ADDING VALUE:
Informal metal work micro-enterprises
in Cape Town townships
Adding Value: Informal Metal Work Enterprises in Cape Town Townships

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PREFACE

The Sustainable Livelihoods Foundation seeks to contribute towards the improvement of livelihoods in poor communities. We support the emergence and growth of micro-enterprises. Enterprise development, however, remains hindered by a range of constraints such as crime, skills shortages, and absence of affordable finance. An important obstacle in many small businesses is the policy environment, which presents constraints through barriers such as regulation (and also, in certain cases, the absence of regulation), land use rights and trading restrictions. In order to understand these challenges and provide much needed insights on the informal sector, the Foundation initiated a research and policy engagement project, known as the Formalising Informal Micro-enterprises (FIME) project. The project rationale was not to promote business formalisation in a narrow legalistic sense, but rather through advocating a developmental approach the project has sought to identify ways in which micro-enterprises can be better accommodated within a more inclusive economy.

Under the FIME project, SLF has undertaken extensive field research in 8 township communities across South Africa. We have also supported and undertaken research into newly emerging sites of informal businesses, including various residential locations and sites within the township street environment. The current document seeks to advance our knowledge of these ‘emergent’ spaces in informal manufacturing with particular focus on the metal work (includes welding, metal fabrication, and tinsmithing) industry in townships. Although small in scale compared to informal foodservice or liquor trading, the informal metalwork sector is an important revenue generator for township economies in Cape Town. The trade has attracted a varying range of entrepreneurs, who produce a range of products based on formally and informally attained skills.

The purpose of this study was to gain a stronger understanding of the landscape of informal metalwork through a value chain assessment in order to identify effective management and policy interventions to allow for these enterprises to reach their full potential.
1. INTRODUCTION

The informal economy is an important contributor to South Africa's total economy and supports many livelihoods. The Sustainable Livelihoods Foundation (SLF) has extensively researched the scale and scope of the informal economy (also known as the township economy), within South Africa, since 2010. This research includes an ongoing census of township microenterprises across South Africa, which indicates that micro-enterprises have grown organically (without external support), have continuing local demand and act as an incubator for entrepreneurship (Charman et al., 2015).

The varieties of micro-enterprises that shape the South African informal economy include liquor retailers, spaza shops, hair salons, educarees, street traders, traditional healers and micro-manufacturers. There is very little research that has been conducted on these micro-manufacturing enterprises (MME's) in South Africa and therefore gaps in knowledge exist as to the size and contribution to employment and economy.

One of the types of micro-manufacturing is informal metalwork and SLF research into the township economy demonstrates that in general, metalwork plays a small but important role in terms of its potential to create employment, localized value-adding and support of local enterprise. Formal metalwork manufacturing contributes to a third of all manufacturing activity in South Africa (DTI, 2005:18). This large size significantly impacts on the informal metal work manufacturing industry as it provides the raw materials through prominent supply chains of new and recycled metal inputs. Despite this potential supply advantage, a study on the metal working sector of micro manufacturing in SOWETO indicated that MME’s within SOWETO show the lack of ability to expand their business because of a dearth in motivation and drive, appropriate infrastructure, and organizational and technical skills (Nobanda 1998). Research of survivalist enterprises in Limpopo also indicates the need for training and skills development to aid growth (Chauke 2015).

This study aims to explore a value chain assessment of the informal metalwork micro manufacturing sector of Cape Town’s townships and highlight potential policy and management interventions that could be implemented for the industry, which may bring about enhanced opportunities for these enterprises.

2. Technical Note on Informal micro-manufacturing

The micro-manufacturing sector includes activities such as woodwork, metal work, textile cut-make and trim activities. The sub-sector of informal micro manufacturing enterprises (MME’s) is prominent in many developing countries contributing to the growth in practical skill sets. Research into the Egypt MME sector indicated that substantial upfront state or private sector investment in MME’s would enable more job opportunities than investing this same amount in larger manufacturing enterprises (Hefnawy, 2006) for whilst the number of employees within these MME’s is small, they support a proliferation of linked enterprises.

The issues facing some of these MME’s and in some cases the reasons for their informality transcend the issues of solely poverty and unemployment but also include institutional barriers (such as regulation, taxation and private property), inability to compete with globalization, inadequate/competitive technology and infrastructure and a lack of skills. For MME’s, most skills are learnt with training through
apprenticeships, inherited experience and formal technical education. Research on MME’s in SOWETO indicated their lack of skills (only 10% have formal training) and consequent inability to expand to their full potential (Nobanda 1998). Further, some enterprises struggled with high levels of financial indebtedness. In the study of Egyptian MME’s, fifty nine per cent claimed that their lack of knowledge on marketing and finance is their main business challenge (Hefnawy, 2006). Additionally the study found MME’s would only be able to reach their full potential once their networks and work cooperation was enhanced in order to collectively strengthen the enterprises and relieve them of unnecessary burdens (Hefnawy, 2006).

In order to mitigate this a strategy of clustering alike sectors of micro manufacturing could be adopted (Hefnawy 2006). Cluster organization has a positive effect on the industry, as they become loci of ideas and support each other through product procurement, customers and skills. A cluster can be defined as a concentration of enterprises that are linked geographically and sectorally producing related goods to be sold and encounter the same adversities and opportunities (Nadvi 1995). In fact, evidence has shown that these large clusters of MME’s can be more competitive than larger industries due to their flexibility and responsiveness (Hefnawy, 2006). For example, instead of MME’s purchasing raw material individually it would be more resourceful and beneficial to co-ordinate and procure with other like-enterprises to ease and increase the access to raw materials.

Examples of well-documented clusters in developing countries include the Sinos Valley shoe cluster in Brazil and the surgical instruments cluster in Sialkot, Pakistan (McCormick 1999). In Africa, cluster sector-specific enterprises do occur such as in Nairobi, Kenya, there is a cluster of informal-sector artisans called the Jua Kali, where around 300 enterprises (approximately 5,000 individuals) are involved with 150 metalwork MMEs. The metalwork enterprises in particular have been one of the principal-MME sectors since Kenyan independence in 1963.

Within the informal manufacturing sector of Kenya, increasing levels of innovation have emerged amongst MMEs due to market competition, an attitude of inventiveness and drive to stand out and create unique products (Bull et al. 2014; Sonobe, Akoten and Otsuka, 2011). Proliferation of the Jua Kali cluster has resulted in smaller clusters forming from the graduates of Jua Kali. For example the Racecourse cluster (Kenya) of furniture and art makers and the Kariobangi cluster of machine-makers (Bull et al 2014) have emerged as a consequence of similar MME agglomerations.

Conversely, the operational space and shelter of a large majority of informal manufacturing enterprises occurs within their own homes or in public spaces such as on pavements. This strategy is sometimes used to avoid paying rent. But, these informal premises can be unsuited for manufacturing enterprises with respect to working and marketing space and limited access to utilities such as electricity, water and other vital amenities needed for their manufacturing processes. For example, a large number of enterprises in Durgarpur India are operating on non-regularised land resulting in a lack of services; electricity, sewerage and also there is a risk of being closed down by the government. This is affecting their production and sales (Mukherjee 2003).

Despite some research into the global occurrence of MMEs, there remain a lack of research into the sector in South Africa, and this paper attempts to address this using the case of metalwork MME’s in Cape Town.
3. METHODOLOGY

The study is a value chain assessment of the business operations of informal metalwork enterprises primarily operating in the township context. The key physical, commodity chain, and market characteristics of these enterprises were investigated with a view to gaining strategic insight for guiding future policy and investment approaches.

Two aspects were looked at:

1) Conduct 30 face-to-face interviews with informal metalwork enterprises throughout Cape Town to gain an in-depth perspective of such business operations. This was specifically with individuals in the locations of Browns Farm, Samora Machel, Nyanga Junction, and Delft South (see map 1 below).

Map 1: Location of Nyanga Junction, Browns Farm, Samora Machel and Delft South in Cape Town.
The following topics were covered in the individual interviews:

- Location of operations – both manufacturing and retailing
- Length of time in operation
- Business assets and equipment
- Stock procurement, management, and logistics
- Products sold (for example; custom orders, general retail trade, repairs)
- Supplier enterprise names and details
- Volume of trade per week/month
- Periods of highest trade demand
- Perceptions on City of Cape Town permits, legislation, service delivery
- Enterprise challenges

2) Conduct further interviews of suppliers (formal and informal), related logistics, policy makers, and others related to the sector including consumers.

The researchers also conducted interviews and discussions with various role players related to the informal metalwork sector. These included transport providers (informal taxis), wholesalers (formal and informal), and CCT officials involved in informal trade, permitting and law enforcement. Furthermore, 50 potential consumers were interviewed. These participants were interviewed at the Philippi Train station, which is a high concentration of residents who might or might not purchase products from informal metal workers. Either way, these are residents who live and move in areas where the informal metal workers work and display their goods. Questions asked related to purchasing habits, general demographics, motivations, pricing issues, and customer preferences.
4. FINDINGS

The predominant business types in the sample were welders who specialize in electrical (arc) welding of steel into a variety of customer requested products such as gates, burglar bars and shack / shed structures (Figure 1). The remainders of the enterprises were prefabricated shack (hokkie/ zozo shack) builders, a brazer and appliance repairer and a tinsmith (Figure 1).

![Bar Chart]

Figure 1: The business types of the metal work sector studied (Total sample size = 30)

The study revealed that while value chains in the informal metalwork economy have the potential to be fairly short, they support a formal and informal economy of scrap metal (from informal reclaimers to scrap dealers), consumables supply, transportation, electricity, water, real estate provision, and labour. In addition the enterprises support a formal economy of metal manufacture, wholesale and retail trade. The value chain is shown in Figure 2.
Figure 2: The value chain for the informal metalwork business
4.1 Raw materials

The informal metalwork sector sources its raw materials from raw steel and other metal products originally produced in the formal economy. Steel smelting is not carried out in the informal economy environment and the sector is unable to produce any more than niche quantities or products of metal. As such the market for new materials is met by the formal economy, which is dominated by multinational virgin steel manufacturers such as ArcelorMittal, Scaw Metals and BHP, or reclaimed materials manufacturers including the South African company Cape Gate. Enterprises such as these collectively produce large quantities of material, which is supplied into the wholesale sector for trade.

Suppliers (formal economy wholesalers) of raw steel and other metal products vary, but are dominated by a small number of large wholesale enterprises; SA Metal, Metal Sheet, Afrox, and general hardware dealers, mainly operating from industrial areas (outside of the immediate township location) and working class localities including Epping, Athlone and Blackheath.

Discussions with staff revealed their strong understanding of trading with the informal economy, and strong familiarity between staff and those metal workers operating informally. All of these wholesale enterprises offer paid and sometimes free transport (for minimum scale business orders). This service is commonly utilized by informal metalworkers and relied upon as an important logistical support activity. Providing transport is a key business benefit to attract informal metalwork customers.

Most of the micro-entrepreneurs in the study conduct exclusively cash purchases on an individual basis from these outlets. The average amount of money spent on a stock purchase is R2,660 based on the reported figures of 28 respondents. However, some enterprises will spend over R5,000 per visit through the consolidation of customer orders to take advantage of the free transport provided by the wholesalers.

An alternative source of materials supply is the second hand and recycled metal market. In this case informal metalworkers purchase reclaimed steel as traded by informal waste pickers and scrap collectors (also known as Skarelaars), in some cases also procuring from second hand scrap yards. Informal reclaimers tend to be economic survivalists with the reclaiming of metal forming the source of their livelihoods. Sometimes, the products they trade originate from legitimate and illegal operations. The Skarelaars tend to operate on foot, sometimes utilizing reclaimed shopping trolleys. Some make regular visits with reclaimed materials to the informal metalworkers they know, others trade items opportunistically when they encounter traders in their day-to-day movements around the city.

Various products are reclaimed into the sector – including raw steel, old appliances (which can be repaired or cannibalized for parts), and miscellaneous items of value that are stockpiled by informal metalwork entrepreneurs. The quality of the items traded is highly variable and requires differing levels of preparation and modification for repurposing into new items. However, the cost savings of paying a nominal fee to informal collectors – generally R20- R100 for up to 50kg of raw materials – can bring about substantial profit opportunity through enhancing retail margins, even if more work is required to modify the materials into new products. Such trades tend to happen opportunistically, and none of the informal metalworkers interviewed relied on this supply source as a mainstay of their operations.
4.2 Formal and informal transport serving informal metalwork

The logistics of operating a metalwork microenterprise can be challenging, with an important consideration being access to equipment and suitable vehicles. Owning a vehicle is relatively common amongst the sample, with 14 of the 30 businesses reporting this – primarily bakkies. The remainder commonly hired appropriate vehicles from other welder enterprises within their networks. These are hired at set fees for the vehicle, for the journey or day. In this case the service is cheaper than the use and operating cost of private vehicles, and goes a small way towards enhancing the scale of informal metalwork operations through allowing procurement of larger amounts of stock. Those without access to vehicles reported the use of two wheeled foldout trolleys for moving large items such as fridges and appliances for repair. These operators also used various transport modes including minibus and amaphela (sedan) taxis where necessary.

A wholesaler can also provide the delivery service especially when the steel order is of a magnitude greater than could be normally carried in a conventional motor vehicle. In general for bulk steel quantities over the value of R2, 000, delivery was conducted to the enterprises by these formal sector businesses. In many cases, even when transport of stock is provided by the wholesaler, the entrepreneur requires a vehicle to transport goods from the place of manufacture to the client address. Informal metalworkers conduct their activities from both home workshops, and client sites, although the majority claims to prefer working from home. This is a reflection of security issues, logistics of working with bulky tools and materials and ability to avoid paying rent for a workspace. As such, many require both transport of goods from the wholesaler to a workshop and subsequent transport services to deliver manufactured gates, burglar bars, and zozo shacks to clients.

4.3 Metal product manufacture (informal)

All informal metalworkers both manufacture specific orders for clientele, and conduct retail trade to the public. Welders take customer orders and prerequisite financial deposits. Once a deposit is made (50% of the price of the specific item or order) the raw materials will be purchased by the artisan and the orders made. Once made, in the case of zozos, burglar bars and gates and other fittings, these will be installed at the required site. Upon completion of works the balance of the account is due for settlement. All transactions are in cash, generally paid in two installments – a deposit before the product is made and a final payment once the product has been complete. In some cases manufacturers report having to take payments in installments where the customers claim not to be able to settle their accounts immediately after installation. Conversely some metalworkers and tinsmiths sell to passing trade, and occasionally on consignment.

The sector is male dominated. Twenty-five (83%) of the enterprises were owned and operated by males and five (17%) by females. The females operated exclusively in the street sales of prefabricated zozo shacks and worked in conjunction with their husbands who were the predominant manufacturers. Furthermore, the sector reflects an important business opportunity for foreign nationals. Fifty percent of these enterprises (15) were operated by South Africans, with foreign nationals from Mozambique, Zimbabwe and DRC representing the remaining owners. South Africans dominate in the manufacture of zozo shacks. This is possibly due to the lack of skills as
many of those doing welding work claimed that their skills were gained from their countries of origin. Business sustainability in the informal metalwork sector is high - the average length of time in business reported is 9.1 years. The oldest enterprise reported being in operation for over 25 years, whilst the youngest had been running for only nine months.

The most common piece of equipment owned by the respondents were arc welding machines. All owned a range of hand tools appropriate to working tasks. Whilst the majority of enterprises were arc welders reliant on electricity, a small number of oxy-acetylene welders also possessed gas cylinders (on a deposit-return basis) to power blowtorches. All of the interviewed enterprises indicated that they purchased various goods from within the residential township environment as part of their operational processes. The scale of this investment into informal enterprise was, however relatively small. Items such as welding rods and hand tools are the most regular local purchases. The retail trade is commonly promoted through the use of signage (see Plate 1). There was a preference to purchase tools and materials from the wholesalers who had lower prices compared to hardware retailers in the township.

Figure 3: Signage for informal metalwork enterprises
Twenty-three of the 30 enterprises reported that the metalwork business was their primary source of income. The incidence of alternative livelihood activities is quite low. Those who do engage in alternative income strategies receive government grants, own a small business (retail or barber shop) or do casual construction labour. See Table 1.

Table 1: Alternative livelihoods

<table>
<thead>
<tr>
<th>Income source</th>
<th>Participant count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welding as main source of income</td>
<td>22</td>
</tr>
<tr>
<td>Receive government grants</td>
<td>1</td>
</tr>
<tr>
<td>Government pension</td>
<td>1</td>
</tr>
<tr>
<td>Have other businesses (one selling vegetables, one running a barber shop and the remaining participant selling gas)</td>
<td>3</td>
</tr>
<tr>
<td>Casual labour: painting and construction</td>
<td>3</td>
</tr>
</tbody>
</table>

Peak trade is month-end when clients have received salaries and income payments. The busiest time of year varies. Some claim winter is the best season for work as the longer nights in summer bring about an increase in crime. Others claim that summer is better for trade as more people are working, which can reportedly lead to a doubling of winter trade volumes.

The general profitability of these enterprises is variable, and a function of both labour input and costs of raw materials. Cost savings through free transport, low rent, labour saving and sourcing cheaper inputs can bring about substantial profitability increases for each micro-enterprise. The following value chain example of driveway gates demonstrates the areas of value adding and potential profitability.
The actors at this stage of the sector, being the main focus on this research, operate above economic survivalist levels as demonstrated through relatively high incomes, ownership of increasingly specialized assets, prior work experience and skills, and in some cases, the ability to conduct work outside of the informal economy in formal operating settings (when made possible through a bank account). In addition the longevity of the businesses averaging over 9 years and (in one case 25 years). An evident cost saving strategy is using recycled metal for products which links this sector with the informal recycling sector. However, there are several challenges they face with their position in the informal sector. Evident challenges are lack of full payment by customers who do not pay their second installment. This cash flow presents challenges to purchasing stock for subsequent orders. In some cases operators were able to earn substantially more if they were able to gain paid work outside of the informal context, including private clients in the suburbs or subcontracting to other enterprises that had large government and industry contracts. An aspect linked to their access to the formal market is access to credit and bank accounts. Few of the metal workers have bank accounts or access to credit but the interviews suggested that this could be helpful in terms of stockpiling and receiving payment.
4.4 Galvanizing – further value adding

The process of galvanizing renders raw steel chemically resistant to oxidation and rust, substantially enhancing metal product life. For externally mounted gates, burglar bars and roofing this process is commonly undertaken. Galvanizing is a formal sector activity requiring substantial capital investment into property, dipping tanks and chemicals – it can only take place in a processing facility and the process is not portable. This process occurs at the last stage of the manufacturing activity. It is expensive, and tends to nearly double the value of the subject item (it is a value-for-money service as it potentially extends metal life by three to four times the equivalent untreated product). Less than half of informal metalwork clients are willing to undertake the additional cost – primarily due to the cost of the process and the limited price points their clientele are willing to pay. Where undertaken, galvanizing companies tend to offer a ‘door to door’ service, including collection, galvanizing and returning products to the metalworker. Due to the generally substantial economies of scale from these enterprises and the high financial value of the service, the cost of transport is competitive and many informal metalworkers do not transport materials themselves. Where metalworkers conduct their own transport some small financial savings in the cost of galvanizing can be made, although these are borne by the entrepreneur themselves through having to use their own transport.

4.5 Landlords (including services provision)

Informal metalworkers share a common problem of inadequate working and retailing space. In many cases they work from their own private homes, but also make use of public pavements. Such spaces can be rented from adjacent private landowners. In addition tenants can also require electricity or water access, which is sub-rented privately from those with potentially legitimate access. Electricity costs vary according to usage, from R50 to R200 per week or more depending on frequency of use, access, reliability, and scale of illegality. The high cost of this service (linked to the high energy demands of the enterprise) was a common complaint. As with other informal enterprises reliant on informal economy resource provision, vendors complained about paying for electricity only to discover that the owner subsequently had no units left to provide the service. For some enterprises reliant on electricity, the owners will purchase pre-paid electricity and pay money to landlords for operating space – even state property along the street is commonly rented by adjacent households.
4.6 Customers

Informal metalwork is a specialized activity the products of which are sold for high prices. Microenterprise respondents reported that the average number of customers per month is 12. Reported customer numbers are also influenced by the type of enterprise – tinsmithing attracts regular retail trade and repeat customers vs. manufacturing tin zozos or driveway gate manufacture, which would be a very occasional purchase. Welding of burglar bars is the most common business activity and a regularly demanded product due to the high levels of crime in the townships. Similarly there is a substantial need for cheap housing units, and the manufacture and sale of zozo shacks serves an important community function.

The average purchase amount spent per customer across the sector is R1,050. This rises to R3,000 for prefabricked shacks, averages at R500–R1,000 for burglar bars to and is as little as R40 for tinsmith pans (see table 2).

Based on a random survey of 50 potential consumers across age (18–60 years), gender (23 Male / 25 Female) and ethnicity (Black / Coloured) familiar with informal metalworker activities it emerged that the 37 had at some point purchased items from informal metalwork businesses, with local customers primarily living in the residential township context. All claimed to purchase burglar bars from informal welders. None reported use of tinsmith items or zozo manufacturers (potentially an indicator of the broader security needs of the township environment). The average purchase prices varied considerably, from R200 for a single window burglar bar, to R4,350 for a full security package for a house.

Both males and females made purchasing decisions in this trade, and the reasons behind their purchasing decisions relate directly to affordability and close proximity to home. These factors reinforce the predominance of informal metalworkers in the township context as opposed to more formal localities.

4.7 Estimating enterprise turnover

Enterprise turnover is varied, and influenced by the amount of time traded in a given month. This is influenced by metalwork business owner preference (some do not work during the week), site locality, and activity type – there is considerable variation in business type, and the place of operation (indoors or outdoors) and seasonality. It is also hugely influenced through where informal metalworkers procure their supplies, and the amount of time and effort (labour) that is invested in manufacture. For example an informal metalworker that procures ready-made gates from a scrap reclaimer may sell them on immediately with little effort, at substantial profit. Conversely an informal metalworker making a high quality product such as a gate with all new materials will incur substantially higher costs, which can impact on profitability. In the survey sample the great majority of enterprises are profiting in the vicinity of R5,000 per month or more, from a revenue of R8,500 – R13,500 in trade per month. Deeper analysis of selected “typical” survey data, and the more diverse case studies reveals a range of turnover and profitability figures. Table 2 below includes a range of enterprises with volume, turnover and income comparisons.
### Table 2: Estimated turnover and profit for selected enterprise

<table>
<thead>
<tr>
<th>Product</th>
<th>Cost Per Unit</th>
<th>Retail Price final product</th>
<th>Profit Margin</th>
<th>Margin %</th>
<th>Units per month</th>
<th>Monthly Revenue</th>
<th>Monthly Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Burglar bar manufacturer s</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Window bars</td>
<td>R350</td>
<td>R750</td>
<td>R400</td>
<td>54%</td>
<td>9</td>
<td>R6,750</td>
<td>R3,600</td>
</tr>
<tr>
<td>Door gates</td>
<td>R400</td>
<td>R800</td>
<td>R400</td>
<td>50%</td>
<td>4</td>
<td>R3,200</td>
<td>R1,600</td>
</tr>
<tr>
<td>Sliding gates</td>
<td>R1,350</td>
<td>R2,700</td>
<td>R1,350</td>
<td>50%</td>
<td>2</td>
<td>R5,400</td>
<td>R2,700</td>
</tr>
<tr>
<td><strong>Fridge and appliance repair</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fridge repairs</td>
<td>R250</td>
<td>R520</td>
<td>R270</td>
<td>52%</td>
<td>7.5</td>
<td>R3,900</td>
<td>R2,028</td>
</tr>
<tr>
<td>Fridge sales</td>
<td>R500</td>
<td>R1250</td>
<td>R750</td>
<td>60%</td>
<td>5</td>
<td>R6,250</td>
<td>R3,750</td>
</tr>
<tr>
<td>Washing machine repair</td>
<td>R650</td>
<td>R900</td>
<td>R250</td>
<td>28%</td>
<td>3</td>
<td>R2,700</td>
<td>R756</td>
</tr>
<tr>
<td><strong>Zozo manufacture</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrugated iron</td>
<td>R400</td>
<td>R2800 (3.4x2.5m)</td>
<td>R1,500</td>
<td>53%</td>
<td>3</td>
<td>R8,400</td>
<td>R4,500</td>
</tr>
<tr>
<td>Timber frames</td>
<td>R400</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Doors, windows</td>
<td>R300</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumables (nails etc.)</td>
<td>R200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>R100</td>
<td></td>
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</tbody>
</table>
5. DISCUSSION

This section discusses some of the major factors affecting the operations particular to the value chain associated with informal metal workers.

5.1 Operational space

An enabling factor for this value chain is the ability to operate without complaints or severely hindering law enforcement, possibly a characteristic of the low income and informal residential spaces in which they work. However, while it is not enough to stop their work, a significant challenge to metal workers as well as the general public is the lack of separation between them. Metalwork is unsuitable for residential space where many people and children commute on foot. As most enterprises are home based it is apparent that limited working areas bring about storage, operational and safety limitations for these enterprises. This is important in that many of the entrepreneurs in the sector appear to demonstrate reasonable business sustainability - many operate considerably beyond economic survivalist levels - and have skills that are locally in demand. Considering these businesses at a broader scale it is apparent that the implications of these findings are that many such entrepreneurial enterprises exist in these locations. Where some, such as those trading from shipping containers on Lansdowne Road are operating, the stated issues around limited space are less problematic. Similarly the enterprises are largely isolated from residential areas and are able to take advantage of their location with respect to operations, noise and locality.

5.2 Operational assets

Ownership of a vehicle and a bare minimum of basic equipment including arc or oxy-acetylene welders and hands tools, demonstrates reasonable scale of investment in the micro-enterprise. Unlike other increasingly survivalist businesses, including informal food retail, 50% of enterprises have their own vehicle, and the majority of the remainder can access other vehicles. Such access allows for broader procurement practices and minimizes potential stock shortfalls, although some wholesalers will deliver raw materials to the nominated working site. It is apparent that access to a vehicle does bring about business advantages and opportunities for informal metalwork enterprises. The majority of enterprises own or access a bakkie or vehicle to transport supplies and manufactured products. These vehicles are generally +20 years old, and are kept in a state of repair by the individuals themselves, or repaired by ‘bush mechanics’ in the township. In one case the entrepreneur interviewed spent R15, 000 installing an eight-cylinder motor in his vehicle with a township mechanic. The relevance of this is that large amounts of money are circulated in relation to this informal economy sector into other businesses in the township context.

5.3 Competition

Field observations reveal a relative sparseness of these micro-enterprises (as compared to fast food or grocery retailers), which is possibly a reflection of the relatively high level of skill required to conduct this business activity. Despite the low incidence of these businesses, the township appears to be a relatively opportune business environment. These operators have a niche of informal construction, budget furniture items and ready repairs. Yet unlike the comparatively homogenous informal foodservice environment, price competition appears to be more common in the
sector. This is perhaps a consequence of a greater variety of source materials (new, second hand, imports etc.) and also a reflection of the cost of labour, which can vary considerably depending on the artisan, job type and individual.

5.4 Interaction with the municipality

Questioning of informal enterprises pertaining to areas of local government responsibility focused primarily on issues of municipal relevance, such as general service delivery including access to trading sites, electricity, water, permitting and law enforcement. The majority of microenterprises interviewed revealed a lack of interaction between themselves and the municipality (23 of the 30 enterprises claimed no interaction or very little with City officials). This finding could be interpreted as positive for entrepreneurship activity – revealing how limited state interference has potentially created the opportunity for micro-enterprise activity. Furthermore, it is reasonable to expect such limited interaction in the increasingly informal township context and in free trade areas.

The great majority of enterprise owners further claimed to know nothing or very little about the services the municipality offers that could help them. (Only six respondents claimed to know the local government well). In various cases local government officials are viewed with disdain or suspicion by those who operate informal businesses. Some interviewees included anecdotal experiences of law enforcement officers enforcing environmental health by-laws on street operations. Others expressed anger towards the municipality for lack of support for their operations.

A local government presence was generally noted throughout all sites primarily street sweeping and refuse collection. Similar to the fast food sector, one of the critical business environment themes that emerged was the lack of security for enterprises. The expensive nature of the equipment required combined with commonly working from a vehicle and on the street makes these enterprises particularly vulnerable to robbery. Most respondents highlighted their personal experiences of crime as a problem to do business. All agreed that they needed broader support in matters of safety and security.

Most enterprises that used electricity were renting the service from neighbours in private residences (14 individuals), whilst only six had their own direct connections. Ten enterprises claimed not to need electricity for their operations (primarily zozo manufacturers). Most were not interested in water access for their enterprises – only seven highlighted that improved water access would help their enterprises. Generally, water access was reasonable, with 23 of the enterprises currently having access to water close by, outside of their enterprises. Twelve enterprises noted a problem with operational space requiring enhanced manufacturing suitable premises. As home based, informal enterprises most had no permits to operate. None questioned felt that the lack of a trading permit would prevent them from operating their business.
6, RECOMMENDATIONS

As has been discussed, these informal micro-manufacturing enterprises struggle to expand their business due to a number of challenging issues; manufacturing space, trading locations, lack of management and financial skills. Key recommendations and associated management interventions (see visual representation in figure 6) to successfully aid in overcoming these difficulties are presented below.

• Broader local government acceptance of “informalness” associated with these enterprises.
• Municipal support in appropriate locality, infrastructure (provision of electricity and water) and activity (provision of infrastructure on busy roadways and public open space).
• Provide financial and management training for metalwork enterprises to be undertaken by either public or private entities.
• Creation of new light industrial areas
• Promoting enhanced communication, clustering, and networking amongst fellow metal work enterprises will support their economies of scale in product procurement. This clustering will also allow for competition and stimulate innovation.

Together, these will allow for enhanced economic development and increased job creation by allowing these metalwork micro-enterprises to expand to their full potential.
Figure 5: Proposed value chain interventions or the informal metalwork economy
7. REFERENCES


Ranchhod, V., Petersen, L., James, A., 2015. A consideration of the Cape Town informal economy through publically available datasets.


Note: Working Draft for Comment
Informal metal work micro-enterprises in Cape Town townships

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