

Accelerating private sector job creation and poverty reduction in South Africa's townships

Mthokozisi Mncedisi Tshuma

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About the project

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The collaboration is between the United Nations University World Institute for Development Economics Research (UNU-WIDER), the National Treasury of South Africa, the International Food Policy Research Institute (IFPRI), the Department of Monitoring, Planning, and Evaluation, the Department of Trade and Industry, South African Revenue Services, Trade and Industrial Policy Strategies, and other universities and institutes. It is funded by the National Treasury of South Africa, the Department of Trade and Industry of South Africa, the Delegation of the European Union to South Africa, IFPRI, and UNU-WIDER through the Institute's contributions from Finland, Sweden, and the United Kingdom to its research programme.

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Corresponding author: tshuma.mthokozisi@gmail.com

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Mthokozisi Mncedisi Tshuma*

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Abstract: The paper examines the underlying constraints impacting micro-enterprise growth within South African townships. The understanding broadly provides a finer and more granular understanding of the microeconomic constraints to economic growth and employment generation in South Africa. It is critical for the South Africa government to prioritize the revitalization of township economies in order to promote entrepreneurship and the growth of small businesses. The findings of this paper reveal that township entrepreneurs encounter the challenges of lack of access to funding, markets, awareness of government initiatives, poor financial management, lack of management competencies, poor infrastructure, crime, and lack of information.

Key words: small and medium-sized enterprises, small businesses, townships, South Africa

JEL classification: M00, M10, M31

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*National Planning Commission, Pretoria, South Africa. Corresponding author: tshuma.mthokozisi@gmail.com

1 Introduction

Before the COVID-19 pandemic, South Africa's economy was on a low growth trajectory over the past years. The country failed to address deep structural legacies, such as high levels of poverty, inequality, and unemployment; non-inclusive low economic growth; an increase in the dominance of the service sector; high concentration levels across many economic sectors; poor performance of the manufacturing sector; skills mismatch; and barriers to market entry for small, medium, and micro-enterprises (SMMEs). Overall, South Africa remains one of the most unequal countries globally with highly polarized incomes, and the economy remains untransformed. The current pattern of economic growth remains insufficient to create jobs and livelihood opportunities at a required scale to overcome high unemployment and poverty. Furthermore, there has been limited fiscal space for the country to manoeuvre considering the decline in revenue collections, yet government expenditures continue to climb because of government guarantees on state-owned enterprise loans and public sector wages, among others.

Promoting SMMEs in developing economies remains critical as they contribute to job creation, innovation, and economic growth. Furthermore, people's living standards can be improved when SMMEs thrive and poverty is reduced. Although the role of SMMEs is greatly appreciated throughout the world, SMMEs still encounter difficulties in many emerging economies such as barriers to entry, regulatory burdens, and limited financial support, which to a larger extent have all negatively impacted their growth and survival (OECD 2017). It remains critical for policy makers to intervene by developing policies that promote entrepreneurship and local economic development initiatives, reduce regulatory burdens, and increase financial support for small business development.

Cant and Rabie (2018) argued that SMMEs have been engines of economic growth and employment creation across the globe. Similarly, OECD (2017) reveal that small firms play an important role within the OECD, employing 70 per cent of the population and significantly contributing to economic growth. However, small firms contribute less towards employment creation and economic growth in developing economies. SMMEs have contributed to reducing poverty in many developing countries. According to an International Finance Corporation (IFC) 2019 report, in sub-Saharan Africa (SSA), a large number of the population is employed in small businesses, contributing a lot to economic growth. Notably, in South Africa, around 50–60 per cent of the country's workforce is employed in small enterprises and contributes approximately 34 per cent of gross domestic product (GDP) to the economy (IFC 2019). Despite this, the sector has not grown over the last couple of years due to several challenges such as lack of access to markets and finance.

The South African government's National Development Plan (NDP) has identified small business as an important sector that contributes to economic promotion and unemployment reduction. However, since the adoption of the NDP in 2012 by parliament, there has been minimal progress in terms of promoting SMMEs. The NDP indicates that it remains critical to identify the factors that hinder the growth or performance of small and medium-sized enterprises. Recent research studies, such as NPC (2017), reveal that access to finance and markets as well as the regulatory burdens and insufficient government funding were identified as critical barriers to the growth and sustenance of SMMEs. It remains critical for government in partnership with other stakeholders, such as the private sector, to create policies that respond to the needs of SMMEs and promote entrepreneurship in South African townships. The government needs to create a conducive environment that enables entrepreneurship to thrive, create more jobs, and make it easier for start-ups to perform well within the economy.

There is general consensus that small business plays a critical role within the economy in terms of promoting innovation, creating employment opportunities, and contributing to economic growth. Since 1994, the African National Conference (ANC)-led government has mainly focused on entrepreneurship to address developmental challenges (e.g., poverty, inequality, and unemployment). Over the last couple years, the government has renewed the drive to promote entrepreneurship across its three spheres of national, provincial, and local government to boost economic growth and economic opportunities. The African Development Bank (AfDB 2020) reiterates by highlighting that the South African government has demonstrated willingness to support entrepreneurship efforts through the NDP and the establishment of the Department of Small Business Development in 2014 as well as the provision of various funding facilities.

There is a need to indicate that while the issues, in general, are of interest and currently occupy the work and thinking of the government in South Africa, this study will be beneficial in two unique ways. First, these are detailed, local area surveys that will move substantively beyond the broad analytical questions answered in the national surveys that are regularly run. The first benefit of this study is that its findings are drawn from a case study of six particular townships as opposed to the national surveys that generally present a broader economic outlook of the South African economy. This paper has therefore managed to address key elements of the township economy in South Africa through asking far more nuanced and granular questions to firms operating in the townships. This is unique for South Africa. Second, given this local, deeper focus on specific issues, we have been able to get closer to the detailed policy questions and critical issues through this research process that has previously remained inadequately addressed in broader national survey approaches. The six-township case study will potentially present a unique opportunity to move from an applied yet analytically robust research programme to designing optimal policy interventions.

Despite the availability of regular official household and labour force survey data, the level of detailed understanding of the constraints to micro-enterprise growth in townships and the nature and extent of learner-work and learner-higher-education transitions are surprisingly poorly understood. This is in large part because of the fact that official surveys are not designed with these specific analytical questions in mind. In addition, the inability to compare the difference in asset- and income-based measures of household poverty also suffers from the large survey problem, where detailed, specific questions around asset ownership and alternative sources of income are not possible. This study provides a significant value-added option of understanding to that which is currently available in South Africa. It is this deep analytical dive into several townships, together with a more carefully designed set of surveys that prompted this innovative research. In addition, though, we argue that this detailed understanding is also of potential benefit to other middle-income countries and certain African economies facing comparative growth and development constraints to South Africa.

It is important to understand and explore the nature and dynamism of micro-enterprises in South African townships. This provides a deeper understanding of those factors constraining micro-enterprise growth and positive factors contributing to the growth of these township firms. This study used a unique multi-period firm panel data set—the first of its kind in South Africa—and it undoubtedly further improved the focus and quality of the findings of this study.

The existing empirical evidence on the micro-enterprise sector reveals that it is not absorbing enough individuals into gainful employment. The high unemployment rates in South Africa could be attributed to the inability of the micro-enterprise sector to grow and expand at a sufficiently rapid rate. Hence, this paper intends to examine and understand the nature and dynamic of micro-enterprises in South African townships.

This paper selected to focus on townships, particularly areas with firm concentration, with a view of undertaking deep ‘empirical dives’ into the determinants of these firms’ performance. The paper intends to offer valuable policy advice from the survey results. Also, the paper should be in a position to potentially determine how significant and serious a constraint crime is to SMME growth, or the role played by credit on firm performance, as well as reflect on the characteristics of those firms that are larger job generators than others—and those that are more likely to destroy jobs.

Research shows that approximately 40 per cent of South Africa’s working age population and 60 per cent of the unemployed stay in townships; hence, it remains important to improve the socio-economic conditions in townships to reduce inequality and end poverty. Currently, there are few research studies that have been undertaken to explore or understand challenges encountered or experienced by SMMEs in townships. It remains critical to tap into the full economic potential of townships and develop a strategy to revitalize townships to deal with society’s triple challenges of unemployment, poverty, and inequality. It is also important to identify feasible pathways to deal with challenges encountered in townships.

At the outset, it is important to note that the underlying purpose behind the design of townships was for these urban settlements to act as dormitories for the mining and industry labour requirement in the apartheid state. In other words, those who lived in townships were expected to be employees. As such, the notion of ‘African entrepreneurship’ was discouraged and, in many cases, criminalized (Mahajan 2014).

Bvuma and Marnewick (2020) highlight some of the challenges affecting small businesses that are attributed to the legacy of apartheid in South Africa. For instance, the apartheid government developed policies that promoted segregation in townships and cities and prevented black people from accessing resources or participating in entrepreneurship. The apartheid government designed policies that hindered the growth of township SMMEs (Bvuma and Marnewick 2020). Prior to 1994, government policies prioritized large companies as they were regarded as potential drivers of economic growth and employment creation. These policies benefited mainly the minority white people at the expense of the majority black people.

A number of research studies have been undertaken to understand the underlying challenges that impede the performance of entrepreneurs in townships in South Africa. For instance, the IFC (2019) reveal that small firms face challenges of accessing credit compared to established firms as they are not deeply rooted on the various value chains. The IFC (2019) argues that government and financial institutions need to play an important role in promoting entrepreneurship. Furthermore, it is essential for government to partner with other stakeholders including the private sector to resolve some of the challenges encountered by small firms, such as lack of or limited access to financial resources and markets that enable them to thrive, and create employment opportunities.

There is established literature that explores the determinants of micro-enterprise (ME) performance in the developing world. The majority of these studies utilize single cross-sectional firm-based data in order to estimate the various determinants of micro-enterprise performance. These measures of firm performance include financial measures, such as turnover, net profit, productivity (turnover divided by number of workers), and return on capital (net profit divided by start-up capital), and economic measures, such as duration and employment growth.

1.1 Individual entrepreneur characteristics, firm characteristics, social networks, inter-firm cooperation, and contextual factors

Individual characteristics refer to factors such as the owner's level of education, experience, and gender. Firm characteristics refer to measures such as firm age, sector (formal or informal), and access to finance. Social networks refer to measures that control for the extent to which ME owners have access to market information (e.g., business opportunities) and resources (e.g., cooperative purchasing of stock in bulk). Inter-firm cooperation refers to vertical linkages (e.g., agreements with buyers that secure a guaranteed flow of orders) and horizontal linkages (e.g., formation of cooperatives that help MEs negate many of the disadvantages of being small). Contextual factors refer to any other factors specific to the geographical context of the firm that influence its performance. For instance, Cichello et al. (2011) reveal that entrepreneurs are mainly affected by crime in the South African township of Khayelitsha.

The type of data employed in the analysis was very important because it limited the type of research questions that can be addressed and, hence, the extent of the analysis. Crucially then, most of the studies in the global literature for developing countries, which examine the determinants of ME performance, use data from a survey of firms in a specific geographic locality for a single year. This limits the extent to which one can analyse ME performance because cross-sectional data only provide a snapshot of the firm performance story. More recent studies have been able to access a panel of data, but the extent to which they apply panel data techniques to address some of the key shortcomings associated with cross-sectional studies is limited.

There has been a growing focus by policy makers, both at national and sub-national levels, on revitalization and mainstreaming township economies with the aim of enabling these areas to contribute to economic growth and, consequently, to poverty reduction. Despite this, direct analysis of the socio-economic characteristics of township households is relatively limited.

The overall scope of this study was to address a set of key issues. First, what were the most promising opportunities for public actions to catalyze a growth convergence of micro-enterprises in townships with the advanced segment of the urban sector. Second, this study intended to identify binding constraints that impact micro-enterprises as their removal had the potential to increase micro-enterprise growth. Third, this study intended to provide detailed interventions to achieve the growth of townships and their improved integration with the formal economy. Thus, the study sought to provide more nuance and detail on micro-enterprises.

Some of the key research questions that this study dealt with through the regular collection of firm-level panel data therefore included:

- What are the key characteristics in terms of sector, ownership structure, skills composition of workforce, and access to markets of firms over time in townships?
- How do factors such as access to credit markets, crime and violence, and technology impact firm growth?
- Does the regulatory environment—including, for example, local government regulation, the property rights regime, and product and factor market legislation—predict micro-enterprise performance? The survey sought to assess firms' actual experience in terms of time and cost in interacting with government entities (e.g., public labour agencies).

The rest of the paper is organized as follows. Section 2 presents an overview of South African townships. Section 3 discusses micro-enterprise growth in South African townships. Section 4 further provides an overview of the methodology and data description. Section 5 presents the findings. Concluding remarks are available in Section 6.

2 Overview of South African townships

The term township refers to an underdeveloped residential area, usually peri-urban and generally created during apartheid, that is inhabited by people from the Black, Coloureds, and Indian/Asian population groups. Townships can be categorized as follows: mature, settled township; new, urban township; and rural or peri-urban township. The mature, settled townships are situated close to urban areas and have been in existence since the 1950s. These are characterized by established communities such as Soweto and Mamelodi townships in the Gauteng Province and Langa township in the Western Cape Province. The new, urban townships are characterized by their rapid growth, large informal settlements, and proximity to urban areas or their role as the first stop for new rural and cross-border migrants. Diepsloot in Gauteng Province and Khayelitsha in Western Cape Province are good examples of new, urban townships in the context of South Africa. The rural or peri-urban townships are located near smaller towns or peri-urban cities. They possess stronger economic links to outlying rural areas, are often on major transport routes, and in general lack basic services infrastructure. One key industrial base in the nearby town draws the population to these townships. Some examples include Etwatwa in Gauteng, Thabong in Free State Province, and Mdantsane in Eastern Cape Province.

The townships of South Africa lie at the spatial core of the country's economic development challenges. They face low levels of physical infrastructures such as electricity, sanitation, and water and, most importantly, low economic infrastructures (Mahajan 2014) such as access to financial markets and transportation systems. South African townships possess unique features, although they remain similar with slums in other developing economies. These features include being geographically distant from urban economic centres, yet they have always simultaneously served as the reservoir of labour and being dormitory-like towns of African and Coloured workers and their families.

Approximately 40 per cent of the working age population and 60 per cent of the country's unemployed are residing in townships. Therefore, improvements in the economic and welfare outcomes within townships are of strategic importance to the achievement of unemployment, poverty, and inequality. South Africa will not be able to end poverty and reduce inequality until it succeeds in doing so in townships, which is where South Africa's poor and unemployed are concentrated.

The apartheid system designed townships as urban settlements meant to act as dormitories for the labour requirement of the mining industry in the apartheid state (Mahajan 2014). This implies that those who resided in townships were meant to be employees of mines and industries. The apartheid government discouraged entrepreneurship among the previously disadvantaged people, and in some cases, it was a criminal offence to be involved in it. Similarly, African Development Bank (AfDB 2020) highlights the failure of apartheid government policies to cater for the economic development of townships. The prevailing political environment influenced the policy discussions or initiative surrounding the economic development of Bantustan areas.

Several factors have been attributed to the failure to revive township economies, one being that a large percentage of the people in townships and rural areas lack the necessary skills to develop entrepreneurship (AfDB 2020). Research has shown that half of early-stage entrepreneurs in townships participate in crowded and low-profit-margin retail activities because of low skill levels. The township retail has been found to possess stronger backward linkages to supplies though weaker forward linkages. However, the dominant market in terms of participation requires a high demand for service sector skills, which include financial, banking, and real estate services. In South Africa, entrepreneurship and informal sector activities remain low, although the economy is

developed. According to IFC (2019), self-employment and informal activities in South African townships account for around 14.4 per cent of total employment.

The increase in the unemployment rate, particularly amongst the youth, has led to a renewed focus on the revival and growth of township economies as key to addressing the triple challenges of poverty, unemployment, and inequality (AfDB 2020). For instance, the government came up with several initiatives to deal with high unemployment in South Africa such as the National Informal Business Upliftment Strategy (NIBUS). Skinner and Roga (2019) indicate that this strategy sought to promote entrepreneurship in the informal sector, ensuring that previously marginalized people such as women, youth, and people with disabilities residing in rural areas and townships of South Africa are enabled to participate in the mainstream economy. In addition, the government has rolled out various development programmes through Accelerated and Shared Growth Initiative for South Africa (AsgiSA), New Growth Path (NGP), and NDP, seeking to encourage youth to play an active role in entrepreneurship (Chatterjee et al. 2022). Currently, the country ranks highly in the entrepreneurship ecosystem, above the average in the region, through these various initiatives that have been implemented together with the current supportive youth framework.

AfDB (2020) indicate that some government initiatives that focus on larger-scale nodes and corridors have failed to understand and respond so that informal activities organize spatially at a more local level. The revitalization of inner-city townships has not successfully reversed apartheid spatial planning. The partial development of townships could be attributed to failure to attract investment and locational disadvantage. AfDB (2020) reveal that the persistent economic challenges in townships could be attributed to the lack of capacity by government to address spatial challenges; poor coordination of various initiatives of government across the three spheres (i.e. national, provincial, and local) resulting in duplication of efforts; and wastage of limited resources available. As a result, the existing spaces of townships cannot fully serve residents' economic activities and ambitions. Generally, there has been a lack of understanding of the functioning and requirements of a township economy.

South Africa's efforts to the development of townships have encountered several challenges such as lack of markets, unsuitable facilities, minimal government support, lack of infrastructure and skills, and limited access to finance. Charman et al. (2015) account for access to finance, location and infrastructure, and laws as three of the main obstructions to enterprise growth in the Tembisa and Ivory Park townships in the Gauteng province. Lately, the government in South Africa has emphasized the need to revitalize township economies as they have great potential to address some of the developmental challenges such as poverty and unemployment.

According to African Development Bank (AfDB 2020), the development of township economies has been pursued through several agencies and role players in the country, and some of the initiatives are being undertaken at different levels to ensure the promotion of township economies. Notably, a number of government agencies, such as Small Enterprise Development Agency (SEDA), has been formed to specifically promote both rural and urban township development. Overall, there has been a policy shift at the regional level illustrating that over time there has been an increased move towards inclusion of township economic development in the broader development agenda.

3 Micro-enterprise growth in South Africa townships

The NDP (NPC 2012) shows that the service sector is likely to contribute a lot towards employment creation with small firms generating approximately 90 per cent of jobs. In addition,

regulatory reforms for SMMEs and a package of support measures could help to boost mass entrepreneurship.

The number of formal small businesses reported in the labour market surveys climbed from around 590,000 in 2010–12 to 640,000 in 2017, and informal small businesses increased to 1.5 million from 1.3 million in 2010 (TIPS 2017). Despite this growth, small businesses account for a smaller share of total employment, falling from 64 per cent in 2008 to 55 per cent in 2015 (TIPS 2017). Overall, there are few employed people (less than 20 per cent) participating in entrepreneurship compared to an average of 40 per cent in upper-middle-income countries (excluding China), which are often found in agriculture and retail. This may be a significant explanation for the relatively high unemployment in South Africa.

The state has set up a range of support policies, including competition and procurement, to promote market access. The Preferential Procurement Regulations were revised in 2017 to address, among others, the need to provide a mechanism to empower certain categories of SMMEs in township and rural areas through procurement. The government has committed to leverage on procurement by setting thresholds (i.e. 30 per cent of the total state procurement) in terms of the proportion that can be bought from small businesses and rural and township businesses. Specific goods and services were also classified to be procured by the government from SMMEs and cooperatives only.

Across the globe, SMMEs and the informal sector continue to struggle, although they remain critical to economic growth and development. Several challenges inhibit the development of the informal economy across countries in the developing world, including limited access to credit, access to markets, lack of relevant skills and training, regulatory red tapes or excessive regulations, unfriendly business environment, lack of access to modern technology, and poor infrastructure (Gbandi and Amissah 2014; Mahadea and Zogli 2018).

The country's challenges regarding informal economy development are similar to what other countries are experiencing. However, more work still needs to be done to promote the township economy despite the many coordinated efforts towards township economic development. Therefore, it remains critical to assess South Africa's model for township economic development against the models or initiatives that exist in other parts of the world to determine what works and where improvements are needed (AfDB 2020).

Though many programmes are overseen by its numerous agencies, the South African government has focused on increasing skills, especially of women and youth in townships, to increase the success rate of ventures and initiatives. However, the model adapted to support the provision of skills has thus far generally been an 'agency-to-township' approach. This means that the funding and facilitation of skills dissemination to the informal economy has been unidirectional, from the government to township beneficiaries. In addition, the adequacy of the support from the South African government in enhancing skills has been called into question. For instance, Mboniyane and Ladzani (2011) contend that mechanisms in place by the government are inadequate in supporting small businesses and training small business owners on running effective businesses.

There is a great deal of heterogeneity in the type of MEs that operate within township economies. For instance, firms differ in the motivation behind their start-up, industry, location, performance, and survival rate. MEs in South African townships are small companies managed by one person (i.e. owner) and in some instances assisted by family members (usually unpaid) and possibly a few additional paid employees. Their owners are motivated by exploiting a profitable opportunity with inherent growth prospects. These ME firms are free of the constraints of formality (e.g., business

license) and have a limited capital base, and the owners have rudimentary skills. However, it is suggested that these enterprises can develop into larger formal sector firms (Rogerson 1996).

Township MEs are distributed across various locations, such as along streets and pavements (e.g., hawkers) and at the owner’s home (e.g., spaza shops). The latter location, which is the predominant location of township firms, has generated an entire sub-group in the literature on home-based township micro-enterprises. However, recent work by Charman et al. (2015) highlights a unique feature of townships relating to their spatial distribution. Charman et al. (2015) argue that informal township enterprises do not primarily cluster along the ‘high street’ commercial zones but are distributed evenly across the township, including residential areas.

The three major sectors operating in most township economies are retail, services, and manufacturing. The balance of these sectors across townships varies according to the economic potential of the township. For example, townships closer to the industrial economic centres of cities are more likely to have downstream manufacturing activities than townships that are relatively more peripheral in terms of location (Rogerson 1996).

There is no readily available representative data on the number of township MEs at a national level. However, the recent Diepsloot Survey conducted by the World Bank provides an ideal entry point for understanding the key characteristics defining these enterprises (Mahajan 2014).

Molefe et al. (2018) outline the National Small Business Act (South Africa 1996) that was amended in 2019 that defines a small enterprise as: ‘a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy’, as mentioned in column 1 of the Scheduling Government Gazette No. 42304¹ and classified as a micro, small, or medium enterprise by satisfying the criteria mentioned in columns 3 and 4 of the Schedule of Government Gazette No. 42304² (Olwale 2021). SMMES consist of three categories, as defined by the Department of Small Business Development (DSBD) in 2019, and are summarized in Table 1. By way of clarification, Table 1 puts to context how SMMEs are categorized according to size or class, as articulated by the DSBD.

Table 1: SMMEs according to size or class

Enterprise size	Number of employees	Annual turnover
Micro	0–10	Less than ZAR5 million to ZAR20 million depending on sector
Small	11–50	Less than ZAR15 million to ZAR80 million depending on sector
Medium	51–250	Less than R40 million to ZAR210 million depending on sector

Source: author’s calculations based on data from Government Gazette of the Republic of South Africa (2019).

¹ Detailed informed pertaining to the gazette can be obtained at this link: https://www.gov.za/sites/default/files/gcis_document/201903/423041gon399.pdf

² Detailed informed pertaining to the gazette can be obtained on this link: https://www.gov.za/sites/default/files/gcis_document/201903/423041gon399.pdf

4 Methodology and data

The research study looked at the most promising opportunities for public actions to catalyze a growth convergence of micro-enterprises in townships with the advanced segment of the urban sector. The research study aimed to provide detailed interventions to achieve the growth of townships and improve their integration with the formal economy addressing the triple challenges of poverty, inequality, and unemployment. It also aimed to provide empirical evidence to help inform policy debates and formulation of policies on issues related to the township economies.

This study utilized a written questionnaire as its survey instrument that was distributed during face-to-face discussions with entrepreneurs. In designing the questionnaire, this study looked at some of the aspects that had been previously disseminated by World Bank in several countries where similar studies were undertaken such as in South Africa (Mahajan 2014). The questionnaires included both closed- and open-ended questions about businesses in townships and the future potential of such enterprises.

The data used in this paper were collected at a firm level through personal interviews of firm owners. Responses were recorded in personal digital assistants, into which the questionnaires were loaded. The advantages of running a panel are well known in the literature. They include, for example, the purging of time-invariant unobserved heterogeneity from our coefficient estimates, the ability to optimally model dynamics of adjustment over time, reduced co-linearity amongst variables, improved efficiency of estimates, and more degrees of freedom (Hsiao 2014). The disadvantages include such problems of coverage: non-response and time in sample bias. We do not dwell on them here but note that in the data collection and design of the survey—together with the micro-econometric work—these advantages and limitations will be incorporated.

The data collected would assist in understanding the dynamics and level of entrepreneurship in various townships in Gauteng: Cosmo City, Alexandra, Mamelodi, Soshanguve, Soweto, Atteridgeville, Sebokeng, Tembisa, Mabopane, and Orange Farm. In these townships, the following businesses appear to dominate: car wash, spaza, grocery retail, haircut, and truck shop. The study used the questionnaire as an instrument to gather data. The questionnaire comprised of open- and closed-ended questions, which enabled respondents to easily express themselves. Furthermore, following Olawale and Garwe (2010), five-point Likert scale questions have been used to enable respondents to articulate some of the challenges they have encountered as entrepreneurs that could negatively impact the success of small businesses.

The questionnaire was self-designed and tested for validity. The questionnaire was pretested in a pilot study conducted in Atteridgeville amongst SMMEs to understand the perception of business owners and managers on the proposed set of questions and to ensure that the instrument measured what it was supposed to measure. This was done to enable the researchers to review the structure of the questionnaire to enable the questions to respond to the challenges at hand, identify gaps in the research or any other issues of relevance, and include these in the research. Subsequently, the questionnaire was revised as per the pretest findings.

The paper did not discriminate any operation in any sector, whether formal or informal and whether businesses were registered or non-registered. The paper used the Krejcie and Morgan (1970) table to determine the sample size, population size, margin of error, and confidence level. According to Johnson and Shoulders (2019), the Krejcie and Morgan (1970) formula—or the use of tables derived from the formula—is a widely cited and utilized method of determining sample size. The Krejcie and Morgan (1970) formula informs the default sample size calculators for both Qualtrics (2018) and Survey Monkey. Therefore, a sample of size of 384 was found to be

appropriate. This sample was selected as it responds to the objective of the study (Bvuma and Marnewick 2020). The cover page of the questionnaire explained the nature of the research study, assuring respondents that confidentiality was maintained as the data were kept confidential and their identities would not be revealed when publishing or reporting the study.

Nonetheless, not all respondents participated in this survey as anticipated. The required sample was 384, but 278 was achieved due to several limitations. For instance, the survey was undertaken during the COVID-19 outbreak, and it was towards the local government elections of South Africa. In some instances, there were protests, especially in Soweto, that affected the safety of researchers and respondents. As a result, some of the interviews were cancelled. Nevertheless, overall, a reasonable response rate was achieved.

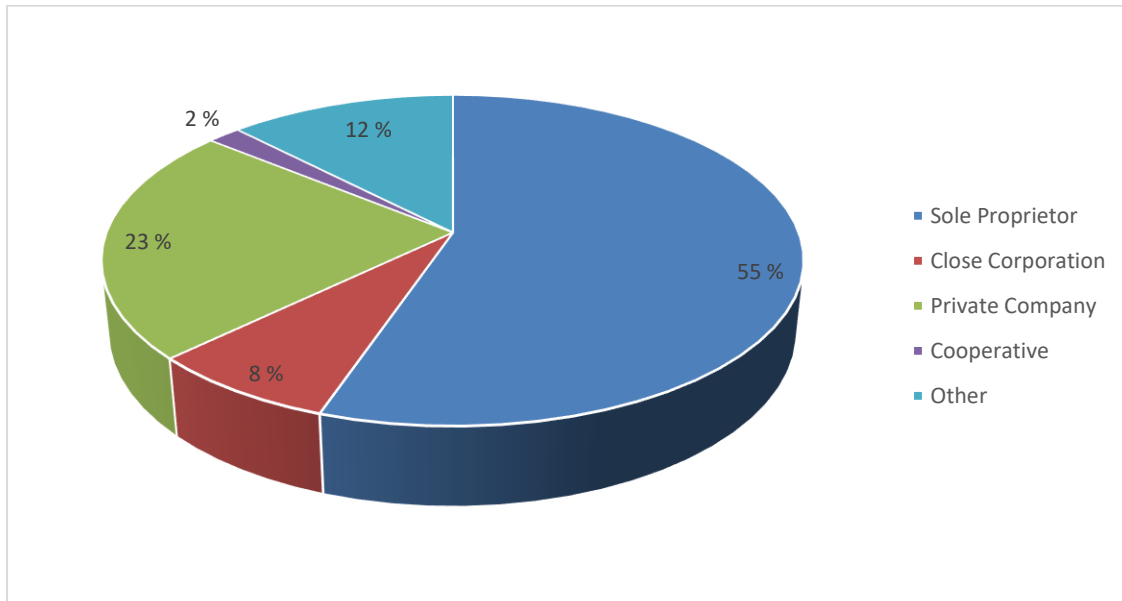
The total sample for this research study is 278 respondents (N=278). Most respondents were Africans (n =258, 92.8 per cent). Notably, most of the respondents who participated in the survey were male (56.5 per cent), with 31.7 per cent female respondents. In terms of age, most respondents were aged between 22 and 35 years (53.2 per cent), followed by the age group 36–50 years (37.8 per cent). Only 13 respondents (4.7 per cent) were older than 50 years. This shows that more young people are entrepreneurs. Table 2 shows that only a few older persons participate in entrepreneurship as it is perceived to be strenuous.

Table 2: Demographic breakdown of the sample

	N	%		n	%
	Race			Gender	
African	258	92.8	Male	157	56.5
White	5	1.4	Female	88	31.7
Coloured	4	1.8	Missing	33	11.9
Indian	9	3.2			
Missing	2	0.7			
				Age	
			0–20	1	0.4
			15–21	6	2.2
			22–35	148	53.2
			36–50	105	37.8
			51 and older	13	4.7
			Missing	5	1.8

Source: author's calculations.

Figure 1: Form of business ownership

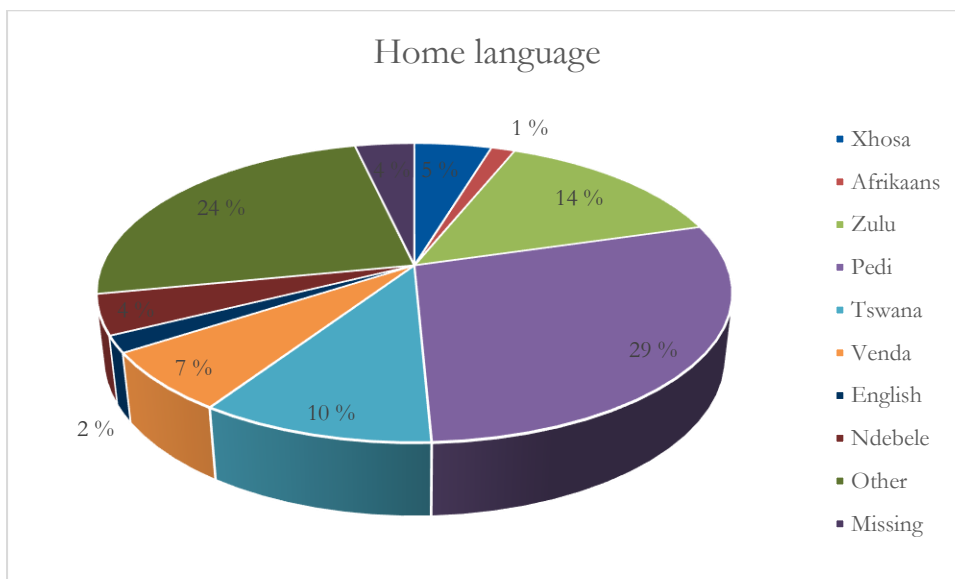


Source: author's calculations.

Figure 1 shows that most businesses in the townships surveyed are sole proprietors, those who are managed by owners, and followed by private companies.

The majority of respondents interviewed (29 per cent) were IsiPedi speaking, 24 per cent indicated other (possibly illustrating a strong presence of foreign nationals in the sector) as their home language, and 14 per cent indicated isiZulu as their native tongue (Figure 2). About the type of business these entrepreneurs were involved in, just more than half (51 per cent) have a business within the services sector, and 29 per cent run businesses within the retail sector.

Figure 2: Respondent language

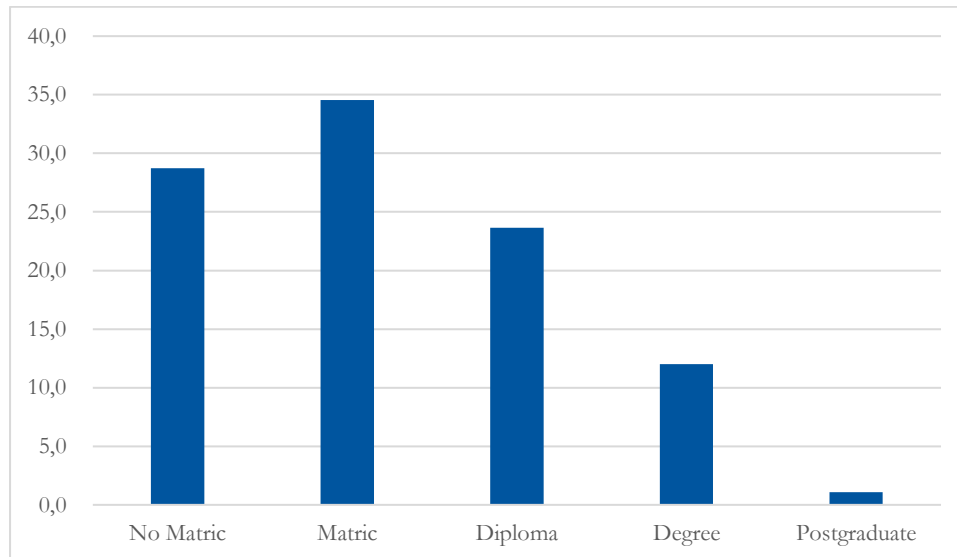


Source: author's calculations.

5 Findings and discussion

This paper has utilized basic descriptive analytical statistics to analyse the data to identify the key themes emerging from the survey. Graphical representation of the data using percentages and frequencies has been used to provide a robust indication as to the relevance or importance of the extracted themes.

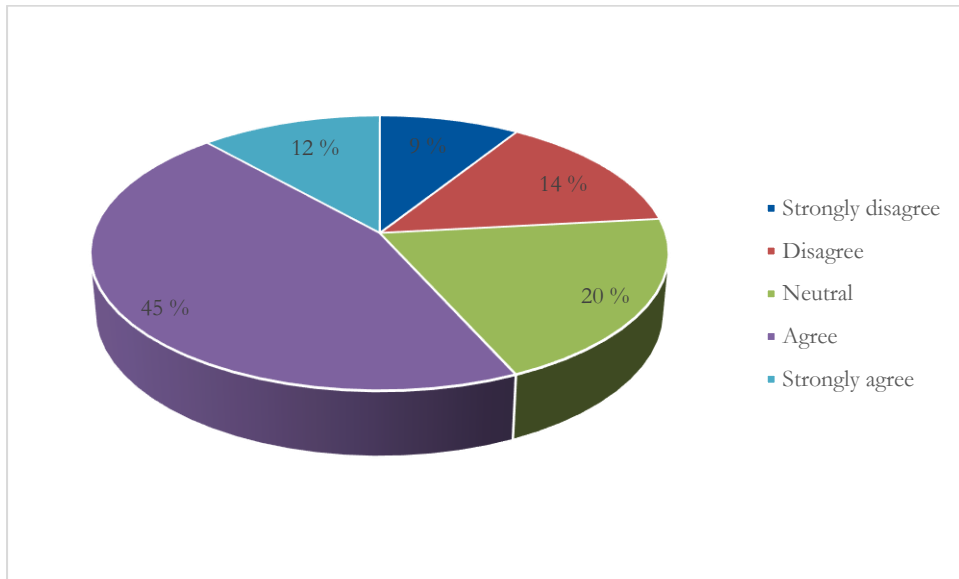
Figure 3: Entrepreneurs' education levels



Source: author's calculations.

The study analysed the level of education of entrepreneurs to understand whether the performance of the small businesses is affected by the level of education of the business owner. As illustrated in Figure 3, the level of education of business owners was fair. Only a few individuals had no schooling (28.7 per cent). At the other end of the spectrum, 34.5 per cent of the respondents had completed high school, with a substantial portion gaining a college and university education. This shows that owners of these small businesses do possess formal education related to business ownership and management. Also, more than 50 per cent of the respondents indicated that qualifications had given them the confidence to run a business of their own. Similarly, Makina et al. (2015) indicate that education plays an important role in the success of entrepreneurs. Similarly, the educational background has been found to impact the entrepreneurial decision, as Makina et al. (2015) further reveal that educated entrepreneurs are able to make informed discussions pertaining to the management of their businesses.

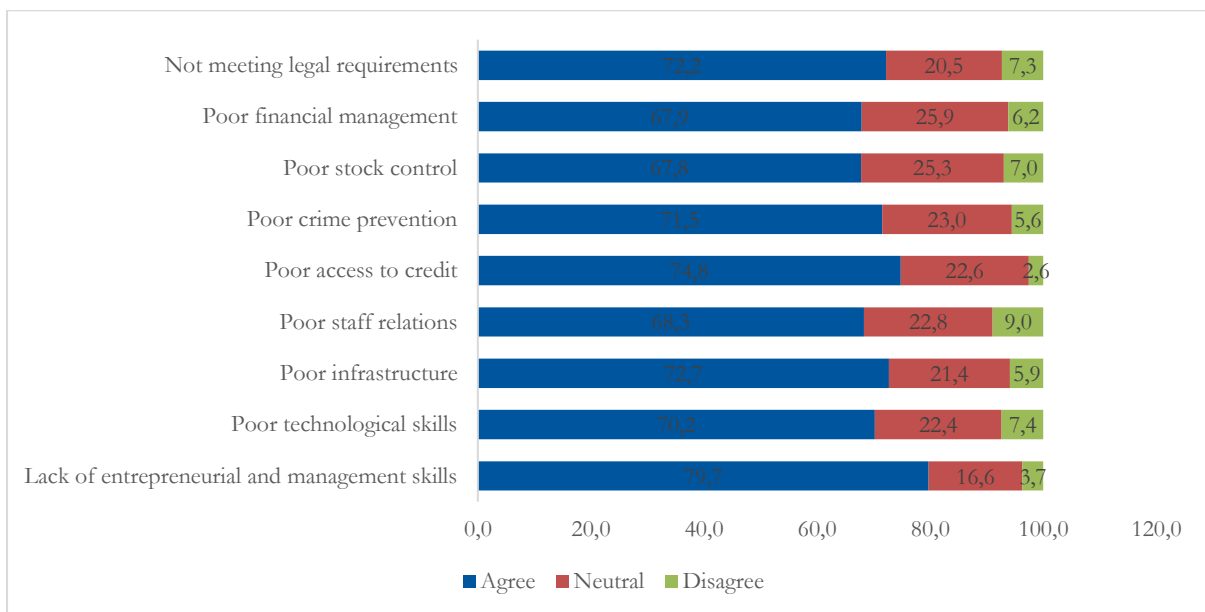
Figure 4: Respondents' perception that they have a shortage of skills



Source: author's calculations.

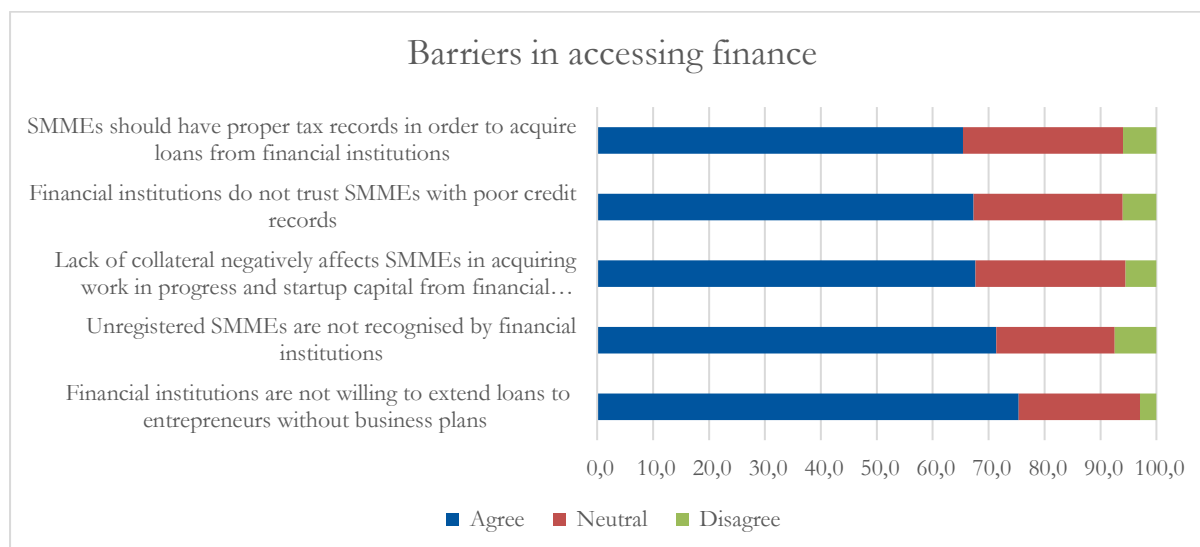
More than 50 per cent of respondents indicated that they face a challenge of skills shortage, though there are various training support programmes (as illustrated in Figure 4). However, there is still a lack of skills in capacity development, finance, marketing, and business skills. Therefore, entrepreneurs require to be empowered in capacity developing and entrepreneurship skills. Similarly, Mboniyane and Ladzani (2011) indicate that some entrepreneurs struggle to manage the affairs of their business due to skills constraints. This implies that it is critical for entrepreneurs to embark on various capacity development programmes or courses to enable them to grow or improve the performance of their businesses.

Figure 5: Factors limiting the success of SMMES, according to respondents



Source: author's calculations based on data from Donga et al. (2016).

Figure 6: Barriers in accessing finance, according to respondents



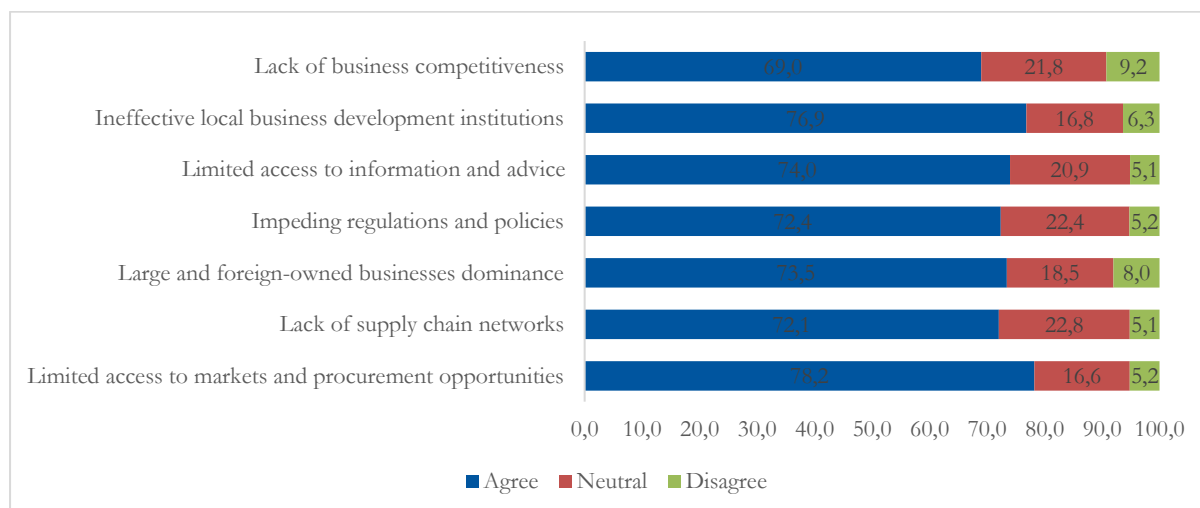
Source: author's calculations based on data from Donga et al. (2016).

SMMEs continue to encounter challenges that hinder their potential growth, although various initiatives have been implemented by both government and the private sector, as outlined in Figure 5. Respondents have indicated that they struggle to access finance and credit. Financial institutions such as banks and microlenders have been reluctant to lend funds to small businesses at the start-up phase (Figure 6). Also, the respondents pointed out that crime, poor financial management, stock control, technology, and the wrong pricing strategies are some of the key factors affecting SMMEs. Respondents indicated that the growth of SMMEs is affected by the limited access to good infrastructure support such as land, energy, water, transport, and communication networks, allowing them to deliver their products to the markets easily and access inputs from various role players. For instance, lack of reliable electricity supply affected the production process as there will constantly be work stoppages, ultimately affecting productivity and making the produced output expensive. There will be a cost incurred to get an alternative energy supply, making the product uncompetitive in the market. The findings concur with Mboniyane and Ladzani (2011), which reveal that the performance and growth of small firms are negatively impacted by poor infrastructure. This entails a lack of maintenance and expansion of network industries such as roads, water supplies, and electricity supplies.

SMMEs also struggle to access markets or value chains as there are high barriers to entry and exit. The lack of entrepreneurial and management skills is one of the reasons for the poor performance of SMMEs in townships—particularly start-ups. It remains critical for enterprises to possess management competencies to grow and sustain their business ventures in the future. Improving the education and training will promote the development of management competencies.

Respondents have attributed the poor growth of their businesses to poor technical skills and lack of access to technology. Similarly, Mboniyane and Ladzani (2011) reveal that limited or no access to technology makes it difficult for small firms to make deliveries on time to various economic agents such as customers. Some small businesses struggle to grow and survive in their respective sectors or industries due to lack of access to technology (Mboniyane and Ladzani 2011).

Figure 7: Poor growth of SMMEs in the township, according to respondents



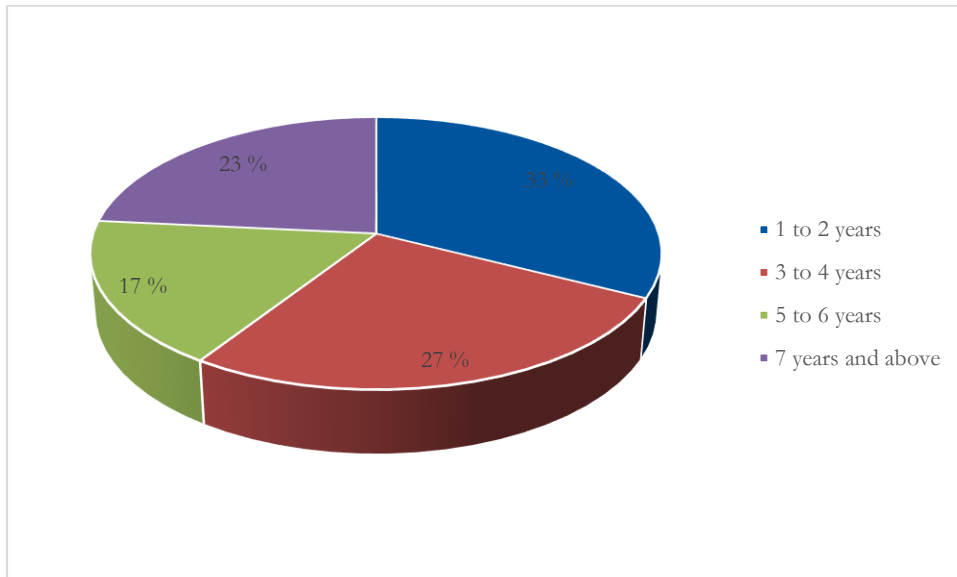
Source: author's calculations based on data from Donga et al. (2016).

As illustrated in Figure 7, over 60 per cent of respondents indicated that the following factors limit the success of SMMEs and contribute to the poor growth of SMMEs in townships. Respondents indicated that the local sphere of the government has provided minimal support to assist SMMEs. Similarly, Olawale (2018) reveal that several initiatives rolled out by the government through its implementing agencies, such as SEDA and Small Enterprise Finance Agency (SEFA), have yielded undesirable results. These agencies have been cited as being obstacles to the growth of SMMEs as their funding requirements are onerous and burdensome. The respondents also pointed out the issue of dominance of township businesses by large enterprises and foreign nationals negatively impact local businesses in townships. It appears there has been unfair competition emanating from foreign-owned businesses and large businesses that have established themselves in townships through price war and collusion. Local businesses have found it difficult to compete with them due to the lack of organized structure to build economies of scale to support local businesses. Overall, respondents viewed government policies and regulations as hindering the development and growth of their businesses. Some of the respondents also indicated a lack of access to information about government support incentives, grants, and training programmes available to support them.

The respondents further highlighted the regulatory burden as another obstacle to the growth of SMMEs. In some instances, excessive legislation, rules and regulations such as registration of companies, tax compliance, BBBEE compliance, labour issues, dealing with their municipality, and compliance have become red tape. Therefore, it remains critical for the government to create a business-friendly environment that enables SMMEs to thrive.

Further still, respondents raised concerns about crime and violence that impact their business development. Similarly, Mboniyane and Ladzani (2011) indicate that crimes inclusive of break-ins, robbery, and vandalism result in small businesses incurring losses as they have to incur costs of damaged infrastructure that needs to be replaced or repaired and reimbursing employees who are victims of those incidents.

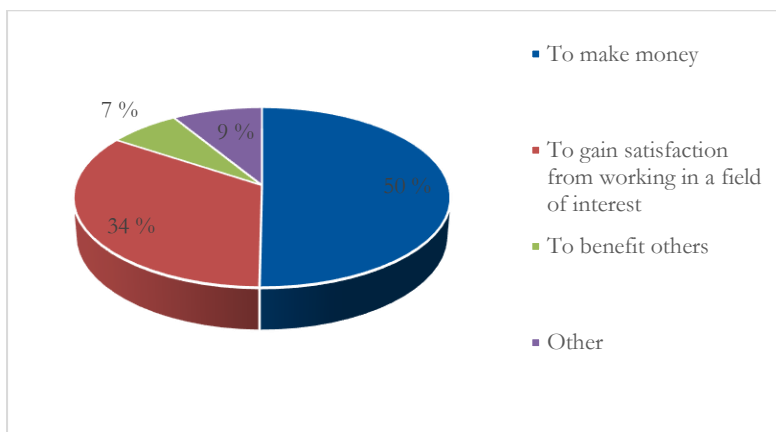
Figure 8: Business age



Source: author's calculations.

The results presented in Figure 8 show that most businesses (67 per cent) have operated more than three years. Only 33 per cent have been in business for a period ranging between one and two years. The findings are line with van Scheers (2016) who indicates that a business that remains in a sector or industry for a long period of time is likely to succeed in the long run. Similarly, Makina et al. (2015) indicate that existing literature reveals that companies increase in size as they remain longer in the industry. Research studies, such as DTI (2008), show that many entrepreneurs fail within a short period of time, forcing them to shut down their business. Against the backdrop of the high unemployment rate in South Africa, this finding shows that SMMEs have a critical role in the economy. Research shows that most small businesses struggle to survive beyond two years.

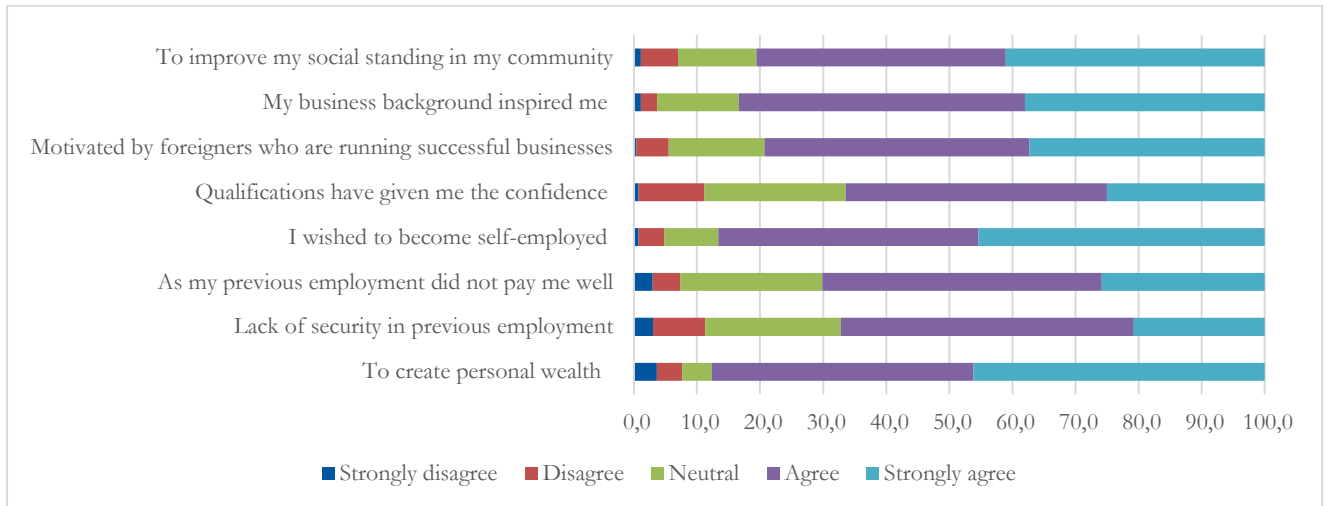
Figure 9: Motivation for starting a business



Source: author's calculations.

The respondents highlighted making money as the main reason for pursuing entrepreneurship in their respective townships (Figure 9). Interestingly, 34 per cent of the respondents indicated that they were involved in business to gain satisfaction from working in a field of interest. On the other hand, only 7 per cent indicated that they started a business to benefit others.

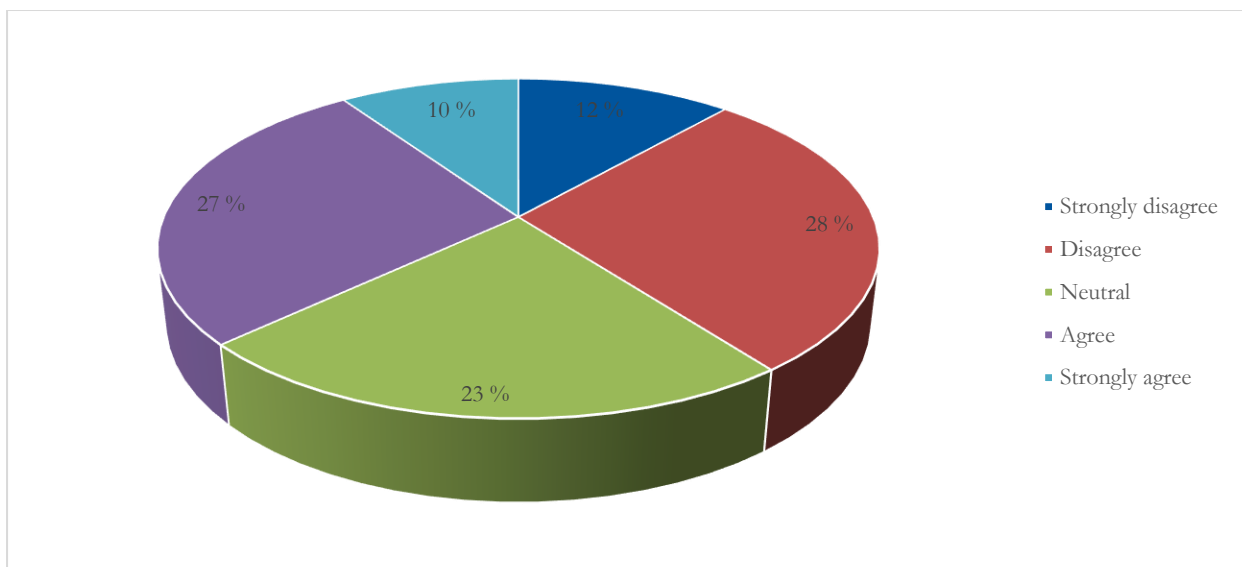
Figure 10: Respondents' perceptions on the reasons for starting a business



Source: author's calculations.

Respondents provided a range of reasons for starting a business, as shown in Figure 10, such as previous employment that did not pay well, motivation by non-South Africans running a business, and the desire to improve one's social standing in their community. This shows that the respondents were serious about being involved in entrepreneurship instead of being forced into entrepreneurship due to the circumstances they find themselves in.

Figure 11: Respondents' perception of having access to finance

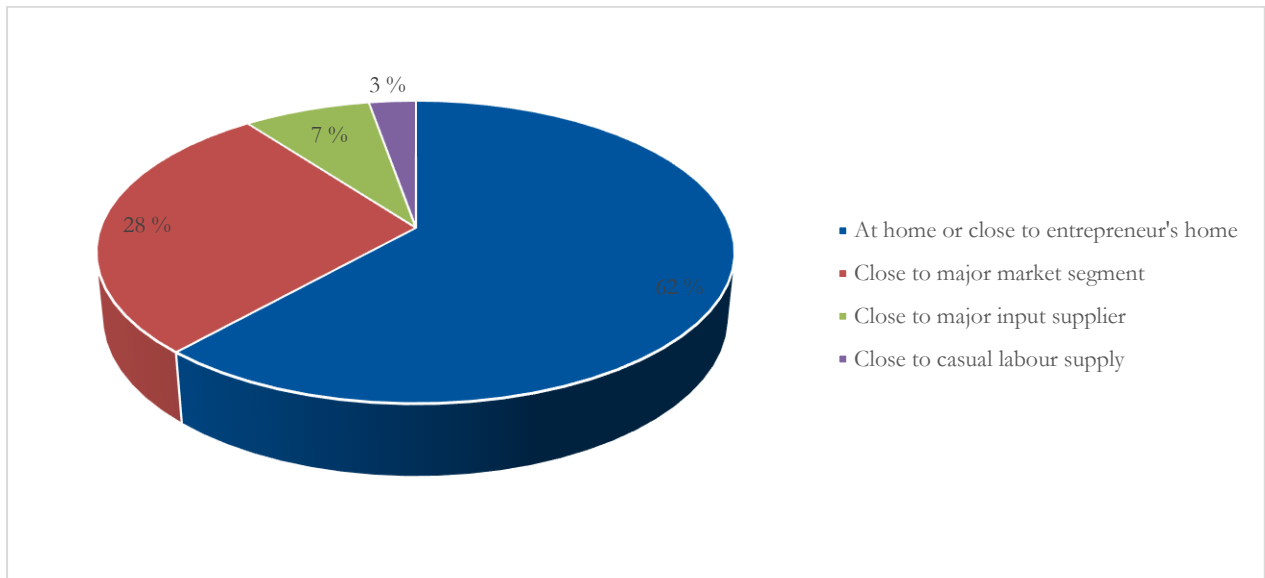


Source: author's calculations.

As illustrated in Figure 11, 37 per cent of respondents indicated that they had access to finance. The result implies that funding remains one impediment to the success or growth of businesses in townships. Similarly, NPC (2017) indicate that most entrepreneurs struggle to access finance from a funding institution and the government to fund start-ups and the cash flow required for operational purposes. This has implications for the success of entrepreneurs, and lack of access to finance has become a hindrance to the development and growth of businesses. In some instances, entrepreneurs are requested to provide collateral or surety when applying for credit facilities. This

becomes a challenge as most entrepreneurs do not own assets such as land or have the security of land tenure that could be used as collateral. In addition, some entrepreneurs have been blacklisted at the credit bureaus, which limits their creditworthiness, making it difficult for them to access funds from banks or the government. As a result, some borrow from loan sharks that charge high-interest rates, making the enterprise unprofitable. Some respondents indicate that they mainly relied on their savings or family support to start their business ventures, and the government and private sector provided less support.

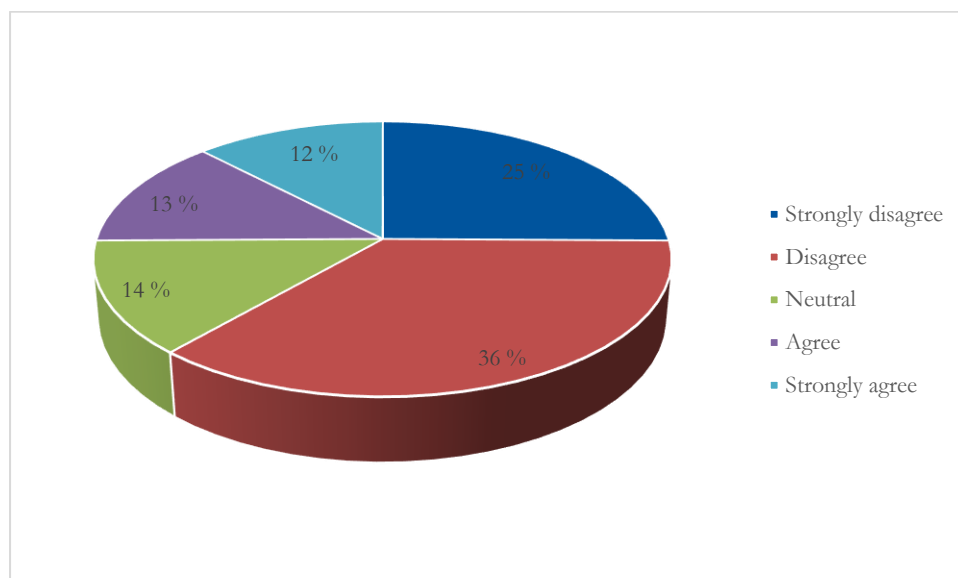
Figure 11: Business location



Source: author's calculations.

Figure 12 shows that most respondents (62 per cent) indicate that their businesses are operating at home or close to the entrepreneur's home, possibly reducing overhead and sustaining a modest competitive advantage in serving local market niches. This is line with the findings of Olawale and Garwe (2010), which reveal the effects of location on the success of emerging firms. Emerging firms that are situated closer to suppliers of inputs utilized in the production of finished or semi-finished products tend to succeed in business.

Figure 13: Respondents' perception about if enough government support is received



Source: author's calculations.

The respondents were asked about factors that influence SMMEs in relation to township market conditions in government support. Most respondents indicated that they do not get enough support from the government, as shown in Figure 13.

6 Conclusion

The results show that government policies seeking to promote employment creation and economic growth must incorporate the role of micro-enterprises. Given both the scale of the unemployment challenge in the economy and the relatively low incidence of micro-enterprises in the economy, these firms are integral to any serious job creation strategy of the state. These factors immediately lend themselves to potential for state intervention, piloting and scaling up if successful. In all these different elements of the research study—ranging from crime and insurance to credit access and job creation—detailed results from our proposed panel surveys could certainly elicit valuable policy information and hopefully even a rank ordering of policy priorities for local, provincial, and national government to consider. It is critical for government to facilitate the removal of red tape such as regulatory and institutional obstacles to enable micro-enterprises, as the cost of doing business will be reduced. There is a need for economic concentration reduction through promoting greater competition, reducing entry barriers and regulatory burden for SMMEs, and providing access to finance. The government needs to implement a township support programme and local economic development initiatives, reduce regulatory burdens, and increase financial support for small business development. The policy makers need to foster supply chain development/localization and support financing for supply chain development to enable townships to have easy access to the markets. Improving the tenure security and capacity for land reform allow entrepreneurs to use these assets as collateral to access finance. There is a need to strengthen support to COVID-19-impacted businesses in townships, driving more forceful support to stimulate job creation.

It remains critical to leverage corporate, public sector, and state-owned procurement for localization and SMME promotion. The government needs to shift the focus of SMME support

to a life cycle approach. The policy makers need to strengthen the effort to revitalize township economies and stabilize and deepen the approach to promoting black empowerment. There is also a need to ensure representation and opportunity for small enterprises in all priority sector plans.

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