

# **Small, Medium & Micro-Enterprise Development in Special Economic Zones: South African Case Study**

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## **Abstract**

The spillover potential of Special Economic Zones (SEZ) provides little insight on how they can be used as a local economic development tool. To overcome this gap, this case-study of the *Coega Industrial Development Zone* in South Africa focuses on its impact on Small, Medium and Micro Enterprises (SMMEs) because SMME development can contribute to achieving various socio-economic impacts. The qualitative research confirms that through simultaneous provision of access to opportunities, finance and technical and managerial knowledge, SEZs can act as a policy development tool to SMMEs, allowing them to overcome important constraints. This case study provides policy implications on how to harness the role of SEZs as a tool for SMME development.

**Key Words:** Small medium and micro enterprises, Special Economic Zones, Industrial Zones, SMME development

## **1. Introduction**

Advancements in aerospace engineering made previously frequented stops at the small Irish town of Shannon unnecessary for transatlantic flights. The threat of economic collapse in Shannon motivated the idea of establishing what became known as the first formal implementation of a “Special Economic Zone” (SEZ) in 1959. The zone offered companies various tax exemptions to attract people back to a town that had little else to offer (Guangwen, 2003). The town recognized that they would have to “*pull the airplanes out of the sky*” (Guardian, 2016). Today, many countries implement SEZs to “*pull investments out of the sky*” and towards regions facing similar collapse. Despite their global popularity, currently estimated at 4,300 zones worldwide (World Bank, 2017), SEZ impacts are mixed with some successes, particularly in Asia and Latin America, and also disappointments, more commonly in Sub Saharan Africa (Douglas, 2016). The global implementation of SEZs has created increased interest in studying how “special” these zones are. But who, in fact, are they “special” for?

This research contributes to the literature by studying whether SEZs are “special” for the “Small, Medium and Micro Enterprise” (SMME) sector. It is based on the Coega SEZ in Port Elizabeth, South Africa. South Africa’s National 2030 Growth Plan highlights SEZs as a local economic development (LED) policy intended to motivate industrial investment for job creation, spillover impacts and eventually the growth of small enterprises associated with the zone (Luthuli & Houghton, 2015). The plan also focuses on “participatory methods, partnerships between local governments,

government initiatives and private sector organizations, to achieve sustainable LED capable of fostering the SMME sector (Houghton, 2016). The local context and focus on both SEZ and SME development contributes to the validity of the research topic. The research is part of a larger project on “Country Level Analysis of Special Economic Zones” initiated and funded by the World Bank’s Competitive Industries and Innovation Program.

SMMEs provide an approach to zoom in on the local spillover effects of SEZs. In economic theory, SMMEs are usually locally owned and employ a substantial amount of economically and socially vulnerable members of society (Rogerson, 2004). Both SEZs implementation and SMME development are seen as tools to alleviate large-scale unemployment (Farole and Akinci, 2011), and combining them potentially provide insights for the literature on both topics. The Coega SEZ can be used as a laboratory for LED policies allowing this research to potentially present a framework for SMME development strategies, tested out and assessed on a limited geographical location. Within this context, the research attempts to answer: “How does the Coega Zone help alleviate challenges commonly faced by the SMME sector in the surrounding region?”

The paper, a reduced form of a full thesis research study, is organized as follows: Section 2 highlights relevant SMME and SEZ theories, which shape the hypothesis being tested. Section 3 explains the methodology followed. Section 4 describes the findings while section 5 analyses their implications, in light of the discussed academic theories.

## **2. Literature Review**

### **a. Small, Medium and Micro Enterprises**

In South Africa, “Small, Medium and Micro Enterprises” are combined in one sector as the government recognizes their similar challenges. Common government bodies and initiatives are aimed at developing the sector. Locally defined, SMMEs includes a broad range of firms such as established traditional family businesses employing over a hundred people, much smaller enterprises in terms of size and even informal micro-enterprises (DTI, 2008). In South Africa specifically the sector is concentrated in the lower end, where survivalist enterprises are found (Berry, 2002). Examples include street trading enterprises, backyard manufacturing and services and occasional home-based jobs.

Academic literature portrays the importance of SMME development as a tool for sustainable local economic development policies. Ehtesham (2011) finds that overcoming issues of poverty, unemployment and inequality relies on SMME development, specifically in rural and lagging areas. SMME’s labour intensity, limited size and hierarchy structure ensure income stability for a large portion of the population and provide more equitable distribution of income in comparison to larger firms (Kayanula and Quartey, 2000). A substantial proportion of vulnerable members of society - poor, youth and women - are employed in such enterprises because the skills and from

an economic cycle perspective, small enterprises are also considered consumers who stimulate the business of their own suppliers (Berry et al., 2002). Through the dispersion of economic activities, SMMEs facilitate the distribution of wealth across industries. Locally owned firms are important in achieving self-sufficiency and sustainability and thus create economic resilience during recessions (SME Bank, 2009). It is therefore evident how developing the SMME sector promotes the local economy. The job creation potential and equitable income distribution of SMMEs position the sector as a pathway to wider socio-economic development goals (Cook and Nixon, 2000).

### **b. SMME Development**

Internal inefficiencies and business environments constrain result in SMME's contribution or presence to be well below its potential. This is linked to how markets and policies generally prioritize bigger firms. SMMEs also have fewer resources to fall back on when times are hard (EBRD, 2016). It is essential to implement accurate policies for the sector to achieve its potential.

Tsaobisi (2012) highlights how training on entrepreneurship, management and research on market information are vital for increasing the growth likelihood of an SMME. Assistance in loan requests and dealing with financial agencies also ensure SMMEs access to funds and credit. From another perspective, Rogerson (2001) criticizes the sustainability of micro-credit and purely financial SMME support. Credit is not always associated with technical innovation or enterprise specialization and not supported by a demand for the SMMEs' services. A more holistic approach, such as providing access to finance and entrepreneurship training as a package, is emphasized. ILO (2015) additionally mention social partners as important SMME support. They provide information, links to business matchmaking, guidance on accessing support services, links to research and consultancy resource and training schemes. Finally, evidence confirms that an enabling environment and a fair playing field, where competitiveness of SMMEs is heightened, are important for the development of SMMEs. This is achieved through the adoption of business regulation reforms and bureaucracy reductions, simplified registration requirements and differential labour regulations (ILO, 2015).

A more comprehensive approach, referred to as supply-chain management (SCM) is increasingly becoming popular in the literature. SCM is defined as enhancing the network of all parties either involved in the business supply chain, including the manufacturer, supplier, customer, retailer. The approach emphasizes managing the entire business process of an enterprise including the demand, sourcing, procurement, production and logistics provision (Chin et al., 2008). This is done by facilitating the distribution of products, finances and information and encouraging collaborations with channel partners (Melnyk et al., 2009). Implemented on SMMEs, SCM practices can help effect their organizational and operational performances (Koh et al., 2007). The process increases competitive advantage for an enterprise, through efficient use of its resources and faster response rates from its suppliers and customers. This allows it to

operate at lower costs and maintain greater profits (Christopher, 1992). SCM practices are found to increase an enterprises' flexibility, reduce its lead-time and inventory levels and improve its resource planning and forecasting (Li et al., 2006).

**c. Special Economic Zones**

On the other hand, SEZs are defined as geographically limited areas within a country where infrastructure and services are provided by a single management (Farole & Akinci, 2011). Different models of SEZs are currently implemented based on local conditions and the term has become variously used to cover types of zones such as free-trade, industrial development, export-processing and technology-development zones. Zones offer incentives, which lower business costs, to attract investors to develop their industries in the set locations. Incentives are either financial or non-financial.

<b>Financial Incentives</b>	<b>Non-Financial Incentives</b>
Tax free, Duty-Free business environment Exemption from import and export taxes Corporate and income tax-holidays Reduced tax rats (FIAS, 2008)	Access to domestic market Subsidized higher-quality infrastructure Fast-track services (Murray, n.d.)

SEZs attract foreign direct investment (FDI) to the economy and develop businesses by providing the opportunity to locate in areas with more liberal policies than the rest of the country (Moberg, 2015). Firms in SEZs benefit from less costly services and rents, the advantages of agglomeration, networking benefits and economies of scale (Porter, 2000)

Common reasons for implementing SEZs are FDI attraction, industrial and export activity creation, technology and knowledge transfer, job creation and creating experimental locations for new policy applications (Farole and Akinci, 2011; Fuller and Romer, 2012). Those aims thus support the link between SMMEs and SEZs. SMMEs are labour intensive while SEZs are built to alleviate unemployment. Also, SEZs can act as experimentation locations assessing effective of certain SMME development programs.

**d. Relation between SMMEs and SEZs**

Studies on SEZ spillover impacts and the effects of clustering on SMMEs have contributed as a starting point to outline the theoretical perspective of this research. First, one determinant of SMMEs survival outlook is proximity to growing markets (Rogerson, 2001). Firms that benefit from agglomeration externalities show higher growth likelihoods. Clustering allows SMMEs to break into new and growing markets, facilitated by the ability to meet the needs of their various clients operating within geographical proximity (Navickas & Malakauskaite, 2008). This contributes to overcoming market constraints. Otherwise Farole (2011) highlights that SMMEs could overcome financial constraints through obtaining finance by direct interactions with large firms in the SEZ. Also, SMMEs present inside or close to the zone benefit from its dynamic economic activity and cost cuts due to the establishment of economies of

scale (Navickas & Malakauskaite, 2008). Finally, SMME knowledge constraints can be overcome through knowledge spillovers within the SEZ through its competitive environment that is more supportive and demanding of innovation and technological advancement.

On the other hand, Farole (2011) highlights that since quality infrastructure and investor incentives inside SEZs are intended to attract large businesses, attracting local SMMEs into the zones is not a realistic objective on a large scale. Thus, developing effective links between local SMMEs and competitive firms inside the zone is essential. Examples of these links are facilitating business regulations and knowledge and technical trainings for local workers.

### **3. Methodology**

#### **a. Hypothesis and Contribution**

This research studies how SEZs impact the SMME sector, through the challenges that characterize the sector. It addresses the gap in the literature on the impact zones can have and their role as local economic development and policy implementation locations. The tested hypothesis, based on the literature, is that the SMME sector can benefit from SEZs by gaining access to market opportunities (Navickas & Malakauskaite, 2008), financing opportunities (Farole, 2011) and knowledge spillovers (Duarte et al., 2014).

However, the validity of the hypothesis depends on policies that the zone management sets in place as differences in global experiences signify. While the literature also highlights innovation, technical and cost-cutting advantages, it is unlikely that the qualitative nature of this research will be able to validate such topics.

#### **b. Case Study**

The case study of South Africa (SA) was motivated by two essential factors. Lingering spatial inequalities in the country (Turok, 2010) provide a propelling motivation for policy makers to focus on SMME development and the Coega Industrial Development Zone's commitment to SMME development provide a unique case study allowing the relation between zones and SMMEs to be analyzed.

#### **c. Framework**

The main research question: "How does the Coega Zone help alleviate the challenges faced by the SMME sector?" generated three subsequent questions:

- 1) *What are the challenges that SMMEs face in the region?*
- 2) *What are the programs/policies implemented by the zone that SMMEs can access?*
- 3) *What impact do they have on the SMMEs themselves?*

For questions (1) & (2), document analysis was conducted. The "World Bank Enterprise Survey" and various studies on the South African economy (DTI, 2003; SEDA, 2016) outline the challenges that SMMEs generally face. The documents were used to outline the questionnaire, and the interviews with various stakeholders.

www.meaconf.org, policy documents regarding policies undertaken by the Coega IDZ  
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(Integrated Report 2016, 2017; CDC Roadshow, 2016) and national and local governments (Economic Development Department, 2000), newspaper articles, and interviews with employees or managers in SMME development or financing units in Coega were able to contribute in gathering insight about the second sub-question. For (3), the main core of the analysis came from the interviews gathered.

Semi-structured interviews were done during a field-research trip undertaken in June 2018. Different stakeholders were interviewed: 10 SMMEs operating in Port Elizabeth interacting with the zone, 3 Enterprise Development Units which help identify the challenges that SMMEs in Port Elizabeth, specifically, and South Africa, generally, face. Additionally, 4 employees either managing or working in the SMME development units of Coega were able to contribute insight regarding the development programs, their actual implementation and the dynamics of the SMME interactions. Additionally, 12 interviews were conducted with larger tenants located in the zone.

#### **4. Findings**

##### **a. Challenges faced by the SMMEs**

In terms of the major challenges, 60% of the respondents mentioned both *access to finance* and *access to opportunities* as constraints. As confirmed by the literature, SMMEs are viewed as high-risk borrowers due to their low capitalization, insufficient assets, high mortality rates and managers' inexperience with preparing adequate financial and accounting statements and business plans. Commercial banks, thus, do not see SMME financing as a profitable business (ASEAN, 2016). SMMEs typically rely on personal resources, as well as families and friends, to ensure the adequate money during the start-up phase of the business (Allen et al., 2012). An EBRD report (2016) additionally highlights how issues of aligning to accounting standards affect SMMEs disproportionately, adding to the perception of the enterprises as riskier investments that financial institutions tend to avoid. SEDA (2016) recognizes that access to opportunities is a two-fold issue in the case of SMMEs. First, it is a hassle to find the right customers for any product or service. Second, access to markets is a fundamental requirement by credit providers in order to make the SMMEs eligible for funding and mentorship at early stages. Moreover, firms also mentioned *lack of business management skills* (50%) and *lack of experience and technical know-how* (45%). This has led the SMMEs to enter sectors and businesses they do not understand without doing the proper research for it or acquiring the specific expertise to prosper in it. Also, 45% of the respondents mentioned *not being able to compete with bigger firms* in tendering opportunities.

Other constraints mentioned in the literature, regarding the South African SMME sector, although not directly mentioned by the interviewees are lack of educated workforce, tough labour regulations, lack of access to land and necessary capital (Enterprise Surveys, 2007). Considering that the SMME economy is a highly volatile one, most high-skilled workers are usually captured by larger and more established firms. Also, national labour regulations often serve the interest of large firms and disregard the needs of smaller ones.

### **b. Coega policies**

Understanding its responsibilities for local development and thus SMME development, the Coega IDZ has implemented multiple SMME specific policies and initiatives.

SMME Development Unit: Coega's SMME Development Unit focuses on placing adequate policies and programs for SMMEs. As of 2013, it has set a compulsory target of 35% participation by SMMEs throughout contracts that the Coega provides. The target has been annually increased and achieved since then. SMMEs are required to sign up to a database and provide the adequate documentation to confirm their compliance and validity. When tendering opportunities exist, the database links the opportunities with the valid SMMEs in an attempt to not create any bias and give all SMMEs a fair chance. Amongst the type of subcontractors that go through the procurement process are construction SMMEs, SMMEs that provide day-to-day cleaning, equipment and stationary type of services and security services.

The unit has also launched BEESIP, Black Economic Empowerment (BEE) Scorecard Improvement Program, to help black-owned enterprises work on the necessary document and programs to improve their BEE status levels. This certification, based on a government initiative to economically empower "Previously Disadvantaged Individuals", allows smaller companies a competitive advantage when bidding for both public and private sector jobs. Policies are put in place to ensure that tendered contracts are prioritized to SMMEs with a certain BEE score. The Unit has been successful in empowering 600 companies to benefit from the BEE Certificate (CDC, 2017).

Small Business Finance & Support Unit: After establishing an adequate system to provide work for the SMMEs, the CDC realized additional problems unanswered by their support scheme. SMMEs face long turnaround times for their applications to banks and other financial institutions. This resulted in the delay in certain projects and failure to provide initial project material and pay labour on time (CDC, 2017).

The CDC established the "Small Business Finance and Support" (SBFS) unit in 2015 which provides both financial and strategic support to SMMEs who were successful in procuring projects by the zone. The funding mechanism ensures secured funding to those who need it the most. The support offered is based on the demands of each project, its duration, expected expenditure and revenues (CDC Roadshow, 2016). The managers in the SBFS are construction engineers who have business experience. Weekly visits to the sites where SMMEs have projects help keep up with how money is being spent, and guide the SMMEs to make more informed decisions in their operations. Since the SBFS is a subsidiary of and owned by the CDC, the unique relationship allows the SBFS to not take collateral and attach people's property for them to access loans from SBFS. Types of loans offered are: bridging finance loans (for the primary material needed for construction related projects), order finance loans (for SMMEs providing non-construction services to the CDC) and revolving facility loans (for the SMMEs providing ongoing services to the CDC). (CDC Roadshow, 2016). To

date, the SBS has been able to fund 76 sub-contractors, 39% of which are female entrepreneurs and 22% are youth.

Both units provide direct mentoring to the SMME employees. In small enterprises, management and technical experience is personified in the labourers (Rogerson, 2001).

### c. SMME – SEZ Linkages

The findings confirm that the support offered by Coega has enabled the SMMEs to overcome some of their most striking challenges, particularly in gaining market opportunities, financing, adequate skills and becoming more competitive in their industries.

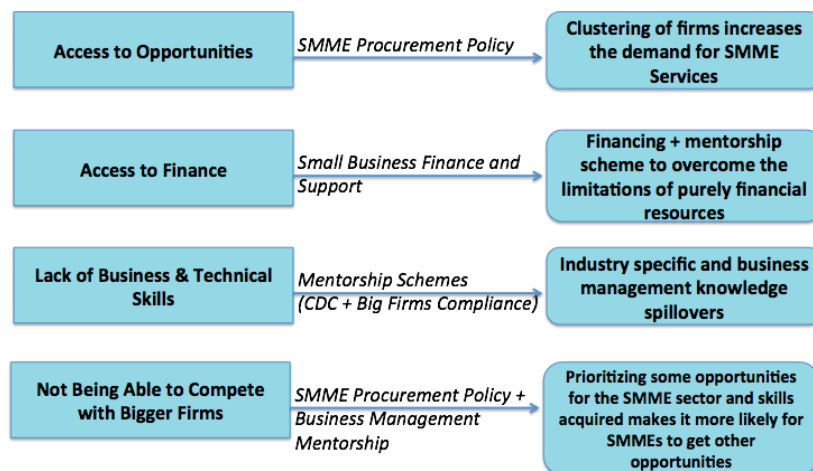


Figure 1: How Coega Policies Impact Various SMME challenges

All SMMEs highlighted the importance of the Coega policy in maintaining spending for SMMEs to overcome market constraints. The importance of this policy comes with the reality that even when tendering opportunities exist, *“as a new SMME you would not be trusted or granted the opportunity. This policy and Coega brings the opportunities to us (SMME Interviewee).”* Before projects are allocated to someone outside the area, Coega focuses on finding suitable enterprises to complete projects locally. Only when that is not possible, do they allow the opportunity to go elsewhere. The projects awarded by Coega allows the employment of extra labour in each firm.

On the topic of access to finance, the presence of the SBFS institution helped SMMEs overcome the fact that: *“Banks do not trust our weak credit record and us not having an account before” (SMME Interviewee)*. It is easier for SBFS to fund the proposal because they know the project that SMMEs are handed and are capable of supervising its completion. *“SBFS analyzes our proposal and after accepting it, make sure we stay compliant at all times. The weekly visits to the site go a long way helping us stay on track. (SMME Interviewee)”*. Financial support was spent on running costs of the projects, materials needed and labour wages. Indirectly, Coega support help SMMEs have better relationship with suppliers. Big material suppliers do not usually give young SMMEs material on credit. As businesses grow, it is essential for them to build credit with suppliers and this is dependent on the availability of work in the first place.



SBFS offers SMMEs both finances for their earlier projects and contacts to start their records. The established connection with suppliers makes it more probable that suppliers will lend future material on credit, now that they trust the SMME.

On the topic of business and technical skills, Coega's mentorship and support schemes insured SMMEs were able to finalize projects in a timely and efficient manner, gaining reputation in the market. *"On my first project with Coega, I had a mentor who I remained with close contact with for more than 3 years. Now, I can independently run my own business. Coega's method of helping SMMEs develop skills is more of advice giving rather than formal training. Both are equally important. (SMME Interviewee)"* Many interviewees highlighted how the weekly visits and discussions from the employees within both SBFS and the SMME development unit, *"keep them on their feet"*. The skills acquired, mentioned by the interviewees, were managing budgets, finalizing needed paperwork, staying compliant with CIDB regulations and big firms' demands, completing the South African Revenue Services tax returns, working in large groups and maintaining a mutually beneficial relationship with firms they're tendering for.

Finally, Coega policies we able to make SMMEs more competitive within the market. Where tendering opportunities exist, an SMME is likely to face disadvantages competing against more established bigger firms. Coega actively pursues giving the SMMEs access to tendering projects, which eventually make them more competitive against larger firms, more likely to gain access to their own opportunities later and to trust themselves to complete them. Results are especially evident when documented properly, which the Coega assists with. The good reputation of Coega also makes firms look more reliable, as they acquire the proper experience and training through their contacts with them.

## **5. Analysis**

### **a. Discussion**

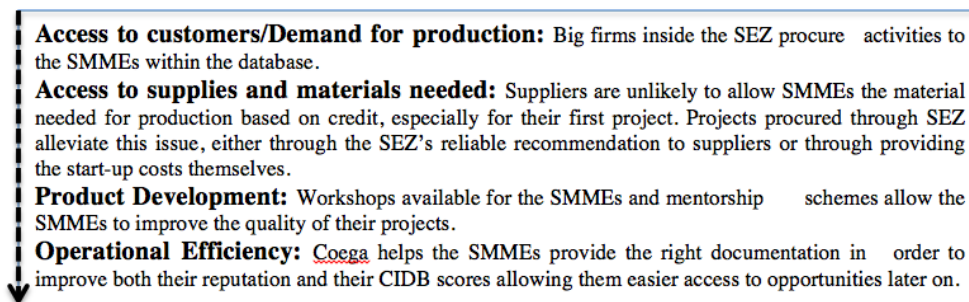
While agglomeration forces were capable of creating higher demand for products, the policy of specifying demand towards SMMEs played a substantial role in ensuring the demand remains local and is not overtaken by already established and bigger firms.

Coega's approach began its SMME development strategy through specifying their focus on the sub-sectors, which the IDZ has the highest demand for and potential to help. Although this is based on the SEZ currently lacking the expertise to develop SMMEs in other industries, the approach makes the SMME development impact more efficient and accurate.

This research does not validate Farole's (2011) discussion of how SMMEs can access financing opportunities through firms present inside the zone. Although firms pay the SMMEs for their services, stable financial support comes rather from the zone operators who developed an approach for SMMEs to request financing prior to the accomplishment of projects. Rogerson's (2001) criticisms towards the limitations of

financial support seem to be both validated and overcome. As the SMMEs mentioned, business management skills they acquire, increase in BEE grading, profit they make and the knowledge on how best to reinvest it, alleviate the skepticism on the sustainability of the financial support. Also, the SBFS offer the financial support for the SMME only after the IDZ already grants a tendering opportunity, therefore ensuring that access to market and the demand for products already exist. Finally, although mentoring and training may not automatically result in innovation efforts by the SMMEs, it can be said that the IDZ takes hands-on initiatives to unlock the innovative capacity of SMMEs.

The hypothesis of this research was confirmed. The findings imply an additional perspective on the role of SEZs in SMME development. The SEZ was able to act as a social partner providing support services, training schemes and links to financial institutions. Most relevant was the SEZ's role in implementing a value-chain development scheme facilitating both the demand for SMME production and SMMEs' access to needed supplies, capital and infrastructure (Koh et al., 2007).



**Access to customers/Demand for production:** Big firms inside the SEZ procure activities to the SMMEs within the database.

**Access to supplies and materials needed:** Suppliers are unlikely to allow SMMEs the material needed for production based on credit, especially for their first project. Projects procured through SEZ alleviate this issue, either through the SEZ's reliable recommendation to suppliers or through providing the start-up costs themselves.

**Product Development:** Workshops available for the SMMEs and mentorship schemes allow the SMMEs to improve the quality of their projects.

**Operational Efficiency:** Coega helps the SMMEs provide the right documentation in order to improve both their reputation and their CIDB scores allowing them easier access to opportunities later on.

Figure 2: SMME apply Chain Development through a SEZ perspective

This framework methodologically presents the findings and portrays how SEZs have a unique ability to implement value-chain development schemes, facilitating the hassles that SMMEs could face, at multiple points of the business cycle. This also confirms SEZ's ability to provide an enabling environment, where high levels of competition do not disadvantage SMMEs. However, the portrayed results were not automatic or immediate. They required a series of established policies that the zone managers had to implement. This reaffirms that SEZs are more naturally tailored towards larger firms (Farole, 2011) and if the adequate policies are not adhered to, the spillover potential to SMME development won't be achieved.

#### b. Weaknesses and Recommendations

The considerable budgets spent on both SMME and SEZ policies demand organizations to develop periodical analysis of the enabling environment they intend to create. Strategy reviews, impact assessments and mechanisms to provide constant feedback from small and large firms should be implemented to monitor and develop strategies.

Moreover, as an economy becomes increasingly more successful in achieving the survival of its small enterprises, the focus should turn into changing the "miracle of survival into a miracle of growth" (Steel, 1994). It is thus important to note that as the SEZ grows and changes its operational strategy, its policies need to adapt as well.

Aggarwal (2007, p.15) describes that SEZs go through a life-cycle. At the start, SEZs are dominated by a low-skilled and labour intensive sector and its impact is unemployment alleviation and opportunities out of poverty for the local population, specifically those at the lower end of the income distribution. Arguably, Coega IDZ has been able to establish the adequate SMME-SEZ linkages at this phase. This is both due to the abundance of the low-skilled workers in neighboring regions and the SEZ still being in its initial phases. Based on the increase in the number of tenants yearly and the fact that the first 10 years of the IDZ's operations were largely based on setting up the right infrastructure and policies in place, it can be argued that the SEZ is still in its early cycles. This is reflected by the big demand for construction-type services. During the second and later stages, more sophisticated technologies and labour processes arise increasing demand for complex skills. As the zone progresses, SMMEs should upgrade their abilities to accommodate the new SEZ cycle, while the CDC should recognize adequate policies to ensure that the SMME skills will match their own demand. Imminently, the sustainability of the SEZ-SMME linkages will highly depend on the ability to turn the approach into one that develops SMME entrepreneurial and innovative capacities.

### **c. General Policy Implications**

In qualitative research, the generalization of a case study can be done with less confidence than otherwise, due to the lack of empirical testing. Nevertheless, the role of the IDZ as an experimental location allows the Coega IDZ experience to present beneficial implications on SEZ and SMME development programs. Although South Africa places particular focus on SMME empowerment, the significance of SMMEs is global. With the increased global attention on SEZ creation, the applicability and importance of establishing linkages between SEZs and SMMEs is evident.

*SEZ Perspective:* The research validates that SEZs contribute to local economic development specifically through spillover effects allowing SMMEs to overcome challenges they face. However, the presence of firms inside a zone does not automatically create those effects. Thus, zone operators should cooperate with local policy makers to

- Establish SMME policies that match the local context, in terms of strengths, limitations and relevant challenges of the SMME sector
- Integrate SEZ policies within a national policy framework to strengthen local spillovers

*SMME Perspective:* The research confirms that SMME development is possible through integration within an SEZ framework. Nevertheless, the degree of variability in the SMME sector presents the need for local policy-makers and SEZ regulators, to

- Define the financial, managerial or other location and sector-specific constraints that the SMMEs may face
- Establish holistic policy approach matching both SMME and SEZ characteristics

This research contributes to understanding how SEZs can develop the SMME sector through alleviating the challenges SMMEs generally face. Document analysis and conducted interviews allowed the understanding of the challenges that the SMMEs in South Africa generally face, the type of support programs and SMME linkages offered by the SEZ, and their contributions to alleviating SMME challenges.

The findings affirm the hypothesis that clustering increases the demand for local products and services, providing more opportunities, which through CDC regulations, are ensured to reach the SMME sector. Additional, Coega IDZ policies facilitate financing opportunities for SMMEs through direct funding, mentoring schemes and workshops. In that comprehensive scenario, the challenges of access to opportunities, finance and managerial and technical know-how, commonly faced by SMMEs, are overcome. The research furthermore portrays the role of SEZs in providing room for SMME growth through its services and infrastructure, creating both an enabling environment where SMMEs are not disadvantaged by larger corporations and a comprehensive development approach targeting all market players in the SMME supply chain.

The research concludes that SEZs, through local linkages, play a substantial large role in supporting SMMEs to overcome their particular challenges. This provides evidence for the role of SEZs as effective local economic development policies. SMME development is not, however, an automatic result of SEZ establishment. Implementing the right policies, which consider the local environment, strength and characteristics of the SMME and the SEZ sector, is essential. Although the research concludes by highlighting some policy implications for SMME development and SEZ implementation, progress to validate these implications can be made by conducting more quantitative evaluation of SMME-SEZ policies through comparing the costs with the economic and social benefits. Other complementary studies may focus on how different types of SEZs, or even different phases of the same zone, can contribute to developing the local SMME sector.

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