

**SMALL AND MICRO ENTERPRISES AS A MEANS TO  
FOSTERING LOCAL ECONOMIC DEVELOPMENT IN  
AFRICAN TOWNSHIPS:  
THE CASE OF INANDA**

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## CHAPTER 1

### THE RESEARCH FRAMEWORK

#### 1.1. INTRODUCTION

Research on Local Economic Development (LED) in the context of a township or other low-income area is scarce, not only in South Africa but in much of the developing world. Unfortunately, this has served only to obscure the necessity for such areas to initiate indigenous economic development programmes in an attempt to become economically viable or in other words to generate employment and income. Economic viability also refers to a capacity to perceive and respond appropriately to changing circumstances be they political, socio-economic, natural, technological, demographic, or even attitudinal. This very capacity has to be developed within townships if they are to generate a local economy that is healthy and sustainable.

Before proceeding it is necessary to delineate exactly what is meant by a healthy and sustainable local economy. According to the Centre for Neighbourhood Technology (1986:13 in Tomlinson, 1994:147) such an economy is characterised by:

- **Strong Purchasing Power**, with income high enough and costs low enough to keep the neighbourhood affordable.
- **Local Purchasing**, which keeps money changing hands within the neighbourhood and creates local jobs.
- **Local Ownership**, which gives residents financial security, a stake in the neighbourhood and more control over their economic futures.
- **Local Jobs**, providing income for residents and drawing outsiders (potential customers) into the neighbourhood each day.
- **Local Reinvestment**, so that the community's savings help finance continued development.
- **Local Sources for Local Needs**, which provide jobs for residents, reduce the money drain out of the neighbourhood, and improve the convenience and liveability of the area.
- **Opportunity and Diversity**, so that new people and new enterprises have a chance to get started, survive and prosper.

- **Infrastructure That Makes Sense Locally**, so that the neighbourhood's physical condition attracts and fosters activity instead of driving it away.

When measured against these characteristics it can be seen that owing to particular apartheid policies, South Africa's townships and informal settlements exhibit quite a contrary situation. They almost completely lack economic viability: as purchasing power is low due to low incomes; as jobs provided locally are minimal; as savings invested locally is almost non-existent. In fact, money often does not even enter the community but is banked and spent in the developed section of the metropolitan region. Furthermore, opportunity and diversity are noticeably absent from the sterile township environment, made so by *inter alia*, a grossly inadequate level of infrastructural and service provision.

In order to address this situation, it is argued that certain objectives have to be achieved.

These are:

- growth in the general economy encompassing an increase in employment and an improvement in wages;
- enhanced infrastructural and social services;
- an integration of the spatial economy of the metropolitan region; and
- the development of small and microenterprises (SMEs).

While the concern to increase levels of local employment and to shift townships away from their previous basis is an important one, a potential contradiction lies herein. Townships are in effect and by definition low-income neighbourhoods within a metropolitan context and it is likely that opportunities for increased income and employment will primarily be derived from the metropolitan system as a whole and will not be confined to the townships (Harrison, Todes and Watson, 1995:2). Nevertheless, while most opportunities will continue to be located outside of townships, it is important to explore what actions can be taken in the townships themselves.

Thus although all the abovementioned objectives are strongly interrelated, this dissertation examines the potential for the last mentioned objective viz. the development of SMEs specifically commercial, service and consumer related manufacturing, to contribute to the LED of townships and informal settlements. It aims to do this primarily by identifying those factors that impede SMEs as the logical sector that would locate in townships (as will be

argued later) and by exploring the ways in which they can be supported so as to facilitate their growth and development.

For the purpose of this dissertation, it must be noted that the term 'township' refers to those areas previously reserved for African settlement under apartheid laws. It includes formal townships, site and service areas, as well as informally settled areas.

## **1.2. THE RESEARCH FRAMEWORK**

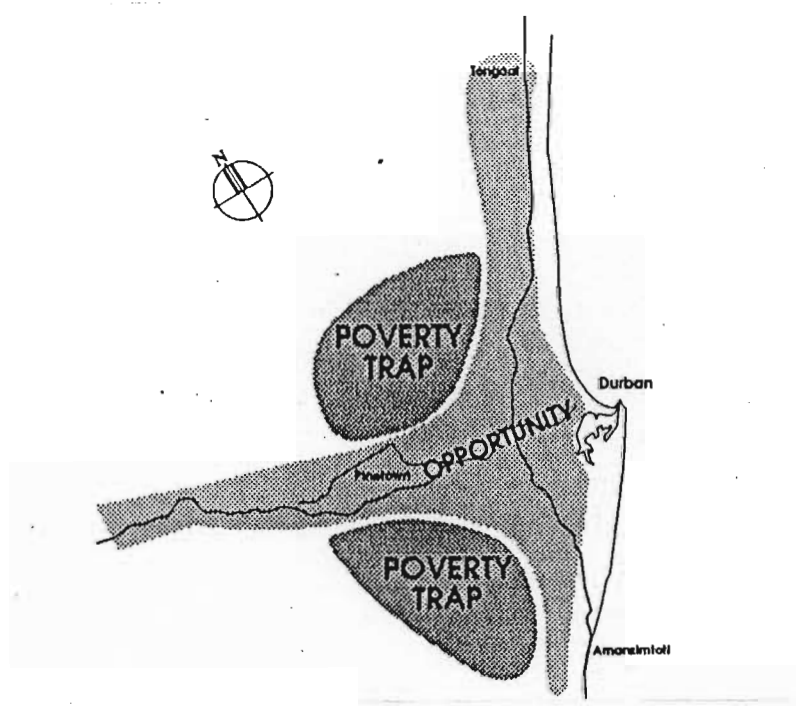
### **1.2.1. Background to the Research Problem**

The principle of spatial segregation according to race was a defining feature of the apartheid era. It was achieved by spatial tools coupled with public transport subsidies, political separatism and centralisation. These have had the effect of creating segregated cities which are not only sterile and poorly integrated in terms of complementary land uses and functions, but which are also inefficient, environmentally insensitive, expensive to maintain and wasteful of limited human and physical resources (IDF, 1995).

An illustration of this inefficiency, insensitivity and waste is no more evident than in the location and quality of African townships. These townships are located at a distance from the concentrations of commercial, industrial and service activities. As a result, the daily commuting that is undertaken imposes a severe burden in terms of time, which eventually leads to fatigue, a diminished family life and low productivity among workers. Furthermore, in spite of large bus and rail transportation subsidies for commuters (an amount of R1,9 billion was spent in 1992) commuting typically consumes around 10% of household income (Tomlinson, 1994:18). This is a substantial portion of the income of the urban poor. Consequently, it is bound to have implications on their ability to spend money on other needed goods and activities such as housing, education and services as well as on investment capital for business purposes.

Finally, the isolation and lack of diversity of these low-income communities on the urban periphery has served to reduce the opportunities for the generation of economic activities within them. Furthermore, past apartheid policies has seen to it that they are deprived of the means to rectify their situation by previously restricting black entrepreneurship,

prohibiting home ownership and providing inferior education. As a result, most of the African township dwellers are poorly educated; are without the skills and experience required in today's workplace; are plagued by extremely high rates of unemployment and underemployment; and are "increasingly isolated from the mainstream of society and its opportunities" (Robinson, 1989) (see Figure 1.1.)



**Figure 1.1. The Metropolitan Structure**

These then have become the defining characteristics of those who live in the townships that lie on the urban periphery.

### **1.2.2. Specific Research Problem**

One of the largest and most complex settlements situated on the periphery of the Greater Durban Metropolitan Area (GDMA) is Inanda (see Figure 1.2.). This settlement is largely of an informal nature with only three designated areas being proclaimed as formal townships.

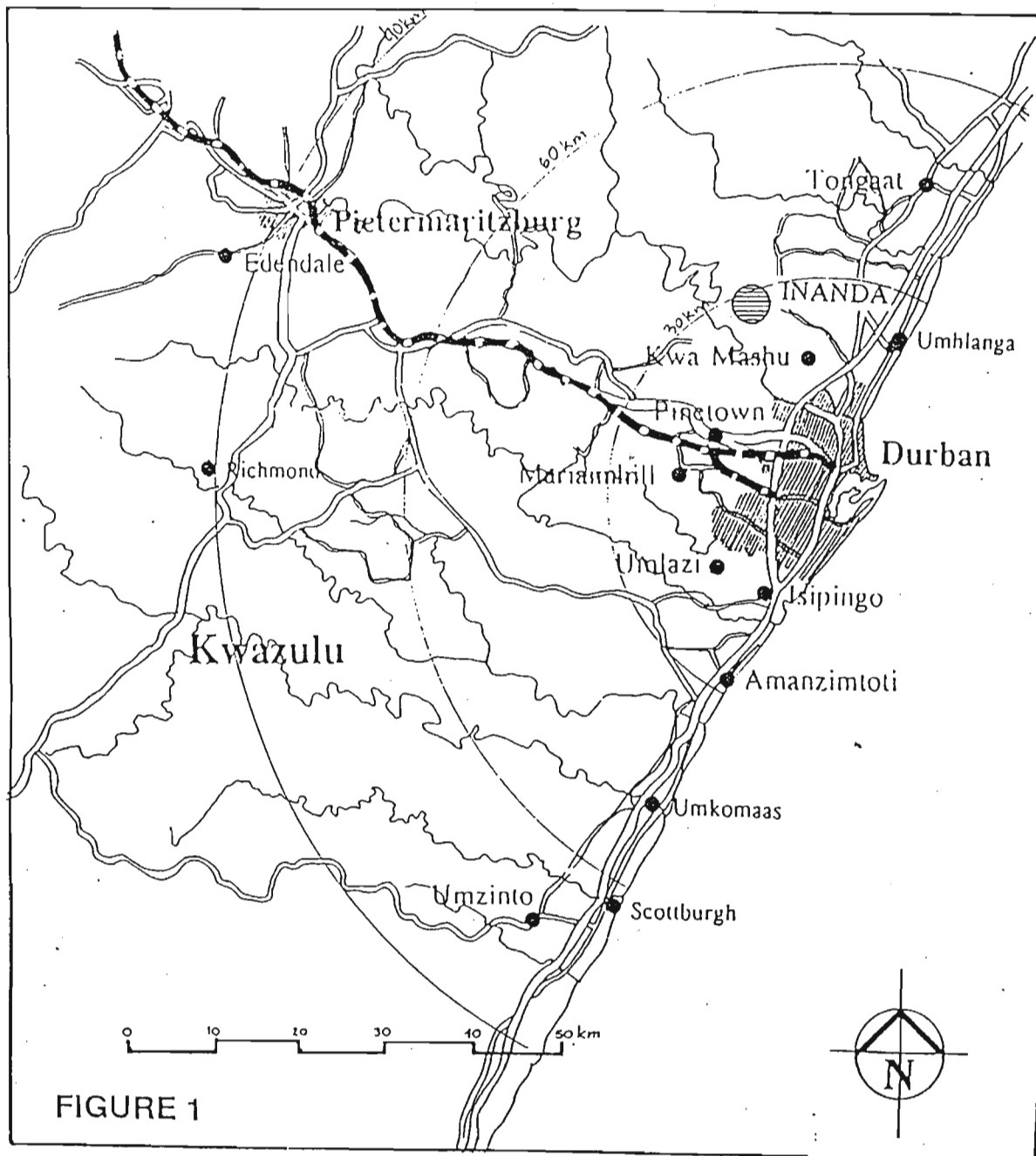


Figure 1.2. The Regional Context

The spatial structure and form of Inanda has been constrained and influenced by topography, land ownership patterns, fragmented administrative organisation, limited development financing and separate development policies of the pre-1990 era. Its physical and social infrastructure, including basic services and affordable public transport, are grossly inadequate in terms of serving the needs of the low income residents, a large

proportion of which are poorly skilled and un/underemployed. Finally, relatively minimal economic activity is generated within Inanda, and those that do occur are too few and underinvested in, to make a significant contribution to development.

The end then is a sterile, mono-functional and non-economically viable environment located at a substantial distance from concentrations of economic opportunities and urban facilities.

### **1.2.3. Precise Purpose of Investigation**

The objective of this dissertation then is to examine the role of small and microenterprises (SMEs) as a means of generating local economic development within black townships. In order to do so, the intent is to examine the dynamics of and constraints to SME development in the commercial, services and consumer-related manufacturing sectors in Inanda - all of which is with a view to formulating appropriate policy measures that will assist SMEs in engendering economic viability and sustainability in townships.

## **1.3. RESEARCH METHODOLOGY**

The information for this study has been obtained through a scan of various planning reports, through interviews with various consultants who have either worked or are currently working in Inanda, and through the administration of questionnaires to small and microentrepreneurs in the area.

### **1.3.1. Analysing Secondary Sources**

This methodology was favoured as it was possible to answer some of the questions that this study was intending to cover from the available data. It was also pragmatic in the sense that it enabled the researcher to work within budgetary and time constraints. However, the accuracy and validity of the information in the sources was checked by cross-referencing as well as by the second methodology that was used ie. the focused interviews and the questionnaires. The particular sources that were used included the range of preparatory documents and reports that were prepared for the Inanda Development Forum by the Development Framework Project Team as well as by Data Research Africa who also

conducted extensive research into the nature and dynamics of Inanda. Needless to say, the sort of information that was sought was that which answered or shed light on the research subject as set out in Section 1.2. Access to these documents was gained by liaisons with actual members of the project team, in particular, the Kwazulu Natal Provincial Administration and the Durban City Council.

### **1.3.2. Conducting Interviews and Administering Questionnaires**

The process of conducting interviews was favoured as it was a practical and effective way of eliciting certain information from respondents. Within this method, the less formal variant in which the interviewer was free to vary the sequence of questions, to explain their meaning, to add additional ones and even to change the wording, was used. Furthermore, the guided or focused interview was considered to be the most appropriate as it moved away from the inflexibility of formal methods while still giving the interview a set form and it also ensured that all the relevant topics were discussed. The respondents were all asked for certain information but they did have the opportunity to express their own views. For example, a few simple factual questions introduced each subject followed by open questions. Finally, respondents were asked to give their own views and recommendations with regards to each topic.

It is acknowledged that such a methodology elicits results that are difficult to summarise, quantify or aggregate. In other words it does not easily lend itself to statistical analysis. However, it must be noted that the point of this qualitative, less formal approach was to obtain a more complete picture of for example, peoples' perceptions and ideas, and here, a formal and rigid line of questioning was too crude and superficial for the task. Also, being limited to a particular set of questions in a structured format was believed to stunt the exploratory nature of the study as well as to impose a preconceived set of ideas on the respondent.

Specifically, those people interviewed included key persons involved in putting together the Inanda Development Framework as they necessarily had accurate insights and information relevant to the study. The structure responsible for this framework is the Inanda Development Forum which is comprised of several parties, the principal ones being the Durban City Council; the Inanda Landowners Association; the Kwazulu Natal Provincial

Administration; and the Inanda Civic Association. The people interviewed were therefore as follows:

- Mr Makhatini - Inanda Development Forum
- Philip Sithole - Inanda Business Forum
- Sugen Moodley - KwaZulu Natal Provincial Administration
- Conrad Von Gass - Seneque Maughan-Brown SWK
- Yasmin Coovadia - Centre for Community and Labour Studies
- Dr. B. Langa - SMME Desk, Ministry of Economic Affairs and Tourism
- Julian Baskin - Scott Wilson Kirkpatrick
- Tony Markewicz - Markewicz, English & Associates
- Thandi Mbanda - Community Development Worker, National Council for Child and Family Welfare
- Michael Khumalo - Secretary, Local Economic Development Working Group, IDF.

This set of interviews, conducted with people occupying various positions within the IDF organisation as well as private sector consultants, was believed to be useful in order to determine the range of perceptions and ideas that exist.

Finally, questionnaires were administered to 30 small and microentrepreneurs in Inanda (see Appendix A). The approach used was to visit various sites in which SMEs were located, selecting interviewees from those present at these sites. This approach has significant implications for the research findings, since it is the more established businesses with relatively more resources which tend to set up in the industrial parks and hives. However, in order for the findings to be more representative, home-based entrepreneurs were also interviewed - these being randomly scattered throughout Inanda.

Still, the small sample of small and microentrepreneurs interviewed was not broadly and evenly distributed throughout Inanda so as to be truly representative of entrepreneurs in the area. This was due to the fact that the interpreter used was afraid to enter certain community areas owing to the likely occurrence of violence or intimidation. Nevertheless, as the study was intended to be more of a pilot and exploratory nature the issue of representativity becomes less important. A final shortcoming in terms of method lay in the inability of interpreters to communicate ideas and concepts effectively and accurately. This no doubt has served to distort and limit the findings of the study.

This methodology was believed to be necessary not only to verify secondary data but also to obtain details about the nature (eg. location, market etc.) of such enterprises as an economic scan of Inanda depicting the type and extent of economic activities together with their spatial location has not been conducted. It was also in order to obtain a direct knowledge of the needs of small and microenterprises and of the difficulties and problems that they experience and of how they would best like to be assisted in terms of making their business work better. On the whole, it is believed that this process was useful in order to make the positive nature of the data "come alive" in terms of recreating real life situations - the ultimate goal being to generate a complete picture which in itself is vital to an understanding of all the factors that inhibit or facilitate small and microenterprise development within a township context.

In the end, the information obtained from both the secondary sources as well as the interviews and questionnaires were synthesised and critically analysed with a view to understanding not only whether a potential does in fact exist for economic activities, SMEs in particular, to be successfully generated and sustained within Inanda but also with a view to identifying those factors that actually impeded or facilitated such development. This information has been mapped, tabulated where possible and/or briefly described in the text of the document.

#### **1.4. SCOPE AND LIMITATIONS**

While this dissertation certainly does aim to make inroads into systematically understanding how to engender local economic development within a township context, its scope is limited in terms of the analysis being carried out with a particular focus on small and micro enterprises especially commercial, service and consumer related manufacturing enterprise. To the extent that medium and large scale enterprises as well as the public sector has a role to play in the LED of these low-income areas, this goes largely unexplored. Also, in an attempt to narrow the focus the construction industry and the taxi enterprise has been excluded from the study owing to their unique dynamics and set of requirements. This undoubtedly is a shortcoming of the study as these two particular economic activities can and do have a substantial contribution to make to the LED of townships.

Furthermore, the objective of the study is not to produce a comprehensive plan detailing every strategy that has to be implemented in order to make Inanda economically generative. Rather, the intention is to make explicit some of the contextual factors, both positive and negative, that one has to deal with. This is with a view to developing broad policy areas that can serve to promote LED in formal and informal settlements.

### **1.5. STRUCTURE OF THE STUDY**

**Chapter 1** introduces the object of the study. It includes an exposition of the research problem, the research methodology and the scope and limitations of the study.

**Chapter 2** defines and traces the history of LED. It also makes explicit the need for endogenous economic development within a township context. Finally, it critically analyses the various approaches to LED and their relevance for the economic development of townships.

The theory, dynamics and relevance of SMEs for townships is the subject of **Chapter 3**. It also examines the need for supporting SMEs in such contexts.

**Chapter 4** examines the constraints that SMEs face in townships in general.

**Chapter 5** describes in detail those features of Inanda that are believed to impact upon its ability to generate and sustain SMEs. It also analyses the results of the questionnaires that were administered to small and micro-enterprises in Inanda with a view to determining the specific inhibiting factors that they face.

**Chapter 6** draws on both international and local experience to determine the most appropriate means of facilitating the growth of SMEs in townships. In doing this, reference is once again made to the results of the questionnaires administered to small and micro-entrepreneurs in Inanda.

The final **Chapter 7** utilises the conclusions arrived at from the Inanda case study to formulate broad policy areas that can be used to promote local economic development, through the generation of SMEs in townships.

## **CHAPTER 2**

### **LOCAL ECONOMIC DEVELOPMENT AND TOWNSHIPS**

In this chapter, an attempt is made to firstly define the concept 'Local Economic Development' (LED) as well as give a brief history of its development. The need for local economic development is then argued for, followed by an analysis of the various approaches and their relevance within a township context.

#### **2.1. DEFINING LED**

Local economic development (LED) is about creating local wealth through mobilising and effectively using local resources and potentials (Cinneide & Keane,1990:476). Thus, instead of waiting for - or trying to attract - outside capital and outside firms to foster growth and employment, the concept of LED implies development initiated from the inside or endogenous economic development (Rogerson,1994c:31). It is important to note that what is endogenous is the momentum and the primary object of concern and not necessarily the nature of the local strategy or the origin of the resources to finance the policy initiatives (Hunter,1994:216).

Local economic development also seeks to engender economically viable, durable and diversified localities by improving the conditions and functioning of the economies of those localities. Furthermore it is aimed at "overcoming the territorial separation of producer and consumer, and of the products and users of technology" (Sengenberger,1993:319 in Rogerson,1994c:31). Finally, it shifts the locus of decisionmaking closer to those most affected by economic change by emphasising indigenous capacity and the use of local institutions and people in the development process.

For an African township on the periphery of the metropolitan area, LED can therefore be seen to be about providing jobs for those seeking work; locating the jobs where they are needed; enhancing the local tax base; keeping money circulating within the township and ensuring a capacity of the people to respond to changes in the national and international economy.

## 2.2. HISTORICAL DEVELOPMENT OF LED INITIATIVES

There is a long tradition of local economic development initiatives in both Britain and the USA beginning in the early 1900's for Britain and in the 1930's for the USA. The major direction taken by the first local development initiatives was towards 'local boosterism'. This later became known as the traditional approach.

At the core of this first approach to LED was industrial recruitment or business attraction which spread as a number of local governments saw themselves as being in trouble or in competition with other areas. They emphasised capturing as much business as possible from other localities and hardly looked to building local capacity and 'value-added innovation'. In so doing they were trapped in a situation of external dependency on low-wage manufacturing plants many of which subsequently relocated abroad in search of still cheaper workers leaving behind no transferable skills, entrepreneurship or long-term revenue base (Rogerson, 1994a:3).

As a result, since the 1970's 'local boosterism' began to lose favour as it came to be realised that growth depended more on local initiative than the dynamism transferred from other regions. This change occurred at a time when there was a major rethinking on the significance of 'local' policy issues led especially by the British and the emergence of a school which emphasised the 'proactivity' of place (Rogerson, 1994a:7).

For example, British cities such as London, Birmingham, Glasgow and Newcastle forged new partnerships in order to improve 'place-marketing'. Cultural strategies were implemented to 're-image' the cities in order to create a fresh image of consumer-oriented cities that was attractive to inward investors and which had a good quality of life for managers and skilled workers. This re-imaging involved the use of flagship property development to launch the new urban vision. Further strategies included: increased support for the arts and cultural production; the planning of new culture districts; new theatre and concert hall developments and the launch of high profile events or festivals (Rogerson, 1994c:23).

At the same time a similar and parallel trend was occurring in developing countries in the context of secondary cities and small towns. Here it was found that industrial growth

derived mainly from the birth of local industries rather than from attracting outside firms (Rogerson, 1994a:4).

In terms of what was happening in South Africa in particular, the 1960's and 1970's saw an attempt being made to divert growth to other regions, cities and towns through a growth centre strategy based on decentralisation incentives and development controls. Such policies together with prohibitions on African urbanisation continued into the 1980's, when in the light of central government's inability to direct growth to declining cities and regions, the local governments and local development partnerships became proactive in promoting LED (Ministry in the Office of the President, 1995:2).

This new orthodoxy of endogenous local development represents a shift from the thinking which emphasised the homogenisation of lifestyles, cultures and places (Tomlinson, 1994a:5). Today, significant "changes in contemporary capitalism are at present heightening the economic, social and political significance of each locality" (Urry, 1981:464 in Rogerson, 1994a:5). Rogerson (1994a:5) delineates four sets of changes in particular:

1. The ways in which the increased concentrations of capital means an increase in the degree to which capital can redistribute its activities to take advantage of apparently small variations in local conditions concerning price, availability, skills or organisation of local labour forces.
2. The increased role of state expenditure and employment, the allocation of which is not simply market determined but is clearly dependent on forms of partly local conflict and struggle, both to affect state policy and to use the state to affect the location of private enterprises.
3. The increased 'politicisation' of spatial economic change with the allocation, expansion or contraction of economic activities being a matter of conflict, resulting from, among others, local struggles.
4. The increasing prevalence of new Post-Fordist forms of organising production and economies along principles of flexible specialisation, small batch production and just-in-time delivery.

Sabel (1989 in Tomlinson, 1994:54) goes further and identifies five specific developments that are contributing to an increased role for LED planning. These are:

- the emergence of successful industrial districts in many countries around the world

- the reorganisation of large corporations so that responsibility for product lines is decentralised to units that engage in subcontracting and sales
- the convergence of large and small firms into subcontracting relationships
- the transformation of local government into job-creating agencies
- the co-operation of trade unions in development strategies.

Finally, not only has LED become increasingly important, but its planning and policies have matured. In the early stages of evolution many local economic development measures tended to be ad hoc and reactive, whilst at a more mature stage the emphasis has shifted towards a strategy-based proactive approach (Roberts:178). With the development of local strategies the potential for co-ordinated and integrated action grows, so that local economic development now frequently exists alongside social and environmental policies. These integrated local economic development strategies in turn have proved to be an attractive and effective way of securing agreements between the wide range of parties involved in the revitalisation of an individual economy (Roberts:178). In the context of townships, which have historically been neglected or where needs have been addressed only on an ad hoc basis, the importance of this proactive and integrated approach to development cannot be underemphasised. This leads one directly to the need for LED planning in townships.

### **2.3. THE NEED FOR LOCAL ECONOMIC DEVELOPMENT**

One of the characteristic features of planning in South Africa has been a disjunction between the forces determining the location of industry and other employment creating activities and those underlying the location of the majority of the peripheral townships population. The need for LED then arises as it is about bringing these forces into alignment.

It is also about reducing the economic vulnerability of townships by promoting a diversification of the local economic base. This in turn is represented in the production of new, competitive goods and services, the creation of new jobs and the creation of new capacity for change in the form of new investment resources or local structures. Furthermore, as LED involves recognising economies of space its relevance within the township context cannot be underemphasised as it thereby contributes to the organisation of the labour market; the co-ordination of different modes of transport; the planning of land

use and the shape of the settlement; and the development of networks of inter-firm communication which is promoted through proximity.

It must also be argued that when a local area such as a township has specific local needs as well as specific unused local skills and resources, it is not only obvious that the two be combined in a local strategy but it is also more efficient. This builds upon the belief that a community has within itself or within its grasp, considerable capacity in terms of skills, imagination, commitment and unity to take initiative in terms of its preferred economic future. It also subscribes to the belief that development must be done by and for the community - not at them or at their expense.

It is due to these beliefs as well as the fact that local initiatives and government are closer to the particular and detailed and as a result can perform specific planning, animating and financing functions more effectively, that LED strategies are often argued to be able to succeed where national strategies have failed or as in South Africa where they have worked to the detriment of the local economies of townships

Furthermore, LED strategies are a good way of exposing economic development to democratic pressures which in turn is crucial for sustainability. This is due to the fact that it draws on local ideas and knowledge and because local ownership may lead to commitment and enthusiasm which national strategies often do not achieve (Hunter,1994:218). This feature of LED is critical for the successful development of townships, where conflict and struggle around 'bread and butter' issues prevail. It is also necessary because the way in which planning and development activities are carried out and who benefits from them are as important as the details of the plans themselves if economic development planning is to achieve the legitimacy and co-operation it requires to succeed (Silver and Burton,1986:277 in Tomlinson,1994:108).

In this regard it is interesting at this point to note that community organisations want their community economic development to be guided by certain key elements. These include:

- generating employment
- increasing resident incomes
- promoting the circulation of income within the neighbourhood by encouraging local manufacturing, services and shopping

- enhancing resident control over the neighbourhood economy through support to SMEs
- inspiring self-help and co-operatives within the community
- promoting democratic management and control of enterprises (Ministry in the Office of the President, 1995:14).

From this list it can be seen that the demand is actually for local control and development both of which are, in the ideal situation, fulfilled by the requirements of LED. The important need for local economic development must therefore not be negated more especially because the extent of the depression requires that as many sites as possible for potential initiative be developed (Hunter, 1994:217). However, it must be acknowledged that very few local economic strategies, if any at all, stand a chance of serious success without a concomitantly progressive and supportive national strategy (Massey:266).

This brings one to the limitations of LED in terms of making townships economically viable. In cases where local initiatives involve some local provision of services or activities that depend on the support of the local market, the indigenous enterprises that do survive do so within the narrow confines of these markets. Nearby urban centres usually dominate the peripheral areas and the economies of scale afforded by these centres exert a strong centralising influence on the location of economic activities. The ability of these peripheral places to maintain their economic base is consequently further weakened and their potential to develop new economic activities within their boundaries is limited (Cinneide & Keane, 1990:477). Furthermore, it must always be remembered that for the very poor, a precondition to participation in the economy is access to food and medical services. Without these, LED will have little significance. It must therefore be understood that LED **can** make a contribution to alleviating poverty and creating economically viable communities but on its own it is not **the** answer.

“The starting point then is to recognise how complex is the web of any local economy, how many varied points of power there are, from enterprises, trade unions and civic groups, to local and national government departments and agencies. Each has a range of instruments for economic intervention. The task for an LED policy is to identify how these various types of intervention can be brought together around a common strategy” (Planact, 1992:8).

## 2.4. APPROACHES TO LOCAL ECONOMIC DEVELOPMENT

Given the range of authorities and agencies who are involved, it is not surprising that there exists a variety of objectives and approaches that have been adopted in local economic development planning. This section outlines these various approaches and assesses their relevance within a township context.

The *corporate-centre approach* is a commonly observed economic development policy approach which primarily seeks to improve local opportunities for capital investment. It operates under strong private sector leadership and tends to emphasise the sovereignty of private sector market decisions in determining the outcomes of economic development. The role of the public sector is assumed to be the creation of an economic and social environment that is conducive to increased private investment.

The economic development goals under this approach emphasise economic growth and tax base expansion. The targeting of economic sectors, establishment types, geographic areas and labour needs seems to be based on the assumption that economic growth and economic development are synonymous and that growth in and of itself generates benefits for the whole city (Peterson in Robinson, 1989:286), including economically disadvantaged residents. "The areas and activities selected for targeting are viewed as obvious policies so they tend not to be critically assessed in terms of other activities that could be targeted instead" (Robinson, 1989:286). The targeted areas are usually advanced services, hi-tech activities, and tourism. As a result, white collar and highly-skilled workers constitute the primary labour categories that benefit from this approach. And in terms of urban space, the target is usually the central areas where headquarters and branch plants usually win out over locally-owned and worker-owned establishments. The specific needs of townships then go largely ignored. In this regard, Haider (in Robinson, 1989:286) points out that numerous neighbourhood organisations have objected to the concentration of economic development activities in central areas. It has been argued that a greater spatial dispersal of these activities and greater public accountability as opposed to private leadership would provide a more balanced distribution of economic development costs and benefits (Krumholz, McGrath, Mier in Robinson, 1989:286).

Nevertheless, what is interesting is that some of these corporate-centre principles are clearly subscribed to by three of the more specific LED approaches viz. the traditional approach, urban entrepreneurialism and urban efficiency

The **traditional approach** consists of trying to attract investment from established potentially mobile industries through varying concessions such as low taxes or tax abatements, cheap land, low-interest loans or loan guarantees, etc. The underlying assumption behind this approach is that growth is stimulated through capital relocation and decline prevented through capital retention (Tomlinson,1994:59). In other words, due to the mobility of private capital, local governments have to use investment incentives and subsidies quite aggressively in order to compete with other localities for investment. Officials who abstain from such practices do so at the risk of losing investment to neighbouring competitors.

However, practical experiences from abroad has shown that even in those locales that have attempted to use the traditional approach to LED planning, businesses continued to move out thus indicating that concessions are not enough for successful LED. A further criticism is that when many localities are competing for investment by offering concessions, they blur the real advantages of alternative locations (Tomlinson,1994:60).

Moreover, attracting industry is possible only for a small number of cities and towns with large populations, good human resources, a good quality of life, a strategic location, sophisticated local government and an excellent infrastructure - most of which are absent from African townships. Instead, in these areas not only is the economic base very weak but the quality of life is poor, the location is peripheral and inaccessible, local government is incapacitated, infrastructure is grossly inadequate and entrepreneurial talents are in short supply. For all of these reasons the opportunities to attract private capital or profitable ventures is very limited. Furthermore experience has taught that when such areas **have** succeeded in attracting outside investment by grant and tax incentives, these have not been well integrated into the community and have had a limited lifespan (Cinneide and Keane,1990:477). As a result, it is felt that in places which have few benefits to offer business to locate there, strategies must be adopted to improve the **efficiency** of an area as well as to develop and utilise the **unique** nature of the area.

The *urban efficiency approach* partly addresses this need. It is an approach advocated by the World Bank (1991) and it focuses on promoting urban productivity and relieving urban poverty. In order to improve the productivity of urban economies the following categories of urban intervention are emphasised (Smit, 1992; Tomlinson, 1994):

- Improvements to the spatial organisation of economic activity in urban areas. This category arises because the existence of scale and agglomeration economies and accessibility to labour, capital and technology are all factors that engender urban productivity.
- Investment in urban maintenance.
- Improving the availability, appropriateness and the management of urban infrastructure. This is important because infrastructure is an intermediate good used as an input in production. If not suitably provided it may have the effect of raising the cost of production.
- Improving the regulatory framework to improve market efficiency and to enhance the private sector's provision of shelter and infrastructure.
- Improving the financial and technical capacity of municipal institutions by effectively dividing resources and responsibilities between central and local governments.
- Strengthening financial services for urban development. This final category is especially important in the South African context as even though the financial sector is well-developed, there are constraints on the flows of capital into urban investment. For example, in Durban most people living in informal settlements have savings accounts with private financial institutions but they are unable to obtain loans for housing and other purposes because of the high perceived risks of lending to poor people and the high administration cost-to-loan-size ratio. It is therefore important to find ways of getting private sector capital to flow into investment (Smit, 1992:13).

Underlying all these categories there is an assumption that the efficiency of a city's administration and delivery and management of services, as well as the efficiency of its urban form, all affect the productivity of economic activities occurring within the city. In emphasising this efficiency then, the urban efficiency approach represents a shift away from neighbourhood interventions such as low-income shelter projects and in doing so, it can be considered to be a rather pessimistic assessment of what local governments and communities can do (Tomlinson, 1994:64).

The second focus of the urban efficiency approach, which is to relieve urban poverty encompasses economic and social aspects including a safety net for the very poor. More specifically these include: encouraging labour-intensive production; alleviating the constraints to the growth of the informal sector; human resource development; increased access to infrastructure and housing; supporting NGOs and community initiatives; and finally, food assistance and health care in order to minimise the impact of a decline in income. Basically, the situation is likened to the short-term setbacks that accompany structural adjustment programmes, where free-markets are facilitated and the public sector reduced. As a result, little attention is given to the ways in which the public sector influences decisions so that they will be consistent with specific economic development goals such as the training or hiring of economically disadvantaged residents or the procuring of goods and services from black-owned/controlled SMEs.

The other approach that aims to facilitate indigenous economic development is **urban entrepreneurialism**. This approach gained popularity in the 1980's and it also emphasises the private sector and the market as being the solution to development problems.

Essentially urban entrepreneurialism emphasises proactively making things happen at a local level. It focuses on ad hoc opportunism and the exploitation of local comparative advantage such as waterfront developments, exhibition and convention centres and the hosting of major international events etc (Smit,1992:14). The assumption underlying this approach is that "growth is promoted by discovering, expanding, developing or creating new markets for local goods or services. The goal is to facilitate new business formation and small business expansion in the given jurisdiction as opposed to competing to attract investment from large firms located outside the jurisdiction" (Tomlinson,1994:62).

Thus in terms of urban entrepreneurialism two strategies dominate: place marketing; and directly fostering indigenous economic activities and regeneration initiatives. Place marketing involves: improving the image of an area as a favourable location for investment (by, for example, advertising in the general financial media); generating investments directly (by, for example, industry or sector-specific information seminars), and providing services to prospective and current investors (by, for example, investment counselling). A critique of this strategy as evidenced by the aggressive marketing adopted in a number of localities within the Western Cape, is that sharp inter-locality competition is likely to accentuate

spatial disparities as the localities which have the greatest need have the least capacity to play the entrepreneurial game (Harrison, 1995:34).

In terms of fostering indigenous economic activities and regeneration initiatives, urban entrepreneurialism involves local governments that act as entrepreneurs who attempt to identify and support growth industries by providing low-interest loans or by investing in new or expanding (sometimes high risk) local firms within these industries. The difference, however, between traditional and entrepreneurial approaches is that “while the former disregards net employment creation and unabashedly defines success when jobs are relocated to the area, the latter measures success in terms of business expansions and additional jobs” (Tomlinson, 1994:83). As a result, urban entrepreneurialists generally prefer small high-technology firms as their growth industries. This is because the products of such firms are income-elastic and will often serve immature markets with considerable potential for growth. They are also more likely to sustain a competitive position in relation to foreign competition (Tomlinson, 1994:101).

Some of the international regeneration initiatives and institutional arrangements which have been devised under this approach in order to address LED, include: enterprise boards; urban development corporations; privatisation; public-private sector partnerships; and small firm industrial districts. Some of these viz. privatisation, public-private sector partnerships will be examined in greater detail in Chapter 6.

Lying in contrast to the abovementioned approaches is the **alternative approach** which was precipitated by the failure of the corporate-centre economic approach to adequately address the distributional issues associated with local economic development policy. The alternative approach advocates public sector leadership in the economic development planning process and a more interactive relationship between the public and the private sector. The assumption made here is that even though private sector market decisions are important determinants of economic development outcomes, they are greatly influenced by public sector interventions that affect the market environment in which the investment decisions are made. It is for this reason that the public sector needs to take a more activist role in designing interventions that guide private investment decisions towards the creation of desired outcomes. An example of an attempt to direct private investment on a large scale is the efforts of Atlanta’s former mayor Maynard Jackson to expand the existing

airport rather than construct a new facility in the northern part of the city. Through this intervention, Jackson sought to encourage development in the southern portion of the city which was experiencing relatively low levels of investment and where the city's black population was concentrated (Robinson, 1989:286) .

Thus under this approach, city administrations use the provision of public resources as a means to ensure that economic development projects produce specific outcomes that relate to public policy objectives. One way in which this is done is to provide public resources on a conditional basis that benefits local interests and the economically disadvantaged. For example, private developers would have to agree to perhaps hiring local residents or to sharing ownership with the public sector in exchange for public sector financial assistance. Unlike policies which are based on an assumption of generalised benefits and a multiplier effect that results in a universal increase in prosperity for local residents, such policies emphasise the lack of sufficient particularised benefits to all segments of society. It therefore represents a market correction in that the intent is to distribute more equitably the market-generated benefits of economic development (Goetz, 1990:172).

This alternative conceptualisation of LED, is an extremely useful way of ensuring that the economic objective of townships are achieved. For example, one would hate to see the poor people of the townships exploited for their cheap labour while profits are siphoned off to distant, already developed locales. Policies must therefore be designed to ensure amongst other things that money circulates within the community itself. The aim of the alternative conceptualisation therefore, is to benefit labour and/or the urban poor more directly. Two further approaches subscribe to the same principles. These are human resource development and the progressive or growth-through-redistribution approach.

**Human resource development** is based on the understanding that relying on the 'trickle down' approach to benefit the poor will take a long time. The focus therefore is on enabling the poor and unemployed to become productively employed within the capitalist economy. This is done by increasing access to jobs and increasing the productivity of those who do have jobs (Tomlinson, 1994:64). Human resource development strategies then are all about training that will help to make people more competitive on the job market but as Blakely

(1989 in Tomlinson, 1994:65) correctly points out, this serves little purpose if the jobs do not exist.

The *progressive/growth-through-redistribution approach* to LED is therefore more complete as it shifts the relative emphasis to employment creation for defined target groups. Progressive planners scorn at 'trickle-down' programmes and strive for programmes that are characterised by growth with equity. They are also more concerned with process issues - the process advocated being a participatory one where communities are involved in decisionmaking and where mass action is used to mobilise opinion behind specific strategies. Also, community organisations are wherever possible used as vehicles for implementing development strategies (Tomlinson, 1994:119).

Furthermore, the progressive approach focuses on the redistribution of investment as opposed to income (which costs the state a lot and which has inflationary impacts). This means that scarce state resources must be utilised to induce appropriate investment patterns or, to put it in another way, the allocation of scarce public resources must be prioritised. One of the key investment redistribution strategies is the move **away** from capital-intensive enterprises **towards** labour-intensive enterprises and one of the ways in which this can be done is through restructuring the demand profile in such a way as to stimulate growth for example by reducing the demand for capital-intensive German cars and increasing the demand for labour-intensive bicycles and shoes (Smit, 1992:17).

Finally, progressive policies include amongst others: indigenous business development; housing subsidies and alternative forms of housing supply; linkages between neighbourhood and downtown development so that expansion of offices in the central area creates benefits for neighbourhoods; and a bias towards the development of low-income areas and small enterprises (Tomlinson, 1994:66). It is this outlook of the progressive approach that makes it a more appropriate and potentially more efficient means of promoting local economic development in the townships as it articulates directly the solutions to problems experienced in these localities.

### **In the final analysis...**

the approach to local economic development that is adopted is very dependent on the stage of development as well as the degree of dynamism in the local

economy. In the context of African townships, while many of the tenets of the urban efficiency and urban entrepreneurialism approaches such as promoting urban productivity and proactively fostering indigenous economic activities are applicable, and should indeed be implemented, they are not sufficient. It is therefore argued that due to their low levels of development and low degrees of dynamism a balanced approach incorporating both growth and redistribution must underpin an LED strategy for African townships. It must be understood that the both go hand in hand because it is very difficult to implement redistributive strategies when there is little or no growth. Similarly, redistribution is necessary in order to create the political stability required for sustainable growth. Two examples of the type of activities which contribute to both growth and redistribution is investment in basic infrastructure such as water, sanitation, electricity, etc. and the promotion of small and microenterprises (SMEs). The provision of urban infrastructure is positively correlated with economic performance as it increases private investment which in turn leads to new jobs, lowers unemployment, reduces poverty and increases personal incomes. These in turn lead to a greater demand for goods and services which initiates further private investment thereby creating income and employment multipliers. While this is exactly the type of situation we are aspiring for in townships, it must be noted that the type of private investment which is more likely to be stimulated by the provision of basic infrastructure in townships, is that which arises from SMEs. Owing to a variety of reasons that will be discussed in the following chapters, small and microenterprise activity particularly, service retail and commercial related manufacturing, is the only one relevant and able to be generated and sustained within a township context. It is for this reason that this sector needs to be actively promoted and supported if local economic development is to become a reality in African townships.

## CHAPTER THREE

### SMALL AND MICROENTERPRISES AND TOWNSHIPS

Due to the highly inequitable structure of the South African economy, both in terms of space and race, and if what is advocated is both redistribution and growth, then it cannot be sufficient to promote economic development and employment creation in general. These have to be targeted at specific groups of people and specific areas - in this case low-income African people located within the townships. This chapter argues that one of the primary ways in which this can be done is by supporting the growth of small and micro enterprises (SMEs) within the townships.

Before engaging in a discussion on the exact nature of the role and contribution they can make, it will be useful to describe SMEs and the way they operate.

#### 3.1. DESCRIPTION

SMEs, as the term is used here, is comprised of small and micro-scale enterprises. It is distinct from SMMEs to the extent that the category of medium enterprises is excluded owing to the fact that they are not absolutely relevant for the township context that is under investigation.

*Micro-enterprises* are very small businesses, of varied income, often involving only the owner, some family member(s) and at the most one or two paid employees. They lack formality in terms of licences, registrations, accounting procedures etc. and they have a limited capital base. Furthermore, the technical or business skills among their operators are rudimentary. Nevertheless, many do have the potential to advance into small businesses. This category also includes those survivalist enterprises which are run largely by women and where the income generated is far below the minimal income standards.

*Small Enterprises* on the other hand, meet all formal requirements in terms of industrial premises, tax registration etc., and employ between 5 to 50 workers. They constitute the bulk of the established businesses and are also usually owner managed or directly controlled by the owner community. Classification in terms of assets and turnover is difficult

however, due to the wide differences between the various sectors viz. retailing, manufacturing, construction and professional services (DTI,1995).

SMEs are highly diverse with structures, problems, growth potential and access to support differing widely between segments. They also differ with regard to the economic sectors to which they belong as well to the stage of growth of the enterprise. For the purpose of this dissertation however, the following types of SMEs are relevant:

- consumer related manufacturing - eg. clothing, furniture, carpentry, metal works, arts and crafts etc.
- commercial/retail - general dealers, spaza shops, butcher, etc
- service - panelbeaters, shoe repairs, etc.

### **3.2. THE NATIONAL FOCUS ON SMMEs**

The promotion of SMMEs in general (including small and micro enterprises) has become a key component of economic policy across the political spectrum. The state has supported SMMEs through the SBDC who, since 1985, has established approximately 45 small business hives providing about 8700 jobs. Furthermore, the COSATU-linked Industrial Strategy Project (ISP) promoted SMME development as an important component of its proposed industrial policy which drew, in particular, on Italy's industrial districts. As a result, and precipitated by the recession, the 1980's was marked by a rapid growth in the number of SMMEs in South Africa (Harrison,1995:31).

At the current conjuncture, with political change and the growing concern with black economic empowerment, black-controlled SMMEs have been targeted for particular attention. The RDP makes this explicit by stating that:

"economic policy must give attention to small businesses, especially those that are black owned and operated with the view to developing them from marginalised survival strategies to dynamic small enterprises that can provide a decent living for both employees and entrepreneurs. Policies to that end must focus on women, who are represented disproportionately in this sector"

(ANC,1995:94).

Furthermore, the Department of Trade and Industry (1995:17) has put out a national small business strategy whose objectives basically aim to create the conditions necessary for small businesses to grow and prosper. It is thus obvious that at a national level, and at least at the level of rhetoric, the importance of SMMEs for the overall development of the country has been acknowledged. However, at a local level, especially at the township level, it is imperative to reinforce an understanding of the role of SMEs in contributing to economic development.

### **3.3. THE RATIONALE FOR A TOWNSHIP FOCUS ON SMEs**

First and foremost, SMEs can be regarded as a “vehicle for redressing the systematic discrimination governing black access to economic power” (Taskgro,1993:9). Experience in the past has shown that African people have been able to make greater progress in the small and micro enterprise segments of the economy than in medium or larger enterprises (DTI,1995:12). This is because the entry requirements (in terms of capital, skills, contacts, experience) are lowest here so that most African entrepreneurs are able to penetrate the economy.

However, some development analysts argue that small businesses and the informal sector do not offer quick and easy solutions to the problems of poverty and joblessness. Instead, an SMME focus can slow development and raise its costs especially if SMME and labour-based routes prove to be difficult to implement (Harrison, Todes and Watson,1995:17). SMMEs can also represent very insecure forms of survival as they sometimes fail to provide even the minimum subsistence income for workers and owners. Furthermore, labour practices can be problematic, where small producers compete in the same markets as large producers forcing them to be able to compete only on the basis of marginal profits, low wages, and poor working conditions.

Furthermore, it has been argued that not everybody is equipped genetically, educationally, or socially to become an entrepreneur so that if they are further disadvantaged by incomplete education or lack of property (to use as loan collateral) they will generally need a lot of help before they are able to run successful, self-sustaining businesses. This, together with South Africa’s vast needs and limited resources is believed to create a strong

case for straightforward welfare (another redistribution mechanism) as a more cost effective and beneficial solution (Daily News, 7/11/1995).

It is believed that given a choice between the certainty of immediate but transient benefits (with welfare) and the possibility of deferred but substantial gain (by encouraging small business), it is the latter option which has the edge in terms of sustainability and self-reliance. Furthermore, while welfare may indeed be a cheaper, cost effective means of increasing incomes, it will not be able to do so significantly. It also depends on an efficient administration system which we lack in South Africa.

In contrast, the SME sector not only alleviates poverty, but it also has the potential to: enhance the competitiveness of the economy; provide accessibly priced consumer goods for the poor within townships; and most importantly create jobs. This last function is all the more crucial as the South African formal sector becomes increasingly unable to absorb the number of entrants into the labour market.

Thus, one of the advantages of SMEs is its high labour absorptive capacity and its relatively lower average capital cost per job than in big business. This is illustrated by the significant employment creation effects of informal pinafore production in Durban which according to the brief survey conducted by Manning (1993:16) indicated that pinafore production directly creates at least 2000 jobs - 1000 in manufacturing and 1000 in sales. However, in some cases achieving dynamic growth in employment is not as critical as improving the contribution that these businesses make to household income and welfare (Riley,1993:31). For women especially, incomes in this sector, although low, make important contributions to the overall household income.

It can therefore be seen that SMEs, particularly micro enterprises, play an important role in people's efforts to meet basic needs. They allow marginalised groups like female heads of households to survive during the current phase of fundamental structural changes where the formal economy is unable to absorb the increasing labour supply and where social support systems are grossly inadequate. This they do mainly through activities such as hawking. Despite being criticised for interfering with traffic, contributing to crime and undermining health and environmental conditions, hawking carries significant benefits. Apart from providing employment, hawkers can undercut the prices of goods and services

offered by retail stores by virtue of not having to pay expensive rents, mortgages and other overheads. They can provide door-to-door services by having moveable carts. This movement lowers the transport costs of the poor. Finally, they can also provide cheap meals to those without cooking facilities (Urban Edge,1982:2). Thus, the functioning of SMEs cannot be judged exclusively from a commercial and economic perspective, but should also be seen as an element in the survival strategy of a household (Post,1992:64). However, the contribution of SMEs goes a lot further.

Not only do they play a major, positive role in providing shelter, especially to first-time low-income home-owners (Urban Edge,Vol.8,No.8,1984:4), but they also manage to serve the urban poor by providing them with training opportunities for using appropriate technologies and resources, recycling materials, producing affordable goods and services and distributing these to those in greatest need (Urban Edge,Vol.6, No.3). Further advantages of SMEs include: significant technical and other innovations and an ability to be better able to adapt to processes of structural change and the reorganisation of production (DTI,1995:11).

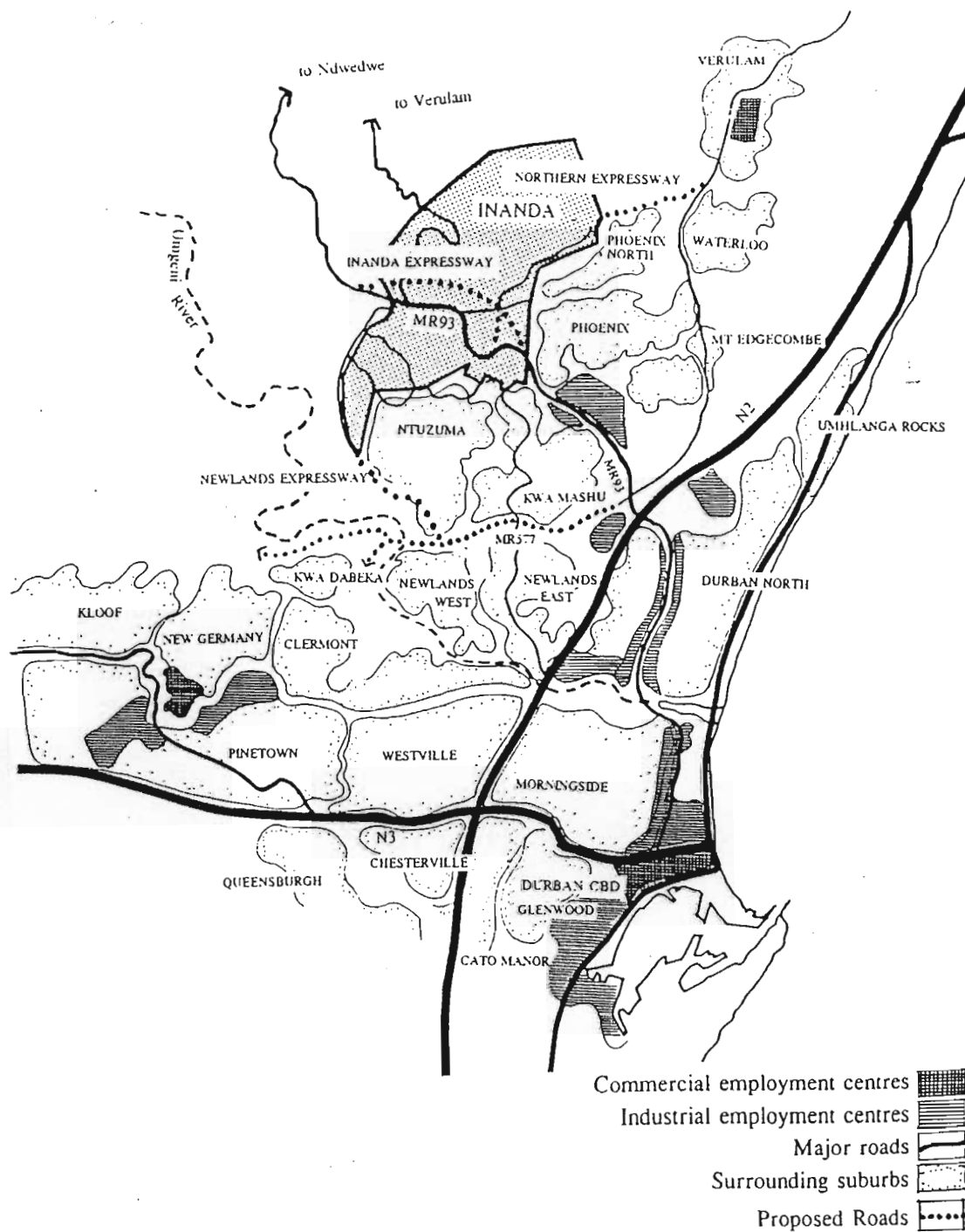
In terms of the last mentioned, while the economic efficiency of small producers is a contentious issue, the argument defending the efficiency of small producers has been given added support with the emergence of the 'flexible specialisation' literature (Segenberger, Piore and Sabel, Scmitz etc.) the basic thrust of which has been the international move away from mass production. Consequently, small firms have been given considerable advantage over large firms, by virtue of their more efficient organisation, production flexibility etc. This is a persuasive theory, particularly when one is dealing with those markets characterised by small batch production, high value and high price (Manning, 1993:28).

Echoing the flexible specialisation thesis is the point that small clothing producers are more suited to meeting the needs of their markets than are large mass producers, since their customers require exclusive garments and intricate designs, and since the competition in the market is on quality, and not on price (Manning,1993:28). In contrast, when one is dealing with mass markets, where high volume and low price are the determinants of success, economies of scale still appear to be critical, thereby favouring large enterprises.

However, research findings suggest that small firms do have advantages that allow them to successfully compete in niche markets, and this is the path being taken by many small producers (Manning, 1993:29). It has been identified that the enterprises having the capacity to efficiently serve niche markets - small furniture manufacturers producing high quality furniture, seamstresses producing designer garments and metal workers producing components for the metal industry - are efficient enough to warrant the support of economic policy-makers even though they represent a small fraction of the activities of the manufacturing sector as a whole.

It must however be acknowledged that a more common situation in townships is for there to be a focus on a narrow range of retail and service activities such as panelbeating, spazas, liquor stores, etc. Moreover, they tend to be oriented to the local market. The point however is to remember that even if SMEs in township remain confined to largely local market oriented activities, there does exist scope to expand the range of facilities as well as to improve prospects for existing activities by for example developing linkages around local market oriented service. What all of this serves to indicate is that the promotion of the SME sector is the most flexible, feasible and sustainable means of meeting the needs of township communities.

This fact is underpinned by a discernible trend throughout South Africa which shows that the growth of **large** scale industry, office and retail development (alternatives to the SME sector) in Cape Town, Johannesburg and Durban is occurring **outside** of townships and at considerable distances from them (Harrison, Todes and Watson,1995:3). In Durban, in particular most new development is occurring along the western axis where few townships and informal areas are located (see figure 3.1.). And furthermore, industrial land and buildings within or adjacent to townships have been virtually unsaleable. For example, the Phoenix industrial area has substantial vacancies which cannot be filled despite lower land costs (Harrison, Todes and Watson,1995:3).



**Figure 3.1. Economic and Residential Distribution**

The importance of the SME sector for township development then becomes more obvious. It is also likely to have a higher payoff - "one that is less risky and less costly than

competition for footloose, major industrial firms” (Peterson,1991:52). Moreover, given our “legacy of big business domination, constrained competition and unequal distribution of income and wealth, the small business sector is seen as an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets, enhance productivity and technical change, and through all of this stimulate economic development” (DTI,1995:11).

However, for all of this to occur, it is imperative that the SME sector be actively supported and promoted. While some argue that by addressing microenterprises valuable capacity is wasted, Victor Tokman, director of the International Labour Organisations Global Employment Programme maintains that informal activities have to be supported. He notes that “any policy concerned with growth and equity cannot avoid the issue of how to increase employment and raise the productivity of informal jobs” (Urban Edge,1989,Vol.13, No.1:2).

Furthermore, in developing countries where the internal market is weak, microproducers are important to the economy as consumers, so, by increasing their income, demand is also increased. Another reason to support this sector lies in the general instability that threatens the system when so large a chunk of the public is outside it (Urban Edge,1989,Vol.13, No.1:2). The people who have access to employment **within** the system in small and medium sized enterprises, are often family members and others with an employment history and education. This naturally excludes the majority of South Africa’s poverty-stricken township population (Tomlinson,1994:71). As one can ill-afford to do this, informal activities have to be recognised and supported.

This applies especially if the economic lot of South African women is to be uplifted. In South Africa only 30% of economically active urban African women are employed in the formal sector. The rest are employed in the informal sector often in very low-paying enterprises. The activities of these women then have to be supported if there is to be any hope of raising their marginalised status.

However, it must be remembered that all the measures designed to help microproducers will have little effect if insufficient jobs are created in the formal sector: new workers will swell the informal sector, creating a competitive situation that could eliminate the potential

benefits. Consequently, any comprehensive strategy must include creating jobs in the formal sector as well, as ultimately, there are limits to the effect that policies supporting the informal sector can have on growth (Urban Edge,1989,Vol.13, No.1:4). Thus, within the context of townships and other low-income areas, not only must there be support for microproducers but also for other small enterprises.

This is especially important since South Africa's major enterprises are more concerned with productivity and industrial peace than with enhancing employment creation. Moreover, ownership is very much concentrated and has a tradition of internalised sourcing which does not leave much scope for subcontracting to small-scale, more labour-intensive enterprises (Tomlinson,1994:33).

All these factors concretise the need for small and informal sector support which, if rendered, is likely to benefit townships significantly. In other words, the creation of an enabling environment in which SMEs can thrive, will result in them making a significant contribution to redressing the spatial, economic and social imbalances caused by apartheid.

## **CHAPTER 4**

### **CONSTRAINTS TO SME DEVELOPMENT**

With the importance and relevance of SMEs for townships now established, it becomes necessary to examine how best, if at all, these enterprises can be supported. In order to do so however, one needs to first understand the dynamics of and constraints faced by these enterprises. The objective of this chapter then is to examine the constraints and inhibiting factors that are experienced by SMEs in general but particularly those located in the townships.

#### **4.1. THE APARTHEID LEGACY**

The combined impact of township zoning regulations, years of suppression of African business activity and ineffective local government support - all of which are part and parcel of the apartheid legacy - has led to little economic activity let alone SME activity taking place within townships. In fact, for many years African owned or controlled SMEs were deprived of viable business opportunities. This was as a result of a number of factors: Firstly, there was a total absence of entrepreneurial education for young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship. In fact Bantu education restricted the opportunities for the acquisition of technical and professional skills by black people. For example, prior to 1979 Africans were legally inhibited from acquiring artisanal training thus resulting in there currently being very few skilled artisans.

Secondly, Africans were confined to homeland areas which lacked a dynamic business environment and were poor in terms of living standards and business opportunities. This was due to the apartheid notion that African people were 'temporary sojourners' in the white cities of South Africa. Acts like the Influx Control Act denied them the right to move freely and the Group Areas Act in turn uprooted millions not only from places of residence but also from their places of business in white areas. The latter removal was largely because of complaints by whites that blacks were undermining their business. These moves inevitably led to large capital losses which in turn destroyed the fabric of black small

enterprises. Furthermore, the resultant segregation increased the distance between black residential and working areas, thereby increasing the cost and risk of conducting business.

Thirdly, even outside the homeland areas, apartheid made it impossible for black would-be entrepreneurs to participate in business, apprenticeships and partnerships with more established (non-black owned/controlled) enterprises. There were also many economic restrictions which precluded business development and employment opportunities in the formal sector. For example, not only did the government control the allocation of business sites but they also designated the types of business blacks were allowed to operate in the urban townships. The Native (Urban Areas) Act of 1923 and 1945 stipulated that black business could only provide essentials such as milk, bread, meat, vegetables, soap etc. and were denied the right to operate businesses such as dry cleaning, bookshops, garages, pharmacies etc. In 1963, black entrepreneurs were limited to the ownership of a single business and were prohibited from establishing black controlled financial institutions, manufacturing plants and operations, construction and building businesses and wholesale outlets. Licences for blacks were also then restricted to entrepreneurs who wanted to be grocers, butchers, fish fryers, dairy owners and wood and coal dealers. The rationale behind all of these restrictions was to force African persons to the homelands.

Fourthly, the drastic curtailment of property ownership rights of blacks through the Land Acts made it impossible for them to acquire assets that could serve as collateral for loan financing. It also excluded them from the long-run process of capital accumulation and growth through rising property values and share prices. And finally, not only did apartheid exclude the business involvement of black women, but marriage laws placed them in unions with no contractual capacity. They were also restricted in terms of access to land. These factors together with cultural, attitudinal and behavioural constraints, have all affected women's participation in business.

In the end it must be recognised that these restrictions have created many imbalances, one of which is evidenced in the sterile, monofunctional nature of African townships where economic activities including SME activities, are minimal. Despite the fact that all restrictions have now been removed they have served to undermine the potential for African people to enter business as equals with other race groups (Taskgro, 1993:2). Their lack of access to proper education and skills training is still one of the main reasons for the

very few manufacturing microenterprises in townships as well as for an absence of multi skilled Africans capable of performing a range of functions in their businesses e.g. management, production, quality control, marketing, etc. This can be said to be primarily due to the limited management tradition on which black entrepreneurs can draw. Owing to this history then it is not surprising that we have the African business profile that we do.

#### **4.2. PROFILE OF SOUTH AFRICAN BLACK BUSINESSES**

Approximately 70% of African SMEs are concentrated in commerce and trade. Street vendors account for half of microenterprises and manufacturers account for 17%. The manufacture of soft goods ie, dressmaking, shoe production, repairs, beer brewing are the only manufacturing activities found in any abundance. Although, this is a typical pattern found in informal sectors in other parts of Africa, the percentage of manufacturing activity found in South Africa is substantially smaller. In Maradi, Niger and in Maseru, Lesotho, for example, the share of manufacturing activity among small enterprises is 32% and 36% respectively which is about twice the rate in South Africa (Riley, 1993:11).

Furthermore, 97% of African enterprises have five or fewer workers because the owner and unpaid family members account for 80% of the labour employed (Riley, 1993:13). Also, whatever growth there may be this tends to be concentrated in the youngest firms with the smallest base of employment. This, together with the fact that international experience indicates that the survival rate of new firms tends to be quite low (Riley, 1993:31), leads one to question the causes of this poor functioning.

#### **4.3. PITFALLS IN OPERATION, PRODUCTION AND FINANCE**

The typical situation for SMEs especially microenterprises is that they generally run one - or two-person - mostly family- operations, based in their homes; some may own a vehicle or a few tools. Because they have no access to credit from financial institutions, they start businesses with very small amounts of capital put together from personal savings and loans from family or friends and use supplier credit or cash transactions to operate. With limited working capital they incur greater costs. For example, they have to buy raw materials in small quantities, which increases the prices they must pay. Their production process is also constantly disrupted by frequent trips to obtain materials. Moreover, they

must settle for low-quality inputs which translates into low-quality products and, ultimately, low prices. In addition, the shortage of capital makes it difficult to keep any inventories - so producers must sell right away as opposed to waiting for better prices. With such limitations they can hardly hope to search for, let alone take advantage of different opportunities. Besides lacking credit, they also have limited access to markets. (Urban Edge, 1989, Vol.13, No.1:1).

Furthermore, they have very little equipment, and that which they do have is of rudimentary technology and poor quality. Consequently, their productivity is very low. Many work entirely on their own; others subcontract with larger firms. Most often, the income they seek is based only on the cost of raw materials (the shoemaker figures in the price of leather, not his time) which is usually too little to support an adequate standard of living. Bearing all of these features in mind, it must be noted that the success of any business let alone SMEs depends on the unit cost of production. A higher unit cost will allow cheaper and more competitive producers to capture the market. Therefore, if for example, automation leads to a lower unit cost than that produced by labour or second hand machinery, SMEs will not have much of a chance against medium and larger scale enterprises. This constraint is evidenced in the fact that SMEs have been denied access to many markets in South Africa because of oligopolistic collusion and single firm domination of many product markets. It is also evidenced in difficulties experienced by SMEs when competitive pressures keep prices down in a relatively price sensitive market. Microentrepreneurs then quickly feel the rising cost of supplies.

A further factor that impedes SME development is bureaucratic red-tape. In fact, developing countries are notorious for the bureaucratic delays and paperwork they require to set up and register small businesses. Herando de Soto (1989 in Peterson 1991:55) found that the same business activity that took 72 hours to set up in Florida required a minimum of 290 days and multiple bribes to set up in Peru! Finally, a lack of market infrastructure especially appropriately sized and priced premises near markets; regulations concerning street trading, health, safety and labour codes for the workplace; taxation; a politically unstable and often violent business environment; and the lack of adequate technical, managerial and administrative skills all serve to further constrain SME development. This final impediment viz. inadequate technical and business skills, on its own has dire consequences for the efficient functioning and competitiveness of any

enterprise, not only SMEs. These consequences are succinctly delineated in the following table:

**Table 4.1. : Pitfalls in Operation, Production and Finance Experienced by SMEs**

<u>Pitfalls in Operation:</u>	
Lack of working funds	
Drop in internal cash generation	
<u>Pitfalls in Production</u>	<u>Pitfalls in Finance</u>
1. Not having a fully developed product at the start of operations.	1. Lack of financial planning.
2. Poor materials planning.	2. No proper accounting system.
3. Lack of production planning and control.	3. Diversion of funds.
4. Breakdown of plant and machinery.	4. Lack of expense control.
5. Lack of quality control.	5. Poor collection of bills.
6. Poor marketing strategy.	6. Unbalanced payments to creditors.

*Prepared by: U.P Nbuya for EDI's 1980 Course on Employment Promotion and Small Enterprises, National Bank of Commerce, Dar Es Salaam, Tanzania (in Urban Edge, Vol 4. NO.5:1980: 4)*

In sum, SMEs in general have to survive under the most difficult conditions. The constraints that they face relate not only to the legal and regulatory environment but also to access to: markets; appropriate technology; finance; business premises (at affordable rentals); and skills and managerial expertise.

#### **4.4. THE TOWNSHIP ENVIRONMENT**

As if the situation is not difficult enough, SMEs in townships face an added or perhaps more intensive set of constraints. The functioning of small business is greatly affected by

the physical urban environment as this directly determines the flows and concentrations of people who form their customers and who provide the thresholds required for successful small business activity. These thresholds which are affected by distances, densities, movement patterns and spending power is sorely lacking in the townships due to a variety of reasons.

Firstly, the high level of fragmentation and spatial segregation of income groups across the city means that entrepreneurs operating in the peripheral, lower income townships have limited access to a higher income market. As a result, they exist by competing within small, location specific low-income niche markets. This perpetuates difficulties, because as competition within a niche intensifies, markets in the broader economy become virtually closed given the location of the enterprise, quality factors and the difficulty of competing with mass-produced products available from other South African producers in the well-developed formal sector (Riley,1993:26). Secondly, the monofunctional nature of the township means that business people operating in these areas either from home or the street have poor access to a market during weekdays. Thirdly, commercial premises located near the source of market demand are difficult to obtain. One of the reasons for this is that poorer residential areas lack public spaces with suitable infrastructure so that there are few good locational opportunities within the areas (Watson,1995:2).

Access to premises from which to work is a serious constraint especially to manufacturers who require relatively developed infrastructure such as electricity, telephones and storage facilities. Until 1980 no industrial parks or hives were to be found in or near the townships and those that have been built have many shortcomings such as inaccessibility, hazardous health and safety conditions and high turnover conditions (Taskgro,1993:22). Moreover, mobile traders and stallholders also often identify the shortage of market space as an inhibiting factor to their growth. This forces them to conduct sales on crowded pavements, thus inconveniencing both customers and passers-by. They are also handicapped by the absence or inadequacy of basic facilities such as running water, drainage, garbage collection and sanitation.

Some of the reasons for the lack of suitable premises include complexities regarding land availability and administration as well as the extremely dense and often informal nature of the environment which places great pressure on the land. As a result, in the Gemini survey

conducted in 1990 on 5000 firms in townships it was found that 71% of microenterprises are operated from the home far from commercial traffic. And of those who do operate outside the home almost two thirds do so without secure tenure (Riley,1993:27).

Similarly, and corroborating all of the above observations is the evidence provided by the World Bank's 1992 survey of 632 microenterprises in townships. This found that finance (no capital) and market related issues (too few customers) are the first and second principle constraints affecting small enterprises. The third constraint pertains to space and location (premises too small, no shelter, sun ruins fruit and vegetables) (Riley,1993:24).

Equally serious in terms of inhibiting growth in townships, is the lack of accessible roads. This together with poor public transport systems and long distances between commercial areas increases the supply costs for small businesses who depend on these areas for their supplies. As a result, access to a private vehicle becomes a necessity which many can ill afford.

Finally, two other constraints that African entrepreneurs in townships face is competition and crime. African retailers face competition from White and Indian retailers as well as big supermarkets who can now enter townships with the scrapping of the Group Areas Act (Riley,1993:41). Also, the high crime rates and violence in the townships are serious obstacles to small business growth as they increase the risks for small enterprises and reduce the market owing to the element of fear that is instilled in the residents. They also often cause major losses of stock, damage to buildings or reduced turnover.

It can therefore be seen that SMEs in townships are facing difficult structural constraints in South Africa. On the one hand, they have the extremely difficult task of identifying and entering new niches and competing with long established businesses in the formal sector. On the other hand, they are impeded by a variety of factors that mar their ability to grow, create employment, accumulate assets and prosper whether it be in the formal or informal economy.

## **CHAPTER 5**

### **FACTORS IMPEDING SMALL AND MICRO ENTERPRISE DEVELOPMENT IN INANDA**

Having briefly looked at the dynamics and constraints faced by SMEs in townships in general, the aim of this chapter is to examine one particular township viz. Inanda so as to present firstly, a real picture of the kind of environment that one is aiming to make economically generative through the promotion of small and micro-enterprises, and secondly so as to determine those factors that serve to impede the successful development and growth of such enterprises - all of this being with the aim of formulating appropriate planning interventions (which will be the subject of Chapter 6). Unless otherwise stated, the information presented in this chapter has been gathered largely from the set of interviews conducted and are the results of the questionnaires administered to 30 small and micro entrepreneurs in the area.

#### **5.1. HISTORICAL BACKGROUND**

The pattern of settlement and land use in the township of Inanda, located on the northern periphery of the GDMA, has been impacted upon by a variety of factors. In the 1920s and 1930s, commercial agricultural farmers in the region experienced many difficulties caused by the economic depression, the dry climate and the lack of transport. As a result, landowners began to lease their land and buildings to tenants - a practice which was made feasible by the steady movement of people into the area.

In 1936 Inanda was declared a 'Released Area' for the exclusive occupation by Africans. Further subdivision of properties took place and this together with the growing trend towards tenancy allowed the settlement and population densities to increase.

The Second World War saw many job seekers coming to the city in order to take advantage of the increased industrial and harbour related activities. This influx of people led to the growth of slum areas and consequently precipitated the introduction of racial zoning. The effect that this had on Inanda was to increase its size due to it being subject to less restrictive conditions. Furthermore, the onset of National Party power in 1948 saw the

introduction of influx control measures and the establishment of 'townships' such as Chatsworth, Umlazi and KwaMashu. Inanda continued to grow during this period especially since people who had been displaced from other parts of the city such as Cato Manor began to move into the area. This increasing demand for land led to the emergence of subletting which in turn effectively reduced the control of legitimate landowners in the area.

The continued decline in agricultural productivity, exacerbated by the monopolisation of farming activity in the district and the increase in residential population led to a diversification of land use patterns with shops, stalls, crèches and educational facilities emerging in order to serve the needs of the growing population. However, as Inanda was viewed as an illegal settlement, formal infrastructure was not installed. In fact, it was only in 1984, following a cholera outbreak, that piped water was eventually provided in the area.

A year later in 1985, Inanda was riddled with incidents of violence. This had a significant impact on the settlement in terms of its physical form as well as the social, institutional and political structures which prevailed at the time (IDF, 1995). As the primary target of the violence was the Indian community, especially the landowners and traders, these were forced to flee the area. A struggle for control of Inanda then ensued which eventually fell into the hands of 'warlords' who allocated land and maintained order in the area. The power structures based around legitimate land ownership were then effectively dissipated but in the late 1980s youth groups and civic organisations began to wrest control from the warlords. It must be noted that in spite of all the violence the influx of people into the area continued.

In 1992 the Natal Provincial Administration assumed administrative control of the area and the Inanda Development Forum, comprising CBOs, landowners, developers, local business owners, the local authority and NGOs, was formed to facilitate the planning and development of Inanda.

## **5.2. CURRENT SME PROFILE IN INANDA**

Formal economic activity in Inanda is noticeably rare. However, significant proximate employment creating areas include the Phoenix Industrial Park, the North Coast Road activity spine, the Tongaat-Hulett brick industries as well as the smaller commercial centres

created to serve each of the surrounding residential areas. Other than this the northern sector, of which Inanda is a part, is primarily residential in nature.

On the other hand, informal sector activities are much more prevalent. However, these are often difficult to quantify because of the diverse range of activities and their sometimes illegal nature. In fact a study conducted by Cross, Bekker and Clarke (1992) warns that informal sector activity in Inanda Released Area 33 could be seriously under-reported in many survey results. They nevertheless identified the following list of frequent economic activities: dressmaking; candle making; floor polish manufacture; basic general store; bead work; metal work; mechanics; panel beater; small appliance repair; and brewing.



Plate 5.1. A panelbeater in Amaoti.

Of the 30 small and micro entrepreneurs surveyed in this study 57% (17) were retail activities eg. spazas, liquor stores, general dealers, fruit and vegetable stallholders, butchers, 23% (7) were service activities eg. panelbeating, welding, upholstery, shoe repairs, herbalist and 20% (6) were manufacturing activities eg. blockmaking, dressmaking, baking. Of these hawking of small commodities and spaza ownership accounted for 40% (12) of the sample; dressmakers accounted for 10% (3) of the sample; panelbeaters for a further 10% (3); and shebeen owners, shoe repairmen, and blockmakers for a further 7% (2) each.



Plate 5.2. A shoe-repairman in a community hall in Newtown A.

**Table 5.1: Nature of SMEs Surveyed**

ACTIVITY TYPE	NUMBER
Butcher	1
Herbalist	1
Shoe-Repairs	2
Welder	1
Upholsterer	1
Panelbeater	3
Blockmaker	2
Bakery	1
Stallholder	5
Dressmaker	3
General Dealer	1
Spaza	7
Shebeen	2
<b>Total</b>	<b>30</b>

This distribution accords with the Cross et al (1992) study, which when scanning the economic activities of four of the major settlements in Inanda, found that hawking of small commodities and spaza ownership accounted for 41% of all informal sector activities, crafts and home industry accounted for a further 10%, and spaza employeeship, small repair work and shebeen ownership for a further 8% each.

The average age of the entrepreneurs interviewed was 41 years and all of them were over 20 years old. This stands in sharp contrast to the young nature of the resident population of Inanda - 48-54% being under 20 years of age (IDF, 1995). Perhaps this implies that the younger people are more likely to be found in or seeking formal employment in the economic centres of the metropolitan area while the older folk are left trying to eke out a living through small entrepreneurial activities within Inanda .

**Table 5.2: Age Distribution**

AGE GROUP	NUMBER	PERCENTAGE
< 20	0	0%
21 - 30	6	20%
31 - 40	11	37%
41 - 50	5	17%
51 - 60	6	20%
61 >	2	6
<b>Total</b>	<b>30</b>	<b>100%</b>

73% (22) of the SMEs surveyed had no employees with the owner being the only worker in the business. Of the remaining 8 SMEs, 10% (3) had 1 employees, a further 10% (3) had 2 employees, 3.3% (1) had 3 employees and only 3.3% (1) had a significant 6 employees. It can therefore be seen that, as they stand, SMEs in Inanda do not contribute much to the creation of job opportunities. ✓

**Table 5.3: Number of Employees**

Number of Employees	Number of SMEs	Percentage
0	22	73%
1	3	10%
2	3	10%
3	1	3.5%
>3	1	3.5%
<b>Total</b>	<b>30</b>	<b>100%</b>

However, if analysed in terms of sectoral employment, it was found that the average number of employees for the retail sector was 0.18, for the service sector it was 1.29 while for commercial related manufacturing it was 1, thereby indicating that it is the service activities viz. panelbeating, welding, upholstery, etc. that possibly has the potential to create the most employment.

**Table 5.4: Average Sectoral Employment**

SME CATEGORY	AVERAGE NUMBER OF EMPLOYEES
Retail	0.18
Service	1.29
Manufacturing	1
<b>SME Average</b>	<b>0.6</b>

This relatively low employment generating capacity was also discerned in a survey of 150 informal enterprises in Inanda conducted by May and Schacter (1991) which found that 82% of informal sector enterprises employed only one person. However, both the Cross et al (1992) and the May and Schacter (1991) studies support the promotion of informal sector activities, even though they acknowledge that it will not be able to redress the very high unemployment in Inanda. This is primarily because participation in the informal sector or micro-enterprises has acted to soak up the unemployed in Inanda - a fact which is confirmed by both the higher proportion of individuals who report participation in the informal sector as well as the proportion of households who have members working in this sector (IDF, 1995).

However, it became apparent from the survey that earning a living through such activities is no easy task. In terms of days and hours of trade, the vast majority 63% (19) of those surveyed claimed to be open 7 days a week. The remaining 37% (11) operated 5-6 days a week. Furthermore, their hours of trade and production were significantly long, the average hours of operation being 11 but with 27% (8) claiming to work more than 12 hours a day. One particular businessman, a herbalist, conducted his business for up to 20 hours a day! From this it can be seen that in order to earn a decent but somewhat meagre living the period of working often has to be long and tedious. What it also means is that for those working a 6-7 day week there is little time remaining to purchase supplies, to engage in business networking or to look for new opportunities.

In terms of the number of years in operation, the average was 4.5 years. However, this figure is believed to be distorted due to the fact that 2 traders claimed to be in operation for 20 and 23 years respectively. A more relevant statistic then is the mode, being approximately 3 years in operation. It can therefore be seen that many of the businesses

are relatively young with only 23% (7) having been in operation for over 5 years. 27% (8) of the businesses claimed to have been started within the last year to year and a half perhaps indicating that there is an increasing attempt at SME activity as a means of earning a livelihood.

**Table 5.5: Years in Operation**

YEARS IN OPERATION	NUMBER OF SMES	PERCENTAGE
0 - 5	23	77%
6 - 10	5	17%
11 - 15	0	0
16 - 20	1	3%
21 - 25	1	3%
> 25	0	0
<b>Total</b>	<b>30</b>	<b>100%</b>

Furthermore, 80% (24) of the owners had been employed previously. On being questioned with regard to their reasons for their now running an SME, the main reasons given included: retrenchment 8 (34%); a desire to start one's own business 5 (17%); low salary 2 (8%); and retired 2 (8%). The remaining 7 gave a variety of reasons that varied from political reasons, the termination of a contract, tired of working, to prevention from husband from being in paid employment. What is significant here is the large proportion that started an SME in order to survive following a retrenchment. What is also significant is the relatively large proportion that did so because they wanted to start their own business. Such an attitude spells well for the creation of an entrepreneurial culture in the area and needs to be fostered.

**Table 5.6: Reasons for Leaving Previous Employment and Starting an SME**

REASON	NUMBER	PERCENTAGE
Retrenchment	8	34%
Desire to Start Own Business	5	21%
Low Salary	2	8%
Retired	2	8%
Other	7	29%
<b>Total</b>	<b>24</b>	<b>100%</b>

### **5.3. CONSTRAINTS EXPERIENCED BY SMEs IN INANDA**

Unfortunately however, there are many factors that mitigate against these enterprises expanding. On probing for these factors the findings of the survey were in a sense unremarkable but they did reveal one consistent impediment - that the thresholds required to support even SME activity are hardly present in Inanda.

#### **5.3.1. Inadequate Thresholds**

Development depends strongly on thresholds. Different business opportunities require different thresholds to make them economically sustainable. Lower order goods such as basic groceries require a smaller threshold while higher order goods such as household appliances require a greater threshold. These thresholds depends largely on population numbers and density; spatial elements; income and expenditure levels; the road and transport network; as well as on the influence of violence and crime.

#### **Population and Density**

Although an exact population figure for Inanda is impossible to obtain, on the basis of secondary data it is estimated that the total population of Inanda is between 300000 and 400000 people (IDF,1995) with a population inflow rate of approximately 5% per annum (Cross et al,1992). Furthermore, Inanda's density is relatively high both in terms of household dwellers, average household size being 5.1 persons, and in terms of proximity of household structures (IDF,1995) (see Figure 5.1.). At a first glance then the requirement for

an adequate threshold that supports a variety of economic activities seems to be there. However, this is not the case.

### Spatial Features

Firstly, the particular landform of Inanda has served to fragment development and to concentrate settlement in varying sized and discrete clusters, resulting in the formation of 32 separate community areas (see Figure 5.2.). What is of relevance here is that the residents of Inanda perceive themselves as, firstly to be part of these local community areas eg. Bhambayi, Besters, Newtown C. It is only then that they will, to a much lesser extent, identify themselves as part of the "Inanda Community". Still, the greatest linkages, which are based on the activity pattern of the residents themselves, are between the respective community areas and the economic centres of the metropolitan area. This situation has arisen due to topographical constraints as well as to cultural and political differences. It is also made worse by the almost total lack of higher order commercial activity and job opportunities within Inanda itself which leads to a minimal amount of inter-area movement, and which thereby concretises the isolation of the separate communities.

Moreover, even in terms of small and micro business operations, the people have an inward focus. These enterprises are located mainly in the community area in which the owner lives. In fact, 87% (26) of the SMEs surveyed were located in the same community in which the owner lived. The owners of 2 of the remaining 4 SMEs lived in the neighbouring community while only 1 small enterprise owner, an elderly, well-educated, enterprising lady hailed from outside Inanda viz. from Kwamashu.

Furthermore, 94% (16) of all the retail activities served a very local community market. The remaining 1 (6%), a herbalist, was the only one to claim a wider range of influence. Such a situation is perhaps appropriate for spazas and fruit and vegetable stalls as they require very small thresholds. This, in turn, is corroborated by the fact that only 24% (5) of the retail activities claimed the market to be a problem while the figures for service and manufacturing activities is much higher at 57% (4) and 67% (4) respectively, probably due to the fact that they require higher threshold levels. Other than this there appears to be no significant relationship between the nature of the SME and the market range as, in the service category as well as in the manufacturing category, an equal number of

entrepreneurs claimed to serve either only the local community or the wider Inanda region. Interestingly, of the 30 SMEs surveyed, only one group of dressmakers who had formed a sewing club, sold their goods in the CBD.

This apparent inward focus of the various SMEs leads one to question how a person not residing in the neighbourhood would know that a business exists and is capable of providing a particular service. Also, even if the person happens to know through word of mouth that a business exists the fear of entering a local community area of which you are not a resident mitigates against the permeability of such areas (IDF,1995:228). It is not surprising then that only 30% (9) of the SMEs surveyed claimed competition to be a problem as the environment conducive to healthy competition between enterprises is certainly absent. Finally, in terms of spatial elements, the geography of Inanda makes distance a major constraining factor inhibiting business between the more distant areas and their communities.

Thus, while a great variety of embryonic economic activities are present within the households of Inanda, the spatial structuring of Inanda not only mitigates against the formation of adequate thresholds capable of supporting a thriving SME sector but also against these businesses escaping the constraints of a very limited market. Put another way, it is the isolated nature of the various local community areas that undermines the growth of the local SME sector and which severely limits the possibilities of providing a full range of services and economic activities that a united Inanda through combined thresholds can support eg. a shopping complex, a cinema etc.

(See Figure 5.3.).

### Income and Expenditure

In terms of the other factor that has a bearing on thresholds, viz. income and expenditure levels, it must be noted that structural unemployment in Inanda is believed to be somewhere between 30-50% (IDF,1995). Furthermore, of those who **are** employed, the income levels are low with the average per capita income in 1994 estimated to be R271 and average household income estimated to be R1148.60. In fact, 82,9% of the population earn an income in the range of R1 to R400. This can be attributed to the fact that in terms of the formal employment of Inanda residents, approximately one third are labourers,

followed by domestic and factory workers who account for 13% each (IDF, 1995). Given this low levels of income, it is not surprising that 17% (5) of the SMEs surveyed identified bad debts incurred as a serious problem that they had to face.

The average household monthly expenditure is R1266.06 and the largest expenditure item is food, for which the majority of the people spend up to R300 a month. This is followed by expenditure on energy consumption and transport, household goods and services (IDF, 1995). The fact that most expenditure is on such basic items leaves little opportunity for increased spending on items such as health, education, investments, savings, recreation and entertainment. What makes matters worse is that most of this money is spent in Durban. Not only do 68% of Inanda's population usually do their shopping in the Durban area, but over 90% of those employed work outside Inanda. More specifically, 40% of employment opportunities are found in Phoenix Industrial Park, the northern and central areas including Durban, Mount Edgecombe and Verulam together account for a further 40% of job opportunities, followed by Pinetown which attracts 10% of the labour force. Inanda in turn accounts only for 6% of employment opportunities (IDF, 1995). The fact then that such a large proportion of Inanda's population work outside the township reduces the number of consumers that remain in Inanda to purchase goods and services especially during the normal weekday hours.

Furthermore, 73% (22) of the SMEs surveyed purchased their goods or materials from places outside of Inanda. Of these 40% (12) bought their goods from Durban central while 33% (10) purchased it from the northern sector from places like Phoenix and Verulam.

**Table 5.7: Source of Goods**

SOURCE OF GOODS	NUMBER OF SMEs	PERCENTAGE
Central	12	40%
North	10	33%
Inanda	8	27%
<b>Total</b>	<b>30</b>	<b>100%</b>

This is corroborated by the IDF Report (1995) survey which states that 65% of all informal sellers sell goods which they have bought elsewhere while only 26% sell goods which are home produced.

These trends are compounded by the dire shortage of shopping facilities in Inanda. There are approximately 15-29 formal shops within the area (Cross et al,1992) and only 2 wholesalers. In 1985 there were 4 wholesale outlets but 2 have since been destroyed due to violence. The remaining shops are mainly spaza shops with a very limited range of goods at high prices.

These higher prices are due to a variety of factors including: a lack of competition; transport costs; as well as an inability to buy bulk which seriously disadvantages local small business against larger enterprises. As a result people opt to buy in the CBD.

All of these factors mean that Inanda, as is typical of a dormitory town, suffers from a lack of cash coming into the area because residents are forced to leave the area in order to access both work and shopping opportunities. Furthermore, the very limited disposable income of the people within Inanda together with the limited market size confined within the particular geographic community creates a major problem for an Inanda businessperson in terms of accessing the appropriate market profile capable of sustaining a viable business. In the end, the inadequate thresholds reduce the capacity for economic growth within Inanda.

It is not surprising then that 43% (13) of the SMEs surveyed identified an inadequate market as their problem. What is however surprising is that this proportion was not higher. This can be attributed to a number of reasons including a lack of an entrepreneurial ambition and vision. It can also be attributed to an unwillingness to expand out of the home community. This became evident from the statements of a female stallholder who expressed a great unwillingness to move to any market place outside her own community area. It is also corroborated by the high proportion of owners (80%) who would not like a better location and were quite satisfied with where they were.

## Road and Transport Network

A further factor which acts to reduce thresholds but which impedes SME development more directly by increasing travel times and costs, is an inadequate road and transport network. Firstly, it must be noted that Inanda is located outside the Coastal Plain which is the zone within which most development in the region is located. It is situated instead within the steeper and more rugged hinterland. Also, the deeply incised Umgeni River west of Inanda represents a significant barrier to east-west movement between Inanda and the Durban-Pietermaritzburg corridor. Movement can only be made over formal crossings of the river which are located **within** the Coastal Plain. This in turn increases travel times and costs.

More specifically, the MR93, Figtree Road, Delmeny Road form part of the regional access system which connects Inanda to the metropolitan system (see Figure 5.4.). Movement to existing employment nodes and other urban opportunity areas is undertaken primarily via the MR93 while the Inanda Road system links the residential areas of Newlands, Lindelani, KwaMashu and Ntuzuma. Owing to a lack of suitable alternative routes, these roads become highly congested during peak periods, thereby contributing to more tedious travel conditions.

Furthermore, movement **within** Inanda is severely constrained by landform and existing settlement patterns both of which have contributed to an inadequate road infrastructure and transport service (see Figure 5.5.). In fact, residents of a number of areas walk long distances to the main roads to catch either a bus or a taxi. These areas viz. Ngoqokazi, Inanda Mission, Tea Estate, Umzomusha, and Emapulazeni do not have a service that permeates the area either due to the remoteness of the area or to poor roads (see Figure 5.6.). All of this serves merely to make commuting lengthy and expensive.

Those areas that **do** have transport complain of a scarcity of buses during the day, late at night and on weekends and holidays. Therefore, in order to reach shopping and recreational areas, this lack of services is very inconvenient and expensive if taxis have to be used. This problem is clearly related to the role of Inanda as a dormitory town supplying labour to the industrial and commercial centres outside of it. As a result, and as mentioned before, traffic movement is primarily between the specific community area and work opportunities outside of Inanda and is concentrated in the early morning and late afternoon

(see Figure 5.7.). These features limit the mobility of people within the community who require a service outside of these peak hours.

A further problem is the fact that most of the roads in Inanda, even formally constructed tarred roads, were designed and constructed less with a concern for pedestrian use and more with a concern for rapid vehicular movement. Moreover, the absence of street lighting and speed control mechanisms makes it more difficult for SMEs to access a market. Thus, given this design of the road network, there are few opportunities for commercial activity to thrive.

However, the roads D403 and MR95 (see Figure 5.8.) do act somewhat as spines to groups of community areas by connecting the few educational, recreational and commercial (informal and formal) activities into an activity system which supports the surrounding communities. The MR95 also provides some connection to the Verulam area via Phoenix. This highlights the fact that the location of community infrastructure and commercial activity is strongly related to the main access routes. This is especially evident along the MR93 which is the primary movement and activity system. It performs the major vehicular link with the surrounding region and is a main vehicular and pedestrian spine within the area.

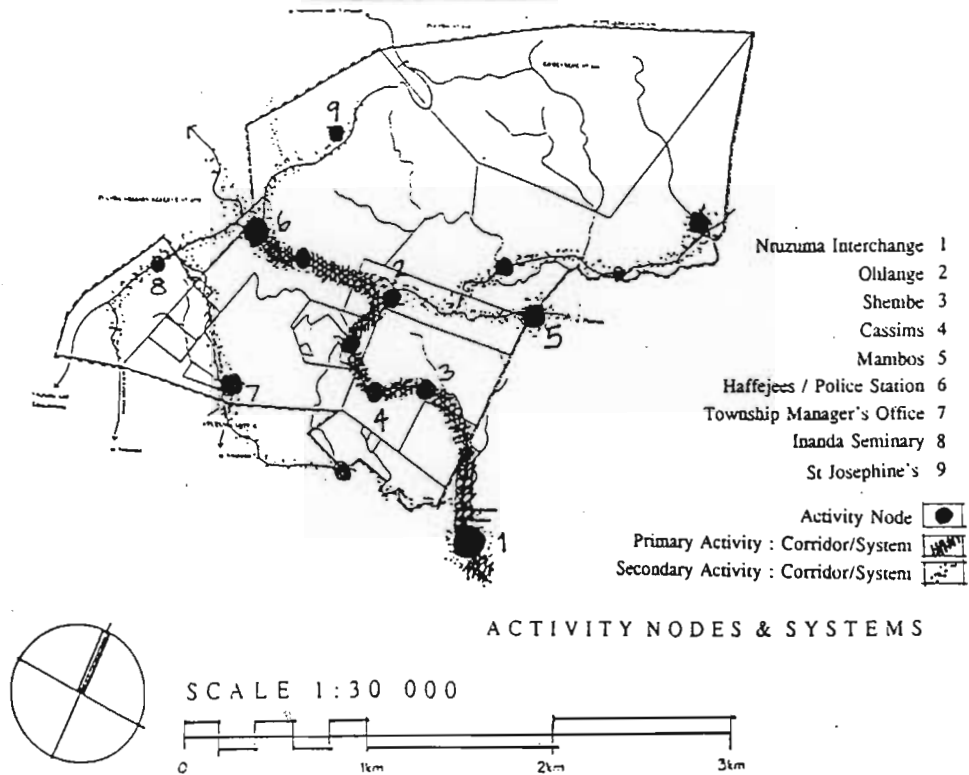


Figure 5.8. Activity Nodes and Systems

However, although each of the systems provides a measure of access for the different communities, cross-linkage between the systems is non-existent. For example, although the straightline distance between Newtown A and Amaothana is approximately 3 kms one has to travel via a 20 km long circuitous route through uninhabited land before arriving at one's destination! The situation is even worse if using public transport as one has to travel to Verulam first in order to get a bus! This is due mainly to topographic constraints, as well as to the fragmented pattern of settlement, which although dense in areas, is not strongly related to the transportation networks. The resulting impact therefore, is that there is little internal movement within and between community areas. Most movement and access routes are linked to gaining access to the major transport route that links Inanda to Durban. All of this serves but to diminish the possible thresholds for commercial activities.

It is not surprising then that 33% (10) of the SMEs surveyed identified an inadequate transport or road network as a problem. But for the fact that 83% (25) of the enterprises were located on the relatively busier main roads or just off it, this proportion would certainly have been higher. In fact, only 17% (5) were located along inaccessible dirt roads. This factor can also be a reason for the fact that only 20% (6) of the SMEs reported an unsuitable location as a problem. Furthermore, compared to 29% and 33% of the services and manufacturing sector activities respectively, only 12% of retailers reported an unsuitable location as a problem. thereby reaffirming the conclusion that spazas and stallholders can be supported by smaller thresholds located in the heart of the community areas.

### Violence and Crime

One final constraint that has the effect of significantly decreasing thresholds pertains to violence and crime. 37% (11) of the entrepreneurs interviewed identified such violence as a problem as it inhibited the smooth functioning of their business and as it drove people away. A further 7% (2) said that it was the biggest problem incurred on first starting their business. It must be admitted however, that these figures are definitely unrepresentative as the SMEs in the most conflict ridden communities of Inanda were not interviewed for purely cautious and self-preservatory reasons. It is therefore very likely that violence and crime affects a much larger proportion of SMEs in Inanda.

It must also be noted that business usually suffers from the **consequences** of violence - and not directly from it as is commonly believed. For example, a discotechque in Bambayi is no longer patronised owing to violence in the community. Furthermore, although the violence may just be an isolated incident, it still serves to drive people away.

Another common cause of complaint is that business people are scared to keep the belongings of their clients overnight due to the unacceptably high risk of theft. Some owners even have to sleep in their shops just to protect it. This is particularly true of the shoe repair business, panel beaters, mechanics etc. Even one group of dressmakers who had formed a sewing club and were running their enterprise from a community hall admitted that the primary reason they were located where they were, was due to the increased measure of security. At home their equipment and goods would most likely have been stolen. As such, violence and crime are identified as major inhibiting factors constraining business development within Inanda.



**Plate 5.3. A Sewing Club - Community Hall; Newtown A**

On examining the potential relationship between violence and gender, it was found that only 36% (4) of those who identified violence as a problem that affected their business

were women. This can be due to a variety of reasons including the higher proportion of women who work from home and serve only the local market made up of familiar people in the neighbourhood as well as the fact that there is a higher proportion of females in retail activities such as spaza shops and fruit and vegetable stalls, selling essential goods that have to be purchased regardless of the circumstances. However, it must also be recognised that not only do these women have to expend time and money in going to the city where they buy their goods, but they also have to endure a consuming fear. In winter the constraints are even greater as it gets dark quickly.

This is especially pertinent in the light of official 1993 figures which indicate that there were 410 murders recorded, 53 culpable homicides, 395 assaults with intent to do grievous bodily harm, 336 common assaults and 473 cases of house breaking in Inanda. Even in a situation where most rapes are not reported, 172 rapes were reported (IDF,1995).

To exacerbate the situation is a policing facility that is grossly inadequate for the size of the area and population. There is only one fully staffed station in a building that is about to be condemned. The remaining two facilities are either not in use or understaffed and have also been situated in a haphazard and ad hoc fashion. Furthermore, not only are there no court facilities but prisoner holding facilities are abhorrent. In an attempt to address this situation the community has been involved in police forums in some of the the areas e.g. in Amaoti there are approximately 50 reserves who are linked to the local substation which only has 10 full time men.

In the end, one cannot ignore the relationship between the lack of safety and its ramifications on the economy as well as on society.

### **5.3.2. Unavailability of Suitable Land and Premises**

A further constraint to SME development in Inanda pertains to land. The landform of the area is deeply incised and approximately one third of the area is steeper than 1 in 3 (see Figure 5.9.). This, needless to say, has engineering and cost implications for: overall movement through and in the area; the provision of service infrastructure; as well as for many development, including economic development, projects due to the consequent need to build expensive platforms. In fact, a great number of sites within Inanda are either not

accessible by vehicle or are simply too small to enable some business activities to occur. This has a major bearing on the type of economic activities that the people can freely pursue. As a result, the non-residential activities that do occur are generally found along main roads and along ridge lines where access is good and land generally flatter.

Furthermore, the land in Inanda is characterised by varied forms of tenure and owner categories. It is estimated that 33% of the land is in private ownership, 30% is owned by the state and 8% is owned by the church. No information is available for the remaining 29% (IDF,1995). Also, the legislation pertaining to the administration of the land is complex thereby serving to slow if not impede development. Finally, in terms of availability there is a total of 1881,29ha of vacant land in the area (IDF,1995) (see Figure 5.10.). For economic development purposes much of this land is unsuitable.

In the end the nature of this interrelationship between land ownership, land administration, land availability, existing land settlement patterns and the rugged landforms pose significant constraints for economic physical development (IDF,1995). In other words, the different forms of tenure, owner categories as well as the spatial configuration of parcels of land under different ownership is a constraint to the assembly of suitably sized and located parcels of land which can be used for economic development.

Given these constraints, it is not surprising that 27% (8) of the SMEs surveyed conducted their business from home while a further 7% (2) conducted theirs from next to or quite close to their home.

**Table 5.8: Status from Home**

STATUS FROM HOME	NUMBER OF SMEs	PERCENTAGE
In Home	8	27%
Next to Home	2	7%
Away from Home	20	66%
<b>Total</b>	<b>30</b>	<b>100%</b>

One particular blockmaker categorically stated that it was an inability to access a site that was his major starting problem. He therefore had to contend with working from his backyard in a remote part of the even remoter Amaothana community area.



**Plate 5.4. A blockmaker in Amaothana**

In the same vein, on being questioned as to the reasons for their particular locational choice, 20% (6) of the respondents stated a preference for being at home as they could not afford locating elsewhere. Furthermore, of those who were using premises **away** from their home, 7% (2) had chosen such premises due to the fact that their home was inadequate in terms of location, space or basic infrastructure while 17% (5) reported the fact that the premises was the only one available - all of which points to a dire shortage of suitable premises from which to conduct business activities.

This is further corroborated by the fact that 67% (20) of the entrepreneurs interviewed expressed being dissatisfied with the premises from which they currently ran their business. In this regard, 47% (14) of the businesses were run from a formal building/room, 20% (6) were run from an informal building/room, 13% (4) were makeshift stalls, 7% (2) were conducted from backyards, while the remaining 4 were either run from the roadside on vacant land or from a container. As mentioned before this lack of a suitable business venue often leads to business people using their houses for business undertakings.

**Table 5.9: Nature of Business Premises**

PREMISES	NUMBER OF SMEs	PERCENTAGE
Formal Building/Room	14	47%
Informal Building/Room	6	20%
Stall	4	13%
Backyard	2	7%
Other	4	13%
<b>Total</b>	<b>30</b>	<b>100%</b>

### **5.3.3. Lack of Basic Infrastructure**

However, regardless of the premises used, 47% (14) of the SMEs did not have electricity, 93% (28) did not have telephones and 73% (22) did not have water. They had to use communal standpipes instead. Furthermore, those that did have electricity and water complained of the supply being very unreliable and irregular.

These figures are to be expected because with the exception of formal areas such as parts of Newtown and Glebe which enjoy higher service levels, Inanda is characterised by low levels of infrastructural development both in terms of basic as well as social infrastructure.

**Water:** Although clean water is available, it is poorly distributed in many areas (see Figure 5.11.).

**Electricity:** A large number of areas are under 10% reticulated and 5 areas have no electricity at all (IDF, 1995) (see Figure 5.12.). As a result wood, paraffin and gas are still

the most important sources of energy for the majority of residents. Furthermore, there are signs that the future rate of electricity provision could be affected as the local private contractors that are used by the Durban City Council for implementational purposes, appear to be limited in capacity (IDF, 1995).

**Post and telecommunications:** The Inanda post office is the only one in the area and it is situated on the MR93. Furthermore, only two telephone exchanges exist each with the ability to serve merely twenty thousand housing units.

It is therefore obvious that very significant sums will have to be mobilised if infrastructure and services are to be brought up to acceptable levels. The problem however, is that service charges are not based on cost recovery and massive subsidies are occurring to keep services operating. In other words, the charges levied are not at all congruent with the services consumed even though the service levels are very low. Furthermore, the national trend of rent and service boycotts is also prevalent in Inanda with revenue falling in recent months from 35% to between 7% and 8% (IDF, 1995). All of this makes the situation in Inanda in terms of infrastructure and service provision very unsustainable, but moresoever it serves to greatly impede the development of SME activity.

This is corroborated by 43% (13) of entrepreneurs surveyed who acknowledged that a lack of basic infrastructure was a serious problem for them. Those that did complain were primarily engaged in service and manufacturing activities which generally requires greater levels of electricity, water and telephone provision than retail activities such as spazas and fruit and vegetable stalls. Instead, the greatest complaint of the retailers was inadequate shelter that did not protect them and their goods from the rain and sun.

#### **5.3.4. Inadequate Business and Technical Skills**

A further constraint identified by the entrepreneurs themselves was inadequate business and technical skills. 83% (25) identified a lack of business skills as the problem, claiming that they were losing a lot owing to their unfamiliarity with costing especially of labour and transport costs and 47 % (7) of those engaged in activities that required technical skills, admitted that their skills levels were inadequate.

In this regard, it is worth noting the correlation between education and turnover. For example, average turnover in Umlazi's black microenterprises is substantially above average as is the level of educational achievement: 55% of the microentrepreneurs there have attained Std 7 and above. Furthermore, because Umlazi is favoured by above average levels of infrastructure and market access, it is an attractive location for entrepreneurs with above average levels of education. Soweto and Boksburg also have many highly educated microenterpreneurs ie. about 43% have attained Std 7 and above. In contrast, Durban and Inanda have a preponderance of street traders with low turnover and low levels of education (Riley, 1993:23).

In Inanda the results of the survey revealed an average level of schooling achieved to be Standard 5 with only 33% (13) of the owners having received prior training.

Furthermore, according to the IDF Report (1995) 39.6% of the population of Inanda have received a primary school education, 10.5% have completed matric and 13.7% have had no formal education. Only 6% have a post matric qualification.

With this poor level of education then, it is almost inevitable that SMEs would be managed in a less than efficient manner. To corroborate this, a significant feature that emerged from the questionnaires is the fact that not one person could reveal immediately their monthly profits. Perhaps much of this was due to fear but it is believed that it was primarily owing to poor financial management, even on the part of those who had received a higher secondary education. What is also significant is that many could not distinguish between income and profits as monies generated from the business were often diverted to other household uses.

Furthermore, the relationship between previous work experience and current SME type appears to be quite significant. All of those who were previously domestic workers were currently engaged in the retail sector owning spaza shops and fruit and vegetable stalls while 67% (6) of those who were previously blue collar workers such as labourers were also engaged in such retail activity perhaps indicating the low levels of skills required to enter this sector. Similarly, only 4 (24%) of those engaged in the retail activities admitted to having had some form of training. On the other hand, all of those who were previously employed as artisans or technicians carried on the similar if not the same work in their

current choice of SME activity inevitably engaging in service or manufacturing activities. Moreover, 69% (9) of those engaged in such service or manufacturing activities had had previous training. These results serve to underline the important role played by training and skills acquired in determining the choice of SME activity undertaken.

Finally, in terms of creche facilities only 1 (7%) woman identified unaffordable crèche facilities as a problem for her resulting in her having to leave her children unattended at home while she sold pots from the roadside. Needless to say, this factor limited her mobility in terms of choosing a suitable business location. The fact that this is such a low proportion of the total number of women interviewed can be attributed to the average age of all the women being 41. As a result, their children were most likely all of schoolgoing age.

All of these features can be regarded as endemic to a township where the provision of education facilities for the size of the population is most inadequate. In fact, there is a total of only 24 schools (excluding a number of unofficial ones) and 25 creches in Inanda (IDF, 1995). This results in many students having to seek education in surrounding areas as well as throughout the Durban area. To do this the transport costs as well as the time needed to travel is detrimental to the families.

In terms of training, only a few of the communities have skills training projects. These include: dressmaking and adult education in Newtown A; carpentry, upholstery and welding classes in Newtown B ext; panel beating and painting in Tea Estate; block making and community self-help projects in Besters; and business skills in Ngoqokazi. Other than this, a few women's clubs that teach knitting and sewing (but which lack machines) exist; together with one women's recycling group; as well as the Training Resources for Early Education (TREE) which offers courses for crèche teachers and parents (IDF, 1995).

However, while these training courses do exist, when the training is completed a trainee enters the real world without the necessary equipment to effectively continue and develop. Furthermore, the capital investment required for material purchase is often beyond reach, forcing the new trainee to make inferior products and limiting market potential. Also, while a trainee might acquire technical skills these skills are generally geared towards the needs of the formal economy. Given the depressed nature of the economy over the past decade

many such trainees have been unable to access formal sector employment. Seldom are the trainees taught how to set up and manage a small or micro enterprises by themselves.

### **5.3.5. Lack of Access to Credit Facilities**

A further significant constraint identified is a lack of access to credit facilities. 77% (23) of the entrepreneurs interviewed claimed this to be a serious problem especially in the light of the high cost of goods and equipment which was a problem for 63% (19) of the entrepreneurs especially the dressmakers. As a result, 67% (20) had to use their own savings for initial capital and 13% (4) relied on family help. What is significant here is the relatively small proportion (13%) that claimed loan or credit facilities or even NGO support to have been their source of initial capital.

While various small business credit institutions such as the KFC or SBDC do exist, they nearly always require a range of conditions that are almost impossible for local people to meet. These conditions fall into two categories namely, collateral and risk and business plans. In terms of collateral, due to the poor conditions of their homes, SME entrepreneurs are often unable to mortgage them for loans. The high risks perceived by financial institutions is brought on by the violence in the townships as well as by a low overall performance. Finally, a lack of suitable education and training precludes the business plan condition from being fulfilled.

### **5.3.6. Other Constraints**

Further problems identified pertained to access to information, tender requirements and motivation. There is a lack of access to information and research relating to business development and entrepreneurial opportunities. For example, all of the women want to sew as they believe it to be the only opportunity available to them. This is a serious constraint to the growth of the SME sector in Inanda.

In terms of tender requirements, these were identified to be most restrictive. One particular welder asserted that he was unable to obtain insurance due to the high risk element in the area brought upon by the sporadic incidences of violence. As such he did not meet the tender requirements. Moreover, Mr. Philip Sithole (interview, 1995) of the IBF pinpointed the

restrictive tender requirements utilised by the government as a key factor in preventing local business people from engaging in for example, refuse removal and electricity installation. As a result, and with regard to the latter, it is noted that while a small proportion of those subcontracted to install the electricity network are black, the majority are Afrikaners who control the operation.

While still on the subject of restrictive government actions a very significant feature to have emerged from the survey is the fact that none of the 30 entrepreneurs interviewed claimed regulations to have been a problem. This lack of regulatory enforcement in Inanda is probably due to the informal nature of the settlement as well as to a more accommodating and progressive attitude among governing bodies.

Finally, the last constraint to the successful development of SMEs in Inanda relates to a lack of initiative and innovation on the part of its residents. The excuse often given for this is that the people of Inanda are not really business people but they are just out to survive and make a living. This inhibits both existing and potential entrepreneurs from striving for greater heights and being more imaginative in terms of the range of possible opportunities for economic prosperity (IDF, 1995:73)

This was aptly illustrated by a female spaza shop owner who admitted to having had a great fear of starting her own business venture. Similarly, Mrs. Mbanda of the National Council for Child and Family Welfare and, who is the coordinator of a training programme for women dressmakers, claimed that those trained do not have the confidence to then go out on their own and start an enterprise.

In the end, for all of these reasons and due to the aforementioned constraints that have been identified, aspirant entrepreneurs have been forced to seek economic survival through 'base-line' economic activities.

Before summarising, cognisance needs to be taken of one final feature of Inanda's economy. This pertains to the socioeconomic differences between the sexes which must be understood if appropriate policy interventions are to be formulated.

#### 5.4. GENDER DIFFERENCES

Of the 30 entrepreneurs surveyed, 47% (14) were female and 53% (16) were male. None of the women were engaged in a service activity. 71% (10) were engaged either in retail activities such as spazas, or fruit and vegetable stalls while the rest were engaged in manufacturing, particularly dressmaking. Men on the other hand were engaged equally in retail 7 (44%) or service (44%) activities such as panelbeating, upholstering, welding and shoe repairs. The remaining 2 (12%) were engaged in a manufacturing activity - this being blockmaking.

Interestingly, yet not surprisingly, the Cross et al study (1992) found that women participate more in informal sector activity than men - at an approximate ratio of 3:2. In fact, the study also found that those engaged in the lowest profitability endeavours viz. hawking, spaza shops and shebeens, are predominantly women, while men predominate in informal construction activities and local informal repair enterprises.

There is also a marked gender inequality in terms of income with men earning an average of R480 pm and women earning R340 pm. This fact does not bode well for the lot of women as it is estimated that 29% of all households in Inanda is female-headed. Perhaps this is also one of the reasons for the larger proportion of women, 43% (6) who conducted their businesses either from within or next to their home, while only 25% (4) of the men conducted their business from such a location. Clearly, domestic responsibilities and limited mobility is a major consideration for women when choosing a suitable business location in the township, which generally is in their home, or in the areas where they live and is primarily targeted at servicing the local public.

Finally, while only 13% (2) of the men sampled had no previous work experience, 29% (4) of the women had not had such experience. This can partially be attributed to the fact that some women are bound to the house as their husbands do not want them to work or even to be trained (Mbanda, interview, 1995).

It can therefore be seen that women in Inanda face an added set of constraints - the uniqueness of which has to be considered in policy formulation.

## 5.5. SUMMARY

Inanda as an African township on the periphery of the GDMA exhibits a variety of features that serve to impede the successful development of SME activity in the area. These include:

- An unequal relationship with the greater metropolitan region with Inanda being essentially a dormitory area with a limited variation in land use and depending on the areas outside of it.
- A fragmented Inanda community due to inward-focused local communities with weak economic and social links between them, thereby severely undermining the thresholds required for viable LED strategies.
- A physical environment characterised by either low or completely absent levels of servicing or infrastructural provision.
- Large scale unemployment.
- Low education and skill-base.
- Low levels of accessibility and mobility.
- Problems associated with unemployment and poverty including crime and violence resulting in an environment of fear, especially for women.
- Massive land shortage and pressure on land.
- Unsustainability resulting from low incomes and a low economic base (IDF, 1995).

These features have given rise to a particular group of problems experienced by small and microentrepreneurs in Inanda. These problems and their pervasiveness, as identified in the survey conducted, are summarised in the following table:

**Table 5.10: Summary of Constraints Identified**

<b>CONSTRAINT IDENTIFIED</b>	<b>NUMBER OF SMEs</b>	<b>PERCENTAGE</b>
<b>Insufficient Market</b>	13	43%
<b>Competition</b>	9	30%
<b>Lack of Access to Credit</b>	23	77%
<b>Unsuitable Premises</b>	20	67%
<b>Unsuitable Location</b>	6	20%
<b>Lack of Basic Infrastructure</b>	13	43%
<b>Inadequate Transport/Road Facilities</b>	10	33%
<b>Inadequate Business Skills</b>	25	83%
<b>Inadequate Technical Skills</b>	7	23%
<b>Regulations</b>	0	0%
<b>Violence</b>	11	37%
<b>Cost of Goods/Equipment</b>	19	63%
<b>Insufficient Equipment/Stock</b>	13	43%
<b>Bad Debts</b>	5	17%
<b>Other (lack of creche facilities; tender requirements etc)</b>	6	20%

Put another way all of this means that the low levels of income and lack of access to finance; infrastructure; education; poor skills base etc. all place restrictions on the ability of individuals to enter into business. This is compounded by the pattern whereby people spend their incomes outside Inanda where choice is wider and costs lower.

These constraints are real in nature and unless they are effectively turned around and transformed little progress will be made in spreading the dynamic potential that can be unleashed through the exploitation of economic opportunities in Inanda. Furthermore, owing to the type and extent of constraints that exist, the SME sector is probably the only economic sector that is relevant and feasible within such a township context.

## CHAPTER 6

### KEY AREAS OF SUPPORT

Given the usefulness of promoting SMEs as an LED strategy for Inanda and given the nature of the constraints faced by **existing** SMEs in the area the need for a coherent policy aimed at the facilitation and support of such enterprises, becomes obvious. This policy must be aimed at creating an environment conducive to thriving and interacting small and micro enterprises as opposed to a fragmented promotion of individual entrepreneurs. The aim of this chapter then is not only to examine various possible means of creating such an environment but also to determine their feasibility in Inanda. The strategies and options presented here are again based on the results of the interviews conducted as well as the 30 questionnaires administered.

At the outset it must be remembered that although the endeavours may appear as isolated they must be conceived in terms of an overall development plan which is situated within a metropolitan context and which combines spatial with economic development thinking. Furthermore this plan must be **proactive**. In the past there has been a tendency to take advantage of opportunities that arise and let those drive the process and create the momentum. This is not really proactive. To be so, one has to **create** the opportunities. The LED initiatives outlined in this chapter are means of doing so and they centre on fostering an entrepreneurial culture, creating a facilitative physical environment, providing thresholds, increasing efficiency and providing support services. The role-players involved in this process are also made explicit.

#### 6.1. FOSTERING AN ENTREPRENEURIAL CULTURE AND POSITIVE ATTITUDES

Any LED initiative within a township has to firstly tackle the prevailing negative business and community attitudes. More specifically, it is essential to change the attitudes of unemployed persons from one of helplessness and despair and of demanding employment from formal business in developed areas or from the government, to one of self sufficiency and of realising that they can find the solutions to their problems within their own communities. In order to do this, township residents have to be motivated and encouraged

so that they develop a positive attitude towards change and a willingness to experiment with solutions to issues and to convert obstacles into opportunities.

Ways in which this can be done include providing the basic infrastructure required by the community as this is a visible and de facto sign of development, and by sponsoring local business appreciation awards and events as these can contribute to the positive growth of the local business base by emphasising optimism and a sense of achievement. A better, more significant way however, is through appropriate education and skills development. These will be discussed later in the chapter.

## **6.2. PROVIDING A FACILITATIVE PHYSICAL ENVIRONMENT**

The physical environment is an important factor in the success of any business endeavour but it is more so for SMEs who, owing to their limited resources, cannot provide for themselves the appropriate environment. Instead, the provision of basic infrastructure and the availability of suitable land becomes crucial for their development especially within a township context.

### **6.2.1. Basic Infrastructure**

Macroeconomic policy instruments such as interest rates have often been used to send signals to the market, without appreciating that small manufacturers often cannot take full advantage of such incentives, if for example, infrastructure such as water and electricity is not available for production purposes. A 1983 study conducted in Lagos estimated that production costs for goods and services are 30% higher as a result of industry being forced to provide its own services (Cohen,1990:52). Therefore, the development of basic infrastructure including water supplies, roads and electrification is crucial for economic development and will go a long way to improving productivity. In fact, infrastructural provision is critical for SME growth.

The infrastructural programme must however, ensure an integrated approach to its provision. In other words, it must be provided or upgraded in a manner that both meets basic needs **and** enhances new and effective economic activity. In this regard, certain types of infrastructure are especially important:

**Roads and Paving.** Interviews with business owners in Cote d'Ivoire, Haiti, Thailand and Indonesia single out road building and paving as the most important factor in promoting informal economic activity. This is because commercial and industrial activities tend to cluster around paved roads (Peterson, 1991:54) and because vehicular access during the rainy season can be seen as crucial to business success. Inanda is no exception to these trends as is evidenced by the fact that most (83%) of the SMEs surveyed had concentrated along the main road or just off it on tarred roads. In a place like Inanda what is required is an improvement in the internal main road system so as to upgrade penetration into individual community areas and so as to improve cross-access capacities of the existing road system. These would have the effect of increasing mobility and thereby thresholds. What is also required however, is an improvement in linkage and access to the metropolitan region as well as an increase in the capacity of the existing regional access system - all of which would be to reduce travel times and expenses incurred by SMEs either when accessing the markets or when purchasing goods and services.

**Electricity.** Casual observation in any city in a developing country will reveal that almost all small-scale production uses some form of electric motors yet the importance of electricity to small-scale enterprises is often overlooked. Electrically powered tools and machinery are by far the most versatile, reasonably priced and efficient technology available but few urban strategies have focused on electricity supply as a key element in business. A study conducted by Manning (1993:6) found that many dressmakers reported substantial improvements to their businesses once they left their homes which lacked electricity and occupied rooms that **had**. Similarly, in Inanda, it was found that many of the women dressmakers who were located in either a community hall or church had done so because of the availability of electricity.

**Telephones.** These are often viewed as a luxury e.g. only 14% (4) of the respondents in Inanda said that they would like such a facility. However, telephones can be a major factor in promoting economic growth. For example, if it is to be encouraged that small enterprises be subcontracted to larger enterprises, they would typically operate on a "just-in-time" basis - for this efficient communication is essential.

In sum, infrastructure needs to be planned and provided with an eye to supporting not only residential growth and major industrial firms but also small-scale business development.

Moreover, special attention also needs to be paid to the planning and infrastructure needs of women as an absence of suitably planned basic infrastructure makes domestic work more difficult and thereby reduces women's participation in SME activities.

However, it must be remembered that in order to achieve sustainability of economic development projects, basic infrastructure and services should be provided on a cost recovery basis. Parallel to this one has to create a culture of payment for services by ensuring that the infrastructure and services, as well as the processes of providing them, are worth paying for. This in turn can be achieved by premising the provision of services on the creation of jobs and the development of SMEs, both of which would have the added benefit of putting money into the pockets of the people and in so doing increasing thresholds. For example in Bandung, Indonesia, the city's formal waste management system was partially privatised to local informal garbage scavengers. In Seoul, a major portion of waste management is conducted by 85 small private contractors. And in Karachi, self-help household sanitation schemes cost one quarter of the price of municipally provided services.

In the townships, one can use community service providers in maintenance areas such as waste management, street sweeping, maintenance of parks and facilities, roads, streets, water and waste water systems. This can be done by using service contracts, with local authority support on training, supervision, inspection and record keeping. It can also be managed by private sector organisations providing the technical, managerial and organisational support (Harrison, Todes and Watson, 1995:16).

Therefore, if good quality control is maintained, such provision can lead to a more effective, efficient and financially-viable delivery of services. **And** it encourages entrepreneurship and innovative local schemes. However, it must also be noted that such privatisation has generally been more successful in developed as opposed to developing countries where it is hampered by the lack of capital markets and the limited availability of credit facilities for the SME sector (Urban Foundation, 1995:7). For it to succeed then, technical, managerial and financial assistance must be readily available - these will be discussed later in the chapter.

### 6.2.2. Land

One of the most critical issues undermining the future economic development of Inanda and perhaps of many other townships is that of land availability. What is needed therefore is a supportive land market and regulatory policies that enable land to be released especially along the main routes for small businesses. Furthermore, the issue of land ownership in particular as it relates to land availability, must be tackled decisively if development is to occur. Before all of this can be done however, there needs to be a land audit indicating the following: quantity; ownership; potential land claims; land rights; restrictive conditions of establishment and physical suitability of land for economic development purposes.

At the same time one cannot ignore the role of appropriate land use policies in facilitating SME growth. What is required is the promotion of a higher level of land use mix in order to allow sustained levels of customer support and to reduce time and distance costs for business inputs and outputs. Many international studies in different parts of the world have shown that the informal business sector works most effectively when business and retail uses are mixed together (Haiti - Fass, 1988; Latin America - Strassman, 1987; India - Benjamin, 1991; and Cote d'Ivoire - Serageldin, 1990 in Peterson, 1991:53). A shop owner will live above his business, so that he can provide security for it and save on total expenses. At a lower level of income, an owner will devote one room of his house to retail sales or services such as haircutting.

Although restrictive land use regulations have not been an inhibiting factor in Inanda, one should go one step further and design subdivision regulations with an eye to commercial and industrial use, not just residential use. The need for this became clear as a number of the entrepreneurs surveyed expressed dissatisfaction with their homes owing to inadequate space for them to carry out their businesses. Given the dynamic nature of the development process then it is critical to allow flexibility for different land use choices as market demand develops. It is also especially important that plot sizes, roads and sites for future infrastructure be laid out so that they can accommodate more intensive commercial and industrial activity in the future. Plot sizes that allow modular subdivision or modular recombination are extremely useful in encouraging business growth (Peterson, 1991:54).

A good example of this comes from New Delhi, India.

**Box 6.1: The Case of New Delhi, India - An Informal Sector Success Story**

Three factors triggered growth in the agricultural village of Viswas Nagar:

- the construction of a bridge connecting the village to markets in the rest of Delhi;
- an influx of Punjabis with entrepreneurial skills displaced from their homes due to partition with Pakistan; and
- the nearby establishment of a government industry in copper ingots.

At each stage of the development of the village, local land use practices greatly facilitated the development of an efficient production centre:

- Even though the area developed as an unauthorised colony public authorities did not crack down on land use violations or lack of formal titles.
- Government did not try to impose standard zoning and plots were laid out by the occupants in 20 foot modules that could be easily subdivided or recombined to meet different sized demands for space as the market evolved.
- Due to political pressure, paved roads and streetlighting, important for access and safety, were provided at an early stage. This also served to provide a de facto recognition of development.
- Factories were built into residences. One of the first factories for the drawing of copper wire was started in the front room of a house and then extended to occupy most of the lower floor.
- The installation of a 240 volt electricity supply made possible the expansion of factories and the establishment of heavier industrial processes.
- Property dealers and "chit funds" developed as property values rose. Much of the cash that was reinvested in business expansion and equipment was derived from the profits of property transactions. Capital gains were realised by subdividing properties and selling off one part or by owners who invested in real estate on the site.
- The village became a destination for domestic migrants who were both ambitious and entrepreneurial - village school teachers and others migrated to become owners of new home-based factories.
- Secondary activities such as the production and repair of cycle rickshaws used to transport products, flourished.
- Buildings were constantly added onto or increased in height in response to market demand. Lots were combined to make room for bigger factories or split up for sale in order to generate cash for investment. The modular nature of the lots and buildings were critical to this process.

Source: (Benjamin, 1991; Doebele, 1989 in Peterson et al, 1991:56).

However, it must be remembered that in the case of Inanda, while designing the plot sizes so as to include economic activities is certainly useful, its efficacy is reduced due to the fact that people do not readily enter other community areas other than their own. This thereby decreases the potential market that one can access. Consequently, and as the local community market is very limited owing to affordability constraints, more attention must be paid to accessing the more varied markets that fall outside of the local community area. This is the subject of the following section.

### **6.3. PROVIDING THRESHOLDS TO SUPPORT SME ACTIVITY**

As one of the major constraints identified in Inanda is inadequate thresholds to support even SME activity, a large proportion of supportive efforts needs to be directed at providing these thresholds. This can be done by: business linkages; encouraging people to buy locally; decentralised wholesaling; activity spines and nodes; business hives; market places and providing a safe environment.

#### **6.3.1. Business Linkages**

One method of improving the access of small enterprises to state procurement and big business purchases has already been mentioned - this being the provision of basic infrastructure and services. However, there are many other opportunities for SMEs to be linked to large enterprises and thereby increase their markets. This was recognised by the entrepreneurs surveyed in Inanda as **all** of those who could be linked to the state or big business requested a desire to do so.

Not only will such a link up increase thresholds but it is also an effective way to acquire experience and skills, enter new markets, structure additional financing and meet market competition. This is because large and small firms can cooperate within and between themselves by: sharing knowledge about markets and industrial processes; aiding, investing in and upgrading subcontractors; and sharing market opportunities where firms have an excess of orders. For example, business linkages can enable black transport operations to be involved in the freight subsector thus ensuring that they have a broader scope for expansion and are not limited to transporting black passengers or goods within the township (Riley, 1995:45).

Owing to these advantages it is imperative that all levels of the democratic government ensure that their procurement policies support small scale enterprises. Furthermore, government must also actively encourage subcontracting between SMEs and large manufacturers. A successful linkage programme would also include NGOs intensifying networking between their clients and big business or government. This can be done by mechanisms such as business opportunity centres, business hives (see section 6.3.5), small business directories as well as a national database which makes information available on the type of products SMEs can produce, the quality of the product, the cost etc.

In the USA, local and intermediary organisations pressure industries in an area as well as the government to engage in procurement set-asides so that for example, in order to obtain a municipal contract a private contractor might be obliged to source 20% of the value of the contract from minority owned business (Tomlinson, 1994:162). While such an arrangement is certainly useful in increasing the access of SMEs to the market, its implementation may be problematic in South Africa due to a variety of reasons (Manning, 1993:26):

- There are objective difficulties for large manufacturers and retailers in multi-sourcing. While some economies are characterised by a high degree of subcontracting between small and large firms (such as Japan), this practice calls for a high level of organisational sophistication in the large firms, as well as a culture of co-operation between large and small firms, both of which are seriously lacking in South Africa.
- The highly concentrated structure of production and distribution companies in this country serves to exclude small firms, since the latter are incapable of producing in the volume required by these large firms.
- One of the consequences of apartheid has been to retard the development of small Black businesses (and manufacturers in particular). They tend to have underdeveloped technical as well as business skills, reinforcing the reluctance of large firms to deal with them as, for private capital, subcontracting depends on quality, manageability, and whether it is cheaper or not to outsource.
- Several sources in businesses refer to widespread corruption within industry, whereby contracts are won by payment of substantial bribes to buyers and other middle-men. If this is accurate, then this is likely to be a strong factor deterring large companies from

granting subcontracts to small firms, who may be unable to pay the 'going price' in bribes.

Using the garment industry as a particular example, manufacturers identified three factors inhibiting them from embarking on subcontracting out to micro-enterprises. The first is the inability of these enterprises to perform cutting functions - while they may be quite capable of efficiently making up a garments, the small units they occupied did not allow them space to cut. The second constraint was related to the scale of production. Most manufacturers gave out contracts to enterprises with more than 20 workers, as they required a higher production capacity due to the quantities ordered. A third concern centred on the potentially poor quality of the goods produced by home-based or micro-enterprises (Manning,1993:12). This example alone is enough to illustrate the extent to which SMEs are disadvantaged.

However, it is imperative that they be given an opportunity to break out of the vicious cycle that constrains them. One of the ways in which one can address this situation, as well as achieve the quality necessary for procurement arrangements to be voluntary and mutually beneficial, would be to encourage larger enterprises to provide technical advice and training to smaller black firms. This is what has occurred in the USA where large enterprises, upon developing relationships with small enterprises, help them to achieve the standards of quality, price competitiveness and timeous delivery that they require.

Nevertheless, potential still exists for SMEs to be integrated into a number of industries, especially those segments of the clothing industry in which flexibility in style, production and delivery is essential. In this regard the 'cottage industry', curtain and duvet making, amongst others, may present the greatest opportunities for subcontracting between larger manufacturers and retailers and microenterprises (Manning,1993:13). Outlets such as Biggie Best and Mary-Lou (the former a National chain, the latter Durban based and specialising in 'country decor') already source many of their products from informal and small-scale enterprises because the nature of the market served by these businesses lends itself to flexible manufacturing practices - customised goods, small batches - which standardised production would not be able to satisfy (Manning,1993:14). Further opportunities such as these should be investigated and exploited through successful networking and linking.

In Inanda in particular there are a lot of opportunities that can be opened up once a thorough inventory of the skills available in the township is compiled so as to see what one can put together. At first glance however, the Phoenix Industrial Park appears to be a potentially lucrative business opportunity as the manufacturing of uniforms and small components such as screws, as well as the cleaning, gardening, catering and security functions of the industries located there, can be subcontracted out to SMEs in Inanda. For example, there is one security company in Inanda but it has no work. This is not only sad but it is ironic as the park is complaining of high levels of crime. The problem is that the communities are not aware of these opportunities and that the industrialists are not prepared to work with the local people. What is required then is a dynamic and determined local authority that can create not only an awareness of these opportunities among SMEs but also the enthusiasm for large companies to subcontract and foster linkages.

In the short run however, the institution that **can** outsource is the government and if it, on its own, outsources everything to SMEs a significant contribution will be made to the economic development of townships. In other words, government needs to change its tender requirements and use all its contracts to promote some employment and enterprise opportunity. In the medium and longer term on the other hand, and once the foundation has been set by the government, one can look to a political agreement between government departments, SMEs and big capital that ensures the outsourcing of certain items. Until then it has to be acknowledged that private capital, in their pursuit of efficiency and profit maximisation, will only be a small component of such relationships.

### **6.3.2. 'Buying Local'**

While business linkages can work to increase the market, another perhaps more direct way to do so is to encourage people to 'buy local'. This is because residents usually buy goods and services which are produced, distributed and sold outside the township thereby perpetuating the cycle of small markets leading to little economic activity. "Buy local, sell metropolitan" campaigns aim to increase the purchase of local goods and services by local and area-wide businesses, government agencies and residents. Before this can be done however, local retailers and manufacturers, with the help of civic and other organisations, must be encouraged to offer locally what was previously only available externally.

Kenyon (1990) provides a useful list of possible actions that can be undertaken in order to encourage local purchasing. These include:

- Surveying residents to identify what is needed to keep them in the community.
- Drawing attention to the goods available locally and publicising them.
- Exploring ways of making the local shopping area more attractive through for example: signage, playground facilities, public toilets with murals, parking and crime prevention.
- Sponsoring festivals on public holidays as they increase allegiance to local retailers.
- Guiding local manufacturers by identifying those products which can be manufactured locally.
- Expanding the informal network of services, repairs and retailing e.g. child care, car repair and the sale of second-hand clothes.
- Undertaking employee training programmes to improve the quality of service and to make consumer service more efficient and friendly.
- Marketing of locally produced goods and services through business directories and special sales.

While all of these ideas may certainly provide the thresholds in Inanda, it must be remembered that residents of low income neighbourhoods prefer to shop in areas where they can obtain a wide choice, good service and cheap prices especially when shopping for comparison goods (Tomlinson,1994:162). Obviously then, there are constraints on local development initiatives as the local economy will seldom be able to compete when it comes to manufacturing and marketing consumer durables in particular.

However, one strategy that **can** induce the buying of locally sold goods, is the encouragement of decentralised wholesaling outlets.

### **6.3.3. Decentralised Wholesaling**

In fact 86% (24) of the SMEs surveyed in Inanda expressed a wish that decentralised wholesaling existed as it would potentially reduce their transport costs. Dewar (1994) makes the same argument but adds that in order for this to occur, the location of these outlets sh

ould be widely accessible and integrated with the public transportation system so as to provide for the majority of hawkers who do not have their own transport.

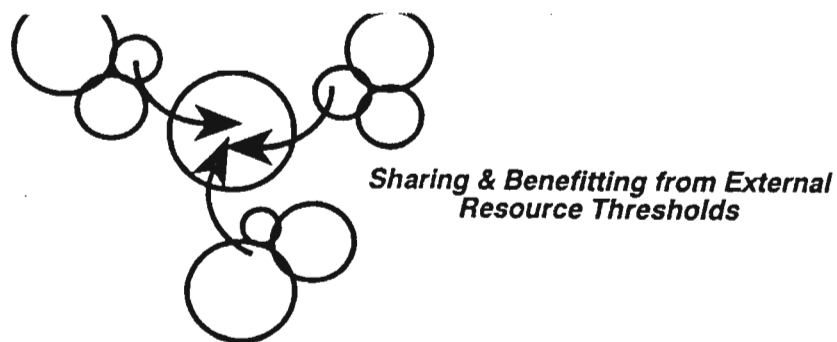
Decentralised wholesaling outlets can be used to stimulate small-scale economic activity as the extent and profitability of such activities depends to a large degree on the spatial relationship between the SMEs and their primary sources of supply. For example, one particular hawker claimed that she **had** the money to buy her stock but not for bus fare. This concept is especially applicable to urban fresh produce wholesaling as basic foodstuffs are the primary products sold by small scale hawkers in townships. When access to wholesale outlets is easy and close, the cost of the produce to the hawker is relatively lower and the cost of transporting the supplies to the point of sale is reduced. Also, additional supplies can be easily obtained in the case of unexpected demand. Without such access to wholesalers the minimum capital requirements for hawking are increased so that larger operators dominate the market while small traders suffer. In spite of this, the fresh produce wholesaling system in South African cities is not only entirely centralised but also poorly serviced by the public transport system thereby making it inaccessible to the majority of small scale traders.

The problem with decentralised wholesaling however, as expressed by one particular hawker who was against the idea, is that the residents may buy directly from the wholesaler so that they, in effect, become retailers. This applies especially if they are private concerns. If on the other hand, they are run by the government, they may not have the motivation for efficient distribution so that ultimately costs are not reduced. Also, the chances of rentseeking and corruption can be quite high. These are shortcomings that no doubt have to be addressed but it is precisely because of its ability to provide cheaper goods as well as its ability to encourage the buying of goods locally that makes the active encouragement of decentralised wholesaling an option that should be given serious consideration.

However, perhaps the greatest means of providing the thresholds that allow SMEs to grow and prosper, is through spatial and physical interventions such as activity spines and nodes, the provision of market infrastructure, and the construction of business hives.

### 6.3.4. Activity Spines and Nodes

In an area such as Inanda where fragmented community areas preclude the thresholds required for higher order goods and services, the need for activity spines that concentrate the flows and movement of people, becomes all the more necessary. Certain local community areas like Besters might indeed have the required thresholds for higher order goods and services due to their higher residential densities; however, there is still a need for a number of areas to be grouped together through appropriately located activity nodes and spines that provide the location for activities such as butcheries, bakeries, higher order spaza shops, take-aways, restaurants and any other appropriate service.



**Figure 6.1. Spatial Organisation - The Future**

Nodes with the greatest potential are those that are at a transport intersection as these are the points where commuters come together in order to travel to work. This therefore concentrates the market and thereby represents the best potential economic activity centre. Furthermore, the present road system must be transformed into a number of viable activity

systems in order to consolidate the key nodal points that are to serve a collection of geographic communities. Each activity system should be defined in terms of the thresholds required to service a range of economic and social services that at present do not exist within Inanda due to the limited capacity of the thresholds of the isolated communities. The principle is therefore one of physical integration and orienting the people onto the more important movement routes which in turn are reinforced with public transport systems - all of this being to concentrate customer flows and improve locational opportunities.

These plans however must be targeted to areas where microbusinesses are already growing as it is far more effective for government to go with the winners, and build on areas that already show signs of growth. Public improvements can then be targeted so as to keep pace with private investment (Peterson, 1991:54). This development should however be in consultation with firms with an interest in these locations (Harrison, Todes and Watson, 1995:19). Needless to say, the primary activity system in Inanda should be planned around the major transport network (MR93) as this not only links Inanda to core Durban and to the hinterland but it is also the road along which there is the greatest concentration of economic activity. As has already been proposed by the Inanda Development Framework (1995), nodes can and should be developed along this route in order to further concentrate flows and to provide options for the people of Inanda.

In this regard however, it must be admitted that nodal development is more able to be supported by individuals from upper income areas because they have their own private transport. On the other hand, with lower income people, linear development is more appropriate as it is more oriented to the locational logic of SMEs and to public transport. In fact, thresholds are linked very strongly to public transport corridors. However, in the case of Inanda, with its topographical constraints and vast distances between community areas such as Amaotana and Newtown, it is very unlikely that one will see a long strip of commercial activity developing. Instead, nodal development becomes the only feasible option in such instances.

In the end, Inanda needs to be opened up and made more permeable through the generation of activity spines and nodes located to meet the requirements of different business and service thresholds. However, not only is there a need to link the communities of Inanda with each other but there is also a need to link it to places like Ndwedwe and the

sub-metropolitan area as a whole in order to further increase market opportunities. For example, Inanda is the direct route for Ndwedwe and as the rural hinterland requires goods and services as well, there is no reason why they should not stop in Inanda as opposed to going all the way into the city centre if an appropriate range of goods and services is provided in Inanda itself. Furthermore, with regard to being linked to the rest of the sub-metropolitan area it is quite feasible that Inanda, Ntuzuma, Phoenix and Kwamashu can collectively constitute a market capable of sustaining higher order goods and services. This belief underlies the Bridge City proposal located at the confluence of these areas. However, precautions must be taken so that large retailers do not effectively squeeze out local SMEs.

Ultimately, although they do not directly increase economic activities and employment corridors, spines and nodes located at transport interchanges do have the potential to gather significant thresholds and to increase access and efficiency. As such, they create locational opportunities for business. Furthermore, effective support for SME development will combine these strategies with a reform of regulatory policies, with urban design, and with public investment such as infrastructural provision around these routes and nodes. For example, high densities, mixed land use, effective public transport systems, and the design of bus termini, can go far in terms of creating thresholds and influencing opportunities for local traders.

Another way in which to create thresholds and increase access is to set up affordable markets and business hives which must work with the road networks in order to reinforce the activity spines and nodes. This is because the roads in Inanda have just become a mutual space and without a physical structure in the mutual space you cannot generate the thresholds. The motivation for these structures also arises from the fact that 73% (22) of those surveyed wanted to occupy better premises than that which they were currently occupying. Moreover, 70% (14) and 78% (7) of the appropriate SMEs surveyed, expressed a keenness to locate within a business hive and market place respectively - the location of which demonstrates the integration between physical planning and LED.

### **6.3.5. Business Hives**

The 'business hive' concept envisages the provision of serviced premises, usually in the form of small factory units, and possibly a range of support services, for small production oriented enterprises. The concept is oriented to facilitating the establishment of emergent enterprises on a sound footing (Briggs, 1995:24).

If they are well located and properly managed they can operate well providing space and market access where these are not generally available elsewhere. For example, they provide dressmakers with access to adequate space to come together and cut patterns and materials as well as share the use of better equipment. In this regard, it must be noted that women greatly appreciate the possibility of working with other women. Their preference is mainly due to the desire for social contact but it also offers some practical advantages eg. looking after each other's businesses, taking care of each other's children and economic support. A properly designed and managed business hive has the potential to fulfill these needs. A business hive however, is not only suitable for women exclusively. It also works well for panelbeaters, carpenters, metal workers etc. who require access to space as well as a market.

As the erection of such hives can be costly, they will have to be initially subsidised by government. Later on as businesses prosper rents may be increased or premises sold to recoup part of the costs of construction (Taskgro, 1993:23). However, it must also be remembered that the construction of such premises can boost black business by allocating tenders to local construction companies.

### **6.3.6. Market Place**

A market place, on the other hand, helps more specifically to overcome the constraints imposed by an inadequate market and consequently an inability to sell products and services. It also provides new firms with access to customers. For both these reasons, well located market places are crucial to SME development. In fact, such market infrastructure should be regarded as essential basic public infrastructure.

Once this is accepted, the size and location of a market has to be carefully thought out as it has great influence on a traders' earnings since these two factors can also dictate the availability of nearly all the commodities needed by the consumers. The more convenient and accessible a market is, the more the consumers tend to patronise such markets in order to purchase all requirements with the minimum effort (Mills-Tettey & Fadare, 1991:201).

Within a township context the proposed market area should aim at providing one high-quality locale of high opportunity and accessibility for informal trade. This generally means that the market area should be located in close proximity to a major transport node (bus and taxi rank) in order to enable traders to respond to opportunities generated by concentrated pedestrian flows.

At this point cognisance must be taken of the comments of two women stallholders in Inanda so as to more or less understand the problems that one will be facing in this endeavour. The first stallholder from Amaoti only wanted a marketplace in her own community area even though she complained of a threshold problem caused by a lack of consumers during the week. This was most likely due to her desire to remain close to home or to a fear of operating from another community area. This was more explicitly stated by the second stallholder who was happy with having a marketplace in an area other than her own community so long as the people there did not give her 'trouble'. As mentioned before, this isolated and divided nature of the communities is a great obstacle to development and it has to be addressed - and, owing to its integrative impact, perhaps a suitably located Inanda-level market place that is paved and made attractive with trees etc, can do just that.

Market planners and designers should also take cognisance of the special peculiarities of the goods sold and their display modes in traditional markets (Mills-Tettey & Fadare, 1991:206). This is more especially important as the market space is most likely to accommodate a spectrum of traders; from individual hawkers with a few goods spread on the ground, to larger operations requiring all weather cover, secure storage facilities and access to infrastructure and services such as electricity and water. As a result, a market place in Inanda should have the following infrastructural components:

**Overhead Lighting:** to facilitate security of goods stored at the market and of persons walking through the area at night. Lighting would also make it possible for traders to operate at night and in the early morning.

**Electrical Power Points:** to allow for the use of electrical appliances such as; fridges, stoves, hair-dryers, shoe repair machinery etc. which in turn could greatly increase the range of services and goods traded, and widen the scope of economic opportunities for the small trader.

**Permanent Lockable Stalls:** to accommodate traders with goods or equipment which are difficult or impractical to move every day.

Finally, it should also include water, public toilets and storage space and should ensure security and good overall management.

It must be noted that markets can also be provided on a periodic basis - the aim of which would be to increase market access for relatively immobile home based producers such as women and to increase the accessibility of local residents to services and facilities. In this regard, 29% (4) of those surveyed and who expressed a wish to be located at a marketplace, preferred a periodic market. This applied especially to traders interviewed from Goqokazi as for them, it would be too costly and time consuming to travel regularly to a fixed market at the Inanda level. These periodic markets can be linked to pension payouts points thereby using the way in which welfare gets distributed to encourage economic development.

Finally, it must be remembered that many activities will benefit considerably from the high levels of accessibility associated with locating in the proximity of a major market and transport node. As such, a market place can be used to catalyse the generation of a nodal concentration of activities which in turn provides the thresholds required to support higher order goods and services.

### **6.3.7. Safety**

One final means of providing required thresholds in Inanda pertains to the issue of safety. Attempts **must** be made to establish peace in the townships, to decrease the crime rate, and to cultivate a culture of safety and security. In the short-run, this means that police protection and the enforcement of civil order must not only be widely prevalent but also

highly visible. One way in which this can be done is to pay local people to form community policing. Another way is to utilise local capital and resources and create linkages between big and small business - the logic being that it would be more difficult to rob a friend's business or to destroy an amenity that has been paid for by one's friends and relatives.

In the long-run however, any strategy aimed at tackling crime must primarily adopt an education and training emphasis in order to enable people to find work. Only then will one be able to create a stable business environment that fosters long term investment and growth in the township by increasing the number of people moving about unafraid, by ensuring stability and by lowering the risks.

#### **6.4. INCREASING EFFICIENCY**

Apart from creating the necessary thresholds, the other manner in which SMEs can be assisted is by improving their efficiency. This can be done by amongst other things, providing appropriate education and training, facilitating cooperative relationships, and increasing their access to finance.

##### **6.4.1. Training and Skills Development**

There is a general complaint from most township residents about the low levels of their education and/or skills training. Women in particular tend to complain that they are illiterate and that there are few opportunities for them to advance. As such, a great keenness is expressed towards education and training. In Inanda 28 (95%) of those surveyed requested business training and advice while 47% (7) of relevant entrepreneurs requested that they needed further technical training.

To **begin** addressing this need the South African education system must first be restructured so as to create an entrepreneurial culture where individuals and families seriously consider self employment as a viable option. An appropriate education would therefore be one that offers a grasp on the broader conceptual business principles as well as the harder skills required to effectively run and manage small business such as vocational learning, lateral thinking and risk assessment. Such a programme should also target certain discrete levels, namely school pupils, the unemployed youth and adults

especially women. In the latter case, the provision and development of crèches will go a long way towards enabling women to access opportunities both inside and outside of Inanda.

For existing SMEs however, what is required is knowledge of appropriate technologies, materials, tools and technical know-how as well as management skills such as bookkeeping, inventory control, production management and marketing. All of this must be sector specific and appropriate to the conditions in which the individual will be operating.

At this point it is worth noting an innate contradiction that lies in supporting SMEs, in this way. Informal and small enterprises are especially valuable since they provide employment at low cost. It then becomes paradoxical that most efforts to assist them such as programmes that choose a few small entrepreneurs and give them management training by highly paid professionals, or subsidised credit or rentals, etc. will only have the effect of increasing the cost of employment creation (Tomlinson, 1994:148). This position is vindicated by Elkan (1988) who argues that providing training is not necessarily productive. He reports that there is no evidence that training efforts in Africa which are intended to improve management efficiency, result in improved performance. He also notes that most African enterprises are actually managed with considerable business acumen even though they do not necessarily distinguish between business and household expenditure and might well not require literacy.

However, if one uses Inanda as an example, it is argued that while training is expensive and results may often not be impressive, small and microproducers do lack information. In other words, while they are not ignorant and know about their work, they still need some kind of non-technical and technical assistance, with regard to for example, the latest techniques available. This need was expressed by the entrepreneurs themselves. Furthermore, training and skills development is crucial for SMEs to increase the quality of their goods and services which in turn is vital for voluntary subcontracting arrangements with larger firms. Also, with the increased awareness and knowledge that training engenders, it enables SMEs to diversify into newer, less crowded markets and new product ranges, all of which is crucial if they are to survive, let alone grow.

However, it is recognised that lengthy institutionalised training programmes are usually inappropriate for poor adult clients, especially women who often cannot afford to take time off from their work and children. As a result approaches should endeavour to build upon the economic skills and talents that clients already possess and to attain 'adequacy' in management skills. Furthermore, the best training programmes are those that are carefully designed to meet the particular needs of the community. In keeping with this, a programme instituted in Kenya requires local management committees to assess local needs before assistance techniques are introduced. Through this, sophisticated and expensive technical training courses which have limited demand, are avoided (Urban Edge, 1980, Vol 4, No.52). Thus, the effectiveness of technical assistance or other forms of training will depend on how carefully it is matched with the needs of entrepreneurs. Initiatives should therefore concentrate on new and troubled businesses, identifying weaknesses, such as poor bookkeeping, marketing, or choice of technology before making assistance available.

For any of these training drives to be really successful however, they have to move out of the classroom and into actual business. In this instance apprenticeship systems become very useful. However, the present apprenticeship system in SA must be amended so as to make for easier access to it by black workers. The focus must also be on the needs of the women and the youth as well as on upgrading skills for which there is a demand. Group apprenticeship schemes where a sector or a group of employers share a group of apprentices is also possible and should be encouraged (Urban Edge, Vol.6.No.32).

Training programmes must also take into account language and literacy barriers as well as location - a fact which is especially important for women who have child care responsibilities. Mobile training units should therefore be considered. Finally, there must be co-ordination and co-operation between the private, public and NGO sectors in the provision of skills for SMEs (Taskgro, 1993:19) and although a normal fee should be levied on participants, the subsidisation of those who cannot afford to pay fees should be considered.

In the end, it must be acknowledged that due to inadequate data on the nature and characteristics of the current supply of training to SMEs, the recommendations on training are still relatively superficial. Nevertheless, this does not change the ultimate objective which is to achieve a situation where people can acquire appropriate skills and either

compete effectively in the job market or develop and expand their own enterprise opportunities.

Unfortunately however, SMEs are often incapable of obtaining these services individually. As such a new cooperative approach centering around 'collective efficiency' between clusters of SMEs should be initiated so as to provide them with such facilities on a collective basis.

#### **6.4.2. Cooperatives**

79% (23) of the entrepreneurs surveyed in Inanda expressed a desire to belong to a cooperative. The intention behind cooperatives is to make SMEs dynamic and highly competitive through a range of organisational practices which include increased co-operation, co-ordination and networking amongst firms in specific sectors so that services such as buying, marketing, research and development, skills acquisition and even production can be shared. Such co-operation allows them to achieve economies of scale benefits without having to become large in size (DTI, 1995:19). This they do by among other things: pooling resources; collectively purchasing and sharing equipment and tools, increasing their bargaining power for raw materials or retail stock; securing a committed clientele for marketing; and obtaining coordinated support from assistance agencies. In fact and with regard to the latter, an increasing number of African economic assistance programmes have moved in the direction of group assistance where clients are required to form into groups to be eligible for help. This not only ensures a sharing of skills but also facilitates specialised assistance. It has also been discovered that group members enjoy an enhanced self confidence and political power (Urban Edge, 1980, Vol 4, No.52). At the same time they are in a better position to provide a guarantee arrangement for credit from financial institutions.

It can therefore be seen that non-physical infrastructure such as the establishment of business networks and cooperatives is crucial for successful small and micro entrepreneurial activity. In Sierra Leone the co-operation of both national and international agencies provide a good example of what can be achieved. With the help of a \$300,000 grant from USAID, the Sierra Leone Arts and Crafts Cooperative is overcoming many of the problems faced by traditional artisans. The cooperative sells artisans raw materials at

wholesale prices, lends them money to purchase tools and materials, exercises quality control, and provides advice on the marketing and production of crafts. It also buys the finished products directly from the artisans and sells them abroad. The cooperative earned over \$10,000 in foreign exchange in its first year of operation (Urban Edge Vol.6.No.36).

Within the township context one can for example, organise spaza shops so that they become more competitive with large retailers outside the townships. This involves organising them so that they are able to, among other things access credit, buy bulk directly from wholesalers and manufacturers, and arrange transportation of goods. Such cooperative relationships are especially pertinent for women due to the structural advantages that impede the growth of their businesses. Cooperatives promote the diversification of women's activities and the networking of women so that they can combine their forces to break into new markets and acquire larger contracts.

The problem however, in a place like Inanda is that entrepreneurs have not been exposed to the concept of cooperatives and partnerships between people. They therefore would not know how to make it work for themselves. Furthermore, some of the respondents, eg. a panelbeater from Ohlange, was against the idea not only because traders and producers did not know one another, but also because there was a lack of trust and friendliness amongst them. This has been one of the consequences of the divided nature of the Inanda community - for which solutions have already been outlined. Another problem that may be experienced, as expressed by one particular general dealer in Stop 8, is the fact that many people in the area are not trained in basic functions such as calculations. For this reason, it is necessary that cooperatives and training initiatives go hand in hand.

In the end, as individually, SMEs lack the skills and resources to improve their own capabilities, and as the abovementioned problems are not insurmountable, it is essential that fragmented, small enterprises within sectors or industries within townships be helped to network more effectively in order to jointly address development obstacles, take up opportunities and build collective efficiency.

### 6.4.3. Finance

As one of the primary wishes expressed by entrepreneurs in Inanda was access to credit (77% wished to have **some**, let alone greater access to it) the issue of the adequate provision of appropriate finance must be considered. Access to affordable credit is one of the main ways in which to make SMEs run more efficiently. Judith Tendler, an economist at MIT, corroborated this in her study of various programmes offering support to microproducers. She found that those programmes performing best tended to focus on one activity - credit. (Urban Edge,1989,vol 13 No.1:3). In spite of this, there is very little information on financing and credit options available to SMEs especially those located in the townships. What is known however is that with the high administrative risks and costs involved, commercial banks are generally unwilling to assist the small-business sector. As a result, banks must be persuaded to make more credit available to the SME sector by experimenting with different lending procedures and interest rates.

One such procedure is the group credit scheme. Successful examples of the workings of this scheme includes the Grameen Bank in Bangladesh, which has 400,000 borrowers (nearly 80% women) and a repayment rate of about 98%. Also, some other Indian Banks who use the group credit schemes, have developed approaches to minimise their losses. These approaches include the following:

- credit is tied to a savings programme (the savings and loan cooperative approach);
- businesses are linked together in an interdependent chain so that each business is dependent on others for its success;
- banks hire local people as collection agents and pay them a commission;
- community volunteers or staff do intensive follow-up;
- a committee of bank staff reviews loan applications and approves only those who are likely to repay;
- vocational and business training is provided to increase the likelihood of business success;
- “tiered” loans are given, starting with a small one to test the borrower and get them gradually used to using credit.

Another example from India comes from the Indian Bank of Baroda which relies on references from those already receiving loans or neighbours to identify potential loan

recipients. Thereafter the bank officials try to group loan recipients to make supervision easier and develop groups of neighbours who will vouch for each other. Also, because the staff is dedicated, does careful follow up, and maintains good rapport within low-income communities, administrative costs have remained low (Urban Edge, 1980, Vol 4, No.55).

Similarly, in a study conducted in Kenya, it was found that most programmes that had close supervision had relatively low default rates whereas in cases where there was an absence of close supervision over credit utilisation, many problems seemed to emerge. Furthermore, in approving loans, most field staff are permitted flexibility in various ways so as to allow the amounts of the loans, interest rates controls and supervisions to vary with the size, experience, nature and reputation of the business. For example, the sizes and terms of loans are adjusted to ensure that clients can afford the scheduled monthly repayments, and interest rates charged to newly formed enterprises and first time borrowers tend to be lower than commercial rates (Urban Edge, 1980, Vol 4, No.52).

If banks do not willingly experiment with such procedures and mechanism, they must be **pressurised** to change their policy towards lending to small businesses and NGOs. This can either be done through an active policy on defaulting, incentives such as tax breaks or the allocation of government business for participating banks, or sanctions such as an obligation to reserve a proportion of loans for SMEs (Taskgro, 1993:16). Legislation must also be introduced to challenge the banks' practice of redlining whereby occupants of certain districts occupied by blacks are excluded from receiving loans. It must be acknowledged that financial institutions are beginning to adjust to the needs of SMEs due to pressure from government but this is not enough. At least in the short run then, the money required to finance SME development is unlikely to come from retail finance.

As a result, non-bank financial institutions such as NGOs, foundations and government agencies that finance the SME sector or form a bridge between black enterprises and the traditional financial sector, must be developed. These organisations basically look at start-up equity, concessionary loan capital, credit guarantees, alternative forms of collateral and special loan programmes. However, it has been found that the common characteristics of programmes that reach the largest number of poor and have the greatest influence include:

- concentrating on a particular target group, trade sector or income earning activity.
- requiring borrowers to open savings accounts.

- encouraging borrowers to form small groups to apply for loans.
- assisting in the preparation of business plans.
- beginning as brokers, providing clients with access to credit lines managed by financial institutions.

With regard to the last mentioned, by initially leaving lending operations to the banks, such organisations are able to concentrate on their areas of expertise, which are knowledge of the community and how to help microproducers through loans (Urban Edge, 1989, vol 13 No.1:3).

In South Africa however, due to the recalcitrance of credit providing NGOs such as the KFC and SBDC, who have apparently not had the mettle to make significant loans to black **micro** enterprises, and whose sphere of influence has been limited (83% (25) of the SMEs surveyed had not sought the help of such NGOs due either to a lack of awareness or a lack of trust), the SME sector must rely more on generating funds through CBOs and traditional savings institutions eg. stokvels, for which there is a lot of respect around owing to their efficiency and sustainability. Community driven financial institutions can be quite instrumental in increasing the flow of financial resources into the community and in a manner that increases local control over the selection of projects that receive financial support. This they do by mobilising local income and supporting local investment. They are also especially favourable as they are able to make small loans, they know an area and the customer and they can devise creative means of building collateral (Tomlinson, 1994:149).

In this regard, Egleton's (1995) proposals pertaining to a community development bank are useful. A community development bank has the function of taking savings from economically active members of the community and utilising it to finance entrepreneurial growth within the community. In order to be a savings bank for the community it will have to pay an interest that is above the market rate to encourage the transfer of bank accounts from more developed areas. Also, its sole business will be to grant business development loans to entrepreneurial activity within the community which is determined by the priorities of the community itself. Finally, it should have community ownership so that the community is able to take out equity in the bank.

Such a bank is considered to be appropriate for RDP funding as it strikes at the core of the social and economic needs of the community. According to Egleton (1995) the interest

rates can be achieved by charging an additional levy on adjacent developed areas where big business is already established. Needless to say, this will require efficient and cooperative local authorities.

If not as a bank, a community based financial institution can also act as a packager/broker by providing for the borrower, access to capital, assistance in preparing loan applications, and business management guidance. For the lender it can provide trustworthy information and a measure of the project's legitimacy. It can also try to capitalise and maintain its own funds to assist community development projects and to leverage external dollars. These funds may then be used to guarantee loans made by private banks.

Finally, regardless of who is responsible for its provision, credit must be provided quickly and efficiently and it must ensure a certain level of skill. With regard to the former, most institutions giving credit to small or informal enterprises take at least 3 months to process loan applications. This bureaucratic delay serves as a serious obstacle for small and micro-enterprises who have short-term cash flow problems, and who require immediate access to capital. A loan guarantee facility - possibly jointly funded by a state institution and/or an NGO - granting micro-enterprises access to small amounts of capital with the minimum delay, would probably be most useful here (Manning, 1993:10).

With regard to ensuring a level of skills, credit is most successfully delivered when part of a comprehensive package of support. Before clients can become eligible for major financial assistance they must be assisted in reaching an adequate managerial and productive capacity. Furthermore, organisations successfully lending to poor clients generally exercise strict control over the use of credit. For example, the UNDP sponsored Women in Development (WID) project in Swaziland, does this by granting in-kind credits in the form of tools, equipment, and raw materials to producers.

In the end, as not much credit is currently available to SMEs in townships such as Inanda, and as the alternative of providing subsidies encourages dependence and is unsustainable, these aforementioned financing options have to be thoroughly investigated. A possible approach to increasing institutional effectiveness would be to devise financing and training programmes in which larger organisations effectively wholesale financial and technical assistance services to smaller, qualified NGOs and CBOs that retail them in turn to the final

beneficiary. It is believed that community based financial institutions may have the largest role to play but in the event that this does not work owing to the fact that people in Inanda do not trust each other and owing to the likelihood of fraud and corruption (both of which are to be expected in contexts of extreme poverty), the onus may shift to NGOs playing the greater role in providing finance. Nevertheless, whatever institution is used for credit mobilisation and provision, it is crucial that there be a constant evaluation of programmes and monitoring of loan recipients businesses so as to provide lessons to the NGO, community or private bank as well as assistance to the ailing business thereby enhancing the usefulness of the loans.

### **6.5. PROVIDING SUPPORT SERVICES**

A further way in which to promote SME development in the context of townships is to provide tangible and vital support services. It is argued that the most effective means of rendering these services is through the formation of a Local Service Centre (LSC).

This centre has been described as a possible response to the question of 'how to make an idea work?'. The basic function of an LSC is to provide information and advice services to small enterprises in their vicinity. It can be set up by any type of SME support agency or through any local initiative. Its services include: managerial, financial, entrepreneurial and technical training; mentoring; business plan preparation; marketing; subcontracting support; promotion of the self-employment option; identification of opportunities; brokerage/linkage/intermediary role to third party institutions such as banks; specialist advice; assistance in identifying and adopting appropriate technology; assistance in locating appropriate work space; organisation of group marketing schemes and exhibitions; assistance in dealing with government regulations and taxes; and assistance in meeting quality control and contractual requirements. LSCs can also be used to channel information about joint ventures and other types of partnerships, to facilitate networking at grassroots level, as well as to link clients to other centres or information facilities in the country.

All the while it should be remembered that LSCs should be organised in a way which specifically target SMEs, especially home-based activities. This is because such activities often find it difficult to respond to government support initiatives which are geared to existing formal business.

Furthermore, apart from having the potential to be used as a multi-purpose amenity catering for exhibitions, workshops, shows etc. the centre might also be developed as a highly visible and positive symbol of the development process. In terms of the location of LSCs then, this raises questions about SME development in general and township development in particular. In other words, should the LSC be located in the heart of the township or in a more accessible, centrally located position. It is argued here that neither of these options are most effective or efficient. While a township may have greater need for an LSC, the city centre is certainly more accessible with greater thresholds of people. An LSC is therefore best established as a key symbolic element in the vicinity of a major nodal concentration of activities on the edge of a township along a main route that offers good public transport thereby gathering the thresholds from all the surrounding areas. In the case of Inanda, this will probably be at Besters or Bridge City which lies on the MR93.

Finally, it must be remembered that LSCs on their own will not do much. Local economic development depends on co-ordination so that much more can happen if there are clear links between for example public works programmes and the type of services to be offered by LSCs i.e. small and microenterprise development.

There is therefore a need for co-ordination among all the roleplayers involved in local economic development and SME development in the townships.

## **6.6. KEY ROLE PLAYERS**

### **6.6.1. Local Government**

While the responsibility for support and assistance to SMEs falls upon all levels of government, NGOs, CBOs and business associations, the most effective level is the local government level as local authorities have direct contact with each enterprise, even survivalist enterprises and as their administrative infrastructure can be useful for the implementation of support programmes (DTI,1995:81). In fact, international experiences shows that local government's provision of services which small firms are able to afford may have been instrumental in the emergence of successful small firms in some economies (Manning,1993,30).

While traditionally their role has been that of administration, providing services, planning and maintenance, communities are now requiring additional services including LED and SME support in which local authorities have seldom in the past played a role. Nevertheless, they should begin to play an important role in promoting LED in the townships through, for example supporting infrastructural development such as roads and electricity as well as LSCs, markets and hives - all of which have already been discussed. They also need to create an enabling environment and be small business facilitators by: removing all restrictions on entrepreneurship such as zoning, health, traffic, licencing and other regulations; using their purchasing power to favour local producers; breaking up contracts into smaller parts which can be taken on by SMEs; altering tendering and contracting procedures; reducing red tape so as to hasten the registration of SMEs; passing on bulk buying discounts to local welders, carpenters, electricians etc. thereby acting as a wholesaler for the benefit of small scale user; and by restructuring the physical environment.

In terms of physical restructuring, local authorities possess land use planning powers which can be used to create an enabling physical environment and as a bargaining instrument with firms. They are also commonly major local landholders and can thus play a key role in aggregating sites into a comprehensive economic development plan.

Furthermore, and more obviously, owing to the poor quality of services observed in the townships, local authorities can improve the conditions of work and the quality of the service as well as stimulate local employment at the same time. For example, in terms of refuse disposal, there are a range of collection systems from large imported compactor trucks, to smaller lorries, to local gathering methods using wheelbarrows and bags.- all of which have different implications for local employment. In Namibia, residents are paid by the waste collector to bring bags of rubbish to the point of collection and in Alexandria, there has been an experimental scheme for providing local employment by dividing up the collection service into five sections and letting it to local or quasi local contractors (Planact,1992:24).

Local government also controls substantial short-term finance which can be used for wider purposes. Moreover, they are in a position to borrow at lower rates of interest than are

available to citizens or SMEs. They can therefore pass on their low rates to small and microenterprises and can contribute to the initial capital of loan guarantee schemes. Also, local governments can and should play an important role as data bankers for small and medium firms by firstly determining the needs of small business and then by supplying a range of services and information on suppliers, property sites, overseas market opportunities and labour markets (Planact, 1992:21).

Finally, and perhaps most importantly, what is required is a local government that is dynamic and whose objective is to facilitate economic interaction, by for example, linking the township economy to the national and international economy. Instead of thinking only of matters that occur within their boundaries, local authorities must network with one another. For example, female dressmakers from Inanda should be provided with facilities allowing them to sew and sell dresses for tourists at the Point.

Ultimately, it is possible and desirable that progressive local governments play such roles in the various townships around the country. In the future the key public agency Inanda will be the Transitional Metropolitan Council and whatever long-term metropolitan authority emerges from this. And once such an authority is launched, this will have major implications for Inanda as a legitimate local authority will now be in place which will hopefully have the power, ability and resources to provide services and attention to such previously neglected areas.

### **6.6.2. Community Based Organisations**

However, as government officials seldom fully understand the needs of small business, responsibility should be placed at the door of CBOs to represent the urban poor in amongst other things economic, land use and infrastructural policymaking decisions. This is because such organisations, which include local small business owners, are best able to set priorities, since they have the best market information on the bottlenecks to further growth. In other words, locally expressed demands are more effective in meeting citizen or business preferences as compared to bureaucratic decisions about investments.

Community groups therefore need to have their horizons enlarged so that they can visualise making choices that assist business activity, not just household consumption by,

for example, identifying comparative advantages, exploring new market possibilities, financing new resources and using them more effectively, creating strategic alliance between key groups; etc.

One of their strategies should be to survey the skills and resources available within the community and see to what extent local entrepreneurs can match the goods and services that are bought throughout the metropolitan area. This applies especially when the goods and services are bought by the government who can then be pressured to use local sources.

Fortunately it is believed that CBOs **do** have the necessary legitimacy and organisational capacity to perform the abovementioned function. However, they **will** need help when it comes to strategic planning; technologically and financially sophisticated bargaining; and human and budgetary resources. Once this is done evidence indicates that citizens take decision making seriously. For example in Yopugan, Cote d'Ivoire, when citizens were brought into investment priority setting, they urged that restoration of the Municipal Hall be postponed and that the funds be redirected to strengthen access to the local market by building three bridges that would link isolated neighbourhoods to the market and by street paving in the market area (Peterson, 1991:55).

In terms of running enterprises themselves American experience shows that CBOs should be wary of doing so especially where the private sector has been unable to make a profit. This is purely because CBOs are not skilled at being entrepreneurs (Tomlinson, 1994:87). However, the authorities of Kwadebeka and Western Council have wanted CBOs to do the jobs of for example, refuse removal. This is in spite of the fact that knowledge of their cost and efficiency is minimal. If proven however, to be cost effective, CBOs certainly provide a worthwhile option.

The problem with CBOs however, is that while they have the capacity to organise their people non-coercively, their understanding of business in a western sense is poor. Also, although they have the motivation and drive they are often not able to carry things through to the end as the excitement that characterises the beginning of a project wanes.

In the end however, and despite the shortcomings, the only feasible way to spread good governance over areas is to work with CBOs who can amongst other things, perform a lobbying, gatekeeping and organisational function. They therefore definitely have a role to play and one cannot ignore them. However, it is believed that they do need some NGO support not only to access various resources such as specialised assistance but also given the nature of poverty, to ensure honesty in the development process.

What all of this means is that new organisational approaches must be employed to pursue local economic development and SME development. One such approach is the engendering of partnerships.

### **6.6.3. Partnerships**

This consists of formal agreements between local governments, NGOs, the community and even the local private sector around development and economic growth. Such partnerships can be seen as a mechanism to secure leadership and good governance from both the public and private sectors and as a strategy that has the potential to increase the scale of resources required for local initiatives quite significantly.

In other words, partnerships allow municipalities to expand their financial and technical resources, and with community oversight, they can be enjoined to provide services fairly. They can also lead to management efficiency, the reduction of direct municipal outlays, the spreading of risks on joint undertakings, a reduction in costs to the taxpayer, and a maintenance of service levels without tax increases.

For our purposes, small entrepreneurs in the township should be encouraged to work with the local governments, a local community organisation and an NGO to prepare a strategy that includes for example, physical upgrading, skills training, ongoing business training by service organisations, and agreement with a bank that community savings will be deposited in the bank in return for access to credit.

It must however, always be recognised that the extent of private participation in local initiatives will be a function of the extent to which public expenditure and concessions enhance private sector profits. Nevertheless, to ensure partnership success, there must be

capable local leadership, the willingness for the government, the private sector and the community to cooperate and a growth strategy which gives a township specific advantages. For this to occur, it is important that the partnership between local government, the community, NGOs and the private sector develop a vision for the locality. This will also have the added benefit of giving communities a greater control over their social not to mention economic existence.

## **6.7. SUMMARY**

SMEs in townships require special support that ranges from direct welfare on the one hand, to activities that directly enhance their competitiveness on the other. Key endeavours however, should be directed towards:

- fostering an entrepreneurial culture and encouraging positive attitudes.
- providing a facilitative physical environment that includes basic infrastructure and suitable land.
- providing the thresholds that support SME activity. This should be done through: business linkages; encouraging people to buy locally; decentralising wholesale outlets; creating activity spines and nodes; constructing business hives and market places; and ensuring a safe environment.
- Increasing the efficiency of small and microenterprises by: providing them with appropriate training and skills development; facilitating cooperative relationships and granting access to affordable finance.
- Providing support services primarily through a local service centre.

Finally, while each will have their respective strengths and tasks, the responsibility of achieving these objectives should be assigned to a partnership between local government, NGOs, CBOs and the private sector - the aim being to increase resources and to formulate an integrated vision for the development of the area which in turn ought to increase commitment.

## CHAPTER 7

### CONCLUSIONS AND RECOMMENDATIONS

The historical forces and elements that have marginalised African townships resulting in the characteristics that now trap these townships into cycles of poverty, dependency and further marginalisation, must be redressed. It is clear from any analysis of the broader problems within Inanda that the underlying issue is one of escaping these vicious cycles.

The development of Inanda, or any township for that matter, must go beyond the physical focus of the past. Instead, it must address in an integrated way the myriad of problems it faces. In fact, in order for residents to break out of the cycle of poverty, the linkages between problems and the urgent need to look at development from an integrated perspective must be recognised, understood and addressed. As all of the problems identified are either a **cause** of unemployment or are as a **result** of unemployment, it becomes clear that the urban poverty problems, particularly that of the low-income peripheral townships, is closely linked to economic development. Consequently, a key focus of any development strategy for the area should be on building the local economy.

The initiatives and entrepreneurial talent of the people of Inanda themselves must be exploited to serve this end. As the small and microenterprise sector has already served to soak up the unemployed in the area, it is only logical that one actively supports and promotes this sector so that it may work more efficiently and effectively towards the ends of fostering local economic development in the township.

The small and microenterprise sector has internationally been recognised as playing an important role in the economic and social development of a country. For South Africa, and for townships in particular, SMEs represent an important vehicle to address the challenges of job creation, economic growth and equity. At their worst, SMEs can arrest the further underdevelopment of the townships. However, at their best and as part of an integrated strategy aimed at diversifying the economy, enhancing productivity, stimulating investment, and improving the physical and social environment, SMEs can make a significant contribution to the economic empowerment of blacks and to the economic viability of

townships, thereby redressing the spatial, economic and social imbalances caused by apartheid.

As a result, policymakers need to pay more attention to stimulating growth within the townships through actively promoting the development of this sector. It must however be acknowledged that due to a variety of reasons, Inanda barely provides the environment for the successful growth and development of SMEs. Nevertheless, the extent of the current economic crisis leaves few other options for promoting the local economic development of this area. In fact, given the set of constraints that exist, SMEs are perhaps the only economic sector that is feasible within such contexts.

The following principles then need to guide development:

- The areas future prosperity must rest on the survival and strengthening of its indigenous enterprises.
- There is a need to increase the flow of long-term investment into the area.
- There is a need to invest in human skills as well as economic infrastructure.
- The community's energy and talent must be mobilised in order to create new entrepreneurial opportunities.
- Development must be planned in a holistic and integrated manner.

With regard to the lastmentioned principle, such holism and integration are vital in order to attain sustainability. Holistic development means that interventions do not simply have a spatial or physical manifestation, but will also have economic and social implications as well. It also refers to the creation of total 'environments' (living, working, recreation etc). This in turn, requires a mixture of various types of compatible/complementary land uses and activities and the achievement of a stimulating and improved environmental quality, rather than the extension of sterile residential areas which, in the past, characterised township development.

Furthermore, the objectives should be to:

- Promote and develop opportunities and skills that foster entrepreneurship, self-reliance and local economic initiative.
- Promote effective structures, processes and networks to encourage and support local economic development.

- Provide an integrated range of support to potential and actual entrepreneurs to enhance business creation and growth.
- Provide financial and technical resources which can support local entrepreneurial initiatives.

From this, a variety of strategies and mechanisms arise. These include: the provision of basic services and road infrastructure; market places; business hives; financial assistance; business and technical training; and comprehensive support services. It also involves: the formulation of appropriate business zoning and spatial planning; the fostering of linkages between large and small businesses; and the facilitation of cooperative relationships between firms organised sectorally.

However, it also means that attention must be paid not only to providing direct support such as finance and infrastructure but to creating an environment in which entrepreneurial activity can be nurtured. This will include the provision of public toilets and child care facilities, a flexible planning approach towards home based enterprises and facilities to protect women and their employees against crime and violence (Taskgro, 1993:25).

Finally, the spatial strategy in a township such as Inanda centres on creatively promoting the linkages between the various geographic communities and between Inanda and the Durban Metropolitan Area. Spatially, this has implications for the physical relationship between homes, jobs, community facilities and transportation (viz. proximity, accessibility and densities which are to be achieved through activity spines and nodes).

The potential developmental impact of all the abovementioned actions justifies considerable public and private investment. Furthermore, in situations of poverty, the most appropriate development approach is to match the enabling resources of local government with the energies and organisation of the people, implying that CBOs also have an active role to play.

Finally, it must be noted that Inanda is an integral part of the GDMA. As such, it should not be seen as an isolated entity but as part of the broader metropolitan system. Moreover, the tension between developing **places** as opposed to generating and improving opportunities within a city as a whole should be recognised. There are considerable opportunities in the

latter which should not be lost in a narrow focus on internal development, however important this may be (Harrison, Todes & Watson, 1995:20).

Nevertheless, a strategic plan for the economic development of the township should also be developed. This should aim at achieving a shared vision and establishing realistic long-term economic goals. It should also include an audit and analysis of internal strengths and weaknesses, and an assessment of opportunities in the external world that may be exploited by the area's comparative advantage. It is also crucial that constant attention be paid to feedback from the ground level as to where demand exists, and which programmes are working successfully. This is because local development programmes never work out exactly as formulated. It therefore becomes critical to monitor actual results and adjust policies and projects to better fit market demand and institutional limitations, as these are revealed in practice.

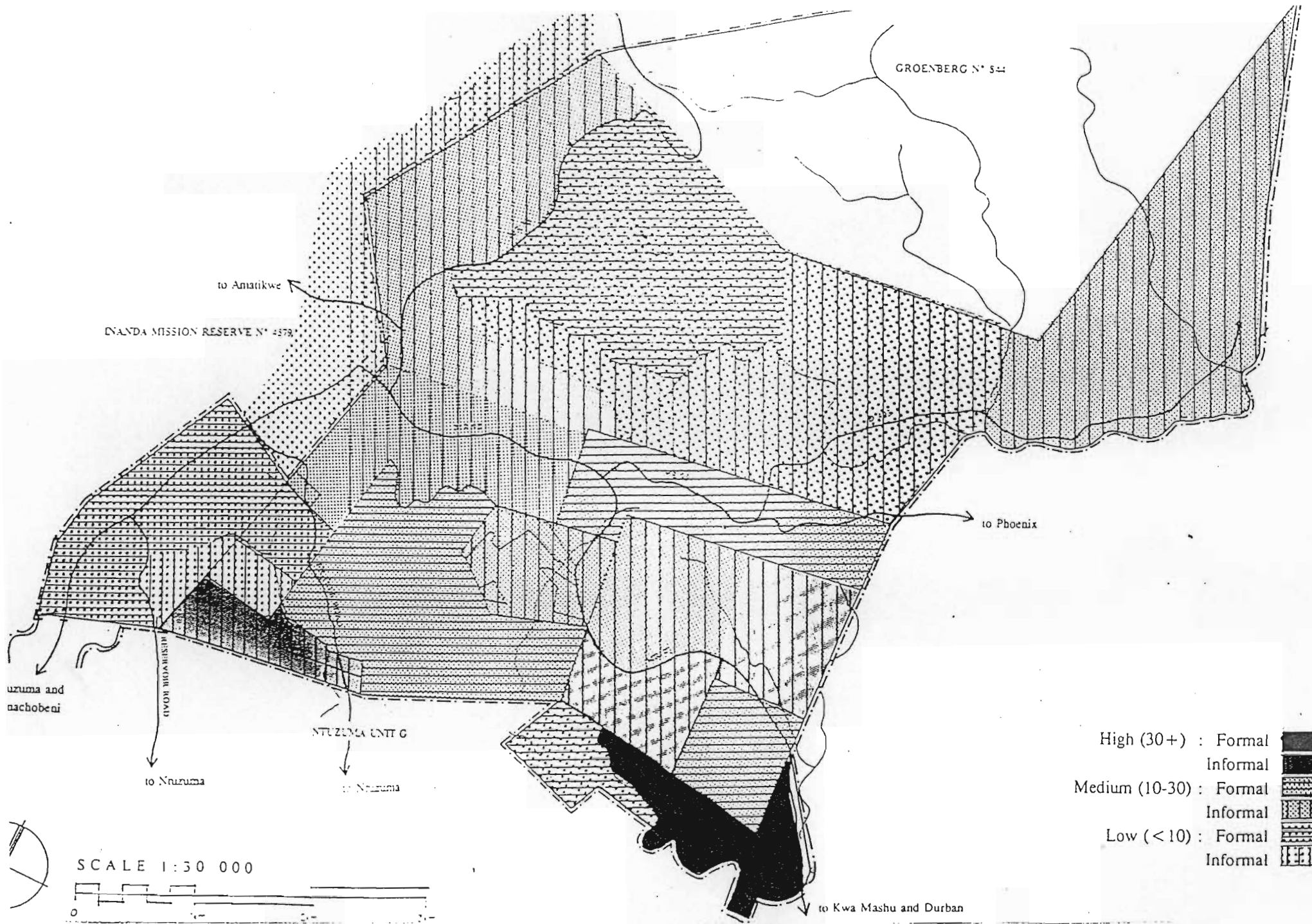
Areas for future research include a more thorough and detailed investigation of small and informal sector activity needs. Also, an economic scan of the township depicting type, extent, and spatial location of SMEs is an imperative to future economic development planning.

Also, the potential private investment that can be accessed needs to be investigated fully.

Furthermore, the increase in informal activity in the CBD with the removal of restrictions is sure to have an impact on the townships. The extent and nature of this impact needs to be researched.

As the barriers to SME development are so great, one option is to preclude foreign and local corporate capital from making certain products. In other words, certain SME sectors e.g. furniture and food can be protected from corporate capital. This however, would require an extensive support network. As one does not really know how this would work in South Africa, a country which is dominated by corporate capital as opposed to owner/proprietor or informal capital, the dynamics and impacts of such an option needs to be fully researched.

Finally, a fact often referred to is that Indian businesses were the only businesses to have survived the recession quite comfortably without even seeking banks' assistance. Instead they utilised other support structures. Perhaps a lesson can be learnt from such businesses by looking at the role of family support, culture etc. in accessing finance and thereby contributing to business growth.



GROENBERG N° 544

to Amatikwe

NANDA MISSION RESERVE N° 4578

to Phoenix

uzuma and nachobeni







MISHKORU ROAD

NTUZUMA UNIT G

to Ntuzuma

to Ntuzuma

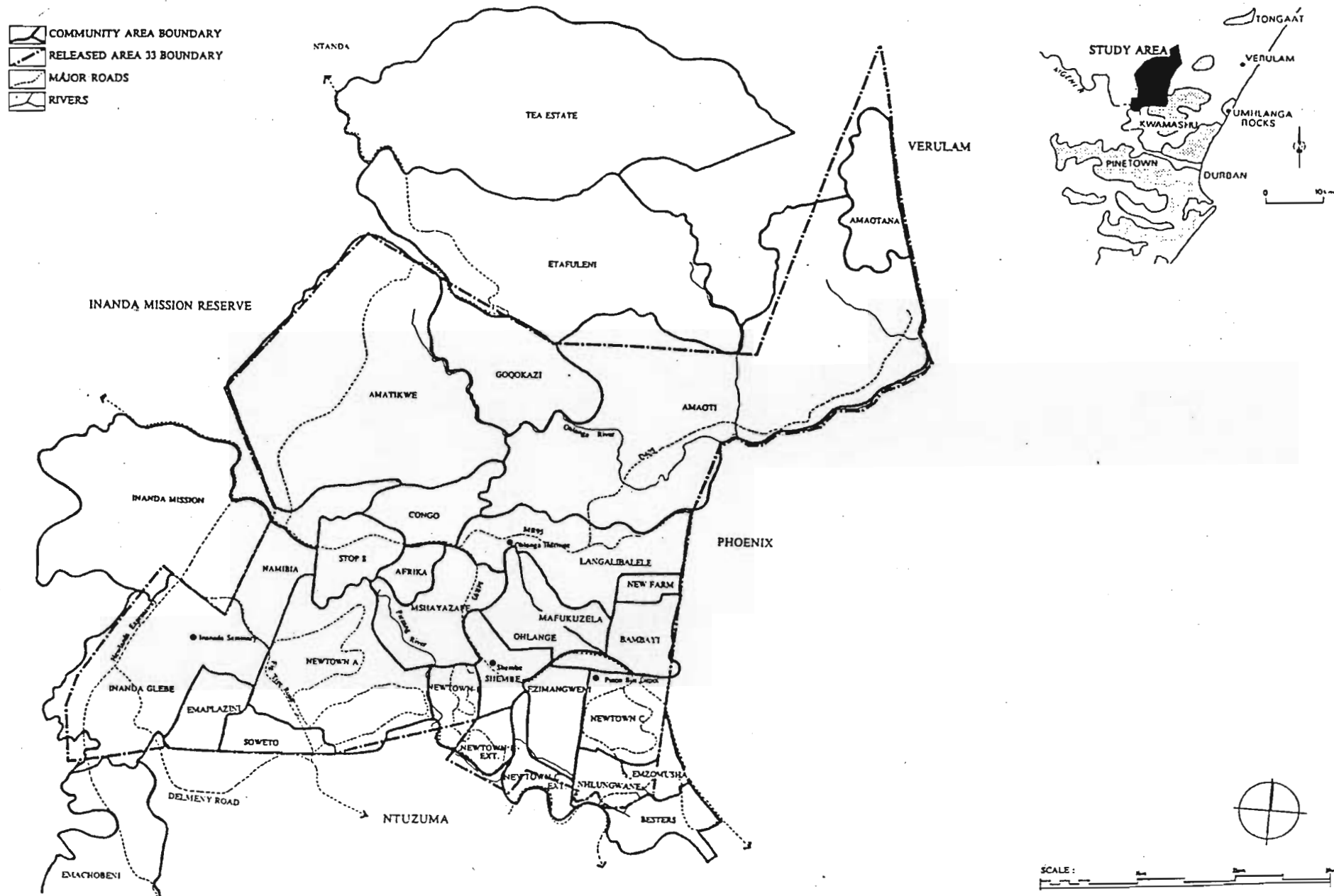
to Kwa Mashu and Durban

- High (30+) : Formal 
- Informal 
- Medium (10-30) : Formal 
- Informal 
- Low (<10) : Formal 
- Informal 

SCALE 1:30 000

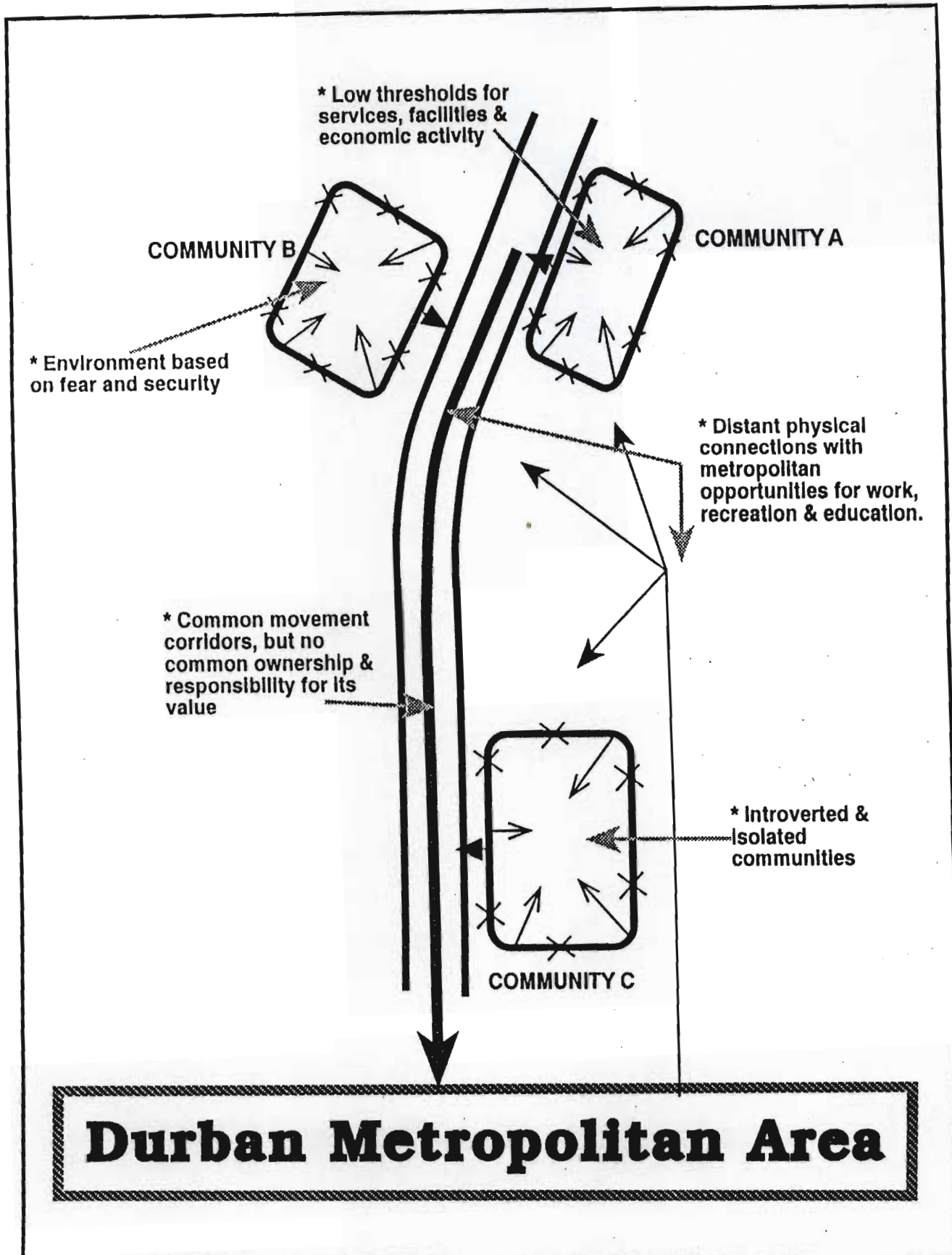


FIGURE 1



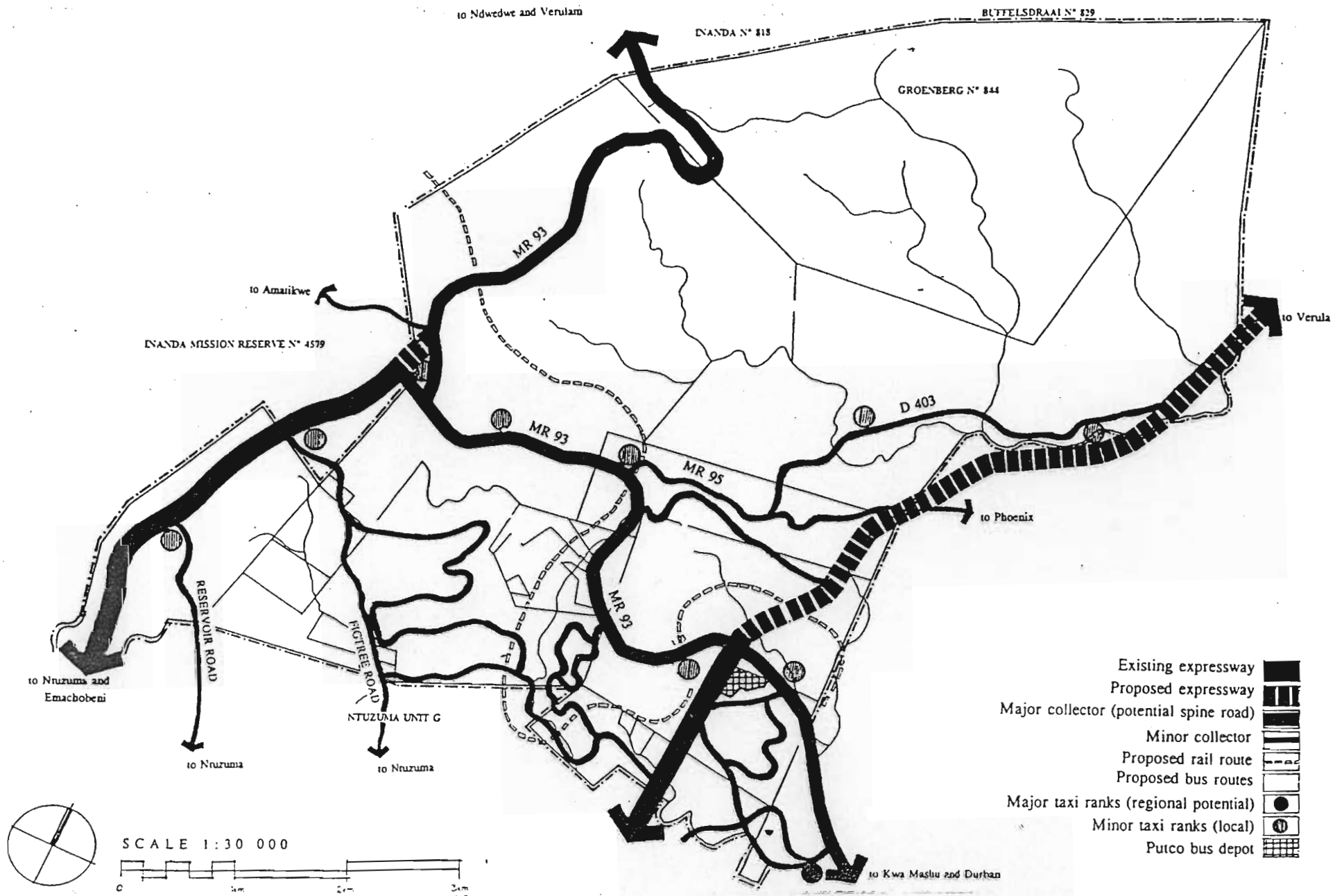
Source: Inanda Development Forum (1995)

FIGURE 5.2. Community Areas



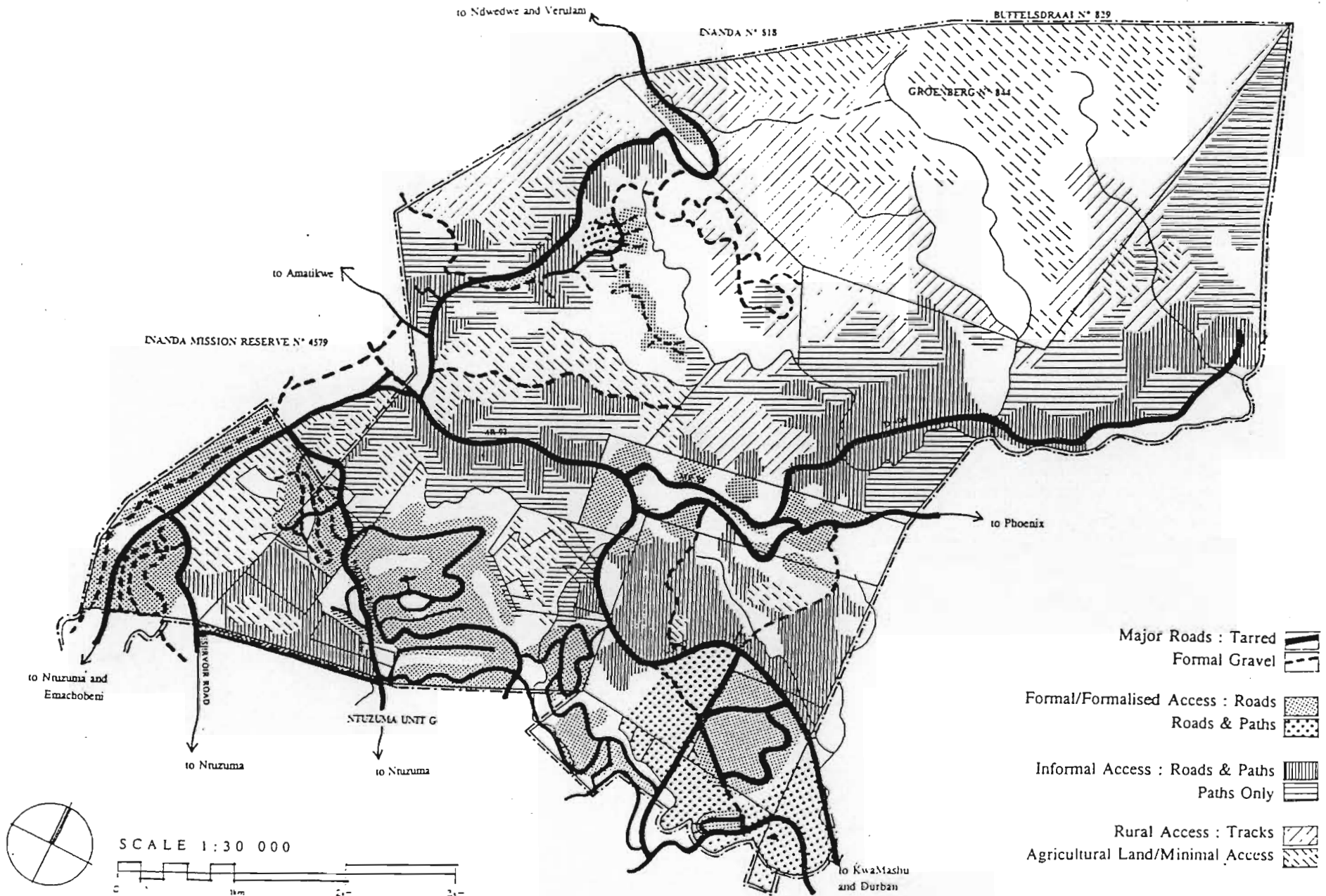
Source: Inanda Development Forum (1995)

FIGURE 5.3. The Spatial Organisation - Present



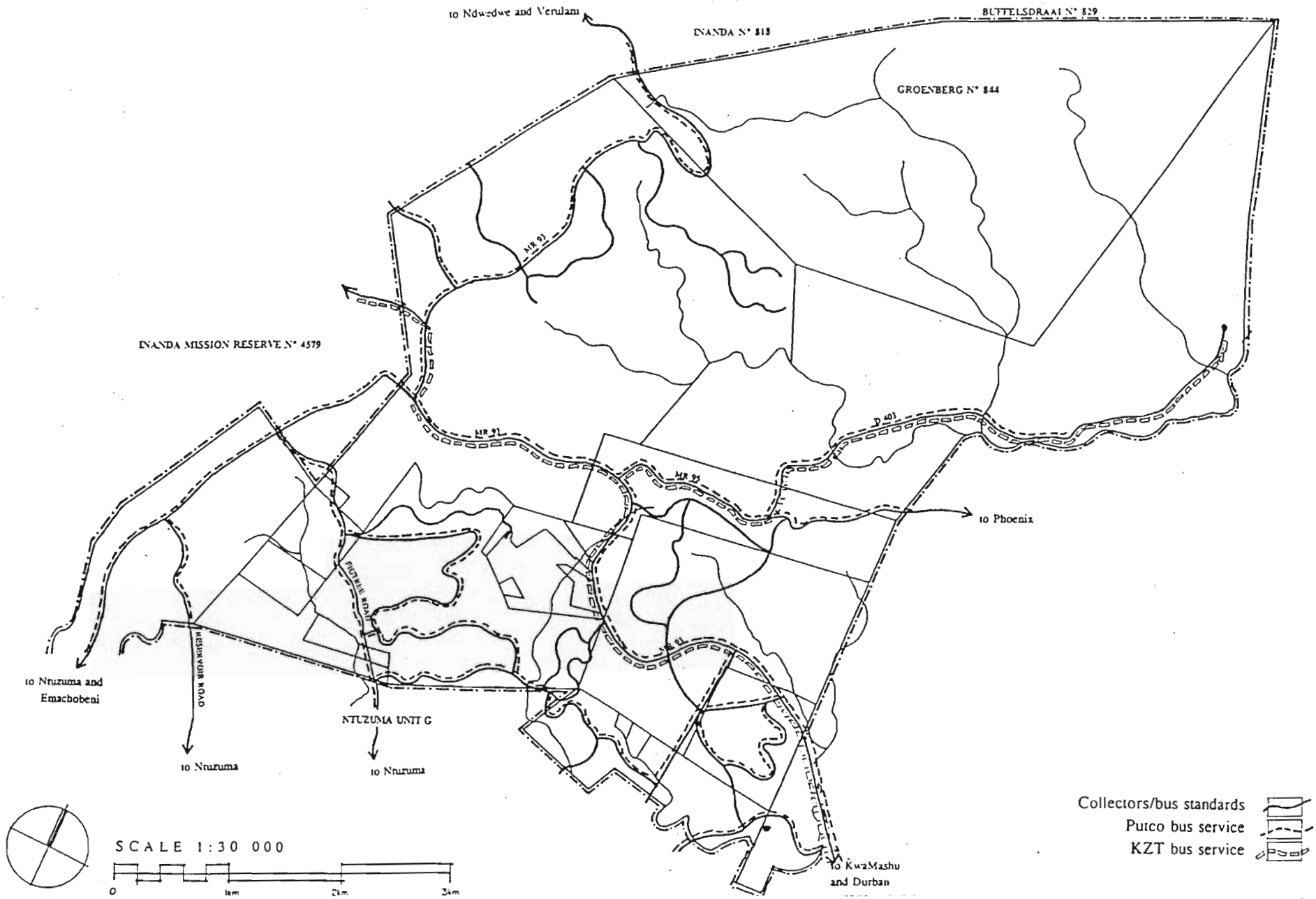
Source: Inanda Development Forum (1995)

FIGURE 5.4. Transport System



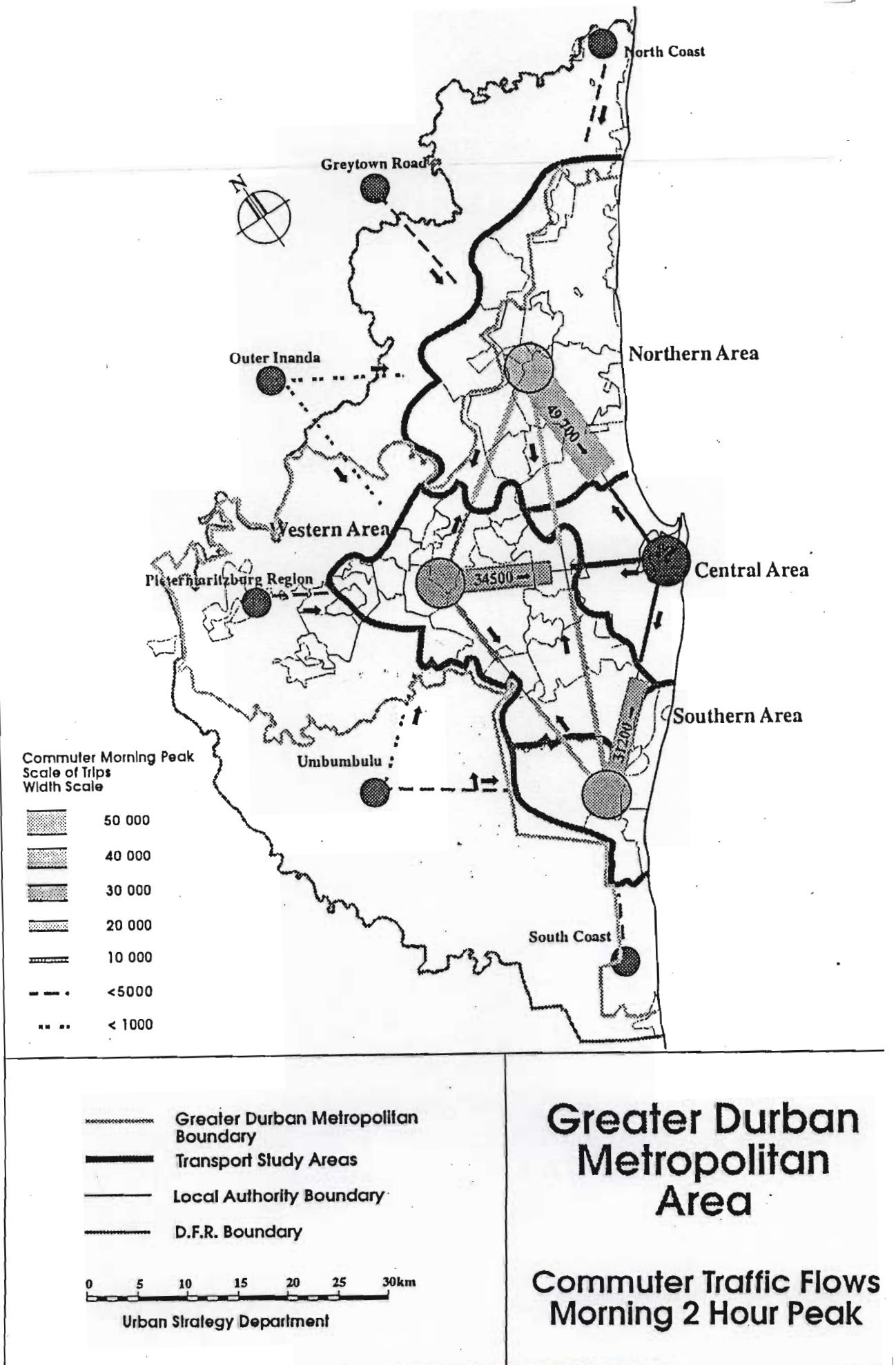
Source: Inanda Development Forum (1995)

FIGURE 5.5. Levels of Access



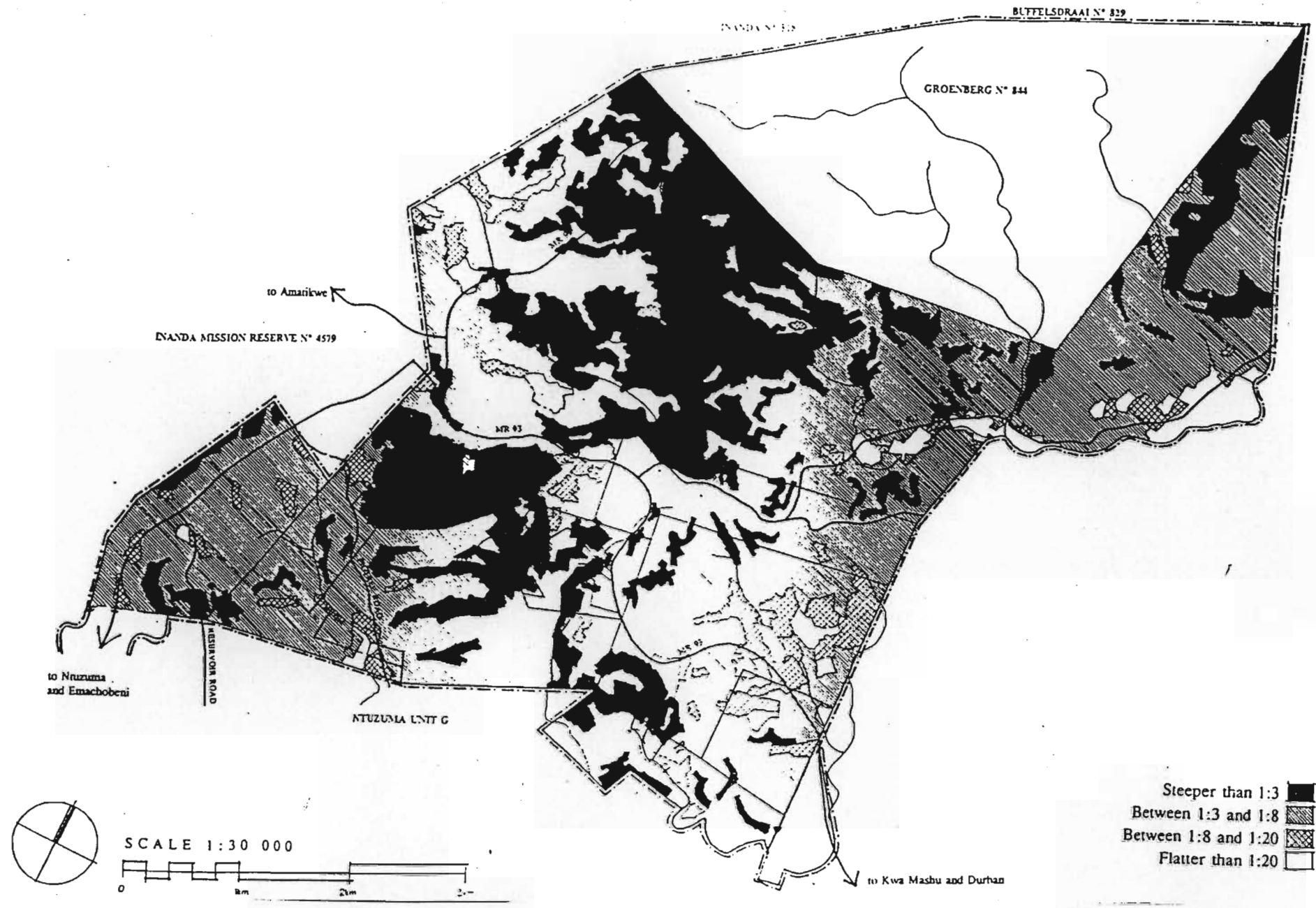
Source: Inanda Development Forum (1995)

FIGURE 5.6. Bus Services



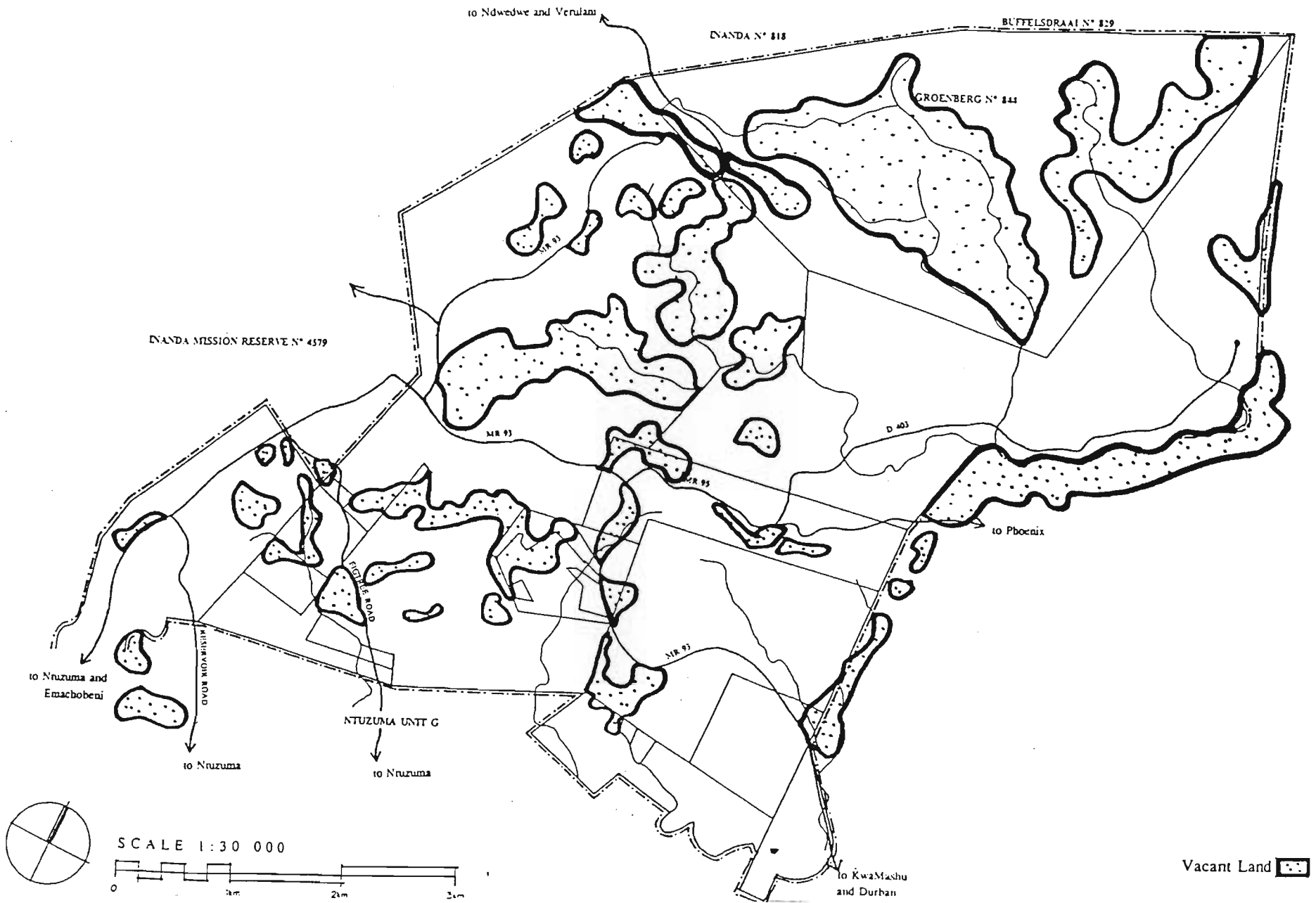
Source: Inanda Development Forum (1995)

FIGURE 5.7. Commuter Traffic Flows



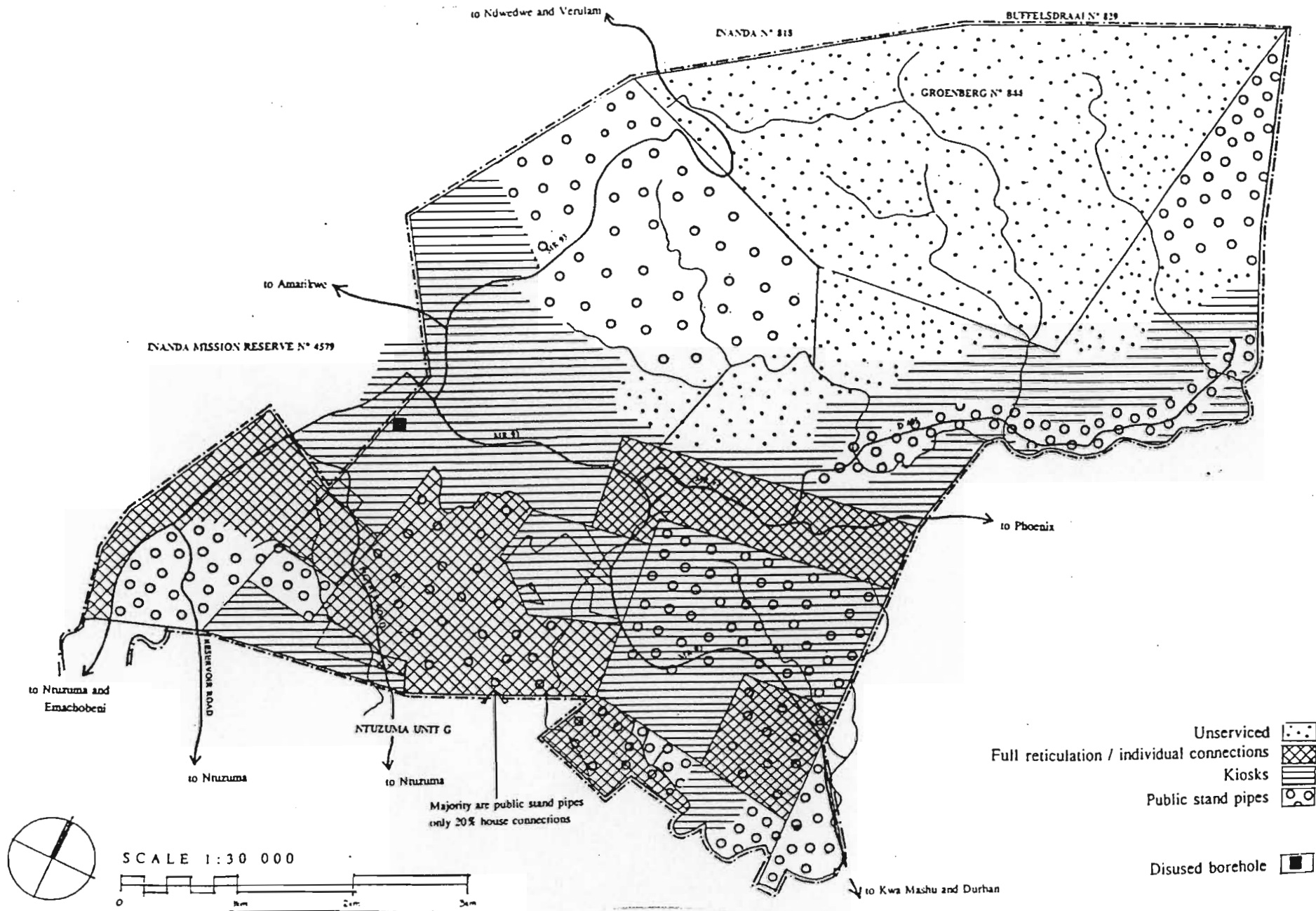
Source: Inanda Development Forum (1995)

FIGURE 5.9. Slope Analysis



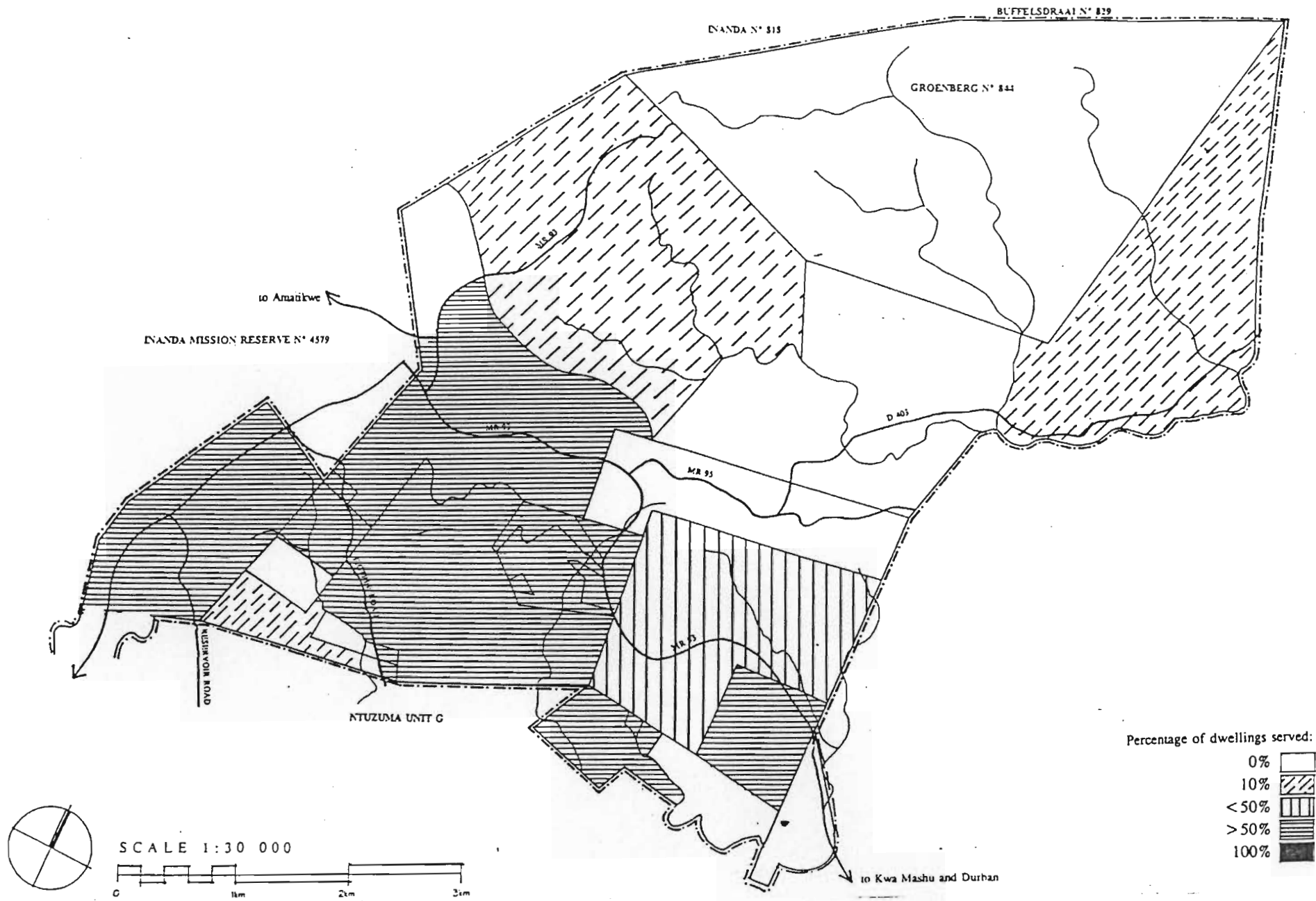
Source: Inanda Development Forum (1995)

FIGURE 5.10. Vacant Land



Source: Inanda Development Forum (1995)

FIGURE 5.11. Service Distribution - Water



Source: Inanda Development Forum (1995)

FIGURE 5.12. Electricity Distribution - Electricity Reticulation

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- Julian Baskin - Scott Wilson Kirkpatrick (02/11/1995)
- Philip Sithole - Inanda Business Forum (03/11/1995)
- Mr Makhatini - Inanda Development Forum (03/11/1995)
- Thandi Mbanda - Community Development Worker, National Council for Child and Family Welfare (03/11/1995)
- Tony Markewicz - Markewicz, English & Associates (06/11/1995)
- Yasmin Coovadia - Centre for Community and Labour Studies (07/11/1995)
- Dr. B. Langa - SMME Desk, Ministry of Economic Affairs and Tourism (07/11/1995)
- Michael Khumalo - Secretary, Local Economic Development Working Group, IDF (08/11/1995).
- Conrad Von Gass - Seneque Maughan-Brown SWK (13/11/1995)

**APPENDIX A**

**SME QUESTIONNAIRE**

**A. Details of Owner**

1. Age: ----- 2. Gender: -----  
3. Place of Residence: -----  
4. Previous Work Experience: -----  
5. Reason For Leaving: -----  
6. Details of Education/Training:-----  
-----

**B. Details of Enterprise**

7. Nature of enterprise eg. retail, manufacturing, service etc. Specify goods produced/sold or service rendered. -----  
-----  
8. Location: -----  
9. No. of employees: ----- 10. Days/Hours of Trade: -----  
11. Years in operation: ----- 12. Monthly Turnover: -----  
13. Nature of workplace infrastructure eg. electricity, telephone, water, tables, stall, factory unit etc. -----  
-----  
14. Nature of target market eg. sold to customers in West Str. or to people from specific community area. -----  
-----  
15. Source of raw materials/goods: -----

**C. Constraints and Recommended Solutions**

16. How did you start your business ie. source of capital? -----  
-----  
17. What was the greatest difficulty experienced in starting your business? -----  
-----  
18. Have you sought the help of a support organisation eg. SBDC, KFC? -----  
If no, why not? -----  
19. What difficulties/constraints are you currently experiencing in your business? List in rank order eg. competition; no access to credit; unsuitable premises/location; poor and

