
Impact of the Hake Deep Sea Trawl Fishery on Small, Medium and Micro Enterprises

Report

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EXECUTIVE SUMMARY

The Hake Deep-Sea Trawl (“HDST”) fishery is the most valuable of South Africa’s commercial fisheries, contributing an estimated R6.7 billion to the economy each year. The fishery’s total allowable catch (“TAC”) is subject to a 15-year rights period¹. Rights were last allocated to the HDST fishery in the 2005 fishing rights allocation process (“FRAP 2005”) and these rights will revert to the state in 2020 when they will be subject to a new rights allocation process (“FRAP 2020/21”). (Rights will be allocated to a number of other fisheries in FRAP 2021, not only to the HDST fishery)². FRAP provides Government with the opportunity to promote the key policy objectives of the industry, namely conservation, transformation and the maximisation of socio-economic contribution. With transformation, FRAP is often viewed by Government as the best way to increase the representation of historically disadvantaged individuals and companies. However, a policy tool that does not give careful consideration to the current contribution of rights holders, and the underlying economic characteristics of each fishery, risks undermining the sustainability and future growth of the fishing industry. Inadvertent damage caused to the HDST fishery will have knock-on effects and may compromise the interests of a number of small, medium and micro enterprises (“SMMEs”) which currently rely on the fishery as a source of business (and income).

It is within this context that Genesis Analytics was commissioned by the South African Deep-Sea Trawling Industry Association to provide an independent economic assessment of the contribution of rights holders in the HDST fishery to SMMEs across the South African economy³. This report focuses on three key areas, namely (i) the importance of SMMEs in the South African economy; (ii) the contribution of rights holders in the HDST fishery to SMMEs outside of the industry; and (iii) the contribution of rights holders to SMMEs within the HDST fishery.

The importance of SMMEs in the South African economy. In the face of stagnated economic growth and rising unemployment over the past decade, the South African government has increased its focus on SMMEs as a driver of economic development and employment opportunities. The importance of SMMEs to the South African economy can be seen by the fact that these businesses contribute more than 20% to the country’s gross domestic product and approximately 70% of total employment across the economy^{4 5}.

SMMEs have been identified as key drivers of economic growth by a range of policies and legislation across the South African landscape. From a policy perspective, the National Development Plan and the 2014 establishment of a ministry aimed at facilitating the

¹ TAC refers to the volume of fish that each rights holder is legally permitted to remove from the ocean in a given year.

² FRAP 2020 was initially scheduled to take place in 2020, but delays in the policy process has meant that the process has shifted to 2021.

³ The assessment serves as part of an update to the Genesis report titled *Economic Study of the Hake Deep-Sea Trawl Fishery and the Implications for Future Fishing Rights Allocation Policy (2018)*.

⁴ See Engineering News, 2019, *SME sector ‘critical’ to growing South Africa’s economy*, available online: <https://www.engineeringnews.co.za/article/sme-sector-critical-to-growing-south-africas-economy-pityana-2019-04-11#:~:text=The%20SME%20sector%20employs%2047.about%206%25%20of%20corporate%20taxes>. [Last accessed: 18 October 2020].

⁵ The Small Enterprise Development Agency, 2020, *SMME Quarterly Update 3rd Quarter 2019*, p. 9.

promotion and development of SMMEs (the Department for Small Business Development) have demonstrated Government's focus on SMME development. These have been supported by additional frameworks in the New Growth Plan and Treasury's recent publication of a strategy for economic transformation, inclusive growth and competitiveness, in which SMMEs are cited as being responsible for 50% of all employment opportunities in the country⁶. The strategy calls for SMME growth to be promoted in order to "lower barriers to entry and address distorted patterns of ownership" through support mechanisms such as public procurement, for which the government has implemented policies⁷.

The role of SMMEs has also been cemented in legislation. Examples include the National Small Enterprise Act, the Industrial Development Corporation Act (which specifically calls for the provision of access to finance for SMMEs) and the Preferential Procurement Policy Framework Act.

Broad-based black economic empowerment (BBBEE) measures and scores BBBEE according to five categories: ownership, management control, skills development, new enterprise and supplier development, and socio-economic development. Support for SMMEs forms part of the new enterprise and supplier development category. Additionally, amendments to the Competition Act which are aimed at protecting and stimulating the growth of small and medium businesses (as well as firms owned and controlled by historically disadvantaged persons) have been put in place⁸.

Impact of the HDST fishery on SMMEs outside of the industry. Through daily operations across the hake value-chain, rights holders in the HDST fishery are able to make significant contributions to the South African economy through their expenditure on goods and services. Importantly, a significant portion of this expenditure is directed towards SMMEs.

In 2019, the HDST fishery spent a total of R624.4 million with SMMEs in exchange for various goods and services. Of this expenditure, approximately R286.2 million (or 45.8% of total SMME expenditure) was directed towards exempt micro enterprises ("EMEs"), while the remaining R338.2 million (or 54.2% of total SMME expenditure) was spent on qualifying small enterprises ("QSEs"). This expenditure was split across 1 041 different businesses which employ approximately 4 550 individuals.

	Total spend (million)	% of total spend	Number of SMMEs supported	Number of employees
Total spend to SMMEs	R624.4		1 041	4 548
Total spend to EMEs	R286.2	45.8%	694	3 032
Total spend to QSEs	R338.2	54.2%	347	1 516

Source: Information provided by rights holders in the HDST fishery; Small Enterprise Development Agency (SEDA)

Note: (i) Information on total spend aimed at SMMEs was provided by rights holders who jointly account for 92.3% of the total fishing rights in the HDST fishery; (ii) the total number of employees across SMMEs are calculated based on the national average of 4.37 employees per SMME according to SEDA's 2020 SMME Quarterly Update for the Third Quarter of 2019.

⁶ National Treasury, 2019, *Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa*, p.16.

⁷ National Treasury, 2019, *Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa*, pp.27, 31.

⁸ Government Gazette No. 42231, *Competition Amendment Act*, p, 2.

A significant proportion of total expenditure directed at SMMEs falls to businesses in key demographic groups such as black-owned and female-owned businesses. This includes R312.1 million to 361 black-owned businesses, and R81.1 million to 144 female-owned businesses.

Interviews with SMMEs that supply goods and services to rights holders in the HDST fishery reveal that many of these businesses, particularly those in smaller coastal communities where economic opportunities are limited, have built strong relationships with rights holders. The provision of goods and services to rights holders has allowed these SMMEs to develop over time and they have indicated that a significant portion of their operations (in some cases the entire operation) rely on the existence of the current rights holders and their position in the market. SMMEs have suggested that if rights holders were to significantly reduce in size and/or exit the fishery then the SMMEs would have to reduce their employment footprint, and in some cases close down.

Impact of the HDST fishery on SMMEs within the fishery

Rights holders within the HDST fishery make significant contributions and provide support to SMMEs. These contributions help smaller rights holders – who qualify as SMMEs – to improve their ability to actively participate in the fishery in spite of their having access to relatively small volumes in terms of their fishing rights. Assistance and/or contributions made between rights holders are centered around the issue of scale, and the inability of rights holders to efficiently participate across the value chain of the fishery if they do not have access to sufficient volumes of fish. Additionally, the capital-intensive nature of harvesting and processing operations makes it difficult for rights holders with limited scale to effectively participate in the fishery. Assistance is not unidirectional from large to small rights holders, and in certain market conditions smaller rights holders are able to supply their own services to larger rights holders in the fishery.

Assistance/contributions between rights holders may come in different forms, but can generally be divided into two broad categories, namely (i) assistance across value-chain operations, or (ii) financial assistance. Smaller rights holders may seek assistance through a combination of (i) and (ii), depending on their business model and or business decisions, whereas larger rights holders may only seek assistance across the value chain where they face short- to medium-term capacity constraints.

In 2019 alone it is estimated that rights holders provided support to SMMEs within the HDST fishery to the value of approximately R183.9 million. During this period this assistance included financial loans, as well as catching and landing assistance.

1. INTRODUCTION

1. The hake deep-sea trawl (“HDST”) fishery is the most valuable of South Africa’s fishery sectors in terms of value. The fishery’s total allowable catch (“TAC”) is subject to a 15-year rights period⁹. Rights were last allocated to the HDST fishery in the 2005 fishing rights allocation process (“FRAP 2005”) and these rights will revert to the state in 2020 when they will be subject to a new allocation process (“FRAP 2020/21”). (Rights will be allocated to a number of other fisheries in FRAP 2021, not only to the HDST fishery)¹⁰.
2. The FRAP provides Government with the opportunity to promote the key policy objectives of the industry, namely conservation, transformation and the maximisation of socio-economic contribution. With transformation as one of the key policy goals of the fishing sector, the FRAP is often viewed by Government and those outside of the fishery as the best way to increase the representation of historically disadvantaged individuals and companies. However, a policy tool that does not give careful consideration to the current contribution of rights holders and the underlying economic characteristics of each fishery risks undermining the sustainability and future growth of the fishing industry. In short, if policy is not carefully considered, i.e. a careful weighing up of the role of current rights holders (both large and small) then there is a risk that Government will inadvertently damage the HDST fishery. Such damage could have knock on effects and may compromise the interests of a number of small, medium and micro enterprises (“SMMEs”) which currently rely on the HDST fishery as a source of business (and income).
3. Genesis Analytics (“Genesis”) was commissioned by the South African Deep-Sea Trawling Industry Association (“SADSTIA”) to provide an independent economic assessment of the contribution of its members to SMMEs across the South African economy.
4. This report is divided into three sections:
 - 4.1. first, the report describes the role of SMME development in the context of South Africa’s Broad-Based Black Economic Empowerment (“BBBEE”) framework and the goal of inclusive economic growth;
 - 4.2. second, the report looks at the impact of the HDST fishery on SMMEs outside the fishery through its procurement practices; and
 - 4.3. the third section of the report provides an overview of the assistance provided by different rights holders to fellow participants in the HDST fishery.
5. All data presented in this report are from 2019, unless otherwise specified.

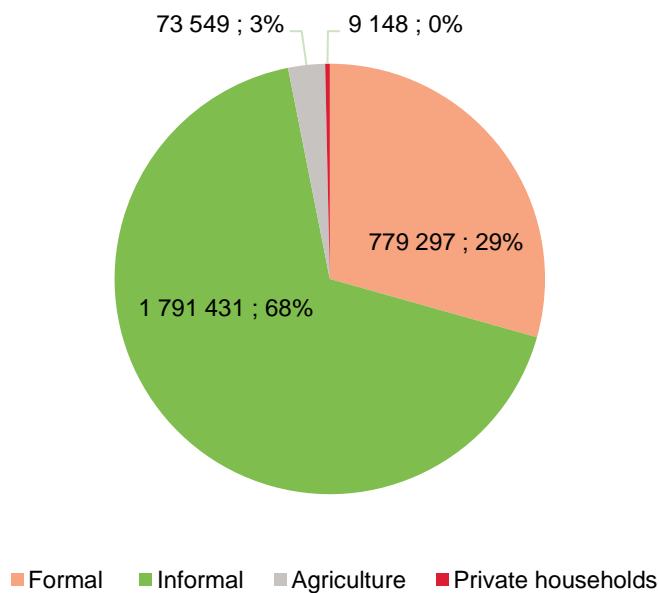
⁹ TAC refers to the volume of fish that each rights holder is legally permitted to remove from the ocean in a given year.

¹⁰ The FRAP was initially scheduled to take place in 2020, but delays in the policy process have meant that the process has shifted to 2021.

2. IMPORTANCE OF SMMES IN THE SOUTH AFRICAN ECONOMY

6. In the midst of stagnated economic growth and rising unemployment, particularly in recent years, the South African government has increased its focus on SMMEs as a driver of economic development and employment opportunities.
7. The importance of SMMEs in the economy can be seen through the contribution that these businesses make to Gross domestic product (“GDP”) and employment across the country. It is estimated that SMMEs contribute more than 20% of the country’s GDP¹¹. In 2019, SMMEs accounted for approximately 70% of total employment in the South African economy with approximately 11.6 million jobs¹². These employment opportunities were provided through approximately 2.6 million SMMEs. The vast majority of these businesses are concentrated in the informal sector (67.5% of total SMMEs), and provide key economic opportunities to vulnerable segments of South Africa’s population¹³.

Figure 1: Total number of SMMEs by sector, Q32019



Source: SEDA

8. In light of the above contributions, in recent years government has sought to develop economic policies that promote the growth of SMMEs. These are outlined below, along

¹¹ See Engineering News, 2019, *SME sector ‘critical’ to growing South Africa’s economy*, available online: <https://www.engineeringnews.co.za/article/sme-sector-critical-to-growing-south-africas-economy-pityana-2019-04-11#:~:text=The%20SME%20sector%20employs%2047,about%206%25%20of%20corporate%20taxes>. [Last accessed: 18 October 2020].

¹² The Small Enterprise Development Agency, 2020, *SMME Quarterly Update 3rd Quarter 2019*, p. 9.

¹³ The Small Enterprise Development Agency, 2020, *SMME Quarterly Update 3rd Quarter 2019*, p. 19.

with the existing legislative framework aimed at improving participation of SMMEs in the economy.

1.1. POLICIES THAT PROMOTE SMMEs

9. SMMEs have been identified as a key driver of productivity and inclusive growth in South Africa. This is evident from both the National Development Plan (“NDP”), South Africa’s comprehensive strategy for eliminating poverty and reducing inequality by 2030, and the 2014 establishment of a ministry aimed at facilitating the promotion and development of SMMEs, namely the Department for Small Business Development (“DSBD”).
 - 9.1. The NDP identifies SMMEs as the most likely source for job creation in the short to medium term – with particular importance placed on those small businesses which provide various services to larger firms and income-earning households¹⁴. In addition to job creation, the expansion (or broadening) of new and existing SMMEs create benefits in terms of a reduction in the levels of economic concentration, higher levels of meaningful competition, and increased opportunities for B-BBEE transformation across the South African economy¹⁵.
 - 9.2. The creation of the DSBD demonstrates Government’s view of SMMEs as being of strategic importance to the economy, and its commitment to SMME development.
10. Apart from the NDP, there are other economic policy and strategy documents that have been proposed to address the high levels of inequality and unemployment in the country, and these highlight the role of SMMEs in this endeavour:
 - 10.1. The New Growth Path framework contains a plan for SMME development, including the establishment of a funding agency, strengthening access to micro-finance and the strategic integration of SMME support into all sector strategies.¹⁶
 - 10.2. National Treasury recently published an economic strategy for economic transformation, inclusive growth and competitiveness in which SMMEs are cited as being responsible for 50% of all employment opportunities in the country¹⁷. It calls for SMME growth to be promoted in order to “lower barriers to entry and address distorted patterns of ownership” through support mechanisms such as public procurement, for which the government has implemented policies¹⁸. There are also policies in place to incentivise support for SMMEs.
11. The SMME support called for in these policies further demonstrates government’s position on the strategic importance of SMMEs as a driver of economic growth,

¹⁴ National Planning Commission, 2011, *National Development Plan 2030*, p. 115.

¹⁵ National Planning Commission, 2011, *National Development Plan 2030*, p. 141

¹⁶ Economic Development Department, 2010, *New Growth Path*, p.49

¹⁷ National Treasury, 2019, *Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa*, p.16

¹⁸ National Treasury, 2019, *Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa*, pp. 27 & 31.

transformation and for decreasing inequality and unemployment. This commitment to SMMEs can be seen in the budget tabled by the Minister of Finance in February 2020; the minister committed R6.5 billion towards incentive programmes for SMMEs as part of the government's revised industrial strategy¹⁹.

1.2. SPECIFIC LEGISLATIVE MEASURES

12. Legislation has been promulgated to action and enforce the interventions stipulated in economic policy for SMME development and support. Examples include the National Small Enterprise Act, the Industrial Development Corporation Act (which specifically calls for the provision of access to finance for SMMEs), and the Preferential Procurement Policy Framework Act ("PPPFA").
 - 12.1. The PPPFA provides a framework for how state entities are to design their procurement policies.
 - 12.2. It requires preferential procurement of goods and services from firms owned by historically-disadvantaged individuals ("HDIs"), South-African owned enterprises and SMMEs over other businesses.
13. Regarding transformation of the economy, BBBEE – introduced by Government through the BBEEE Act in 2004 – measures BBBEE according to five categories: ownership, management control, skills development, new enterprise and supplier development, and socio-economic development. Support for SMMEs forms part of the new enterprise and supplier development measure. The BBBEE Codes of Good Practice make special provision for certain categories of SMMEs by reducing the cost of their BBBEE compliance:
 - 13.1. Exempted Micro-Enterprises ("EMEs") and start-ups in their first year of operation are automatically deemed as having Level 4 BBEEE status. Businesses which have revenue lower than R10 million qualify as EMEs.
 - 13.2. Qualifying Small Enterprises ("QSEs"), are SMMEs with revenue of between R10 million and R50 million, and are exempt from certain costs of BBEEE verification.
 - 13.3. EMEs and QSEs that are 100% black-owned have a Level 1 BBBEE status, and Level 2 BBEEE status if there is 51% black ownership.
14. Additionally, amendments to the Competition Act were put in place which aimed at protecting and stimulating the growth of small and medium businesses (as well as firms owned and controlled by HDIs)²⁰. These amendments target the protection of small and medium sized businesses and are included under the abuse of dominance and price discrimination provisions²¹.

¹⁹ Minister Tito Mboweni, 2020 Budget Speech.

²⁰ Government Gazette No. 42231, *Competition Amendment Act*, p. 2.

²¹ Government Gazette No. 42231, *Competition Amendment Act*, pp. 6–10.

IMPACT OF THE HDST FISHERY ON SMMEs

15. It is thus clear that support for SMMEs has been incentivised through various policies and legislation targeted at procurement, transformation and competition. This, combined with its deep entrenchment in strategies for economic growth, addressing unemployment and inequality, and transformation, cements its important role in the South African economy.
16. The sections that follow will look at the impact of the HDST fishery on SMMEs in terms of overall contributions, as well as assistance provided to SMMEs within the fishery itself.

3. CONTRIBUTION OF RIGHTS HOLDERS TO SMMEs OUTSIDE THE HDST FISHERY

17. Rights holders in the HDST fishery are able to make significant contributions to the South African economy through their expenditure on goods and services. Importantly, a significant portion of this expenditure is aimed towards SMMEs.
18. In order to estimate the impact of the HDST fishery on SMMEs across the South African economy, data was collected on the suppliers used by different rights holders during 2019. This data covered the type of good/service provided and the total expenditure of a particular rights holder with these businesses. Information collected for the estimation of this impact came from rights holders representing 92.3% of the TAC of the HDST fishery and thus covers the vast majority of the operations within this particular fishery²². As data was not received from all rights holders, our estimates are likely to be conservative representations of the total impact of the fishery.
19. In 2019, the HDST fishery spent a total of R624.4 million with SMMEs that provided various goods and services. This is approximately 22% of the total supplier spend of the HDST fishery in South Africa^{23 24}. Of this expenditure, approximately R286.2 million (or 45.8% of total SMME expenditure) was directed towards EMEs, while the remaining R338.2 million (or 54.2% of total SMME expenditure) was spent on QSEs. This expenditure was split across 1 041 different businesses which employ approximately 4 550 individuals, as shown in Table 1.

Table 1: Summary of expenditure aimed at SMMEs by the HDST fishery, 2019

	Total spend (million)	% of total spend	Number of SMMEs supported	Number of employees
Total spend to SMMEs	R624.4		1 041	4 548
Total spend to EME	R286.2	45.8%	694	3 032
Total spend to QSE	R338.2	54.2%	347	1 516

Source: Information provided by rights holders in the HDST fishery; SEDA

Note: (i) Information on total spend aimed at SMMEs was provided by rights holders who jointly account for 92.3% of the total fishing rights in the HDST fishery; (ii) the total number of employees across SMMEs is calculated based on the national average of 4.37 employees per SMME according to SEDA's 2020 SMME Quarterly Update for the third Quarter of 2019.

20. A significant proportion of total expenditure directed at SMMEs is with businesses in key demographic groups such as black-owned and female-owned businesses. These groups are vital, given the key developmental focus which has been placed on them in the context of South Africa's broader development objectives of a more equal and

²² TAC refers to the volume of fish which each rights holder is legally permitted to remove from the ocean in a given year.

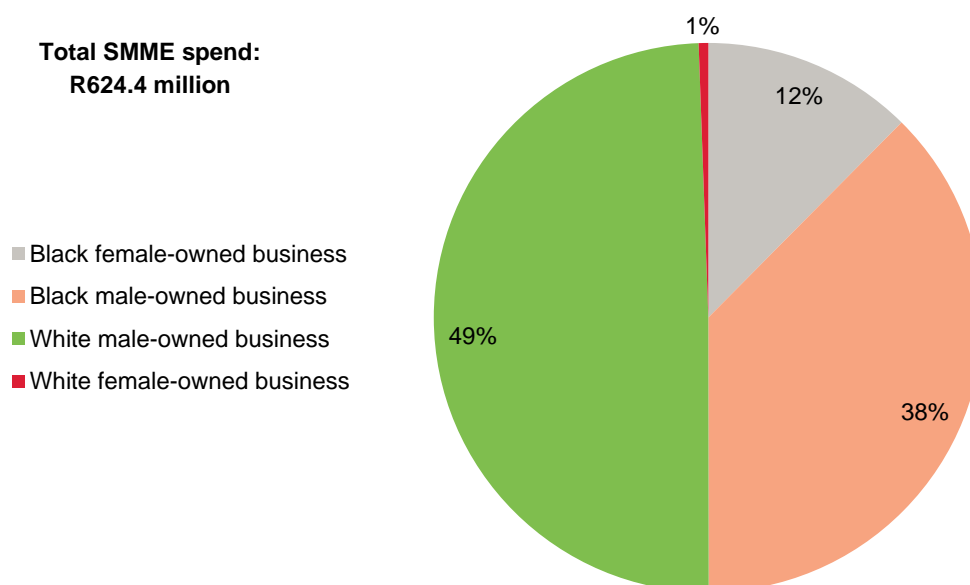
²³ This estimate is based on rights holders who hold 92.3% of the TAC in the HDST fishery. Using a weighting of 92.3% an estimated total spend for the whole fishery would be approximately R676.3 million.

²⁴ Proportion of total supplier spend is based on an estimate of total supplier spend as per the 2018 Genesis report. This figure will be renewed once updates have been applied to the entire document.

inclusive economy. Figure 2 provides a breakdown of total expenditure by the HDST fishery with SMMES according to the race and gender of the owner of the SMME.

- 20.1. Of total expenditure with SMMEs, a total of R312.1 million (approximately 50.0%) was spent across 361 black-owned businesses in 2019;
- 20.2. Of total expenditure with SMMEs, a total of R81.1 million (approximately 13.0%) went to 144 female-owned businesses in 2019; and
- 20.3. Approximately R77.6 million (approximately 12.4%) was spent on goods and services supplied by 132 black female-owned businesses in 2019.

Figure 2: SMME expenditure split by race of owner, 2019



Source: Information provided by rights holders in the HDST fishery.

Notes: (i) Information on total spend aimed at SMMEs was provided by rights holders who jointly account for 92.3% of the total fishing rights in the HDST fishery.

21. Geographically, the HDST fishery is concentrated across South Africa’s west and south coast, with additional operations in and around Port Elizabeth. Due to the concentration of operations in these areas it is unsurprising that the majority of the spend directed towards SMMEs is concentrated in the Western Cape and Eastern Cape, which account for R552.99 million (87.1% of total spend) and R53.89 million (8.5% of total spend), respectively. The remaining R29.31 million spent with SMMEs is split between Gauteng, KwaZulu-Natal, Northern Cape and Mpumalanga, as shown in Table 2.²⁵

²⁵ Less than 0.0% of total SMME spend is with SMMEs in Mpumalanga.

Table 2: SMME spend split by province, 2019

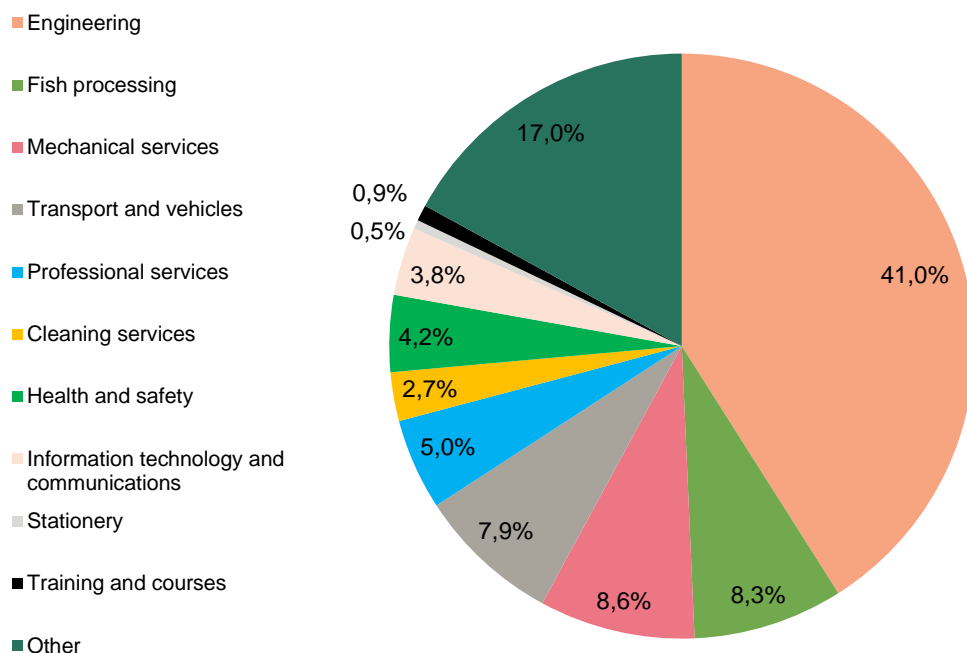
Province	Total spend (million)	% of total spend	Number of SMMEs
Western Cape	R544.24	87.2%	866
Eastern Cape	R50.88	8.1%	82
Gauteng	R21.18	3.4%	76
KwaZulu-Natal	R6.43	1.0%	15
Northern Cape	R1.66	0.3%	1
Mpumalanga	R0.03	0.0%	1

Source: Information provided by rights holders in the HDST fishery.

Notes: (i) Information on total spend aimed at SMMEs was provided by rights holders who jointly account for 92.3% of the total fishing rights in the HDST fishery.

22. Of the abovementioned expenditure with SMMEs, approximately R110.8 million (or 17.8% of total SMME spend) was directed towards businesses located outside of major metropolises (i.e. outside of metropolises such as the City of Cape Town and Nelson Mandela Bay Metropolitan) in smaller coastal communities such as Gansbaai, Mossel Bay, Saldanha Bay, St Helena Bay and Velddrif in 2019. This expenditure was spread across approximately 192 different businesses in these areas. The geographic concentration of the HDST fishery and support of businesses are responsible for substantial economic development and social activity in these areas. These contributions are of particular importance in smaller fishing communities because of the lack of economic and social opportunities that are normally available to this segment of the population.
23. The goods and services purchased by rights holders in the HDST fishery may vary across operations, but tend to cover a wide range of sectors and/or activities, including engineering, fish processing, professional services, mechanical services, cleaning services, health and safety, and other key sectors. Figure 3 provides a split of the HDST fishery's expenditure on SMMEs per sector.
 - 23.1. Engineering services account for the largest spend with SMMEs (approximately R256.1 million) by rights holders in the HDST fishery. These services are often linked to technical engineering services offered across the fishing fleet;
 - 23.2. The second largest single category of products and services is fish processing. This category includes services such as the (cold) storage and packaging of fish products. Other goods in this category include ingredients used in the processing of fresh fish into ready to sell fish products.
 - 23.3. Mechanical services include the repair, maintenance and refurbishment of mechanical parts of the vessels and processing facilities operated by rights holders across the fishery. This category includes goods purchased for the purpose of the repair and maintenance of machinery across the operations of rights holders.

Figure 3: Breakdown of SMME spend by sector, 2019



Source: Information based on SMME products and services provided to rights holders in the HDST fishery

Examples of SMMEs assisted by rights holders in the HDST fishery²⁶

24. We interviewed several SMMEs operating in small communities close to the operations of the HDST fishery in the Western Cape. The interviews provided real life examples of the importance of the HDST fishery to SMMEs and the assistance they receive from the larger rights holders.
25. **Moosa’s Enterprises (“Moosa’s”)** is a black-owned transport company that offers transport services to several rights holders in the HDST fishery. Moosa’s participation in the industry began in the 1970s with ad hoc transportation jobs for Irvin & Johnson (“I&J”). In the last 20 years these opportunities have developed into a more formal agreement between I&J and Moosa’s Enterprises. As part of this agreement, Moosa’s is responsible for the transportation of I&J fish. This includes the transportation of fresh hake between the offloading quays to I&J’s primary processing facility in Woodstock; the transportation of frozen fish products between I&J’s sites in Cape Town; the transportation of fresh hake purchased from smaller operators; and refrigerated transport when fresh fish is discharged in Mossel Bay. The growth in the relationship between I&J and Moosa’s Enterprises over the past three and a half decades has enabled Moosa’s Enterprises to expand its customer base to include other fishing companies, including other rights holders in the HDST fishery.

²⁶ Unless otherwise stated the information presented under these examples has been provided by the SMMEs in question through individual interviews with Genesis.

26. With the assistance of a rights holder in the HDST fishery, Moosa's Enterprises has experienced a significant expansion in its business which has grown into one of the largest fully contained load transporters in Cape Town, with a fleet of over 90 trucks, semi-trailers and 10 refrigerated trailers. Currently, the business employs approximately 120 individuals on a permanent basis.
27. It is estimated that I&J alone has spent approximately R250 million on Moosa's Enterprises' services over the past 35 years, with additional expenditure from other rights holders within the HDST fishery.
28. **MCK Engineering ("MCK")** is a black-owned engineering company which was established by Mornay Kurtz in 2007. The company started in a small workshop in Saldanha on the West Coast of South Africa, with approximately five employees. In the initial years of operation, MCK's focus was on the provision of ad-hoc engineering services to fishing companies.
29. Over the past 13 years MCK has developed from an engineering company into a multifaceted organisation with a number of key business areas that employ approximately 72 individuals. The organisation is divided into three main business units:
 - 29.1. *MCK Projects* which focuses on the provision of engineering services (vessel repair and maintenance) in the marine industry. This is the backbone of MCK's business, and it currently employs 37 individuals (27 permanent staff, and 10 temporary welders who are brought in on specific jobs). Under the MCK Projects banner, the business provides engineering services across South Africa's fisheries, including to multiple rights holders in the HDST fishery²⁷.
 - 29.2. *MCK Skills Academy* focuses on the training and skills development of members of the community. MCK provides individuals who enter this academy with the opportunity to gain the skills necessary to provide engineering services in the marine industry. Training through this academy includes short-term courses (lasting six months) for low-skilled labour, as well a long-term (five years) apprenticeship.
 - 29.3. *MCK Labour* serves as a database which holds information on individuals formerly trained by MCK but who currently do not work for MCK due to limitations on the available job opportunities. Where specific skills are needed on engineering projects in and around Saldanha, MCK uses this database to outsource employment to these trained individuals.
30. MCK's growth over the last decade was boosted in 2014 by Sea Harvest's decision to provide the company with a preferred vendor contract.²⁸ This had a significant knock-on effect on the MCK business:

²⁷ MCK has identified four rights holders in the HDST fishery as part of its existing customer base.

²⁸ MCK has indicated that the preferred vendor contract has helped to increase its monthly revenue by approximately 800%, when compared to its original monthly turnover in 2007.

- 30.1. It provides long-term surety which allowed MCK to access additional financing from commercial banks. This financing was used for purchasing improved equipment and training staff.
- 30.2. The contract enabled the expansion of the business and increased the competitiveness of MCK relative to larger, more established engineering companies.
31. In addition to the benefits associated with the preferred vendor contract, MCK gained access to project-specific training from Sea Harvest's staff. This included hands-on assistance from trained engineers and business managers.
32. MCK estimates that the HDST fishery accounts for 70% of its current revenue. On this basis, MCK believes that a loss of business from one (or multiple) rights holders is likely to undermine its financial viability. MCK further argues that the stability of the HDST fishery is paramount to the stability and future growth of its operations in and around Saldanha Bay.
33. **Desi Industrial Psychologists ("Desi")** is a black female-owned company established in 2016 by Babalwa Desi, a qualified industrial psychologist. Desi is an EME, with an annual turnover of less than R10 million, and currently employs three individuals.
34. At the center of its business, Desi offers a wide range of human resources and industrial psychology services to companies across South Africa. At the core of these services is a focus on the behaviour of employees, and the impact of this behaviour on the output of the companies within which they work. More specifically, the services offered by Desi include the provision of psychometric assessments, culture (business dynamic) surveys, dispute resolution, employee engagement, issues of employment management, configuration of internal policies and procedures, and talent development.
35. Currently, Desi's largest customer is African Pioneer, which operates in the HDST fishery under Eyethu Fishing ("Eyethu"). The relationship between the two parties has grown significantly in recent years as Desi has increased the number of services it has made available to Eyethu. Due to the successful implementation of various services by Desi in the Eyethu business, Eyethu has actively supported Desi's growth as an SMME. This includes assistance with the financing of training and additional courses for employees at Desi, as well as the provision of key hardware and stationery needed by Desi to undertake certain services. Desi estimates that Eyethu currently accounts for approximately 70% of total revenue, and it relies heavily on Eyethu to grow its business into the future.
36. **Paulse Coaches and Paulse Transport** are two family-owned transport businesses which operate out of Saldanha. These businesses are both fully black-owned, and are run by members of the same family. While both companies provide transport services, the nature of the businesses differ based on the type of fleet used for the provision of these services.

37. Paulse Transport was established in the early 1990s. The business developed as a result of a growing demand for transport services for employees travelling to and from the processing and harvesting facilities operated by Sea Harvest on the West Coast. The business started with a single driver, who would transport staff between their homes (or a pick-up point) to the Sea Harvest facilities in a fifteen-seater Quantum van.
38. Growing economic activity in Saldanha in the late 1990s – specifically the entry of ArcelorMital into the area – led to increased opportunities for Paulse Transport. This, along with additional smaller contracts led to increased investment, and the expansion of Paulse Transport's running fleet and its number of employees. In addition to the relationship held with Sea Harvest, the businesses have agreements in place with other fishing companies that operate on the West Coast and in other fisheries. The growth of the business has resulted in the number of employees increasing to thirteen drivers.
39. Paulse Coaches was established in 2013 due to growing demand for transportation services using larger vehicles. The service provided differs from Paulse Transport mainly based on the scale of the operation. Paulse Coaches makes use of 65-seater buses to transport employees of various businesses to and from their workplaces on a daily basis. Currently, Paulse Coaches employs 30 individuals. In addition to the core business of transporting employees to and from work, Paulse Coaches offers ad hoc services to various business as and when they require transport. For example, Sea Harvest has in the past used Paulse Coaches to transport employees to and from events, as well as to medical appointments/check-ups at hospitals in Cape Town.
40. Historically, Sea Harvest has been the largest customer for Paulse Transport and Paulse Coaches, accounting for over 50% of total revenue. However, through business development and training the businesses have been able to expand their customer base to include a number of other customers. Currently, Sea Harvest accounts for approximately 25% to 30% of total revenue. Expansion allowed the two businesses to diversify their revenue base and limit the risk associated with providing services to a few large customers. Despite this diversification, Paulse Transport and Paulse Coaches have indicated that a loss of business from Sea Harvest would require them to reduce their employment complement by approximately 25%.

Paulse Transport and Paulse Coaches accessed mentoring and supplier development services from Sea Harvest. These services have been valuable in the absence of their own in-house financial, marketing and human resources expertise. In addition to the above support, Paulse Transport and Paulse Coaches were made part of an enterprise development plan of another rights holder in the HDST fishery, which is likely to lead to further benefits in future.

4. CONTRIBUTIONS TO SMMEs WITHIN THE HDST FISHERY

41. Beyond the support that rights holders in the HDST provide to SMMEs that supply goods and services to the sector, significant contributions are also made within the fishery, between rights holders. These contributions often help smaller rights holders – who are SMMEs – to increase their ability to actively participate in the fishery even though their fishing rights allow them access to relatively small volumes. Contributions are not always unidirectional from large to small rights holders and under certain market conditions, smaller rights holders are able to supply their own services to larger rights holders in the fishery (see 44.1.1 Harvesting of quota).
42. Currently, there are 20 rights holders (out of 33) in the HDST fishery who qualify as SMMEs according to the BEE scorecard guidelines. Of the 20 SMMEs, there is an even split between rights holders who qualify as EMEs and QSEs. Nineteen of the rights holders who are defined as SMMEs are black- owned and five have female majority ownership. Jointly these rights holders account for approximately 12% of the total TAC allocated to the HDST fishery. Using their qualification as EMEs and QSEs as a measure, it is estimated that the SMMEs within the fishery have joint revenue of approximately R350 million²⁹.

Table 3: Key indicators for SMMEs within the HDST fishery

Number of rights holders in the HDST	33
Number of rights holders which qualify as SMMEs	20
Number of rights holders which qualify as EMEs	10
Number of rights holders which qualify as QSEs	10
Number of black-owned SMMEs	19
Number of female-owned SMMEs	5
Estimated revenue of SMMEs in the HDST fishery	R350 million

Source: Information based on BEE scorecard information provided by rights holders to SADSTIA.

43. Assistance and/or contributions made between rights holders within the HDST fishery are often driven by the unique economic characteristics of the fishery, in particular the capital-intensive nature of harvesting and processing activities. The capital-intensive nature of the fishery drives the need for significant scale because scale ensures sufficient return on investment across the value chain. The requirement for scale makes it difficult for smaller rights holders to actively and meaningfully participate in the fishery.³⁰
44. Assistance/contributions to and from rights holders may come in different forms, but can generally be divided into two broad categories, namely: (i) assistance across value-

²⁹ This estimation has been made based on the mid-points of each qualifying bracket for EMEs and QSEs.

³⁰ It is important to note that assistance between rights holders within the fishery does not automatically refer to large rights holders assisting small rights holders. Assistance to SMMEs has occurred (and continues to occur) from both large and smaller rights holders to SMMEs. Additionally, not all rights holders who have entered the fishery have required significant assistance from other rights holders in order to actively participate at certain levels of the HDST value chain.

chain operations, or (ii) financial assistance. Smaller rights holders may seek assistance through a combination of the two forms, depending on the business model and/or the business decisions of a particular rights holder, whereas larger rights holders may only seek assistance across the value chain when they face short to medium-term capacity constraints.

44.1. Assistance across the value chain. Rights holders may look to other participants in the fishery for assistance across the value chain in order to overcome the economic hurdles of the fishery (capital-intensity and the necessity for scale). Rights holders may seek assistance with the following:

44.1.1. *Harvesting of quota.* For some rights holders there are significant barriers to accessing or owning a single (or multiple) vessel(s) to operate in the HDST fishery. In most instances it is necessary to operate more than a single vessel in order to operate efficiently and to increase operations across the value chain (e.g. feed a processing facility). Due to the barriers faced by rights holders in accessing or owning a vessel(s) they may enter into joint venture or catching agreements with other rights holders within the fishery in order to ensure some form of revenue from the allocated fishing right. A second situation in which harvesting services may be provided from one rights holder to another is in a situation where a rights holder has limitations in terms of available capacity (possibly due to an unscheduled breakdown of their own vessel or a requirement for mandatory maintenance). In these situations, the rights holder with reduced capacity will look for harvesting services from those vessels left in the market. Under these circumstances, smaller rights holders are the most likely to benefit because they are able to earn an additional fee beyond that which has been budgeted for their own fishing right.

44.1.2. *Processing of quota.* The high fixed costs of on-shore processing make it necessary for rights holders who operate at this level of the value chain to have access to significant volumes of fish in order to make a meaningful return on their investment. The capital intensity and need for stable and sizeable volumes of (fish) throughput is a significant barrier to entry for rights holders. Due to these barriers, there are limited processing opportunities on-shore. As a result of this, a number of smaller rights holders are not actively involved at the processing level of the value-chain. Instead, these rights holders may have agreements in place with larger rights holders which enable them to receive a processing fee for access to their fishing volumes. This relationship allows the processor to maximise throughput in their facility, while the SMME rights holder is able to earn additional revenue on the fish caught.

44.1.3. *Sales and marketing.* Although smaller rights holders may sell portions of their own fresh catch into the domestic market, it is common for rights holders who do not have their own sales and marketing network to

provide fresh volumes to larger rights holders for processing, and to have agreements in place linked to the sale of fish products. These agreements are normally based on a set price per kilogram, and provide smaller rights holders with an opportunity to access additional revenue. The fact that smaller rights holders are unable to fully benefit and sell extensively in the export and retail market is due to the fact that these rights holders are limited by their access to fishing volumes. Smaller TAC allocations limit these rights holders in their ability to build stable sales channels which provide volume guarantees to the customer.

44.2. **Financial assistance.** Smaller rights holders, particularly when entering the fishery, find it difficult to access funding from traditional financial institutions. In this case, rights holders may turn to other participants in the HDST fishery for assistance which comes in various forms. In most instances the assistance comes in the form of an initial loan which is linked to the pooling of fishing resources, through a joint venture on a specific or multiple vessel(s). In these instances, small rights holders may require the initial finances needed to meaningfully participate in the harvesting of its rights. Loan repayments are traditionally repaid through the dividends/payments accruing to the rights holder taking out the loan as a result of their shareholding in the joint venture. If loans are made outside of joint ventures, repayments terms will be specific to that transaction.

45. Support to SMME rights holders has been significant over the last fifteen years, i.e. since FRAP 2005. In 2019 alone it is estimated that rights holders provided support to SMMEs within the fishery to the value of approximately R183.9 million. During this period this assistance included financial loans, as well as catching and landing assistance.

Case study: entry of Nalitha into the HDST fishery

46. Nalitha Investments (“Nalitha”) is a 100% black-owned rights holder that entered the HDST fishery in 2018 as result of the Sea Harvest/Viking Fishing merger³¹. Nalitha entered the market as a rights holder alongside the South African Fishing Empowerment Corporation (SAFEC)³². Through the Sea Harvest/Viking Fishing transaction, Nalitha acquired hake deep-sea and hake longline rights, lobster rights, a processing facility in Hout Bay, a hake longline vessel (100% ownership), a lobster vessel (100% ownership) and a 50% share of a deep-sea hake trawler (the *Ludwani*), with the remaining 50% share held by Sea Harvest. In addition, Nalitha has restored a tuna pole boat, even though the company does not currently hold rights in the tuna pole fishery.

³¹ See <https://www.iol.co.za/business-report/companies/brimstone-gets-approval-for-sea-harvestviking-deal-15568303>

³² SAFEC represents three community-based consortia from the West Coast, East Coast and KwaZulu-Natal.

47. Nalitha's entry into the HDST fishery was supported by the industry experience of its owner, Bonga Mavume, who previously worked for several different rights holders in the South African fishing industry. Active participation and entry into the industry is extremely difficult as a smaller rights holder due to the capital-intensive nature of the industry. Accordingly, it is necessary to obtain finance either through traditional commercial banks, development finance institutions such as the Industrial Development Corporation ("IDC"), or through private loans. Due to the nature of fishing rights being a temporarily held "asset" which revert to Government after a fixed time period (in this case 15 years, and only two years from the time of entry for Nalitha), it is difficult for new entrants in the HDST fishery to obtain finance from traditional commercial banks and/or the IDC at reasonable/sustainable terms. As was the case with Nalitha, it became necessary to obtain financial assistance from a current rights holder, i.e. a loan from Sea Harvest.
48. A combination of expertise and financial backing has allowed Nalitha to actively participate across all levels of the value chain (i.e. harvesting, processing and the sale and marketing of fresh hake) despite limited access to fishing volumes (currently, Nalitha has a quota of 1 429.6 tonnes). This volume alone is insufficient to maximise the utilisation of Nalitha's harvesting and processing assets. Accordingly, Nalitha is forced to supplement its operations with additional volumes from other rights holders within the fishery. This support is traditionally ad hoc, and takes place in those scenarios where other rights holders either i) do not have their own facilities (harvesting or processing); or ii) there are limitations on the available capacity across a rights holder's operations, e.g. a rights holder experiences a vessel breakdown and requires harvesting assistance. In these instances, Nalitha is able to offer its services to those rights holders in need. This creates a mutually beneficial relationship for those involved in the provision and receipt of the service. The reverse scenario also applies to Nalitha, i.e. it may be the case that Nalitha requires assistance from other rights holders when its own harvesting and/or processing facilities experience reduced capacity.
49. The lack of access to sufficient volumes within the HDST fishery is the key challenge facing Nalitha, as well as other SMMEs active in the fishery. Without sufficient volumes these rights holders are limited in their ability to meaningfully participate across all levels of the value chain, and they are often unable to avoid the risks associated with running smaller-sized operations. Examples of the risks associated with lower TAC volumes across the value chain include:
- 49.1. A limited sized fleet leaves smaller rights holders exposed to additional costs in the case of an unscheduled breakdown of a vessel;
- 49.2. Where rights holders have access to their own basic processing plants, they are unable to generate enough throughput from their own rights. This increases the cost of doing business and in some cases may threaten a rights holder's ability to provide stable employment to its employees. This is a relevant consideration given that the processing level of the value chain is employee intensive; and
- 49.3. Smaller rights holders, such as Nalitha, may find it difficult to expand their sales and marketing activities in the lucrative retail and export markets. This is due to the fact that retail and export customers require certain guarantees on volumes,

and the sustainability of supply over time. Low volumes create an added risk where these networks/relationships are built.

50. Based on the above risks, smaller rights holders need increased access to fishing volumes to meaningfully operate across the value chain and grow their operations³³. One of the key concerns for smaller rights holders who have actively invested and participated at various levels of the value chain is that in FRAP 2021 they might experience a complete loss of or a reduction in the size of their right. A loss in volume would make the operations of these rights holders unsustainable and would likely lead to a significant reduction in (or a complete closure of) their operations and overall contributions (including employment) to the fishery.

³³ Increased fishing rights for smaller rights holders should be made possible as and where it is clear that these rights holders are actively participating and investing in the fishery.