

**S'ongoba Vuba**

**The missed opportunity:**

# SMMEs in the South African economy

Entrepreneurs in South Africa have found many ways to innovate for the finance that their businesses need



**Starting your own business isn't easy: more than 70% of new South African businesses fail in less than two years of being in operation . Photo: Paul Botes**

Indicator	2017 Q1	2018 Q1	YoY % change
Number of SMMEs	2 478 877	2 244 163	-1.4%
Number of Formal SMMEs	725 698	685 719	-9.2%
Number of Informal SMMEs	1 658 522	1 714 233	+3.4%
Number of Jobs Provided	10 568 701	8 886 015	-15.9%

SOURCE: SEDA SMME Quarterly Update 1st Quarter 2018 – July 2018

**W**e've all heard it before: small, micro and medium enterprises (SMMEs) are the hope of an ailing South African economy with low growth prospects and high unemployment; SMMEs are positioned to provide job opportunities and to contribute significantly to the GDP. SMMEs are the key to job creation and also globally known to be the mechanism to generate new jobs in society. Globally, over 95% of enterprises are SMMEs, which employ 60-70% of the working population.

But then there is the current reality. The SMME sector in South Africa provides an attractive and largely under-tapped market opportunity for the country's economic growth through funder opportunities and corporate supplier development.

The National Development Plan envisioned that by 2030 SMMEs will contribute 60-80% to GDP increase, and generate 90% of the 11-million new jobs in our country. But, despite these ambitions, South Africa continues to have one of the highest unemployment rates in the world, with a 2018 Q4 unemployment rate of 27.1%. This is an official definition of unemployment, with a wider definition of unemployment putting the figure at beyond 35% of the total population.

In addition, a 2018 study by the Small Business Institute, leveraging IRP5 tax returns and corporate income tax data provided by the South African Revenue Services, the national treasury and existing research, shows that there are only about 250 000 SMMEs in South Africa, accounting for just 28% of formal jobs in the economy. This is despite SMMEs accounting for nearly 98.5% of the number of formal firms in the economy. South Africa also has a concentration of power sitting in only a few employers (mostly government and large corporates), leading to 56% of jobs coming from only 1 000 employers – and these jobs are growing at a faster rate than what SMMEs are creating.

We have BBBEE codes driving investment in enterprise and supplier development each year and this gives rise to a plethora of opportunities for SMME development, funding as well as commercialisation and access to market.

It is evident through the Small Enterprise Development Agency (SEDA) SMME Quarterly Update and related estimates that SMMEs are not growing as expected.

So why aren't we seeing the dividends of all this goodwill and good intention? Why is South Africa not changing its high level of unemployment and managing to see the benefits of a supportive environment that facilitates the survival and growth of small businesses, resulting in increased, sustainable job creation?

**Access to funding**

In many SMME forums the issue of access to funding is discussed as the biggest and most critical component of SMME growth. Access to finance is noted time and again as one of the primary challenges for SMMEs in the country, requiring urgent attention.

Despite the country's strong formal financial sector as well as opportunities for funding through developmental finance institutions, private equity, venture capital and other grants, small and informal businesses still struggle to access finance. Most business owners and founders use their own personal savings or borrow from "friends, family or fools", as the Enabling Environment for Sustainable Enterprises (EESE) survey findings show.

A 2010 FinMark trust survey found that 87% of small formal sector firms had never accessed credit, while the 2016 GEM survey found "problems with finance" led to 28% of entrepreneurs closing their businesses in 2016.

Through conversations with entrepreneurs and multiple studies into this access to finance issue, it becomes evident that South African SMMEs have found a way to innovate for finance, after hitting many brick walls when trying to access funding. SMMEs are "bootstrapping" their businesses through their own savings and finding ways to access loans to finance delivery on invoices. Entrepreneurs in South Africa in many ways have found ways to innovate for finance that their businesses need, usually after becoming disillusioned with the "many" opportunities for funding available to them.

The Global Entrepreneurship Monitor (GEM) reports show that South Africa has one of the highest business start-up failure rates in the world. Minister of Trade and Industry Rob Davies confirms that over 70% of new businesses fail in less than two years of being in operation. This results in a thin pipeline for funders such as development financial institutions, commercial banks and venture capital funds. This thin pipeline is also a function of the risk appetite of such funders, leaving a gap in the funding value chain for funding opportunities for early stage startups, which simply do not meet the funding mandate criteria of many funders.

In addition to the funding criteria, there is also a challenge cited by SMMEs that may be ready for finance (they have viable business models, match available finance, and have the necessary security) but are unable to secure the finance they need, due to their lack of finance readiness, i.e. they are unable to produce the financial documentation required by funders to assess bankability and affordability, in order to

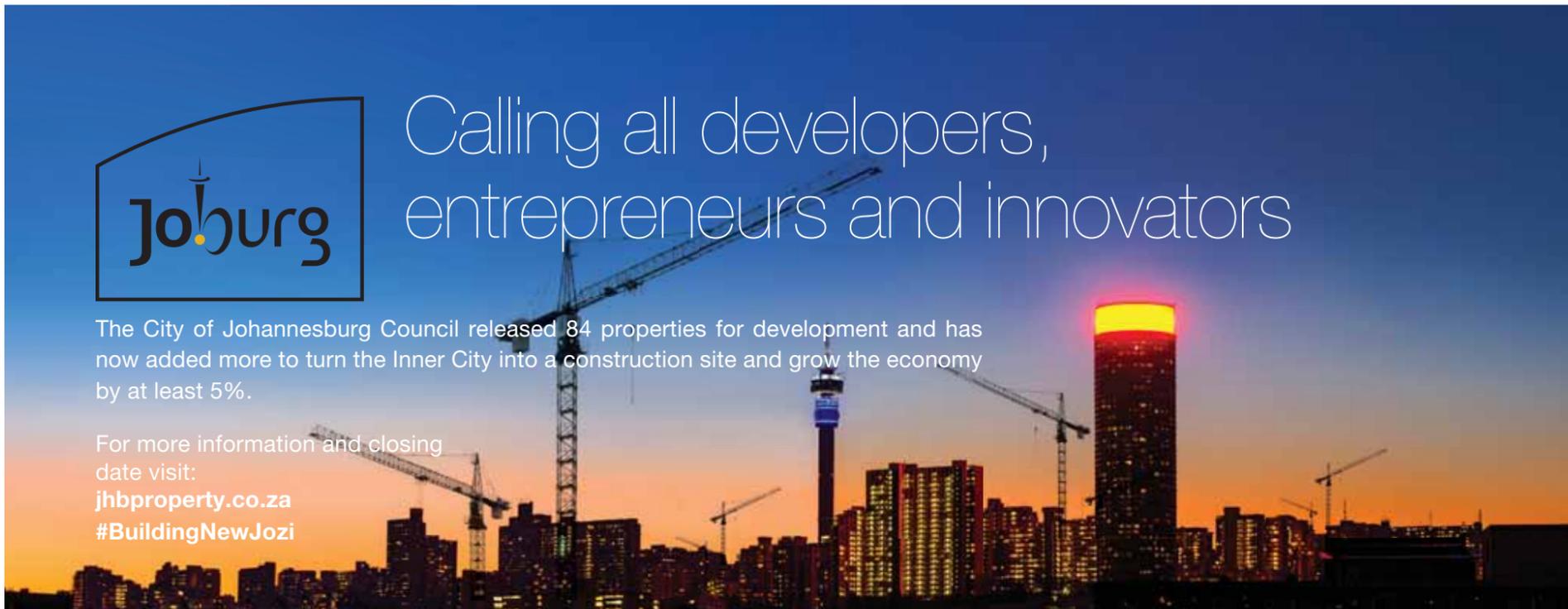
**To page 2**



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## Township Economy



Our country suffers from an under-skilled population, which is evident in a high unemployment rate, despite numerous job vacancies . Photo: Paul Botes

### The missed opportunity:

# SMMEs in the South African economy

#### From page 1

approve their funding applications.

There is a gap between funder expectations and SMME abilities, which often results in missed funding, painful investor-SMME relationships and punitive consequences for not meeting funding hurdles. Often this gap is due to another real problem for SMMEs regarding access to skills in order to increase their finance readiness.

#### Shortage of skills

South African SMMEs currently face great pressure to secure the right skill sets. They are facing a skills shortage. Most skilled people are employed by the public sector and large businesses in the private sector. As a result, SMMEs are faced with an access and affordability of skills problem. The demand for certain skills far exceeds the supply of such skills. The country suffers from an under-skilled population, which is evident in a high unemployment rate, despite numerous job vacancies. South African SMMEs face pressures in securing the right skills for their businesses. This skills shortage is further compounded in its impact on SMMEs, as they are often unavailable and/or unaffordable for SMMEs.

The SMME ecosystem in South Africa has focused in many ways on attempting to upskill the key players in SMMEs through mentoring, coaching and training efforts. These efforts have assisted in some ways to lift the game of SMMEs, however, the skills shortage continues. Many SMMEs are learning important elements required for business (finance management, operations support, sales processes, etc) but are mostly not implemented into the business due to ability, skills and time shortages. Thus, despite access to coaches and mentors, as well as having training on the aspects of business, SMMEs often find themselves without the benefit of implementing these in their businesses.

#### Red tape reigns

South Africa's labour laws have been found to be a significant regulatory obstacle (OECD, 2015) to business growth, particularly when it comes to registering a company, regular compliance for the company as well as when lay-

ing off staff. Small business owners have found regulatory requirements time-consuming and often, a requirement that they are just not often skilled enough to manage and execute. This often results in SMME non-compliance or additional expenses and time spent on attempting to gain compliance.

There is also the difficulty of matching the fluidity of small business to the stringent requirements of labour laws. SMMEs find that once they have employed workers, the law makes it difficult to lay the workers off if the business can no longer afford to keep them, or if they prove to be unproductive. Labour laws, according to GEM, do not provide for cyclical declines in small businesses.

Government departments are looking into this issue of red tape, but until there are some clear actions and changes, the burden continues to rest on SMMEs.

#### Future of SMMEs

The National Development Plan (NDP) aims to create 11-million jobs and grow the economy by 5%. Currently, the economy is forecast to grow by 1.2% and unemployment is at 27%.

Within the SMME development ecosystem there are numerous players performing different roles. There are funders providing funding to SMMEs, there are support platforms providing work and networking spaces, as well as space for coaching and training. Large amounts of money are spent on physical spaces as well as face-to-face training sessions.

However, SMMEs are still not showing the positive upside of these interventions. The reality is that its heavy lifting and hard work. However, there are opportunities aligned to how the world is changing. We are experiencing unprecedented amounts of technological change through digital; there is a growing trend towards temporary workers in the country; and there is proven literature around best practice in building a business for more exponential growth.

These opportunities challenge our current tried and tested ways of doing things and in many ways the first adopters of these opportunities are starting to show the benefits. As a country we are aware of these changes and opportunities and through a Presidential Commission on the Fourth Industrial Revolution, are looking to develop a country-wide plan to leverage this global phenomenon.

SMMEs are actually well-placed to leverage, given their lack of legacy and their nimble nature. SMMEs have innovated for finance when its needed and now there is an opportunity to innovate for the skills scarcity problem. The future world of work speaks to a growing trend for temporary workers and a focus on on-demand human capital for work needed by

companies.

This opportunity is one that is ripe for the taking and allows the connection of SMME management teams that cannot afford full-time specialised and scarce skills professionals, with the world of on-demand temporary workers in industries that are looking to make an impact through leveraging their skills in other ways, and to harness skills and interests that are often not utilised in their typical full-time roles and jobs.

In addition SMME-to-SMME market access opportunities can be developed, where SMMEs are each other's service providers and clients instead of constantly chasing only large corporate and government clients. Leveraging on-demand skills allows for a sustainable way to build up successful and sustainable businesses, ready for large-scale investments, that can achieve scalability in a structured way.

Perpetu8 aims to create a bridge between micro and small businesses and the attainment of medium enterprise classification. In so doing this will develop more sustainable and successful SMMEs in South Africa that start to move the economy to growth, and will enable Africa to partake in shaping the 4th Industrial Revolution, rather than merely being a follower.

The goal and vision is to see lesser tax and business compliance requirements for SMMEs. The cost of tax and business compliance for smaller businesses is meaningfully higher in comparison to their revenue and the cash flow at their disposal. The Labour Relations Act legislation has been key in protecting the rights of the employee, but it has allowed for the employer to reconsider terms that do not benefit the employee. Some modifications are needed in labour practices that will bring flexible working relationships that strive to move with the times and trends in work spaces.

Large South African corporates are encouraged to support and also buy shares in SMMEs, allowing small businesses the confidence to grow and close the gap when it comes to access of funding.

The increase in local companies being added to large corporate supplier databases shows that there is an uptrend in this area. In addition, the education of local SMMEs in international business will allow South African SMMEs access to foreign

funding and investors. The easier and more transparent access to funding becomes, the greater the opportunity for sustainable small businesses.

Administering of fair and corruption-free tender processes will allow equipped and qualified companies to add more value to enable the development of small businesses. Ensuring that once tenders are issued and a company has started with the contract, that they are paid in 30 days or less will mean more surviving small businesses; it will allow them to pay their suppliers and employees on time. Business legislation must aim to create a platform that makes it viable to employ young individuals with potential and create support programmes for SMMEs to train them. There is a significant financial and time investment required to train a young person, which can make SMMEs sometimes wary to do so, so providing compensation for training will make it worthwhile for them.

For small businesses to thrive they have to be flexible, adaptive, well-versed in skills, and have access to funding and mentorship. Small businesses need to be hungry for innovation and learn to adapt in an ever-changing era. The uncompromising business landscape of today requires entrepreneurs to be agile and free of any unnecessary operational and administrative problems, allowing them to direct their business towards application of knowledge, implementation of systems and profitability.

**About Perpetu8:** Perpetu8 Pty Ltd is a youth and black-owned implementation consulting company that is focused on niche SMME strategy and implementation consulting for SMMEs. Perpetu8 is addressing the lack of SMME growth and the underachievement of SMMEs in contributing to the country's GDP and employment creation, through designing and implementing solutions to SMME issues for growth. The company sources, vets and manages on-demand short-term skilled human capital, in order to implement solutions to SMME problems.

The company also partners with funders in the SMME ecosystem to take their offering one step further towards implementation.

**S'onqoba Vuba is cofounder and managing director of Perpetu8.**  
Photo Supplied

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## Township Economy

Informal economies are diverse:

# South African policies need to recognise this

Mike Rogan

South Africa is currently mulling over ideas and agreements that recently came out of a two-day jobs summit. The country is losing the battle against high joblessness. The latest figures show unemployment stood at 27.2% during the second quarter of this year. The number is much higher, close to 40%, when discouraged work-seekers are included. This is very high by international standards; the average global unemployment rate is 7.6% and the same figure for African countries is 8.8%.

Much was said and resolved during the job summit. But not enough attention was given to the position and role of informal employment, which accounts for about one third of all the country's workers.

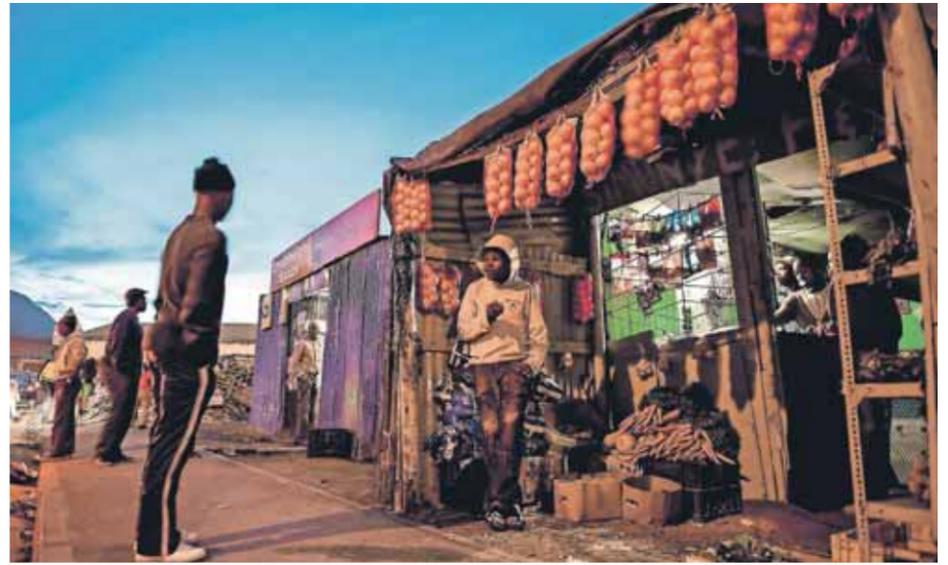
This is disappointing, given all the talk about jump-starting the informal economic sector and frequent mentions of developing the "township economy". The summit agreement does reflect a broad objective of providing "township and informal settle-

ment enterprise support". But it's thin on detail.

There's even more cause, given the country's traditional approach to developing the informal sector. Many proposals focus on entrepreneurship or unleashing the potential of small informal firms. Such interventions are usually limited to support in the form of training and micro-finance. This is a fairly narrow view from a job creation perspective, as it focuses on a very small group of informal workers.

What's needed is a strategy with a broader view of informal employment. It must focus on increasing the incomes and improving the conditions of workers in all segments of the informal economy.

The needs of informal workers are likely to vary among different worker groups. Nevertheless, a good start would be to ensure that the regulatory environment, basic social protections and urban infrastructure are supportive. Numerous policies could be used to support informal livelihoods, such as providing access to electricity, as has been done in Durban's



A strategy with a broader view of informal employment must focus on increasing the incomes and improving the conditions of workers in all segments of the informal economy. Photo: David Harrison

Warwick Junction Market.

The point is that simple policies backed by effective implementation have the potential to improve existing livelihoods in the informal economy, and to create more jobs. But this can only happen if the diversity of the informal economy is well understood.

### A dynamic sector

The informal economy in South Africa is relatively small compared with other developing or emerging economies. That's not to say that it's insignificant. A recent International Labour Organisation report showed that informal employment makes up roughly a third - five million - of total non-agricultural employment. This is a significant segment of the South African workforce.

But what is the informal economy, and

why does it matter when it comes to job creation?

It's important to dispose of the common misunderstandings. The informal economy is often depicted as part of a "shadow economy"; informal workers are seen as "plucky entrepreneurs" or regulation evaders. There are some activities and workers that fall into these categories. But the sector is in fact much more dynamic.

The informal economy includes a diverse set of workers. The vast majority (64%) are employees. This includes:

- people working in informal sector entities, such as small corner shops or hair salons; and
- informal employees in formal firms or private households who do not have social protection or job security.

To page 7

## Entrepreneurship driving growth of township economies

**Township economies:** the oft-forgotten, yet opportunity-laden cousin of urban economies. Many people underestimate their importance. But what makes them so special?

**The Western Cape Department of Economic Development and Tourism realises the importance of township economies and the need for creating an enabling environment for promoting entrepreneurship in the Western Cape.**

Urban areas aren't the be-all and end-all of South Africa's economy. Township economies contribute to the overall economy in vital ways. They cater specifically to economic growth in non-urban areas, ensuring that growth isn't limited primarily to urban clusters. Moreover, not all economic activity takes place in CBD's and urban hubs. Township economies promote and foster job creation in more rural, non-urban areas where the vast majority of the population lives. Through products and services tailored for local communities they serve; township businesses offer unique experiences and more importantly provide for immediate accessibility. Thus, customers get to see first-hand what's available, what's new and innovative and potential customers are given the opportunity to access goods and services right on their doorsteps instead of having to trek to the traditional commercial centres outside of the townships.

### Highlighting "lekker" local township businesses

*The Department of Coffee and Estratweni Mobile Foods* are fantastic examples of township businesses helping to grow the local economy.

Gather 'round, coffee lovers! Based in Khayelitsha, *The Department of Coffee* has come a long way since having their business robbed and vandalised in 2016. The business has grown from a single-trailer barista coffee shop to an official academy where unemployed youth are trained to be entrepreneurs and open coffee shops of their own. They offer a fresh take on your average cuppa Joe with their unique roasted blends, and aim to create a quality coffee-drinking culture in the community which - prior to their initiative - was accustomed to drinking instant coffee for warmth and energy. Rest assured, as *The Department of Coffee* moves forward, it will do so with a caffeine-fuelled pep in its step.

"To usher in an era of culinary modernisation". This was the goal of *Estratweni Mobile Foods*, operating from Gugulethu. Zealous in their creation of mouth-watering dishes, *Estratweni*

*Mobile Foods* is a street food social enterprise jointly founded by foodies Siphumeza "Space" Ramncwana and Siphamandla "Blax" Mavumengwane. Famous for ridiculously low prices and excellent customer service, the business employs local youth with petty crime records in an attempt to reintegrate them into society in a productive capacity. The duo's aim was to bring the variety of cuisine seen in the CBD into township spaces; to give a more substantial dining experience to residents of Gugulethu. *Estratweni Mobile Foods* currently has four food trailers and currently employs ten staff members to date, and shows no sign of letting up as they keep reaching for higher heights. Their advice to entrepreneurs looking to start their own food business? **Simple: "Just start!"**



## Township Economy

# Moving township tourism away from ‘p

Tehillah Niselow

**C**lad in sunglasses, hats and sturdy walking shoes, tourists carefully navigate around stacks and portable toilets on the steep narrow roads of Imizamo Yethu, the informal settlement in Hout Bay, Cape Town, on of the many township tours the Mother City offers. Promises of an authentic experience and a chance to see how the locals live is a selling point for tourism operators in some of the country’s most famous townships.

Tourism is a crucial growth sector in South Africa, a source of foreign currency and job creation. It contributed 2.8% to South Africa’s Gross Domestic Product (GDP) in 2017, or R130-billion — more than the agri-

culture, forestry and fisheries industries.

Regarding job creation, 64 000 new positions were created by the travel industry between 2014 and 2017, outperforming larger sectors such as transport and communication, mining and construction, coming close behind the financial and business services industry, according to Statistics South Africa.

One in every 22 employed people in South Africa worked in the tourism sector in 2017 — more than 722 000. President Cyril Ramaphosa in his inaugural 2018 State of the Nation Address said this number could easily be doubled and promised to “reduce regulatory barriers”. Government has since then moved to ease the visa process for people travelling with minors to attract more people to the country’s shores.

It is difficult to quantify the figures that township tourism contributes to the overall travel financial numbers, as large parts of the value chain are located within the informal sector, such as street hawkers selling curios or providing home visits.

Tourism is a sector that requires relatively few skills and is labour intensive; it is an important economic driver in developing countries such as South Africa. However, the potential social consequences should also be considered, where the poor can easily become objectified stereotypes for well-dressed foreigners, who gawk at the daily lives of people living in abject poverty.

Whether it is selfies with the backdrop of Favelas (informal settlements) in Brazil or unwelcome photographs of children in Soweto, the manner in which tourists inter-

act with local citizens in countries with high unemployment, poverty and inequality rates is a sensitive issue.

One crucial aspect of township tours is the benefit they generate for the local community. The tourism sector has relatively low barriers to entry and allows thousands of small businesses and operators to vie for visitors’ money. As in many other industries, established white businesses often accrue the greatest benefit, having the benefit of long-term networks and multiple-year fixed contracts.

The *Mail & Guardian* spoke to several tourism players and operators about moving away from “poverty porn” to locally sensitive tourism, and ensuring that the economic benefits of tourism remain within townships and underprivileged communities.



## Mthombo's Palace

Mthombo's Palace, the Restro Lounge in Mdantsane, is 15km outside of East London in the Eastern Cape. Mthombo Nkula established the eatery in 2015 when he noticed that there were only taverns and lounge bars in the township, which did not serve food.

“I did a small study and I established that people want liquor with food, so I decided to open a restaurant in the location,” Nkula says. Working with a wide range of people is his passion and he is grateful he is able to follow his dream at 52 years old. “I’m a people’s person; anything that has to do with mixing with other people... I also wanted to empower myself [by opening a business],” Nkula said.

The Mthombo Palace employs 16 permanent staff and 30 people on a casual basis from Mdantsane township. The venue plays soul music and has one main bar and three private lounges.

Nkula says the venue has hosted tourists from the US, Canada and Germany. He attributes the attraction to the live music played at Mthombo's Palace and the fact that it serves traditional African food. He says many travelers are looking for something different from their stays in nearby East London or King William's Town, and venture to the township for a different experience. Many tourists hear about Mthombo's Palace through word of mouth or pamphlets placed in their places of accommodation.

Gauteng and the Western Cape play host to the majority of tourists, whether business or leisure, and other provinces have to compete for attention and spend. The Eastern Cape plays host to the “Big Seven” — buffalo, elephant, leopard, lion, rhino, great white shark and southern right whale — which is a major attraction.

The Eastern Cape also markets itself as having pristine and untouched beaches and hikes for travellers who want to go off the beaten path in South Africa. The province lays claim to being former president Nelson Mandela's birthplace and was a major site of resistance and struggle against apartheid.



## Soweto Outdoor Travel Adventures

“We are not just going to show you kids with snot coming out of their noses, we are trying to sell the narrative of Soweto of today, that there is some sort of progression post-apartheid,” Supeng Pooe, partner at Soweto Outdoor Travel Adventures said.

Born and bred in Soweto, 35-year-old Pooe had an entrepreneurial background running small shops, and he established the travel company after the 2010 World Cup with his brother. He originally thought the idea was ludicrous, but started to see an uptick in interest just three weeks after founding the company. They offer camping, general tours, corporate packages and team-building exercises in the iconic township.

He acknowledges that 20 years ago, “doing what I do was not possible”, as the township was still underdeveloped; the tours he offers showcase the Soweto of yesteryear, and many political and economic changes have occurred since then.

The busiest period for Soweto Outdoor Travel Adventures is the spring and summer months, from September to April. It employs 20 people, bringing more on board during the peak period. The vast majority of their clients are foreign, with just 3% coming from South Africa for the experience of seeing the township.

Pooe said the hop-on-hop-off experience with mini-busses that Soweto Outdoor Travel Adventures offers is more authentic than the big tour operators, where sometimes people view Soweto from a large air-conditioned bus. “They are selling Soweto but they are not bringing anything into Soweto,” Pooe complained.

Township tourism is especially sensitive to political developments, and business is directly affected by headline news of unrest or protests in other townships. “All these things play a big factor in how information is taken in ... there is a ripple effect,” Pooe said.

A dip in bookings for Pooe also affects the people he works with, such as site hawkers who sell souvenirs to tourists, and restaurants. He has also noticed a decrease in the number of bookings by travellers ahead of the May general elections. “People are not coming with the uncertain political future ... it affects tourism on a larger scale,” Pooe commented.

He added that fixed contracts, that sometimes pan for 15 or 20 years between established tourism operators, make it difficult for small Black businesses such as himself to break into the industry and attract clients. But Pooe believes his company offers a far more authentic and interesting experience than some of the traditional tourism businesses.

# 'poverty porn' to an economic goldmine



## Dlala Nje

Dlala Nje is not strictly a tourism company, marketing itself as a social enterprise that aims to offer “immersive experiences” in the inner city of Johannesburg to change negative perceptions of the city.

Located in the iconic Ponte building in Hillbrow, Dlala Nje was established in 2012 and provides tours for individuals, groups and corporates; on the tours, they get to hear the sounds of the city, eat local food and meet people on foot in Hillbrow and Yeoville.

Ponte, the most recognisable building on Johannesburg’s skyline, has long been associated with inner city decay and was avoided by the middle and upper class following the flight to the northern suburbs in the 1990s.

The Johannesburg CBD and surrounding areas have almost become “no-go” zones for the financially comfortable. This is starting to transform as areas such as Maboneng in Jeppestown and parts of Bertrams become increasingly trendy and gentrified.

Samantha Varney, director of Dlala Nje, said the Johannesburg CBD is becoming “more and more exciting, it’s not the unknown anymore”. “People have a perception that everyone from Hillbrow is a criminal, but it is the people living in those areas who are actually the most affected by crime,” Varney said.

She acknowledged that Dlala Nje operates in communities where many people are poor and acknowledged that “poverty porn” is something that those operating in tourism need to understand and engage with, so as to avoid it.

Dlala Nje takes visitors into Yeoville and Hillbrow on foot, where they are encouraged to take cash to buy from local stalls, and every group receives a talk about not taking photos of people without their permission. All their service providers are locals and tour guides explain the rich history of the areas as people walk through.

Dlala Nje also has a social enterprise operating in Hillbrow, and Varney estimated between R600 000 and R1-million is given back to the Bertrams, Hillbrow and Yeoville communities every year.

But Varney noted that tourism “is not a silver bullet” for social issues. While it is good for the country, there also needs to be a focus on fundamentals such as education and employment.



## Sakhumzi Restaurant

On a quiet day, Sakhumzi’s landmark restaurant on the world famous Vilakazi Street has 200 customers. Maqubela established the eatery in 2011 after driving through townships as an FNB ATM technician, where he observed massive numbers of people sitting around on the streets with nothing to do during the day.

Born and bred in Soweto, he said he noticed unemployment rising in the township from 1991, and decided to play his part by opening a restaurant instead of an IT company, to give back to the community.

From employing four people to 110 currently on two shifts, Sakhumzi’s is jam-packed over weekends, and people come from all over the country and the world for the famous buffet, drinks, entertainment and atmosphere. Many DJs and artists have received exposure from performing at the restaurant.

He provided assistance for the founding of a number of other restaurants along Vilakazi Street, famous for housing two Nobel laureates, former president Nelson Mandela and Archbishop Emeritus Desmond Tutu. “Everyone gets to benefit ... I feel there is enough space for everyone,” Maqubela said.

He said unemployment can become a thing of the past; big corporates need to implement enterprise development as part of their procurement chain, provided for by the Broad Based Black Economic Empowerment (BBB-EE) codes, and that this should be enforced by government.

Maqubela has also seen a decline in the number of tourists flocking to his restaurant amid the country’s economic woes and political uncertainty. The eatery usually grows at 30% per annum and has dipped to between 20%-25% in recent times, with more locals than foreigners as patrons.

Overall, however, Sakhumzi’s is expanding; he said word of mouth is his best marketing tool. He also attends the Africa Travel Indaba in Durban in May and international travel shows in London and Berlin. He laments that many local businesses do not understand the value chain of tourism. “Anyone can start a business, but to scale it to the next level is always a struggle,” said Maqubela.

Maqubela started life in Beverly Hills in Soweto and he dreams of living in Beverly Hills in California, US or the wine region in that state, Napa Valley. Sakhumzi’s has expanded beyond what he could have ever imagined as a banking technician.

## Pro-Team Lodge

The Pro-Team Lodge, in Pongola, KwaZulu-Natal, 10km from the Swazi border, is a small bed-and-breakfast with 10 rooms, owned and run by Melusi Bheki.

He established the business in 2011, after the World Cup, as a means of creating a livelihood for his family. The lodge is nestled in the foothills of the Lebombo mountain range and is surrounded by sugarcane and fruit plantations.

Bheki employs five people in the lodge; most clients are South African and he admits that business is slow, citing fierce competition from other accommodation options in the picturesque region.

He will be among the micro-businesses displaying at the African Travel Indaba in Durban in May. He hopes to attract more visitors, add more rooms to the lodge, expand the conference facility and install a swimming pool.



## Township Economy



Despite its size, government support and financial services are not available to the informal sector, and this is the key issue holding its growth back. Photos: Paul Botes and David Harrison

### Change the lens:

# How to grow the informal economy

Author GG Alcock has solutions to grow the kasi economy

Tehillah Niselow

**G**overnment and the private sector needs to change the framing around the informal economy if the stubbornly high unemployment rate and sluggish economic growth are to be tackled, according to author of the book *KasiNomic Revolution* by GG Alcock.

When Minister of Higher Education Naledi Pandor this week encouraged young people to take up entrepreneurship, she was criticised for on social media. People complained of the high barriers to entry, such as the inability to access capital and competition from established businesses.

There are already hundreds of thousands of entrepreneurs in townships, and government should recognise hawkers as legitimate businesses says Alcock. At the quarterly release of the unemployment statistics by Stats SA, the number of people joining the informal sector always jumps, while the number of formal positions decline.

But there are a number of massive challenges standing in the way of potential entrepreneurs and people either hoping or forced to join the informal economy. The strangled nature of the South Africa's business climate was noted as one of the issues inhibiting economic growth by the International Monetary Fund's (IMF) managing director Christine Lagarde in a visit to the country in December. She promised then to use the international lender's experience to help unblock some of the monopolies in key sectors.

South Africa's economic woes are far from over. There was an overall prediction of modest recovery in 2019, but the IMF this week cut South Africa's Gross Domestic Product (GDP) forecast from 1.5% to 1.3% in 2019, predicting continued policy uncertainty after the May general elections.

Government has tried to place the township economy front and centre to showcase its commitment to the informal economy. The township economy was one of the



key pillars addressed by Gauteng Premier David Makhura when he took office in 2014. He said in his state of the province address in February that the provincial administration started by spending R600-million buying goods and services from township businesses, and that this has increased to more than R22-billion in the last five years.

The question remains how government can measure improvements and policy choices in the informal sector, which by its nature is unaudited and not subjected to many of the regulations traditional business face.

Alcock, an activist and entrepreneur, believes the informal sector, which is much larger than just the township economy alone, is completely unquantified and offers tremendous potential for employment and economic growth. He estimates that the informal sector makes up 7% of the country's GDP and there have been reports that this could go up to 20%.

#### 'Change the lens'

The muti or traditional healing industry alone, according to Alcock, is worth R3-billion, or 6% of the entire national

health budget. He says it is a huge pharmaceutical sector that is not recognised by the government.

The spaza sector is "disrupting" the formal sector and is worth R250-billion, with local stores offering goods at between 5% to 10% cheaper than low-cost grocery giant Shoprite, says Alcock.

The hair care and salon industry is also an enormous contributor to the informal economy, as well as backyard room rentals in townships. There is also an increased demand for culturally correct food, and the informal sector is best placed to provide this.

Alcock says that there are misconceptions about informal businesses, when in fact they are profitable and many have been in place for over five years. "We need to change our lens; the informal sector is not survivalist or subsistence business only," Alcock says. Despite its size, government support and financial services are not offered to the informal sector, and this is a key issue holding its growth back.

#### Security of tenure

Alcock maintains that the informal sec-

tor must first have security of tenure. An example he uses is a "School Mama" who sells lunch to hundreds of school children but is reluctant to invest further in her business, as a new principal or new regulations promulgated by the department of basic education could remove her from the premises.

Traders are also unlikely to employ an extra person in their business, buy a new fridge or spend capital if they are unsure that local authorities will allow them to continue operating.

He references a possible solution used in the Bantustans under apartheid, which gave people Permission To Occupy (PTO) areas and allowed them to do business. Municipalities should also look at their by-laws in areas such as trading to ease access for the informal sector.

Another key issue holding informal businesses back is the lack of access to finance, whether it is for stock or equipment. Many financial institutions want to see audited statements before extending credit to businesses and most informal companies do not operate under these conditions and have no official records.

In Kenya, the informal sector is increasingly making use of mobile applications to record transactions, in order to access finance and banking, which is a possible solution for South Africa's informal economy, according to Alcock.

A third issue of importance for Alcock is that government often looks to link small businesses inside townships to large, established procurement chains — and this model will never work. Instead, township businesses should be supplying companies within townships, instead of them turning to Shoprite for their products.

"Interventions should not be how to get them off the street, but to keep them on the street and increase their business," Alcock says.

He points to the massive social grant programme by government, with over 17 million recipients, some of whom receive their payouts through Shoprite and Boxer stores. "Even the social grant system is designed to grow the formal economy," says Alcock.

He advises instead that government should pay social grants through spaza shops and hair salons, which would immediately give the sector an enormous boost.

## Township Economy

### Informal economies are diverse:

# South African policies need to recognise this

From page 3

About 28% of informal workers are own-account workers, which means that they are self-employed in activities such as street trading or waste collection, but are not registered for tax or VAT and do not employ others.

The other group (just under 7% of the informal economy) of self-employed workers employ others in their informal sector businesses. This is the group (employers) that is increasingly receiving attention in World Bank and International Monetary Fund publications, as workers who can be “formalised” and brought into the tax net and other regulatory structures.

#### Hierarchies of risk

Earnings and the risk of poverty also differ considerably across the informal economy.

Unlike common depictions of the informal economy as a single “undifferentiated” group of workers, the evidence shows that informal employment is complex and made up of various sectors. For example, the links between poverty and employment differ, substantially, by gender and type of employment.

An analysis of South Africa’s 2015 Labour Market Dynamics data-set shows marked gender-based wage inequalities in informal employment, in the form of a pyramid hierarchy.

Poverty risk by status in employment. Source: Author’s calculations from the 2015 Labour Market Dynamics in South Africa.

Women earn less than men within each of the same broad categories of employment. Women are also concentrated in the lowest-paid types of employment in the South African informal economy. Men only make up a small percentage at the bottom of the pyramid, where earnings are lowest and poverty risks are highest. Moreover, most unpaid family workers are women.

These differences have significant policy consequences. Understanding these (and other) sources of vulnerability is crucial to designing policies that address poverty reduction, gender equality and income inequality.

For example, a pol-

icy that aims to help informal entrepreneurs to expand would almost certainly have a gender bias towards men, since almost 90% of informal employers in South Africa are men. And it is also likely that workers at the bottom of the pyramid face a number of different risks from those at the top. As such, the policy solutions may vary for workers in different segments of the pyramid.

#### Acknowledging diversity

As the country reflects on the outcomes of the summit on jobs, there is an opportunity to think carefully about the South African workers who earn their livelihoods in the informal economy. If policymakers are serious about supporting jobs in the “township economy” they need to understand the structure of the informal economy, the different characteristics of the workers

who comprise it and, importantly, which risks they face as they craft livelihoods.

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## THE POWER OF THE TOWNSHIP ECONOMY

### – from spaza shops to funeral services

South Africa’s informal economy has been growing and booming for years, albeit in the shadows of the ‘real’ economy. However, a notable factor of especially the township economy is that it has never been comprehensively researched to establish the total turnover of businesses, or its contribution to employment levels and the development of the country.

The term ‘township economy’ could be understood to be a reference to enterprises and markets based in townships – locations or suburbs in predominantly peri-urban areas – where entrepreneurs from within or outside the township cater to the needs of local communities through their products and services. This vast economy is not only from private sector activities, but also products, services and development initiatives from government and non-governmental organisations. Business opportunities are not only driven by need, but also created by chance or default.

Such was the case seven years ago, when a young volunteer at a community garden in the sprawling township of Khayelitsha outside Cape Town found an innovative solution for an unused spinach crop which they planted at the time. Lufefe Nomjana eagerly searched the internet for possible answers and in this process stumbled upon interesting spinach bread recipes.

Word has it that Nomjana then baked his first batch of spinach bread in a neighbour’s oven, and started selling his loaves around the neighbourhood. This was the beginning of a small business idea that has since flourished into an established and growing business that has attracted tourists from around the country, wanting to taste the best loaf in the Cape: nutritional spinach bread.

#### FUNERAL SERVICES, SUPPORTING ENTREPRENEURS

In many township communities, AVBOB is a household name. In South Africa, this household name is a business rooted in its status as a ‘mutual society’ which has no shareholders. It is the policyholders or members who, therefore, receive the Group’s surplus profits in the form of special bonuses and free funeral benefits.

AVBOB has a footprint of more than 320 branches across the country with a significant number of these being in townships. AVBOB’s business model allows for the empowerment of entrepreneurs in townships and rural areas by setting them up to run their own funeral establishments with the required infrastructure and no capital outlay. AVBOB spends on average approximately R2 million per entrepreneur to fully equip them with all the necessary training and know-how to render a professional service to their communities.

This says Mr Frik Rademan, CEO of AVBOB Mutual Assurance Society, is only a part of the service delivery and employment picture.

“These entrepreneurs then employ a further average of eight people from local communities on a permanent basis and they use other local business people to source services and products (such as catering equipment, house tents, flowers or transport), which AVBOB does not directly offer or provide to clients. There are a number of products and services our clients require when a funeral is arranged that we choose not to provide. We refer to such services as non-core services. These non-core services that emanate from AVBOB funerals continue to support and sustain thousands of entrepreneurs and their families in their respective areas,” he explains.

“Depending on a number of factors covering the spectrum, from the size of the funeral branch to the average household disposable income to the state of the local economy, the percentage spend on non-core services could be as high as 56% of the total cost of the funeral,” he says.

#### GROWING NEW BUSINESS, COMMUNITY DEVELOPMENT

Over the past five years, AVBOB has invested close to R200 million in townships through its intensive Corporate Social Investment programme. In addition, the Group has invested R150 million in partnership with the national Department of Basic Education (DBE) to renovate and upgrade a number of schools countrywide, and in support of the DBE’s Sanitation Appropriate For

Education (SAFE) initiative. This is all part of AVBOB’s commitment to invest in the education of young South Africans.

In accordance with the company’s strategy to expand its national footprint and its commitment to further the objectives of broad-based black economic empowerment, AVBOB has developed a strategy to support enterprise and supplier development programmes which will focus on developing small businesses within previously disadvantaged groups, with specific focus on suppliers providing goods and services to its funeral agencies.

Township enterprises operate in a bustling and competitive environment with diverse economic activities, ranging from street car-wash services, stokvels, child care centres, shebeens, food vendors, minibus taxis, hair salons, bed and breakfast services, burial societies, mechanical services and, lately, Uber services.

#### SUSTAINABILITY AND FOOD SECURITY

The informal sector also plays an often overlooked, yet critical role in the behaviour of the agri-food value chain. According to a 2019 World Wildlife Fund report on agri-food systems, the ability of spaza shops to provide access to affordable food for the urban poor is an important component of future food security.

According to the report, policy decisions often favour the organised sector, in part due to its size and trading volumes, while the perception is that the revenue of informal enterprises cannot be easily determined. In reality, the report states that 32% of households purchase food from the informal food economy almost every day, and on average 70% of households normally source food from informal markets or street vendors. Research estimates that the market size of the informal food economy varies between R46 billion and R176 billion.

#### SHARING VALUE, BREAKING THE CYCLE OF POVERTY

Nurturing new entrepreneurs and enterprises is seen as one of the key aspects of revitalising the South African economy. The unemployed as well as young people are often encouraged to start their own businesses and become entrepreneurs. These initiatives are mainly driven by development agencies and business schools at universities as well as other tertiary institutions. Although these efforts are vital in ensuring the growth of the economy and eradication of poverty, empowering ordinary people – the woman or man on the street – remains equally important.

From day one, the concept of uplifting their members has been not only AVBOB’s guiding principle, but also part of their corporate DNA. In addition, AVBOB believes that shared value is not merely a feel-good strategy they have adopted to gain competitive advantage or to improve their corporate image. It is fundamentally who they are. And it is not a one-size-fits-all solution.

“Recognising the wide disparity of income and wealth distribution in the country and our responsibility to all citizens, we are deeply invested in the concept and reality of connectedness through caring and sharing,” says Rademan.

“Without meaningful participation in economic growth, the cycle of poverty is never broken. And so, never before has AVBOB, with our shared value mutual business model, had a more relevant role to play in South African society than today,” he concludes.



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