



# Strategic Interventions towards Enhancing Rural and Township Economy Revitalisation by the Wholesale and Retail Sector



**Gordon Institute  
of Business Science**  
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## Preface

This report represents the analysis and understanding of the economic environment within rural areas and townships (as defined by (Haggblade, Hazell, & Reardon, 2007) and (Li Pernegger, 2007)).

The purpose of this report is to understand what research has been done on strategic interventions to revitalise both the rural and township economies, as well as to make recommendations on how to bolster current revitalisation efforts. The literature reviewed has shown a bias towards the retail SMME sector within townships at the expense of wholesale and manufacturing, which, along with retail and due to their symbiotic nature, are a necessity in order to have truly thriving rural and township economies. Further, the rural economy needs to be taken cognizance of if the imbalances of the past are to be addressed, and some of the issues currently faced in townships are to be addressed.

It is a shame that although democracy dawned in South Africa over 20 years ago, our rural and township economies still lag development-wise and are hobbled by a number of seemingly intractable obstacles. Chief amongst these challenges is unemployment, which has been linked by (Choane, Shulika, & Mthombeni, 2011) to service delivery protests and xenophobic violence, characterised by burning of public facilities and the looting of foreigner owned and/or run spaza shops, the bedrock of retail SMMEs in townships. Strategic interventions that address SMME stabilisation, job losses and unemployment (27.1% as per (Statistic South Africa, 2016)) will contribute towards revitalisation of the wholesale and retail (W&R) sector in townships and rural areas, hence improving the lives of the previously economically marginalised that live mainly in townships and rural areas.

In determining appropriate initiatives to recommend for revitalising rural and township economies, we have taken into account research that is unanimous that the way to develop townships and to spur economic growth is to increase the number and size of SMMEs. We have then applied varied and suitable methodologies garnered at various stages and in different countries and contexts during our International Leadership Development Programme.

Tables, graphs and maps have been used where apposite to illustrate the analysis. Readers are referred to our bibliography to identify other sources for further detail and examination of the topic.

## 1. Introduction

In order to correctly craft interventions that are designed to revitalise rural area and township economies, appropriate South African definitions of “rural areas” and “townships” are required. These terms are heavily influenced by prior government policy (e.g. Group Areas Act, No. 36 of 1966) that racially segregated South Africa with the intention of creating disseminated labour pools that supported apartheid ideals.

The (Rural Development Framework, 2007) defines rural areas from a population (low density) and primary economic activity (farming and natural resources) view point. In their research, (Hagglade, Hazell, & Reardon, 2007) concur with this definition, and expand it to include that the farming is mostly subsistence in nature.

While there is no “formal” definition of a South African township, (Li Pernegger, 2007) attempts to define them based on various pieces of legislation that gave rise to these settlements; namely The Black Communities Development Act (Section 33), Proclamation R293 of 1962, Proclamation R154 of 1983 and GN R1886 of 1990 in Trust Areas. These legislative instruments designated certain areas as “whites only” for residential purposes and resulted in underdeveloped areas (townships) where blacks, coloureds and Indians who provided labour in the “whites only” areas lived. In their book “economic Education”, (Todaro & Smith, 2003) further add that these areas are characterised by a large number of small scale production and service activities that are individually or family owned and use simple, labour intensive technology

### 1.1 Background

Although townships were established close to the urban environment, the people that lived there were required to commute to and from their places of employment which were mainly in the central business district. As a result of rural to urban migration and forced removals, townships tended to be highly populated and suffered from a lack of basic municipal services due to minimal investment and unplanned rapid expansion. This legacy has continued in post-apartheid South Africa and the same challenges still exist in townships. Compounding the situation was the uptick in rural to urban migration experienced post the abolition of influx control legislation which led to an increase of informal settlements in and on the periphery of townships, which placed even greater pressure on the already strained basic municipal services.

The Department of Rural Development and Land reform has been tasked with ensuring that rural areas enjoy the same benefits as urban areas, and has a number of key priorities, which

if successfully implemented and funded would ensure that rural areas are revitalised. Chief amongst these is the Comprehensive Rural Development Programme. Though these attempts are noble, they have not been able to create jobs at a pace that can absorb the available labour pool (Recapitalization and Development Programme, 2013), and as a result migration to cities has continued unchecked.

## 2. Problem statement

According to research conducted by (Meyer, 2013), Rural South Africa has constantly deteriorated over the last few decades due to globalization and urbanization. Rural areas and townships are competing against larger cities that have been globally identified as “engines of growth” due to skewed resource allocation.

According to (Donnelly, 2012), Gauteng had a growth of 31% in its population in the preceding decade, whilst the Western Cape’s growth in population was 29%. The bulk of this was due to migration from the Eastern Cape and Limpopo, and these people would have mainly ended up in townships.

In order to cope with such rapid population growth, and to ensure that township economies are revitalised, strategic interventions are required in 7 key areas. As a result of the breath of these areas, our research will touch on all of them, but focus mainly on SMMEs, training, and monitoring.

### 2.1 Regulatory Framework

In the literature reviewed, a common thread that is required as a base for revitalising rural and township economies is an enabling regulatory and legislative framework. The framework needs to cover regulations for land use planning and access thereto (Adatia, 2010), & (Mahajan, 2014), access to finance in order to unlock growth potential (Mahajan, 2014) and legislation to level the playing field through preferential procurement within government and the private sector for industries based in townships and rural areas (Gauteng Department of Economic Development , 2014)

### 2.2 Focus on SMME’s

(Berry, et al., 2002) Attempted to uncover and contextualise why the desired growth and development of Small, Medium and Micro-sized Enterprises (SMMEs) are hindered. They recommended that the rationale of SMME policies be considered, and that clarification and clearer enunciation of how SMMEs fit within the industrial policy framework and other objectives of the government be agreed, communicated, and actioned. Policy deliberations should include how to raise the rate of formation of SMMEs and how to improve the

performance of existing SMMEs through increased competitiveness (includes creating a conducive environment for expansion of wholesale and retail trade beyond our borders and reducing red tape).

### 2.3 Co-ordinated Planning

The revitalisation of rural and township economies needs comprehensive and integrated plans for successful implementation which have to be intertwined with the Local Economic Development (LED) framework and the National Development Plans (NDP). Revitalisation also requires the commitment of local leaders, appropriate skills, patience from communities and sufficient fiscal funding. The challenge of LED in South Africa is that most local municipalities lack the resources, skills and economic strategies to grow and eradicate poverty and unemployment.

### 2.4 Infrastructure

Infrastructure is also foundational to successfully revitalising rural and township economies and it's important that both national and local government are efficient in the provision thereof. This includes but is not limited to the setting up of industrial hubs (single/multi-sectoral) and business parks (Gauteng Department of Economic Development , 2014) along with roads, water, electricity, waste management and internet access (Adata, 2010).

### 2.5 Training

Given the high unemployment rate, and the educational challenges in a country where over 500 000 of the 1 303 016 enrollees for grade 1 in 2004 failed to write matric in 2015 (Vorster, 2016), it is imperative that entrepreneurial and SMME training programs are instituted if we, as a country, are to successfully revitalise rural and township economies which bear the burden of affected individuals. These programs can be run by the government through SETA's, FET colleges and universities, as well as by the private sector through NGO's and mentoring programs (Department of Trade and Industry, 2005) & (Gauteng Department of Economic Development , 2014).

### 2.6 Multi-Sectorial Co-ordination

In order to successfully revitalise rural and township economies, scale is a pre-requisite. With the prevalent security risks within South Africa, both the aforementioned areas are viewed as unsafe and are therefore not viewed as a viable place for commerce (Mahajan, 2014). All sectors of the economy need to work together to ensure that this challenge is overcome (Adata, 2010)

## 2.7 Monitoring

Whenever strategic interventions are implemented, it is important to have sufficient monitoring and evaluation put in place to not only ensure that the expected outcomes are achieved, but to allow for adjustments to be made where these are either not achieved, or where better results can be attained (Gauteng Department of Economic Development , 2014) & (Adata, 2010).

## 3. Project Goal, Objectives & Scope

### 3.1 Research Goal

The objective of our project is to, from a Wholesale and Retail (W&R) perspective, investigate and recommend sustainable strategic interventions that can be implemented which will contribute to the revitalization of rural and township economies. We have critically assessed available prior local research, current plans geared towards contributing to this end, and interventions that have been successfully applied in the past.

### 3.2 Research Objectives

- To evaluate what strategic interventions have been implemented in South Africa that have led to rural and township economy growth.
- To understand what impediments have prevented rural and township economy revitalisation since 1994
- To derive a model that can be repeatedly and consistently applied across the country that will aid in revitalisation of rural and township economies.
- To define and understand how and when revitalisation is deemed to have occurred and apply this to recommendations where possible

### 3.3 Project Scope

The following is deemed to be the project scope:

#### 2.3.1 In Scope

- South African rural areas
- South African townships
- The entire economies of the above

### 2.3.2 Out of Scope

- Economies outside of South Africa

### 2.3.3 Assumptions

- Rural economies can be and are in need of revitalisation
- Township economies can be and are in need of revitalisation
- Revitalization will result in tangible benefits and is therefore worthwhile pursuing
- The same interventions can be used to revitalise rural areas that are used to revitalise townships

## 2.4 Research Questions

The following research questions are designed to focus and assist in responding and managing content of the set objectives:

### 2.4.1 Defining and understanding rural and township areas

- What is an accepted definition of a rural area?
- What is an accepted definition of a township?
- How did townships arise?

### 2.4.2 Defining and understanding revitalisation

- Why are rural areas in need of revitalisation?
- Why are townships in need of revitalisation?
- What is revitalisation?
- Is there consensus on how to measure success of revitalisation?
- Are there any pre-requisites to revitalisation?

### 2.4.3 Defining and understanding revitalisation levers

- Are there any rural areas that have been revitalised?
- Are there any townships that have been revitalised?
- If either of the above is true, how was it achieved?
- Is wholesale and retail the primary vehicle for economic revitalisation?
- Can any successes be replicated?

### 2.4.4 Understanding factors that impact urbanisation and hence township growth

- What is the impact of urbanisation on township revitalisation?
- Will rural area revitalisation impact urbanisation?

#### 2.4.5 Understanding factors that impact township spending patterns

- Does cash circulation within an area impact revitalisation?
- Do township dwellers spend their earnings within the township economy?
- If not, where and why do they spend it elsewhere?

#### 2.4.6 What can wholesale and retail contribute to revitalisation or rural areas and townships?

#### 2.4.7 What is the role of government, and what existing initiatives are in place to contribute towards rural area and township revitalisation?

## 4. Defining Revitalisation

The concept of revitalising townships, and to a smaller extent rural areas, has gained traction within South Africa over the last few years. It has been spearheaded at national government level by the Ministry of Small Business through the National Informal Business Development Strategy. At provincial government level, both Gauteng and the Western Cape have initiatives aimed at economic revitalisation. At metro level, Cape Town, Johannesburg, Durban and Bloemfontein have frameworks in place to grow SMMEs (Andrew Charman, 2015).

Although revitalisation as a concept is in vogue as shown by the number of initiatives that have been kicked off, none of the above have defined exactly what revitalisation means and how it would be measured. To address this conundrum, given that the definition is key to our topic, we conducted surveys with six economists.

All the economists indicated that there is no difference in the definition of revitalisation between rural areas and townships. Extrapolating from the responses, below are salient points to their definition of revitalisation:

- The creation of a self-sufficient economy
- The generation of sufficient income to mitigate the migration of people to urban areas
- The provision of infrastructure and services linked to economic prosperity such as electricity, roads, running water and cluster businesses located around rural natural endowments
- A thriving entrepreneurship culture and concomitant growth of the informal economy that counters the high levels of urban unemployment

In the absence of the literature providing definitions of revitalisation success, we turned to the economists who proffered the following for gauging the success or failure thereof of revitalised rural areas and townships:

- Increase in the number of sustainable quality job opportunities and an attendant reduction of reliance on state grants
- A visibly thriving SMME sector
- Improved calibre of educated labour pool
- Availability of electricity, internet, good transport network and other municipal services.
- A continued decline in crime and household poverty.
- The ability for rural areas and townships to absorb new labour as it comes onto the market.

Although the above is a composite of the feedback, concerns were expressed, summarised below, about the topic and questions:

- Given that to revitalise means "to make (someone or something) active, healthy, or energetic AGAIN" how can one talk about 'revitalising' something that never existed?
- Based on the above, consideration should be given to using "develop" as this is in line with the conventional term of "economic development" and/or "development politics/ studies."
- Revitalisation of rural areas given our current economic context is not possible and should not be a core focus given the limited resources we have as a country to spend on interventions. Investment should rather be concentrated on extending opportunities within marginalised townships.
- The current obsession with building retail centres in the hope of stimulating the township economies is futile. A coordinated development plan that includes the setting up of other industries within the value chain (e.g. manufacturing and services) is necessary to achieve the requisite growth.
- Government expenditure is definitely key to stimulating rural area and township economies, but for maximum gain, the investment should be productive and channelled through vehicles such as SMME, employment youth subsidy and soft infrastructure projects.

Having derived a working definition of revitalisation, and given the current national focus on revitalisation of both township and rural areas, we posed the question as to whether or not the economists believed that these areas could be revitalised. 60% of the interviewees either agreed or strongly agreed that townships could be revitalised while the balance disagreed. From the rural area perspective, none strongly agreed that these could be revitalised and 40% agreed – the same percentage as those that strongly disagreed.

The major reasons for the lack of faith in the revitalisation potential and the current tardy economic growth of rural areas is that the residents in these areas lack entrepreneurial flair, that have poor business acumen, the infrastructure in rural areas is poor with minimal expectation that it will be drastically improved in the medium term and the lack of skills training and development.

On the other hand, the lacklustre economic growth in townships was attributed to an unsupportive regulatory environment, onerous tax compliance requirements, lack of well-defined systems and processes as well as poor inventory management.

Reasons that have not featured above that were common across both rural areas and townships for slow growth are a lack of access to funding and an inefficient supply chain.

## 5 Factors That Contribute To Township Revitalisation

### 5.1 Government Support

In a bid to test the validity of the literature and economist research feedback, we sought an example of a township or rural area that was once a thriving centre of industry which subsequently went bust and is now on the path to flourishing again – in short one that is currently being revitalised. We identified Atlantis as fitting the criteria and an analysis of its economic metamorphosis is presented below:

Atlantis was conceived as a modern industrial city for the development of the Coloured people of South Africa. It was defined as the “bruinmense droomstad (Coloured dream-city)”. It was created during the height of apartheid in South Africa and was architected to continue the preservation of white minority interests through segregation. The following provided the impetus for the government of the day to the create Atlantis:

- The Western Cape economy had suffered a relative decline in their national share of GDP between 1960-1980.
- The large increase in the population of Black Africans (mainly from the Eastern Cape) into the Western Cape and the associated rapid growth of townships.
- The threat of an anti-apartheid alliance being agreed between Black Africans and Coloureds.
- The population pressures of the Cape, with the Coloured people expected to grow faster than that of the White people.

The main strategy used to further the apartheid governments aim was to encourage industrial development in Atlantis by offering a raft of incentives some of which are listed below:

- Low interest loans for land and building purchases
- Reduced company taxes
- Cash grants for business relocation costs
- 40% rail transportation rebates
- Easily accessible housing loans
- Guaranteed housing for staff
- 40% tax rebates on wages
- 3% price preference within South Africa

The incentives had the desired effect and resulted in over 100 factories relocating and/or setting up plants in Atlantis. By 1984, as a result of the program, it is reckoned that the formal sector had created 12 788 jobs.

In the mid to late 1980's, the scheme began to unravel due to a recession within South Africa, the impact of sanctions and political pressure from trade unions and political parties. Given that the township was reliant on industry for approximately 85% of its jobs, these challenges led to over 3 000 jobs being lost in the five years between 1987 and 1992. The loss of formal jobs, and the resultant reduction in cash in circulation that impacted the informal sector led to residents' inability to meet their rental and basic necessity commitments. This led to an increase in crime and violence in the area that was exacerbated by the government's removal of subsidies, followed by factories relocating from Atlantis as without the incentives, it was more commercially viable to be based elsewhere.

The change in the political order did not result in any relief for Atlantis businesses nor for residents, and as a result, the last of the big employers (2 000 employees), Atlantis Diesel Engines, ceased operations leaving the once thriving township as a shadow of its former self.

In 2014, in a bid to address the shortcomings of Industrial Development Zones, the government promulgated the SEZ Act No. 16 of 2014. Atlantis was registered as a Greentech (renewable energy and green technology) Special Economic Zone (SEZ) by the Western Cape government shortly after the act became law. The purpose of an SEZ is to allow cluster industries from a particular sector to locate in geographically designated areas to get the benefits of scale, skills transfer and co-location.

The incentive package that is offered by the government to SEZs is very similar to that which was offered by the apartheid government in the previous dispensation.

- A preferential corporate tax of 15% as opposed to 28%
- Building allowance tax relief
- Employment tax incentive relief
- Vat relief due to being located in a customs controlled area
- Capital investment and training support for green and brown field implementations through the 12i Tax Allowance

As a result of the SEZ being set up, Atlantis is expecting direct investment of R1 billion over the next 5 years (Petterson, 2016). Just over 300 direct jobs have thus far been created and more are expected with the investment pipeline. This, along with infrastructure like the MyCiti bus that has launched to Atlantis, Fibre optic cable, road upgrades and electricity upgrades will no doubt lead to the revitalisation of the township.

## 5.2 Local Economy Support

In their book “Just Give Money to the Poor” (Hulme, Hanlon, & Barrientos, 2010) argue that poor people spend money locally and that the stimulus of demand this creates is what is needed for development in these local economies. A Time article by (Schwartz, 2009), further states that local purchases are twice as efficient in terms of keeping the local economy alive. Given that the net result of the aforementioned would aid in revitalisation, we set about investigating what is happening in townships within South Africa using Cape Town townships as a proxy.

It was important for purposes of the research to ensure that we had a representative profile of age ranges in order to capture the economically active population. Our sample population consisted of twice as many females as males reflecting general shopping dynamics, and a leaning towards the 26-35 year cohort.

## Participant Profile

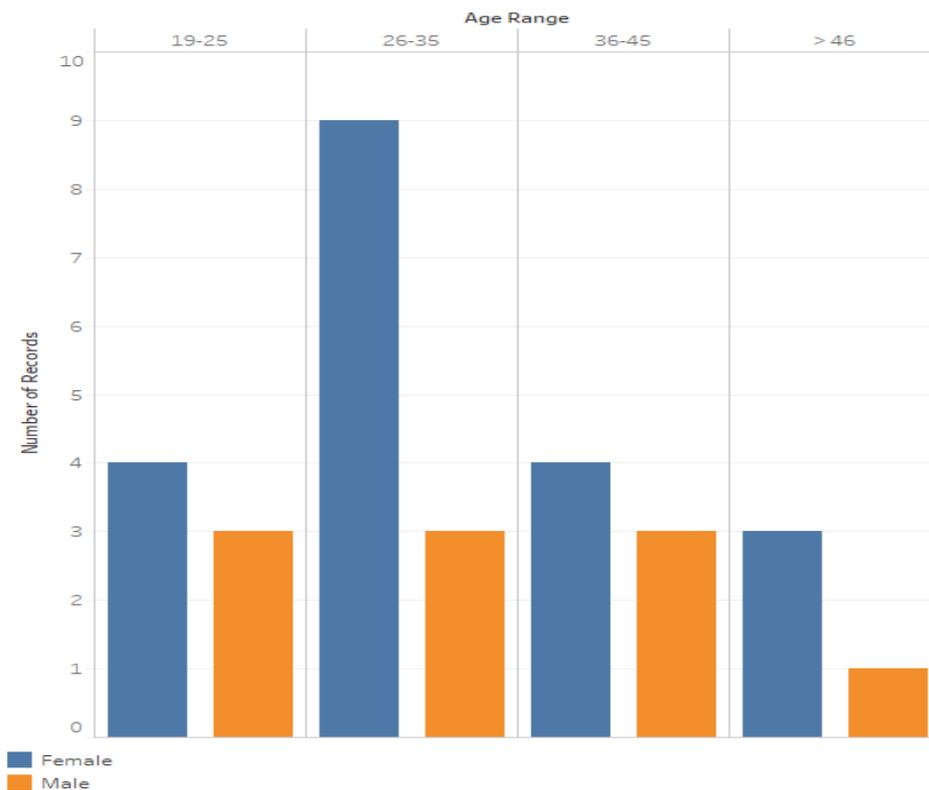


Figure 1 - Focus Group Profile

The sample group mainly resided in Gugulethu, Nyanga, Langa, Khayelitsha and their surrounding areas. These are the four largest Black African townships in Cape Town. Our goals were to understand their current shopping habits, the reasons for their current shopping patterns, and to determine pointers for strategic interventions that would sway their spend to be more concentrated within their locality.

For both males and females, the research revealed that almost two-thirds of their disposable income is spent outside of the townships. The bulk of this spend is in malls that are at least

20km from the primary place of residence, and they are mostly located in non-township areas.

On enquiring as to the reason for the above, the below is what was given:

Reasons For >66% Spend Outside Townships

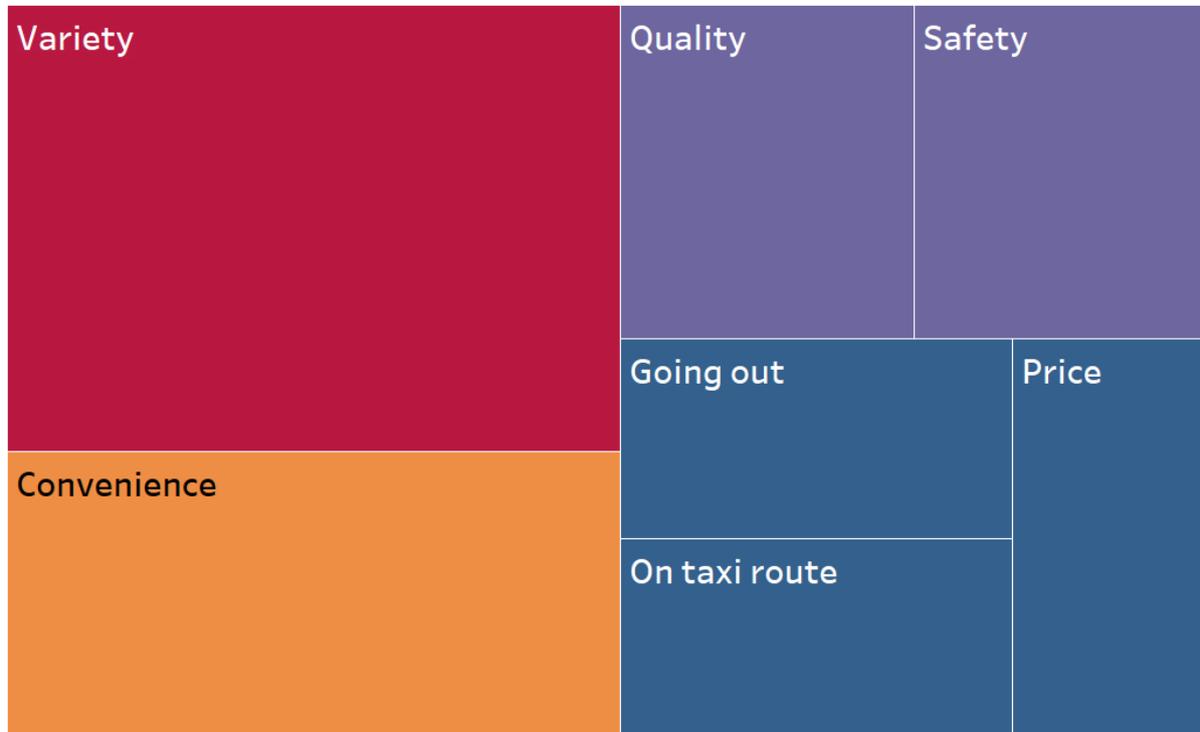


Figure 2 - Focus Group: Reasons for out of Township Spend

Another element we explored, given the costs of transportation to and from shopping expeditions, was the frequency of shopping trips. If townships were successfully revitalised and the populace persuaded to spend locally, the savings from these excursions would assist in keeping the local economy well lubricated. This is amplified when one considers that transport can range from 15% for the fourth quintile to 48% of expenditure for the lowest quintile (Mahajan, Economics of South African Townships: Special Focus on Diepsloot, 2014).

## Shopping Frequency By Gender

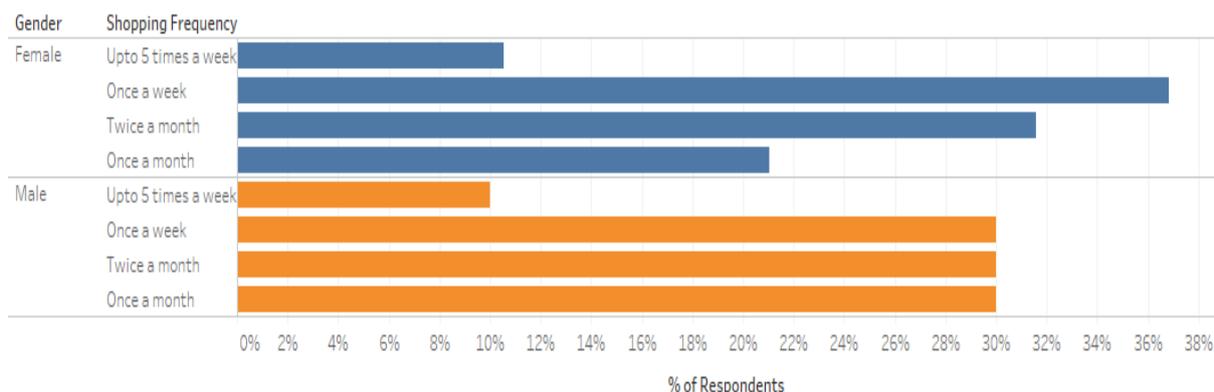


Figure 3 - Focus Group: Shopping Frequency Analysis

From the analysis of the above, 40% of male respondents and over 46% of female shop at malls up to 5 times a week. This represents a sizeable opportunity for spend that could contribute to the revitalisation of townships.

### 5.3 SMME Support

Small, Medium and Micro Enterprises, often referred to as small businesses, play an important role in the South African economy. They are a key driver of economic growth, innovation and reduction in unemployment. The government recognises the importance of this segment of business activity and as a result set up the Ministry of Small Business Development in 2014. The aim of the Ministry is to facilitate the promotion and development of small businesses, organisations that contribute significantly to national GDP and have proved to be a major contributor to job creation (DTI, 2008)

Additionally, the government has set up a number of organisations to deal specifically with SMMEs due to the role that they can play in the economy and by extension township revitalisation. These include:

- Small Enterprise Development Agency (SEDA) – An organisation established in 2004 with the mandate to implement government’s small business strategy, design and implement a standard and common national delivery network for small enterprise development, and integrate government-funded small enterprise support agencies across all tiers of government (BER, 2016).
- Khula Enterprise Finance Limited – This was the result of the amalgamation of the Small Enterprise Finance Agency (SEFA) and the South African Micro-Finance Apex Fund (SAMAF). Its mandate is to provide financial assistance for SMMEs of up to R3 million.

- National Youth Development Agency (NYDA) – This organisation was established to assist youth between the ages of 14 and 35 years to finance existing businesses or to start up new ones.
- Technology and Innovation Agency (TIA) – This was set up when seven entities were merged and has as its mandate the provision of funding that assists in stimulating and intensifying technological innovation in order to improve economic growth and the quality of life of all South Africans by developing and exploiting technological innovations.
- National Empowerment Fund (NEF) – This organisation was set up in order to offer both financial and non-financial support to businesses that are owned or controlled by blacks.

## 5.4 Other Factors

### 5.4.1 W&R Seta Interventions

According to (Alcock, 2016), 20% of money spent in South Africa is spent in informal stores representing over R46 billion. The informal sector is further growing at 7% per annum as opposed to 4% for the formal sector. The bulk of this sector operates in townships and is comprised of persons that have not had 12 years of formal education (StatsSA-BER, 2015 Q2), and therefore programs aimed at improving the business acumen of informal traders are needed to provide a baseline for better growth and job opportunity creation capability.

As part of NIBUS, the Wholesale & Retail Sector Education and Training Agency (SETA) has since 2014 partnered with the Department of Small Business Development in running the Informal Traders Upliftment Project (ITUP). The project goal is to “identify, train, mentor and provide infrastructure support to informal traders including capacity building for Informal Trader Organisations in all nine Provinces” (Wholesay Quartely Newsletter, 2016). A thousand traders were selected and trained at Technical and Vocational Education and Training (TVET) colleges on Introduction to Entrepreneurship; Advertising and Promotion; Customer Care and Service; Basic Financial Management; Purchasing Skills and Legal issues (i.e. by-laws and compliance) among others. This first tranche graduated in the first quarter of 2016, and plans are underway to begin working with a second group.

#### 5.4.2 Enterprise Development

In May 2015, an amended Broad-Based Black Economic Empowerment (B-BBEE) Code of Good Practice came into effect to govern companies that have a revenue greater than R10 million and that participate in the voluntary B-BBEE scheme. As part of the code, 40 points are awarded on the Generic Scorecard, and 30 points on the Qualifying Small Enterprise Scorecard for enterprise and supplier development.

According to (Schoeman Law, 2014), the primary aim of the code is to ensure that big companies “not only procure from small black-owned businesses, but also assist them to grow their businesses so that they can play a meaningful role in the economy.

There are a number of large companies that have, and are still successfully utilising the legislation to support and grow small and medium sized businesses in townships. Examples are Copcro South Africa in cooperation with Tirisano Trust, Shanduka Black Umbrellas and Telkom through Future Makers. The opportunity exists to identify more township based enterprises and connect them to large businesses and hence impact township positively.

Provincial governments also play a key role in revitalising townships through enterprise development and the procurement targets that they set. The Gauteng government currently has 287 township based construction and building maintenance companies undertaking government construction and infrastructural maintenance projects as well as 53 township based and black owned clothing and textile businesses that are supplying linen to public hospitals in Gauteng. Both these numbers are expected to increase, and hence the opportunity for township revitalisation.

#### 5.4.3 Provincial Interventions

South Africa is reckoned to have 2.25m SMMEs, of which over 785 000 are located in Gauteng, 373 000 in Kwazulu-Natal and 250 000 in Limpopo. The vast majority of these are located in townships and it is estimated that as a whole SMMEs account for 42% of the national GDP (StatsSA-BER, 2015 Q2).

The Gauteng government is leading the way nationally and has set up the Gauteng Growth and Development Agency (GGDA) with the aim of ensuring a rapid economic transformation in the province, the creation of sustainable jobs, modernisation of the economy and support for knowledge-based and high-tech economies (Ledwaba, 2016).

Below are interventions linked to the above strategy:

#### *5.4.3.1 Jozi@Work*

This program was launched in 2014 with the aim of injecting income and promoting commercial activity in all areas of the city whilst improving service delivery in parallel. The stated aim was to spend more than R1-billion on contracts for services to the city to be rendered by up to 1 750 new and existing SMMEs. This spend and empowerment was designed to create 40 000 new jobs. The main beneficiaries of the contracts were expected to be community cooperatives and enterprises and this was expected to lead to a reduction in poverty, inequality and unemployment.

#### *5.4.3.2 Vulindlela eJozi programmes*

Johannesburg, in Gauteng, has over one million youth mainly residing in townships that are not currently in school, receiving training of any sort that are in need of employment. The target of this program is to reach 200 000 of these in 2016 and afford them the opportunity to become economically engaged. Applicants to the program are assessed in conjunction with a privately funded youth development social enterprise accelerator and given work seeker support that includes job placement, entrepreneurship assistance and further training opportunities.

#### *5.4.3.3 Massmart partnership*

Massmart is a publicly traded managed portfolio of four divisions, each focused on high-volume, low-margin, low-cost distribution of mainly branded consumer goods for cash, through 405 stores in 13 countries in sub-Saharan Africa.

The partnership agreement that has been entered into will see R650 million being injected into six townships across Gauteng. The aim is to set up 500 stores that will be run by township entrepreneurs and create over 1 000 direct jobs. The local government has further committed to assisting all partnership SMMEs with market access to the Gauteng government.

#### *5.4.3.4 Pick n Pay partnership*

The Gauteng government entered into a Public Private Partnership, through the Gauteng Enterprise Propeller, an organisation set up to support the development of small businesses, with Pick n Pay, a publicly traded company with operations across Africa, to launch a Township “Spaza/Micro Retail Franchise” model and a “Spaza” buying group as part of their contribution to revitalisation of the township economy.

The franchise pilot which has run through 2016 in Diepkloof has been a success and resulted in the sales of Monageng Market rising 250% and their profit 300%. On the back of this achievement, four more franchises are expected to be rolled out in the near future.

## 6 Research Finding Summary

From the literature surveyed and the research conducted a number of themes on revitalisation of rural areas and townships emerge:

- SMMEs – A focus on SMMEs is necessary for vitalisation of townships as they are the employment engines and have the greatest scope for growth.
- Government is in agreement with the above and are therefore investing heavily in this area through various agencies.
- Supportive infrastructure is a key enabler for vitalisation of rural area and township economies.
- Public Private Partnerships have the potential to play a big role in the vitalisation of townships.
- There is no shortage of supportive legislation for SMME growth in South Africa.
- Government can use tax legislation to successfully drive investment to townships and rural areas and hence spur their revitalisation.
- Intra-township spending support is not strong.

Having understood that just about all of the initiatives and funding that are in the pipeline, or have been successfully executed in growing township economic activity are focussed primarily on SMMEs, and further understanding that, according to (Bisseker, 2014), “SMEs account for 60% of total employment in SA compared with a global average of 77%” and that “up to 76% of all SMEs fail in their first two years of existence” due mainly to lack of support and business skills; we undertook a survey, primarily within the retail sector (70%) to

understand potential support gaps within the SMME space and to inform our recommendations. The results are below:

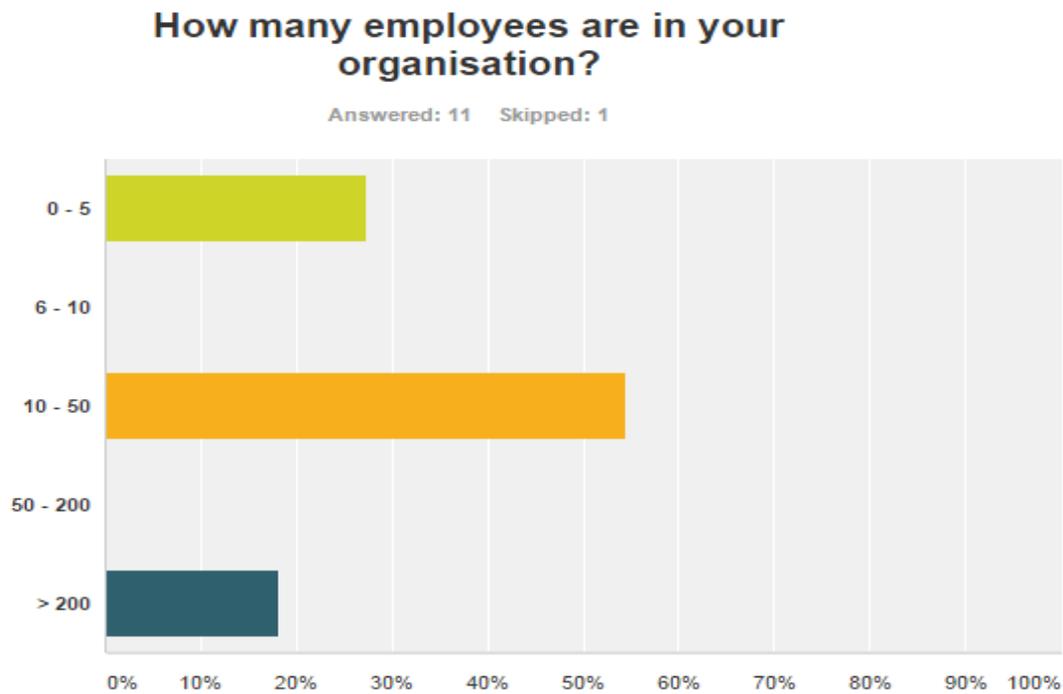


Figure 4 - SMME Survey: Employees per Organisation

The bulk of the respondents that we received feedback from have less than 50 employees. SMMEs of this side have sufficient upside for growth in terms of number of workers should they receive appropriate support to expand their businesses.

## How mature are the following functions within your organisation?

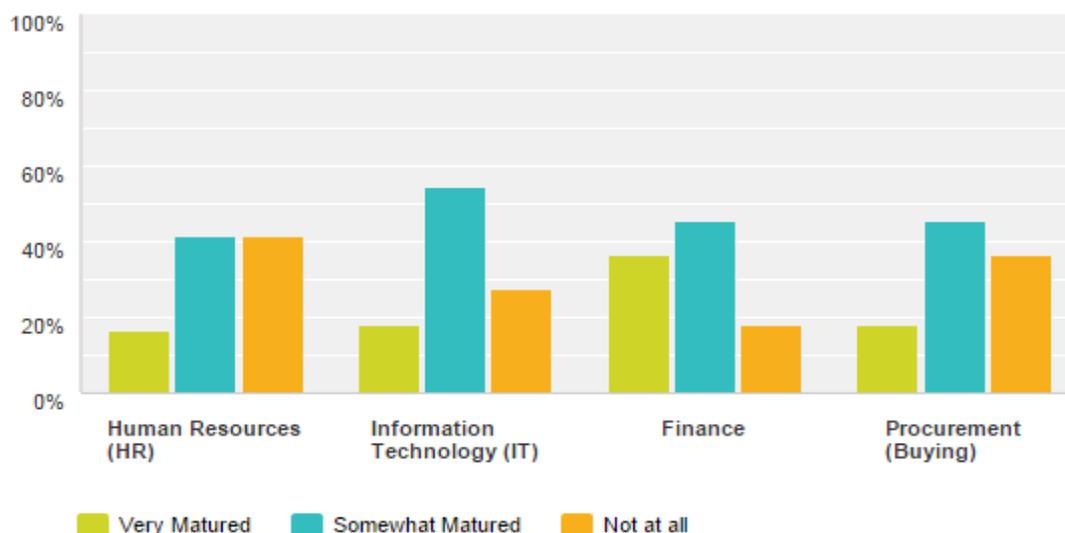


Figure 5 - SMME Survey: Organisational Maturity

Very few of the SMMEs have very mature support services, especially within HR, IT and Procurement. HR and Procurement have a high percentage of SMMEs that responded that these support functions are immature. The need for some type of intervention in order to ensure that the “very mature” percentage rises dramatically across the support services in order to contribute to the sustainability of these organisations is borne out by these results.

## Would you find value if these services were affordable, and offered to your organisation?

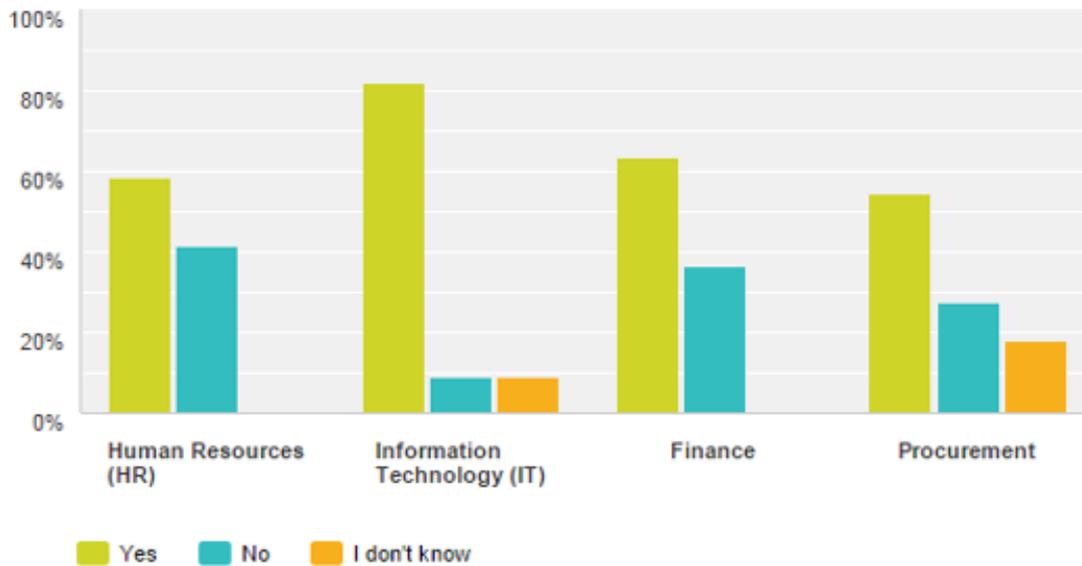


Figure 6 - SMME Survey: Valued Services

Across all the support areas, more than half of the SMMEs indicated that they would have an interest in affordable assistance. A key support area for assistance is information technology, with finance support services as the second biggest.

**Please rank, in order, how important having access to the following would be for your company (5 being most important)**



Figure 7 - SMME Survey: Bouquet Rating

Very high ranking on the second bouquet of services that SMMEs would like are training opportunities and free Wi-Fi. Legal advice and relief staff constantly score as the least desirable services that SMMEs are desirous of. Mentorship scores as more important than the previous two for all survey respondents.

## Do you plan to grow your business above inflation for each of the next five (5) years?

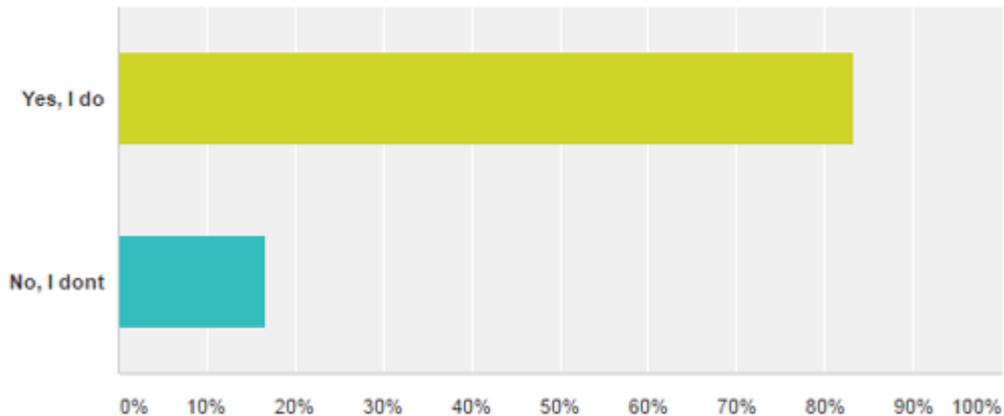


Figure 8 - SMME Survey: Growth Prediction

Over 80% of the SMMEs plan to achieve real growth year on year over the next five years.

The key ways in which they plan to do this are:

- Opening more stores
- Listing their products in more retail outlets
- Expanding their range
- Better sourcing
- Improved supplier terms
- Gaining market share

A mixture of the support services, training, mentorship and free w-fi to enable the previous two and provide research opportunities, would assist in all of the above.

## 7 Recommendations

### 7.1 Go national with the township stock exchange

Amongst the top reasons for SMMEs failure to expand and create more employment is the lack of access to finance as a result of a lack of collateral, poor or non-existent credit history and poorly put together business plans (Financial Services Regulatory Task Group, 2007).

According to the same report, South African banks are conservative by nature and are unlikely to lend to SMMEs and start-up organisations at their commencement, but are happier to fund small businesses in the latter stages of their development.

With this in mind, the mooted Gauteng Township stock exchange that is to start operating in February 2017 with the aim reigniting and growing the township economy through providing a financing vehicle for township businesses, should be rolled out nationwide so that all provinces are able to benefit. This is especially so as Gauteng SMMEs already have the greatest access to funding (BER, 2016).

## 7.2 “Kasi” Currency

The research we conducted, along with the literature surveyed, showed that a very sizeable amount of the disposable income generated by township dwellers is not spent within the townships. If the money were spent within the township, there would be a local area multiplier effect that would assist in the revitalisation of the local economy.

Bristol, in the UK has successfully run the Bristol Pound since 2012, and the stated purpose is “to strengthen the local economy by incentivising people to shop at independent local businesses as well as encourage and reinforce the strong sense of identity and civic pride that people in Bristol feel for their city. Bristol’s independent businesses (SMMEs) are crucial to that community identity. By incentivising spending in independent businesses, the £B helps wealth created in Bristol to stick locally. Known as the local multiplier effect, £Bs are meant to be spent repeatedly within the local economy. This way, the £B can help deepen and diversify the connections between local business people and all the citizens of the region – an important part of building a sustainable regional economy and providing high quality employment” (Ryan-Collins, 2016). To gain acceptance, Bristol allows payment of certain municipal taxes in the £B and they are investigating payment of certain salaries in it.

In South Africa, complementary currencies are currently operating on a small scale in Kokstad (K’Mali) and Piketberg (Berg River Rand) as part of an initiative by the Fostering Local Well-being (FLOW) Africa Group and the University of Cape Town's Africa Climate and Development initiative. Given the success of the initiatives over the last 12-18 months, our recommendation is to set up the alternative currency and ensure that the payment of government grants is made in a Kasi currency that forces recipients to utilise it within townships therefore providing a boost to local SMMEs that would also then spend it within the community. Given the amount of grant disbursements to township residents, this would represent a major shot in the arm for township economies which would result in industries being set up to take advantage of this source of income.

A further opportunity exists to link the Kasi currency to e-Kasi bucks, a loyalty programme that is running in a number of townships which rewards consumers for purchases made at

participating shops and restaurants. This would serve to entrench the currency and spend within the townships.

### 7.3 Educational Vouchers

In a World Bank study by (Mahajan, World Bank Study, 2014), education is highlighted a number of times as a reason for limited growth in Diepsloot, a sprawling township in Johannesburg. The study not only links the low levels of education to the high unemployment rate, but also posits that if education were resolved so that South African educated residents were on par with foreigners that run a large proportion of micro-enterprises in the local economy, then much of the tension that exists between the two groupings would ease as both would be as likely as the other to start up a business. Professor Jeffrey Sachs, author of *The End of Poverty*, went further at the Old Mutual Corporate Wisdom Forum stating that “[Education] is the most important determinant of future economic growth. Without a bigger skills base, SA will remain dependent on commodities” and that the quality, rather than quantity of education had the biggest impact on growth (Ziady, 2016).

Addressing the education challenge is therefore imperative if we are to successfully develop township economies. For the 2015 matric cohort, only 56% of pupils that began grade 1 completed grade 12, and of these only 23% achieved a university level entrance pass. In contrast independent schools received a 98.3% pass rate.

Our radical proposal is for the government to auction off the schools that it currently has and let the private sector run as much of the education within the country as possible. There are already two listed companies (Curro and AdvTech) operating profitably in the space who are eager to enter the low cost education sector due to the demand from mainly black families seeking better educational opportunities for their children. According to (UNESCO, 2014), our government spent about USD1 220 (Approximately R16 600 at today’s rates) per student in 2014. The two listed companies are currently able to offer high quality education at between R12 000 and R30 000 (Mahlaka, 2015) per pupil at a profit with the cost of new buildings taken into account and without the full advantages of scale. The state could even consider providing funding for empowerment firms with local representation to run some of these schools to ensure that the community involvement and interest.

To spur on competition and to ensure that quality does not slip, each child could then be given a voucher for the current government spend that is redeemable at a school of their choice, with their parents picking up any excess should they chose to attend a school outside their township and fail in attaining funding from other sources.

## 7.4 Spatial Redesign

A question that has perplexed researchers for a while in South Africa is why some townships possess a more vibrant economy than others. Research done by (Formalising Informal Micro-Enterprise, 2016) has shown a direct link between spatial design and the vibrancy of townships. Factors that have an influence are:

- Transport links – The evidence shows that transport nodes and routes that result in greater pedestrian footfall drive the creation of micro enterprises.
- Market space location – The research found that townships where formal market stalls are set up for trade away from major thoroughfares are less vibrant than those where stalls are set up on the high street.
- Township proximity to commercial shops – The results showed that the impact was dependant on the competitive driver of the SMME. If they competed on product and price, then they were likely to suffer, whereas if that was not their core focus, then new opportunities were created.

The results from the study are in line with the feedback received from the township surveys referenced in 5.2 as to shopping habits and the convenience of shopping closing to work, home and transport nodes. Our recommendation is that when spatial planning is done by municipalities, that they take SMME's into account in land allocation and zoning and ensure that cognizance of distances from transport routes is taken into account.

## 7.5 4<sup>xy</sup> Framework ©

From the research conducted, there is sufficient funding and top-level national and provincial support available in order to begin the vitalisation of rural area and township economies. However, as with a number of other initiatives in South Africa (e.g. Industrial Policy Action Plan, GEAR, ASGISA, NDP), it is not the lack of ideas that is the problem, but rather the effective implementation and monitoring thereof. The model below, our preferred implementation recommendation, attempts to create a simple framework that can be utilised to ensure that implementation and monitoring is successfully carried out alongside the investment that is being made by all parties involved in revitalisation projects. The framework is designed to help in reducing the likelihood of SMMEs going bankrupt and the resultant bad debt write offs that follow: according to their financial disclosure, SEFA wrote off R220 million in bad debts on 2015 and R380 million in 2016.

In a research article for the Mediterranean Journal of Social Sciences, (Fatoki, 2014) stated that internal reasons for SMMEs failing were a lack of management experience, a lack of

functional skills (e.g., planning, organizing, leading and controlling) and poor staff training. External reasons for failure were non-availability of a logistics chain, high distribution costs, competition, rising costs of doing business, lack of finance and crime. The former grouping, which the model below addresses, are all controllable by the organisation, while the later can only be influenced but not controlled.

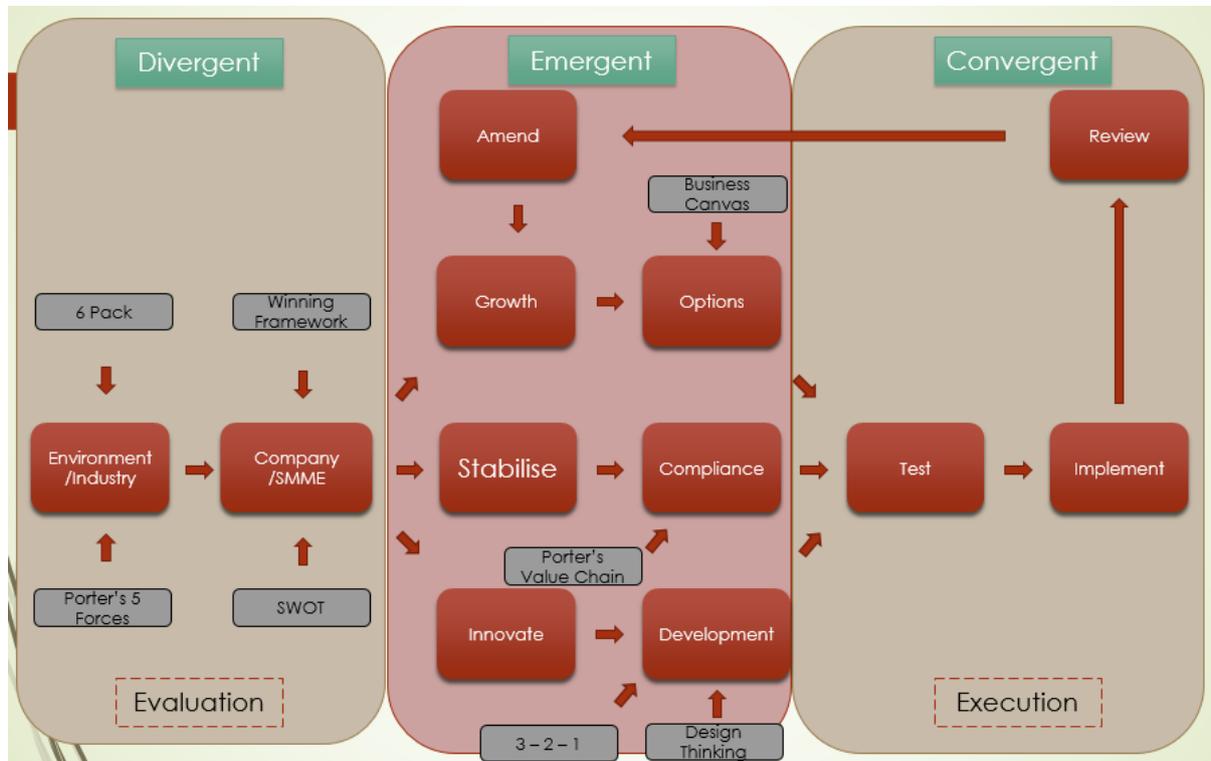


Figure 9 - 4<sup>xy</sup> Framework ©

The concept is built around assembling an adequately experienced group of professionals to assist SMME's, identified by specific stakeholders, through immersing themselves in the day-to-day running of the enterprise. The process will take a maximum of 3 months depending on the maturity of the organisation being assisted. The difference between this model and most other models utilised to date, is that the team will work full time for the duration of the engagement with the SMME, and not only dedicate a few hours a week to the enterprise.

The first point of departure would be to evaluate the company and the industry in which it trades. This phase can be described as a process of divergence. The evaluation of the environment and industry would make use of the "Six Pack" and "Porter's 5 forces". These models would provide key insights into the environment and industry the SMME trades.

It is vitally important that during the divergent phase we evaluate the SMME, considering the Strengths, Weaknesses, Threats and Opportunities. This would speak to the viability of the organisation within its chosen industry.

During the Emergent Phase the team would explore the desired immediate focus for the SMME. The focus would be on growth, stability or innovation. Growth would require determining options for growth. A tool that would assist in this regard is the Business Canvas. Options could include utilizing the agility of SMME's to favour a collaboration with bigger more established entities.

Stabilising would be geared at providing the SMME with support mechanisms to ensure its sustainability. SMME owners understand their product, but in most instances lack the support activities (support activities as described by Porter in his "Value Chain") that handle the day-to-day running of the business. These activities include Human Resources, Finance, IT and Procurement. A key focus of the team that enters the SMME would be to design and implement effective and efficient support function policies. These policies are focused at compliance. Once these policies are in place it will be the responsibility of the SMME to adhere to the policies. An important aspect is that there will be an annual review to ensure compliance of the entity. Failure of the review will result in immediate disqualification of accreditation and all associated benefits of being accredited.

If Innovation is selected, the team will facilitate models that will aid the SMME of deriving new innovative ideas that could set the SMME on a new trajectory. These models include idea design and 3-2-1. The team assigned to the SMME could assist in the setting-up and implementation of the new innovation.

The final phase is the Convergent Phase, focused on execution. During the phase the team will assist the SMME to test and implement what was determined during the Emergent Phase. The team will further install a process of continuous improvement through regular monitoring and review by the SMME to amend practices where necessary.

## 7.5.1 Funding

### 7.5.1.1 Pre-Requisites

Once the SMME has been identified, and their fit for the model ascertained, the next step will be for them to submit their VAT registration. Assuming that the SMME is VAT registered, we then have the ability to work with them through their VAT submissions to get a very good

picture of the historic and current status of the business. We further recommend that that CIPRO and criminal checks be completed to ensure that effort is being placed in legit businesses with ownership that are law-abiding citizens. These prerequisites become critical for the accreditation section detailed below.

In terms of the business case outlined in Section 8, the assumption is that the pre-requisites have been verified as part of the loan application criteria by SEFA.

Funding will be split into two phases.

#### *7.5.1.2 Phase 1*

The first phase of the implementation, as covered earlier, is expected to take up to 3 months (depending on the size and needs of the SMME). It will comprise a full immersion by the implementation team in the day to day running of the business. The team will work on site and provide on the job training in the requisite intervention areas.

Depending on the length of the intervention and the skillsets required, we expect that a full service 3 month bouquet will cost R370 000. This is not a trivial amount to invest in a business. As such, our recommendation is that only organisations with an annual turnover exceeding R3 000 000, an above inflation growth rate projection and a staff complement of at least 20 employees be considered. Organisations that do not meet this threshold will receive a reduced offering through the “Pay it Forward” provision that is covered in 7.5.3. Should the SMME decide that they require more than the 3 months immersion, our proposal is that they pay for it themselves.

For the purposes of our model, we expect organisations that are already working with SMMEs, and therefore having an interest in their success, to pay for the service offering and do the primary identification of suitable SMMEs. The implementation team will therefore report to the funders and not to the service recipient. Examples of these organisations would be:

- Corporate Retailers – Willing to invest in SMMEs as part of enterprise development and often struggle to get time from their internal teams to ensure that the partnerships are a success.
- Industrial Development Corporation – Invests heavily in SMMEs, and do not have the internal structure to do full training of all SMME’s in order to reduce risk of defaults and increase chances of success. Being part of recommended program, including phase 2, would be a pre-requisite for getting a loan and receiving subsequent tranches.

- W&R SETA – The SETA has got a keen interest in ensuring that SMMEs in the wholesale and retail sectors are sustainable and make a meaningful contribution to reducing unemployment and poverty. Investing directly in the expertise required to improve chances of success, and potentially indirectly by providing resources from ILDP classes and other graduates that are it is sponsoring, will ensure its' objectives are met.

In the business case that we developed, SEFA would be the funding organisation as they have an interest in the success of SMME business that they find, and they have a desire to reduce their bad debt to loan book ratio.

#### 7.5.1.3 Phase 2

The model caters for the full specialist resource immersion up front and the availability of a capped number of consulting resource hours for the balance of the year at no extra cost to the SMME. Our proposal is that ILDP Alumni along with alumni from other W&R SETA funded programs be the catalyst for this extended support service. A portal would be created that operates like a locum booking system, and it would be used to match skills to requests, and a remuneration formula, assuming alumni are not willing to work pro bono would be agreed for their services.

In the second year and annually thereafter, the recommendation is that an audit, paid for by the SMME, be conducted by the team to ensure continued compliance to the guidelines set out during the initial phase, and that the growth trajectory of the SMME remains on track, and if not, what interventions are needed. The current expectation is that the audit will not take more than 2 days, and this is mainly as a result of the intention to use simple measurement templates with information that is collated monthly, resulting in the team mainly doing a review. The cost is therefore expected to be a maximum of R12 000. Should the SMME fail the audit, they will be expected to, at their own cost, go through phase 1 again in order to retain access to the services bouquet and any extra lines of credit they may require. It is therefore in their best interest to abide by the policies agreed up front.

From the research presented earlier, there are certain services that SMMEs value, and it is our recommendation that SMMEs that have a successful audit be accredited by a neutral trusted organisation like SETA and that accreditation allow access to these (some of which are covered below):

- Access to “top-up” and revision of immersion skills training. This is key for continuity given staff turnover rates in most businesses.

- Preferential access to learnership funding for direct family members for W&R SETA courses to be managed along the lines of the Ghana Cocoa education model. This is especially key for SMME's that are family owned.
- Free telephonic legal and tax advice
- Free telephonic and email business consulting for any of the support services provided as part of phase 1.
- Access to mentors from ILDP Alumni and current W&R SETA funded students on various courses
- Industry seminars and workshops covering a variety of pertinent topics for increasing the profitability and stability of SMMEs.

In the business case, however, we have taken a conservative stance and assumed that SEFA would pay for phase 2 as well.

#### 7.5.2 Role of retailers

The JSE listed retailers in South Africa invest heavily in attaining BBBEE status. As part of their Enterprise Development points accumulation, they invest in SMMEs that are mainly part of their supply chain. Having an industry recognised accreditation body that provides a guarantee that an SMME has been audited across all the support dimensions will go a long way in reducing the amount of due diligence that needs to be applied by the retailers up front.

The retail industry in South Africa is one of the few industries that still does not have a charter to govern how it will continue to grow sustainably and at the same time effect meaningful transformation. Given the number of SMMEs that fail, supporting and investing in an implementation methodology that increases the chances of success, and making this one of the pillars of the Retail Charter will assist in the economic transformation agenda.

Lastly, we propose that an annual awards ceremony, akin to the Sunday Times awards, be held annually that awards prizes to Retailers based on their contributions (not necessarily monetary) to, and success stories of SMME's with whom they have worked. As part of the event, major retailers that have not participated in any manner will be highlighted in a covert manner as a means of bringing peer and societal pressure to bear on them to participate actively in the charter.

#### 7.5.3 Pay It Forward

As a result of the sizeable investment required to execute the support services and the need to focus this effort on the larger SMMEs, our proposal is that as a pre-condition to receiving

the service investment, the recipient be willing to “pay it forward” within their community to Survivalist and Micro enterprises. It will be an expectation that they will provide skills development and/or assistance to these smaller business in the areas in which training and skills have been provided. Further, community involvement that will be expected will include, amongst other things, providing employment opportunities for disabled individuals and truly disadvantaged individuals, as well as being available for a fixed number of visits annually for interview purposes with ILDP, Masters or Doctoral students and for any other research that will benefit retail or the community.

There will also be an expectation that the SMME will be willing to take SETA funded individuals on work placement/skills development assignments. Lastly, from time to time certain employees of the SMME will be requested to partner with SETA in providing career guidance in schools within the community.

As part of the annual awards ceremony mentioned above, our recommendation is that there be awards given in various categories for “Pay if Forward”.

## 8 Business Case

Our preferred recommendations’ business case, 7.5 (4xy Framework ©), is premised on the fact that when SMMEs fail, not only is there a loss of money for the investor (in most cases the tax-payer), but as the SMME can no longer contribute towards job creation in the township, income distribution and economic revitalisation are negatively impacted. Our recommendation therefore does not seek to generate direct income per say, but it seeks to provide a framework that will reduce the likelihood of failure, and therefore not only safeguard the investments of investors, but ensure the continued positive contribution of the SMMEs that would have failed to the township economy. Our approach is backed in measure by the results reported (Mafoyane, 2015) in his article entitled “The BIG reason why start-ups with business support do better than those without”, where he quotes and FNB/GIBS report that “start-ups fail at a rate of about nine in ten in the first two years of operation.” ... “within the 27 SEDA incubators (in operation), the survival rates are in the region of 84% to 97% in the first two years of operation.” Looking purely at the SMMEs that are likely to fail, when incubation is provided, between 75% and 87% of them survive. For the purposes of our business case, we have taken a more conservative success rate of 30% and assumed that our services will only be available to new SMMEs taking loans and not to the pre-existing loan book.

The business case detailed below is built on SEFA financial statements and their reported write-off of R380 million for the 2016 year. All assumptions made are detailed in appendix 13.4.

Changes from SMMEs Not Failing (R 000's)						
	FY 1	FY 2	FY 3	FY 4	FY 5	TOTAL
Operational Cost Savings	4,788	4,606	-	-	-	9,394
Assumed Debt Collection	4,560	4,560	-	-	-	9,120
Assumed telephone cost reduction	228	46	-	-	-	274
<b>Subtotal</b>	<b>4,788</b>	<b>4,606</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,394</b>
	-	-	-	-	-	-
<b>SMME Economic Contribution</b>	<b>-</b>	<b>121,408</b>	<b>267,097</b>	<b>293,807</b>	<b>323,188</b>	<b>1,005,500</b>
Revenues	-	110,371	242,816	267,097	293,807	914,091
Multiplier effect (0.1)	-	11,037	24,282	26,710	29,381	91,409
<b>Total Changes</b>	<b>4,788</b>	<b>(116,802)</b>	<b>(267,097)</b>	<b>(293,807)</b>	<b>(323,188)</b>	<b>(996,107)</b>
<b>Cumulative Change</b>	<b>4,788</b>	<b>(112,014)</b>	<b>(379,112)</b>	<b>(672,919)</b>	<b>(996,107)</b>	

Figure 10 - Business Case: Incremental Revenue from SMME Success

The above details the expected revenue that would not have been lost had the SMMEs that had bad debt written off not failed. It assumes that half the failures would have happened at the end of year one and the other half at the end of year 2 and takes into account debt collection costs that would likely have been incurred at 1% of the total debt write-off in each year. Cumulatively, based on an escalation of 20% of the debt from FY16, our model predicts the opportunity to add R1 Billion over 5 years to the economy by ensuring that 30% of potentially failing SMMEs funded by SEFA are stabilised and made sustainable through intense training upfront and ongoing access to consulting services.

	Project Cost Table (R 000's)					TOTAL
	FY	FY	FY	FY	FY	
	1	2	3	4	5	
Phase 1 Costs	164,160	-	-	-	-	164,160
Phase 2 Costs	-	5,855	6,265	6,265	6,265	24,650
Training Material Preparation	1,500	250	268	286	306	2,610
Support Portal Implementation	3,000	1,000	1,100	1,210	1,331	1,464
Alumni Consulting Fees (2% of Phase 1)	3,283	3,513	3,759	4,022	4,304	4,605
Recruitment (5% of phase costs)	8,208	293	313	313	313	9,440
Training	300	321	343	368	393	1,725
Travel (10% of phase cost)	16,416	586	626	626	626	18,881
Contingency + other (20% of phase costs)	32,832	1,171	1,253	1,253	1,253	37,762
<b>Total Project Costs (*)</b>	<b>229,699</b>	<b>12,988</b>	<b>13,928</b>	<b>14,343</b>	<b>14,792</b>	<b>285,750</b>
<b>Cumulative Project Costs</b>	<b>229,699</b>	<b>242,688</b>	<b>256,615</b>	<b>270,958</b>	<b>285,750</b>	

Figure 11 - Business Case: Projected Costs

The above accounts for the anticipated project costs. As the model is looking at a single year of new loans to SMME's, the project costs are skewed toward year 1. The projected costs for Phase 1 and 2 are for the consulting team at R360 thousand and R12 thousand respectively per intervention. The anticipated cost of the project implementation is R286 million.

Investment Summary (R' 000s)							
	FY 1	FY 2	FY 3	FY 4	FY 5	TOTAL	
Cost of Capital	15.00%	15.00%	15.00%	15.00%	15.00%		
<b>Cost Benefit Analysis</b>							
Net Income Resulting from SMMEs not failing	(4,788)	116,802	267,097	293,807	323,188	996,107	
Total Project Cost	229,699	12,988	13,928	14,343	14,792	285,750	
<b>Investment Analysis</b>							
Return on Investment	(234,487)	103,814	253,170	279,464	308,396	710,357	
Payback Period (years)	2 1/2						
Breakeven Fiscal Year	3						
Net Present Value (NPV)	354,171						
Internal Rate of Return (IRR)	72.52%						

Figure 12 - Business Case: Investment Summary

The above provides the summary of the case for proceeding with the project investment. The project is expected to pay for itself within 2 and a half years and provides a healthy IRR of over 72%. The business case is an extremely conservative one, and even if we were more conservative and assumed ability to salvage only 20% of the loans, which would be at odd with the FNB/GIBS research quoted earlier, the IRR would be 43.5%, and we would definitely recommend proceeding with the investment.

## 9 Implementation Flight Plan

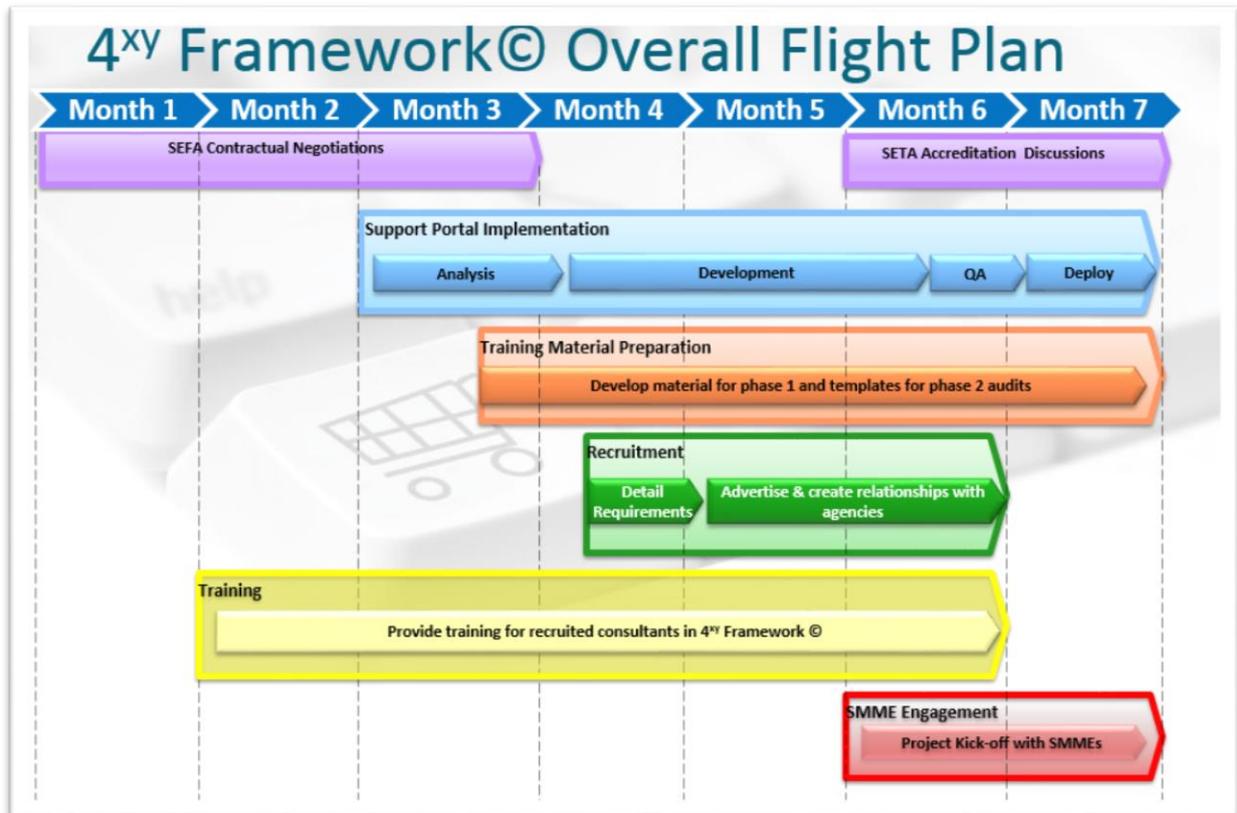


Figure 13 - Project Flight Plan

The high level flight plan above indicates that we would be able to start working with SMMEs in month 6 from project inception. A key dependency for the duration of the flight plan is contractual negotiations with SEFA as per business case, or any other funding institution (e.g. IDC) with whom we would work.

## 10 Conclusion

The National Development Plan (NDP) has as one of its pillars the creation of 11m new jobs by 2030. 90% of these jobs are expected to be created within the SMME sector. Given that this is the direction that the country is taking and where resources will be concentrated from the national level, the most appropriate way to revitalise rural and township areas is to focus on the role of SMMEs within these jurisdictions and ensuring their sustainability and hence their ability to grow in order for them to create the employment levels that are required in order to meet our NDP goals.

The research conducted through literature and economist feedback has not turned up any examples of rural nor township areas that have been revitalised since the dawn of democracy. Whilst there are areas, such as IDZ's, which have been revitalised over the past few years, none of them were in rural or township areas. In fact, the economists argued that what is needed is a growth trajectory in rural and township areas rather than a revitalisation as the areas have never been "vitalized".

In order to sustain the proposed business support strategic intervention proposed above, the macro level strategic interventions over which we have no power need to have been implemented. These are a conducive regulatory framework (tax incentives, enabling labour laws, support etc), co-ordinated planning across multiple sectors, infrastructure and monitoring.

For the recommendations to be successful, the SMME needs to have fully bought into the roadmap, and be willing to dedicate the requisite time to taking on board all the support activity interventions that are proposed by the implementation team. Further, they need to be willing to invest time to keeping to the formula for success that will be tailored for the business.

## 11 References

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## 13 Appendixes

### 13.1 APPENDIX A: Focus Group Questionnaire

#### **RURAL AND TOWNSHIP RESIDENTS – FOCUS GROUP**

Name: \_\_\_\_\_

Please answer the following questions in order to help us get some detail background information for further analysis

1. In which township do you live?

\_\_\_\_\_

2. What is your age range?

Below 18 years

19 to 25 years

26 to 35 years

36 to 45 years

Over 46 years

3. Do you spend more money in retail stores in your township or elsewhere?

\_\_\_\_\_

4. Which malls/townships/suburbs do you shop at that are not where you live?

\_\_\_\_\_

5. Why do you shop at these malls/townships/suburbs?

\_\_\_\_\_

6. How often do you shop at these malls/townships/suburbs?

Once a month

Twice a month

Once a week

Less than 3 times a week

Daily

7. What percentage, money wise, do you spend shopping in your township and elsewhere?

% in your township

% elsewhere

8. Which time of day and week do you usually go shopping (split between localised and other)?

\_\_\_\_\_

9. What kind of stores do you visit most often outside of your township?

---

10. Why do you shop at stores outside of your township?

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Thank you very much for your cooperation.

### 13.2 APPENDIX B: Economist Survey Questionnaire

Question	Response Type	Respondant
What does rural economy revitalisation mean to you	Survey - Open ended	Economists
What does township economy revitalisation mean to you	Survey - Open ended	Economists
What drivers and levers will indicate a successfully revitalised rural area economy	Survey - Open ended	Economists
What drivers and levers will indicate a successfully revitalised township economy	Survey - Open ended	Economists
Based on your answers above, do you think rural area economy revitalisation can be a reality in South Africa	5 Point Likert Scale	Economists
Based on your answers above, do you think township economy revitalisation can be a reality in South Africa	5 Point Likert Scale	Economists
What do you believe the reasons for slow economic growth in rural areas is	Survey - Open ended	Economists
What do you believe the reasons for slow economic growth in townships is	Survey - Open ended	Economists
What benefits would revitalising rural area and township have for South Africa	Survey - Open ended	Economists
Please select the top 3 challenges that you believe hamper growth of the SMME sector	Option Box	Economists
Are you aware of any government and private sector interventions aimed at revitalising rural area and township economies	Y/N	Economists
If yes, please provide initiative name or brief project description	Survey - Open ended	Economists
Does the amount of public expenditure influence the rate of economic growth in a country, city or township?	Documents	Economists

### 13.3 APPENDIX C: SMME Survey Questionnaire

How mature are the following functions within your organisation?	HR, IT, Finance, Procurement
Do you believe there would be value in these services to your organisation	HR (Y/N), IT (Y/N), Finance (Y/N), Procurement (Y/N)
Would your organisation benefit from the following?	Free training, relief staff, legal advice, mentorship, free Wi-Fi?
Do you plan to grow your business above inflation for each of the next 5 years	Y/N
If yes, how do you intend to do this?	Open ended

### 13.4 Appendix D: Business Case Assumptions

		Y1	Y2	Y3	Y4	Y5
SEFA 2016 Write-Off		380,000,000				
SEFA 2017 Assumed write-off (Growth in B3)	20%	456,000,000				
Assumed salvagable loans	20%	91,200,000				
Assumed average loan value	1,000,000	92				
Assumed loan term (months)	48					
Assumed interest rate	8%					
Assumed total repayments		1,171,820				
Assumed monthly repayment		24,413				
Loan max % of income	20%					
Total Monthly Income		122,065				
Assumed Yearly Income		1,464,775	1,611,253	1,772,378	1,949,616	2,144,578
Assumed annual growth rate	10%					
Assuming 50% fail split between end of yr 1 & yr 2 - Additional township revenue			74,117,632	163,058,791	179,364,670	197,301,137
Assumed cost of 4xy Framework ©	360,000					
Assumed phase 2 cost	12,000					
Assumed cost escalation per year	7%					
Assumed Phase 2 costs			5,855,040	6,264,893	6,264,893	6,264,893
Cost - All loans & assuming SEFA pays for phase 2 audits		164,160,000				
Opportunity Cost		164,160,000	13,132,800	14,651,827	15,856,762	17,125,303