

Local Enterprises and Local Economic Development (LED)

Case Study Report on Local Enterprises in Evaton

SPII Research Report

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Executive Summary

In the absence of economic activities in the formal sector, unskilled, poor and marginalised South Africans rely on the informal economy and government cash transfers for survival. The informal economy due to its easy access provides various economic generating activities for the poor in South Africa. The structure of the economy favours the development of established formal businesses that meet the minimum standards such as registration. This business development strategy can be traced back to apartheid policies that prevented black people from operating registered businesses in urban areas. Apartheid policies favoured the social and economic development of the white minority at the expense of the black majority. As a result, the majority remain in the areas that are underdeveloped with poor infrastructure.

In an effort to address colonial and apartheid legacies, the African National Congress (ANC) led government ushered in successive policies that aimed to address this skewed social and economic development that was achieved under the apartheid government. The government has emphasised local economic development (LED) which focuses on development at a local/community level, driven by local municipalities. LED adopts a bottom-up approach to economic development and job creation. Murphy *et al* (2006) define LED as “a process by which public, business and non-governmental sectors partner to work collectively to create better conditions for economic growth and employment generation”.¹

Despite the slow economic recovery since the financial meltdown in 2008, Dalberg (2012)

states that small business remain critical to job creation and employment, especially in developing economies. However, in South Africa micro and small businesses are not achieving the growth for increased job creation. South Africa, compared to other emerging markets, has low levels of entrepreneurial activity. Small businesses have highlighted that access to finance, market access, skills and networks and enabling environment are major constraints to growth.²

This research report by the Studies in Poverty and Inequality Institute (SPII) forms part of a larger project “*Linking transfers to local economic development: developing a pilot*”³ project, which aims to establish whether local enterprises in South Africa can be used to drive local economic development and job creation. In order to achieve this, SPII has decided to investigate two possible explanations: firstly, there is a shortage of cash flow within the local community that prevents businesses from having sufficient demand for their products and secondly, do businesses need more support and training in order to become sustainable and support LED?

The project aims to investigate why LED appears to be faltering, and to provide alternative approaches to stimulating LED. In this investigation, SPII brings to the fore the lived realities of small, micro and survivalist

² Dalberg, The Small and medium Enterprise (SME) Sector-Catalyst for growth in South Africa, 2012, JPMorgan Chase Foundation.

³ Two Policy Briefs titled “*The role of social grants in supporting local economic development (LED)*” and “*A supply side intervention is support of local economic development (LED)*” and five input papers titled “*What are the activities being undertaken by the poor in South Africa?*”, “*The role of Microfinance in supporting small businesses*”, “*Measures of Local Economic Development (LED)*”, “*The use of local currency*”, *International Case Studies on support programmes to small businesses*” were produced by SPII as part of the project that aims to provide alternative approaches to supporting LED. The following papers are available at www.spii.org.za.

¹ Ibid

enterprises by highlighting their strengths, weaknesses, challenges and capacity levels in supporting LED and job creation. Evaton Township was selected as the area to undertake this research because it is also the site of SPII's March 2011–April 2012 Household Survey and Household Expenditure Survey⁴, conducted in cooperation with Statistics South Africa.

The following report is focused on the supply side (local enterprises) intervention to supporting LED. The case study approach was the chosen method of investigation to provide an in-depth analysis of small, micro and survivalist enterprises in Evaton⁵. This included 13 local business owners from seven sectors in the informal sector. After a scoping exercise on existing business in Evaton, selected businesses were chosen because of their prominence and scalability. Because the research was only undertaken in Evaton, which is context driven, the research is indicative rather than representative. This research, however, does highlight important insights and trends which are not unique to Evaton, with recommendations being applicable more broadly.

The research on enterprises in Evaton sought to examine the following questions:

- What are the constraints to growth experienced by small and local enterprises?
- What are the strengths, weaknesses, capacity and challenges experienced by local enterprises?
- Can local enterprises support LED and Job creation?

⁴ 142 households were part of the Household Survey that looked at the coping mechanism and consumption patterns of these households. The Household Survey also included a food basket, which households filled in all the food and non-food items that households spent their money on.

⁵ Evaton is peri-urban area located 60 kilometres south of Johannesburg.

Based on desktop research and in-depth field work research, this study makes the following recommendations:

- Small, micro business are important to economic development and job creation as they provide **livelihood strategies for the poor** and marginalised. It is important municipalities begin to see them in such light;
- **Infrastructure development** is imperative for any successful LED initiative. Interviewed enterprise owners highlight that poor infrastructure such as access to appropriate and adequate shelter, electricity and running water were amongst the reasons why their business was failing to grow;
- This research indicates that individuals and enterprise owners in the informal sector have a low education level. It is important that enterprise owners, especially those who operate in the informal sector are afforded **basic business management skills** with the aim of improving how they conduct their businesses;
- **Access to credit** is a major stumbling block for the poor in South Africa. The formal sector institutions deem micro-enterprises too risky because they are not able to provide proof of income or collateral. However, international experience for providing credit to small, micro enterprises indicates that credit schemes need to be tailor made to the needs of those who operate in the informal sector. In order to provide credit and financial assistance to individuals and enterprises that operates in the informal economy - tailor made

interventions with regards to credit and access to financial services are encouraged;

- Government support programmes for small business have been faulted for not reaching small, micro and survivalist enterprises. One of the main reasons why those who operate in the informal sector fail to access these support programmes is the lack of access to information at a local level. There is a need for **localised information desks** for local enterprises with regards to access to information;
- The businesses analysed in this research indicated there is no link between local enterprises and local producers. Thus it is difficult to fathom how LED which is supported by local enterprises would work if there is no value chain created between local producers and suppliers. The majority of the enterprises interviewed indicated that they get their supplies from an established business outside of Evaton. Money is therefore flowing out of the community. In order to drive LED through local enterprises it is imperative that **local enterprises are linked to local producers** to curb the outflow of money from the community;
- There is a need for **further research** into the value chain and linkages that exist between the formal sector and informal sector. Local enterprises provide an entry point for products produced by established formal sector enterprises, and in most instances, local enterprises carry the financial burden of bringing these products to this market. Further research needs to

be undertaken on the beneficiation of this relationship. Understanding this relationship is imperative to understanding the challenges to growth experienced by local enterprises.

Chapter one: Setting the scene

1.1 Overview of the 'triple challenge'

South Africa is endowed with immense mineral resources, and prior to the 2008 global economic crisis, the growth rate ranged between 3.5% (2004) and 5.2% (2007). In spite of this positive outlook, South Africa is facing a 'triple challenge' of poverty, unemployment and inequality. South Africa has been declared the most unequal society in the world. The official, narrow definition of unemployment stands at 24% but excludes those who are discouraged to look for work. A broader definition which includes those who have been discouraged is 36%.⁶ 18 years into democracy, the legacy of apartheid and colonialism persist as development and spatial distribution continue to be determined by race. Since the advent of democracy in 1994, the incumbent administration has ushered in successive policies aimed at addressing the high levels of poverty and unemployment. However, the policies have been criticised for focusing on economic growth and not on shared growth. According to Frye (2005), during the period of 2004 and 2007, there was a significant shift by government from the rights based approach, to a technocratic focus on economic growth targets.⁷

The technocratic focus on economic growth targets did not result in the envisaged shared growth and job creation.⁸ Banerjee *et al*

(2008) argues that since 1994 South Africa has been experiencing an increase in levels of unemployment. The increase has been attributed to an unprecedented influx of African women and relatively unskilled new entrants into the labour market, the decrease in demand for unskilled labour in the mining and agricultural sectors, and the influence of technology.⁹ The challenge to employment creation is that the number of job seekers outweighs the number of jobs available in the formal economy. More importantly, there is a mismatch between the demand for highly skilled labourers and the large supply of low skilled labour. In the absence of employment opportunities in the formal sector, the poor and marginalised are forced to turn to the informal sector, as it serves as an easy point of entry for economic generating activities. The informal sector provides a diverse number of activities which serve as livelihood and income generating strategies for the poor and marginalised.

Those who are in the bottom income deciles are the most affected by unemployment. The unemployment rate amongst the poorest 10% of the population is very high at 70% compared to 4, 5% amongst the richest 10% of the population.¹⁰ The 2008 National Incomes Dynamics Study (NIDS) survey shows that 47, 3% of South Africans live below the poverty line of R502 per capita per month. The survey also shows that 58% of all income accrues to the wealthiest 10% of the population, while the poorest 10% account for only 0.4% of total income.

The richest 10% earn nearly 20 times that of the poorest 10% and in 2008, Africans earned only 13% of white capita income compared to

⁶ Statistics South Africa, Quarter Labour Force Survey, 2012.

⁷ Frye, I., What is poverty? A qualitative Reflection of the people's experiences of poverty, National Labour and Economic Development Institute, 2005.

⁸ In their 2011 New Growth Path, The Department of Economic Development states that the path is built on the principle of shared economy by arguing that "we will have a to develop a collective national will and embark on joint action to change the character of the South African economy and ensure that the benefits are

shared more equitably by all our people, particularly the poor" (page).

⁹ Banerjee., Why has unemployment risen in the new South Africa?, 2008

¹⁰ Liebrandt et al, 2010

10.9% in 1993. This survey also indicated that a strong relationship exists between race and poverty, with 56% of Black Africans living below this poverty line, and in addition, Black Africans made up 94% of those who lived below the poverty line.¹¹ The challenge is that without addressing the income disparities, achieving social transformation will remain a fleeting illusion.

1.2 Historical overview of the informal economy in South Africa

The poor and marginalised are heavily reliant on the informal economy and social assistance for survival.¹² Nonetheless, the informal economy is treated as a temporary phenomenon which will soon dissipate as soon as the formal economy recovers. The conceptualisation of the “second economy”¹³ at a national level has been misunderstood. This is clear in Phillip’s (2011) analysis of the work done by the Presidency Commissioned Review on the performance of targeted support for the second economy. Phillips argues that the terms of reference for the “Second Economy Strategy Project” did not engage thoroughly with the concept of Second Economy. Instead, the emphasis was placed on the use of the term, and on highlighting challenges of poverty and economic marginalisation, compared to focusing on the development of individuals and enterprises who operate in this sector.¹⁴

1.3 Extent and challenges of the informal economy

Despite its significant contribution towards GDP and job creation throughout Africa, the informal economy in South Africa¹⁵ contributes a mere 7% towards GDP. In the South African case the number of people generating income in the informal economy is significantly smaller when compared to its counterparts in the rest of the developing world, despite high levels of unemployment. For instance, developing countries such as Ghana, India and Kenya have used the informal sector as an avenue for job creation and poverty alleviation. The informal sector in Sub-Saharan Africa is responsible for nearly 55% of GDP and 77% of non-agricultural employment.¹⁶

There is a clear relationship that exists between formal and informal sectors in South Africa. In most instances formal sector businesses determine the terms for trade for the entire sector. The value chain tends to favour established enterprises. Informal sector businesses offer an entry point for goods produced by large businesses to poor and marginalised markets, with the terms decided by the large firms. South Africa's regulatory environment and policy context under apartheid increased the barriers to economic participation and overlooked whole categories of the informal economy. A missing regulatory environment can be as costly to informal operators as an excessive regulatory environment in the formal sector. The policy regime under the apartheid government made most formal economic participation for

¹¹ Southern Africa Labour and Development Research Unit, National Income Dynamics Study, 2008.

¹² Treggana and Tsela, Inequality in South Africa: The distribution of income, expenses and earnings, 2012.

¹³ The informal economy is also referred to as the second economy to highlight that is second to the formal economy. Second economy is made up of the majority of the population and also indicates the levels of marginalisation.

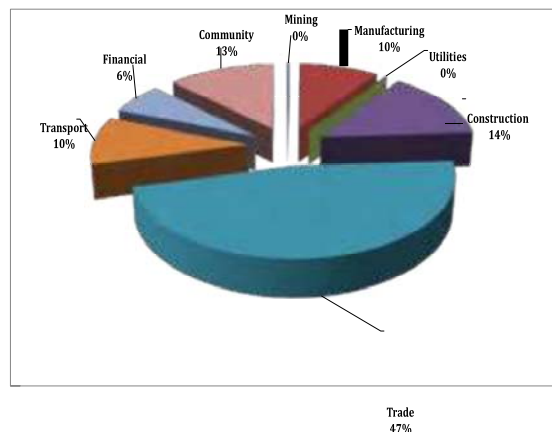
¹⁴ Phillips, K, Inequality and economic marginalisation: How the structure of the economy impacts on the opportunities on the margins, 2011.

¹⁵ It is argued that in South Africa small, medium, micro enterprises are born as a result of the failure of the formal sector and their failure to find employment.

¹⁶ International Labour Council, Decent work and the Informal economy, 2002.

black people in urban areas illegal.¹⁷ Under the incumbent administration the informal economy remains peripheral to the formal economy. This highlights the need for a thorough analysis of the role of the informal economy and the terms for incorporation, especially as an economic generating opportunity for the poor and marginalised.

Figure 1: Informal economy in South Africa¹⁸



Source: StatsSA, (2010), QLFS, Q3,

Figure 1 provides a breakdown of the informal sector in South Africa. The figure indicates that the informal economy is dominated by activities in the retail sector, followed by construction, community and personal services and finally the transport and communication sector. Retail trade (not in stores) dominates the informal economy and makes up around 64% of all trade. This sector is dominated by stalls and markets, either on public roads or in permanent market places.

Local economic development (LED) emerged as an avenue for the incumbent administration to create jobs and reduce the high levels of unemployment. According to

Hemsing (2001) local economic development can be defined as a deliberate effort by local government, non-governmental organisations (NGO's) and the private sector to forge partnerships in order to ensure that local resources are utilised in the most efficient manner to create jobs and stimulate the local economy.¹⁹

LED gained prominence in the 1980s when economic recession and rising unemployment were having an impact on local communities and economies around the world.²⁰ LED is conceptually geared towards maximising the economic capacities of local areas. The informal sector is viewed as having an important role to play in LED, especially in poor and marginalised areas, as they are likely to be faced with high levels of unemployment and constraints to development due to a lack of, or inefficient infrastructure and limited opportunities.

According to Chen *et al* (2000) it is better to be informally employed than to be unemployed.²¹ In her paper '*The Informal Economy*', Becker (2004) argues that future employment opportunities will be created in the informal economy, especially in the developing world.²² It was first assumed that the formal sector would continue to grow, especially in the developing world, to absorb the vast and readily available labour supply.²³

¹⁹ Helmsing, A.H.J. 'Local economic development, new generations of actors, policies and instruments', A summary report prepared for the UNCDF symposium of decentralisation local governance in Africa held in Cape Town, 2001.

²⁰ Akah, 'Local economic development, an emerging reality in Sub-Saharan Africa (Case Study of South Africa)', Published thesis, Development and International Relations, Aalborg University, Denmark, 2008.

²¹ Chen et al, Rethinking the informal economy: linkages with the informal economy and the formal regulatory environments, eds, unlocking Human Potential: Concepts and policies for linking the informal and formal sectors, 2006.

²² Becker, M, 'The Informal Economy', 2004.

²³ Chen et al, Supporting workers in the informal economy: policy framework, 2001. Paper presented for the International Labour Council (ILO) Task Force for the Informal Economy.

¹⁷ Socio Economic Rights Institute, Criminalising the livelihoods of the poor: The impact of formalising informal trading on female and migrant traders in Durban, 2011.

¹⁸ Statistics South Africa, Quarter Labour Force Survey, 2010.

However, work by Aryee (2002) indicates that the informal economy is a significant creator of jobs in Africa, Asia and Latin America. It is estimated that the informal economy accounts for 80% of non-agricultural employment in Africa, 70% in Asia and about 57% in Latin America.²⁴

However, Devey *et al* (2006) state that there is a lack of support for emerging micro-enterprises operating in the informal economy from government initiated support programmes in South Africa.²⁵ Available support programmes are better suited for established small, medium enterprises, which meet the minimum standards such as registration, and a minimum turnover in profit. Businesses and individuals who operate in the informal economy do not have access to financial services and business development needed for their businesses to grow and thrive. The credit system, as noted by Lund and Skinner (2005), is not appropriate as it uses pre-established banking techniques that are historically not matched to the social background of the majority of the population. This creates an exclusion criterion for many individuals due to its inflexible design, namely registration, collateral, high minimum deposits, and high charges on transactions. Business development for individuals and enterprises that operate in the informal economy has been criticised for a mismatch between what the market requires and what is being provided in terms of business training and development. The challenge with regards to business development for those who operate in the informal economy is that training is heavily focused on how these informal businesses can be formalised, rather

than focusing on the best business management practices.²⁶

²⁴ Aryee, G, Policy for the proportion of employment and incomes in the informal economy, Paper presented at a workshop on making good use of labour market information, Windhoek, Namibia, 2002.

²⁵ Devey *et al.*, Second best? Trends and linkages in the informal economy in South Africa, 2006.

²⁶ Skinner, C and Lund, F, Creating a Positive Environment for the Informal Economy: Reflections from South Africa, 2005.

Chapter two: Aim and research methodology

This report presents the results of an in-depth case study analysis of 13 local enterprises in Evaton undertaken in 2012. The enterprises were selected according to their prominence in the area, scalability and job creation abilities. The report also aims to highlight the lived realities of these enterprises, their strengths, weaknesses, capacity and challenges. As part of our baseline study, Household Surveys were conducted in 142 households in Evaton in cooperation with Statistics South Africa between March 2011 and April 2012. The Household Survey sought to investigate the coping mechanisms, expenditure and consumption patterns of households in Evaton. The data from the Household Survey provided information on the following key questions:

- Types of dwellings
- Classification of households in terms of wealth
- Main sources of income
- Types of social grants received
- Sectors in which most individuals are employed

Type of retailer where households spend their money for food The following sectors in the informal economy formed part of the case studies: Early Childhood Development Centres (ECD), spaza shops, street traders, construction, motor mechanics, funeral services, hair dressers and food gardens. The following study makes use of qualitative methodologies, including field visits and in-depth interviews. The study began with a scoping exercise of the existing enterprises in the area. Over a period of three months, field work was undertaken with 13 local enterprise

owners operating in the informal sector in Evaton.

2.1 Methodological overview

2.1.1 Research approach and design

- Research paradigm:
Interpretive/descriptive approach

The approach focuses on the manner in which people make sense of their subjective reality and assign significance to it. Thus, emphasis is placed on the interpretation of the world from the individual participant's perspective. In this research, the researcher gained access to the lived realities via conversations with the research participant, site visits and observation. This approach focused on capturing the personal experiences of local enterprises. This allowed for key themes to emerge. This is known as a grounded approach.

- Qualitative research approach

In the field of investigation there are two well-known research approaches that are distinguishable and frequently utilized, namely qualitative and quantitative research methodologies.²⁷ Silverman (2005) adds that the researcher's methodological awareness is very important because it demonstrates the research commitment to the audience of the research study by the researcher. Methodological awareness accentuates the procedures and evidence that have led to the conclusion reached.²⁸ The qualitative approach was selected as it enabled the researcher to ask sensitive questions which cannot be aired in public forum, and to allow for follow up

²⁷ Collingridge, D,S and Gantt, E,E., The quality of qualitative research, American journal of medical quality. Sage publications, 2008.

²⁸ Silverman, D, Doing qualitative research, 2nd edition, Sage publications, London, 2005.

questions giving the participant an opportunity to elaborate further. Through the use of the qualitative approach this research has been able to gather and generate primary data that captures the perspectives of the participants in their own voice and provides insight into the contexts of local enterprises in Evaton.

- Case study research design

A case study is an in depth, qualitative investigation of a single phenomenon. In this research, each case is an in-depth investigation of one small, local enterprise in Evaton. Simons (2009) argues that a case study enables the exploration of a particular situation or context and can do justice to the uniqueness of the single case. The primary aim for undertaking a case study is to understand each case in its distinct form. In this investigation, the qualitative case study approach was the most appropriate approach as it provides an empirical enquiry that investigates a contemporary phenomenon within a real life context using multiple data collection strategies such as semi-structured interviews and participant observation.²⁹ This research generated new knowledge about capacity levels and challenges to growth experienced by local enterprises in Evaton.

The results from this study are indicative rather than representative.³⁰ It cannot be assumed that all local enterprises in Evaton experience the same challenges as the ones that took part in the research. However, enterprises have been chosen through an information-oriented selection approach, including at least one case from each of the prominent sectors in the informal economy. Payne *et al* (2005) argue that qualitative data

can be utilised to generalise beyond the scope of the research sample itself if the researcher adopts the '*moderatum generalisation*' approach. 'Moderatum generalisations are limited, tentative and modest compared to the classical statistical generalisation. However, they can produce 'testable propositions' thus allowing the generalizability of the findings to be broad. The research is undertaken on local enterprises in the most prominent sectors in the informal economy in Evaton and a moderatum generalisation will be sufficient if an intervention is designed to support enterprises in Evaton.³¹

2.1.2 Data Collection

This study adopted various methods to capture data. These included audio recordings, photographs and field notes from interviews, informal conversations and observations. Using a tape recorder allowed for the interviews to be recorded verbatim. This was beneficial as the researcher was able to go back to the interviews at a later stage, generating a detailed account. Photographs provided an insightful view into the conditions of the local enterprises. Field notes were taken throughout research documenting interviews, observations and the researcher's own reflections from the field.

2.1.3 Data analysis

The data was analysed through a process of coding, and categorising findings which resulted in the generation of themes. This enabled the researcher to organise and make sense of the data in order to develop the key findings found in this report. The individual cases were analysed using what Ayres *et al*

²⁹ Simons, H, Case Study Research in Practice, 2009, SAGE Publications, London

³⁰ Flyvberg, B., Five Misunderstandings about case-study Research, Qualitative Inquiry, 2006.

³¹ Ibid

(2003) terms 'within-case analysis'. 'Within-case analysis' enables the researcher to distinguish between information which may be relevant to one case, but not as useful outside the interpretation of that individual experience.³² In this study, each case study interview was transcribed and analysed individually. Coding enabled the researcher to identify key findings and themes across the different cases, producing an ideal typology. An ideal typology is the themes that are common across the different cases. In order to come up with an ideal typology, the researcher engaged thoroughly and repetitively with each interview and noted the emerging themes.

³² Ayres, Within-case and across case approaches to Qualitative Data analysis, *Qualitative Health Research* 13 (6), 2003.

Chapter three: literature review

3.1 Introduction

This chapter highlights the theoretical assumptions which inform this research. This section includes a brief overview of the literature on LED, LED in South Africa, and the role of micro-finance in supporting small businesses, and international best practice and examples on support programmes for small businesses.

3.2 Discussing local economic development (LED)

The rise in the levels of poverty and unemployment in the last 30 years has necessitated the need for countries and local municipalities to develop “self-reliance strategies which are practised either as a traditional form of livelihood or as local alternatives to overcome poverty”.³³ Akah (2008) argues that globalisation has weakened the control states have over their economies, and this has forced localities both rural and urban to pursue locally determined appropriate development strategies. According to Nel (1999), local development strategies are important because they allow for the development planning that is custom made to suit the needs of the area and encourage a bottom-up approach to development. Local economic development can be viewed as a mechanism to reduce levels of poverty.

LED can be defined as a “process in which local governments and/or community based groups manage their existing resources and enter partnership arrangements with the

private sector, or with each other, to create new jobs and stimulate economic activity in an economic area”.³⁴ Blackely and Bradshaw (2002) define LED as a process whereby local government agencies, community based organisations constructively engage each other on the various initiatives that can be undertaken to stimulate or maintain business activity and employment.³⁵ LED interventions can range from small neighbourhood, town or city-wide initiatives. The concept of LED is driven by the need to use local resources to create jobs and stimulate local economic activity.

In recent times, as noted by the International Labour Organisation (ILO), centralised and macroeconomic policies have failed to support local economic development and have led to high levels of unbalance in development. Macroeconomic policies have been criticised for heavily putting emphasis on economic growth, thus neglecting the beneficiation from this economic growth at local level.

LED aims to move away from centralised and economic policies by adopting a bottom up approach to job creation and stimulating local economies. Because LED is a deliberate economic intervention in a local context, the establishment of industries, factories, integrating work and residential areas and the development of local enterprises are imperative to its success. More importantly, the ability of local government to provide infrastructure can prove critical to the success of any local economic activities given its potential for more proximate interventions. Three examples of LED initiatives are identified, namely community based economic development, business or

³³ Akah, Local Economic Development: An emerging reality in Sub-Saharan Africa (Case Study of South Africa)

³⁴ Ibid

³⁵ Blackely and Bradshaw, planning local economic development, theory and practice, fourth edition, sage publications, 2002.

enterprise development and the development of the local area.

3.3 Overview of LED in South Africa

In his 2003 State of the Nation Address, former President Thabo Mbeki stated that South Africa had a dual economy. Mbeki believed there is a structural fault that exists in the economy – dividing the economy into both a first and second economy. The first economy is modern, rivals economies in the developed world and produces the bulk of the country's wealth. The second economy³⁶ consists of the majority of the population who are located in both rural and urban areas. Due to decades of successive legislated racial discriminatory practices under the Apartheid regime, the black majority continue to live in poverty as they remain on the peripheral of economic and social development.

LED initiatives in South Africa aim to tackle the legacies of Apartheid by driving development at a level where the poor and marginalised are located. The ANC inherited an economy that was shedding jobs. Using the broad definition of unemployment, it is estimated that the number of unemployed people increased by 87% between 1995 and 2002 from 4.2 million to 7.9 million.³⁷

Due to this, LED was adopted as a government policy to address the rising levels of unemployment and poverty by improving the economic capabilities of municipalities.³⁸

³⁶ The informal economy is sometimes referred to as the second economy and the formal economy being the formal economy. The term economy is also used to refer to people who are on the peripheral of economic development (marginalised)

³⁷ Bhorat, H and Oosthuizen, M, The Post-Apartheid South African Labour Market, 2005, Development Policy Research Unit, University of Cape Town.

³⁸ The National Framework for LED in South Africa (2006-2011) states that there is responsibility placed on municipalities to "facilitate LED, the schedule in the Constitution that lists the functions of municipalities do not include LED. This has contributed to an interpretation that sees LED as an unfunded

South Africa was the first country in Africa to endorse and adapt LED interventions.³⁹ Constitutionally⁴⁰ local government departments are expected to promote LED, and the Constitutional consideration⁴¹ was reinforced by the White Paper on Local Government of 1998,⁴² which put emphasis on the ability of local governments to promote job creation and boost local economy through LED. The notion of a developmental local government was stressed to enable municipalities to develop their own strategies for meeting local needs.

Key policies and policy papers supporting LED in South Africa:

- The Constitution of the Republic of South Africa Act 108 of 1996
- The White Paper on Local Government (1998)
- Local Government: Municipal Systems Act (2000)
- A Policy Paper on Integrated Development Planning (2000)
- LED Guidelines to Institutional Arrangements (2000)
- Draft LED Policy (2002)
- Policy Guidelines for implementing LED in South Africa

mandate for municipalities. Rather, there is clear implication given the juxtaposition of the Constitution and its schedule that municipalities have a key role in creating a conducive environment for investment through provision of infrastructure and quality services, rather than developing programmes and attempting to create jobs directly"

³⁹ Ibid

⁴⁰ Section 152 (1) (C) of the Constitution mandates local governments to promote social and economic development, and this has to be achieved within reasonable measures and within available resources.

⁴¹ The 1998 White Paper on Local Government, the concept of "developmental local government" is introduced, which is defined as "local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and improve the quality of their lives"

⁴² The Department of Local Government, The White Paper on Local Government, 1998.

- National Framework for Local Economic Development (LED) in South Africa (2006-2011)

In his analysis of LED in South Africa, Akah (2008) states that South African “municipalities, both local and rural, are struggling to apply local economic development processes within their municipalities”⁴³. Patterson (2008) states that policies from the Department of Provincial Government and Local Government (DPLG) and the Department of Trade and Industry (DTI) are in many instances grounded on contradictory paradigms, and as a result tend to pull in the opposite direction.⁴⁴ One is focused on poverty alleviation in poor communities, while the other has a global, market orientated economic that emphasises increasing competitive advantage.

Marais (2008) adds that in South Africa “levels of integration between business support services, local economic development, and development projects are limited. In some cases, the well-intended business support provided by business support organisations is not supported by the wider range of support from urban management”.⁴⁵

In 2012, the Public Protector⁴⁶, Thuli Madonsela, made a call to poor performing municipalities to draw up rescue plans. This was done in an effort to encourage municipalities to draw up strategies to address the poor service delivery. The Public Protector announced an intention to undertake a nationwide tour of local

municipalities.⁴⁷ Despite this commitment at a national level, the reality at municipal level is characterised by poor service delivery and lack of opportunities for the poor. This has resulted in numerous challenges in the implementation of LED.

3.3 The role and impact of microfinance on the poor and marginalised

In order to make small businesses the driver of economic growth and employment, it is imperative that they are afforded the support that big businesses enjoy. This includes access to credit, loans, overdraft and training. More importantly, support programmes by government do not always reach small and micro businesses. Credit schemes such as the ones adopted by the Grameen Bank in Bangladesh and The Self Employed Women’s Association (SEWA) Bank in India provide good examples of lending schemes for those deemed too risky. The Grameen Bank and SEWA credit schemes were successful in promoting a savings and lending culture for small informal groups consisting of co-opted members from the same background with a high level of mutual trust. In Sri-Lanka a training programme was introduced which enabled people in the informal sector to obtain technical skills from both the private and public training institutions. This initiative enabled the establishment of a supervisory agency for microcredit organisations, which generally lend to informal sector and accepts deposits.⁴⁸

Micro-credit programmes amongst women in Nepal have shown to have wide ranging

⁴³ Ibid

⁴⁴ Although at a policy level there is recognition of the role of small businesses in supporting LED Development, reality this has not been fully operationalized.

⁴⁵ Ibid

⁴⁶ Established in terms of Chapter 9 of the South Africa Constitution.

⁴⁷ Magubane, K, Call to draw up rescue, Business Day, available at <http://www.bdlive.co.za/national/2012/08/28/urgent-plan-for-service-delivery-needed-says-madonsela>, 2012.

⁴⁸ Ibid

positive impact. Through the Woman Empowerment Programme in Nepal, 68% of women were able to influence decision making in their household, in particular through buying and selling property. More importantly, the literacy rate amongst members increased from 8.5% over the first 30 months of the programme. In Bangladesh, a survey of 1000 individuals revealed that credit empowered individuals (through ownership and control over assets such as land), increased involvement in decision making and resulted in higher political and legal awareness compared to individuals who did not receive credit. In the Philippines, through the TSPI development organisation, collateral free loans increased in the number of woman who reported being the primary household fund manager. Lastly, in India through the Self Employed Woman's Association (SEWA) it was found that microfinance has assisted in empowering woman who have lobbied for higher wages and rights of woman in the informal sector.

- Experiences from South Africa

In their 2005 study *'Creating a Positive Environment for the Informal Economy: Reflections from South Africa'* Lund and Skinner (2005) argue that without a comprehensive approach in assisting individuals and enterprises who operate in the informal economy in accessing financial assistance, can lead to indebtedness. Marais (2008) states that in South Africa business support is not clear articulated and defined, and in most instances it is "murky, of poor quality and lacks leadership and appropriate developmental"⁴⁹. Although institutions have been set up to provide support to emerging small, medium and micro enterprises (SMME's), the overall quality of the services

has been dismal, as the support programmes are more suited to larger SMMEs located in urban areas. Bond argues that micro-credit in South Africa failed because since the end of apartheid, there was an increase in formal sector banking facilities for the previously disadvantaged; however, this did not allow space for micro-lenders to establish economies of scale.⁵⁰

Despite this significant contribution to economic growth and job creation, SME continue to face challenges that stunt their growth. In South Africa, a report by the Global Entrepreneurship Monitor (2001-2010) noted that in South Africa's, SME's find it very difficult to access finances, in this sector, most businesses have poor management skills, which was a key contributor to inability to access funding. This has been attributed to the low levels of skills and education in this sector. Due to this, South Africa when comparing it to other middle income countries and its counterparts in the developing world has a small SME sector, with the lowest survival rate and high failure rates for businesses.

⁴⁹ Marais, L , (2008) Missing the Target: Business Development Support to the Second Economy. Trade and Industry Policy Strategies.

⁵⁰ Bond, (unknown) Micro credit and ladders between South Africa's 'two economies' available at <http://ccs.ukzn.ac.za/files/Bond%20Microcredit%20critiques.pdf>

Table 1: Average loan size by SME category

Sector	Description	Number of employees	1. Annual turnover 2. Loan sizes 3. Access to banking facilities
1. SURVIVALIST	Income generated is below poverty	No employees	1. < R10 000 2. average R800 3. None
2. MICRO (0)	Turnover is less than VAT registration unit	No employees	1. R10 000 to R25 000 2. Average R1000 3. Possibly individual account
	Not usually formally registered for tax or according purposes		
3. MICRO (1-4)	Same description as micro except the number	less than 5 employees	1. R25 000 to R50 000 2. Average R7 000 3. Individual account
VERY SMALL	Operate in formal market	less than 10 employees	1. R50 000 to R200 000 2. Average R25 000 3. Entry level business Account
SMALL ENTERPRISE	Distinguished by the some form managerial co-ordination	less than 50 employees	1. R200 000 to R5 000 000 2. Average R70 000 3. Business Account
MEDIUM	Further decentralisation of decision making	less than 60 employees (200 in mining)	1. R500 000 to R50 000 000
	More complex decision making		2. Loans size is dependent on sector, region and institution providing finance. Average R150 000
	increased division of labour		3. Business Account
Source: SME Survey 2004			

Table 2: Small business Awareness and use of government support

GOVERNMENT INSTITUTE	% OF BUSINESS WHICH ARE AWARE OF THE PROGRAMME	% OF BUSINESS WHICH HAVE USED PROGRAMME
SETA'S	61	32
IDC	45	7
COMPETITIVENESS FUND	32	11
NTSIKA	13	1
EXPORT INCENTIVES	12	2
MANUFACTURING ADVISORY CENTRES	11	1
KHULA	9	1
BRAIN	9	1
UMSOBOMVU	4	1
Source: SME Survey 2004		

Table3: Financing gap in terms of SME's number

	NUMBER OF SME'S		
TOTAL SME'S	FINSCOPE SURVEY 2010	STATSSA LFS 2007	LABEL
Registered SME (formal):17.3%	5979510	243200	A
Average applying for a loan:84.4%	1034455	420736	B
Average loan application success rate (formal):33.2%	873086	355100	C
Those who receive funds after successful application:27.3%	343439	139684	D
Financing Gap (C-E)	779321	316967	F
Total informal: 41.8%	2334439	1016576	G
Less: informal served (15.3%)	357169		H
Total financially excluded (G-H)	177270	861040	I
Total financing Gap (formal and informal): F+T	2756591	1178007	J
Source: SME Survey 2004			

Chapter four: Site and case study description

In this chapter, a contextual background of Evaton Township is provided using the Household Expenditure Survey that was undertaken with 142 households in the area. The Household Expenditure Survey was

undertaken by the Studies in Poverty and Inequality Institute (SPII) in cooperation with Statistics South Africa between March 2011 and April 2012.

4.1 Site description

Figure 2: Gauteng Province

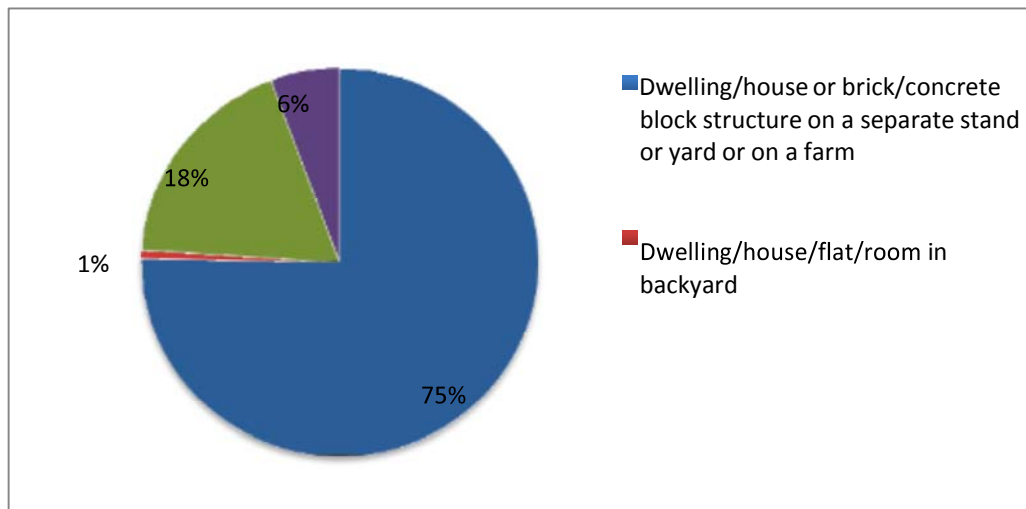


Figure 2 is the map of the Gauteng province. Evaton Township falls under Emfuleni local municipality which forms part of the greater Sedibeng District Municipality. Evaton Township is a peri-urban area, which is a term used to define a systematic process of urban growth that involves the movement of people towards the rural surroundings of cities. Peri-urban areas are characterised by landscapes that have both urban and rural social and economic activities. The total population of Evaton is 111,641, with approximately 33,299 households, with an average household size of 3.5. The Evaton area is made up of 7 suburbs, namely Biverly Hills (population of

1,902), Evaton Central (population of 55,442), Evaton Small Farms (population of 22,088), Evaton West (population of 5,189), Sebokeng Unit 3 (population of 6,559) and Sebokeng Unit 7 (population of 5,584).⁵¹

⁵¹ Demacon, Evaton Local Economic Development Plan, 2009.

Figure 3: Type of dwelling

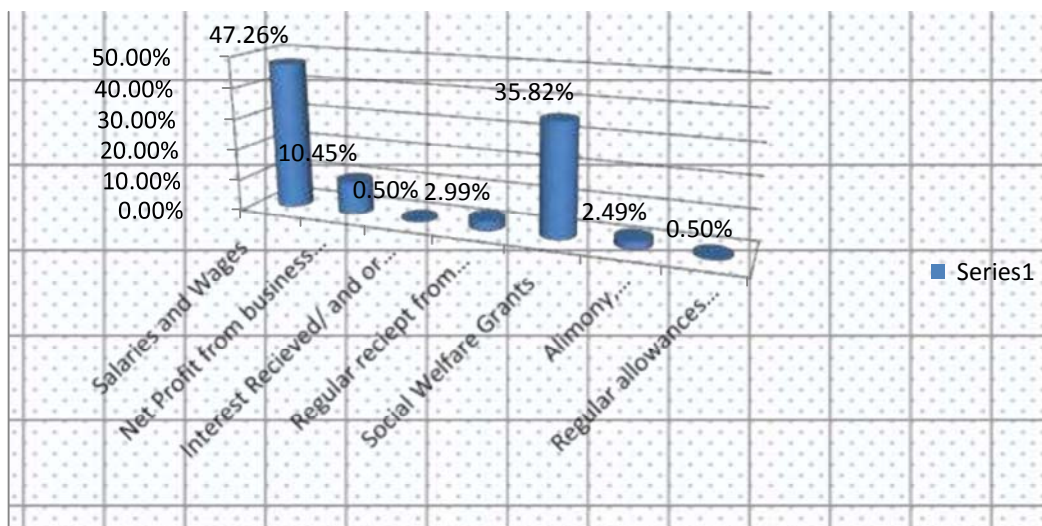


Source: Household Survey (2012), own analysis.

Figure 2 indicates the type of dwellings that make up Evaton. The figure also indicates that 75% of household have concrete structures on a separate stand/yard. Evaton is a growing township with new residents moving into low cost government provided

houses or informal dwellings. A large part of the township is made up of residents who have settled in the area for a long time, thus have built their own houses or bank financed their homes.

Figure 4: Main sources of income



Source: SPII's Household Survey (2012), own analysis.

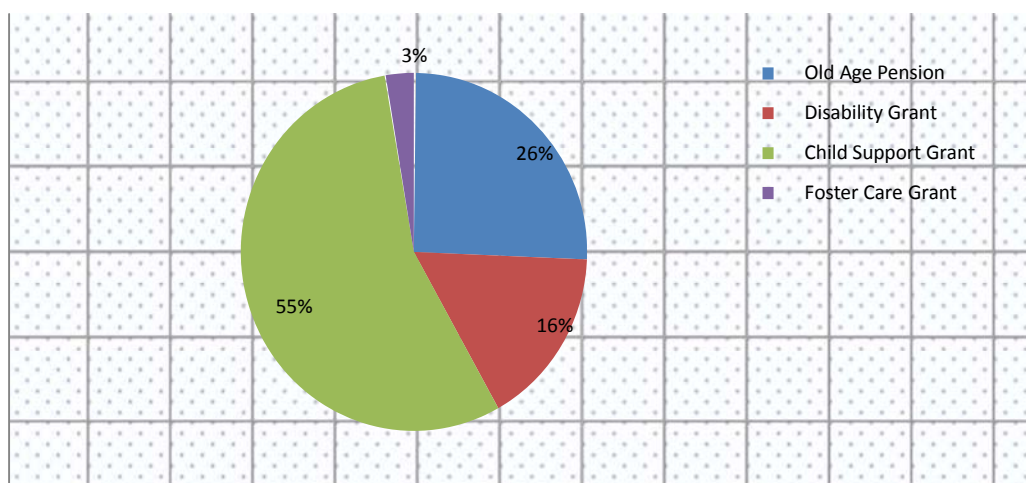
Figure 3 indicates the main sources of incomes for households. 47% of households are receiving the majority of their income

through salaries and wages. This is an indicator of the high levels of employment in the area. However, 36% of households

reported that social welfare grants were their main source of income. 10% reported that

their main source of income was accrued through businesses or professional practice.

Figure 5: Types of Social grants⁵² received



Source: SPII's Household Survey (2012), own analysis.

⁵² Old age Grant (R1200=R20 if older than 75), Disability Grant (R1200), Child Support Grant (R280), Foster Care Grant (R770).

The social grant system is currently accessed by 16 million recipients in South Africa and is a critical part of the government's poverty alleviation intervention. Work by Samson *et al* (2010) indicates that the social grant system plays a significant role in enabling government to achieve developmental goals such as education and health. Figure 6 indicates that the Child Support Grant (CSG) is received by 55% of households in Evaton. The role of the CSG is to provide income support to caregivers of children in need. The CSG is

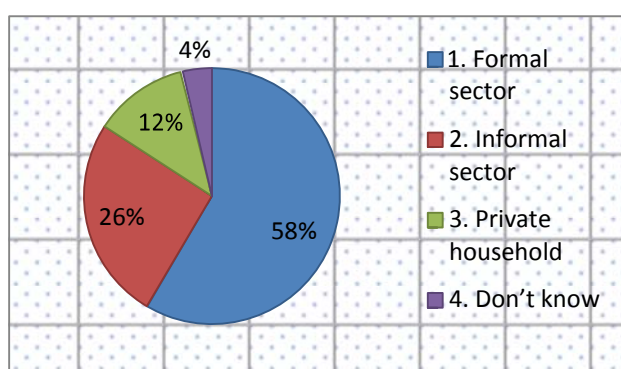


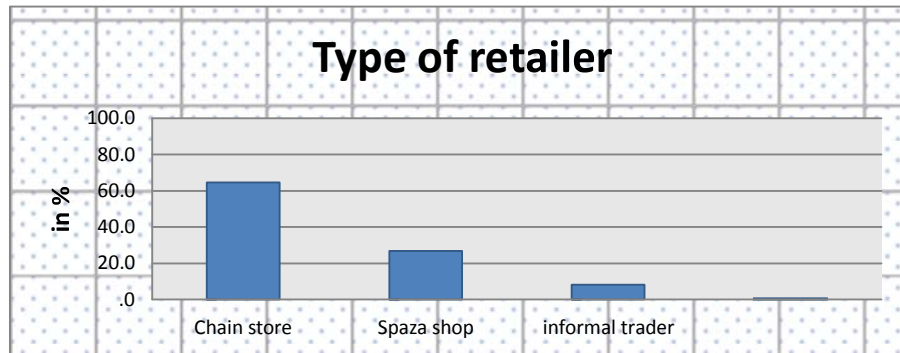
Figure 6: Sectors which most individuals are employed (%)

In figure 5, household reported on the sectors of the economy where incomes for the household were generated. 58% of the households surveyed reported that their income was generated in the formal sector, whilst 26% reported that their income was generated from the informal sector. 12% reported that their income was generated from business that were run within the private household. The 12% includes businesses that are in the formal and informal economy. Despite a significant number of

means tested and caregivers should earn less than R2 800 pm or R33 600 per annum to qualify, and when married R5 580 per month or R67 000 per annum. The Disability Grant (DG) is received by 16% of households and provides income support to adults who are unable to work due to a mental or physical disability. The DG is also means tested, to receive the grant a household must earn less than R3 950 per month or R144 000 per annum if single and less than R24 000 per month and R288 000 per annum if married. The Foster Child Grant (FCG) is received by 26% of households and provides income to caregivers of children in foster care and is not means tested. The Old Age Grant (OAG) provides income support to older men and women; this applies to people who are older than 60 and South African. Permanent residents and refugees do not qualify for the grant.

people generating income from the formal sector, 26% of people making a living from the informal sector is a clear indication that the informal sector is important as an income generator. The graph also indicates that 12% of households generate income from their households, and this income is generated from services such as rentals and business that are operated from inside the households, which in most instances operate in the informal sector.

Figure 7: Type of retailer where people spend their money for food.



Source: SPII' Household Survey (2012), own analysis.

Figure 6 illustrates where people procure their food for the household. In the last 8 years, Evaton has experienced an influx of large retail stores in the area such as Pick n Pay and Shoprite and this has largely influenced the place where people buy their food. Before people had to travel to nearby towns like Vereeniging and Vanderbijl Park to buy

groceries, but now it's a walk away. This has affected local businesses such as Spaza Shops, as people used to use Spaza Shops to supplement their groceries in the middle of the month. As a result, over 60% of food purchased is from large chain stores and just over 20% from Spaza Shops and under 10% from informal traders.

4.2 Case study description

After a two day scoping exercise of businesses in the area, participating enterprises were selected from the most prominent enterprises, and the most dominant sectors in the informal sector. Selected business owners were approached by the researcher, and were told about the research and its interest. After introducing the research to business owners, they were asked if they would be interested in participating in the research. The research was undertaken over a three month period and it entailed in-depth interviews with businesses owners, observational studies and where applicable, the researcher would accompany the business owners when they were procuring supplies.

- **Street trading**

GEOFFREY MOFOKENG TRADING STORE



Geoffrey's trading space is a combination of the trading and services industry. The trading space is divided into three sections, namely vegetable, second hand clothes and cobbler sections. The trading space is ideally placed for a business that relies heavily on foot traffic as it is located at a busy intersection that connects two extensions of Evaton.

Survival: Geoffrey Mofokeng has been operating from this trading store since 1986, after he lost his job as a construction worker. Although he is not formally trained, from a young age, he learnt how to fix shoes. This motivated him to start working as cobbler

which allows him to generate an income to feed his children. Geoffrey points out that in most instances it is about making enough money to enable the household to afford food for the day. On what he calls a 'bad' day, he makes as little R50-R60. Because he has been operating out of this trading store since 1986 without any form of assistance, he is no longer concerned with growing the business, rather on ensuring that his kids don't go to bed without a meal.

"ke latlhehetswe ka musebetsi ka labuhlano, ka musupuluho ke thomile ho bereka ko venkele yaka, ke nna le bana ke tshwantse keba hlomeke, nne kase emele go fumana musebetsi" **(I lost my job on a Friday and on a Monday I was operating this shop. I have kids to feed I could not wait for a job to come my way).**

Control of money: Geoffrey does not see the point of keeping record of all the business transactions - he claims to recall all transactions in his head. Geoffrey says that he does not save because he does not make enough to enable him to save. More importantly, he does not own a bank account as he does not see the point of having a bank account if you don't have anything to put in the account. He says that he used to own a bank account, but it became expensive to operate. The only saving scheme that the household is involved in is through his wife's Stokvel⁵³ membership. The business is the only source of income for the household and is used for household expenses such as food and clothes. He used to offer credit to regular customers living in the area, but he has since stopped because of unsettled accounts and non-payment which negatively affects his business. He does not want to borrow money

⁵³ A stokvel is a savings or investment society to which members regularly contribute an agreed amount and from which they receive a lump sum payment.

to grow the business because he doesn't see a future for this business.

Trading store: Geoffrey has been operating out of this tin-roof structure since 1986 and it is starting to fall apart, as the metal is rusting. He says that the structure is old, when it rains, water comes in which makes it impossible to conduct any business as the clothes and shoes can get damaged. Despite saying that he doesn't see a future for this business, he believes that if he had an improved/better structure this would make him more competitive because he could diversify the services in his trading store. Geoffrey states that because the structure is not aesthetically pleasing, he is unable to attract new clients. He admits that the structure needs serious attention, but does not think he will be able to do anything about it in the near future because he doesn't have the money to invest in the structure. Also, he has never heard of any street traders, especially in Evaton that have received any form of assistance.

Buying in bulk: this is normally the case with many South Africans who operate in the informal economy (especially local spaza shop owners), they are all aware that non-nationals buy in bulk in order to sell at a cheaper price. Geoffrey showed indicated that street traders in Evaton had tried to collectively organise to buy in bulk to enable them to sell at a higher profit margin. This was unsuccessful as certain members of the group failed to consistently meet their financial obligations at the end of each month. Since this failed, he believes whether one buys in town or locally the price is the same when you include the transport costs. Because he is a cobbler, sells second hand clothes and vegetables, he can't always find what he wants locally and is forced to go to Johannesburg to buy second hand clothes. When he in town he will try to buy everything that he needs for the store including fresh produce and second hand clothes.

"Batho bana bahlakana bareka bale bale bangata, key yona ntho eyatsang gore bare rekise ka price eleng Klase" (foreigners collectively buy in bulk, that's why they sell at a lower price)

JO HAN MBINGWA'S TRADING STORE



Johan Mbingwa operates his trading store along the main road in Evaton West, which is a new extension to Evaton with newly built low cost government provided houses (commonly as RDP (Reconstruction and Development Policy) houses). The trading store is located in an open space surrounded by these houses. Behind his trading store is an open field with grass that has been left unattended. Despite this, Johan has ensured that the area around his trading space is nicely kept. A broom is kept nearby to clean up around the area before he opens his shop.

Start-up capital: Johan Mbingwa is a foreign national from Malawi. He came to South Africa for economic reasons. Johan used to work as a security guard for a company based in Germiston prior to this. At the end of his first year of employment in South Africa, Johan visited his wife and children over the holidays in Malawi and upon his return he was told that he no longer had a job. After spending months looking for employment, his brother who owns a trading store in Evaton invited him to come work and live with him at his trading store. At the end of the first year working with his brother, they decided that it would be better that he found his own space to open a similar trading store. The brother assisted him financially and physically to set up this trading store. When he found a piece

of land, he asked permission from the neighbours, and as soon as they agreed, he returned with his brother to set-up the trading structure.

Supplier: it was not hard for Johan to find a supplier because he already had experience from working with his brother. He uses the same supplier as his brother. On the day that he needs to get new supplies he has to close his shop and travel to the Johannesburg Fresh Produce market in the city to get supplies. It costs him R20 taxi fare to get to town and R150 to rent a car that will transport his supplies back to Evaton. He undertakes this trip two to three times a month. He has no relationship with the supplier. He has never tried to enquire whether they give credit. Furthermore, he says that there are no notifications when prices increase, he finds out when he gets there. Johan does not compare prices amongst suppliers because he believes the Johannesburg Fresh Produce is cheaper. He has heard about food gardens who sell to street traders in Evaton but he doesn't know where they are located if he had to buy from them.

Assistance: because this business has been operating for the last six months, Johan feels that this is not the time for him to be looking for assistance, rather it is better for him to concentrate on making what he has work. Furthermore, because he doesn't know any street trader that has ever received any form of assistance, he doesn't think there is assistance for people that operate businesses like his. The idea of borrowing money to grow the business is not something that he wants to entertain at the moment, as he fears that borrowing money will only lead to debt. However, he does acknowledge that if he had better infrastructure, this would be good for his business. His main concern is that he doesn't own a storage facility. Because he doesn't own a refrigerator, he is unable to buy

large quantities for the fear that the vegetables may get spoiled with the heat. Due to this, he is forced to make more trips to the Johannesburg Fresh Produce, which is costly. In the future he hopes this trading store can grow to become a Spaza Shop.

Control of money: Johan does not save any money because he believes he does not make enough money to do so. Because he has to pay rent and send money back home to Malawi, Johan says that when all that is done, the remaining money has to be used to buy more supplies. He believes that if he can turn his business into a spaza shop he will be able to save. In order to keep regular customers coming back, he gives them credit.

- **Spaza Shops**

FIKILE'S SPAZA SHOP



Fikile's spaza shop operates from the window of her house. Fikile believes she was lucky to receive this low cost government provided house right next to her mother's as it allows her to use her house as a spaza Shop. The spaza shop has built-in shelves for her products and a refrigerator for her cold drinks. The spaza shop also has a pay phone which customers pay 90 cents per minute for a call.

Start-up Capital: Fikile worked in the construction sector building houses and roads for five years. When she lost her job, she relied on her mother's Old Age Grant (OAG) for survival. The money received from the OAG was used to start the spaza shop. She started by selling potato chips, sweets and cigarettes. When the demand for the products

grew, she started the Spaza Shop. Once the spaza shop was thriving, she was able to buy a car that is used to transport school kids to school. However, the car hasn't worked for the last three months.

Foreigners⁵⁴: Fikile believes that since foreign nationals started owning spaza shops in Evaton this has led to the decline of her spaza shop. Although she knows that foreign owned Spaza shops are doing better/cheaper than the ones owned by South Africans, because they are able to buy in bulk, she doesn't want to buy in bulk, rather to see non-nationals owning Spaza shops removed from the area. The Evaton Business Forum was established as an initiative that would assist local spaza shop owners to remove foreign owned spaza shops. According to Fikile the meeting at the Evaton Business Forum had the wrong focus as the only interest was removing foreigners, rather than using their businesses model. She has since joined a new group of spaza shop owners in Evaton who will be looking to buy in bulk in order to remain competitive. She doesn't know how this will operationalize.

Control of money: she used to keep record of business transactions when the spaza shop was thriving, and currently she does not do that as she doesn't see the point as the sales are not as good as they used to be. The business used to do well and this enabled her to buy a car which is used to supplement the income from the spaza shop. Although she has a bank account, she does not use it to save money as she does not see the benefit of saving through the bank. She says that she

saves her money in a Stokvel⁵⁵. She does not get credit from her suppliers, but she gives credit to her customers based on a trust relationship.

Supplier: because she compares prices, some of her products are bought locally at the Evaton Plaza and some are bought outside Evaton at Vereeniging Cash and Carry (VCC). If she is buying large quantities she will buy from outside Evaton and this requires her to pay for transport. However, if she needs to get supplies urgently she will buy locally from the Evaton or Chinese Plaza (also in Evaton). She does not have a relationship with any of her suppliers, but knows that enterprises that buy in bulk get credit from the supplier. When her car is functioning, she uses it to pick up supplies after dropping kids at school in town (Vereeniging).

Assistance: Fikile joined the Evaton Business Forum in an effort to address the influx of foreign owned spaza shops in Evaton. Fikile did not see the need to get assistance for the Spaza shop when it was doing well, and currently she doesn't see the need to grow the business as she doesn't see a future for it. If she had to get financial assistance, she would use the money for a different business adventure such as brick making.

"Vuthatha vo nnale vatswantle"(The problem is coming from the foreigners)

⁵⁴ Results from a recent study undertaken by the Sustainable Livelihoods Foundation in Phillipi Township in Cape Town shows that spaza shops have undertaken a radical shift in ownership in the last five and this is has been a result of influx of foreign owned spaza shops. A presentation to the faces of the City seminar programme, University of the Witwatersrand, April 2012. Title of the presentation *"The transformation of spaza sector in CCT: from local survivalism to foreign entrepreneurship"*

DI MAKAT SO 'S SPA ZA SHOP



Dimakatso's spaza shop is well advertised with clear signage that says 'Tuckshop' outside her gate for all to see. On the same road, two houses from Dimakatso's spaza shop there is another spaza shop that is owned by foreign nationals. Her spaza shop is made out of well-constructed tin-roof. Inside the spaza shop she has freezer which is used to store all the cold drinks and the products she uses for her fast foods (Kota⁵⁶). All the products she sells are nicely shelved in the shop.

Start-up capital: Dimakatso used to work at a supermarket in Vanderbijl Park selling fast foods. After giving birth to a baby boy, she could no longer go back to work because the child was born with physical disabilities and needed extra care. In South Africa, government cash transfers (social grant) are extended to cover people with disabilities, and the R1200 became the only source of income in the household. She then started using the money to sell sweets, potato chips and cigarettes to supplement the grant money. When the demand for her products increased, so did the profits. As time went, she started operating as a spaza shop.

Control of money: Dimakatso states that the money coming in from the spaza shop used to be "good" and she was happy with the businesses until a Pakistani owned spaza shop opened two houses from her shop. Since the new spaza shop moved in, she doesn't see a future for her shop as she is unable to

compete for prices. She doesn't keep record of business transactions because she says that she can recall everything that she sold and needs. In her spaza shop she gives credit to people she knows can be trusted and are loyal customers, but she does not want credit from the suppliers because she fears that this will only end up with her being in debt. In order to remain competitive with the foreign owned Spaza shop she tried to borrow money from the bank so that she could buy more products that will enable her to diversify her services and products. She was unsuccessful in her effort to borrow money from the bank as she says that her inability to provide proof that she had a business and that it was making a profit.

Supplier: Dimakatso travels to town to Vereeniging and Vanderbijl Park to buy her supplies two times a month and she pays R14 to get to town, and has to pay R200 to transport her goods back. During the days where she does not need to buy large quantities and needs new stock urgently, she buys from the Evaton Plaza.

"Nne ke rekisa 'dicreate' tse tharu tsa borotho go so gotle vatswantle , bjwale ke rekisa 'create' e tee ka letsatsi" (I used to sell three crates a day of bread before the foreign spaza shop moved close my spaza shop, now I only sell one crate a day)

- **Hair Salons**

LA-POSH HAIR SALON



La posh hair salon is a colourfully decorated salon that has been constructed out of a tin-roof structure. Inside the salon there are two

⁵⁶ A kota is a South African fast food dish consisting of a hollowed out loaf of bread filled with polony, atchaar and fries

couches that can sit six people who are in line for their hair to be done. Furthermore, inside the salon there is a 30 cm television for customers to watch whilst waiting to get their hair done. All three employees have their designated working station with the products and equipment they use.

Start-up: Nelson arrived in South Africa in 2003 from Mozambique, and he immediately started working with a cousin who had moved to the country a couple of years earlier. After working at a salon for four years, he realised that there was money to be made in this business, so he decided that it would be a good idea to open his own hair salon. During his time working at the hair salon in Spruitview he saved money in order to open this hair salon in Evaton. When he arrived in Evaton, he started looking for a piece of land to build his own salon. The business currently employs two people who assisted in erecting this structure.

Control of money: Nelson is the owner of the salon and is in charge of all financial matters of the salon. At the end of the day, all the employees bring the money that has been made throughout the day to him. He believes that if they were based in Johannesburg or Vanderbijl Park the business would be making more money, as hair salons in the township are cheaper than those found in the cities. Nelson thinks that because he is a foreigner, he will not be able open a bank account as he does not own a South African identity document. Because of this, he thinks this negatively affects his ability to save. However, he admits that even if he had a bank account it would be difficult for him to save consistently as the business can go a month without making any money. The rainy season also poses a challenge for the business as the rain badly affects their ability to conduct business, and during this time, employees will go without pay as the money has to invested

back into the infrastructure that is damaged by the wet weather. The business also has expenses such as electricity, water and he believes that this affects the profit margins. The business makes between R3200-R4000 a month, in which, two employees have to make a salary. In order to keep customers, he gives credit to customers who are regulars and have good payment history. However, he doesn't receive credit from his suppliers and there is no relationship established with the supplier.

Customers: he believes that in this industry it is important to be good to your customers because if you are not good to them, they will go to another hair salon. He stresses that the service they offer has to be good, if someone comes to the hair salon, people should ask who did your hair. This is important to him because most of the customers are through referrals. Most of his customers come from the Johannesburg and Vanderbijl Park because hair salons in the city are more expensive. These customers travelling from the city don't have a problem with waiting long hours before their hair is done. December is the busiest time for the business, and because of this, they try to maximise on the profit margins by working until midnight. Nelson states that customers in the hair services are very meticulous in who they want to get serviced by, even between the three of them, they have preferences. He believes that there is no difference in services provided between the salon in the city and his salon because he still gets customers coming from the city. However, he does admit that if his hair salon was aesthetically pleasing this could lead to higher profit margins

Supplier: he does not see the point of going to town to get supplies because when you calculate the price you pay to get to town, it is the same as buying locally. Nelson buys his supplies from the Chinese Plaza, which is a 15

minute walk from the hair salon. The problem with the supplier is that sometimes you can go there and you want something and they don't have it, but on most occasions they have everything the hair salon needs.

Challenges: because he is from Mozambique, he thinks that getting assistance from local authorities will be difficult. The business is not registered and this will also make it impossible for him to access credit from banks because he can't prove that he is making money. Because he is a foreigner in the country, Nelson doesn't think he can own a bank account. The biggest challenge for the hair salon is bad weather – stating that it is too hot in the summer and too cold in the winter inside the tin roof structure. The rainy season also poses challenges for the structure because it leaks and he is forced to close down whilst they repair the damage.

He did build a pathway/drainage to allow the water to pass, but when it rains hard it is not that effective and this affects customers because it is difficult for them to access the hair salon. They had to build the toilet themselves at the back of the salon and it is not in good condition. This affects customers especially during busy days for the business. This is a big problem for the employees because they are forced to sacrifice their salary in order to pay for the repairs. Furthermore, accessing water can be a costly and time consuming exercise for the business, especially during the busy periods, as one of the employees has to stop attending to customers to fetch water.

Buying in bulk: the salon does not buy in bulk with other salons in the area because there isn't trust with regards to issues relating to money. However, they do assist each other on days whereby the shops are closed and the one salon can't access supplies. On a day like this, salons borrow supplies from each other.

He believes that they won't buy in bulk because there is no need to do so as every business looks after itself and the trust does not extend to money matters.

- **Beauty Hair Salon**

BEAUTY HAIR SALON



Beauty hair salon is located along a busy road that leads to Evaton Plaza. Johan attributes his good business due to the foot traffic that he gets from people going or coming from the shopping centre. The salon is very small in size and can only accommodate two working stations. Three chairs have been allocated for waiting customers. Inside the Salon there are pictures of all different haircuts and styling's that can be done at the salon.

Family: in his native country of Mozambique, Johan's family has a history of working in hair salons. In 2006 Johan left Mozambique to come live with his older brother, who owns a hair salon in Evaton. After spending two years working in his brother hair salon, his brother suggested that he open his own hair salon. After finding an empty piece of land, Johan's brother assisted him in financing and building his own hair salon business. Johan believes that he would have invested financially to improve the infrastructure of his salon if he didn't have to spend his savings after his mother passed away. Currently Johan is saving money in order to enable his wife to start her own business.

“kusukela a kaya e Mozambique, un'wana na un'wana u ku luka misisi” (**from back home in**

Mozambique, everyone at home knows how to work with hair).

Control of money: Johan does not keep record of any of the business transactions, as he says that she can recall it in her head. He knows when he has made money for the day and when supplies have run out and when it is time to buy new supplies. Because he is saving money to help his wife to start her own business, Johan feels it is necessary to have a bank account because when money is left in the house it will be used for unintended purposes. Currently he saves R100 a week which is used to buy new supplies and R200 every month goes towards his wife's business. Although Johan has ambitions of growing the hair salon, the idea of borrowing money do so concerns him as he fears what will happen to his livelihood should he fail to pay the borrowed money.

Buying in Bulk: they tried to establish a membership group which would enable hair salons to buy collectively. This initiative was unsuccessful due to late payments from the members, therefore delaying other hair salons that were running out of supplies. He doubts that this relationship will be established again because there is already a lack of trust amongst the hair salon, but what they are good at is assisting each other when one salon is busy and the other is not busy. On a day like this, the less busy salon will assist the busy salon, and this is reciprocated.

Challenges: Johan states that one of the biggest challenges he experiences at his hair salon are the regular burglaries at his shop. Although he reported this to the police he was never able to recover his stolen goods. Because of this the new chairs which he has bought for the salon are still at his house, and will remain there until he improves the security. With regards to his customers, he gets a lot of referrals from people that have

done their hair at his salon. However, there are days when he gets so many customers that he cannot serve all of them and will be forced to open as early as 05:00 am and close at 22:00.

“Binzu ra ku tirha hi misis ri seketela hi swilaveko swa vanhu eka loyi va tshembhaka yena kuva endla misisi ya vina, loko u thola mupfuni va ala kupfuniva ala kupfuniwa hi yena kambe va yimela wena ku kondza u heta leswaku uta va pfuna” **(in the hair business peoples preferences is a big factor and when they like you, they only want their hair to be done by you, so if you get someone to assist you at the salon, they refuse to be helped by them, and would rather wait until you are done)**

- **Food gardens**

EMTHONJENI AWARENESS CENTRE



Emthonjeni Awareness Centre is located next to an open field in Evaton central. A four room house has been transformed into offices for the Centre. The house is surrounded by a food garden, two classrooms that are used for the ECD and a crafts centre. Maria started and manages the centre. Maria is a retired social worker who worked for 40 years at the nearby hospital and is very popular in the area, commonly referred to as 'gogo' (granny)

Start up: Maria has years of experience working with people infected with HIV/AIDS and Tuberculosis (TB). When she retired her interest in helping people did not wane as she started growing herbs at her house to help

people in her community who were sick. She then realised that many people in her community were in need of assistance due to the high levels of HIV/AIDS. What she found was that people were failing to get better from the medication (received from the health centres) because they were not eating properly. Through constant and regular engagement with relevant personnel from the Department of Health (DoH), it was decided that Maria should start a food garden with their support from government. As a result, the food garden was started with the assistance of those who were not too sick to work. The centre in return provided two meals a day to those who assisted and those in need of food. When their health started improving, “we asked them to bring their kids with them so that they can share the food”. When parents started bringing their kids to the centre, it was decided that they should open an Early Childhood Development Centre (ECD). The ECD centre receives financial assistance from the Department of Social Development (DSD). The Centre is a registered as a Not-for-Profit Organisation.

Control of money: the Centre has 17 employees who either work on a part time or full time basis. People who want to get involved with the work of the Centre are encouraged to work as volunteers and receive two meals a day. Because they have to provide financial reports to their funders, the centre has a dedicated financial manager. At the beginning the food garden section received funding from the DoH and the money was used to fund the salaries of those working on the gardens. The Centre does not give credit to hawkers, and people who are not directly involved with the Centre because their food is “already cheap”. When profit is made from the food garden the money is used to renovate around the centre. The ECD receives funding from the DSD and they have

to provide regular financial reports. In order to raise money for the Centre, the centre manager undertakes fund raising events. The centre owns four vehicles which are used to run the daily chores for the centre such as transporting manure from the neighbouring farms in the area.

Local market: the centre sells its produce to hawkers locally. Maria believes it is better to sell to hawkers locally because the food is cheap and they will be able to sell it at a profit. More importantly, “because their food garden is organic farming, this food is good for the community”. Maria states that they have no interest in selling to big retailers such as Shoprite and Pick n Pay because they sell their produce at a higher price to people who she feels cannot “afford it”. During the busy period, which is between September until March they get a lot of local customers, which they cannot always meet the demand, especially for products such as spinach and cabbage.

Future: the centre owns a farm outside Evaton with the land donated to the Centre by the local municipality. There are “big” plans in the pipeline for this farm and if everything goes according to plan, the farm will enable the Centre to become financially sustainable and self-reliant. The idea for the farm is to diversify the services of the centre by using it for brick making and an “edu-cultural” village which will be used as an education centre to show case the different cultures in the country.

ENKULULEKO COOPERATIVE



The Enkululeko co-operative was started as an initiative that teaches people/schools in Evaton how to start their own food gardens including assistance with fundraising. The food gardens vary in size, with some operated from big open land, and some from behind churches. Working at most food gardens are older women and men, but women are the most dominant group. The co-operative also owns a pig farm in Evaton, which employs three people. At the pig farm they also operate a food garden.

Start up: Wendy grew up in a small farming town in the Eastern Cape and it there that she developed a passion for farming. When she moved to Evaton she realised that people were unemployed, poor and starving without any sources of income. Despite her work with food gardens and raising money for them, Wendy does not see herself as a business woman, rather a “community developer”. In 2007, with the assistance of six other people who shared her passion for farming, Enkululeko Co-operative was established. The idea was to teach people how to grow their own food for selling and consumption.

Co-operative: The co-operative has six partners who also reside in Evaton. One of the initiatives under the program is teaching schools that have a feeding scheme how to start their own food gardens. The idea is that this initiative could be educational, with schools growing their own food and becoming less reliant on the government supported feeding schemes. Besides teaching community members about food gardens, the

co-operative also assists community members to register their co-operatives. The cooperative also raises funds for these cooperative. Currently they are receiving funds from the Emfuleni Local Municipality through the Extended Public Works Program (EPWP). The fund enables them to continue with their training and pays the salaries of 40 people. She also states that if they as Enkululeko fail to raise funds, most of the cooperatives under their mentorship struggle to survive. The co-operative is also in discussions with the local government over a piece of land that they would like to use. This piece of land would enable the food gardens to produce more in order to meet the demand. The cooperative was also responsible for establishing the Young Agricultural Ambassadors (YAA) in Evaton. YAA was established to enable young and old people in Evaton to share information on agriculture and create a network for those who own food gardens but do not have access to information.

Community developer: throughout the interview Wendy Tsotetsi emphasised that she is a community developer before she can be considered a business woman. “At the moment I am doing community development, only in the future I will concern myself with making profit. We have plans to get a piece of land from the local government so that we are able to grow more food to sell, I think then we will start looking at money as Enkululeko Co-operative”.

“venkele yaka ya murogo ye ki sebetsetla kgaye, ke neyela vatho va va tlohang. Bjwale ke dira musumo wa setshaba, ketla verekelo masheleng ka moso” (The food garden which I run from my house I don’t always sell the food I give it to people who cannot afford to pay).

Challenges: Wendy states that one of the biggest challenges with food garden is the inconsistency in support from the Department of Agriculture. She states that only at the beginning of projects or when they are major successes, she will get visits from the extension officers. The lack of farming tools is a problem for most of the food gardens. The tool that they receive from the Department of Agriculture at the beginning of some of the projects is not sufficient. Lastly, the safety of the food gardens, especially the ones operated in open spaces is guaranteed from thieves and vandals, and this discourages them from planting more with the fear of making a loss.

Control of money: Enkululeko raises funds for all the co-operatives that are under their mentorship. Currently the Emfuleni Local Municipality is their biggest funder.. Because the EPWP fund is periodical, it becomes a challenge when the food gardens have to raise their own money. The money received for the cooperative is managed by 6 partners through the use of a bank account. However, none of them have any form of financial management training. The pig farm is not making any money at the moment; however, it does provide an extra source of income. The various co-operatives that are under the mentorship of the Enkululeko have their own bank accounts (Nedbank Club Account) and are advised to save some of the proceeds from the food gardens. Wendy says that are under their stewardship can save between R500-R800. The co-operatives are encouraged to keep record of all business transactions. The club account from Nedbank enables food gardens through a designated member to regularly deposit money into the account. Wendy says that she trusts this method because “one person cannot withdraw the money without being accompanied by one of the members.

- **Early Childhood Development Centre**

**T HENJI WE'S EA RLY CHILDHOD
DEVELOPMENT CENTRE**



Thenjiwe's has gone through the effort of hiring a professional painter to paint the outside wall of her house in lovely decorative colours that indicate that she is running an ECD. The pavement to the house has been turned into a play house for the children. Separate from the house is a single room which is 5m x 5m in length that is used as a room for the children during the day and for classes. At the back of the house is the kitchen which has a refrigerator and a freezer. Two ladies are busy preparing lunch. The house has been extended with two extra rooms that are used for the children to sleep during the day, and one of her children's rooms is also used for children.

Start up: Thenjiwe brings a lot of experience in this business after working for more than ten years in this sector. She first worked at an ECD that was owned by her aunt in Sebokeng, before she moved to Busy BEE, which is also located in Evaton. Thenjiwe's ECD was opened after she received a newly built low cost government house in the new section of Evaton. This new section did not have an ECD and parents were forced to take their children to the other sections of the township. Thenjiwe saw the gap in the market and she opened the first ECD in Evaton West. When the ECD started she had 20 children and now the ECD looks after 42 children. In order to access government funding, she had to register the ECD with the Department of

Social Development (DSD). One of the benefits of registering with the DSD takes you through a training course and currently she is pursuing a level four certificate, which is equivalent to a grade 12 certificate.

Department of Social Development: in order to access government support programmes, ECD's have to register with the Department of Social Development. The Department will send their inspectors to check if the basic requirements are met such as hygiene levels, spatial and safety related matters. Once the requirements are met, the department will decide how much money is to be paid to the ECD. The ECD gets R10 000 per month for food and subsidizing employee salaries, which is paid out in four large sums per quarter. This money is useful as Thenjiwe points out that before she qualified for this grant she was struggling to operationalize the ECD. The DSD has also bought the ECD a refrigerator, freezer and two gas stoves. However, should she decide to close down the ECD, the department will collect their equipment. The government funding is very useful and it's important that this service is continued as the ECD would not survive without it. Furthermore, due to legislation, she is not allowed to tell parents who owe school fees not to bring their kids due to outstanding fees.

Challenges: the challenge for the ECD is non-payment of school fees by parents. It is difficult to find parents who pay their fees regularly. For instance, parents will go for months without paying their fees or towards the December school holidays, parents will prefer to leave their kids with older siblings in the house so that they don't have to pay the December fee. There are instances where parents lose their jobs and cannot afford to pay for the child's schools fees. Because she is not allowed to expel kids for non-payment, it will mean she will have kids who are not

paying for an extended period. The non-payment of school fees affects the way the ECD is run because the money is used to pay employee salaries. As a result, the money from the Department of Social Development will be used to pay employee salaries and this affects the amount of food that the ECD can buy at the end of the month. Thenjiwe views the lack of toys and reading material as a major impediment to the children's development. The ECD used to accept children from outside Evaton West, but have since stopped as they prefer to have children from the area because it makes it easier to locate their parents in emergency situations, and this affects the number of children she can have at the ECD.

Control of money: money from the DSD is paid into the registered bank account of the ECD, and the money is allocated for food and subsidizing the employees' salaries. The money paid by the DSD is not enough to buy food and pay for the salaries, as a result, they sometimes run out of food to feed the kids. As a result, Thenjiwe has to spend her own personal money to sustain the ECD. There is hardly any money left at the end of the month, on a good month when all the children have paid she will make around R1500 profit. The money is always invested back into the ECD as many things need attention at the moment.

- **Construction**

DUMA'S CONSTRUCTION



On my first visit to Duma's construction site there were six men sitting under the shade sharing jokes, lunch and enjoying a break from

the scorching heat. Upon approaching the gentleman, one of the men stands up and introduces himself as “Duma the construction manager”. We continue to have a conversation about this particular house he is working on, and he tells me that there isn’t anything he doesn’t know about the construction sector as he has worked for the biggest construction companies in the country building houses, schools, hospitals and churches. He states that a lot of construction workers are renowned for undertaking work over the weekends to supplement their income. More importantly, it is not uncommon for those who work in the construction sector to go for an extended period of time without work. Because their work in many instances is on a contract or project basis, with time limit, it means that they are likely to go for an extended period without a job. Thus, it is imperative that they find an alternative source of income.

Experience: during the course of the interview Duma kept referring to himself as the “construction manager”. Three years ago Duma was a “team leader” working at project that was building houses in Kwazulu-Natal. Because of this, he believes that he has all the prerequisite knowledge and experience to undertake large projects or run his own construction business. His biggest frustration comes from what he calls “BEE’s” (Black Economic Empowered companies) who get the big project without any knowledge and skills to undertake the work. What makes it worse for him is that most of these companies always recruit him as a leader to some of the projects. He firmly believes that his fortunes could change if he could get formal accreditation or a Recognition of Prior Learning (RPL) ⁵⁷ certificate. Duma believes

that if he could get more clients or bigger projects he would hire a lot of young people and he would teach them about construction.

Advertising: undertaking a new project in a new area or community is very important for his type of work as it provides an avenue for future clients provided he does a good job. As a result, his first project he will look to charge less than what he would normally do. The first house is meant to serve as a form of advertisement for his work. He says that he understands that in this line of work referrals are important to getting new clients.. He says that because people are always looking to extend their houses, when he does a “good job”, he knows that they will ask for his numbers from the owner of the house he has worked on. Because of this, he charges less for the first house in a new area.

Challenges: Duma believes if that if he had a “CK” (construction certificate) which is a requisite in the construction sector he would be able to undertake bigger and better paying projects. He says that he does not have the money to go to Pretoria to apply for this certificate. One of the key challenges for him since he operates in different areas is the lack of storage facilities for his tools. As a result he has to pay transport fees for his equipment on a daily basis.

It is also difficult to make a profit from every project because most of the customers price him down and he can’t refuse the work because he needs to feed his family. His main fear is the inability to provide for his family when this project comes to an end.

“Ke charger R68 000 ho aga nntlo ena, empa ke gotletse ko R38 000” (***I initially charged R68 000 to build this house but he ended up settling for R38 000***)

⁵⁷ Program that was run by the City of Johannesburg whereby they test your skills and provide the

participant with documentation that proves that you are able to perform the work

Control of money: before any work can begin, Duma will sit down with the potential client to negotiate a price for the project. Once a price is negotiated, the owner will pay an initial agreed amount upfront before work can begin. He will then hire people to come assist him in building the house. The people that he hires to do the work are paid on a weekly basis and have different daily rates. For instance, the guy that mixes the cement charges between R80-R120 per day depending on how much work he has to do and the guy that lays the bricks charges between R150 and R250 per day depending on how good he is and his experience. He owns a bank account which his customers use to pay him. However his hired employees are paid through an envelope. He says that he doesn't save money because he doesn't make enough money to be able to do so. The type of projects he undertakes at the moment do not bring in any money and its mainly about being able to feed his family, but you can't plan around it and it beats procrastinating at home. At the moment, all the money he receives from work has to be used to buy food for the household.

Customers: Duma goes where the customers are located. The problem with customers is that if they can sense that he is desperate for the work they will price him down. Customers decide where to buy the supplies as they are looking to save money and most of them have a preference, but for those who don't know, he recommends a supplier. Customers pay for the construction material. Duma says it is sometimes difficult to maintain a good relationship with customers because of delayed payments.

- **Funeral Services**

MAFERIKA BURIAL SOCIETY



The business is operated out of a 5m x 7m room divided into two sections by a security gate. The Security gate provides extra security for the sections that keep his coffins. In the one section of the business the receptionist sits behind a computer and telephone. Due to the spatial limitation, Mr Maferika says that he normally holds business meetings behind the receptionist desk. In the reception area there is a picture of the Barnabus Lekganyane, the leader of the Zionist Christian Church (ZCC) which Mr Maferika belongs to. This is important to note because he highlights his religious beliefs when he talks about giving credit and borrowing money.

Start-up capital: after working for nine years as a crane driver at a logistics company in Germiston, Mr Maferika asked his employers for his pension fund. The money he received was used to buy a second hand min-bus taxi. The mini-bus taxi operated for two years until it started experiencing mechanical problems. However, during the two years he had been saving money which enabled him to invest in a funeral services business in Evaton. Before starting his own business, he e worked for two years in another funeral services business. After learning about the funeral services business, he sold his taxi and took his investment from the business in order to open his own funeral services business.

Funeral service business: Maferika says that in the first three years the business was thriving because it operated with a funeral parlour licence. The problem is that he had a

funeral parlour licence but did not own his own storage facilities for the corpses. He says that The Department of Health has been cracking down on funeral service businesses with funeral parlour certificates without storage facilities. Maferika used to rent space for the corpses at funeral parlours with storage facilities which enabled him to get more clients. Currently he only operates as an intermediary for burial schemes who pay monthly contribution fees. He organises all the funeral related logistics for them such as renting a tent, selling a coffin, getting buses and organising catering. The business is registered but does not pay taxes. He doesn't think that he makes enough to pay tax. When he was still operating as a funeral parlour licence he had to register the business. Since the Department of Health stopped his business from operating as a funeral parlour, because he did not have a storage facility, he was forced to diversify his services in order to keep the business running.

Control of money: Mr Maferika does not keep a record of business transaction because he says it's all in his head. However, when asked how much money the business makes, he does not know. When I mentioned writing down all the transactions down, he thought this was one of the best ideas he has received. Because of the monthly contributions he receives from four burial schemes, he is able to run his business when he doesn't get new customers. The business employs two people who are paid monthly salaries without any contribution towards the Unemployment Insurance Fund (UIF). The business has a bank account, but there is no difference between business and personal use. Although he pays himself a salary from the business, he says sometimes he has to use the business money to pay for his household costs. Because the business is not doing as well as it used to, he says that there isn't money left to save when

expenses such as rent, business insurance, and membership fees (South African Funeral Federation) and employee salaries have been paid. Although he is owed over R40 000 in unsettled accounts, he still gives credit to his customers. In recent times, in order to negate non-payment, he asks his clients to pay 70% upfront before any business can be conducted. He used to have a good relationship with his supplier who is also based in Evaton. Due to unpaid or late payment of credit, their relationship is poor and almost non-existent at the moment. He used to receive credit from ZZ6 Coffin and Furniture Manufacturer (one of the case studies), but to get credit he had to buy his coffins exclusively from ZZ6. He no longer gets credit from the supplier due to an unsettled account.

Challenges: In order for the business to start making money again he believes that it needs to operate as a funeral parlour. He thinks this will be the difference between this business surviving in the future or having to close down. Also, the business space is too small and he doesn't have the funds to extend the property. This would enable him to put in a new storage facility and therefore operate as a funeral parlour. Despite this, he is not willing to borrow money to invest in the business as he fears that this will only lead to debt.

Buying local: he is sceptical about a buy local campaign because there is no trust in this funeral services business. He says that for far too long funeral service business have robbed people of their money and because of this it will be difficult for people to trust people who operate in this sector. To illustrate this lack of trust he spoke about the failure of an initiative amongst funeral businesses in Evaton who tried to organise to buy their coffins in bulk. He also highlighted the problem of business owners failing to

distinguish between business money and private money. Ironically, he also spoke of his inability to save because he uses the money from the business account to run his household.

ZZ6 COFFIN AND FURNITURE MANUFACTURERS



Inside the Evaton Industrial Park there are a number of small and medium enterprises from across the different sectors in the economy. ZZ6 Coffin and Furniture Manufacturers is one of many small and medium enterprises renting retail space at the Evaton Industrial Park. ZZ6 Coffin and Furniture Manufacturers rent two retail spaces at the industrial park which is still not adequate space for storing coffins and furniture.

In the parking bay allocated to ZZ6 Coffin and Furniture Manufactures there are two early 1990's Mercedes Benz Station wagons, a late 1980's Toyota Cressida and early 2000 mini-truck parked. Inside the building there are machines used for making furniture and coffins. Mr Kapa's office is 2m x 2m office, which can only fit two people at most.

Start up: Mr Kapa worked for twenty years as a coffin maker at formal sector business in Boksburg. After a dispute with his employers, Mr Kapa was relieved of his duties. After collecting his pension, he used R10 000 to procure furniture making equipment. The first two years of the business were undertaken inside a tin roof structure in Evaton. Only after his ex-work colleagues heard about his new

business venture, the fortunes of the business changed. 5 of his ex-work colleagues took an interest in his new business venture, and they decided to invest in the business. Currently the business has 6 partners, with 5 of them not actively involved in the daily running of the business, as they are still employed at the company that Mr Kapa used to work. The money invested in the business by his ex-colleagues was used to relocate the business to the Evaton Industrial Park.

Control of money: the business employs nine people on a full time basis as coffin and furniture makers, who are registered for Unemployment Insurance Fund (UIF). Employees are paid on a weekly basis. When he was working as a sole proprietor Mr Kapa did not keep record of all the business transactions. However, since he has business partners, it has become important that he keeps record. As a result, he undertook book keeping classes. The business has a bank account and all the partners have access to the financial statements. Mr Kapa is the manager of the business and his only source of income is from the salary that gets from the business. Because he is involved in the daily management of the business he is paid more than the 5 partners. The business gives conditional credit to funeral service businesses provided that when they procure their new supplies they buy it from ZZ6. He states that it is important that he conducts his business like this or else he will not make money as most of the businesses that he sells coffins to only come to him when they need credit, but when they have money to buy, they prefer to go to the city where the prices are slightly cheaper. In order to make sure that they are not lying to him, he undertakes regular check-ups with the four funeral services businesses that he gives credit to so that he can see whether they don't have

coffins manufactured by other businesses' in their inventory.

Challenges: although the business has a history of buying from the same supplier since 2003, the business still struggles to receive credit from the suppliers. Furthermore, rent at the industrial park is “too much” for the sustainability of the business. He says that they pay R1800 (adds up to R3600 because of the two spaces they are renting) a month for the retail space. Problems with the rent are not experienced by his business alone. He states that tenants at the industrial park have raised this issue with managers of the park without any success. Ideally the tenants wanted to buy this space so that they don't have to pay the rent forever. The sale of the park was discussed, but management has since recanted on selling the industrial park to the tenants.

“Aswi olovi ku lunghisa movha mavhiki mambirhi kambe n'winyi wa movha anga hakeli kumbe a hakela hi swiphemu” **(It is difficult when you work on a vehicle for 1 to 2 weeks and the customer doesn't pay or he pays half of the money due)**

The business also has a funeral services division which was started in order to benefit from the coffins that they produce, but this division hardly makes money. This division of the business has become very expensive to operate as they are forced to rent expensive cars from Avis in order to stay competitive in this sector. Mr Kapa states that customers demand better looking cars than the old Mercedes Benz and Toyota Cressida which the business owns, and as a result, when they rent cars from Avis they end up making a loss.

- **Motor Mechanics**

EVATON SMALL FARMS MOTOR MECHANICS



Evaton Small Farms Motor Mechanics is located on a piece of land that has been earmarked for a new low class government housing project. Although no houses have been built, the land has already been allocated to an owner whom they pay rent to. A large two roof structure that can store up to three cars has been constructed. Because this section is not developed, a large electricity cable can be easily noticed, which is used to get electricity to the business. The structure is divided into two sections, one section to store cars overnight and the other a room for one of the partners who alternate to be security overnight. The place used to be an open field, and a lot of work had to be done to get the surrounding to its current state.

Start up: The motor mechanics business is owned by six Mozambicans, who state that they moved to South Africa to improve their economic condition. The oldest partner is 28 and the youngest is 25 years old. Before they came to South Africa they all knew someone from Mozambique whom they could live with upon arriving. They arrived in South Africa a year apart from each other, with the first one arriving in 2008. Although they did not have any training or experience (formally or informally) in motor mechanics, upon arriving in the country they started working in Soweto fixing taxis. After working for a couple of years in Soweto, they felt that they were underpaid by the taxi owners and as a result, they decided to move to Evaton to start their own

motor mechanics business. All of six of them built the structure from scratch. Three of them work on the body paint and the other three on the mechanical side.

Supplier: customers in most instances prefer to buy their own spares as they are able to negotiate their own prices or know where to get a better deal. Due to this, the location of the supplier does not affect the business. Customers who do not come with their own spares, they recommend Bra-Toms Spares located in Evaton. Despite this, there is no relationship between this business and Bra Toms spares. One of the partners states that it does not matter whether you buy from Bra-Toms spares in Evaton or you buy from businesses in the city where it is cheaper, because when calculate how much you spend on transport there is no difference. Also they do not prefer to go to town as it is time consuming and expensive.

Control of money: the profit from the business is divided equally amongst all the business partners. The business has only been operational for three months and all of them state that saving money is the last thing on their mind at the moment. What is important at the moment is the ability to put food on the table. All of them are of the opinion that is impossible to open a bank account in South Africa if you don't own a South African identity book, as they only have passports. Because they all live in Evaton, they spend

their earnings locally, and some of them send money back home to Mozambique. During the course of the interview, one of the partners points at a mini-bus that is parked in the business yard, which he says that the worked on three months, but the owner never paid the full amount of R4000. However, he is back now with another problem which he expects them to fix without settling his outstanding bill. Because they need money they have started working on it, "mithiro loyi u-sona" (**this is the nature of this business**).

Challenges: the biggest challenge facing the business is the non-payment or late payment by customers. Also, the structure is erected on an open-field, and as a result, there are no ablution facilities. Furthermore, when it rains it is difficult to conduct any business because the place leaks and it forces them shut shop for the day. The structure can only store 2-3 vehicles at a time, and during busy times they are forced to leave some of the vehicles in the parking lot and this is dangerous because people break into the cars or steal the wheels. In the last 3 months that they have been operating this business they have experienced two burglaries. Although they would like to grow the business, they doubt that this would happen to them because they are non-nationals, and they don't know any motor mechanics business that has received any form of assistance

Chapter five: Findings

The informal economy continues to prove a useful concept for policy makers and development scholars around the world because of the reality it captures. The following cases provide enough evidence that the informal economy is diverse, dynamic and vibrant. Despite this, the case study report

indicates that in Evaton, small, micro and survivalist enterprises face structural challenges such as lack of access to credit, infrastructure development, and lack of access to information, basic business skills inhibit the informal economy from growing and thriving.

Table 4: Personal information of the enterprise owner							
ENTERPRISE	AGE OF OWNER	HIGHEST GRADE PASSED	# PPL IN THE HH	# PPL WITH AN INCOME (WAGES)	# OF GRANT RECIPIENTS	TYPE OF GRANT	RECIPIENT OF GRANT
MAFERIKA BURIAL SERVICES	46	Grade 5	5	1 (owner)	1	CSG	Wife
ZZ6 COFFIN AND FURNITURE MANUFACTURERS	50	Grade 10	4	1 (owner)	2	CSG	wife
DUMA'S CONSTRUCTION	40	Grade 7	4	1 (owner)	1	CSG	ex-wife
MBINGWA (STREET TRADER)	28	Grade 5	1	1 (owner)	0		0
MOFOKENG (STREET TRADER)	48	Grade 5	4	1 (owner)	1	CSG	Wife
LA-POSH HAIR SALON	28	Grade 7	1	1 (owner)	0	-	0
BEAUTY HAIR SALON	27	Grade 10	2	1 (owner)	0	-	0
ENKULULEKO COOPERATIVE	32	Diploma	3	2 (owner and husband)	0	CSG	Participant
THENJIWE'S ECD	42	Grade 10		2(owner and husband)		-	
EMTHONJENI AWARENESS CENTRE	66	Degree	3	1 (owner)	0	-	0
FIKILE'S SPAZA SHOP	46	Grade 11	3	1 (owner)	1	OAG	Mother
DIMAKATSO SPAZA SHOP	44	Grade 11	4	1 (owner)	1	DG	Dimakatso
MOTOR MECHANICS	26	Grade 11	1	1(owner)	0	0	0
CSG: Child Support Grant, OAG: Old Age Grant, DG: Disability Grant							

Table 4 provides personal and household information of the enterprise owner. The table shows that the ages of the business owners are varied, the three enterprises with the youngest owners are owned by non-nationals, who are not receiving any form of social grant. The table also shows that business owners are the only source of income in the household. 2 out of the 13 enterprises had an additional person in the household bringing in an extra income, which indicates the heavy reliance on the income generated by the businesses. Hence, in most

instances there was no separation between business and household money. The table also shows that 1 out of the 7 enterprise owners who had someone receiving a social grant; the money was received by a member of the household. The table also shows that most of the business owners have low levels of education, with the most qualified being a social worker (Emthonjeni Awareness Centre) and Wendy (Enkululeko Cooperative) who is currently studying. The low levels of education also highlight the need for basic financial literacy skills.

Table 5: Enterprise information				
ENTERPRISE	ASSETS	# OF PEOPLE EMPLOYED	PROFIT (MONTHLY)	REGISTRATION
MAFERIKA BURIAL SERVICES	R150 000	2	Unknown	No
JOHAN MBINGWA (STREET TRADER)	None	1	R1000	No
GEOFFREY MOFOKENG (STREET TRADER)	None	1	R750	No
FIKILE'S SPAZA SHOP	R3000	1	Unknown	
DIMAKATSO'S SPAZA SHOP	R2500	1	Unknown	No
LA-POSH HAIR SALON	None	3	R4000	No
BEAUTY HAIR SALON	None	1	R1200	No
ENKULULEKO COOPERATIVES	Own a pig farm (worth not known)	140	Unknown	Yes
EMTHONJENI AWARENESS CENTRE	R900 000	17	Not for profit	Yes
THENJIWE'S ECD	DSD equipment	4	R1500	Yes
EVATON MOTOR MECHANICS	R3500-4000	6	Unknown	No
DUMA (CONSTRUCTION)	R10 000	7	Unknown	No
ZZ6 COFFIN AND MANUFACTURERS	R750 000-R900 000	9	R 10 000	Yes

Table 5 provides enterprise information and aims to provide an overview of the financial value of the enterprise. The table shows that there are low profits being generated by the businesses. More importantly, 6 out of the 13 Manufacturers, Maferika Burial Society have accumulated valuable assets.

5.1 Emerging themes from the interviews

- **Low profit margins and control of money**

One of the key challenges highlighted by the interviewed businesses owners was the low profit margins. In most instances, business owners did not know whether their businesses were making a profit. There is a need to improve the basic business management skills of small and micro enterprises. Such training would allow for the possibility of enterprises becoming more established, with improved profit margins. 6 out of the 13 enterprises indicated that they owned a bank account. The two ECD's were getting financial support from the Department of Social Development (DSD) and the Coffin Manufacturers owned a business account with the remaining three having personal bank accounts. The remaining business owners stressed that they did not own a bank account because they deemed it to be expensive and not worth their while. It was also from the interviews that there was no separation between business and personal/household funds. As a result, money that is meant to sustain the business is sometimes used to sustain the household, and this has serious implications on the business as they may not be able to operate.

- **Supplies from outside Evaton**

enterprises indicate that they do not know how much the business makes per week or month. However, the table does also show that 199 people are earning an income from

Most of the businesses owners interviewed indicate that they do not procure their supplies locally. This was because of two main reasons: 1) the local market does not have the

- **Inappropriate and poor infrastructure**

All the businesses indicated that poor, inappropriate and inadequate infrastructure was a key factor why the businesses are struggling and unable to expand. Most of the enterprise owners indicate that access to running water, shelter and electricity was affecting how the enterprise functions. In most cases, enterprise owners believed that if they had aesthetically pleasing infrastructure, and was structurally sound, they would be able to improve their profit margins. In addition, for those enterprises that operated out of spaces that were not connected to houses, access to running water and electricity is costly, since they have to ask for connections from neighbouring houses.

- **Lack of access to basic management skills and training**

This research shows that the majority of participating enterprises have experience working in the formal sector but do not have any formal training on how to run a business. 1 out of the 13 cases had received some form of basic business management skills (bookkeeping). The cases also showed that the majority of individuals and business who

operate in the informal sector have a low education level. The low levels of education are a result of the quality of education provided to the black majority under apartheid.

No access to credit and financial services

The challenge for many poor people in South Africa is that the current financial lending system does not meet the needs of the majority of the population. Requirements including business registration, collateral, high minimum deposits and high charges on transactions exclude the majority of small enterprises from accessing credit and financial services. Despite many interviewed businesses extending credit to their own customers, they emphasised that an inability to access credit is a key constraint to growth.

- **Lack of information with regards to support programmes**

One of the key challenges faced by small and micro enterprises is the inability to access information, especially regarding support programmes for small businesses. Besides the Early Childhood Development Centre's and Enkululeko Cooperative, the rest of the businesses have never received any form of assistance from government or the private sector. The problem is that the information is not available in the locality of small and micro enterprises. As result, people to travel long distances, incurring significant cost, to access information.

The report set out to answer the following questions:

- **What are the constraints to growth experienced by small and local enterprises?**

The challenge for the enterprises interviewed is that many of them are survivalist. This inhibits their ability to grow. . The majority of enterprises, besides Johan Mbingwa spaza shop which identified a gap in the market, were established due to a loss of work and a need to survive. Interviewed enterprises owners highlighted that inadequate infrastructure was preventing them from growing their businesses and improving their profit margins. Because of low profit margins, it was difficult, if not impossible for them to invest in infrastructure. Furthermore, because the majority of enterprises are not registered and lack financial statements and registered bank accounts, it was very difficult to access credit or loans from the bank. More importantly, there is a clear lack of support programs from government or the private sector for small and micro businesses in the area.

- **What are the strengths, weaknesses, capacity and challenges experienced by local enterprises?**

Local enterprises always have a competitive advantage over large retail stores due to their proximity to the community. However, in recent years, local enterprises are coming under pressure from large chain stores as they are moving into previously disadvantaged areas. This affects the profit margins of local enterprises that are unable to compete on price. Interviewed enterprises such as spaza shops, food gardens and street traders note that at certain times they are unable to meet increased demand. One of the key challenges faced by local enterprises is the lack of basic business skills. Another key challenge is the failure to separate business and personal finances and expenditure. This is due to the fact that most of these businesses are survivalist and most of the business owners' judge success of the business by the ability to

feed their families and their ability to conduct business the next day.

- **Can local enterprises support LED and Job creation?**

Local enterprises, especially those who operate in the informal sector, are important to any community because of the manner which they conduct their business. For instance, there is a close relationship between the local community and local enterprises. An example of this, highlighted in the majority of cases, is local businesses offering credit to customers. With the emergence of shopping malls in previously disadvantaged areas, interviewed enterprises such as food gardens, spaza shops and street traders will come under pressure from large retail stores. As the small enterprises offer the same or similar products and are therefore unable to compete on price with these large retailers.⁵⁸ In order to drive LED and job creation through local enterprises, it is important that local enterprises are identified as the drivers of LED and job creation. Local enterprises also need to develop strong collective bargaining and trust to enable them to buy in bulk and therefore remain competitive. Local enterprises such as motor mechanics, hair salons, and builders offer services that formal sector business do not offer in previously

disadvantaged areas. These enterprises which offer services/products which are different from the formal sector provide an avenue for driving LED as they are not in direct competition with the formal sector.

The emergence of profitable foreign owned business in townships across the country provides a model that can be adopted by local enterprises. Foreigners show that there is room to improve the way local business (South African owned) are run. A study on spaza shops in Cape Town, by the Sustainable Livelihoods Foundation, shows that foreigners have turned what was a survivalist business amongst locals into a profitable business. Based on this research in Evaton, local enterprises need to improve how they operate their businesses, and this speaks to skills such as basic business management skills and financial literacy. However, skills such as market analysis and buying in bulk can improve how they function. Interviewed enterprise owners operate businesses that are survivalist and this is reflected in their business practices highlighted in the case studies above. There are great lessons to be learned for South African businesses, especially around bargaining power and collective buying adopted by foreigners across the country. In addition, there is a need to improve the basic management skills amongst local enterprises. Interviewed business owners had low levels of education and this affected the running of the business.

⁵⁸ A Study undertaken on Spaza shops in Cape Town by the Sustainable Livelihoods Foundation (SLF) shows that foreigners in recent years have turned spaza shops into profitable business through joint bargaining with wholesalers, collective delivery of goods, flexible customer practices and more importantly, they offer credit, cheaper products, alternative products to substitute the expensive ones. This has been a trend in many townships across the country, and has been the tensions behind xenophobic attacks targeting foreign owned spaza shops.

Chapter six: Synthesis of findings and policy recommendations

The analysis above shows the vulnerability of small businesses in Evaton is that they are survivalist. The LED concept is meant to address the failures of the global market by organising populations at a local level towards a common purpose to increase local economic activity and job creation. The challenge in South Africa is that in most municipalities LED remains an un-funded mandate, despite the Constitution mandating local government to “promote social and economic development”. Therefore, municipalities have to create a conducive environment for investment through provision of infrastructure and quality services.

The research was undertaken in an effort to understand the constraints to growth experienced by small, micro and survivalist enterprises in Evaton. 13 local enterprise owners from different sectors in the informal sector were interviewed for this report.

6.1 Policy Recommendations

- ***Lack of adequate infrastructure***

Chapter 7 of the Constitution states that Local Governments should promote economic development within communities. Economic planning and development within local municipalities should include individuals and business that operate in the informal sector. The informal sector allows those who are unemployed an opportunity to undertake income generating activities. It is therefore crucial that infrastructure development programmes include individuals and enterprises that operate in the informal sector. If LED is to be successful within poor

communities, local governments should invest in infrastructure development to aid small and micro enterprises. To avoid a one-size-fits-all approach, detailed research is needed to understand the major challenges and infrastructure needs of small and micro enterprises. This research found that one of the major constraints facing small and micro enterprises is a lack of adequate infrastructure. Because the informal economy is diverse, infrastructure development planning must consider the needs in particular local areas.

At the core of LED is the opportunity for municipalities, NGO's and the private sector to enhance business support and sectoral developmental approaches. The primary purpose of LED is to utilise local resources for the benefit of the community, and the development of local enterprises through education, private/public partnerships, facilitating workforce development and making local enterprises competitive. Providing basic business management skills could improve how they run their businesses. Therefore, in order to make small and micro enterprises competitive, it is imperative that they are afforded some form of basic management training/skills.

- ***Access to credit and financial services***

Due to the informal nature of businesses in Evaton, they are not able to meet the requirements set out by the formal lending structures such as banks and government funding agencies. Their inability to provide collateral and proof of income has been identified as a key constraint to accessing credit. This challenge will persist as long as they remain informal as most of the funding institutions, government included, require the

business to be registered in order to access any form of assistance.

The current credit system in South Africa does not accommodate the poor as they are not able to provide a source of income or collateral. The formal financial institutions deem the poor to be high risk and for business they are faced with high costs of registration, deposit fees and transactional charges.⁵⁹ International experience shows that provision of credit facilities for the poor can be a vehicle to drive employment and increase economic activity for the poor, and more importantly to reduce the poverty levels. The rationale behind special credit schemes for the poor is the failure of mainstream financial institutions to service the poor. Lund and Skinner (2005) warn that easy access to credit for individuals and businesses can lead to debt. Despite this, local enterprises view the lack of access to credit as a constraint to growth.⁶⁰ International examples suggest that interventions need to be tailor made. International examples from the Grameen Bank in Bangladesh and Self Employed Women's Association (SEWA) in India provide good examples that with targeted intervention, credit can successfully be provided to the poor.

- ***Localised information desks***

Although section 32 of the Constitution makes provision for the access to information by government for all, this is not always the case when it comes to support programmes for the small and micro enterprises. Support programmes by government have been criticised for not reaching the small and micro enterprises.⁶¹ The current system used by government which requires businesses to be

registered is a long process and too expensive for small businesses. In order for small and micro enterprises to take advantage of available support programmes, from government and the private sector, requires the establishment of satellite information desks. This would also strengthen the relationship between local municipalities and Community Based Organisations in poor communities.⁶²

- ***There is a need for research on the value chains that exist between the formal and informal sector***

Interviews indicated that the formal and informal economies were interlinked. For instance, business owners from Enthonjeni Awareness Centre, Maferika Burial Services, Dimakatso's Spaza Shop and ZZ6 Coffin and Furniture Manufactures bring experience from the formal sector. More importantly, the two sectors of the economy are interdependent as the informal sector serves as an entry point for many products that are produced in the formal sector. For example, Street Traders and Spaza Shops sell airtime from big businesses such as MTN, Vodacom and Cell-C and these small and micro businesses carry the burden of bringing these products into this market. It is imperative that the relationship that exists between the formal and informal economy is better understood in order to understand the beneficiation model in place. Understanding this relationship will also provide a deeper understanding of the challenges to growth experienced by local enterprises operating in the informal economy and possible solutions and recommendations.

⁵⁹ Ibid

⁶⁰ Ibid

⁶¹ Ibid