approached declined to fund the business. According to this B&B owner the amount obtained from personal loans was not enough to cover all the costs of starting her business; she reported to having outstanding items to be done namely putting up a security fence around her B&B, extending the establishment to add more bedrooms, and adding more furniture. She reported to not having been able to fully repay her loans yet. The owner of the B&B that has been in existence for longer stated that he utilised his personal savings as start up capital. He also reported to having outstanding items like creating a parking bay for visitors. This B&B was still in the process of attempting to secure financial assistance for the outstanding items. Both B&B owners converted their residential properties into B&Bs.

The restaurant owner managed to secure finance from one of the mainstream banking institutions. He reported that accessing the funding was a fairly straight forward process for him, firstly because he is in a partnership with others and they could all contribute a certain percentage towards the capital which increased their chances of obtaining funding from the bank. The restaurant owner also added that the type of restaurant that he owns is a franchise and it is located in a shopping mall which he believed positioned him well for getting finance; the financial risk that banks usually associate with funding township business was reduced if not eliminated.

The tour operator reported that insofar as financing is concerned the starting up of his operation business was not too expensive, the only finance he had to acquire was for a

vehicle. His business is operated from home which reduced the amount of capital needed as expenses for office space were not incurred.

4.2.3 Business

A prospering business is better positioned to create employment, therefore in order to find out about the capacity of tourism SMMEs in the township of uMlazi the researcher enquired into the performance of the businesses of the respondents. The business owners all have diverse experiences insofar as the patterns of their business performance and growth are concerned. In the context of this research business performance refers to business inflow or volumes and profitability and growth refers to expansion of the business not in terms of profit margins only, but in terms of size as well.

The restaurant business owner reported that the restaurant was very busy every day and its performance was very satisfactory. The overall view of the restaurant owner was that the business was in a good place and there were increases in profit margins. When the researcher enquired about future growth plans for the restaurant, the owner pointed out that because the restaurant was doing well as far as performance is concerned, for the moment they were content with the size of the business and it was sufficient. The restaurant owner further stated that there had been offers to open another franchise in the uMlazi township in another newly opened shopping mall but that he had declined the offer as he had evaluated his current outlet and found it sufficient to service the current market and any other potential new clients. Business growth in terms of expansion was not in the restaurant owner's immediate plan.

The two B&B establishments had differing trends in performance and growth patterns. The first B&B established a few years back has had business growth in terms of the number of rooms and facilities that they are able to offer. Since their establishment there has been steady increase in growth and performance and the business has been getting more exposure to potential clients. They are currently putting expansion plans into action. Their performance has been sporadic and inconsistent in the area of profitability and inflow of business. The owner stated that for the most part there is just no business

coming their way and addition of rooms and facilities was mainly motivated by their goal to be more marketable rather than market demand.

The owner of the second B&B which has been in operation for less than a year reports that performance and growth of the business have been very slow. To date there had been no tourists from outside the township and the only clients she has hosted came not for the purpose of touring but to attend a conference in a nearby hospital. The bulk of the profits come from the beadwork she creates and sells and the catering business housed within the B&B. The owner of this B&B stated that she has expansion plans that would give the business a 'face lift' and also plans to add more guest rooms as she believes that township tourism is beginning to gain momentum among tourists.

The tour operating business reported a measure of good performance in the area of profits. The owner stated that though at the inception of his business his aim was to provide specialised services to tourists who wanted to tour uMlazi township, he ended up having to diversify and offer tours to other areas outside the township as there was very little demand for tours to uMlazi. He stated that his business still operated from uMlazi but the majority of the tours which he organised were to other conventional tourist destinations in KwaZulu-Natal. On the question of growth, the tour operator stated that any expansion plans that were on the table were unlikely to be planned around uMlazi tours but likely to be based on tour operating business activities outside uMlazi. Three of the business owners with the exception of the restaurant owner all stated they had some business expansion plans in the pipe line notwithstanding the fact that they mentioned challenges when it comes to demand for their services.

4.3 Employees

The purpose of interviewing employees was to gain insight into their perceptions and experiences concerning the economic or financial impact that being employed in the township tourism industry has had on their quality of life. The objective was also to enquire about the characteristics of the type of labour absorbed by the uMlazi tourism sector. In keeping with the purpose of the research, employees were also interviewed with the intention of gaining some information about their own economic backgrounds,

and whether they indeed come from the poor segments of society. One of the questions that the researcher attempted to answer is whether the poor have been able to access jobs created in the uMlazi tourism industry. Furthermore assessing the employees' views and perceptions on the level of job security and the quality of jobs in the township tourism industry was another aim of the researcher. A total number of six employees were interviewed.

4.3.1 Level of education and background

Prior research has shown that it is the poor who mostly lack skills and education due to the fact that they do not have the resources to access these (May *et al* 1998). Determining the level of education of the employees was relevant to this study in order to find out if there was a relationship between employment and education or skills. Most employees stated that they had a high school education up to grade 12 or matric. Most employees were between the ages of 20 years to 32 years. In response to the question of whether they had any prior working experience before their current employment all employees responded that they had none. Concerning their economic background most employees stated that they were not the sole breadwinners but were expected to make financial contributions towards their families' upkeep. Most employees reported to have been hindered from furthering their studies by lack of funds. Some informed that part of their goal was to save money towards furthering their education.

4.3.2 Perceptions on their work situation

The question concerning the way in which employees experience their world insofar as working conditions in the tourism industry are concerned, was intended to unearth any benefits and negatives about the kind of jobs that are created by the township tourism industry. The employees who were interviewed had been employed an average of 1, 5 years in their current jobs. Many reported to be on the lookout for 'something better' or were hoping to build up to other better opportunities. Three of the employees pointed out that with the work experience that they were accumulating in their current places of employment they could hope to work for similar but bigger establishments in the future. This they believed would improve their salaries and present them with more opportunities

for career growth. An employee in one of the B&B establishments pointed out that it was not really clear what her day- to-day duties or responsibilities at work were but said she was expected to ‘help wherever she could’. When asked by the interviewer if lack of clarity concerning her job description affected her in any way, she responded that it affected her sense of purpose when coming to work and made her feel ‘easily disposable should the employer decide to down- size for whatever reason’. The employees reported to having a certain level of job security as compared to having nothing.

Employees were then asked if they thought that working for a similar establishment but outside the township, in the city, or at another tourist destination would make a difference in their working conditions. Those working for the B&B establishments answered with a definite yes, and felt that if they worked outside the township they would most likely be earning better salaries with benefits and there would be more chances of promotion and career growth. They seemed very sure that employment terms and conditions of B&B establishments in traditional tourist places were better than what they were getting in their township place of employment. The interviewer then asked why they thought so and some of the employees pointed out that they believed the B&Bs outside the township were much busier and have been in existence for longer. The other employees said that as far as they knew city or suburban areas just offer better quality jobs than one could ever find in the township. They further emphasised that the city is where most people are able to make a ‘decent living’. The restaurant employees believed that their salaries were most likely similar to those of other restaurant employees in the city, because they work for a franchise.

4.3.3 Perceptions on salaries and the impact on quality of life

The interviewer raised this question in order to determine whether the quality of life of employees in township tourism was being improved in any way. All of the employees expressed a certain level of dissatisfaction with their salaries, although the levels varied. The three employees in the restaurant pointed out some dissatisfaction but felt that their salaries were more or less the norm in their industry. The B&B employees expressed dissatisfaction and also said they were convinced that other ‘bigger establishments’ paid their employees better. All the employees stated that they could cover some of their basic

needs but other family members had to complement their incomes when it came to overall household responsibilities. An employee working for one of the B&Bs said that the money was not enough but it was 'better than nothing'. The interviewer then asked what improvement the respondents had seen if any in their quality of life since working in their current jobs. All the employees pointed out that there was some difference, but not to the extent that they would like.

4.4 Financial institutions

The purpose for interviewing employees in financial institutions was to investigate the trends they had observed in funding township tourism SMMEs, and to gain the perceptions that mainstream banking institutions have on township businesses in the tourism sector. Two business consultants in banking institutions were interviewed. Their responsibilities include processing the applications from entrepreneurs who approach the banks for capital and other business funding. The procedure includes assessing the risk the bank would incur in funding a particular business and the viability of the business idea.

The two consultants gave similar criteria in assessing businesses for funding. A comprehensive business plan and projected cash flow statements are required when an entrepreneur approaches a bank for funding.

4.4.1 The criteria for accessing funding and financing of SMMEs in uMlazi

Criteria for accessing funding from banking institutions mainly include the following according to the respondents:

- **Integrity**

The applicant must be cleared by the Credit Bureau and must have no judgements against him or her.

In the case where there are judgements, the debt must have been paid off at least 6-12 months before applying for a loan.

- **Payability**

In the case of new ventures the banks require a projected cash flow statement for up to 3 years. All expenses must be included in the projected cash flow including the repayment of the loan. The projected cash flow must make provisions for interest rate hikes and stress testing.

- **Security**

As far as securing the loans are concerned, the financial institution requires that applicants have tangible forms of collateral. Tangible forms of collateral refer to bonds against fixed property if the property has equity, values of insurance, investments, and shares. The reason for security is that should the client fail to make repayments the bank can attach the security and recover potential losses.

The abovementioned points are the main criteria that financial institutions use to decide whether they grant loans or not. The consultant mentioned that a projected cash flow statement was absolutely crucial as the financial institution would use it to see expected revenues and business overheads and therefore be able to assess the repayment ability of the business. A total breakdown of the required amount needs to be drawn up and justified by quotations.

On the question of whether they approved financing or financed any tourism business in the township of uMlazi, both banking consultants answered no. None of the applicants who ever approached them from tourism enterprises had qualified to get business loans from the banks.

4.4.2 General reasons for disqualification and threats

The interviewees reported similar reasons for why they have often had to decline applications. The first reason was that potential clients often approached them with inadequate business plans. Secondly, entrepreneurs often failed to provide properly projected cash flows. Thirdly both consultants pointed out that the viability of a tourism business in a township was still precarious. One gave the example of a B&B and stated that this kind of venture in their view as a banking institution, was unlikely to draw regular income as this kind of business was a 'luxury' and most locals would unlikely be able to afford going to a B&B even during down-time seasons when there were not

foreign tourists. This in turn would hamper the ability of the business owner to make repayments on loans. A fourth reason mentioned by one of the consultants was the question of crime in townships. He stated that one of their main concerns was the security risks that businesses in the township would incur. Speaking about these threats the consultant said, 'The first thing in my mind is violence -and I say this with respect – looting, break-ins etc.' This kind of environment is not a place where banks are readily prepared to invest. Both consultants reported that applicants had to have a minimum contribution towards the business loan to show commitment to the venture.

For clients who do not have tangible collateral, the financial institution is attached to a scheme. The purpose of the scheme is to assist entrepreneurs who do not have collateral or 100% security, by insuring loans from the financial institutions. The requirement for this scheme is that the applicant has to make a minimum contribution of 2.5% of the amount needed towards the business; this criterion however is not applicable to fixed properties like B&Bs. For commercial property the applicant has to prove payability and the applicant has to make a contribution from 40% to 60%. Financial houses regard B&B businesses as uncertain and risky due to the seasonal nature of the business.

4.5 Interview with tourism support organisations

The purpose of interviews with tourism support organisations was to gain insight into their perspective and experience as far as township tourism is concerned, and also to determine the kind of support that SMMEs in township tourism are getting. The researcher also hoped that the interviews would give insight into the general shape or overview of the uMlazi township tourism industry. The interviewees were from uMlazi Local Economic Development, a tourism structure that is responsible for tourism in the province of KwaZulu-Natal and an uMlazi based non-governmental organisation (NGO).

4.5.1 The nature of support given by the organisation to the uMlazi tourism industry

Understanding the nature or type of support that the organisation offers in township tourism and their role as stake holders in this industry was one of the aims of the interviews with individuals from support organisations. The respondent from the

provincial tourism structure responded that the main purpose of their organisation is promote the province of KwaZulu-Natal as one of the prominent tourist destinations in the country and globally. Providing information about the province and the various places that can be visited is their main goal. They go about achieving this by marketing the province as a whole while simultaneously opening up opportunities for businesses in the tourism industry to market themselves. They inform businesses on what standards they need to comply with in order to be registered and marketed. In their offices which are centrally located in the city they display pamphlets of the various B&Bs, restaurants and sites that can be visited and seen within the province, and other general information about the province.

The interviewee who was from the local economic development office said that they are involved with all the SMMEs that operate in uMlazi, not just in the tourism industry. Their main objective is to promote economic development locally by providing support for businesses in the township. They support initiatives like business forums whereby government and businesses can meet and discuss arising matters. They also research ways in which government can assist businesses. Their focal point is to encourage economic growth and development locally so that surrounding communities benefit from it and development takes place from within.

The tourism NGO aims to provide support to the uMlazi tourism sector by ensuring that the township of uMlazi gets enough marketing to draw business into the area. Growing the tourism industry is the aim of the NGO. These efforts are made in co-ordination with the provincial structure. Marketing uMlazi as a tourist destination is the key objective. This organisation has been in existence for less than a year.

4.5.2 Observations regarding the uMlazi tourism industry

In order to gain a general overview of the uMlazi tourism industry from the perspective of supporting organisations involved in the industry, the researcher asked a question about their overall observations with regards to the industry. The interviewee from the province's tourism structure stated that tourism in uMlazi was still at its infancy and that very few SMMEs that are directly involved in this industry are registered with them. The

interviewee further stated that there are more tourism industry-related SMMEs operating in the uMlazi tourism industry, for example restaurants whose target may include tourists but not exclusively, than there are directly related SMMEs like B&Bs and tourist operators who solely depend on the tourist market. He pointed out that there is however a growing interest in township tourism and that the industry has not yet reached its peak.

On this question the interviewee from uMlazi Local Economic Development office stated that activity in the uMlazi tourism industry was still very low key and they as a structure were aware of very few SMMEs who are directly involved in the tourism industry. As a structure they have and are currently busy with establishing forums for SMMEs that operate within the uMlazi township. They also want to bring more awareness to local entrepreneurs about the potential of business opportunities that exist in uMlazi tourism. In the interest of local economic development as a structure they would like to see more activity in the tourism industry in the township as this one of the industries that has the potential to benefit communities in the township directly. In their experience so far very few entrepreneurs have approached them for any form of assistance or information from the tourism industry.

The interviewee from the tourism NGO of uMlazi stated that the uMlazi tourism industry was performing far below its ability, considering its potential. He mentioned that the inception of the tourism NGO was motivated by the underperformance of the industry. Their observation was that there was very little business coming the way of the tourism industry and this was one the main challenges of the sector. He stated however that the challenges faced by the industry could be overcome if well managed.

4.5.3 The uMlazi tourism sector and employment creation

The question of employment patterns in the tourism industry is at the core of this research. Finding out what has been the extent of employment creation in the uMlazi township tourism industry from the perspective of supporting organisations, both governmental and non-governmental, was the point of this question. The provincial tourism structure pointed out that from their perspective not too many jobs have been created by the tourism industry in uMlazi so far because very few tourism establishments

are registered with them. The number of jobs was limited by the fact that there were not many businesses operating in this industry yet.

The local economic development respondent pointed out that though they did not have any statistics on the number of jobs that have been created in the tourism industry in uMlazi, they were certain that the number was not big. Their certainty is based on the fact that of all the business forums that exist in uMlazi, very few represent the tourism sector.

The uMlazi tourism NGO pointed out that this industry in uMlazi could create more jobs. So far it has not done so because it is still a growing industry. Umlazi is 'not yet on the map' as a tourist destination, and the less business they manage to draw, the fewer jobs the industry will be able to create.

The respondents from the local economic development office and the provincial tourism structure both associated the number of enterprises involved in the uMlazi tourism industry with the number of jobs created. The NGO associated the extent of job creation with the quantity of business that the uMlazi tourism industry was able to draw.

4.6 Conclusion

This chapter has given a description of the data collected from all the respondents. The data was presented in summary form.

Chapter 5

Data Analysis

5.1 Introduction

In this section an analysis of the data that was reported in the previous chapter will be done. Since the research is qualitative, the method of analysis was determined by this fact. Interviews were conducted by the researcher contained mostly open-ended questions which gave the interviewees the opportunity to respond and communicate what they understand about their world from their own perspectives. Understanding and gaining insight into the experience of interviewees is one of the most defining characteristics of qualitative research (Oakley 1987). In the context of qualitative analysis, the researcher needs to be aware of the way in which his or her own assumptions could potentially influence how the data is interpreted or analysed (Ulin *et al* 2002). In qualitative analysis variables are not examined in isolation but the context or environment within which they occur is also important. When analysing qualitative data it is recommended that the researcher notes the following characteristics:

- The primary message of the content
- The evaluative attitudes of the speaker toward the message
- Whether the content of the message is meant to represent individual or group-shared ideas
- The degree to which the speaker represents actual versus hypothetical experience

(Ulin *et al* 2002: 138).

The scope of research, available resources, and time limitations inform the approach that the researcher uses when analysing qualitative data (Ulin *et al* 2002). This research project is fairly small-scale yet there have been time and resource limitations The approach was to group the data and then investigate similarities and differences. It is

recommended that for small-scale research projects with time and resource limitations where the ‘qualitative research is a smaller component of a larger quantitative study,’ that this method be used (Ulin *et al* 2002: 139).

The question asked in the research concerns the impact that SMMEs have on poverty alleviation through employment creation in the tourism sector in the township of uMlazi. Being mindful of the main research question was vital throughout the research because it provided direction to the type of questions the researcher asked and any peculiar detail or pieces of information that may have emerged from the respondents.

5.2 SMME owners: Employment

SMME owners and their employees were asked questions about their point of view with regards to employment. The following themes emerged from interviews with employers:

- ❖ Labour turnover
- ❖ Youth or young adults
- ❖ Matric (grade 12) qualification
- ❖ No post-matric (grade 12) qualification
- ❖ Employees sourced locally
- ❖ Negative public perception
- ❖ Training-on-the-job / in-house training

Two of the employers communicated that the average length of time that employees stayed in their employ was between one and two years. Both employers stated that this in their view was a fairly high-turnover, and when the interviewer asked each employer if this was a point of concern for them, the restaurant owner stated that he had generally come to terms with the fact and apart from the inconvenience of having to train new staff yearly, the situation was not ‘eating too much’ into his pocket in terms of costs. On the question of whether high-turnover was a concern, one of the B&B owners stated that though there was a level of ‘uneasiness about employees leaving’, they found that there

have never been staff shortages because someone was always approaching them for employment. The other two employers, one of which who owns a B&B, said that the business was less than a year old and so far there had been no resignations, and the other employer who is a tourist operator, said that he had one employee and it was the same individual since he started his operation. Relating this finding to the South African context where there is general consensus that the unemployment rate is very high, in 2002, Statistics South Africa (StatsSA) reported that according to the broad definition of unemployment the rate was 41%, and was 30% according to the narrow definition. This is the national employment context within which employees in the tourism sector operate. According to council officials uMlazi has a population of over one million and only 28% of the appropriate working age residents are employed in the formal economic sector (Maharaj 2008). Given the paucity of employment in South Africa's formal sector, a question may be raised about why there are such high labour turnover patterns in the tourism SMMEs in uMlazi.

At face value the pattern of employees staying in a job for an average period of one to two years, may be simply due to the fact that employees in all the four business operations were employed on a contractual basis. However all the business owners mentioned that they had not attached any time period to their contracts and that they would prefer it if employees stayed longer in their employ. The labour turnover patterns then could not be simply explained by the fact that employees were on a contractual basis; the owners clearly expressed that they would readily renew contracts. The interviewer then asked the two employers who reckoned they had high staff turnovers what they thought the reasons for this pattern were, given the fact that it is currently not easy to find employment in the formal sector in the country, and the fact that they make it clear to employees that they would prefer them to stay longer. The restaurant owner replied that as far as he could see his employees were mainly young people, who 'understandably had other dreams or ambitions than to work in a restaurant permanently'; besides this reason he could not really think or see any other causal factor. The interviewer asked the restaurant owner if he had any idea what the employees who had resigned were doing for a living, the owner responded that though he did not know about all his previous employees, he was aware of one who got an opportunity to further his

provincial tourism structure responded that the main purpose of their organisation is promote the province of KwaZulu-Natal as one of the prominent tourist destinations in the country and globally. Providing information about the province and the various places that can be visited is their main goal. They go about achieving this by marketing the province as a whole while simultaneously opening up opportunities for businesses in the tourism industry to market themselves. They inform businesses on what standards they need to comply with in order to be registered and marketed. In their offices which are centrally located in the city they display pamphlets of the various B&Bs, restaurants and sites that can be visited and seen within the province, and other general information about the province.

The interviewee who was from the local economic development office said that they are involved with all the SMMEs that operate in uMlazi, not just in the tourism industry. Their main objective is to promote economic development locally by providing support for businesses in the township. They support initiatives like business forums whereby government and businesses can meet and discuss arising matters. They also research ways in which government can assist businesses. Their focal point is to encourage economic growth and development locally so that surrounding communities benefit from it and development takes place from within.

The tourism NGO aims to provide support to the uMlazi tourism sector by ensuring that the township of uMlazi gets enough marketing to draw business into the area. Growing the tourism industry is the aim of the NGO. These efforts are made in co-ordination with the provincial structure. Marketing uMlazi as a tourist destination is the key objective. This organisation has been in existence for less than a year.

4.5.2 Observations regarding the uMlazi tourism industry

In order to gain a general overview of the uMlazi tourism industry from the perspective of supporting organisations involved in the industry, the researcher asked a question about their overall observations with regards to the industry. The interviewee from the province's tourism structure stated that tourism in uMlazi was still at its infancy and that very few SMMEs that are directly involved in this industry are registered with them. The

studies and another who found employment elsewhere. The B&B owner stated that he was not particularly aware of any reason for the patterns of labour turnover, save the fact that employees may go for 'greener pastures' if the opportunity arose and he did not know what his former employees did after they resigned. Other studies show that SMMEs can play a role in helping the poor 'become less poor' or move out of poverty (Rogerson 2001, CDE 2007). It could not be determined from this study if the employees that resigned moved to greener pastures or accessed better opportunities.

To varying degrees the interviewed business owners showed appreciation of the fact that employment creation is an important part of their input into poverty alleviation. As much as the business owners have this as an objective, it seems to be overshadowed by other challenges that they face in their businesses, and these undermine their capacity to create employment to a more substantial extent. As mentioned in the previous chapter none of the businesses employ more than ten people, the restaurant employs the most number of people which is nine. The owner of the recently established B&B pointed out that she has a passion for job creation in her community but factors like difficulty in accessing finance to develop her business, and the fact that business was 'slow' made it difficult to achieve and keep this objective in mind; more effort was directed into breaking even, attempting to make some profit, and keeping the business afloat. This opinion was echoed by the other B&B owner and tourist operator, with the exception of the restaurant owner. From these responses it became clear that business pressures diluted the ambition of employment creation. Statements such as '...I will bring in more employees as soon as my business grows...', 'At the moment there is no need for me to employ more people because the demand is not too great... we are managing...' and 'the focus at the moment is to get the business off the ground and as it grows in the future I will hopefully be able to create more jobs,' reflect that while the business owners have job creation not only as a noble sentiment but a deliberate goal, they are hindered by the reality of an immature and small township tourism industry. There are simply not enough tourists coming to the township requiring the services that are offered by tourist businesses. The common and prominent themes that continued to emerge concerning job creation are lack of business growth and lack of demand for services.

The restaurant owner reported a different experience from the other business owners with regards to business volumes. He stated that the restaurant was very busy and demand was high. When asked about the possibility for creating more jobs, he responded that the current number of employees was sufficient to meet demand and at the moment there was just no need for more employees. Here was a business that reported success, but still the prospects of increasing the number of employees were slim. When the interviewer asked the restaurant owner who his main clientele was and if according to his observation tourists frequented his restaurant, he said that local people were their clients and he had not noticed any particular inflow of tourists. The cause of the difference between the restaurant owner and the other interviewed business owners seems to be related to the fact that as a restaurant they are more of a tourism industry-related business; that is, they do not primarily exist to service tourists but other markets as well. The bulk of their business clearly comes from locals and an insignificant percentage from tourists. The fact that there were too few tourist businesses in uMlazi was also echoed by the tourism supporting organisation members who were interviewed.

All the employees who were interviewed expressed a desire for better employment opportunities elsewhere. They used various ways to define their idea of better employment; some employees defined it as better salaries, while others wished for a work environment that provided opportunities for career growth or advancement in terms of promotion and exposure to other more challenging or stimulating job responsibilities. Most of the employees were outward looking in their attitudes about their current employment; none of them perceived their jobs as permanent or long-term. They regarded their jobs as temporary provision or a step towards more rewarding careers both experientially and financially.

At this point the researcher noticed there was a common outlook the employees seemed to share concerning their work environment, namely that a township is not necessarily the place where one can get satisfactory employment or build a career. There seemed to be a shared notion that working in a township was far less ambitious and lucrative than getting employment in a city. There was anxiety among employees about the fact that they worked in the township and in a sector that was not necessarily established. Based on the

choice of words they used to describe their work, it was clear that there was dissatisfaction rooted in the fact that their working place was a township. The issue of salaries and working was another point of dissatisfaction. Undefined job-descriptions particularly for employees working in the B&Bs seemed to affect their attitudes towards their jobs negatively as was the fact that salaries are not satisfactory.

For the poor the predominant purpose in being employed is so that one's quality of life is improved. In literature poverty is defined as the inability to access basic means of living like nutrition and health. Poverty alleviation is a mandatory outcome where employment opportunities have been created. It is crucial that the quality of lives of employees is enhanced, the goals of poverty alleviation are defeated if individuals only move from being the poor to being the working poor with no improvement. The employees were then asked if there was any improvement in their quality of life since having become employed in the tourism industry, and the responses indicate that there was some improvement in that they were able to cover some of their basic needs for living. This however did not translate into job satisfaction, hence the general outward-looking attitude and turnover patterns. Some of the employees pointed out that they were able to contribute to their household needs beyond their own individual needs. So the general sense that emerged is that the salaries were not ideal but employees were able to bring about some modest improvements in their lives. This arguably is better than nothing.

The issue of perceptions about townships as viable business locations or not, also surfaced in the interviews conducted with the business consultants from financial institutions. One of them mentioned that one of the biggest risks they have to consider when funding SMMEs in townships is the issue of crime which effectively reduces the chances of most business loan applicants to receiving funding. Previous research has shown that perceptions of crime and actual crime incidents have a negative effect on business growth and creating opportunity costs for business ventures and the economy as a whole (SBP 2008). If SMMEs in the township are limited by perceptions of crime and actual crime in their efforts to access funding, this is costly for business growth. As the findings show, the growth of one of the B&Bs is stifled by the inability to access funding. This directly affects the SMMEs' capacity to create employment; research shows that the

chances of enterprises affected by crime creating employment decreases by 20% while the chances of decreasing employment increases by 10% (SBP 2008).

Determining how much of the opinion of the extent of crime in the township is due to perception and how much to actual reality, is a point worth investigating. The response of one of the bank consultants 'I say this with due respect...' on the question of crime reflect that they are also unsure of whether its perception or actual crime. Perceptions have had real consequences for SMMEs in townships. Both employees and business consultants at different points expressed negative perceptions about townships being areas that are conducive to career and business prosperity. Whether based on reality or not, these perceptions are unhelpful and counter-productive for LED, and therefore employment creation and poverty alleviation.

The other consultant mentioned the issue of the applicants' ability to repay the loans as the foremost disqualifying factor. This was confirmed by the two B&B owners who reported that they had to resort to applying for personal loans and utilising personal savings rather than business loans in order to fund their businesses. None of the business owners reported to have benefited from organisations or government programmes that finance businesses in formerly underprivileged areas like townships. In the case of both business consultants the issue of perception of townships as safe and financially viable business locations played a role in their decision making about whether to grant or decline business loan applications

Findings also show that people who were employed in the businesses and were interviewed ranged from 20 to 30 years in age. Past research has shown that unemployment in uMlazi is the highest among young adults (Maharaj 2008). Over half of the uMlazi population consists of young people and based on this fact it would appear that the uMlazi tourism sector so far has been able to create employment for young people who belong to the group mostly affected by unemployment. It is advantageous for poverty alleviation efforts that employment opportunities created in this sector draw labour from a group where unemployment is highest.

Another characteristic of employees in the uMlazi tourism sector is that the level of education was mostly the same for all the interviewees. All employees interviewed had grade 12 as their highest qualification. Only 26% of the uMlazi population as a whole has grade 12 and 36% have some high school education (Maharaj 2008). A very small percentage of the 26% proceed to tertiary institutions to gain further qualifications; research shows that only 7% of uMlazi residents hold tertiary qualifications (Maharaj 2008). A lot of young people struggle to continue to tertiary education for financial and other reasons and are often not absorbed into the labour market due to employment scarcity. The interviewed employees expressed a desire to further their studies at some point; if the tourism sector can create employment to absorb unemployed matriculants this would be ideal as there is a considerable number of young people who complete high school but cannot proceed to tertiary institutions every year.

5.3 Business

With the exception of the restaurant owner the other business owners cited that business was rather slow and inconsistent. All of them said they either were employed or had other more consistent sources of income in order to compensate for the lack of profitability in their tourist businesses. Due to scarcity of business reported by the B&B establishments and tour operator, the interviewer asked about how they had managed to keep their businesses in operation. One of the B&B owners said that the salary earned from their profession is often used to meet the financial demands of the business and this was how they were managing to keep the business going, therefore the business was not financing itself. The tour operator and other B&B owner stated that they managed to keep their businesses afloat because they were also running other businesses outside the tourism sector and these provided steadier income for household expenses and funding the tourist businesses. The tour operator mentioned that they conduct other tours outside the township of uMlazi and that these tours are more frequent and profitable than township tours. This confirms what most interviewees said; there are small business volumes in the uMlazi tourism sector.

The fact that there is very little tourism business in uMlazi was echoed by the tourism support organisations interviewees. One stated that they had made very little progress in

growing the uMlazi tourism industry and that the number of registered tourism businesses from uMlazi was low considering that KwaZulu-Natal has an overall sizeable tourism industry. The respondent from the uMlazi LED office also said that they had seen very little business activity in the uMlazi tourism sector and that most of the efforts directed towards establishing support for the tourism sector were still in the conception stages. The uMlazi tourism NGO stated that a big part of the reason for their existence was to promote uMlazi as a tourist destination, because this is one of the intrinsic inhibiting factors to the success of tourism SMMEs in uMlazi. There was very little marketing done to promote uMlazi and this resulted in little business coming the way of uMlazi tourism SMMEs. If tourism SMMEs do not attract any business their capacity to create employment will be crippled. There are two main reasons raised by interviewees about the current status of the uMlazi tourism industry: firstly the concept of township tourism is still fairly new, secondly uMlazi is not yet recognised as a tourist destination and requires marketing and promotion to attract tourist business.

The underperformance of SMMEs in employment creation in developing countries is a documented fact in literature. Asia is an exception as their SMMEs have made significant impact on their economies (Rogerson 2001). Most literature attests that the anticipated impact of SMMEs on employment creation is often overestimated. The uMlazi tourism sector has indeed not been able to create a large number of jobs; as mentioned earlier none of the interviewed SMMEs employ more than nine people. Whether this is an inherent part of SMMEs in developing countries or whether there are other external factors is not clear. What is clear in the case of the uMlazi tourism sector is that it is factors like accessibility of finance and the fact that uMlazi is yet to be promoted as a tourist destination that influence the performance of SMMEs in this sector. In the case of the South Africa some literature states that jobs created in a modernising economy are unlikely to benefit the poor because they are not labour intensive and mostly require skills that the poor do not have (Grawitzky 2006). Not to totally dismiss this theory, however in the case of uMlazi tourism industry when one looks at the characteristics of labour that the industry has, against this theory it becomes clear that contrary to this theory the tourism sector does have the ability to absorb low or semi-skilled labour. The employees that were interviewed only had grade 12 and no further

qualifications; most of the jobs did not require any high levels of skills. The WTTC also supports the idea that tourism is one of the sectors that can create labour intensive and low-skilled jobs (1998).

It is clear that entrepreneurs who are involved in the tourism sector of uMlazi have not realised any significant financial rewards from this sector. There is a general concern that the SMMEs in Africa need to develop beyond only surviving and managing to stay afloat, into being successful growing business entities (Rogerson 2001). This has been the experience of the tourism SMMEs in uMlazi; they reported to just managing to stay in business, and the owners improvised by having other sources of income in order to keep their businesses going. They all however believe that at some point the industry will pick up and that is why they remain in the sector even in the face of lack of profitability.

5.4 Conclusion

This chapter consisted of the analysis of data in the theory framework and research question. For this research project the findings and literature have been convergent for the most part. Points surfaced from the data that highlight areas which may have been overlooked in terms of their impact on SMMEs in the uMlazi tourism sector, like the perceptions of township residents on their living spaces, and its relationship with LED efforts. Lack of inward investment emerged in the analysis as a hindering point for township entrepreneurs. The restaurant business came out as the exception to the other businesses in the sample because it reported success not common to the other businesses.

Chapter 6

Discussion

6.1 Introduction

This chapter discusses the extent to which the research has answered the research questions it set out to answer, and what has been achieved from this. The hypothesis for this research is that SMMEs in the uMlazi tourism industry alleviate poverty through employment creation. Findings show that SMMEs in the industry have created employment but not without limitations and challenges. From the research it has emerged that jobs have been created and these jobs are able to reach the unemployed youth who are mostly affected by unemployment, only 37% of all school leavers are able to obtain employment and only 29% among African people (Cant and Stanford 2005). Employment creation in the uMlazi tourism is substantially undermined by factors that have been explored by past research and by some factors that have been overlooked. This chapter discusses the extent to which this research has tested the hypothesis and answered the research questions. The manner in which findings have converged and challenged the literature and the implications thereof for all the stakeholders is also discussed.

6.2 Literature and Findings

From a global and South African perspective past research into the SMMEs industry has found that this sector has great capacity for achieving economic growth and poverty alleviation through employment creation (Biekpe 2006, Rogerson 2001, Berry *et al* 2002, Cant & Erdis 2005, Mosai 2006, DTI 2007, Naude' 2008). This is evidenced in instances like the 'Asian Miracle' where the success of the SMME sector in Asian economies in impacting on economic development and employment creation in a significant manner, has been realised. Estonia is another success story in relation to the growth of SMMEs resulting in employment creation (Venesaar and Loomets 2006). For developing countries that are characterised by high levels of poverty and unemployment SMMEs have become a crucial vehicle for economic growth, poverty alleviation, and

employment creation (Rogerson 2001). In most developing countries SMMEs are central to policy making for economic growth and development. The focus of the South African government policy on economic growth and development is also centred on the country's SMME sector. The findings of this study have converged on some points regarding this widespread understanding, and diverged on other aspects. The link between this understanding and the findings of the study is that employment opportunities even though few in number, are reaching the unemployed semi-skilled youth in the township of uMlazi.

Research shows that the SMME sector has potential to augment employment creation and poverty alleviation efforts substantially, and the challenge is to convert this potential into realised goals and bring to fruition the benefits of this sector. This is the common state of affairs in the South Africa SMME sector. SMMEs are not creating as much employment as expected (Cant and Stanford 2005). A lot of other research shows the underperformance of the South African SMMEs sector in employment creation (Rogerson 2001). The findings of this study converge with literature on this point. Indeed each of the interviewed uMlazi tourism SMMEs employed less than ten people with very slim prospects for creation of more job opportunities. In fact surveys conducted in South Africa show that less than 1% of SMMEs will grow to 'become established enterprises that employ more than ten employees' (Mead and Liedholm 1998: 67 cited in Rogerson 2001). Employment creation is destabilised by the other challenges experienced by business owners.

Findings in this research show that businesses in the tourism industry are struggling in terms of business volumes and profits. The restaurant is the only business that reported success in this regard. The literature shows that the life-span of SMMEs is influenced by the kind of sector within which they operate the manufacturing and services sectors generally being the ones where SMMEs survive for longer (Rogerson 2001). The success of SMMEs in the uMlazi tourism services sector seem to be largely determined by the fact that they are operating in a sector which is not yet a big industry. The restaurant which does not exclusively fall under the tourism sector but also under the hospitality industry fared better than businesses that exclusively fall under the tourism sector. One

of the characteristics of a successful business is steady access to markets (Rogerson 2001). The findings show that the other three tourism businesses do not have consistency in business inflows but that the restaurant markets are stable. The tourism business by nature is seasonal with fluctuating business volumes. This places SMMEs in the sector under added strain to try and survive without the element of stable access to markets.

When one considers the South African history and present, the reality is that city centres and suburban areas do provide better employment opportunities than townships. This is due to the observable fact of uneven development explained earlier. Historically townships are mainly areas of sourcing labour for cities and industrial areas. This was their main purpose under apartheid; they were not meant to be viable economic centres in themselves but areas where labour could conveniently be stationed to supply industrialised areas. Most township residents would seek employment in the cities and not in the townships because industries which were the main places of employment were located in the latter. The extent to which this history affects uMlazi residents' perceptions about local economic development (LED) mainly anchored in inward investment, is something to be explored. Do residents believe that financial prosperity is possible in the township and are they able to identify economic opportunities in their townships? This touches on peoples' perceptions or views about their environment which subsequently influences their actions within that environment. Although the issue of perceptions about townships emerged in the interviews, it raises questions about how widespread these perceptions are and what impact they have on entrepreneurship, employment creation, and ultimately poverty alleviation.

The theme of negative public perception also surfaced during interviews with the business banking consultants. It is documented in the literature that financial institutions are reluctant to finance the SMMEs sector because it is costly and unprofitable for them (Nikoi 1995 cited in Rogerson 2001). None of the interviewed consultants reported to have financed any tourism SMMEs in uMlazi. The idea behind LED is that there should be inward investment and utilisation of existing resources in order to build the local economy of communities and induce change for the better in the peoples' lives (Maharaj 2008). When one takes into account the aim of LED and the implementation of

development efforts and the fact that there is a shortage of willing investors from within and outside communities; one sees the contradictions that exist for development. Local entrepreneurs often do not have the means to make consequential investments, and often government business assistance programmes do not succeed in reaching their targeted recipients; the reluctance of mainstream financial institutions to fund businesses work against the aim of LED which is to build the local economy. This has implications for the methods of developing the SMME sector. Efforts in underdeveloped areas need to be inclusive of innovative methods to acquire more investment for the areas.

This study has focused on tourism SMMEs to establish what impact they have on poverty alleviation through employment creation. The extent to which this study has answered the research question is the degree to which tourism SMMEs are concerned. Some of the challenges that emerged from the study are common to SMMEs from all sectors; previous research has identified similar challenges. Other challenges are unique to the tourism SMMEs that operate in uMlazi and cannot necessarily be generalised to other sectors. The varied experiences of SMMEs in uMlazi are reflected by the sample of businesses containing a restaurant with a different experience from the other businesses. This is an indication that some of the findings of this study can be generalised to other sectors but some appear to be unique to the uMlazi tourism sector.

6.3 Conclusion

This chapter has focused on linking and placing the findings of the study within the literature, highlighting points of convergence where the data confirms previous research, or where findings are similar to that of previous research. Characteristics that are unique to uMlazi tourism industry were highlighted as well. The contribution of this study to the literature was discussed.

Chapter 7

Recommendations & Conclusion

7.1 Introduction

The SMMEs sector carries much promise for developing countries. The task of this research has been to test the validity of this promise at grass roots level for township residents where unemployment and poverty and the consequences thereof are amply manifest. On a small-scale this research has looked at the effect of tourism SMMEs in uMlazi on poverty alleviation through employment creation. Using the research and data collection method of purposive sampling and interviews, findings were made. Themes that emerged from this research mainly present problems that confront the tourism industry in uMlazi. It has been pointed out in research that if SMMEs in developing countries are to contribute significantly to economic growth and development, employment creation, and poverty alleviation, they need to graduate from being survival orientated to being more growth orientated (Rogerson 2001). There are steps that can be taken by the businesses themselves towards improving their growth prospects and there are also those factors that lie outside the control of the entrepreneurs that need to be addressed by government and other stakeholders. Recommendations and areas for further research will be outlined in this chapter.

7.2 Recommendations

The challenge for developing countries is that though there is an abundance of excellent and proficient ideas concerning ways in which problems of poverty and underdevelopment can be overcome, these ideas often remain just that, ideas. There is often a big gap between theory in the form of policy and practice in the field of development. As pointed out by Padayachee, the challenge for development is that “...despite sixty or more years of attempting to turn ideas and policy into sustained improvements in the quality of life of people in the ‘third world’ ” (2006: 3), there have been fewer inroads made towards this endeavour than considered urgently necessary. Nevertheless continual research often provides an opportunity to discover elements and dimensions that eluded previous research. Recommendations in this study will echo what

previous researchers and also raise new suggestions that have emerged from the findings of the study.

7.2.1 Perceptions of township

During the course of this research it emerged from the employees that they do not believe it is possible to have a good progressive career in the township; not just within the tourism industry the majority generally feel that they would have better career prospects working in the cities rather than the township. In the South African context this perception is quite accurate because townships are spatially underdeveloped. Economic activity in townships is not at its height consequently opportunities for good quality, sustainable jobs are still very limited. There are pockets of economic activity but there could be more. If negative perceptions are not exclusive to only the employees but is a more widespread opinion among the township residents, then this could greatly diminish entrepreneurial initiatives. So the key concern with regard to residents' perceptions is to what extent it paralyses active entrepreneurship in the township. If residents perceive no potential for financial success in their living spaces they are unlikely to pursue business opportunities and invest in the township. This study does not address the question of how widespread or extensive the issue of negative perception among residents' is, and what effect this has on how much they are willing to invest in their space in the form of business initiatives, therefore this could be an area for further research. LED efforts also need to include bringing awareness to residents in underdeveloped areas about opportunities that exist within their own living spaces so that these opportunities are exploited. A fresh perspective needs to be introduced whereby residents view themselves as catalysts for employment creation and poverty alleviation efforts rather than recipients of these efforts.

The issue of negative public perception also surfaced in the interviews with respondents from financial institutions. It is a widespread phenomenon that South African mainstream banking sector is reluctant to finance business in townships largely due to the risk associated with doing so. The issue of crime came up as a major deterrent for financial institutions. There is a lot of research around the issue of crime in South Africa; however perceptions and reality are often indistinct. This is one area which lies outside

the control of entrepreneurs and requires government effort. It is clear that businesses in townships cannot solely look to mainstream banking institutions for financing, which leads to the issue of accessibility to finance for township businesses.

7.2.2 Accessibility of finance

There have been government efforts directed towards providing alternative financing to businesses which would ordinarily not be able to access loans. These government efforts have however not yielded the anticipated results. In this study none of the business owners reported to have benefited from any funding provided by government led business support for business people. This did not indicate an absence of financial need because three of the business owners reported to having outstanding financial needs in their businesses. So the help that has been extended by government in this instance is not reaching the intended recipients. Previous research also reflects this fact. The Centre for Development and Enterprise (CDE) found that national and government programmes are not linking with operating entrepreneurs and government initiatives for business support are not producing the desired outcomes (2007). It has been previously recommended that business owners should be included in the creation of these support programmes so that they become relevant and accurate in addressing the needs of business people (CDE 2007, Rogerson 2001). It has also been recommended that support to business be not just be in the form of funding but should also include skills training (Rogerson 2001).

7.2.3 Umlazi tourism sector

Findings show that the lack of success for SMMEs in the uMlazi tourism sector is for the most part due to lack of demand for their services. More needs to be done to promote the concept of township tourism. This would include putting uMlazi township on the map as a tourist destination, nationally and provincially. The newly formed uMlazi tourism NGO stated that marketing uMlazi is one of its core objectives. The KwaZulu-Natal province has a very strong tourism sector and the economic benefits to be gained from this need to be channelled to places like uMlazi for effective poverty alleviation efforts. It must not be taken for granted that communities in previously disadvantaged areas like uMlazi will immediately be able to understand tourism within the context of their living spaces.

Building awareness about new business opportunities that exist in township tourism, and how more people could establish more businesses in uMlazi should be a deliberate effort. Umlazi also requires more marketing as a cultural tourist destination. Townships like Soweto are ahead of uMlazi in this regard and have succeeded in positioning themselves as tourist destinations (Hughes 2005).

7.3 Conclusion

The success of poverty alleviation and employment creation principally hinges on the success of the SMMEs sector. This research shows that the uMlazi tourism industry is still in its formation stages. From the study it is clear that the current SMMEs operating in the uMlazi tourism industry have more of a pioneering role as they are the first to explore possible business opportunities presented by this industry. Though this research focused on an industry that is still taking shape and in its early days, this did not cripple the objectives of this research. Interviewees who are involved with the few SMMEs in operation in the uMlazi tourism sector were able to clearly articulate their challenges as business people trying to create employment, and as employees who are the beneficiaries of employment opportunities created so far. It has also emerged from this research that the employment opportunities that have been created by the uMlazi tourism industry so far have mainly gone to the youth who have completed their high school education but are unable to further their education for varied reasons. Previous research has shown that in South Africa most school leavers are not being absorbed into the job market which exacerbates the problem of unemployment, so the uMlazi tourism industry is playing a very important role in absorbing the labour of school leavers. Findings from this research have also shown that the age group of those employed in the uMlazi tourism sector is between 20 years to 31 years. This is desirable as previous research has shown that 33% of the unemployed are between the ages of 15 years to 34 years (CDE 2007). This study further asked a question concerning the improvements in the quality of life for the employees in this sector. Findings show that though salaries and working conditions were not necessarily ideal their jobs were making a contribution towards improving the employees' quality of life. They reported some measure of improvement in their quality of life compared to when they were not employed. Should the uMlazi tourism industry

grow beyond its current size, the promise of SMMEs creating employment and poverty alleviation would to a large extent prove true. Needless to say as this industry grows the nature and the type of problems that are faced by SMME owners might change and additional research would have to be conducted to investigate those emerging challenges.

Appendix

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Informed Consent Form

(To be read out by researcher before the beginning of the interview. One copy of the form to be left with the respondent; one copy to be signed by the respondent and kept by the researcher.)

My name is Sikhulile Dlamuka (student number 981163001). I am doing research on a project entitled, **‘The impact of Small, Micro and Medium enterprises (SMMEs) on poverty alleviation through employment creation: A case study of the tourism services sector in the township of Umlazi, Durban’**

This project is supervised by Prof. Vishnu Padayachee at the School of Development Studies, University of KwaZulu-Natal. I am managing the project and should you have any questions my contact details are:

School of Development Studies, University of KwaZulu-Natal Tel 031-2602287 Or Sikhulile Dlamuka Cell: 0726049747, Tel: 031-4620780. Email: 98113001@ukzn.ac.za.

Thank you for agreeing to take part in the project. Before we start I would like to emphasize that:

- your participation is entirely voluntary;
- you are free to refuse to answer any question;
- you are free to withdraw at any time.

The interview will be kept strictly confidential and will be available only to members of the research team. Excerpts from the interview may be made part of the final research report. Do you give your consent for: *(please tick one of the options below)*

Your name, position and organisation, or	_____
Your position and organisation, or	_____
Your organisation or type of organisation <i>(please specify)</i> , or	_____
None of the above	_____

to be used in the report?

Please sign this form to show that I have read the contents to you.

----- (signed) ----- (date)

----- (print name)

Write your address below if you wish to receive a copy of the research report:

Interview with tourism SMME owners

- Their experience in tourism sector
- Motivation for becoming entrepreneurs within the tourism sector
- Whether their success expectations have been met
- Who is their target market?
- Are they able to reach their target market?
- Capacity and opportunity of their business to grow
- Availability of skills to expand
- The relevance and accessibility of institutional support systems for their business
- Are labour skills required by the firm readily available
- What is the general level of education of employees?
- Are their employees new entrants into the job market or do they have previous experience?
- How has government policy on labour affected their employment patterns?
- Limitations of growth
- Are there growth prospects in the sector that they are in?
- Do growth prospects necessarily translate into a need for more labour?

Interview schedule with employees in tourism SMME sector

- Is this their first job, experience and level of education
- How they came to be employed
- Is it a permanent or contractual placement
- Do they see themselves within the same sector in years to come
- The level of job security
- Prospects of career growth in terms of promotion within the firm
- Is there a noticeable difference in their ability to meet their needs since being employed in the sector
- With their income have they been able to make any improvements in their standard of living (property, medical aid, transportation, education)

Interview schedule with individuals within the tourism support organizations

- Overall observation of the uMlazi tourism sector
- The overall rate of tourism SMMEs registration in the tourism industry in past few years
- Growth patterns of the businesses
- Challenges they have encountered in the uMlazi tourism sector
- The market for township tourism
- Comment on growth prospects for the uMlazi tourism sector.
- Availability of finances to tourism SMMEs

Interview with Financial Institutions

- Have you financed any SMMEs in uMlazi in the tourism industry?
- What are the general threats to funding businesses in township areas?
- What are their repayment patterns?
- What are their growth patterns?
- Are they sustainable?
- What are the criteria for funding?
- What factors do usually disqualify potential clients from getting finance?