



Why is there so little economic development in South Africa's townships?

There's no shortage of economic activity happening in township streets, backyards and houses: there are spaza shops on every corner, metal fabricators spilling sparks out of garages, hair-braiding on the sidewalk and a *shisanyama* – and a beer – are never far away. .

Despite this apparent dynamism, however, most economic activity in townships is trapped within a narrow band of informal activities. The returns are often low and so are the employment multipliers. The single biggest category of activity is retail, made up mainly of street-traders, spazas and shebeens: many operating from homes on a very small scale. Hardware and building supply stores can, however, also be found.

In the services sector, the taxi industry thrives – and is the backbone of related service activities, from tyre repair to car washes. The rest of the service sector, however, tends to focus on personal and social services, including food preparation, hair salons, and Early Childhood Development Centres.

Manufacturing activities are notably limited, along with the jobs – and business services – often associated with their presence. Those that exist are rarely linked into value chains or markets outside the township.

Most jobs are informal and precarious.



Yet townships are also the site of high levels of urban poverty and unemployment, particularly for youth. The lack of jobs locally means many people depend on economic opportunities far away.

For workers, this adds hugely to the costs of commuting, eroding the value of their wages and also encroaching on the time they have available outside of work. These factors raise the cost of labour and reduce productivity, with economy-wide impacts. For the unemployed, the costs of work-search activities are often simply unaffordable.

Certainly, part of the solution may be to strengthen transport linkages and connectivity, but the question also arises: why can't economic development be promoted in and around townships?

Township Economies Series

The Township Economies Series is produced by the Cities Support Programme of National Treasury and explores strategies for township economic development. The first in the series is focused on the factors that constrain such development – and considerations for the development of strategy.



How concentration in the core economy affects township entrepreneurs

South Africa's highly concentrated core economy may seem far removed from the challenges confronting township entrepreneurs, but in fact, the wider economy frames the competitive context in which they operate, with direct consequences for the nature of opportunities in township economies.

For township entrepreneurs, local residents provide an obvious target market. Yet this market includes a large proportion of people who are poor. They have limited disposable income and buy a predictable range of goods. The vast majority of these are mass-produced by large companies or conglomerates, as a typical household shopping list – and some associated brands – illustrates.

Maize meal (Iwisa, Ace, White Star), bread (Albany, SASKO, Blue Ribbon), sugar (Illovo, Tongaat-Hulett), milk and dairy products (Clover, Dairy Belle), sunflower oil (Nola, Epic), flour (SASKO, Premier Milling), tea (Joko, Glen, Five Roses), coffee (Ricoffy, Frisco), peanut butter (Yum-Yum, Black Cat), margarine (Flora, Rama), beer (South African Breweries), fruit juices (Ceres, Liquifruit, Oros), canned goods (Koo, Gold Crest, All Gold), rice (Tastic), soap (Sunlight, Lux). (Philip 2018)

As Philip 2018 highlights, in other developing country contexts, many of these products are produced by small enterprises and sold in local markets; but in South Africa, small-scale production of these goods puts producers into direct competition with the giants of the core economy in relation to price, packaging, brand-recognition and consumer habits, with brands holding strong sway. Often, small-scale producers cannot compete on these terms.

For items that are bought less regularly – such as school uniforms – consumers are often willing to go to malls outside the township to get the cheapest price. For

larger purchases such as furniture, hire-purchase payment terms are often the deal-breaker: with smaller producers unable to offer these.

Many of these products are also produced in vertically integrated value chains, in which the suppliers of critical raw materials also produce the end products: with instances in which raw material prices are set in ways that limit downstream competition. In the bread-price fixing scandal, for example, while the focus was on the costs to consumers, the Competition Commission also found that the large-scale millers had colluded to keep the price of flour artificially high, limiting competition from small-scale bakeries (Ledger 2016). Yet while collusion of this kind is illegal, high levels of concentration and vertical integration are not; they are global phenomena shaping markets – including in townships.

The challenge for local entrepreneurs is to understand this competitive context and to find ways to differentiate their products, to add value in some way – including from convenience – and to identify niche opportunities not already taken. In practice, this is where the successful action in townships can be found. The thriving market for live chickens is one example: with consumers willing to pay more for a live chicken than a frozen one from the supermarket. Fresh produce produced locally can also short-circuit long supply chains. In addition, within townships, there is increasing variation in levels of disposable income and opportunities from new consumer tastes: illustrated by Khayelitsha's Department of Coffee – supplying cappuccinos to commuters at the station on their way to work.

Nor do township enterprises have to limit their horizons to township markets. Craft beer Soweto Gold, for example, accesses markets in Johannesburg's upmarket northern suburbs. Doing so does, however, typically involve formalisation: which brings its own set of challenges.

What is a 'township'?

In South Africa, a 'township' is a dense urban settlement usually built at a distance from centres of commercial and industrial activity. In the apartheid era, this was by design: with townships established as dormitory towns for black workers in mines and factories, with no internal economic logic and limited social services. In the post-apartheid period, this pattern has tended to be reproduced because large-scale projects on cheap but poorly-located land offer lower unit costs, despite being far from economic opportunities in the core economy. The social, infrastructural and economic costs of this ineffective urban planning are under-estimated and become set in concrete.

Informality: a constraint to growth?

For entrepreneurs, informality has certain advantages. It allows people to start small, often from their homes, taking advantage of local networks and trust relationships, and with low compliance costs. For many, this is the easiest entry-point into income-generating activity, and it makes a vital contribution to livelihoods. At present, the majority of township enterprises are informal, making this the core basis of current township economic development and the platform for future growth. Unless there are real concerns for consumer, labour or community safety, criminalising such activity is counter-productive to these goals.

Yet despite the need to support such entrepreneurship, informality can also function as a poverty trap and a barrier to business survival – and to growth. Informal enterprises are vulnerable to both crime – and to police harassment. Informality limits access to credit and to insurance and insecure land tenure limits access to capital required for growth. Without licenses, shebeens cannot become taverns and are forced to operate in the shadows; without formal registration, informal crèches cannot access the government subsidies available to Early Childhood Development Centres. (Sustainable Livelihoods Foundation (SLF) 2016)

In addition, while for some enterprises, direct sales within the township market offer sufficient scale of demand, the township market can also become a limiting framework. Yet breaking into wider markets requires access to retail intermediaries such as supermarkets, hardware stores or clothing outlets.

For this, formality is typically a necessary condition. But formality is not, on its own, a silver bullet, as such buyers also require food standards, safety requirements, quality consistency and minimum volumes of supply to be met. This means a step-change in business sophistication, in relation to access to capital, credit, business premises, energy and water supply. These requirements may, under current conditions, push the business out of the township.

Yet while pathways to formalisation are an important part of township economic growth strategies, certain current features of townships mitigate against this, with land-use management arrangements posing a particular obstacle.

‘...the land-related processes which people have to navigate to obtain business compliance resembles a Kafkaesque world: one in which the rules are nightmarishly complex, incomprehensible and illogical. Partially as a result of these challenges, the great majority of township informal microenterprises do not comply with land management system requirements.’

(Sustainable Livelihoods Foundation 2017)

As a result of these land-use challenges, many enterprises are doomed to what SLF calls ‘enforced informalisation’: unable to access the benefits, protections and contract security that arise from formality, with this limiting their scope for growth – in particular, their ability to expand into markets beyond the township or to participate in value chains.

In addition, existing zoning regulations – following apartheid-era patterns – often outlaw mixed-use development, which is the dominant existing pattern in townships: with many businesses run from people’s homes. This has arisen partly because many townships do not have well-located land zoned for economic activity. This in turn limits the development of clusters of economic activity and of the agglomeration effects that arise from proximity between certain types of business, including enhanced productivity, specialisation and scope for business services.

To address this, some strategies have sought to locate industrial zones on the perimeter of townships. Yet, as research in the City of Johannesburg has illustrated, this aim has all too often been undermined by a failure to get the basics right: with problems of inconsistent energy supply, lack of street lighting, poor security and a lack of public transport in support of shift work undermining growth potential in such nodes (Kaziboni 2017).





What are the objectives of township economy strategies?

- To **create jobs** in the township.
- To **create opportunities** for existing township entrepreneurs to expand, and for new entrepreneurs to emerge.
- To increase the **income returns** from economic activity – including for workers employed in such enterprises.
- To increase **asset creation** – and the better use of existing assets to create value.
- To augment these approaches with the **more effective use of public employment** (through EPWP and the Community Work Programme) given the significant structural constraints faced.

What considerations need to inform strategy?

- Township economies are part of the wider economy and are affected by its structure and high levels of concentration. This

affects the competitive context in which enterprises operate. This understanding needs to inform strategy, with a recognition of different sectoral impacts: so, while the small-scale manufacturing sector faces the greatest competitive challenges, the services sector may have considerable scope for growth.

- A majority of township enterprises are informal, with retail activity the single largest category and the easiest entry point into business activity. These enterprises make important contributions to livelihoods. Can the conditions of work and returns to effort be strengthened – to enhance anti-poverty effects?
- Informality can be a poverty trap that limits the scope for growth. What are the constraints to formalisation, and in what other ways must businesses upgrade to enable business-to-business transactions beyond the township and in value chains?
- There is an interface between economic opportunity and social, cultural and civic development that can be mutually self-reinforcing.

What is the role of metros and local governments in the process?

Metros and local governments have a vital role in creating the **enabling environment** for economic development in townships, and while the purpose of this series is to explore and elaborate on these strategies, the following headline areas are already clear:

- **Get the basics right:** energy, roads, water, security and public transport in townships.
- Address **land use management** and other regulatory issues that constrain development.
- **Improve connectivity** between townships and the wider economy – including in relation to wi-fi and internet access, which can assist in bridging spatial divides.
- Build effective **partnerships** with the private sector.

Interventions at these levels can have systemic effects for all forms of enterprise – formal and informal.

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