Financial Services for SME Fisheries

The case study of South Africa

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Abbreviations

ABSA	Amalgamated Bank of South Africa
AfDB	African Development Bank
BBBEE	Broad-based Black Economic Empowerment
BFPA	Business Finance Promotion Agency
DBSA	Development Bank of Southern Africa
DET	Department of Environment and Tourism
DFI	Development Financial Institute
DST	Department of Science and Technology
DTI	Department of Trade and Industry
ECDC	Eastern Cape Development Corporation
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FSDC	Free State Development Corporation
FSRP	Financial Sector Reform Program
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation/Deutsche Gesellschaft fuer Technische Zusammenarbeit GmbH
IDC	Industrial Development Corporation
IMF	International Monetary Fund
IRR	Investment Rate of Return
IWF	Isivande Women's Fund
MFI	Micro-finance institutions
MRLAC	Marine Living Resources Act
MSE	Micro and Small-scale Enterprise
NCA	National Credit Act
NEF	National Empowerment Fund
NEPAD	New Partnership for Africa's Development
NPL	Non Performing Loan
NRI	Natural Resources Institute, University of Greenwich
NYDA	National Youth Development Agency
SADAC	Southern African Development Community
SACU	Southern African Customs Union
SMEs	Small and Medium Enterprises
TIGF	Thembani International Guarantee Fund
TAC	Total Allowable Catch
UNDP	United Nations Development Programme
USD	United States Dollar
VCA	Value Chain Analysis
WTO	World Trade Organisation

Exchange rate (March 2011): 1 USD = 7 South African Rand

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Executive Summary

The primary objective of the South Africa case study has been to assess the availability of and access to financial services by SMEs in the fisheries sector. Fieldwork took place during 6-12 March 2011 in Cape Town, Port Elizabeth and Port St Francis, while desk research provided background information about the overall context of the economy and the fisheries sector in South Africa.

This summary highlights key findings surrounding three areas: (1) overall context of finance for fisheries in South Africa; (2) current external and internal constraints to the development of the squid and tuna sectors; and (3) financial models for SMEs in the fisheries sector.

Overall context

- After a period of economic growth of about 4.5% average annual rate during 2002-7, the South African economy has experienced a slowdown due to severe electricity shortages coupled with weaker global demand. Inflationary pressures have also been on the rise, driven by increasing commodity and food prices worldwide, as well as by considerable exchange rate volatility (WTO 2009).

- Unemployment remains one of South Africa's most serious social and economic problems, with rates estimated at 45% or over. Also, HIV/AIDS and high crime rates continue to have a strong negative economic impact. In terms of sectoral contribution to GDP, agriculture, in which the bulk of unskilled people are employed, contributes least to the South African economy. This includes the fisheries sector.

- Up to end 2008 the financial sector had performed soundly. However, banks are now facing increased credit risk, especially in their household loan portfolios, because of record household indebtedness and increasing debt-service burden. Asset quality has deteriorated and returns have decreased because of the increase in interest rates and the decline in property prices.

- Access to banking services has however increased from 25% in 1994 to 63% in 2008 (IMF 2008), as a result of the Financial Sector Charter, which calls for the banking sector to expand its branch network; and the National Credit Act, which calls for the development of an accessible credit market to address the needs of the disadvantaged low-income population and remote communities.

- The fisheries sector in South Africa is primarily marine-based with a strong commercial sector. The aquaculture sub-sector is almost insignificant, with outputs of about 0.01% of world production. The total commercial catches fluctuate annually. Recent figures report about 674,117 tonnes of commercial catch. Measured by exports, Western Cape Province is by far the most important area for the South African fisheries industry - squid and tuna being some of the prominent species. The bulk of the rest of the provinces export very little or no fish and fisheries products.

- Investment costs involved in the squid sector include the cost of vessels and permits. Prices range from about R300,000 to R10,000,000 (about USD43,000-USD1.5million) for vessels that vary from ski-boats (7 metres) to 20-metre ships. Permits are currently R125,000 per man (about USD18,000), while the number of permits range on average from 12-man up to 26-man per vessel.

- Running costs per year typically include: the captain's wage R420,000; crew R700,000; fuel R350,000-R400,000; and other costs and repairs R50,000, which sums up to an estimated total of R1.5million-R2million (about USD215,000-USD285,000).

- Demand for finance by SMEs in the fisheries sector is therefore estimated to be over R250,000 for medium to long-term loan and equity, which would be used for the purposes of working capital, asset-based and property finance. Current financial institutions dedicated to delivering finance for SMEs include: Business Partners Ltd, Khula Enterprise Finance and to some extent the Industrial Development Corporation.

- The challenges in accessing finance by SMEs include: Perceived high risk profile; smaller loan size and cost of delivery; lack of adequate collateral; information gaps; inadequate skills; quality of business propositions; insufficient understanding of SMEs landscape by lenders and investors.

Current external and internal constraints

In the past 2-3 years, the fisheries sector in South Africa, particularly the squid and tuna markets, have been restricted by various key factors:

- Decreasing demand for South African squid exports by Spain and Italy, due to the economic consequences of the recent global financial crisis.

- Higher foreign exchange risk as a result of the strengthening of the Rand against the Euro, which implies lower export income for fisheries.

- Heightened uncertainty regarding the renewal of fishing rights and the transferability of existing rights to third parties.

Financial models: Opportunities and Challenges

Three financial models were identified and examined during fieldwork: (1) The Business Partners Ltd; (2) The cooperative model of Sea Freeze; and (3) The community-based model of lobster fishermen.

- **Business Partners Ltd** has been financing SMEs in South Africa for nearly 30 years, since 1981. It originally began as a 50%-50% public-private partnership with the government of South Africa; today, the structure of shareholding is 20%-80% respectively. At the start of operations, investment in fisheries constituted 50% of the total portfolio – now it has decreased to about 2%-4%, mainly as a result of current uncertainties in the sector.

- Typical financial facility for fisheries investment ranges between R250,000-R20million (about USD35,000-USD2.5million), while the average investment is USD257,000. Financial products include: loans, equity shares, royalty fees (i.e. a percentage of turnover) or a combination of all three products. Business Partners finance differs from one operation to another and packages are flexible. The selection criteria are based primarily on the entrepreneur's experience, business risk, quality of collateral, and entrepreneur's own contribution to the business.

- Key factors explaining the relative success in dealing with the fisheries sector are reportedly attributed to: (1) Business Partners' extensive technical experience in the sector; (2) building and maintaining relationships of trust with the business people involved in the sector; and (3) a high degree of flexibility in the design of financial packages that respond to the needs of the applicants.

- There are current challenges, however, which constrain the expansion of finance into the sector; these include: (1) uncertainties in the renewal and transferability of fishing rights; (2) foreign exchange risks; and (3) the recent decline in the EU demand for local fish exports. It is also important to note that Business Partners would need to introduce a system by which long-standing, experienced staff members transfer skills to the younger, new staff in order to preserve the hard-learned technical expertise of financing for the fisheries sector.

- **Sea Freeze Cooperative**: This cooperative business was formed by 16 top squid operators and functioned as such for about 12 years until it ceased in practice to be a cooperative in 1997. It is reported to have been very successful, with revenues multiplied in comparison to when members worked individually.

- Advantages of the cooperative: (1) lower taxes; (2) the members shared bigger profits; (3) well-defined ways to enter and exit the cooperative; (4) economies of scale; (5) peer pressure that led to higher quality of fish. In terms of accessing finance, the fact that the members were part of a successful cooperative contributed towards them securing finance as individuals.

- Reasons for the break-up of the cooperative: (1) low management skills, which led to serious difficulties in the decision-making process; (2) difficulties in managing quite diverse interests, e.g. some members would not want to sell stock at a particular point in time while others would prefer to sell immediately in order to obtain income as soon as possible; (3) an element of conflict of interests made interactions slow, e.g. members who were producers and at the same time shareholders; (4) distrust surrounding members' decisions, particularly those involved in the administration, e.g. regarding the prices that the fish produce was sold for.

- Therefore, despite some clear advantages, key challenges remain in the setting up of cooperatives: (1) Management skills; (2) Policy-making decisions, e.g. to address diverse interests within the cooperative; (3) Trust-building mechanisms.

- **Community-based fishermen**: Artisanal and small-scale fishing communities remain marginalized from the legal framework in the sense that fishing rights are currently assigned on an individual basis rather than at a community level. Efforts to amend this oversight are being undertaken by community organisers and NGOs.

- The priorities for the development of small-scale fishing communities include: (1) legal recognition of the community organisation; (2) community-based fishing rights; (3) capacity building in the management of collective business; (4) specialised financial fund for small-scale fishing communities.

1. Methodology

The GTZ-funded case study 'Financial services for SME fisheries in South Africa' is part of a wider initiative entitled 'Establishing a Fisheries and Aquaculture Investment Partnership', which is being prepared by the Development Bank of South Africa, in partnership with the Natural Resources Institute (NRI), for the New Partnership for Africa's Development (NEPAD). See Annex 1 for Terms of Reference.

The field research for this case study took place during 6-12 March 2011. The focus was on the following:

- Fisheries in South Africa, with emphasis on squid and tuna.
- Semi-structured interviews and in-depth discussions were held in Cape Town, Port Elizabeth and Port St Francis.
- Direct observations were undertaken during the visits to private enterprises and fisheries equipment in Port St Francis.
- Three specific financial models were explored during fieldwork, i.e. Business Partners Ltd, Sea Freeze Cooperative, and a community-based fisheries organisation.

2. The South African economic background

The Republic of South Africa is one of the most important economies on the African continent. South Africa is a member of a number of regional (SADC and SACU) economic integration and trade blocs. The country accounts for over 70% of the SADC region's GDP. Per capita income was US$5,811 in 2008 (Table 1). Economic activity is relatively diversified, with services and manufacturing accounting for 65.6% and 15.9% of GDP, respectively. Despite its modest contribution to GDP (2.6% in 2008), agriculture remains important because it absorbs a large share of the unskilled workforce. According to the 2009 estimates, South Africa has an annual GDP purchasing power parity of US$488.6 billion. It ranks 26th in the world in terms of GDP.

Table 1. South Africa's main economic indicators, 2002-08

	2002	2003	2004	2005	2006	2007	2008
Miscellaneous							
Population (million)	45.34	46.05	46.71	47.36	47.97	48.55	48.70
GDP at market price (US$ million, current prices)	111,130	166,655	216,340	242,676	257,894	283,381	282,995
GDP per capita (US$, current prices)	2,451	3,619	4,631	5,125	5,376	5,836	5,811
Real GDP (annual percentage change)	3.7	3.1	4.9	5.0	5.3	5.1	3.1
Unemployment rate (official definition; per cent)	30.4	28.0	26.3	26.7	25.5	24.2	23.1
Sectoral distribution of GDP				(percentage)			
Agriculture, forestry, and fishing	2.9	2.7	2.6	2.7	2.3	2.3	2.6
Mining and energy	8.8	8.9	8.6	8.3	8.0	7.6	7.0
of which: mining and quarrying	6.5	6.6	6.3	6.2	5.8	5.6	5.0
Manufacturing sector	17.2	16.4	16.4	16.3	16.3	16.2	15.9
Services	62.2	63.1	63.5	63.8	64.5	65.0	65.6
Construction (contractors)	2.4	2.5	2.6	2.8	3.0	3.4	3.7
Wholesale and retail trade, catering, and accommodation	13.0	13.4	13.6	13.9	14.1	14.1	13.8
Transport, storage, and communications	9.5	9.8	9.7	9.8	9.9	9.9	10.0
Finance, insurance, real estate, and business	18.3	18.5	19.0	19.0	19.4	19.7	20.1

	2002	2003	2004	2005	2006	2007	2008
services							
Community, social, and personal services	19.0	19.0	18.5	18.3	18.0	17.8	18.0
Government finance[a]			(percentage of GDP)				
Revenue, including grants	23.6	22.9	23.6	25.6	26.6	26.9	26.3
Expenditure and net lending	24.3	25.4	25.6	26.1	26.3	26.1	26.9
Overall balance	-0.7	-2.5	-2.0	-0.5	0.3	0.8	-0.6
National government debt	38.9	39.6	37.2	35.3	32.9	27.1	23.8
National government gross external debt	10.8	7.9	6.7	6.5	6.8	6.0	6.2
National accounts			(percentage of GDP)				
Private final consumption	61.8	62.3	62.4	62.6	62.3	61.4	60.6
Government final consumption	18.4	19.3	19.4	19.6	19.8	19.7	20.4
Gross fixed capital formation	15	15.9	16.2	17.1	18.8	21.1	23.2
Change in inventories (after inventory valuation adjustment)	-2.3	0.0	-0.2	-0.1	0.0	0.0	-1.0
Residual items	-0.1	-0.8	1.0	0.4	0.6	0.0	-0.7
Exports of goods and services (XGS)	33.0	28.1	26.7	27.4	29.7	31.5	35.4
Imports of goods and services	29.1	25.8	27.1	28.2	32.9	34.6	38.5

Source: South African Reserve Bank online information, *Quarterly Bulletin* time series. Viewed at: http://www.reservebank.co.za/; World Development Indicators CD-Rom 2008, Development Indicators (Chapter I); and data provided by the South African authorities.

The economy expanded at an average annual rate of 4.5% between 2002 and 2007, led by strong domestic demand and favourable external conditions (e.g. terms of trade). Prudent macroeconomic management also helped strengthen public finances, contain inflation, and increase foreign exchange reserves in that period. However, severe electricity shortages, coupled with weaker global demand, triggered a moderation in real GDP growth to 3.1% in 2008. Inflationary pressures have also been on the rise, driven by increasing commodity and food prices worldwide, as well as by considerable exchange rate volatility (WTO 2009).

From a peak of 30.4% in 2002 and to a low of 23.1%, unemployment remains one of South Africa's serious social and economic problems. Moreover, South Africa's most prominent social problems, the HIV/AIDS pandemic and high crime rate, remain unresolved, with a strong negative economic impact. One challenge will be to maintain macroeconomic prudence while dealing with these problems (WTO 2009).

In terms of sectoral contribution to GDP, agriculture, where the bulk of the unskilled people are employed contributes least to the South African economy. This sector includes the fisheries subsector. In contrast the services sector has shown consistent growth in contribution to GDP, in 2008 financial and related services' share of GDP contribution were over 20%.

3. Financial sector profile

South Africa's banking sector comprises commercial banks (foreign and domestically owned), mutual banks, co-operative banks, and development banks). Four commercial banks, Amalgamated Bank of South Africa (ABSA), FirstRand Bank, Nedbank, and Standard Bank, all of which are privately owned, account for almost 84% of total assets and have a strong presence in the other SACU countries. Standard Bank has spread across the African continent and beyond, however the bank has recently started scaling down on its non-African operations in order to concentrate on the African market.

In addition to the commercial banks, several state-owned development banks/finance institutions have been created to finance projects in specific sectors, to support SMEs, and to provide banking services to the "unbanked" sector of the population (Table 2).

Table 2 Development financing institutions, 2009

Institution	Activity
Development Corporation of South Africa (IDC)	Finances large industrial, mining, and agricultural projects
Development Bank of Southern Africa (DBSA)	Finances regional infrastructure development projects (e.g. roads, prisons, and local government waste treatment and water projects)
Business Partners[a]	Finances small business
Khula Enterprise Finance	Finances small and micro-businesses
Land Bank	Provides short- and medium-term loans, and long-term mortgages to farmers for agricultural projects at subsidized interest rates
Postbank[b]	Savings institution; provides services mainly to the "unbanked" population

a Formerly the Small Business Development Corporation.
b Operates through the South African Post Office.
Source: WTO Secretariat.

Up to end 2008 the banking sector had performed soundly. However, banks are facing increased credit risk, especially in their household loan portfolios, because of record household indebtedness and increasing debt-service burden. Asset quality has deteriorated and returns have decreased because of the increase in interest rates and the decrease in property prices. Non-performing loan (NPL) ratios are not high but have increased since 2006 because of the increases in interest rates; arrears on credit card debt are also rising. Access to banking services has increased markedly: the population that has access to banking services rose from 25% in 1994 to 63% in 2008.[1] This has been as result of, *inter alia*, the Financial Sector Charter, which calls for the banking sector to expand its branch network[2]; and the National Credit Act (Act No. 34 of 2005), which calls for the development of an accessible credit market to address the needs of the disadvantaged low-income population and remote communities (WTO 2009).

[1] IMF (2008).

[2] The Financial Sector Charter aims to transform the financial sector to take into account the terms of the Broad Based Black Economic Empowerment (BBBEE) Act 98 (Act No. 53 of 2003). The financial sector committed itself to the development of a Black Economic Empowerment (BEE) charter (Financial Sector Charter Council online information, "Overview". Viewed at: http://www.fscharter.co.za/page.php?p_id= 137&PHPSESSID=46589b68277655bef8a050ac787d0e8d.

4. Overview of the fisheries sector

South Africa has both marine and inland water fisheries. The marine fisheries ecosystem covers a distance of over 3, 000 km and extends from the Namibian border in the west to the Mozambican border in the east. Fresh water fish culture is severely limited by the supply of suitable water. The western coast is highly productive whilst the east coast is considerably less productive but has high species diversity. (FAO 2010). The most important areas for the production of fresh water species are Limpopo, Mpumalanga Lowveld and Northern Kwazulu-Natal (Department of Agriculture 2009). Fish production is not a nationwide enterprise and is largely restricted to particular provinces. Table 3 below shows the provincial contribution to fisheries exports.

Table 3 Share of provincial fish and aquatic vertebrate to the total fish and aquatic vertebrate exports (%).

Province	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Western Cape	79.65	82.68	88.51	86.01	85.13	84.06	84.42	80.95	83.21	81.26
Eastern Cape	16.07	11.36	8.24	10.44	13.65	14.37	12.93	14.60	12.13	12.75
Northern Cape	1.19	2.56	1.14	1.02	0.01	0.44	0.88	0.83	0.03	0.13
Free State	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Kwazulu-Natal	0.36	0.39	0.44	0.57	0.18	0.07	0.56	0.69	0.82	3.69
North West	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gauteng	2.55	2.81	1.60	1.68	0.83	1.03	1.21	2.92	3.80	2.16
Mpumalanga	0.16	0.20	0.08	0.28	0.20	0.04	0.01	0.00	0.00	0.02
Limpopo	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Department of Agriculture (2009)

Measured by exports, Western Cape Province is by far the most important area for the South African fisheries industry. The bulk of the rest of the provinces export very little or no fish and fisheries products.

4.1. Production and employment data

FAO (2010) estimates that per capita consumption of fish products in South Africa at 7.6 kg in 2007 compared to the sub-Saharan Africa average of 8.3 kg in 2005. Table 4 below shows the consumption and production data in the South African fisheries industry.

Table 4. South African fisheries consumption and production data (2007) (tonnes)

	Production	Imports	Exports	Total supply
Direct human consumption	396, 660	121, 959	144, 005	374, 614
Animal feed & other purposes	276, 700	41, 800	123, 400	195, 100

Source: adapted from FAO(2009).

The total commercial catches fluctuate annually. In 2008 the commercial catch was about 674 117 tonnes (FAO 2010). As table 4 shows, South Africa is a net exporter of fish and fish products. In 2008 the country exported fish products valued at R 3, 722.6 million. Spain and Italy are the main destinations of South African fish and aquatic invertebrates accounting for 35% and 12% of total exports respectively. (Department of Agriculture 2009).

In 2008 the primary fisheries sector (excluding aquaculture) employed 16, 853 people whilst the secondary sector accounted for 10, 876 people.

4.2. Industry structure: marine subsector

The marine sub-sector accounts for the bulk of South African fisheries industry production, with a strong commercial sector. The FAO (2010) notes that:

- In the offshore sector the industrial fisheries are dominated by dermesal hake trawl fishery and the small pelagic purse seine fishery for anchovy and sardine (South African west coast and the ports of Cape Town, Saldanha, St. Helena Bay);
- There are also small fisheries for hake using demersal longlines and hake landline that are allocated 10% of the allowable catch;
- There is a small but significant midwater trawl fishery targeting horse mackerel on the Agulhas Bank;
- Other fishing sectors classified as offshore include tuna bait and pole fishery for longfin and yellowfin tuna (Cape Town area), a large pelagic longline fishery for tuna, shark and billfish.
- There is a diverse crustacean commercial sector. A small trawl targets shrimp off Kwazulu Natal. There is a commercial fishery for West Coast Rock Lobster using traps and ring nets as well as a small subsistence and recreational sector on the Cape west and south west coasts.

The data on small-scale and subsistence fisheries in South Africa is poorly defined. The communities that can best be described as subsistence fishers are found on the Transkei coast and the northern coast of Kwazulu Natal. These communities living at the coast harvest inter-tidal organisms such as black and white mussels, oysters and limpets. (FAO 2010).

4.3. Inland subsector

The FAO notes that whilst there is an extensive amount of recreational exploitation of freshwater fish on inland rivers there is no inland commercial fisheries of any significance in South Africa. Most freshwater or inland fisheries are related to a limited number of aquaculture developments.

4.4. The aquaculture sector

The aquaculture sector is divided into marine-based “mariculture” and freshwater based “aquaculture”. South Africa produces about 2% of the Africa’s aquaculture output or 0.01% of world output. (Department of Agriculture 2009)

Production trends and forecasts

Commercial mariculture production started in the 1980s with the establishment of oyster, mussel and prawn farming. Abalone farming was developed in the 1990s and is now the most valuable resource of the sector and South Africa supplies 21% of the global abalone produce (FAO 2010, DET 2011). In 2006, the total mariculture production was about 1, 800 tonnes valued at about R 250 million. Table 5 below shows the mariculture production by species in 2008.

Table 5. Mariculture production (tonnes) in 2008

Species	abalone	Oysters	Mussels	Prawn	Finfish	Seaweeds
Tonnes	1, 037	227	737	11	3	1, 834

Source: adapted from FAO (2010)

Six companies command 45% share in the processing sector and the remaining 55% is taken up by a large number of small fishing companies. Table 6 below shows the market shares in the aquaculture industry.

Table 6. Aquaculture industry market shares

Company	Market share (%)
Oceana	15
Premier	8
Pioneer	7
Saldanha	5
Gansbaai	5
Foodcorp	5
Others	55

Source: adapted from Department of Agriculture (2009)

According to the Department of Agriculture (2009) freshwater fish culture is severely limited by the supply of suitable water. The most important areas for the production of fresh water species are the Limpopo, Mpumalanga Lowveld and Northern Kwazulu-Natal. Trout is farmed along the high mountain in the Lydenburg area, Kwazulu-Natal, Drakensberg and the Western Cape. Other fresh water species cultivated on a small scale include catfish, freshwater crayfish and tilapia. FAO (2010) notes that after reaching a record level of 2,200 tonnes in 2003, the total freshwater aquaculture production declined to around 1,400 tonnes in recent years. Table 7 below shows some of the threats and opportunities facing the aquaculture industry.

Table 7. Threats and opportunities in the South African aquaculture industry

Threats	opportunities
Shortage of expertise and aquaculture professionals	There is high demand for affordable protein and shortages in traditional fisheries products
Lack of technical skills and technical support or extension services	Aquaculture is moving onto the Government agenda
Lack of veterinary services and disease management	High potential for agricultural diversification
Poor government understanding and support	Good natural resources
Lack of species choice and good seed stock	Good infrastructure
Complex resource-based legislation	Potential for export
Inaccessible financial sector and poor financial support services	Linkages with tourism
Lack of marketing services, marketing structures and market penetration	Growing economy and good economic environment
Climatic variability and seasonality	

Source: adapted from Department of Agriculture (2009).

Basic value chain analysis

The basic value chain for aquaculture in South Africa comprises the following activities:

- Farming activities
  - Site planning and construction
  - Stock and harvesting
  - Management (e.g. fertilisation feeding, habitat improvement)
  - Maintenance
- Food industry activities:
  - Processing
  - Packaging
  - Marketing and distribution.

4.5. Financial services and aquaculture sector

South Africa has both private and public credit markets. Apart from having vibrant private capital markets, South Africa, in IDC and the DBSA, also boasts sub-Saharan Africa's sophisticated development finance institutions. The two leading DFIs are complemented by a range of sector-specific DFIs and extension services institutions. Outside the domestic DFIs a number of bilateral and multilateral DFIs also serve as potential sources of general and sector-specific capital. These include the World Bank group, the African Development Bank, and the CDC Plc group. The later has actual experience in establishing export oriented aquaculture enterprises, an example being Lake Harvest on the Zimbabwean side of Lake Kariba. However it is important to note that one of the constraints against the development of aquaculture in South Africa is an inaccessible financial sector and poor financial support services (Table 7 above).

Most funds going into mariculture are based on the venture capital model, and little direct information is available on the type of models for capital investments in the freshwater aquaculture sector. Traditional lending practices by commercial banks are still based on the short term, high interest secured loans model. This approach is not suitable for the aquaculture sector. The lack of easily accessible credit facilities is also worsened by ignorance of the existence of some credit facilities dedicated to the aquaculture sector and poor business proposals. For example a study on aquaculture sectors in the Benguela Commission region[3] revealed that in spite of the IDC having established a portfolio dedicated to the sector, the portfolio was still undersubscribed mainly due to a dearth of viable business proposals. With the limited financial resources available it is important that

[3] *A review of aquaculture policy and institutional capacity in the BCLME Region,* available at www.bclme.org/projects/docs/Final%20report/20lmr-mc-03-01.pdf

capacity is created to enable potential aquaculture operators to produce feasibility studies and viable business proposals to target both commercial and development finance lending institutions.

The IDC took the lead in the first kob (*Argyrosomus japonicas*), marine culture project in the East London Industrial Development Zone. The project pioneered the development of hatchery/spawning technology and land-based recirculation systems for the sustainable production of indigenous marine finfish (IDC 2009).

5. Government aspirations and targets for the fisheries sector in South Africa

The South African Government has recognised aquaculture as a new industry requiring public support. For example, the Department of Trade and Industry (DTI) included aquaculture in its Department of Small and Medium Enterprises Development. The DTI provides new aquaculture businesses with up to 25% rebates on specified capital items.

5.1. Mariculture policy and strategies

The Department of Environment and Tourism (DET) developed a *Policy for Sustainable Marine Aquaculture Sector* which seeks to":

- Create an enabling environment to promote a growing contribution from marine aquaculture to sustainable economic growth;
- Promote transformation and broader participation in the aquaculture sector;
- Develop regulatory and management mechanisms aimed at avoiding or minimizing adverse environmental impacts associated with marine aquaculture practices and to;
- Expand the resource base of marine aquaculture from the few species currently being farmed to a more diverse selection of suitable species and farming technologies.

The box insert below shows an example of an initiative in support of this policy.

Box 1. DET Frontier Programme for a Marine Aquaculture Research

DET Frontier Programme for a Marine Aquaculture Research

Marine aquaculture is a technology driven sector and requires diverse scientific input from a multiple of disciplines such as physiology, genetics, biotechnology, ecology, nutrition, economics, and engineering.

In 2005 the DET called for proposals in support of a two-year Frontier Programme funded by the Department of Science and technology to address needs in marine aquaculture research and development. The programme served to stimulate and fund collaborative research opportunities through the creation of partnerships, and to encourage the growth of a critical research and skills base.

Research projects in the programme were divided into two categories: research focussing on culture technology development and research focussing on interactions between marine aquaculture and the environment.

Source: DET

In addition, South Africa is an important member of the Benguela Current Large Marine Ecosystem (MCLME) Programme with Angola and Namibia. The programme has supported the development of a responsible marine aquaculture policy for the Benguela region. It has also facilitated the development of a shellfish sanitation programme which will help fish farmers in the three countries to meet the food safety requirements of potential export partners.

5.2. Department of Science and Technology (DST) Projects

The DST in partnership with the University of Stellenbosch and other partners has been providing support, training and technology for the establishment of emerging trout farmers within the private irrigation dams on the wine estate of the Southern Western Cape region. The objective is to establish 35 small-scale trout farmers each producing 6-8 tons of trout annually, with retail value of R 6.5 million, the farmers have already secured supply agreements with leading retail outlets in the area (Department of Agriculture 2009). Other DST initiatives include:

- Collaboration with the Department of Agriculture and Department of Water Affairs to establish one grow-out pilots per province for the production of indigenous freshwater species (tilapia, catfish, trout and carp) using High Density Poly-Ethylene cage-net technology in government owned irrigation dams. The target provinces are Eastern Cape, Kwazulu-Natal, Limpopo, Mpumalanga, North West, Northern Cape and Free State. These provinces have fledgling aquaculture industry, and as shown in Table 3 above, they hardly account for much fisheries export, hence an intervention for productive purposes is necessary; and
- The Hondeklip Bay Abalone Grow-out pilot project. The DST in partnership with the Fishing and Mariculture Development Agency teamed up n 2007 to expand the project and to establish abalone-basket manufacturing small enterprises. A

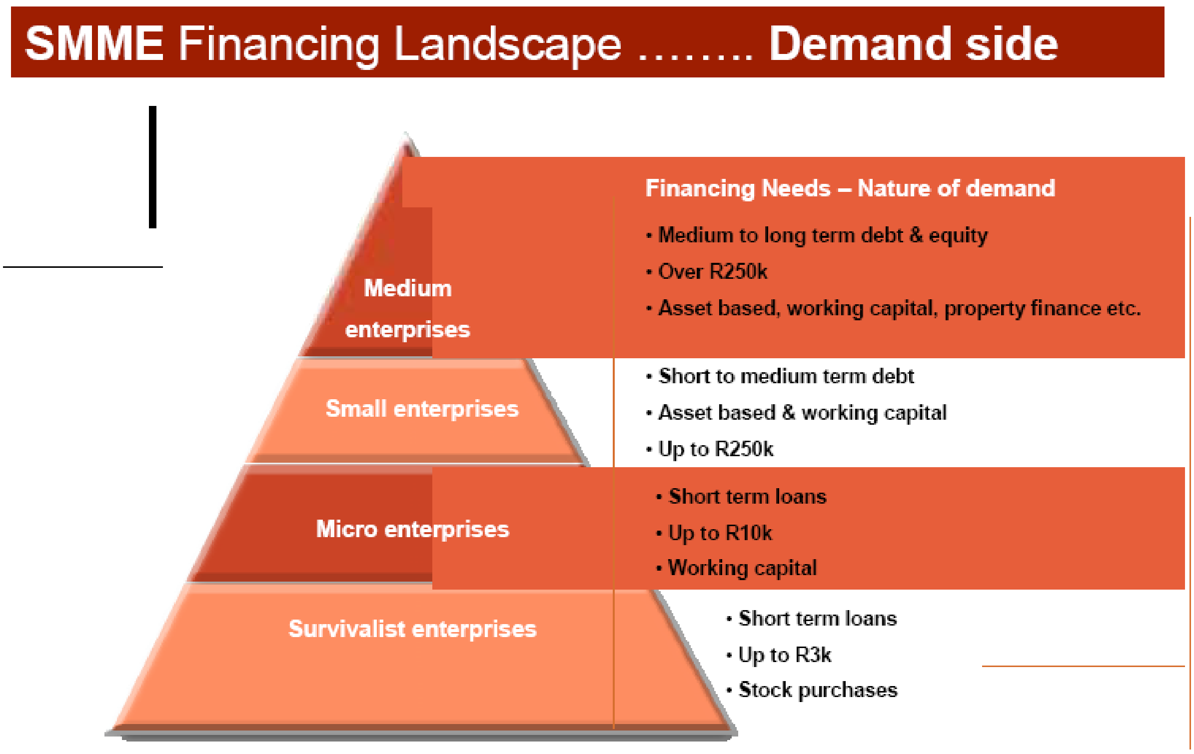
community small scale West Coast rock-lobster operation is also being assisted by the provision of live-lobster holding facility and technology support.

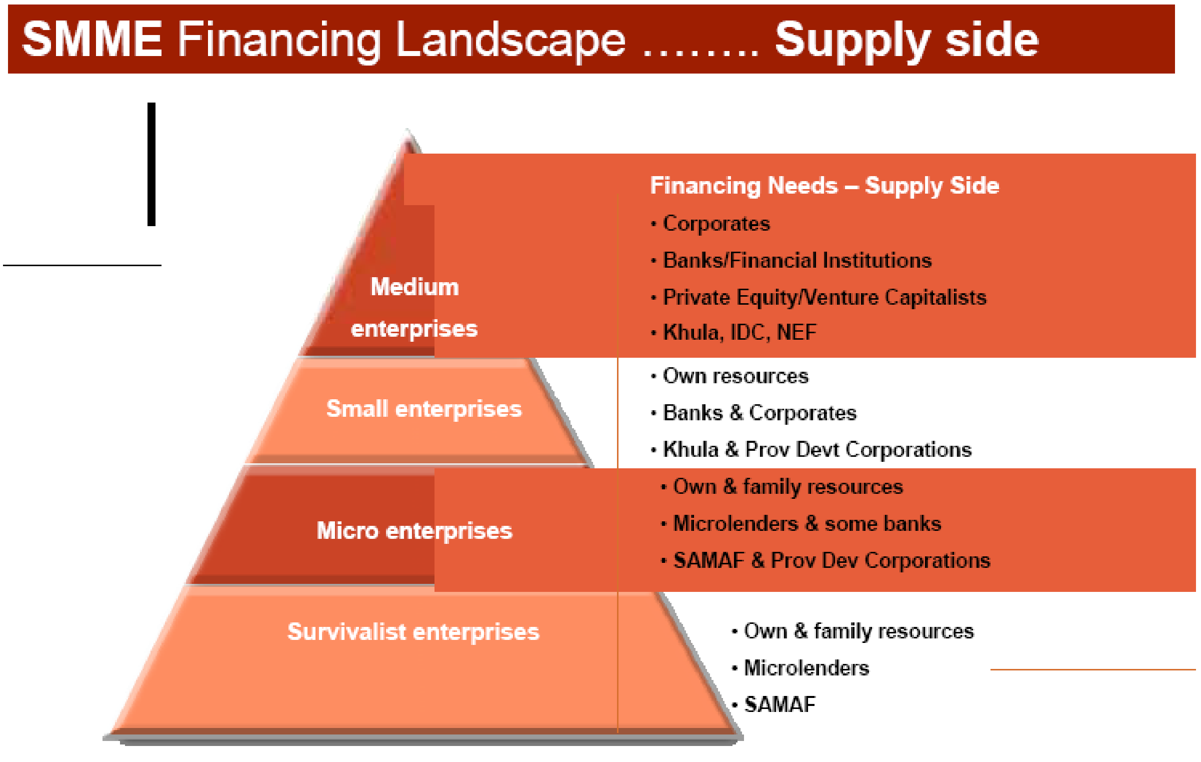
6. Overview of financial services in the SME sector

The National Small Business Act, as revised by the National Small Business Amendment Act of 2003 and 2004, defines the thresholds per sectors and sub-sectors as:

Table 8. Definition of SMEs

Sectors or Sub-sectors in accordance with Standard Industrial Classification	Site or Class	Total Full-time equivalent of paid employees (Less than)	Total annual turnover (R m) (Less than)	Total gross asset value (fixed property excluded) (R m) (Less than)
Agriculture	Medium	100	5	5
	Small	50	3	3
	Very Small	10	0.5	0.5
	Micro	5	0.2	0.1
Manufacturing	Medium	200	51	19
	Small	50	13	5
	Very Small	20	0.5	2
	Micro	5	0.2	0.1





Source: Sithole (2006)

The demand for finance by SMEs is estimated at over R250,000 of medium- and long-term debt and equity. However, catering for these financial needs is still restricted.

According to Sithole (2006) the key challenges in accessing finance for SMEs include:

- Perceived high risk profile
- Smaller loan size and cost of delivery
- Lack of (adequate) collateral
- Information gaps
- Inadequate skills
- Quality of business propositions
- Insufficient understanding of SMEs landscape by lenders

It is interesting to note that nearly half of the respondents interviewed attributed the insufficient access to finance to lack of collateral as shown in Table 9 below.

Table 9. Reasons for lack of finance for SMEs

Reasons cited for declining finance	Proportion
Lack of collateral	45%
High risk	32.7%
Seeking working capital	28.1%
Blacklisted	12.9%
Do not keep adequate financial records	11.7%
One or more of the above	74.9%

Sithole (2006) concluded that SMEs with "acceptable credit histories, and sufficient collateral" had access to bank finance. However, for entrepreneurs with limited collateral, access to finance was limited. DFIs would need to continue bridging the funding gap.

Table 10 presents the major institutions involved in financing SMEs in South Africa. It is reported that of these institutions, Business Partners Ltd has the longest and more specific expertise in financing SMEs in the fisheries, which gives rationale for devoting field research about this financial institution as it is described in Section 8 below.

Table 10. Funding Matrix

Institution	**Fund Name**	**Product**	**Investment**	**Facility**	**Other**
Khula Enterprise Finance Limited	Khula SME Fund	Loan		Up to R500,000	Bridging funding gap in SMEs not addressed by commercial institutions
	Khula Credit Indemnity Scheme	credit indemnity / guarantee		R10,000.00 to R3 m	Network of partner financial institutions (ABSA, First National Bank, Nedbank and Standard Bank)
NATIONAL YOUTH DEVELOPMENT AGENCY (NYDA)	SME funding	Loan		R100,000.00 R5 m	• 14 – 35 years • minimum of 26% equity
Standard Bank	Believe Begin Become	Competition	Seed capital of R75 000 for top 10	Minimum R160 000	• Minimum 6 months trading. • Current revenues between R240,000 and R3 m. • Show growth potential and ability to create at least 10 new jobs in rural / peri-urban areas in the next 24 months.
FNB	ENABLIS BUSINESS LAUNCHPAD	Competition			Minimum 6 months trading.
THEMBANI INTERNATI		Credit guaranty		75% of the credit	• Partial guarantee,

ONAL GUARANTE E FUND (TIGF)				facility required and not exceed R10 m	remaining credit risk shared by lender and borrower. • 1 – 3 years
BUSINESS PARTNERS	Business Partners fishing investments			R250 000 – R20m	
	The Business Partners-Khula Start-up Fund:			R150,000.00 and R3 m	Black business
	The Business Partners Empowerment Fund:			R1 m - R4 m	Acquisition of equity in white business by black person(s)
	Business Partners Women's Fund			R250,000 - R5 m	targets women with a 25.1% - 49.9% ownership (female engendered) or 50% - 100% ownership (female owned)
GROFIN		Capital, Loans	USD 50 000 –USD 1 m	USD 50 000 – USD 1 m	• maximum repayment period is 6 years, • gross assets under US$ 3-million • turnover does not exceed US$ 5-million • less than 100 employees
Industrial Develop-ment Corporation	Risk Capital Facility	Loan, Equity		Minimum R1m	• BEE-owned businesses with a minimum ownership of 25,1% by historically disadvantaged persons (HDPs) • High developmental impact, e.g. job creation, regional reach and rural development.
NATIONAL EMPOWER MENT FUND (NEF)	Rural and community development	debt, equity and quasi-equity instruments		R250 000 – R20 m	• 5 – 7 years • ROI - pre-tax • IRR of between 12% - 18% • minimum black • ownership of 50.1% • BEE applicant actively • involved in the business.
NEW BUSINESS FINANCE		Loan		R250,000	• up to 18 months • working capital, purchase of assets
ISIVANDE WOMEN'S FUND (IWF)		Loan		R30,000 - R2 m	• SME or Co-operative 60% women-owned / controlled. • at least a 2-year track record of business activity • sustainable business plan • staff profile must be at

					least 60% women and 75% black (including people living with disability). • business must be in a rural or periurban area.
OLD MUTUAL	MASISIZANE WOMEN'S FUND		less than R5-million		start-up businesses and businesses established for less than 5 years
ITHALA DEVELOPMENT CORPORATION		Loans			Kwa-Zulu Natal Province
BUSINESS FINANCE PROMOTION AGENCY (BFPA)		Loans		R6,000.00 - R300,000	Eastern Cape Province
EASTERN CAPE DEVELOPMENT CORPORATION (ECDC)		Loans, equity		Up to R20 m	Eastern Cape Province
FREE STATE DEVELOPMENT CORPORATION (FDC)		Loans, equity	26% -49%	Up to R20 m	Free State Province

Source: DTI (2010) Department of Trade and Industry, National Directory of Small Business Support Programmes.

Legal stipulations have demanded greater financial inclusion of previously excluded sector in the South African society, particularly in relation to the Broad-based Black Economic Empowerment (BBBEE) Act. Under this act, financial institutions are committed to transforming the sector to reflect the demographics of the country, financial inclusion and directing investment in targeted sectors. Targets for the first five years were set, and by 2008, achievements included:

- Black SMEs: R12,8 bn against target of R5 bn
- Black Agriculture: R1,8 bn against target of R1,5 bn
- Unbanked adult population declining from 52% to 36%

The National Credit Act (NCA) of 2007 set minimum legal requirements for an efficient and responsible credit-lending industry. The NCA has resulted in stricter lending measures.

The insurance sector is highly competitive, with the top five short-term insurance companies commanding 52% of the market share. Gross Written Premiums were some R58bn in 2009. Bancassurance, a buzzword just before the turn of the century resulted in cross-selling of products between banks and insurance companies. Some of the co-operating institutions were related parties through shareholding or holding company. Examples include ABSA/SANLAM/SANTAM; Old Mutual/Mutual & Federal/Nedbank; FNB/Outsurance; Liberty/Standard Bank.

7. Enabling environment

Internal and external factors explain some of the constraints encountered by SMEs in accessing finance particularly in the fisheries sector. Among them, respondents placed strong emphasis in the uncertainties surrounding fishing rights in South Africa and the greater foreign exchange risks affecting fisheries exports to the EU.

7.1. Fishing Rights

Prior to the Marine Living Resources Act (MRLA) of 1998, a statutory body –the Quota Board- granted exploitation rights for specific periods (i.e. 10 years for existing players and 5 years for new entrants) and annual quotas based on Total Allowable Catch (TAC). In an attempt at social engineering, 20% of all TACs were reserved for new entrants (to dilute market concentration of the oligarchs). Rights were transferable, but not divisible.

The MLRA redefined rights as a portion of TAC, and with a maximum duration to 15 years. Increases in TAC would be allocated to new entrants, in line with the government's transformation agenda and creating opportunities for SMEs.

Since the introduction of quotas in 1979, stakeholders have pursued a market-driven industry structure with long-term rights sold in perpetuity (which encourage investment and increase productivity). Successive regimes have however preferred shorter periods, in part to manage resources and broader policy initiatives, and to prevent rights reverting to few organisations. Rights are leased, not sold; in line with common law that the sea or its resources cannot be privately owned.

The current situation is further reported to be uncertain in as much as fishermen and business people involved do not have reassurance that their fishing rights will be renewed and whether they can be transferable to other fishermen. This level of uncertainty restricts not only the planning of extent of fishing but also the availability of credit for fisheries.

7.2. Foreign exchange volatility

In the past five years the South African Rand has fluctuated significantly (see Graph below). Towards the end of 2006, it reached the low point of R7.40 with respect to the Euro, while in 2009 it raised to R13.93 and it is now at its current level of R9.57. The strengthening of the Rand has negatively impacted on exports given that lower revenues would be derived from the currency exchange. There have been calls for the government to 'weaken' the Rand, but this is does not appear to be in line with government policy yet.

› www.oanda.com/currency/historical-rates/

During fieldwork, respondents stressed the combined negative effect of a strong Rand and the current lower demand for South African fisheries (in the squid sector in particular) as one of the main reasons for the decline in business and the increasing reluctance from lenders to extend financial facilities in large amounts. Given that South Africa's main squid export market is that of Spain and Italy (but also Portugal and Greece), recent economic downturn in all these countries at the height of the recent financial crisis has affected their ability to import greater quantities of fish from South Africa.

8. Financial Models

An important part of the study concentrated on identifying specific examples of past and current models of finance for SMEs in the fisheries sector, in order to illustrate the underlying factors explaining success or failure and to highlight the advantages and disadvantages of each of these models. Research prior to undertaking fieldwork helped identified and selected three such examples: (1) Business Partners Ltd; (2) Sea Freeze Cooperative; and (3) Community-based Lobster Fishermen. Semi-structured interviews were then conducted during fieldwork and complementary information gathered during field visits in Cape Town, Port Elizabeth and Port St Francis. Some of the key findings and overall description of each of the models are presented below.

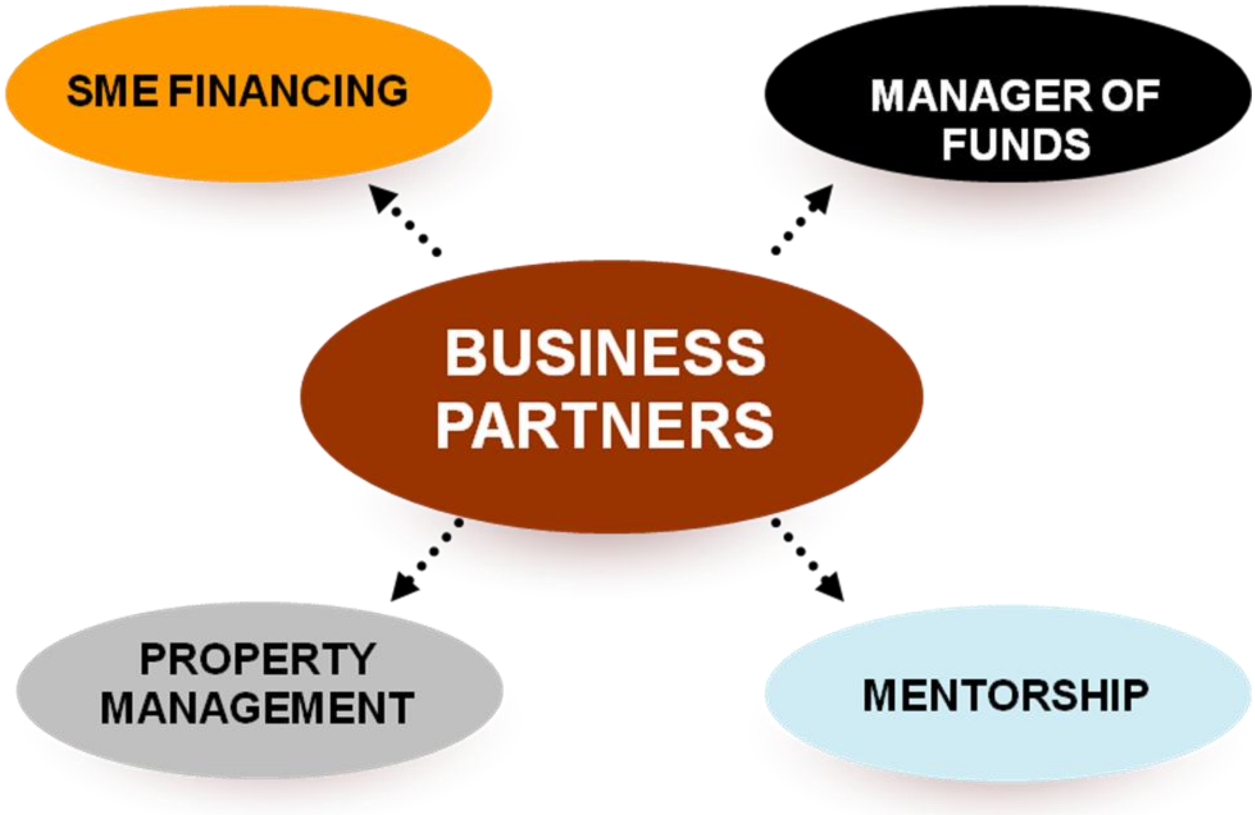
8.1. Business Partners Ltd

Business Partners Ltd is a specialist investment group, providing finance and mentorship for formal small and medium enterprises in South Africa. It was established in 1981 and for the 30 years of operation it has achieved a current asset base of R2.7 billion. Its national network of offices extends to 21 branches across South Africa. More recently, the company has expanded internationally to three other African countries, i.e. Kenya, Madagascar and Mozambique.

At the start of operations, the institution was named Small Business Development Corporation which constituted a public-private partnership of 50%-50% with the government of South Africa. Today, the shareholding structure is larger for the private component, at 80% of the total, while the remaining 20% is government-owned.

Figure 1 shows the main portfolios and activities of Business Partners Ltd. A significant part of their portfolio is dedicated to SME finance and mentorship but it also works as manager of funds and property. During the 1980s, about 50% of the portfolio was dedicated to investments into the fisheries sector. At present, that portion has declined to about 2%-4% because of the uncertainties in the fisheries sector regarding fishing rights, foreign exchange risks and volatility in the fishing industry as explained in previous sections. Nevertheless, the institutional experience in the fisheries sector is long-standing and well established. Therefore, when the enabling environment improves, business in the fisheries sector could start expanding again.

Figure 1. Current Business Partners Ltd portfolios

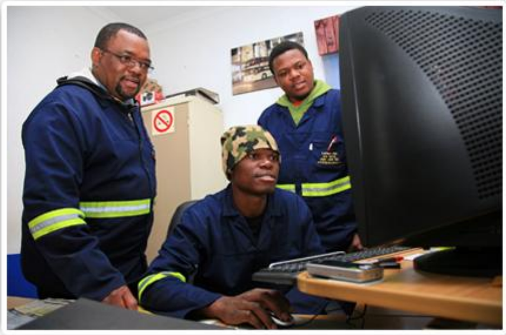


Source: Roelofse (2011)

Regarding finance for SMEs, current factual statistics include:

- Investment of over R10.36 billion (USD1.5 billion) in SMEs since inception
- Financing of 68,145 enterprises since inception
- Facilitation of creation of 516,000 jobs as a result of investments in SMEs since inception.

Some SMEs clients of Business Partners Ltd



Source: Roelofse (2011)

Investment amounts for SMEs are between R250,000 (about USD 35,000) and in exceptional cases more than R5million. The current average value per financial transaction is R1.8 million (about USD 257,000). The types of investments include start-ups, take-overs, expansion (working capital and equipment), and property. However there are exclusions to investments in that the company does not finance NGOs, primary agriculture and on-lending.

The criteria for investment takes into account the business risk (i.e. viable profitable businesses); entrepreneurial risk (i.e. entrepreneur's capabilities and profile); and financial risk (i.e. how much will be lost if the business fails). The most important criteria is the entrepreneurial skills of the business person as a good entrepreneur can, in many case, turn around a relatively bad business but the reverse is almost never true.

The business model of Business Partners Ltd as depicted below is based on the general principle of balancing the financial risks in order to obtain the right returns for the financial institution. The expected Investment Rate of Return (IRR) to be accrued by Business Partners Ltd depends on the risk-level of the investments, of which there are two types: (1) Low risk investments or those loans with good asset and security base and (2) Risk investments or those where there is limited security and the contribution from the applicant is low or limited. The first type of investment represents a very small part of the financial institution business. The real business for Business Partner Ltd is in the risk investment portfolio where they structure deals based on the cost of risk finance.

As seen in Box 2, the investment rate of return varies from prime rate to 30% depending on investment risk levels. Equity investment is usually done pro-rata to contribution to other shareholders and when the applicant cannot offer collateral. Business Partners Ltd usually takes minority shareholding and sets exit strategies.

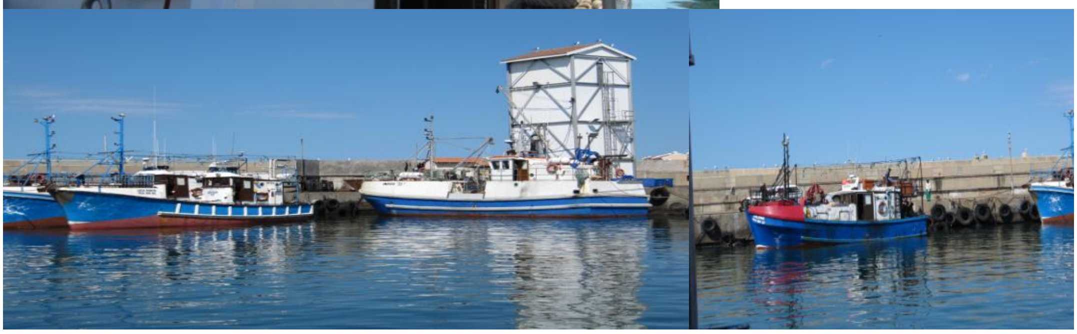
Box 1. Business Model

<table>
<tr>
<td>Investment terms and returns required depend on:
Viability of the business
Own contribution by entrepreneur
Securities available by business and/or entrepreneur.</td>
<td>Returns are obtained from the following:
Term loan and/or shareholder's loan
Interest rate
Fee
Shareholding: dividends</td>
</tr>
<tr>
<td>Cost of risk finance
Secured funds: Good securities
Investor's expected IRR=prime
Less secured funds = Equipment
Investor's expected IRR = prime + 2% to 10%
Funds @ risk: Unsecured
Investor's expected IRR = 30%</td>
<td>Shareholding
Equity
Pro rata to contribution to other shareholders
No securities
Interest rate
Growth businesses
Risk
Business Partners normally take a big portion of risk
Minority shareholding
Term loan</td>
</tr>
</table>

However, there are cases where the applicant's business is too small, it is a cash business, or the entrepreneur does not wish to have an outside shareholder but is willing to pay a fair price for finance support. In these cases, it does not make business sense for Business Partners Ltd to become a shareholder, and then another route is available – the so-called Royalty Deal. Under this option, the loan carries a prime rate plus a royalty fee based on turnover for the term of the loan or any other base.

Senior managers identify key characteristics that make Business Partners Ltd different from other financial institutions: (1) Investments in the purchase, start-up or growth of SMEs that have limited own contribution and limited security; (2) Flexibility; deals are usually customised and tailor-made to the needs of the SME; (3) Financial discipline; reporting/management system are in place to support track progress; (4) Exit strategies that allow the business to expand independently; (5) Investor involvement for advice and support; and (6) Speedy response to applications; the initial approval is made 7 days after receiving the business plan, while due diligence takes from two weeks to two months depending on the complexity of the business and market.

Fishermen and processors in Port St Francis, South Africa



8.2. Sea Freeze Cooperative

The Sea Freeze cooperative was founded in 1984-5 by 16 top squid operators in Cape Town. It operated successfully for about 12 years until it ceased to function as a cooperative in 1997 and became a limited company. As a cooperative model, key opportunities and challenges can be identified.

Box 3. Cooperative Model

Opportunities	Challenges
• Lower taxes • Members can share bigger profits • Economies of scale • Peer pressure which can lead to higher quality of fish • Better ability to access finance as being a cooperative member serves as a guarantor.	• Management skills • Collective policy-making decisions, e.g. to address diverse interests within the cooperative • Trust-building mechanisms • Expertise in the fisheries sector to make advantage of collective production.

Amongst the advantages, issues of financial gains and quality of product were reported to be significant. For example, due to economies of scale and lower tax payments, members were able to make and share higher profits. Importantly, the peer pressure that existed among cooperative members to catch better quality fish led to higher quality standards and better products. Well-defined ways to enter and exit the cooperative also contributed to the fluidity of membership. In terms of accessing finance, the fact that the members were part of a successful cooperative contributed towards them securing finance as individuals.

There were, however, challenges in running the cooperative that led to its ultimate demise. Most prominently, they relate to management and managerial issues such as difficulties in managing quite diverse interests, e.g. some members would not want to sell stock at a particular point in time while others would prefer to sell immediately in order to obtain income as soon as possible. The decision-making process would also slow down due to an element of conflict of interests among members that were producers and at the same time shareholders. Consequently, distrust would set in about members' decisions regarding, most particularly, the prices that the fish produce was sold for.

Thus, remaining key challenges in the setting up of cooperatives include: (1) Management skills; (2) Policy-making decisions, e.g. to address diverse interests within the cooperative; (3) Trust-building mechanisms.

Ice and packaging in the squid sector in Port St Francis

8.3. Community-based Fishermen

Unlike other sectors in society, the artisanal or small-scale fishing communities have remained marginalized through legislation since the advent of democracy. According to NGOs and community organisers interviewed, the current legislation has been crafted from the commercial point of view of the fishing industry, but has not fully taken into account the specificities of the artisanal, small-scale fishing sector. Thus, the policy makes provision essentially for individual transferable quotas, i.e. fishing rights to be in the form of quotas that people have to apply for based on certain criteria. In this sense, small-scale fishing communities cannot meet the criteria and remain outside the legal framework.

Box 4. Community-Based Model

Characteristics	Priorities
• Communities of artisanal, small-scale fishermen • Working in diverse eco-systems • Varied types of communities depending on culture, marketing and administrative processes.	• Obtain legal status as a community • Fishing rights to be awarded to community-based groups • Capacity building • Access to finance

There is quite a diverse range of small-scale fishing communities based on the varied type of ecosystems where they operate but also on the different cultures and processes involved in the marketing and administration of the community. In the vast majority of cases, none of these communities have access to formal finance, relying instead on informal moneylenders charging exhorbitant interest rates. To achieve an ideal community-based model a set of priorities was advanced by interviewees. First and foremost, the fishing community needs to be legally recognised and be granted suitable fishing rights. Once legal status is awarded, access to a range of formal services, including finance, becomes possible. In this endeavour, capacity building appears to be paramount for the effective management of the community and the collective fishing business. Given the particularities of the small-scale fishing communities, it was suggested that a specialised fund be put in place.

Annex 1: Terms of Reference

Case Studies on the role of Financial Services to Small to Medium Scales Enterprises in Fisheries and Aquaculture (South Africa)

Terms of Reference

Background

The Partnership for African Fisheries has recently launched a action research programme to examine how the financial services sector supports the small to medium private sector in the fisheries and aquaculture sector.

The first step in this research programme is to undertake an analysis of supply and demand. This will be done using the 'value chain' approach. Funds that specifically target SMEs will be identified and categorised. These will then be followed down the chain in order to understand exactly how a facility becomes a loan.

Furthermore, the relevance and utility to the fisheries and aquaculture SME sector will also be explored. Following discussions with GTZ, it was recognised that a number of stand-alone case studies could add value to this study.

These case studies would address the process from the other end of the value chain and would examine how selected SME players actually obtain finance.

Objective:

The objective of the assignment is to prepare an evaluation of how South African small to medium enterprises involved in the fisheries and aquaculture sector meet their financial needs, both in establishing their businesses (investment) and in running them (cashflow). The case study will focus specifically on the [enter fishery here].

Tasks:

1. **Establishing the Context:** A brief analysis of the [enter fishery here].in South Africa will be undertaken. This will include
   - Broad segmentation of the fishery
   - Production trends and forecasts
   - Markets and market forecasts
   - Basic value chain analysis
   - Government aspirations and targets for the fishery
   - Financial and operational support available to those involved in the sector.

2. **Identifying suitable candidates for case studies:** Up to four (but no less than 2) operators will be identified. In selecting these, the following will be taken in to consideration:
   - It is the intention to focus on the SME sector. The candidates for interview should therefore fit in to this sector.

- The candidates for interview should be involved in the fisheries/aquaculture sector as their main activity.

3. **Undertake interviews:** The objective is to understand the process by which the interviewee developed his business. The interviewee's perceptions of the process are of critical importance. That is to say his/her perception of the facts is as important as the actual facts! Among issues to be addressed are:

   - The history of the business. For example, did it develop through organic growth or investment. For example, if interviewing a fish farming business, did this develop from a one – pond operation or did it develop through a larger investment.
   - What are the basic economics of the business? What were the investment costs, what is the annual turnover, what is the cost of production etc? What is the profitability? We need enough to understand the moving parts. We do not need to do a detailed economic analysis.
   - What are the interviewees perceptions of the strengths, weaknesses, opportunities and threats of the business he./she is in?
   - What are the financing needs – investment and cash flow?
   - How were these financing needs met?
   - What roadblocks were encountered and how were these overcome?

4. **Meet with Financing Institutions:** Although many of the financing needs will be met through informal investment in equity (savings, family and friends), it is expected that some at least will be met through formal financial institutions. If this is the case, it would be useful to meet with these financial institutions to understand their perceptions of investment in the fisheries/aquaculture sector.

Indicative schedule

To be completed – 4 – five days should be adequate.

Annex 2: People and organisations interviewed in Cape Town, Port Elizabeth and Port St Francis, South Africa

Date	Name/Position	Organization	Location
Sun 06 Mar 2011	Travel from London to Cape Town.		
Sun 06 Mar 2011	Mr Richard Ball, Member of Steering Committee.	Partnership for African Fisheries.	Cape Town
Sun 06 Mar 2011	Mr Anton Roelofse, Regional General Manager, Western Cape.	Business Partners Limited.	Cape Town
Mon 07 Mar 2011	Mr Andy Johnston	Artisanal fisheries	Cape Town
Mon 07 Mar 2011	Travel from Cape Town to Port Elizabeth.		
Tue 08 Mar 2011	Meeting with various business people. Presentation by Mr Anton Roelofse.	Business Partners Limited and network of banks and consultants	Port Elizabeth
Tue 08 Mar 2011	Mr Tremaine Wesson, Area Manager, Marine Investments.	Business Partners Limited	Port Elizabeth
Tue 08 Mar 2011	Mr Greg Christy, Fish businessman (squid)	DMA Fishing	Port St Francis
Tue 08 Mar 2011	Meeting with various consultants and business people attending gathering	Business Partners Limited and network of clients and intermediaries	Port Elizabeth
Wed 09 Mar 2011	Mr Rob Giddey, Ex-member and current independent fish businessman	Sea Freeze	Cape Town
Thu 10 Mar 2011	Mr Richard Ball, Business	Patagonian Toothfish	Cape Town
Fri 11 Mar 2011	Mr Andy Johnston, leader	Artisanal fisheries	Cape Town
Fri 11 Mar 2011	Mr Naseegh Jaffer	MASIFUNDISE, an NGO working with fishing communities.	Cape Town
Sun 13 Mar 2011	Travel from Cape Town to Johannesburg.		
Mon 14 Mar 2011	Mr Sam Muradzikwa Chief Economist	DSBA	Johannesburg
Tue15 Mar 2011	Travel from Johannesburg to London.		

Annex 3: Literature and websites consulted

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Annex 4: Checklist for fieldwork in South Africa

Case Study on the Role of Financial Services for Small to Medium-Scale Enterprises in the fisheries sector

Introduction of the topic

GTZ supported study, which forms part of a wider initiative “Establishing a Fisheries and Aquaculture Investment Partnership” funded by the Partnership for African Fisheries (PAF/NEPAD). Six country case studies.

Objective of the case studies

Analysis of the availability, access and use of financial services for SMEs in the fisheries sector. This includes functioning of the system, and constraints and solutions, including an enabling environment.

Steps & tools

Mapping of the value chain, role of the private sector; sub-chains (e.g. traditional/small-scale; large-scale/commercial sector); percentages per type of supply; indicate values as far as possible.

Semi-structured interviews with ministerial authorities:

- Overview of the value chain
- Relevance of collective action and functions (e.g. Cooperatives)
- Perception of main constraints for fisheries development and relevance of (poor) access to financial services, particularly for SMEs
- Relevance of private equity (own savings, family and friends) for investment and operating costs
- Formal/informal providers of financial services to the sector (state-owned banks, private banks, coops, NGOs, traders, processing companies) and availability in the production/rural areas
- Characteristics of the loans:
    - Beneficiaries (farmers/traders/input suppliers/processing companies; SME/large scale farms; single farmer/groups)
    - Type: cash/in kind
    - Size of loan (range, average)
    - Loans for investment and/or working costs (maximum percentage covered)
    - Length (long/medium/short term)
    - Interest rates

    - Required guarantees/collateral (legal status, ownership/tenancy of land and infrastructures, cash deposit, guaranteed supplies, etc.)
    - Type of reimbursement (bullet loan, amortizing loan, period of grace) and repayment rates
    - If loans provided by coops or farmers associations: source of credit (fees/marketing activities/revolving fund/credit)
    - Penalties in case of fraudulent behaviour
- Perception of the enabling environment: current policies regarding financial services for SMEs (in general and in the fisheries sector) and future plans
- Estimation of production costs (investment and operating costs) and profitability
- Collection of general data: Statistics yearbook

Semi-structured interviews with fishmen:

- Overview of the production: production system, size of land/pond, type of fish, ownership/tenancy, frequency of harvest
- History of the business (organic growth/large investment)
- Group membership (if so, services provided)
- Input suppliers / Marketing strategy
- Turnover: seasonal production; prices
- Production costs:
- Source of capital: own equity/credit
- Credit provider/s and location
- Characteristics of the loans:
    - Beneficiaries (single farmer/group)
    - Type: cash/in kind
    - Size of loan/s
    - Loans for investment and/or operating costs (percentage covered)
    - Length (long/medium/short term)
    - Interest rates
    - Required guarantees/collateral (registered enterprise, ownership/tenancy of land and infrastructures, cash deposit, guaranteed supplies...)
    - Type of reimbursement (bullet loan, amortizing loan, period of grace)
    - Penalties in case of fraudulent behaviour
- Perception of credit availability and conditions
- Ways to overcome problems due to limited access to credit
- What if easier and/or cheaper access to credit?
- Savings schemes (closest bank, bank account, location, actual/potential savings, interest rate, interest, constraints)
- Insurance schemes (location, what/how, interest, constraints)
- Business SWOT perception

Semi-structured interviews with banks and other financial institutions

- Overview, ownership, type of financial services offered (loans, savings, insurance, etc)
- Current outstanding loan
- Loan portfolio by sector (private business, HH, govt)
- Loan portfolio by activity (agriculture, industry, trade, service)
- Loan portfolio to private business by size of business (large/SME)
- Loan beneficiaries in the fisheries sector: some figures
- Loan portfolio for SME fisheries producers: outstanding loan, n. of borrowers, repayment rates
- Characteristics of the loans:
  - Size of the loan (range, average)
  - Loans for investment and/or operating costs (percentage covered)
  - Length (long/medium/short term)
  - Interest rates
  - Required guarantees/collateral (registered enterprise, ownership/tenancy of land and infrastructures, cash deposit, guaranteed supplies, etc.)
  - Type of reimbursement (bullet loan, amortizing loan, period of grace)
  - Penalties in case of fraudulent behaviour
- Constraints in providing financial services
- The role of Government in creating an enabling environment for investment
- To what extent are subsidies given; for which financial services, and in what form
- Perception of future development in provision of financial services to SMEs in aquaculture