Supporting Township Microenterprises:

Lessons for Business Development Practitioners
CONTENTS

1. Introduction
2. The Sustainable Livelihoods Foundation
3. What are the guidelines about?
4. Formalising Microenterprises
5. Considerations for development in the township economy
   5.1 Know the business environment and markets
   5.2 Where businesses operate is important (dynamics of space and time)
   5.3 Understand local business culture
   5.4 Choose participants wisely
   5.5 Reflexive business models
   5.6 Work with partners
   5.7 Informal does not equal unsuccessful
   5.8 Cooperatives
   5.9 Communication
   5.10 Monitoring and Evaluation

R50 broiler chickens — traded on the pavement to serve consumer demand for fresh meat.
1. INTRODUCTION

The Sustainable Livelihoods Foundation (SLF) seeks to contribute towards the improvement of livelihoods among marginalised and vulnerable communities. SLF aims to achieve progressive change through actions in three areas:

I. **Improving policies and livelihoods programmes by undertaking evidence based research.**

II. **Engaging and interacting with communities to understand their needs and recognize their solutions.**

III. **Supporting appropriate and adaptable innovations (including policy led innovations) to strengthen human resilience.**

Previous research suggests that there exists a small but important layer of informal enterprises within the South African economy – thought to reflect 10% of the scale of the formal economy. However, little is known of these businesses or the factors that foster or inhibit enterprise development within the sector. There is at best rudimentary knowledge of the scope and scale of the informal economy and its associated financial and social impacts.

*Street trade in Ivory Park (Johannesburg) is a common example of survivalist businesses and how they play a role in supplementing household income.*
Yet, within South Africa’s rapidly sprawling urban and peri-urban township settlements of shacks and houses, literally hundreds of thousands of diverse independent economic activities and businesses – such as grocery retailers, street braaiers, and welders – have emerged. Most of these are considered to be informal microenterprises and they form a key economic development opportunity. Informal microenterprises are legally considered to be extremely small businesses which characteristically employ fewer than five persons, have capital assets of less than R100 000, operate informally and outside of regulatory frameworks. Many operate extra-legally, though the great majority trade legally manufactured products obtained from the formal economy.

SLF research of over 10,000 of these township informal microenterprises in 9 townships in four provinces revealed not only the diversity of these businesses but an average time in business of over four years, with nearly 60% of microenterprises surviving over a five year period. This considerable enterprise sustainability is worthy of development practitioner attention and investment. As such SLF encourages donor, private investor and state development interventions to support the maintenance, growth, transition to formality and job creation capacity of these important business enterprises.

This document provides a range of broad considerations for development practitioners based on SLF’s learning from five years of township business research including small area microenterprise censuses, value chain studies, macro-economic data analysis, spatial studies, and monitoring and evaluation of various township business activities.
2. THE SUSTAINABLE LIVELIHOODS FOUNDATION

The Sustainable Livelihoods Foundation (NPC) was founded in 2010, when a group of likeminded academics, professionals and thinkers came together with a sense of wanting to bring about effective development change through combining strong empirical research and knowledge, genuine community engagement and innovative development practice to tackle issues of important economic and social development in South Africa.

Combined with the prior consultancy and academic experience held by the directors, the data collected from SLF research has opened the gateway to create increasing dialogue on matters of local importance in the development discourse. This included developing numerous academic publications and a range of public presentations held directly with policy-makers, corporate business and the general public. These were designed to share the empirical findings of our research such as the failure of national, provincial and local policy and practice in resolving matters linked to informality in the emerging cities of the township economy. This research led to broadening our mandate and a range of spin-off programmes which are reflected in each of the thematic areas we work in:

- Informality,
- Ecology & Society,
- Health Participation,
- Citizen Action, and
- Enabling Youth.

Our approach has seen the organisation present at a range of local, regional, national and international forums, engage directly at the highest levels of South African government (including the South African Minister of Finance, various Premiers and provincial government officials) and win a range of national and international awards for our achievements.

Today, SLF is a leading national think-tank and engagement organisation grappling with the issues of poverty and wellbeing in emerging cities. We place special focus on working in urban townships because of the growing role and significance of these localities.
3. FORMALISING MICROENTERPRISES

Foremost in SLF’s research work has been the Formalising Informal Micro-Enterprises (FIME) project. The overarching aim of FIME is to establish an evidence platform to make the case for entrepreneurial investment in informal businesses and the informal economy, shape microenterprise strategies to enhance their competitiveness, and influence government policies to best support the growth of informal microenterprises for their incorporation within South Africa’s formal economy.

In order to influence policy-makers as well as business leaders to bring about change in attitudes and approaches towards the informal economy, the FIME project generates ongoing knowledge on the informal economy and disseminates this learning to a range of policy, private sector and development audiences, and hence this document. The project responds to the lack of information about the South African informal economy, in particular under-reporting on the scale of informal activities and misunderstandings on informal business dynamics.

4. WHAT ARE THE GUIDELINES ABOUT?

This document provides economic development considerations which are based on a thorough overview of the reality of microentrepreneurship in South Africa’s informal economy including the spatial layout of businesses, the nature of business practice, the threats and opportunities faced by informal economy participants, and the policy, legislative and town planning options and impacts. With this knowledge users can more effectively work towards implementation of successful entrepreneurial investment projects in informal businesses, and support the growth of microenterprises and their eventual incorporation into South Africa’s formal economy.

Micro manufacturers have potential to expand and employ artisans, but their activities, combined with their commonly street based location can threaten occupational and public safety.
5. CONSIDERATIONS FOR DEVELOPMENT IN THE TOWNSHIP ECONOMY

Achieving excellence in grass roots economic development is an enormous undertaking beset with issues of minimal resourcing, commonly mismatched expectations and project sustainability challenges. Through presenting a range of broad learning a number of important lessons for economic development are presented.

5.1 Know the business environment and markets

Distribution of microenterprises by enterprise category
Delft South and Eindhoven, September 2015
In the SLF’s nine township research sites (comprising a population of 450,000 residents) we identified over 3,500 informal economy businesses in 30 diverse categories of business – including agriculture, taxi enterprises, food takeaways, butcheries, accommodation rental and liquor retailing.

The eight (8) most prominent businesses, in order of magnitude, were:

- liquor retailers/shebeens
- spaza (grocery) shops
- house shops (selling smaller range of items, notably chips, sweets, cool drinks, cigarettes and frozen meat)
- hair salons/barber shops
- food takeaways
- businesses undertaking mechanical and electrical repairs
- educares/chrèches
- traditional healers

Interestingly the liquor, grocery and food service economy is a critical driving force of township business – representing 54% of all township informal microenterprises nationwide. These enterprises serve local markets and represent an important opportunity for local economic development. Virtually none of these businesses were donor or state supported - all survive on the basis of latent local demand. Despite considerable change in these sectors through the advent of supermarkets, foreign national traders and other factors, the liquor, grocery and foodservice economy remain key sectors of activity.

**Consideration #1:**

Potential development interventions should consider local business themes. New, untested ideas from outside the existing local business and cultural frameworks present a high risk of failure for lack of economic sustainability.
5.2 Where and when businesses operate is important (dynamics of space and time)

The research revealed that certain retail businesses (i.e. spaza shops and shebeens) were spatially located within the heart of the residential areas, and that their distribution is remarkably even.

Some businesses such as spaza shops are little influenced by infrastructure, high streets or major secondary streets. The independent, scattered positioning of these businesses reveals the existence of highly localised forces of demand, with the businesses responding through provision of services in close walking distance to the people’s homes.

Conversely some businesses benefit from clustering, including traditional medicine, fast food takeaways, car washes and street traders. Such clustering creates specialised marketplaces and can draw specific customers for related services.

Distribution of spaza shops in Thabong (Free State), October 2015.

Consideration #2: Consider where businesses operate and what that means for their economic viability.
5.3 Understand local business culture

How business is operated must be clearly understood. Matters such as price competition between competing businesses have been largely historically absent from the township setting. Conversely evidence points to ‘gentlemen’s agreements’ on avoiding price wars to eliminate competition.

Operating hours are commonly not 40 hours per week. Many enterprises only trade at night time, the weekends, week-ends and month-ends. A good example is foodservice businesses and takeaways which are commonly operated by women with dependent children who (when considering costs of transport to workplaces in the suburbs and childcare fees) are financially better off operating these microenterprises. Similarly shebeens display little sign of business life from Monday to Thursday, trading their highest volumes from Friday to Sunday. For enterprises focused on food and drink the weekend township “leisure economy” is of high local importance.

Much business occurs within specific niches. Such niches may include age groups, cultural nuances, and product types.

**Consideration #3:**

Local context is key and systematic in its own way. Western approaches commonly miss the nuance in which the business environment works.

Informal foodservice is a widespread economic activity and business choice for females with dependents because of the practical flexibility such enterprises offer.
5.4 Choose participants wisely

Economic development commonly involves working with people through activities such as training, technology, logistics or funding. Our research has revealed that the best suited participants for economic development intervention in the community do not come from the ranks of the unemployed but from formal sector employment – many of whom start businesses by testing out local markets with proceeds from their day-jobs. Building on the successes and experiences of such individuals poses an important development opportunity for these are the enterprises that will create employment and growth prospects in the heart of the emerging city.

The majority of township entrepreneurs in the SLF research previously held jobs in the formal sector and made rational decisions to enter the world of business. It is wise to consider that the entrepreneurs of tomorrow, are effectively the employees of today. Employees learn important disciplines of time management, work responsibilities and accountability which are critical in their later entrepreneurial ventures. Conversely choosing development beneficiaries from the ranks of the chronically unemployed (who likely reflect self-selected non-entrepreneurs) is extremely unlikely to bring about success.

Note that even when selecting candidates wisely for your planned intervention, accept that not all will succeed in the chosen venture. Realistically many may fail. Many others, using the tools learned from your
intervention may end up finding alternative economic opportunities elsewhere (this in itself is a success in the broader strategy of enhancing economic activity).

**Consideration #4:**

Choose your participants carefully. Work with existing informal businesses with a track record of entrepreneurship or those with a formal employment record. Those who claim to want to run a business are very different to those who are doing so already.

### 5.5 Reflexive business models

A development intervention is necessarily about people. However it is critically important that business strategy and operational systems are devised that are pragmatic and reflexive. Developing readily applicable systems and easily adaptable products that meet consumer needs are the kinds of activities that can gain traction in the township context. Similarly over-reliance on static and non-dynamic business arrangements commonly lead to project failure *(see section on Cooperatives).*

The project approach should be simple and clearly understood, especially by participants. Development practitioners must not carry completely pre-conceived ideas of what they believe will work. Be prepared to learn from participants’ experiences and adapt strategies accordingly for the project to be relevant, vibrant and sustainable.

**Consideration #5:**

Township economic development requires business models that reflect the lived reality and that can show sustainability beyond the life of the capital investment.
5.6 Work with strategic partners

Every economic development project requires strategic partners – whether it is other businesses, corporates, civil society or state sectors. Partnerships can bring strength, e.g. local municipalities can support with zoning, utilities and infrastructure; the corporate sector can link investment and logistics support; civil society provide training. However it is critical that there is clarity on the roles, responsibilities and deliverables required, including clear contracts with terms and conditions.

Clear time frames for commitments must be established. Community and political buy-in can also be necessary to ensure that the purpose of the project is clearly understood and embraced.

Consideration #6:
Partnerships assist in integrating projects into the mainstream. Be sure all partners clearly commit and action their supporting roles.

5.7 Informal does not equal unsuccessful

Many informal microenterprises have made important discretionary choices to operate in the way they do. The process of formalisation, through legal and financial regularization of microenterprises into the tax, permit and banking system - whilst important - should not be considered the only way to judge development success. In fact, in some cases “progress” towards business formalisation should not be used to judge businesses at all.

Consideration #7:
Formalisation is important, but not the only consideration for business success.

Some of the more successful businesses in the township are commonly not obvious to the naked eye. This coffin manufacturing enterprise was located within a residential house.
5.8 Cooperatives

Many government and industry led economic development programmes drive participants to form legal cooperatives. Our experience in the field has taught us that legal cooperatives have a high failure rate – mainly due to peoples’ unwillingness to share legal liability and low levels of interpersonal trust in the township setting (over 90% of all township microenterprises are single operator businesses). Recent findings in informal recycling economies revealed a 92% failure rate for such legal entities.

Conversely, organically emerged informal cooperatives have been a resounding success, e.g. stokvels formed by groups of women for a specific cause (saving money, buying festive groceries, saving for school fees, etc.). This relates to financial models and organic interpersonal relationships formed and relevant to local conditions.

The majority of South African entrepreneurs prefer doing business with close family members (spouses, siblings, children, relatives) under their own terms of reference as compared to bringing in outsiders.

Consideration #8:

Enforced co-operation among beneficiaries has a high rate of failure. Allow participants to work among networks they are comfortable with in order to expand their businesses.

5.9 Communication

Enhance means of communication within and between project partners. Communication must be regular and compulsory communication forums be established (meetings, updates/reports, etc.)

Many initiatives struggle due to lack of communication about project progress. Partners actively involved in the field should communicate on a regular basis.
**Consideration #9:**

Keep lines of communication open at all times and among all stakeholders, especially on the progress of the project. Communicate obstacles early and work together to overcome them.

---

### 5.10 Monitoring & Evaluation

M&E is important to all stakeholders because it:

- Provides the only consolidated source of information showcasing project progress;
- Allows all roleplayers to learn from each other’s experiences, building on expertise and knowledge;
- Generates (written) reports that contribute to transparency and accountability, and allows for lessons to be shared more easily;
- Reveals mistakes and offers paths for learning and improvements;
- Provides a basis for questioning and testing assumptions;
- Provides a means for agencies seeking to learn from their experiences and to incorporate them into policy and practice;
- Provides a way to assess the crucial link between implementers and beneficiaries on the ground and decision-makers;
- Adds to the retention and development of institutional memory;
- Provides a more robust basis for raising funds and influencing policy.

---

**Consideration #10:**

Maintain on-going M&E that is critical to assess the project prospects, value for money and gaining learning.
At the Sustainable Livelihoods Foundation, our mission is to enhance possibilities for the realisation of human potential in the emergent city. Our vision is one of a future of inclusive, thriving urban communities.