

Technical Support to the South African Department of Labour (DOL),
Labour Centres (LCs) and Sector Education Training Authorities (SETAs)

SMME TECHNICAL ASSISTANCE FINAL REPORT: PART I

CONSULTANCY BACKGROUND, ACTIVITIES, FINDINGS, AND STRATEGY RECOMMENDATIONS

Submitted to:

*FOOD AND BEVERAGES MANUFACTURING
SECTOR EDUCATION AND TRAINING AUTHORITY
(FOODBEV SETA)
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EXECUTIVE SUMMARY

INTRODUCTION

The Food and Beverage Manufacturing Sector Education and Training Authority (Foodbev SETA) has a clear objective of improving its ability to reach increasing numbers of Small, Medium, and Micro-enterprises (SMMEs). The SETA had targeted these businesses as a priority market with the objective of improving business competitiveness, achieving import replacement, fostering business growth, saving and strengthening existing jobs, and creating new ones.

Through the Skills Levy Act of 1999, an education and training funding system was created to provide skills development, training, and educational activities under the National Skills Development Strategy (NSDS) through a 1% payroll levy. The Skills Levy money disbursed to the FoodBev SETA, including National Skills Fund (NSF) grants, will support education and training in technical and business management upgrading for small enterprises. Monetary incentives through grants and reimbursements to encourage business participation in the different training and skills upgrading opportunities offered in the system were established. In spite of these incentives, SMME participation is very low. Participation of firms owned by Previously Disadvantaged Individuals (PDIs) is even more problematic.

OBJECTIVES OF THE ASSIGNMENT

One primary objective of this assignment was to identify the reasons for the very low participation rates of small, medium, and micro-enterprises in training programs under the Skills Levy legislation and regulations and to provide recommendations for a revised Marketing and Outreach Strategy for the food and beverages sector to help remedy this situation. The strategy was to suggest ways of reaching smaller and medium sized enterprises with more efficient use of resources, more pro-active service delivery methods, and more attractive financial and business development incentives.

The other principal objective was to design a Business Orientation and Training Strategy to strengthen established "SMMEs" and foster the development of new small and micro-enterprises by encouraging self-employment.

SUMMARY OF TASKS

During February, March, and April 2003 the consultants completed a number of tasks defined in the SMME technical assistance work plan developed at the beginning of the assignment including a thorough review of the guiding South African skills development legislation, reviewing FoodBev SETA Planning documents, interviewing SETA stakeholders, industry sub-sector representatives, labour representatives, and SETA Skills Development Facilitators (SDFs), and carrying out a mini-Needs Assessment Study of SMEs.

The analysis of information gathered from these sources was an on-going process. As information was gathered, the emerging findings began shaping initial conclusions with regard to the priority target enterprises in the FoodBev manufacturing sector. The characteristics of SMEs provided a focus for our proposed Training Strategy for the FoodBev SETA. The Strategy has been designed to strengthen established enterprises and to orient other learners to the option of self-employment through the eventual start-up of a small business.

Also, the information that emerged from discussions with business owners, industry sub-sector representatives, other stakeholders and consultants began to give a clearer picture as to the constraints to small and medium sized business participation in the Skills Levy training

grants programs, giving the consultants the basics from which to conceive of a revised Marketing and Outreach Strategy.

During the last four weeks of the strategy development task, the consultants carried out briefings and other meetings with the FoodBev SETA Council, FoodBev Staff, the United States Agency for International Development (USAID) CTO, and the Department of Labour during which we gave an overview of the activities carried out and the emerging findings, conclusions, and recommendations for the revised FoodBev SETA SMME Program Implementation Strategy.

FINDINGS

One of the important reasons for conducting the Needs Assessment Study with business owners was to get a clearer profile of businesses in different size strata. The hypothesis was that the generic SMME classification of smaller businesses, that is, anything under 150 employees, was too broad to be able to target the sector with very meaningful training and capacity upgrading offerings relevant to the needs of businesses of different sizes in the 1 to 149 employee range.

As we got more into the details of the Skills Levy Program, we also began to recognize more clearly that SMMEs were not participating. Therefore, we added a section to the Needs Assessment Study Guide that explored possible areas that might explain this lack of participation. (See Appendix B: Needs Assessment Study Guide)

The information from the expanded Needs Assessment survey of small and medium scale enterprises and our general interviews with stakeholders and other knowledgeable people...

➤ **provided a starting point for developing a training strategy and defining the target market and training needs by:**

- developing an enterprise typology that provided clear indicators for a stratification of enterprise levels according to various business characteristics; and
- enabling the FoodBev SETA to more readily identify client businesses that should be targeted for certain kinds of training according to their position in the typology defined by business, management, and other organizational characteristics; and

➤ **provided an understanding of the market perception of the Skills Levy Program explaining the lack of SMME participation in training and human capacity development:**

- The Skills Levy program is considered “Just another tax”;
- The FoodBev SETA is considered aloof;
- Processes and procedures are not “enterprise friendly”;
- Another technique for government to intrude on businesses;
- Participation in the program benefits very large enterprises;
- Lack of information;
- Poor outreach;
- Concerns about losing best employees who are most likely to be selected for training;
- Accreditation Issues: Providers, Assessors, Moderators; very onerous
- Credibility of training providers.

RECOMMENDATIONS

Based on our findings, our conclusions and recommendations are as follows:

a. Market Identification: The FoodBev SETA should:

- adopt an enterprise typology as follows: (See Appendix C: SME Descriptive Typology)
 - Level I Small Enterprise – 6 to 24 employees
 - Level II Small Enterprise – 25 to 49 employees
 - Medium Scale Enterprises – 50 to 150 employees.
- target Level I and Level II levy-paying Small Businesses registered with the SETA for discretionary and NSF grant-financed outreach and training efforts;
- target levy-paying Medium Scale Businesses registered with the SETA under the mandatory claim-back grants program;
- prioritize the use of SETA resources to expand coverage of un-reached, levy-paying firms registered with the SETA;
- significantly expand promotion and outreach to Black Empowerment Enterprises (BEEs), particularly in demographic areas where these companies are likely to be located; and
- de-emphasize the identification and promotion of micro-enterprises until coverage of levy-paying small and medium scale businesses, particularly BEEs, is greatly increased;

b. Small Business Training: The FoodBev SETA should:

- develop a unique Business Orientation and Training Strategy based on the SME Typology; and
- use existing unit standards and qualifications to develop content for the different training themes identified in the SME Typology. (Refer to APPENDIX C: SME Descriptive Typology Matrix for details.)

c. Skills Levy Outreach and Delivery: The FoodBev SETA should:

- develop a Marketing and Outreach Strategy that addresses the negative market perception of the Skills Levy Program;
- implement service delivery system improvements to develop credibility and to address real needs for enterprise strengthening, sustainability, and growth; and,
- implement new promotion and outreach activities with special emphasis on PDI-owned enterprises. This will be especially critical to the success of the FoodBev SETA's recently commenced NSF grant program targeting SMMEs and their new discretionary grant program to finance over 1,000 Learnerships for PDIs.

ACKNOWLEDGEMENTS

The consultants assigned to the project wish to express appreciation to the Food and Beverages Manufacturing Sector Education and Training Authority (FoodBev SETA) Chief Executive, Ravin Deonarain, and his staff for their cooperation and assistance during the course of our assignment to develop improved SMME outreach and business management training strategies. Their collaboration was manifested by taking time to discuss program implementation issues with the consultants and by providing necessary documents, contacts, logistical support, and other data when it was requested. They also made time in their busy schedules to periodically review strategy development ideas to ensure that the consultants were “on track” regarding the completeness of their information, their analyses, and the development of conclusions.

Additionally, we would like to express our gratitude to the FoodBev SETA Council and its Chairman, Tommy van der Walt, for inviting us to provide an interim briefing during their March 19 Council Meeting and their encouragement to proceed with our initial ideas on a revised SMME Outreach and Training Strategy. We are also grateful for the early collaboration of Council Members Peter Cownie (Baking Chamber), Gerhart Venter (Dairy Foundation) and Hennie Korff of Enterprise Foods for their assistance in understanding the FoodBev SETA, the structures and processes in the National Skills Development Strategy (NSDS), general characteristics of SMMEs in their respective sectors, and the training being designed in their respective areas.

Development Associates would also like to gratefully acknowledge the assistance provided by SETA-funded Skills Development Facilitators (SDFs), particularly Veld Cooper and Associates (VCA) and Ms. Sylvia Hammond, in coordinating the field visits in KwaZulu Natal and the Western Cape regions in the course of conducting the Needs Assessment Study.

To all the business owners and managers who agreed to meet with us to discuss their businesses, their needs for training and skills upgrading for workers and management, and the Skills Levy under the NSDS and other Programs, we express our sincere thanks.

Finally, Development Associates extends its appreciation to its partner, Khulisa Management Services, that provided local administrative and logistical backstopping and other support for this project.

DISCLAIMER

Development Associates, Inc. and its subcontractors, Khulisa Management Services, have prepared this report. The findings and opinions expressed in this report are solely those of the authors and do not necessarily represent those of the United States Agency for International Development nor the South African Department of Labour (DOL). Similarly, any errors or omissions are the responsibility of the authors.

KEY PERSONNEL

Two consultants, one from the United States and one from South Africa, were assigned to this project. Both have extensive experience in the field of business development, project design and implementation under various foreign assistance programs.

Peter H. Fraser

Peter Fraser began working in the field of small business development in the 1970s and has continued since then to be actively involved in the field having completed many long and short-term assignments in SMME project design, implementation, monitoring, and evaluation in over 20 countries on three continents, including five countries in Africa. He has gained significant experience in providing consulting services through contracts with the United States Agency for International Development (USAID) and the Inter American Development Bank (IDB) in microfinance, technical assistance and training for small business and micro-enterprise skills upgrading. He also played an early, pivotal role in the development of group credit methodologies in the field of microfinance and has worked with business development organizations and financial institutions on institutional strengthening, strategy, and planning. Mr. Fraser received a Masters Degree from Indiana University in the United States in Latin American Studies with emphasis in development economics and business.

Michael Levy

Michael Levy studied engineering at the University of Witwatersrand in Johannesburg, South Africa and spent 15 years in the engineering and manufacturing industry sector working as project engineer and project manager on diverse industrial projects. Following an MBA at the University of Cape Town, Mr. Levy was employed as an Investment Officer at the International Finance Corporation (IFC), a member of the World Bank Group. His work at the IFC was focused on the SME sector and included both technical assistance and structuring of investments in small and medium sized businesses in the Southern Africa region, including Swaziland, Lesotho and Botswana. His investment work covered both start-ups and expansion capital and the monitoring and restructuring of existing investments. As a development organization, the IFC works in collaboration with similar development finance organizations in South Africa including the Industrial Development Corporation (IDC), Business Partners, Development Bank of South Africa (DBSA), Department of Trade and Industry (DTI) organizations Khulisa and Ntsika. Mr Levy brings a broad knowledge of the SME sector in South Africa to this assignment.

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ACRONYMS

ABET	ADULT BASIC EDUCATION AND TRAINING
BCCS	BAKING, CONFECTIONERY, CEREALS AND SNACKS
BEE	BLACK EMPOWERMENT ENTERPRISES
DBSA	DEVELOPMENT BANK OF SOUTH AFRICA
DOL	DEPARTMENT OF LABOUR
DTI	DEPARTMENT OF TRADE AND INDUSTRY
ETQA	EDUCATION AND TRAINING QUALITY ASSURANCE
FOOD/BEV SETA	FOOD AND BEVERAGES MANUFACTURING SECTOR EDUCATION AND TRAINING AUTHORITY
HACCP	HAZARD ANALYSIS CRITICAL CONTROL POINTS
HRD	HUMAN RESOURCE DEVELOPMENT
IDB	INTERN AMERICAN DEVELOPMENT BANK
IDC	INDUSTRIAL DEVELOPMENT CORPORATION
IFC	INTERNATIONAL FINANCE CORPORATION
LOE	LEVEL OF EFFORT
NQF	NATIONAL QUALIFICATIONS FRAMEWORK
NSDS	NATIONAL SKILLS DEVELOPMENT STRATEGY
NSF	NATIONAL SKILLS FUND
PDI	PREVIOUSLY DISADVANTAGED INDIVIDUALS
RFP	REQUEST FOR PROPOSALS
RPL	RECOGNITION OF PRIOR LEARNING
SAFATU	SOUTH AFRICAN FOOD AND ALLIED TRADE UNION
SAQA	SOUTH AFRICAN QUALIFICATIONS AUTHORITY
SARS	SOUTH AFRICAN REVENUE SERVICE
SDA	SKILLS DEVELOPMENT ACT
SDF	SKILLS DEVELOPMENT FACILITATOR
SDLA	SKILLS DEVELOPMENT LEVY ACT
SETA	SECTOR EDUCATION AND TRAINING AUTHORITY
SETASA	SECTOR EDUCATION AND TRAINING AUTHORITY SECONDARY AGRICULTURE
SGB	STANDARDS GENERATING BODY
SLA	SKILLS LEVY ACT
SMEs	SMALL AND MEDIUM ENTERPRISES
SMME's	SMALL, MEDIUM, AND MICRO-ENTERPRISES
USAID	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
VCA	VELD COOPER AND ASSOCIATES
WSP	WORKPLACE SKILLS PLAN

1. BACKGROUND TO THE PROJECT

1.1. Introduction

The Small, Medium, and Micro-Enterprises (SMME) Assistance Project was conducted during February, March, and April 2003 for the Food and Beverages Manufacturing Sector Education and Training Authority (FoodBev SETA). This USAID South Africa-funded work was undertaken by Development Associates, Inc. of Arlington, Virginia U.S.A. under USAID South Africa Contract No. 674-1-00-00-0005-00, Task Order 009 on behalf of the South African Department of Labour (DOL) with the participation of its sub-contractor Khulisa Management Services of Johannesburg.

1.2. Objective

The FoodBev SETA has a clear objective of improving its ability to reach increasing numbers of enterprises generically referred to as SMMEs. To date, the FoodBev SETA has developed a Sector Skills Plan, a Business Plan and other planning documents that guide its education and training responsibilities for businesses of all sizes within its FoodBev Sector mandate. Many of the FoodBev SETA's documents specifically target the SMME classification of businesses as a priority target market within their overall goals to improve business competitiveness, to foster business growth, to save and strengthen existing jobs, to create new ones in an increasingly competitive global economy, and to achieve import replacement where possible. These overall FoodBev SETA planning documents that focus on utilizing more fully SMMEs as an engine of economic growth and employment are consistent with national policies. These ends will be achieved through on-going private sector-based education, training, skills upgrading, and capacity development as promulgated by the NSDS, legislated by the Skills Development Act (SDA) of 1998 and financed by the Skills Levy Act (SLA) of 1999.

The NSDS has been in the development process starting with the construction of the National Qualifications Framework (NQF) in the mid-1990s. This, in itself, was a massive task to align the old separate elements of education on the one hand and training, on the other, into a national competency construct that would recognize different kinds of education and training, including the Recognition of Prior Learning (RPL), as being equally valid contributors to different competencies. That is, competencies could be gained through programs in formal educational institutions and technical colleges, in the workplace, or life experiences. These competencies would be transportable from institution to institution and job to job.

Through the SLA, a whole system was created to fund skills development, training, and educational activities under the NSDS. The skills levy resources including National Skills Fund (NSF) money is statutorily available to support education and training in technical and business management upgrading for SMMEs. Monetary incentives through grants and reimbursements to encourage business participation in the different training and skills upgrading opportunities offered in the system were established.

Notwithstanding the high expectations, participation rates of SMMEs in the Skills Development Programs of the FoodBev SETA are very low. Participation is by far with the very large enterprises, which pay the bulk of the levies, but which would have been doing the training anyway because they can afford it.

This assignment, therefore, had a central objective of identifying the reasons for the very low SMME participation rates and why, despite the monetary incentives and other assistance

being provided at no charge to help finance human resource development, participation of smaller firms has been abysmally low. Once the constraints were identified, we could then provide a series of recommendations for a revised outreach strategy to help remedy the situation, reach smaller and medium sized enterprises with more attractive financial and business development incentives and relevant, appropriate training, that, we believe, will help address the underlying problems, constraints, and fatal flaws in the general program and the delivery system as they currently exist.

Report Organization: The SMME Technical Assistance Final Report is organized in two freestanding documents.

SMME Technical Assistance Final Report: Part I discusses the background of the assignment and outlines the activities through which we collected and analyzed information. The document ends with our findings and recommendations that form the basis for a revised SMME Program Implementation Strategy that is described in Part II of the Final Report.

SMME Technical Assistance Final Report: Part II is divided into three Sections.

- **Section I** describes the recommended SMME Program Implementation Strategy that includes a **Marketing and Outreach Strategy** and a **Training Strategy**. Each of the strategies includes strategic initiatives that are designed to take steps to overcome many of the current constraints that the FoodBev SETA is experiencing in reaching SMMEs.
- **Section II** develops an **Action Plan** based on the implementation of the strategic initiatives and their component action steps.
- **Section III** recommends a **Monitoring Plan** that will enable the SETA to determine progress toward implementation of the revised training and outreach strategies, program its resources more efficiently, and measure the increase in services to SMMEs resulting from the augmented outreach services.

2. DETAILS OF ACTIVITIES AND THEIR OBJECTIVES

2.1. Activity 1: Document Reviews

The international consultant, Peter Fraser, arrived on February 2, 2003 to begin the FoodBev SMME Assistance Project. The first major activity was to collect and review as much documentation as possible, although, as the consultant found out, more documents and information kept surfacing as the consultant became more familiar with all the different aspects of FoodBev Activities.

2.1.1. Documents Reviewed

1. Documents explaining the NSDS; history of legislation; South African Qualifications Authority (SAQA) Act 1995; Skills Development Act (SDA) 1998, and the Skills Development Levy Act (SDLA) 1999;
2. FoodBev Sector Skills Plan, Jan. 2001;
3. Implementation Plan for the NSF ;
4. Business Plan 2003/2004 Financial Projections through 2007;
5. Guidelines for the accreditation by the FoodBev SETA of Training Providers, Assessors, and Moderators;

6. Report of the Study Team on the Implementation of the National Qualifications Framework (NQF) – April 2002;
7. Newsletter; and
8. Annual Report.

2.2. Activity 2: Conducted meetings with FoodBev SETA stakeholders, industry sub-sector representatives, labour representatives, Consultant Skills Development Facilitators (SDFs)

1. Met with sub-sector Chamber Representatives – employer/industry sub-sector representatives on the FoodBev Council
 - Baking – Peter Cownie
 - Dairy – Gerard Venter
 - Processing– Hennie Korff
2. Met with Wine Industry representatives in the Western Cape – Beverage Chamber
3. South African Wine and Brandy Company
4. South African Wine Industry Trust
5. Vineyard Academy
6. Met labour representative on FoodBev Council from the South African Food and Allied Trades Union (SAFATU)
7. Met SETA-contracted outreach consultants
 - Veld Cooper Associates – Durban, Pietermaritzburg, Midlands
 - Sylvia Hammond – Western Cape
 - Gary Wilson – Gauteng (telephone)

The objective of this set of activities was to understand how the FoodBev SETA functions from the perspective of each of these organizations and individuals and to learn from their point of view about the processes and procedures under the SAQA and NSF.

2.3. Activity 3: FoodBev Database Review

A review of database of all companies registered with the FoodBev SETA as compiled by the South African Revenue Service (SARS) and based on remittances of the Skills Levy was conducted.

The objective was to try to identify firms to be visited during the SMME assessment study. After trying several of information sources, we decided that this would not be the best way to go about identifying companies. Thus, we prevailed upon the Consultant SDFs used by the FoodBev SETA to generate Workplace Skills Plans (WSPs) to identify the companies to be visited in situ that met the employment, size, and sectoral requirements that would give us a reasonable enterprise distribution.

2.4. Activity 4: SMME Needs Assessment Study

A survey of a sample of 23 companies was conducted in situ in the Western Cape and KwaZulu Natal as well as 13 telephone interviews with companies in Gauteng selected from the general FoodBev Data Base.

This sampling had the objective of providing the consultants with sufficient information in a relatively short period of time to determine the characteristics of businesses that were most likely to be the target market for the FoodBev SETA in the future. Their profile was also expected to shed light on the most effective kinds of business orientation and training that should be offered to them.

Based on the Needs Assessment Study, a stratification of the broad SMME enterprise classification was built and put into a SME Descriptive Typology Matrix that excluded micro-enterprises because they are currently outside the FoodBev SETA program. This helped us to ascertain in a more focused way than was here-to-fore possible, the target market and training needs for managerial skills upgrading and capacity building in this broad sector and to obtain information about how small and medium enterprises perceive the Skills Levy program as it is being implemented by the FoodBev SETA. (See APPENDICES C and E for additional information.)

2.5. Activity 5: Analysis of findings, conclusions, and initial recommendations

Analysis of information gathered was an on-going process. As information was gathered the emerging findings began shaping initial conclusions with regard to the priority target enterprises in the FoodBev manufacturing sector. The characteristics of SMEs in the Typology provided a focus for our proposed Business Orientation and Training Strategy for the FoodBev SETA. The Strategy has been designed to strengthen established enterprises and orient other learners to the option of self-employment through the eventual start-up of a small business.

The information that emerged from discussions with industry sub-sector representatives and other stakeholders and consultants also began to give a clear picture as to the constraints to small and medium sized business participation in the Skills Levy training grants programs and the basis from which the consultants were able to develop a revised FoodBev SETA Marketing and Outreach Strategy.

2.6. Activity 6: Briefing for the FoodBev SETA Council on March 19

Our initial findings and conclusions were presented to the FoodBev SETA Council at which time the principal focus was on the market perception of Skills Levy and the FoodBev SETA's delivery mechanism for reaching their clients, particularly small and medium sized businesses. We also briefly reviewed our initial thoughts on the Descriptive Typology or Matrix segmenting the SMME broad classification into strata of enterprises that shared common characteristics and business focussed training needs that would shape the Business Orientation and Management Training Strategy.

2.7. Activity 7: Briefing for the FoodBev Baking, Confectionery, Cereals, and Snacks (BCCS) Chamber on March 27

Based on the full Council presentation on March 19, the consultants were requested by the BCCS Chamber to brief to them on their findings and initial recommendations.

2.8. Activity 8: Briefing for USAID Project Manager on April 1

Our contact with USAID to this point had been minimal due to the very busy schedule of the USAID project managers. However, we were able to arrange to provide an extensive briefing to Caashief Lombard, Project CTO, USAID/South Africa Mission on this date.

2.9. Activity 9: Briefing for the Department of Labour's FoodBev SETA liaison on April 8

In order to assure that all parties were briefed as fully as possible, a meeting was held with the FoodBev SETA's DOL liaison, Jabu Sebeko. He was pleased with the information he received and was particularly interested in the issues surrounding survivalist informal sector micro-enterprises. He was also interested in consultants' description of differences between programs of assistance to that type of economic activity and programs such as the education and training programs being run under the auspices of the SETAs.

2.10. Activity 10: Final briefing for the FoodBev SETA Staff on April 15

This meeting completed the briefings to FoodBev SETA management and gave them an opportunity to react, respond, ask questions, and, generally, was another opportunity for them to be consulted and have inputs.

2.11. Activity 11: Final briefing for Department of Labour personnel and the DOL SMME Task Force on April 16

This meeting was our official briefing with the South African DOL in compliance with our obligations under contract with USAID. Based on the April 8 meeting with the DOL liaison, Jabu Sebeko, he also invited members of the DOL SMME Task Force to sit in because of our findings regarding micro-enterprise participation in the FoodBev SETA skills program and the consultants' knowledge about the informal sector and survivalist enterprises.

2.12. Activity 12: Deliverables

Briefings: As described in Activities 6 through 11.

Technical Reports: Needs Assessment Report, Written Implementation Strategy, Written Action Plan, Written Monitoring Plan, Written Final Report.

Progress Reports: Written Quarterly Report (June due date), Written Monthly Reports for February, March, and April; Written Weekly E-mail reports.

2.13. Activity 13: Implementation Workshop (postponed)

It became clearer as time went on in the consultancy that the workshops as they were initially conceived needed to be refocused. Also the timing right around Easter was very problematic. Therefore, it was decided, with the concurrence of USAID and the FoodBev SETA, to postpone these workshops until a later date coinciding with the Sector Education and Training Authority Secondary Agriculture (SETASA) work order. Thus, Peter Fraser's initial stay in South Africa was cut back to April 17, leaving the remainder of his Level of Effort (LOE) to conduct a final strategy implementation workshop later in 2003 when he returns to South Africa under the SETASA assignment.

3. PROGRESS MADE TOWARD PLANNED ACTIVITIES

All planned activities will be completed within the LOE provided. As mentioned above in Activity 13, a scheduling change has been made in the best interests of the project and all concerned. However, we are fully expecting the workshop to be carried out at a later date.

4. FINDINGS

One of the important reasons for conducting the Needs Assessment Study with business owners was to get a clearer profile of businesses in different size strata and, consequently, their training needs. The hypothesis was that the generic SMME classification of smaller businesses, that is, anything under large, was too broad to be able to target strategies and training very meaningfully with skills upgrading offerings relevant to the needs of businesses of different sizes. The study, document reviews, interviews, and briefings with industry representatives, SETA personnel, and our clients revealed and/or confirmed the following findings. These findings led to conclusions that, in the end, produced the basis for the team's recommendations and strategy formulation:

a. FoodBev SMME Clients and Training Needs

Characteristics of Small and Medium Scale Business Owners and Enterprises

- Businesses of different sizes have variations of characteristics in organization, sales, accounting and management expertise implying different training and capacity development needs according to size;
- Owners often come from entrepreneurial families and are second or third generation in the business;
- First generation owners were, on occasion, technical diploma holders who had been employed as managers in larger enterprises and were retrenched sparking the need/opportunity to take the steps to business ownership;
- Owners of the smallest businesses often carry out all management functions, but generally have little, if any, formal business management training. They manage by intuition and accumulated experience. Many recognize their need for more business management training, and would take advantage of offerings if they were easily accessible;
- Larger, medium size businesses have a more structured management hierarchy than small businesses implying different training needs at the mid-management level;
- The larger the enterprise, the greater the need for operations and strategic planning;
- Most small and mid-size businesses do not export. They would generally not meet export quality and hygiene standards without significant capital investment that small enterprises do not aspire to;
- Enterprises that have been successful in the local market may be the most appropriate targets for export development incentives and initiatives. They would benefit from export specific training in conducting feasibility studies and strategic planning;
- No enterprises that would be normally defined as micro-enterprises (1 – 5 employees) were identified as registered or being attended by the FoodBev SETA;

- Small businesses often provide training in basic skills, health, and sanitation, etc. on their own, in house, as it is convenient and needed, always considering the “bottom line” and the cost of the training versus the benefit derived from a business perspective; and
- Smaller companies must be very careful to control the direct costs of doing business; their net profits are very small, as is, and, even before deducting training expenses, do not permit much growth, if any. So any incremental expenses, including, but not limited to training costs, are of critical importance to SMEs and needs to be analyzed carefully.

Characteristics of Workers

- Workers often receive technical training from owners and other colleagues who have picked up skills over time;
- Workers have very little understanding of business principles;
- Workers often reject supervisory positions due to workplace/family/community relationships making it more difficult to entice some people to “advance” when it implies digressing from the cultural norms of deference to age and other kinds of relationships;
- Workers consider training an entitlement that should be conducted at company expense during work hours. It is difficult to convince workers to receive training after hours or on Saturdays; and
- It appears that, as a general rule, employees under the age of 25 generally have “matric”; over 35 or 40 they have much lower level of basic education implying different NQF Level requirements in these age groups. Thus, training offerings need to take this into consideration when designing unit standards and qualifications.

b. Market Perception by Small and Medium Enterprises (SMEs) of the Skills Levy Program

In addition to the different characteristics mentioned above, the results of the Needs Assessment Study reflected the market perception of SME clients regarding the implementation of the Skills Levy Program. Observations include the following:

SMEs consider Skills Levy program “just another tax”

- The perception of the Skills Levy by SMEs as “just another tax” was the predominant response of small enterprises to telephone and face-to-face discussions of the Skills Levy, even though they had done the WSP; and
- The levy is perceived as a “sunk cost”, even though many companies don’t really have much information on how they can take advantage of their contribution to the Skills Levy and access training through the SETA mandatory grant claim-backs and other discretionary grants. They take this position based on their understanding of what appears to them to be a difficult process that makes the real cost in terms of time and effort, as well as the opportunity cost, not worth the perceived return to the enterprise.

The FoodBev SETA is considered aloof

- The SETA, as an institution, is regarded by the small and medium scale businesses interviewed as aloof and not very attuned to the realities of business and the business implications of the Skills Levy Program.

Processes and procedures are not “enterprise friendly”

- The program seems to be one that was developed by educators and trainers without much consideration of the business realities of small and medium scale enterprises;
- Small businesses are very concerned about day to day cash flow. Financing education and training under the Skills Levy program from current cash flow is not considered attractive;
- Small and medium scale businesses consider the “mandatory grant” system to claim back 15% of the levy through the development of a WSP onerous. To claim back an additional 45% of the levy after the year WSP period, an implementation report needs to be completed by the SDFs reporting satisfactory implementation of the WSP. This perception is in spite of the hired “recruiters” (Consultant SDFs) who are hired to complete the documentation in these two processes; (See APPENDIX D: Distribution of Skills Levy Funds for more detail);
- The costs of implementing the training for many small enterprises is considered greater than the amount that would be returned and, therefore, not worth the effort. In the case of very small companies the R500 or R1,000 that they might be reimbursed is far less than what they would have to spend up front on training;
- If a learnership agreement is made between an employee and a business, then the businesses can be reimbursed a significant amount more due to additional tax incentives and grant funds. But the learnership can take over a year and is still not perceived by small and medium scale businesses to be worth the effort financially, given the loss of productive time of the learner and having to hire casuals as replacements.
- The opportunity cost of training to the enterprise over and above the “sunk cost” of the Levy and other direct costs of training and hiring casual, replacement workers is a major disincentive to conducting training for businesses of all sizes;
- The levy was cited as another way to tap business once again for resources;
- There is significant cynicism regarding the functionality of the Skills Levy program delivery mechanism; and
- Education and training in Adult Basic Education and Training (ABET) and HIV/AIDS and general life skills is perceived as well-intended, but generally small and medium size businesses would not pursue this at the expense of time in the workplace and production examples;

Another technique for government to intrude on businesses

- Smaller companies are sometimes suspicious that participation in the NSDS provides yet another means for government intrusion in the affairs of businesses, potentially resulting in more unproductive time and money spent on compliance requirements; and
- Tax and labour laws are already considered as being harsh by smaller enterprises.

Participation in the program geared to benefiting very large enterprises

- Large businesses with very large payrolls where the 1% levy is a significant amount, find the effort to claim back Skills Levy funds is worth it. These companies also generally have Human Resource Departments and training programs already in place. These are the companies that are participating in the program, are the primary beneficiaries, and are in a position to defray the costs of training they are doing anyway, with the claim back of

their Skills Levy contributions. They don't worry about the cash flow implications of up front financing of training, because it is already budgeted. Thus, every Rand claimed back implies a saving, not an additional expense. These companies are able to claim reimbursement of their skills levies and tax deductions with virtually no additional effort or incremental cost; and,

- However, there are disincentives even to large enterprises. There is reluctance by large companies to open the doors to learnerships, because they will have little control over the candidate assigned to them by the SETA, and they may actually reduce overall productivity.

Lack of information

- There is limited knowledge of the full range of offerings of the SETA. Amongst SME's there is little knowledge of Grant financed or subsidised activities;
- While owners, managers, and employer representative organizations are generally familiar with the 15% and 45% claim-back provisions, there is a widespread lack of information about tax incentives and other grant-financed opportunities such as the NSF Program or other Discretionary Grant Projects financed by the FoodBev SETA with the end of assisting small businesses and PDIs;
- Specific skills development offerings of the SETA are not generally either known to, or remembered by, the smaller companies interviewed in the field; and,
- The information contained in FoodBev SETA newsletters, e-mails, and other mailings (if ever received) is not perceived to be particularly relevant to the great majority of small businesses. They put the newsletters and other bulletins aside "to read if they have the time".

Concerns about losing best employees who are most likely to be selected for training

- Small and medium size businesses are generally required to send employees to another firm for their learnerships, generally a large firm, that has all the production and training facilities for the practicum part of a learnership. This represents a danger to the smaller firm financing and/or providing the learner for the learnership, because of the possibility of their being poached; and
- Although smaller businesses generally think that the kind of training under the NSDS is good, they are suspicious of providing training to employees, because trained employees are likely to make larger salary demands, be poached by other companies, or seek higher paid employment elsewhere.

Accreditation Issues: Providers, Assessors, Moderators

- The accreditation process for providers, assessors, and moderators is considered arduous, time consuming, bureaucratic, and difficult;
- Currently accredited providers, assessors and moderators for learnerships are considered to be limited in number and difficult to access; and
- Assessors and moderators are often current employees of large firms and may be competitors. The idea of them having access to and providing judgement in competing companies has been described as a disincentive, even for large firms, to participate in learnerships.

Credibility

- Providers who are not known industry specialists lack credibility. Businesses are more comfortable with providers that are known to them and that are particularly knowledgeable about their sector and type of business they are involved in. Therefore, they suggest fully involving industry specialists as coordinators, advisors on training, training providers, assessors, and moderators; and
- Interviewees have stated a preference for the option of using industry specialists for training that are part of a representative association or foundation that represents the whole industry, not just a few of the largest enterprises. They are suspicious of using individual businesses as training providers. They are also uncomfortable using assessors and moderators who are employees of competing businesses.

c. Skills Program Outreach

Participation of levy paying SMMEs is low

- In the course of its work, the consultant team confirmed that an extremely low percentage of FoodBev registered SMMEs was being reached by the SETA.

Participation of PDI owned businesses/BEEs is a minimal percentage of an already low participation rate amongst SMMEs

- In the course of the assignment, the consultant team became aware that not only was a low percentage of SMMEs being reached by the Skills Levy Program, but also a minimal number, if any, client enterprises fell in the rubric of BEEs and other PDI – owned enterprises.

5. RECOMMENDATIONS

Based of the Findings of the data collected through field work and document review the Consultants make the following recommendations:

Market Identification: The FoodBev SETA should:

- **Adopt an enterprise typology as follows:**
 - Level I Small Enterprise – 6 to 24 employees
 - Level II Small Enterprise – 25 to 49 employees
 - Medium Scale Enterprises – 50 to 150 employees.

Until a better classification exists, this stratification of SMEs seems to provide a way for the FoodBev SETA to target its services specifically to the needs of enterprises of these different groupings.

- **Target Level I and Level II Small Businesses for discretionary and National Skills Fund grant-financed outreach and training effort.**

The target market for both discretionary and NSF grant financed outreach and training efforts should be Level I and Level II small businesses. The consultants recommend that FoodBev SETA time and effort should initially be placed on reaching a much larger portion of registered Level I and Level II small businesses (See APPENDIX C) within its Sector than it has to date. The funds should be used primarily to reach firms paying the Skills Levy that, in the aggregate, employ large numbers of PDI's that would benefit greatly from the kinds of capacity and skills upgrading programs offered through SETA upfront grant funding.

NOTE: See Needs Assessment Study Report for more details on market definition, micro-enterprise and reasons for selection of the above targets.

- **Continue promotion of medium scale businesses under the mandatory claim-back grants program.**

It is the consultants' understanding that medium scale enterprises are more likely than small enterprises to be able and willing to absorb up-front costs of training and other hidden costs, that are most felt under the mandatory grant claim-back system. Small businesses are more in need of the grant funding available under the discretionary and NSF grants and are not interested in spending the time and effort to claim back 60% of a small, R1,000 levy, or R600, to give an example.

- **Use bulk of SETA resources to expand coverage of unreached firms already on SETA roster.**

Given the thousands of levy-paying registered small and medium scale businesses that are not yet participating, one priority for the FoodBev SETA should be on reaching them thereby making them stronger producers and employers and more sustainable. This would protect existing jobs through workforce technical skills upgrading and business orientation, on the one hand, and encourage training in business management capacity upgrading for business owners/ managers that would be focused on providing the tools for enabling business growth and new employment creation, on the other.

- **Significantly expand promotion and outreach to BEEs and other PDI-owned enterprises.**

A special effort needs to be made by the SETA to reach registered or unregistered small enterprises in the Townships and other areas where the demographics will be more likely to produce black-owned and other firms owned and managed by PDIs.

- **De-emphasize identification of informal sector micro-enterprises until the coverage of small and medium size business coverage, particularly in demographic areas where BEEs and other PDI-owned companies are likely to be located, is greatly expanded.**

While the information is not conclusive, there are strong indications that micro-enterprises of less than 6 employees are likely to be unregistered and, therefore very difficult to locate. Even if a few of these informal micro-enterprises were located and were convinced to participate in SETA sponsored training, it is the consultant's best judgement that the probability of the training being used for business consolidation and growth or by the employees would be low.

Small Business Training: The FoodBev SETA should:

- develop a Training Strategy for small and medium scale enterprises that takes into consideration their differences when developing training content. (Refer to APPENDIX C: SME Descriptive Typology Matrix for detail.)
- identify Training Providers accredited for Generic Business Management or other business courses. Groups of these providers, preferably smaller organizations or individuals should be identified throughout the country so that smaller enterprises, located in more out of the way places will have access to training;

- identify existing sub-sector representative associations that have the capacity to become technical training providers, assessors, and moderators and assist with their timely accreditation;
- identify possible new sub-sector representative associations and encourage them to organize to provide support to their particular sub-sectors in technical education and training, ABET, and special programs such as HIV/AIDS awareness and prevention. Once organized, the SETA would assist with their timely accreditation; and
- use existing unit standards and qualifications to develop content for the different training themes identified in the SME Descriptive Typology Matrix.

Skills Levy Outreach and Delivery: The FoodBev SETA should:

- develop an Outreach Strategy that addresses the negative market perception of the Skills Levy Program as described above in Findings;
- implement service delivery system improvements to develop credibility and to address real needs for enterprise strengthening, sustainability, and growth;
- implement new promotion and outreach activities with special emphasis on BEEs and other PDI-owned enterprises. This will be especially important to the success of the FoodBev SETA's recently commenced NSF grant program targeting SMMEs and their new discretionary grant program to finance over 1,000 Learnerships for PDIs;
- make a special effort to target unregistered enterprises and other registered small enterprises in the Townships and other areas where the demographics will be more likely to produce black-owned and other firms owned and managed by PDIs; and
- as part of the outreach effort implement Regional FoodBev SETA Telephone Information Lines that businesses can call to get current, detailed information on all aspects of the FoodBev SETA education and training programs.

APPENDIX A: SMME PROGRAMME WORK PLAN - FOOD AND BEVERAGE MANUFACTURING SETA - February 2003

February 2003

Week One: ***Review Skills Development and SMME contexts in South Africa***
International SMME consultant deployed. Meet with Khulisa Management Services, counterparts from Food/Bev SETA personnel, and the Host Country Technical Consultant for introductory sessions. Gather and review essential materials on the National Skills Development Strategy, SETA, and HRD legislation in South Africa. Concurrently, gather information on South African SMME enterprise profiles, policy and regulatory context.

Week Two: ***Draft Work Plan and Commence Technical Tasks***
Identify stakeholders and begin work with counterparts at the Food/Bev SETA. Continue to review background materials on the National Skills Development Strategy and SMME context. Review FoodBev SETA enterprise databases and other raw data, including Workplace Skills Plans to better understand the sector. Review sequence of discrete SMME subtasks and the interface between SMME, the OD, and IT consultants in the Food/Bev SETA.

SMME Typology and the **Needs Assessment** designed. It is anticipated that the data collection for these activities can be concurrent and that one questionnaire will be developed to cover both sets of information needs. Determine the level of involvement of SETA personnel and stakeholders in the design and implementation of the field work that will need to be done in these two efforts. Work with stakeholders and SETA personnel to develop a sampling plan for localities and businesses including desk research and field work for both the typology and the needs assessment.

Meet with SETA personnel and USAID to gain consensus on our approach to the assignment, specific outcomes, and reporting on progress and ideas.

Note: It is envisioned that the **SMME Typology** will categorize enterprises according to multiple management, technical, staffing, capital investment and sales characteristics enabling the Food/Bev SETA to have a better stratification of what is generically classified as SMME. The distinct categories, or **levels of business**, particularly at the lower levels of the enterprise spectrum (1- 49 employees) will help the FoodBev SETA target the type of HRD and enterprise development interventions as well as identify the most qualified providers for each type of intervention more accurately according to the projected demand for skills.

It is conceived that the **Needs Assessment** will produce specific information about education, training, and general enterprise development needs that will be similar for enterprises in each category of business generated by the **SMME Typology** thereby allowing for clusters or groups of businesses,

particularly at the small and micro levels, and particularly informal enterprises to gain access to information (outreach) and training/learnerships, at lower cost to the SETA.

It is envisaged that the Food and Beverage Sector enterprise **Typology** will also help identify and market appropriate learnership opportunities and skills program packages to clients in each category of the typology.

Week Three: Meet with various organized business associations. Learn more about Skills Development delivery systems under the National Skills Development Strategy. Organize field work for the typology and needs assessment activity.

Week Four: Develop needs assessment and typology enterprise sample for site visits and telephone interviews.

March 2003

Week Five: Begin needs assessment and typology field work and desk research. (Locations of field work to be determined).

Week Six: Complete field needs assessment and typology field work and desk research. With information collected by the end of Week Five, complete a draft typology in matrix form that presents a stratified profile of SMMEs and the multiple levels of enterprise that are grouped in this composite designation. Make adjustments to the typology, as needed, according to the additional information obtained, if any, in Week Six.

Week Seven: Present initial findings of the desk and field data collection at the FoodBev SETA Council Meeting on March 19.

During the first weeks, throughout the desk and field research stages, information will be gathered that will support ideas for the Planning process that gets into full swing during Week Seven. Using the results of the desk and field research, continue developing the Food/Bev SETA's SMME Skills Development Plan to provide technical skills and enterprise development training to employees and established or potential business proprietors. It will present a two-track approach for employees, proprietors, and potential entrepreneurs. Work with curriculum developers to outline possible inputs and outcomes for potential Learnerships, Skills Programmes, and other discretionary grant in shop or external ABET and skills upgrading activities.

Week Eight: Continue developing the Food/Bev SETA's Outreach Plan (Delivery System) and complete both the Skills Development and Outreach Plans. Continue working with curriculum developers on illustrative training outlines.

April 2003

Week Nine: Develop and complete the Food/Bev SETA's Monitoring Plan.

Week Ten: Compile a **Draft SMME Implementation Strategy and Action Plan** that will be composed of the Skills Development, Outreach, and Performance Monitoring Plans developed over the prior weeks. This Plan will include activities to review progress against implementation benchmarks, some of which are included in the SETA's current planning. The periodic on-going reviews will guide adjustments in SMME regional and local training plans that should reflect skills required by SMMEs at any given time *and* National Skills Development Strategy mandates. The Plan will include action steps and time frames.

The SMME Implementation Strategy and Action Plan will be presented at a **Stakeholder's Planning Meeting** at the end of Week Ten (April 11) for the FoodBev SETA and its Stakeholders. The stakeholder representatives will be chosen at the discretion of the SETA.

Note: The Final SMME Implementation Strategy and Action Plan will form part of the Food/Bev SETA's overall Comprehensive Implementation Plan.

Week Eleven: Receive and record feedback from Stakeholders. Make adjustments as appropriate and needed.

Week Twelve: Hold a final debriefing meeting with USAID and the Food/Bev SETA. Complete final written materials.

APPENDIX B: NEEDS ASSESSMENT STUDY GUIDE

I. GENERAL ENTERPRISE INFORMATION

1.1 Name of the company: _____

1.2 Name and position of the owner: _____

1.3 Name and position of the person interviewed: _____

1.4 Contact telephone number: _____

1.5 Physical address of the company:

Street: _____

City: _____

Province: _____

1.5 Legal registration status: _____

1.6 Length of time in business: _____

1.7 Principal products: _____

1.8 Employee Profile

	No.	B	C	I	W	NQF
Upper managers:						
Middle managers:						
Supervisors:						
Work force:						
▪ Administrative						
▪ Sales/distribution						
▪ Production						

1.9 Production Technology/Capital Investment

- Please list the kind of equipment used in the production process?

- Describe the physical layout of the shop. Size, production flow and layout.

1.10 Approximate Gross Monthly or Annual Sales _____

II. MANAGEMENT SYSTEMS AND FUNCTIONS

Note to the Interviewer: This questionnaire includes questions about management systems and functions that may or may not be applicable to many enterprises. Still, please be sure to indicate even if there is no answer, because this will be crucial to the development of the enterprise typology, or categorization, of Food and Beverage Sector businesses.

II.1 Sales and Marketing

- Who is responsible for this function?
List qualification level attained in the NQF _____
- How do you identify the products you will produce? Do your products ever change over time? Why?
- Who does the selling? How are they paid?
List qualification levels attained in the NQF _____
- What are your sales terms; cash on delivery, short-term credit, other.
- Where are your customers located? Neighbourhood? Township? Provincial? National?

What do you consider to be the principal improvements that could be made in product mix and marketing?

Please list the biggest problems that you have in increasing the sales of your products?

II.2 Accounting/Bookkeeping

- Who is responsible for this function?
List qualification level attained in the NQF _____
- Do you have a formal accounting system? Please describe documents prepared. How do you use this information? Computer systems? Auditing?
- How do you determine the prices of your products?
- How do you do cost accounting? Is there a formal system and procedures for gathering the needed cost analysis information?
- At the prices you are charging, is your firm making enough revenue to cover expenses and produce a reasonable profit?

What do you consider to be the principal improvements that could be made in keeping good accounting records?

Please list the biggest problems that you have in keeping good bookkeeping records that provide a true financial picture when incorporated into your financial statements?

What financial information do you consider most important to manage your business?

II.3 Production Management – Front Office

- Who is responsible for this function?
List qualification level attained in the NQF _____
- Product Planning - How do you determine what new products to produce?
- Plant Layout - Does your company need to pay attention to plant layout considerations the relationship between equipment and operations to produce your product most efficiently?
- Rate your ability to meet customer demands on time.
- Do you have a daily production planning process?

- Do you set production standards for personnel?
- Do you monitor product quality? Please describe the process.
- Do you have incentives to induce personnel to be more productive, such as bonuses?
- Do you set workplace safety standards?

II.4 Production – Shop Floor

- Who supervises/oversees production on the shop floor?
List qualification level(s) attained in the NQF _____
- Do you have production supervisors?
List qualification level(s) attained in the NQF _____
- How are raw materials inventories accounted for?
- What is the general level of production skill amongst the shop floor workforce?
List qualification level(s) attained in the NQF _____

What do you consider to be the principal improvements that could be made both Front Office Production Management and on the Shop Floor?

Please list the biggest problems that you have in assuring that production schedules are met and that customers are satisfied with the delivery and quality of your product(s).

II.5 Production-Technical Know-how

- What production technical skills upgrading of personnel is required:
Please indicate in order of priority.
 - a. _____ Order of priority _____
 - b. _____ Order of priority _____
 - c. _____ Order of priority _____
 - d. _____ Order of priority _____

What health and sanitation awareness and skills upgrading of personnel is required:
Please indicate in order of priority.

- a. _____ Order of priority _____
- b. _____ Order of priority _____
- c. _____ Order of priority _____
- d. _____ Order of priority _____

II.6 Financial Management

- Who is responsible for this function?
List qualification level attained in the NQF _____
- Is bookkeeping and accounting information transferred to your financial statements in timely manner.
- What financial management tools does your firm use? Please answer yes or no.
 - Balance Sheet _____
 - Profit and loss statement _____
 - Cash flow projections and budgets _____
 - Break-even analysis _____
- What financial ratios does your enterprise consider most important?
- Are financial ratios and other information generally used to take managerial decisions?
- How well are the statements and concepts understood by the owner/managers?

- What do you consider to be the principal improvements that could be made in the financial management aspects of your business?
- Please list the biggest problems that you have in producing financial reports and, later, in their analysis and use in the management of the enterprise. (This may include time constraints and lack of know-how on the part of owners/managers.)

II.7 Business Management and Entrepreneurial Know-how

- What business management and/or entrepreneurial skills upgrading of owners/managers is required:
Please indicate in order of priority.
 - _____ Order of priority _____
 - _____ Order of priority _____
 - _____ Order of priority _____
 - _____ Order of priority _____

III. FOODBEV SETA SKILLS DEVELOPMENT

III.1 What is the principal difficulty for Micro, Small, and Medium Scale enterprises in participating in Learnerships, Skills Programmes, and other discretionary grant training in HIV/AIDS, ABET, etc?

III.2 What incentives could the FoodBev SETA use to increase Micro, Small, and Medium Scale enterprise participation in the skills development programmes of the National Skills Development Strategy?

III.3 How valuable to your business are the various offerings of the SETA in terms of assistance with the Skills Development Strategy, learnerships, grants and skills development programs? Excellent___; Good___; Fair___; Poor___

III.4 How responsive do you consider the FoodBev SETA to be to industry requirements? Excellent___; Good___; Fair___; Poor___

III.5 How do you feel the FoodBev SETA could improve its service to the industry?

APPENDIX C: SME DESCRIPTIVE TYPOLOGY MATRIX

Indicators of enterprise maturity and skills development needs	Number of employees Level I Small 6 – 24 employees	Number of employees Level II Small 25 – 49 Employees	Number of employees Medium 50 – 150 employees
Characteristics of business owners	Owners often retrenched technical people; entrepreneurial by nature, or took over from a parent. Have little formal business training. Manage largely by intuition and experience to sustain business.	Owners first or second generation; technical backgrounds; need more formal business management skills for sustainability and growth. Owners very involved in daily management, but have one or more first level supervisors to help oversee business operations.	Second or third generation businesses. Younger generations may have formal higher education in management or economics. Less involved in daily production. More formal focus on financial concerns- market development, capital investment, business growth.
General organizational characteristics	Owner makes all management decisions with little delegation except for certain supervisory functions. Mostly registered CCs.	Increased delegation of production/output supervision (not authority) to best workers in a supervisory capacity. Pty registry.	Formal mid-mgmt. hierarchy. Delegation of authority and supervision. Shared mgmt. functions across several Pty's under same owner.
Accounting / Financial Management structure	Contract accountants to generate financial statements and documentation required by SARS per requirements of CC registry. Secretary or receptionist often doubles as bookkeeper to record sales, accts. payable/receivable; data capture functions.	Contract accountants to complete required SARS documentation. Internal accountant on staff with more formal training in accounting to convert information into statements and to keep owner informed.	Contract accountants to do formal SARS documentation. May have several accountant/ bookkeeper types with some training. May have a financial mgr. with bus. or financial training to oversee accountants- more formal data analyses; interpretation.
Accounting/Financial Management systems	Off-the-shelf acctg. systems such as PASTEL used to record acctg. data and for financial statements. Use of information very rudimentary. Little interpretation of financial statements by the owner. Income/expense; periodic cash flow only.	Off-the-shelf acctg. systems such as PASTEL used to record acctg. data and for financial statements. Some understanding of financial accounting, but other accounting and daily bookkeeping tasks are priority for small business cash flow.	Off-the-shelf acctg. systems such as PASTEL used to record accounting data and for financial statements. There is more understanding and use of statements and financial information for managerial decision-making.
Capital investment/ capital intensity (non-export oriented firms)	Capital investment small, low tech.; ease of entry moderate; high labour intensity; labour productivity quite low commensurate with tech. levels of personnel, plant equipment.	Capital investment in plant and equipment significant, but continue with low to moderate tech; labour content in packing and shipping functions particularly.	Capital investment in plant and equipment significant; low to moderate tech; (some very high tech.); labour productivity moderate; highest labour content in packing and shipping functions, particularly.

<p>Production management structure</p>	<p>Owner is in charge, but may appoint supervisor of activities from trusted current staff. Clerk-type person to oversee raw materials and manually record finished products. Little delegation of authority.</p>	<p>With growth would hire new employee or appoint someone on staff in a supervisory capacity. Some quality and performance monitoring, but the owner still very much in charge.</p>	<p>Have formal production management hierarchy with more delegation of decision authority. Note: The GMs of some Pty's that are part of a large group of Pty's are essentially division managers who report to the owners.</p>
<p>Production/technical skills levels of personnel</p>	<p>Very low level. On the job training is often provided by owner and older colleagues. Tech. capacity of personnel is limited Little interest by business in out-of-pocket financing of training.</p>	<p>Like Level I. Tech. capacity of personnel from owner and older colleagues. Production/technical capacity of the personnel needs to improve.</p>	<p>Technical know-how may be relatively higher than small companies. Some diplomas. Continued growth requires on-going improvement in production/efficiency; introduction of new products to the mix.</p>
<p>Sales and distribution</p>	<p>Sales locally or regionally based. Owner alone or assisted by agents or commission reps. Often passive sales/word-of-mouth. Product pricing generally on a cost plus basis, but costing very informal; very competitive in some sub-sectors.</p>	<p>Sales regionally based. More reliance on reps., but owner(s) continue to be highly involved in sales and other marketing efforts. Product pricing generally on a cost-plus basis; very competitive in some sub-sectors.</p>	<p>Sales regionally and national. Marketing done by employees, agents, and reps. Owner(s) less involved in sales as business grows to this level. Product costing/pricing taken seriously. Market share becomes a focus. Growth oriented firms need to expand range or quality of products.</p>
<p>Export potential/ capacity</p> <p>Note: Export oriented small firms can have: very high capital intensity and automation; high labour productivity; and greater compliance with Hazard Analysis Critical Control Points (HACCP) and other export compliance regulations.</p>	<p>In food products sector, generally do not meet regulatory requirements of import countries. Generally cannot meet volume demands of buyers. As gen. rule need to succeed in local market first before attempting export.</p>	<p>May have the production capacity to export but lack competitiveness to compete abroad and the capital to meet other regulatory standards of importing countries such as HACCP. (See note to the left.)</p>	<p>Int'l competitive-ness to displace imports or to export will require high capital investment. May have the production capacity to export, but lack competitiveness to compete abroad and the capital to meet other regulatory standards of importing countries such as HACCP. (See note to the left.) Need to do more strategic planning in this area to gear up over medium term (5 years.) Plan investments, project regulatory climate.</p>

CROSSCUTTING BUSINESS TRAINING:	Number of employees Level I Small 6 – 24 employees	Number of employees Level II Small 25 – 49 Employees	Number of employees Medium 50 – 150 employees
<p>Track I: Business orientation and training for current employees.</p> <p>Objective: To provide business information that encourages current employees to advance in business supervisory and management areas.</p>	<p>Business functions. Primary components of business management. Basic drivers of business decisions.</p>	<p>Basics of business mgmt. Production management. Concepts of efficiency, productivity. Inventory management for supervisors. Basic financial management concepts and data capture for accountants and bookkeepers. Basic customer service.</p>	<p>Basics of business management; middle management theory and practice: financial data needs and capture for accountants and bookkeepers.</p>
<p>Track II: Business management training for business owners/ managers</p> <p>Objective: To stimulate business sustainability and future growth.</p>	<p>Process of business growth. Implications of growth on organization/ regulation, labour law. Need for understanding of financial information and its interpretation. Need for business plans.</p>	<p>Business planning. Basic elements of the plan. Planning for growth. Interpretation of accounting data and application to managerial decision-making. Legal and regulatory environment issues.</p>	<p>Business planning. Planning for growth (possible export) Interpretation of accounting data and application to managerial decision making. Legal and regulatory environment issues.</p>
<p>TECHNICAL TRAINING:</p>	<p>Specific technical training to be determined by technical subject matter specialists in each sub-sector.</p>	<p>Specific technical training to be determined by technical subject matter specialists in each sub-sector.</p>	<p>Specific technical training to be determined by technical subject matter specialists in each sub-sector.</p>

APPENDIX D: DISTRIBUTION OF SKILLS LEVY FUNDS

Financing for the Sector Education and Training Authorities (SETAs) is provided for by Skills Levy Act of 1999. It authorizes the South African Revenue Service (SARS) to collect a levy from each organization that is registered with a given SETA calculated as 1% of payroll. Enterprises with less than R250,000 payroll per year are exempt.

The SARS redistributes 80% of the funds to the respective SETAs where the organization is registered. This is done according to the following formula.

- 10% is allotted for SETA administrative costs;
- 60% is allocated to a mandatory grant category under which companies that prepare WSPs and successfully implement them each year can, through an ex-post claim-back system, receive partial “reimbursement” of the cost of training; and
- 10% goes into a discretionary grant fund that can be used to “prime the pump” so to speak, to encourage special projects at the SETAs discretion, including improved outreach, marketing, and to encourage, generally, improved participation in the learning offered by the SETA Skills Development Programs.

Under the mandatory grant scheme, participation in the process through the development of yearly WSPs entitles a business to a 15% claim-back against the amount it contributed. Upon satisfactory completion of the yearly WSP, a company can get an additional 45% of the annual levy back. These disbursements are designated as Mandatory Grants and must be held aside in any given fiscal year to honour the amounts claimed by companies against their contributions.

If a company elects to enter into a full Learnership Agreement, it can receive lump sum monetary reimbursements of up to R20,000 and a tax deduction of R25,000 if they Learner was unemployed at the time of inscription. Lesser incentives are available to enterprises entering into Learnership Agreements with current employees. The incentives are designed to be more lucrative if the learner was unemployed at the time of the agreement, but current employees are eligible for the programs.

Learnerships are designed with a minimum of 120 credits. Calculated at about 10 hours of learning per credit, this is a fairly long period of learning for a worker, particularly in small companies, to be away. Skills programs are less intensive, and are generally made up of a set of unit standards that represent a small number of credits. Again, each credit represents about 10 hours of nominal study (depends on the person). The employee under Skills Programs may remain in the workplace during the period of training and the firm providing the training can receive R50 per credit reimbursement up to a total of R6,000.

Under the Skills Programs, no tax incentives are provided, but the credits can be accumulated and can be converted as credit toward a Learnership in a subsequent period, consistent with the philosophy in the NSDS of Recognition of Prior Learning (RPL). This convertibility and “transportability” of competencies is an important feature of the NSDS and is one that small and medium size enterprises could find advantageous as they would not have to pursue Learnerships all at once, but could spread the learning out over time.

APPENDIX E: NEEDS ASSESSMENT STUDY REPORT

I. Setting the Stage

The FoodBev SETA has a mandate to improve its ability to reach more effectively increased numbers of SMMEs throughout the country. In order to achieve this objective, the FoodBev SETA developed a Sector Skills Plan, a Business Plan, an Implementation Plan for a major grant program under the NSF, and other planning documents that specifically target SMMEs as a priority target market in their overall program goals of improving business competitiveness, achieving import replacement where possible, fostering business growth, saving and strengthening existing jobs and creating new ones in an increasingly competitive global economy. These goals and the SMME focus are consistent with national policies on business development and employment creation and, in the case of the FoodBev SETA, these ends will be achieved through on-going private sector-based education, training, skills upgrading, and capacity development as promulgated by the NSDS, legislated by the Skills Development Act (SDA) of 1998 and financed by the Skills Levy Act (SLA) of 1999.

There were two central objectives that needed to be addressed in the assignment. The first was to **develop a training strategy** to address the principal business awareness and management training needs of client SMMEs of the FoodBev SETA. The second was to **develop a strategy for improved marketing and outreach** to expand the coverage of SMMEs under the Skills Levy program.

1. In order to develop the training program, we recognized in our proposal the need to collect a reasonable amount of primary information from SMMEs regarding their current management and administration profiles through a Needs Assessment Study. The information garnered from the interviews, while not based on a statistically valid sample basis, would give the consultants a basis of information from which to develop an SMME Typology. The typology, in turn, would break up the broad classification of SMMEs into various sub-groups or Levels of enterprise based on eight characteristics that would provide indicators as to the management training needs of established FoodBev SETA levy paying companies.

A study guide was developed to collect quite a lot of information about the companies interviewed. The consultants realized that many of the questions would be difficult to answer, but this, in and of itself, would be an indicator of management profiles and levels of managerial maturity.

2. The project also required the development of an outreach strategy for reaching SMMEs. Given that there were already SMME plans in place, the fact that the RFP asked for a new outreach strategy led the consultants to understand that the current system was presenting problems and that they needed to be understood in order to design the revised outreach strategy. Additional questions were added to the Needs Assessment study guide that would also render information that would allow an understanding of the processes and constraints to SMME participation in the Program. With this information we could then recommend appropriate outreach strategy

components to address and eliminate the constraints/disincentives to program participation or, at least, reduce them.¹

II. Defining SMMEs and an SMME Typology – Importance for Policy and Program Development

From the outset, going back to the RFP, we were also struck by the use of the SMME acronym as a generic term for “small enterprises”. Our concern was that Small, Medium, and Micro-enterprise, otherwise known in South Africa by the enterprise classification SMME, depicts a universe of enterprises which covers a broad range of different kinds and sizes of businesses up to 150 employees with very different characteristics and business development needs, but these were not being defined with enough precision by policy and program managers. Skills Development Facilitators (SDFs), SETA personnel, and other practitioners with whom we spoke, and the program documents we read, used “SMME” in a way that most often seemed to be used almost as if it were a synonym for micro-enterprises. It did not seem that distinctions were being made as to the different sizes of enterprises that are included in the SMME classification.

A breakdown or stratification of SMMEs through a Descriptive Typology would be helpful in developing profiles of enterprises encompassed under SMME and corroborated the need presented to the Department of Labour, the FoodBev SETA and USAID in the consultant's proposal last year, to attempt to define more tightly the SMME classification of smaller enterprises through a Needs Assessment.

Each level of enterprise represented by the S (Small), the M (Medium), and the M (Micro-enterprises) would be considered a different target for training. There will be different needs, subject matter and/or different complexities involved in the training for each of these levels of business. An effective training strategy should recognize these differences and take them into account in developing training content.

Policy and program planners would also be served by knowing more about the profiles and characteristics of enterprises in the different strata comprised under the SMME classification. This would help them target more accurately policies and programs according to what the enterprises need and can utilize most effectively.

III. The Needs Assessment Study

During the third week of the assignment the international consultant began exploring ways of identifying businesses to be interviewed for the Needs Assessment Study. It was necessary to determine where the sample of businesses would be, make a decision on how many companies would be visited in the short time available, and select companies that would give a reasonable size (employment) and sub-sector distribution.

Our search for companies began by requesting FoodBev SETA for a listing of companies and soon discovered that there was not enough information about the companies in the extensive

¹ The FoodBev SETA focused attention on the largest Skills Levy-paying businesses that have the most to gain from levy claim-backs. They also are the firms that most efficiently help the SETA reach learnership and other goals. Emphasizing them makes sense. However, recognizing that there was a need to increase SMME participation, the FoodBev SETA hired Consultant SDFs to recruit SMMEs and sign them up for participation by developing WSPs. Even so, participation rates remained low.

3,000 plus listing to be able to narrow down the sample according to any of the parameters needed such as size, products, or their physical address. For logistical reasons, we also had to know the proximity of the companies to each other which was not able to be determined from the information on the lists.

During a period of about two weeks, the SETA Chamber Manager worked sporadically, when she could spare the time, with data bases trying to get the needed breakdowns of information. After a number of merges of information from different sources we got to a listing of about 560 levy-paying companies. While there was more information, there still was the problem of contacting and physically locating them and then grouping them for efficient logistics. This would have taken too much time and the consultants had, as it was, very little time to carry out this part of the assignment. Already, the time to locate companies to interview had far exceeded our expectations. We did not realize that the SETA's data would be so difficult to use for the purposes of identifying an interview sample. Finally, the SETA was continually so busy with its on-going work that it was difficult for them to dedicate time to helping with the implementation of this task.

The underlying problem is that the SETA information system is not designed to enable SETA representatives to easily locate their clients for the purpose of grouping them for efficient project monitoring (*in situ*) visits or for efficient delivery of SETA services. If the SETA had had this kind of information for themselves, it would have made the client sample selection task very easy in comparison.

In the meantime, the consultants had continued with their on-going information gathering and interviews and, in the course of their work, contacted one of the SETA's Consultant SDFs hired by the FoodBev SETA to help smaller firms to put together their WSPs. Our purpose for contacting this Consultant SDF was to learn from them about the processes and procedures involved in the preparation of Workplace Skills Plans (WSPs) and claiming back the paid levies.

The SDFs turned out to be the most familiar with the SETA's registered SMMEs, what products they produced, and their relative sizes in terms of numbers of employees. Therefore, the most reasonable solution to the sample identification problem was to request the SETA to authorize the SDFs for KwaZulu Natal and the Western Cape to help select the companies for the sample based on size and sub-sector, and to organize the interview itineraries taking into account the proximity of the companies to each other.

If we had not spent so much time trying to identify our sample through the SETA data bases, and would have, instead, realized sooner that the SDFs were the best source of information we needed for setting up the sample, we would have probably gained at least a week for actual interviews. That would probably have enabled us to interview about 50 enterprises (30 *in situ* and 20 by telephone.)

In the end, we were limited by time constraints to 23 companies interviewed *in situ* in the Western Cape and KwaZulu Natal and another 13 interviewed by telephone in Gauteng.²

² The consultants wish to clarify that the study was never intended to produce statistically valid results through stratified random sampling statistical techniques, but rather was conceived to produce anecdotal information to develop an SMME Typology and an assessment of the reasons for low participation by SMMEs in the FoodBev SETA Skills Levy program.

The *in situ* meetings with business owners were conducted in Cape Town, Kommetje, Montague Gardens and Stellenbosch in the Western Cape and Mooi River, Pietermaritzburg, Pinetown, and Durban in KwaZulu Natal.

The sub-sector distribution was as follows:

- small butcheries and biltong - 6
- dairies - 2
- fish processing - 2
- wineries - 2, brewery - 1
- general food processing - 4
cooking oil refineries, pizza, nutritional supplements
- confectionery, snacks - 2
peanuts, fudge
- packaging services - 1
- miscellaneous - 3

In the case of KwaZulu Natal, the FoodBev SETA kindly covered the costs of air fare (Durban-Johannesburg), meals and lodging for the Consultant SDF, Gwen Cooper of Veld Cooper and Associates, who accompanied the international consultant on all but one visit. In the case of the Western Cape, the SDF was already there so she required no special transportation allowance. The international consultant conducted all but one visit alone, but he received the full scheduling support of External Skills Development Facilitator Sylvia Hammond, who provided this assistance at no charge to the FoodBev SETA.

The assistance of the two SDFs, Veld Cooper and Associates and Ms. Hammond was absolutely essential to the consultant's ability to carry out this part of the assignment. This in turn, was critical to being able to develop the SME Typology, assess SME business awareness and management training needs, understand the reasons for the low participation rates of SMMEs in the FoodBev SETA's Skills Development Program, and to be able to suggest a revised, improved promotion and outreach strategy.

IV. Survey Results

Upon completion of the survey the consultants developed a set of findings and conclusions that gave a reasonably accurate SME Descriptive Typology that is consistent with the consultants' experiences in South Africa and other countries.

- **SME Typology Matrix and Training Strategy**

The information from the Needs Assessment, document reviews, and other sources of information and experience provided a starting point for identifying the target market and training needs by:

- giving indicators for a stratification of enterprise levels according to various business characteristics; and
- enabling the FoodBev SETA to more readily identify client businesses that should be targeted for certain kinds of training according to their size and other characteristics.

The SME Typology resulting from the Needs Assessment Study is in the form of a matrix that shows enterprise size horizontally on the top row and enterprise and owner characteristics vertically on the left hand column. (See APPENDIX C)

Three enterprise size strata are identified providing a framework within which to describe enterprise management and organizational characteristics according to size as defined by number of employees.³ This gives skills planners a guide to mapping business orientation and skills management needs for current employees, new entrants to the labour force, and enterprise owners. (See micro-enterprise End Note below.)

At the end of the Matrix, information gleaned from Needs Assessment interviews, conversations with workers and labour representatives, and general experience of the consultants, has been extrapolated to create a set of business and management training themes or topics for skills planners to use for different kinds of learners depending on the level or interests from which they depart.

- **Other outcomes of the Needs Assessment Study**

In addition, the information from the Needs Assessment interviews provided the following observations on the market perception by small and medium size enterprises regarding the Skills Levy Program:

- The Skills Levy program is considered “Just another tax”;
- The FoodBev SETA is considered aloof;
- Program processes and procedures are not “enterprise friendly;”
- Program is another way for government to intrude on businesses;
- Participation in the program benefits very large enterprises;
- There is a general lack of information in the SMME target market;
- There is a poor outreach and delivery mechanism leading to low SMME participation;
- There are concerns about losing best employees after training;
- Accreditation issues adversely affect efficiency of training delivery; and,
- Credibility of training offerings and training providers needs improvement.

V. General Notes on Micro-enterprises and the Informal Enterprise Sector.

- **Micro-enterprises and the FoodBev SETA**

It must be noted that micro-enterprises are not included in the SME Typology described above. The principal reason for this seems to be that micro-enterprises may be, in large part, exempt from registering for the Skills Levy, probably because they fall under the lower limit of R250,000 payroll per year which is the level at which the Skills Levy kicks in.

This is not to say that unregistered micro-enterprises of up to five employees are not found doing FoodBev type manufacturing production. They probably are in the baking and butchery areas, particularly in the Townships. But they are not as abundant in the FoodBev Manufacturing Sector as the buy and sell activities or the small roadside kitchens that would

³ This measure of size according to the number of employee is one of several that might be used. But for management skills development planning and SMME policy formulation in the South African context, this measure is adequate for the purpose.

be in the Wholesale and Retail or Hospitality SETAs. These are the two SETAs in which the bulk of micro-enterprises would be found.

From the perspective of the Foodbev SETA, the fact that “manufacturing” is a term used to define the sector implies that the companies within the scope of the FoodBev SETA have a more developed manufacturing process than informal sector economic activities.

“Manufacturing” businesses transform raw materials through production processes that include labour and equipment and, therefore, the capital investment required to be in this type of enterprise would be greater than in the small street vendors, home front retailers, or small eateries. Thus, in the FoodBev SETA’s universe of enterprises, the capital investment required essentially makes this SETA’s enterprises more capital intensive, more formal, somewhat less mobile, and more likely to be registered. With this profile, they are also more likely to fall, at least marginally, within the bottom end of Level I Small Business on the Typology.

- **Informal Sector Economic Activities**

These unregistered firms are generally very small micro-enterprises of one to about 5 employees. Since there are many tens of thousands of them across a whole economy like the one in which most South Africans live, the aggregate employment impact is great and, therefore, they are of great concern within the overall context of the employment situation in South Africa because they create a large number of jobs for many individuals who would otherwise be openly unemployed. These firms represent economic activities that are adopted by very large numbers of very low skill people (often Previously Disadvantaged Individuals – PDIs) and typically find their roots in economies where formal sector employment is scarce, that is, where open unemployment is very high.

Ease of entry into these activities is high because the investment required is very minimal. A vendor might buy a few items each day to re-sell on the street or out of a home. Another person might prepare simple food items to sell at a market or land transport terminal. These economic activities are survivalist in nature and absorb unemployed people, but frequently do not have much growth potential. They are not generally registered and this defines them as “informal” businesses. None-the-less, they provide additional incomes to families and some people have been working at these jobs for years. Also, some of these self-made business owners expand and “graduate” into the realm of small, registered enterprises.

V. Conclusions and Recommendations about FoodBev SETA Informal Sector and Micro-enterprise promotion

- **Reach small and medium sized enterprises already identified**

It is our opinion the FoodBev SETA time and effort should initially be placed on reaching a significantly increased number of registered levy-paying small and medium scale businesses within its Sector than it has to date. The funds should be used to reach these companies that, in the aggregate, employ large numbers of Previously Disadvantaged Individuals (PDIs) that would benefit greatly from the kinds of capacity and skills upgrading programs offered through SETA mandatory and discretionary grants.

The FoodBev SETA should focus significant discretionary grant resources on marketing, outreach, and grant-financed training for enterprises of six to forty nine employees, that is

Levels I and II Small Businesses in the SME Descriptive Typology Matrix (See APPENDIX C.)

Given the thousands of levy-paying registered small and medium scale businesses that are not participating yet, one priority for the FoodBev SETA should be on reaching them thereby making them stronger producers and employers and more sustainable. The objective would be to increase existing job security by enhancing worker productivity through workforce technical skills upgrading and orientation to business, on the one hand, and training in business management capacity upgrading for business owners/managers that would be focused on providing the tools for enabling business growth and new employment creation, on the other.

- **New promotion and outreach for unregistered, informal sector enterprises with special emphasis on BEES**

A special effort needs to be made by the SETA to target unregistered, informal sector micro-enterprises in addition to Skills Levy-paying small enterprises in the Townships and other areas where the demographics will be more likely to produce black-owned and other firms owned and managed by PDIs that should be served by the FoodBev SETA. Without specifically targeted outreach and promotion, these businesses can easily be overlooked.