Prospects for revitalising township economies: from the fringes to the mainstream. A case study of Tembisa

Eddie Rakabe

Abstract

Townships are an evident manifestation of spatial and economic inequality in South Africa. Located on the fringes of the traditional urban economies, townships are characterised by underdevelopment and a bustle of informal business activities. The concentration of informal business activities tends to aggravate underdevelopment because of their inherent low productivity and inability to link with formal markets. Informal activities are however not homogenous. In this study of the non-retail component of the Tembisa informal sector we make a distinction between the 'stagnant, less productive' Traditional Informal Enterprises (TIEs) and the 'more dynamic and productive' Modernising Informal Enterprises (MIEs). We develop a framework for classifying informal enterprises in terms of this distinction, using thirteen enterprise characteristics. On the basis of a survey using a structured questionnaire, we then apply this framework to the identified enterprises and assess whether certain sections of Tembisa have sufficient conditions for the existence or emergence of MIEs that could form the basis for stimulating the local economy. Our results indicate that (non-retail) informal enterprises in Tembisa are mostly 'traditional' in nature. Townships cannot achieve internally-driven local economic revitalisation without the presence of, or at least sufficient conditions to support, emergent MIEs. Strategies to support informal enterprises or revitalise the township economy must be differentiated to suit the needs of, and constraints faced by, the different categories of informal enterprises, i.e. those that are more traditional and those that are more modernising.

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1. Introduction

Townships are home to 40 % of South Africa's urban population and yet remain spatially and economically marginalised with little prospects for development (Finmarktrust, 2004). They continue to function as subordinate economies to their adjacent affluent areas as historically designed by the apartheid regime through systematic under-investments and local business restrictions.[1] To this day, township economies function, in stark contrast to their neighbouring vibrant economies, as low income settlements with marginal economic activities (particularly the industrial base), low volume, low-value markets and very low investment levels (public, private or household) from which to catalyse local economic development (Pernegger, 2007).

Krimi, Yusop & Hook, (2010) view the township spatial inequities as a reflection of intra-regional economic disparities commonly attributable to the skewed distribution of resources across space as well as area specific centripetal and centrifugal forces such as the rate of return to capital, transportation costs, size of local demands and technological sophistication which have been found to shape the spatial location of economic activity. Typically, South African townships are located on the urban fringes where industries hardly locate, the size of local demand and level of technological sophistication is low and transportation costs are high (McCullogh, 2009). These characteristics renders the townships unattractive to formal private investment and reinforce underdevelopment (Pernegger, 2007). As a result, businesses that operate in the Township spaces tend to be small and informal, constrained by a number of market-access, capabilities and structural problems (Permegger & Godehart, 2007, Finmarktrust, 2010; World Bank 2014: 185).

Generally, the nature of township business activities resonate with what Ranis and Stewart (1999) describe as the "Traditional Informal Sector" (TIS). Such activities are small in size, typically involving production or retailing of low quality final goods and services for low income consumers using little human capital (mainly family), technology and adding little

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[1] Until 1977 only few categories of business activities (butcheries, hawking and general shops) were allowed in the townships while others demanded licensing from authorities (World Bank, 2014).

value. Lewis (1954) and La Porta and Schleifer (2014) view the traditional informal sector as unproductive because it lacks the resources required to facilitate accumulation of capital needed and to ignite development. This is in contrast to the "Modernising Informal Sector" (MIS), which uses modest capital and skilled labour to produce value-added intermediate goods and services, may employ additional non-family workers at incomes comparable to minimum wages and have some linkages with the formal sector.

Ranis and Stewart (1999) regard the MIS as a necessary, albeit not sufficient condition, for stimulating and sustaining development in economically depressed areas. The strength of its market linkages and sophistication, amongst other things, enables the MIS to grow in tandem with the formal sector and in turn expedite the process of modernisation and/or formalisation, thus promoting local economic development (Pieters, Moreno-Monroy and Erumban, 2010). Conditions for the existence or emergence of MIS are not always present. A number of general and location-specific constraints may hinder the modernisation process of existing informal enterprises (United Nations Development Program, 2014). In particular, the township informal enterprises carry the heaviest burden of spatial inequality in the form of high transport costs, low education levels, lack of access to infrastructure, and over-exposure to low income markets (Finmarktrust, 2010; Philip, 2010: 21). A combination of these factors adversely affects entrepreneurial activity and curtail the emergence of the MIS necessary to catalyse local economic development (La Porta and Schleifer, 2014).

Township economic revitalisation has been identified as a crucial remedy for the spatial economic disparities in a number of government policy documents from the spatial approach of investing in Townships contained in the National Spatial Development Perspective of 2000 (The Presidency, 2006) to the recent enterprise development oriented Gauteng Township Revitalisation Strategy of 2015 (Gauteng Province, 2014).

Against this background and a growing policy emphasis on revitalisation of township economies, this study explores whether a township economy such as that of Tembisa holds any prospects for revitalisation or becoming a vibrant microcosm part of the bigger economy. It does so by (1) assessing whether the selected sections of the Tembisa Township have sufficient conditions for the existence or emergence of a MIS that could form the basis for revitalising the local economies; (2) evaluating the nature and extent of an existing modernising informal sector as well as its linkages with the formal sector; and (3) examining various constraints which impede the entry of new, or the growth of, MIS-type enterprises.

We follow Ranis and Stewart's analytical framework of distinguishing between the TIS and MIS using predefined classification criteria. Unlike other studies (World Bank, 2014) which have only postulated the model, this study contributes to the literature by adapting and

applying the framework to the South African informal sector environment. The novelty of the study is that we further propose a distinction of the TIS and MIS into two sub- segments that enable classification of the enterprises along some kind of a modernisation path. The study entails a firm-level survey of informal enterprises – albeit excluding retail activities, as they are generally perceived to resonate with the TIS in the Ranis and Stewart (1999) model. This omission is not intended to downplay the significance of the informal retail enterprises but rather to make the study sample more focused. For our purpose, the empirical demon-stration of the model for the South African environment, even without retail enterprises, is pioneering.

The rest of this paper is organised as follows: section 1 is an introduction followed by a brief overview of how the spatial structure of the township shapes economic activity and rein-force economic marginalisation in section 2. This section provides further details on the characteristics and significance of the modernising informal sector. Section 3 outlines the methodological approach and data collection technique. Section 4 sets out the spatial and socio economic overview of Tembisa Township drawing comparison with other townships on a number of demographic and socio-economic indicators. This is followed by Section 5 which analyses Tembisa informal enterprises according to the TIS and MIS criteria using data collected from survey and section 7 concludes.

2.   Spatial structure of economic activity and township marginalisation

Theories of economic geography attributes the spatial organisation of the economy on the mutual interaction of factors internal and external to firms such as returns to capital, the size of the market, resource endowment, scale economies and transportation costs among other things (Dawkins, 2003; Thisse, 2009). Townships offer no identifiable comparative ad-vantages, beyond the excess unskilled labour and mass market, to attract investment or stimulate diverse economic activity (Pernegger, 2007). They are poorly located at the periph-eries of the city centres and industrial areas linked, to the rest of the economy, by a single road or railway line. Notably, most urban townships are increasingly becoming spatially and economically integrated as a result of the post-apartheid spatial transformation reforms (Pernegger, 2007; Urban Landmark, 2011).

Years of systematic township spatial divide and economic exclusion gave rise to the town-ship informal economy as people responded to the growing unemployment, business restrictions, the inconvenience of long distance travel and high transport costs (Pernegger, 2007). To this day, township economic activities remain largely dominated by the informal enterprises (UNISA, 2005; Gauteng Province, 2015 and World Bank, 2014: 185) and an emerging surge of large formal retail chains. While the significance of the informal sector is

widely acknowledged (Sparks and Barnett, 2010) the concentration of these activities in one space have been found to aggravate underdevelopment and marginalisation because of the inherent low productivity, saturated low income markets within which they operate and their inability to transition to, or link with, the formal economy (La Porta and Shleifer, 2014). Low incomes and informality suppress the investment growth necessary to stimulate production capacity and often leaves township markets underdeveloped and vulnerable to competition from large corporations[2] (Barwa, 1995).

Limited investment and a combination of state and market failures have also induced distortions that exacerbate inequities in the distribution of capital and economic activity thus leading to further marginalisation and informality (Johnson, 2008). Moreover, the entry of the powerful and big national retailers, high entry barriers and the vertically integrated value chains thwart informal activities within the townships (Strydom, 2014). Large firms use sourcing systems which oblige branches to source through centralised procurement channels, regardless of whether complementary products are available within the local economies. This business model limits the scope for existence and emergence of viable MIS in the local economies – particularly manufacturing activities which offer better linkages to the formal economy (Philip, 2010: 7).

The above discussion suggests that townships lack the comparative advantage to ignite or attract specialisation and concentration of high value economic activity. Equally the concentration of informal activities deprives the township of the necessary capital to stimulate business activities, while the presence of larger formal firms provides no viable prospects for linkages with the township informal enterprises. These conditions are most likely to reinforce the spatial inequities and further marginalisation of township economies.

3. The significance of Modernising Informal Activities in a township context

The economic significance of the informal sector – narrowly defined as the unregulated or unregistered business activities – in developing economies is well documented. The sector accounts for more than 80% of employment and 90% of new jobs in low income African countries (Mbaye, 2014). The corresponding figure for South Africa amounts to 13%, or 29% when domestic workers are included (Statistics South Africa, 2014b); yet, Fourie (2013) finds no significant presence of the informal sector in the country's national job-creation agenda (as expounded in the National Development Plan). Other authors highlight a much broader

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[2] Accumulating evidence suggests that the growth of the informal sector is threatened by the formation and expansion of formal firms managed by educated entrepreneurs.

developmental role of the sector inclusive of stimulating productive activities, growing the market economy, promoting flexible labour markets and transferring skills (Amin, 2002).

In contrast, Lewis (1954), Farrel (2004) and La Porta and Shleifer (2014) hold a pessimistic view on the developmental effect of the informal sector. To these authors, the informal sector is an enclave of illegal entrepreneurs who wants to avoid taxes, labour and product market regulations. The sector represents an unproductive and static part of the economy, with unregulated small businesses that have little potential for growth. Far from being developmental, informal enterprises are purported to stifle growth and productivity for two reasons. First, the incentives that tie businesses to informality keep them subscale and unproductive. Second, the benefit of avoiding taxes and regulations helps informal businesses gain unfair competitive advantages over law-abiding formal enterprises. These views, however, represent one school of thought, as there are many studies which argue the contrary (Onwe, 2013). It is not the purpose of this paper to exhaust these debate, but to merely indicate the varying views when adopting an informal-sector led township economic revitalisation.

For Ranis and Stewart (1999) the starting point in assessing the growth and developmental effects of the informal sector should be an understanding and acknowledgement of how the different segments of the sector relate to the economy. They propose a distinction between a stagnant Traditional Informal Sector or Enterprises and a more productive Modernising Informal Sector (or Enterprises) based on a number of characteristics. According to their conjecture, an informal enterprise can be a tiny hawker selling vegetables on the side of the road or a manufacturing plant employing up to 10 workers. Thus further distinctions are necessary, as follows:

- Traditional Informal Enterprises (TIEs) typically are small in size (uses no more than three workers who are mostly family members), operates from household premises, are characterised by low capital intensity, low labour productivity, low incomes and use of static technology.
- Modernising Informal Enterprises (MIEs) typically are relatively large in size (with as many as 10 family and non-family workers); uses dynamic technology and skilled labour obtained from formal sector or training activities; have better linkages with formal sector; its labour productivity and entrepreneurial incomes are higher and tends pay more competitive wages (Ranis and Stewart, 1999: 263).

The low capital and skills intensity of the TIEs restricts them to production of low-quality consumer goods sold only to low-income urban consumers. In contrast, the MIEs produce both consumer and producer (intermediate) goods to serve the needs of low and middle

income urban consumers as well as the formal sector. The output of MIEs is both comple-mentary (i.e. as subcontractor or intermediaries) to, and competitive with the formal sector goods. MIEs activities are commonly found in manufacturing, construction, transport sector and services while the TIEs are concentrated in trade, personal services and artisanal produc-tion. According to Ranis and Stewart (1999: 263), the MIEs offer opportunity for reasonable income to grow over time, thus contributing to the overall growth of the economy – unlike the TIEs which act as a low-income sponge that absorb workers who cannot find jobs in the MIS and the formal sector.

The strength of the linkages between MIS and formal sector plays an important role in deter-mining the effects of the informal sector on the economy. More linkages enable modernising informal enterprises to accumulate capital, to fast-track the modernisation process – and possibly transition into the formal sector – and, more importantly, sustain vibrant local economic activity. The transition of these enterprises along what can be seen as their 'modernisation path' is linked to the size of the local economy – where an improvement in the distribution of income within space can change the pattern of demand away from tradi-tional informal-sector goods towards the modernising and formal sectors Ranis and Stewart (1999).

Ranis and Stewart's (1999) segmentation of the informal sector into two sub-sectors pro-vides a useful analytical tool through which to assess the significance of the sector in the local economy and to inform an informal-sector-led development strategy. In practice, the distinction between the two subsectors is not always precise. To get around this problem, different studies, as in Pieters *et al.* (2010) and Moreno-Monroy *et al.* (2012), have adapted Ranis and Stewart's criteria of distinguishing between the two segments by incorporating additional differentiation factors to capture peculiarities. Some of the commonly-used differ-entiating factors include level of education completion, prior work experience of owner, size of start-up capital, wages paid to workers relative to minimum wage, access to markets and credit, owners' motives for starting the business and expansion aspirations.

In this study we propose the further adaptation of Ranis and Stewart's criteria to determine whether Tembisa in particular, has a sufficient concentration of MIS to catalyse the revitali-sation of their local economy. Section 4 below provides further details.

4. Methodology and empirical approach

The research for this study entails a firm-level survey of informal and micro-enterprises to examine the nature of informal business activities in the Ivory Park and Kaalfontein sections of Tembisa Township and the extent to which they satisfy requirements to be regarded as

the modernising informal activities. The study follows Ranis and Stewart's (1999) analytical framework in which a distinction is made between traditional and modernising informal business activities, based on a number of enterprise characteristics.

We adapt an analytical framework that distinguishes between TISs and MISs using thirteen factors, drawn from Ranis and Stewart (1999), Pieters *et al*. (2010) and Moreno-Monroy *et al.* (2012), listed in Table 1. For each criterion, we identify a threshold indicator that distinguish whether an enterprises is a TIS or MIS, where an enterprise would take the value of 0 if it's a TIS and 1 if it's a MIS. This list of criteria is neither exhaustive nor definitive but at least provides a systematic approach according to which informal township enterprises can be categorised. The framework also enables policy-makers to tailor development programmes to support informal enterprises according to the nature and growth potential (section 7).

In its Diepsloot study, the World Bank (2014) only posited Ranis and Stewart's model without applying it to the data. The novelty of our approach lies in the systematic application of the model in a manner that enables better understanding of informal enterprise activities in relation to economic development.

Table 1: TIS and MIS threshold indicators

Criteria	TIS minimum indicators	MIS threshold indicators
1. Business owner school completion level	Completed primary or below	Completed secondary school and above
2. Owner prior work experience before starting the business	No prior work experience	Prior work experience
3. Motive for starting the business	Joblessness	Need to earn extra income
4. Number of person workers including owner	Less than three	More than three but less than ten
5. Relationship of person workers with owner	Family members only	At least 50% non-family members
6. Nature of output produced/sold	Final product	Intermediate product
7. Nature of customer served	Final consumers	Formal retailers and other firms, government
8. Earnings relative to minimum wages	Below formal sector minimum wages.	Above formal sector minimum wages.
9. Sector / nature of business activity	Trade and personal services	Manufacturing, transport, construction and services
10. Nature of business premises	Household premises	Separate business stand or premises
11. Compliance with local business licensing	Not registered for tax	Not registered for tax but for local business licence
12. Compliance with quality standards	Do not use any quality standard	Uses or follow certain quality standards
13. Growth aspirations of business owner	Close down the business in 3 years' time	Expand and diversify product offering in 3 years' time.

Source: Author's own compilation based on Ranis and Stewart (1999), Pieters *et al*. (2010) and Moreno-Monroy *et al.* (2012)

Since no enterprise is likely to fall into either the TIS or MIS category on all criteria, a more nuanced analysis and categorisation must be found. The key aspect of the analytical framework proposed here is to use a combination of criteria to classify enterprises, i.e. according to the mix of TIE and/or MIE characteristics that they display. This enables a classification that differentiates enterprises in terms of their overriding or predominant nature.
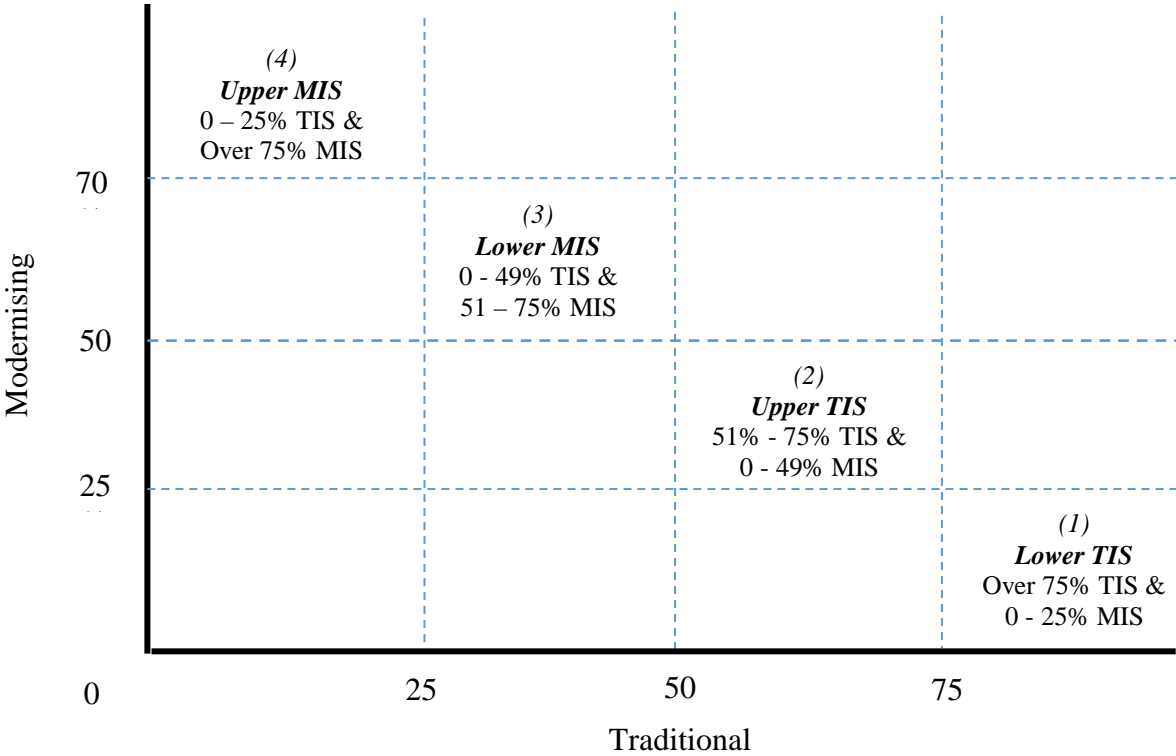
Figure 1 below illustrates how the data is organised and analysed to categorise the enterprises according to their mix of respective TIS and MIS characteristics. The analytical framework takes the fluid diversity of informal enterprises into account, where an enterprise may be in the TIE category for some business characteristics and in the MIE category for others. For instance, a TIE which operates from household premises may have more than three workers or be involved in manufacturing. Similarly, a MIE whose owner has completed secondary schooling or has prior work experience may have less than three workers or pay wages below minimum wages. (See TIS and MIS threshold indicators in Table 1).

Because of the diverse and changeable nature of informal enterprises and for analytical rigour, we propose a further distinction of the TIS and MIS enterprises into two additional 'lower' and 'upper' sub-categories. This enables us to get around the problem of overlapping characteristics by organising the data along a (subdivided) four quadrant scale which enables the classification of enterprises based on a defined combination of parameters. This framework can also be seen as indicating a 'modernisation path' in terms of which some informal businesses can progress towards 'modernity' or otherwise remain traditional. One should keep in mind, though, that not all informal enterprises want or need to 'modernise' to play a worthy role in the township community. In the short- to medium run, an informal enterprise may also move in and out of its category if and when its circumstances change; this may be related to periods when formal sector output expands or contracts in a way that impacts the informal sector (Moreno-Monroy, Pieters, & Erumban 2012).

The framework is illustrated in Figure 1. The quadrants and sub-quadrants enable us to depict and assess the point at which various enterprises are at a particular moment in the classification framework. On the one extreme, businesses which satisfies over 75% of TIS indicators and less than 25% of MIS indictors are classified as the lower TIS/TIEs. The second category, i.e. businesses that are slightly less traditional with a combination 51 – 75% TIS characteristics and 0 – 49% MIS features, are classified as the upper TIS. Correspondingly, enterprises that meet 51 – 75% of MIS indicators and up to 49% of TIS are classified as the lower MIS. At the top of the distribution are the most modernised informal enterprises with a combination of over 75% MIS and not more than 25% of TIS characteristics. These

enterprises are classified as the upper MIS. It important to note that, if an enterprise transitions from the lower TIS to upper MIS, for example, this process is not necessarily linear. Some of the enterprises may enter the informal sector at the higher end of the modernisation framework depending on the applicable combination of TIS and MIS indicators. In any case, all enterprises will also not necessarily transition to a higher category, or may transition to a lower category.

Figure 1: TIS/MIS classification framework

(4)
Upper MIS
0 – 25% TIS &
Over 75% MIS

(3)
Lower MIS
0 - 49% TIS &
51 – 75% MIS

(2)
Upper TIS
51% - 75% TIS &
0 - 49% MIS

(1)
Lower TIS
Over 75% TIS &
0 - 25% MIS

Modernising (y-axis): 70, 50, 25
Traditional (x-axis): 0, 25, 50, 75

Source: Author's own compilation

Data collection method

The data collection followed a two pronged sampling process. We started with a purposive sampling of publicly-recognisable manufacturing and services activities – as could be determined through observation, signage or referrals from residents – along key business corridors (high streets, shopping centres and taxi ranks) in both Ivory Park and Kaalfontein.

Retail activities have been deliberately excluded from the sample, in particular spaza shops and street traders, as well as large formal businesses, because they tends to comprise a large proportion of informal activities (Charman and Petersen 2014 and World Bank, 2014: 185) and generally display high TIS characteristics Ranis and Stewart, 1999). This omission is intended to reduce the skewness in the sample and not to underplay the significance of informal retail enterprises.

The exercise generated a small population of 170 non-retail enterprises, of which 120 were recorded in Ivory Park and the remainder in Kaalfontein. They are active in wide-ranging activities such as furniture and brick manufacturing, clothing boutiques, and mechanical, auto-body and electronic repairs. We acknowledge upfront the potential weakness of this technique particularly in respect of focusing on a smaller sub segment of the informal enterprises and errors of exclusion. Certain business activities such as construction, estate agents and architecture are not easily observable as they operate from client premises and offices.

The second stage of the sampling process involved drawing a random sample of 100 micro-enterprises with whom to carry out face-to-face interviews through a written questionnaire compiled by the researcher (see appendix A). From this sample, 54 questionnaires were answered successfully. The questionnaire comprises a total of 63 close-ended questions ranging from the location of the enterprise, the education profile of informal business owners, market awareness and linkages, employment creation and business constraint. It was administered by two honours economics students from the University of Johannesburg over a period of two weeks in 2014. Where possible, efforts were made to talk to the respondents with language that they understand better. The collected data has been coded and presented in tables and figures which categorise questions according to the research objectives to allow thorough interpretation of the results.

In order to improve the validity of the results and add value, we provide a comparative analysis with recent local-area survey studies that delve deeper into the architecture of township economic activity using a relatively large sample size that includes retail activities. Most notable of these studies are Charman and Petersen's (2014) study of informal micro-enterprises in the Delft township of Cape Town, and the World Bank (2014) report on township economics using Diepsloot Township[3] as a case study. The World Bank's Diepsloot study is important, in particular, because it also appears to have adopted the Ranis and Stewart approach – but then did not see it through by applying it to the Diepsloot data; no reasons were offered for this. As a result, an empirical application of a Ranis and Stewart-type analysis to a South African township still is lacking – something this paper is venturing to rectify.

The two study sites were selected to reflect the spatial characteristics of Tembisa Township in relation to the immediate industrial areas and varying intra-township settlement characteristics. Both Ivory Park and Kaalfontein have a unique location dynamics in that they are commonly referred to as part of Tembisa Township, which falls under Ekurhuleni metropolitan municipality, but jurisdictionally forms part of City of Johannesburg. The two sections are

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[3] Diepsloot is part of the Johannesburg Metropolitan Municipality situated on the northern part of the city and established in 1995 to accommodate people relocated from Alexander Township.

situated next to each other on the northern outskirts of the township, adjacent to Midrand to the east and Centurion to the north. They are uniquely positioned alongside key transport linkages – most notably the Olifantsfontein road linking two major roads, N1 to the east and R21 on the west – which provide the township with better access to external markets. Another important locational advantage of the two sections is their proximity to two industrial parks that offer opportunities for informal enterprises to develop linkages with the formal sector.

Despite these similarities, Ivory Park and Kaalfontein have different spatial and socio-economic characteristics which are useful for drawing comparisons in so far as demographic, dwelling and socio-economic patterns shape the structure and nature of informal activities. Due to the lower than expected response rate we have opted to treat the sample from the two study sites as representative of one research site, whilst being mindful of not compromising the study objectives.

5.   Overview of Tembisa township economic terrain

The following section provides a spatial and socio-economic overview of Tembisa, drawing comparisons with two other townships where similar studies have recently been carried out. Both the demographic composition and socioeconomic characteristics explain much of the variation in economic activity across space, even though townships are often treated as homogenous settlements, particularly when they are a target of government policy interventions.

### 5.1.   Spatial and socio-economic overview: comparative analysis

Tembisa is the second biggest and one of the oldest townships in Gauteng; it was established in 1957 as part of the Apartheid segregation policies. At the time of establishment the township was spatially located on the northern periphery of Kempton Park to serve as labour complexes for the former East Rand and Witwatersrand industrial areas. The Ivory Park section was established in 1991, to accommodate overflow residents from Alexandra and other parts of Tembisa, while Kaalfontein is a post-apartheid settlement comprised of lower-middle income groups (Murray, 2011). Map 1 below shows the spatial location of Ivory Park and Kaalfontein in relation to three metropolitan municipalities in Gauteng province.

Delft was established under similar apartheid circumstances in 1989 as the first mixed race township of Blacks and Coloureds in Cape Town. It is located further away from the city centre (34 km from Cape Town) than Tembisa and Diepsloot. Of the three townships, Diepsloot is relatively newer, having been established in 1995 under slightly similar circum-

stances as Ivory Park, i.e. to be a transit park for people evicted in other townships within Johannesburg.

Historical spatial arrangements that used to marginalise Tembisa from key economic centres are steadily fading out, making the township more spatially and economically integrated. This changing spatial structure provides the township with easy access to regional markets, opportunities to benefit from the growth of its adjacent stronger economies, develop functional economic linkages and for residents to access better work opportunities closer to where the live. As seen from the Map 1, Tembisa is strategically located at the centre of key industrial areas within the greater Gauteng city region.

Map 1: Spatial location of Tembisa within Gauteng Province
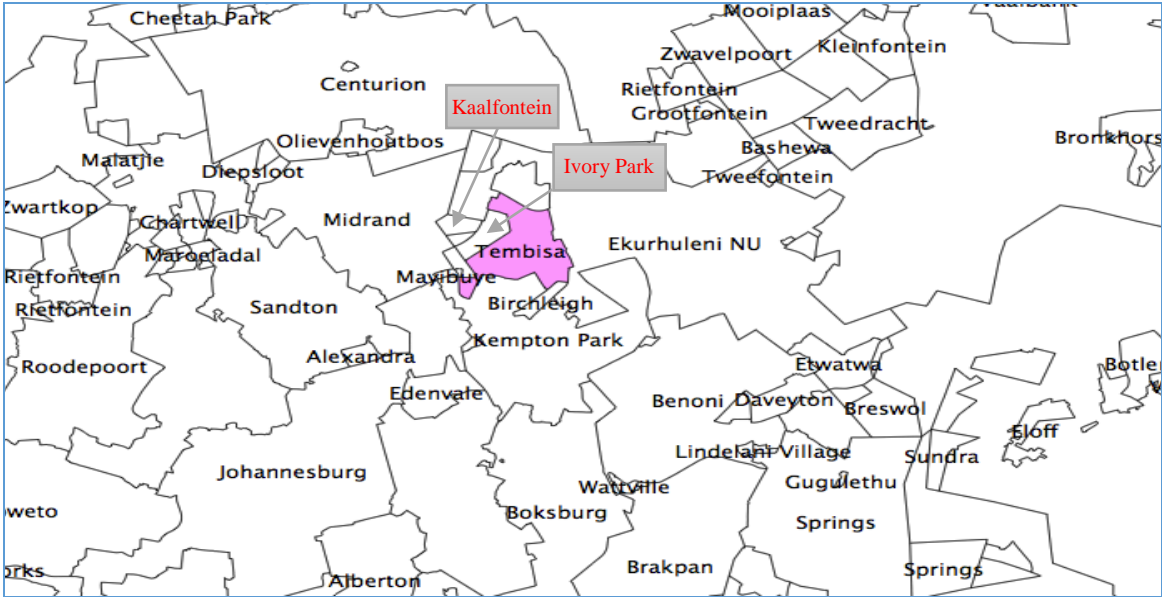
Tembisa (as a whole) is relatively large in population and area size but roughly similar to the other two townships with respect to population density or overcrowding. The entire population (see table 2) of Tembisa resides within an area of 42 square kilometres, while Diepsloot and Delft residents are compacted within a space of 11 square kilometres.[4] The proximity of Tembisa and Diepsloot to industrial areas – respectively Centurion, east and west rand; and Midrand and Fourways – reflects in their relative higher employment rates of 46% and 44% respectively, compared to Delft and other townships in South Africa.

Table 2 compares the demographic and socio-economic characteristics across the three townships. Household income levels are low across the three townships and the rate of higher education completion rate is particularly lower in Diepsloot and Delft, estimated at

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[4] This is in contrast to the neighboring suburban areas of Centurion and Midrand where a population of 280 000 and 100 000 occupying a space of 394 and 152 square kilometers respectively.

just under 3% of persons aged 20 years and above. The incidence of people living in formal dwellings is higher in Tembisa (72%) and Delft (82%) but noticeably lower in Diepsloot (34%) where more than half or houses are informal shack buildings (World Bank, 2014: 11 and Statistics South Africa, 2011c). The results on access to water and electricity are mixed but the Table 2 illuminates the evidently low access-to-services levels in Diepsloot presumably reflecting the high prevalence of informal dwellings.

Table 2: Comparison of township demographic and socio-economic profile

Indicators	Tembisa	Diepsloot	Delft	National
Total population	463109	138329	152030	51.7 m
Population density	10820/m²	11532/m²	13715/m²	-
% labour force employed	46%	44.1%	36%	40.9%
Household earning less than R76 000 p/a	95%	93%	85%	-
Matric completion rate - persons aged 20 years and above	39.9%	30.7%	23.7%	28.9%
Higher education completion – persons aged 20 years and above	7.5%	2.8%	3.0%	11.8%
Formal dwellings	72.5%	34.5%	82%	77.7%
Access to Water (inside dwelling)	36.1%	18.4%	83%	89%
Access to electricity (heating & lighting)	81.9%	61.2%	95%	85%

Source: Statistics South Africa, 2011c.

The difference in the spatial and socio-economic characteristic not only manifest between the townships but also within the townships. There are noticeable disparities between the two study sites despite being located close to one another. On the one hand, Ivory Park, established in 1991, comprises 64% formal dwellings (mainly government subsidy houses) and 36% informal dwellings. The estimated unemployment rate and the percentage of resi-dents earning less than R1500 per month is 50% respectively. Just over 4% of its population aged 20 and above have completed post matric education (Statistics South Africa, 2011). On the other hand, Kaalfontein is a privately development township of low-income bonded houses established in 2002. Over 90% of its houses are formal dwellings; it has serviced stands and paved roads. Higher education attainment among the population aged 20 years and above is 10% while households earning below R1500 per month constitute 40% (Murray, 2011 and Statistics South Africa, 2011).

Charman and Petersen (2014) illustrate that settlement characteristics can influence the nature and volume of informal enterprise activities. They find that some townships have a high concentration of micro-enterprises per given amount of population, the highest being 51 enterprises per 1000 people. A bigger population guarantees a large local market, oppor-tunities for scale economies and high consumption. The unemployed people are attracted to informal activities by the low entry barriers even if it means their entrepreneurial endeav-

ours overcrowd the market. Moreover, a combination of high unemployment and low income contributes to low capitalisation of the informal enterprises while informal/shack dwellings and a shortage of water and electricity may create a need for certain types of informal enterprises. For instance, informal settlements create demand for scrap metal outlets while the lack of electricity may lead to prevalence of food retail and takeaway shops. The manner in which the demographic and socio economic conditions shape economic activity varies from one township to the other, but there are noticeable similarities as far as the range of business activities are concerned.

5.2.   Informal business activity is ubiquitous in Tembisa

Business activities in Tembisa are visually dominated by informal activities concentrated along the high streets, taxi ranks and around shopping malls. As determined through observation, informal enterprise activities around these high-pedestrian-traffic local market corridors are predominantly traditional and retail in nature, specialising in fruit and vegetables, groceries, used clothing and household goods – but also motor vehicle repair services and spare parts. What potentially are the modernising informal activities, as determined through observation, are located further away from these major business centres and are generally seen within household premises and in open public spaces, highlighting business space and zoning deficiencies within the township.

Notwithstanding the bustle of informal economic activity, many studies continue to find the size and value of South Africa's informal economic activities small considering the high rate of unemployment and by the standards of other developing economies (Kingdon and Knight, 2001, Davey, Skinner and Valodia, 2006 and Yu, 2012). Official statistics indicate that the informal sector, in a narrow sense (unregistered enterprises), employs an estimated 2.4 million people, in a country where 5 million people are jobless (Statistics South Africa, QLFS 2014a). Unemployed people do not enter the informal sector at the rate consistent with the need for jobs. The reasons for this peculiar phenomenon are unclear. Kingdom and Knight (2001) finds little evidence to support the conception that unemployed people chooses leisure over jobs or are deterred by entry barriers to look for jobs in the informal economy.

In the absence of formal sector growth, informal sector activities must increase in order to absorb the rest of the unemployed people. Townships are likely to become the key growth areas, because informal activities in city centres frequently are restricted (Charman *et al.*, 2012). Our earlier discussion has indicated that the MIS may have significant labour-absorptive capacity and could provide the basis from which to revitalise and stimulate township local economies. The next section is an assessment of whether Tembisa Township has the presence of, and conditions for, such modernising informal enterprises.

6.   Is there a Modernising Informal Sector (MIS) in Tembisa?

This section provides a systematic assessment of the Tembisa non-retail informal enterprises in terms of the TIS and MIS analytical framework set out in section 2. In particular, the analysis focuses on providing answers to the following research questions: Do the necessary conditions exist for the existence or emergence of modernising informal sector that could form the basis for revitalising the local economy? How large is the modernising informal sector in Tembisa, if it exists? The analysis is done in two steps: first, using *individual criteria* to characterise enterprises; secondly, using a *combination of criteria* in terms of the TIS/MIS classification framework outlined above (figure 1).

Table 3 shows the result of the first step, where a *single criterion* is used to classify the surveyed enterprises. The table shows that the surveyed (non-retail) enterprises cut across the various TIS and MIS indicators but overwhelmingly displays TIS characteristics when each criterion is applied separately as a classification factor. For instance, 85% and 100% of the surveyed businesses pays TIS wages and serve customer types that are synonymous with TIS. When assessed from the perspective of education completion levels and growth aspirations of the business owners, 65% and 93%, respectively, of these enterprises comply with the MIS criteria. However, the single criterion classification method gives an incomplete picture of the nature of informal activity in Tembisa in terms of the TIS/MIS framework.

Table 3: Breakdown of non-retail enterprises by single TIS/MIS threshold indicators

|	TIS Number	MIS Number	TIS %	MIS %
1. Business owner school completion level	19	35	35%	65%
2. Owner prior work experience before starting the business	42	12	78%	22%
3. Motive for starting the business	32	22	59%	41%
4. Number of persons including owner	47	7	87%	13%
5. Relationship of workers with owner	41	13	76%	24%
6. Nature of output produced/sold	41	13	76%	24%
7. Nature of customer served	46	8	85%	15%
8. Earnings relative to minimum wages	54	0	100%	0%
9. Sector/ nature of business activity	15	39	28%	72%
10. Nature of business premises	41	13	76%	24%
11. Compliance with local business licensing	41	13	76%	24%
12. Compliance with quality standards	48	6	89%	11%
13. Growth aspirations of business owner	4	50	7%	93%

Source: Compiled from survey data

Using a combination of the thirteen criteria and the analytical framework set out in section 2, we derive a consolidated categorisation of the surveyed enterprises that provides a comprehensive understanding of informal activities in Tembisa from the perspective of MIS/TIS

model. The classification is obtained by fitting the individual characteristics (13) of each enterprise (54) to the applicable predefined parameters (explained in section 4) of a given sub-segment (4). Figure 2 plots the result of these categorisation.

- The results suggests that, 17 or 32% of the surveyed enterprises in Tembisa are categorised as lower TIEs i.e. satisfies over 75% of TIS but less than 25% of MIS characteristics. These enterprises can be thought of as comprising of 'unwilling entrepreneurs', having been started by low skilled people who are unable to find jobs in the formal sector.

- Another 31 or 57% of the enterprises fall within the category of upper TIS with a combination of 51-to-75% TIS and 0-to-49% MIS characteristics. Enterprises in this segment are made up of 'job-seeking entrepreneurs' who sometimes traverse between low-paying jobs and informal enterprises.

- Only 6 or 11% of the enterprises meet the criteria for a lower MIS, with a combination of 0 – 49% TIS and 51 – 75% MIS features. Typically, enterprises in this category comprise the 'willing entrepreneurs', or people whose businesses are related to their prior work experience.

- None of the surveyed enterprises meet the conditions for the upper category of MIS, i.e., with over 75% of MIS threshold indicators. Such enterprises, run by 'accomplished entrepreneurs', would only be distinguishable from the formal sector largely by non-compliance with tax registration and payment.

Figure 2: Classification of Tembisa non-retail enterprises by the extended TIS/MIS criteria
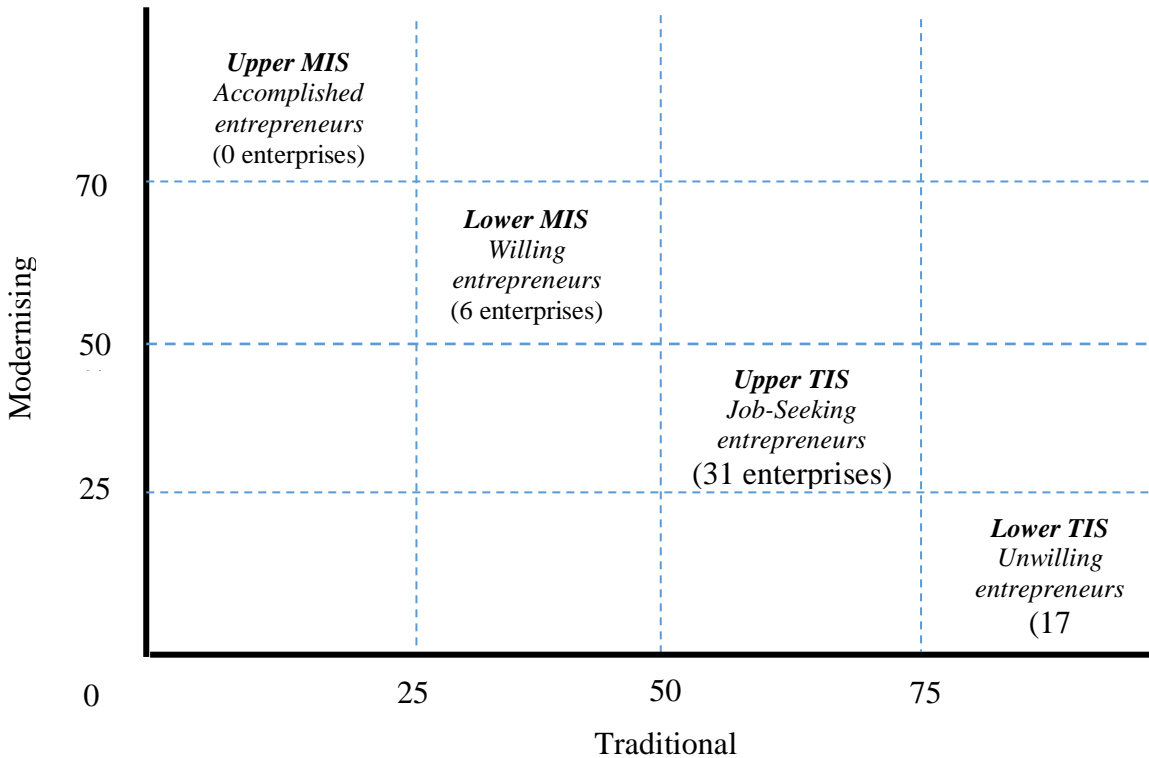
Source: Author's own compilation from survey data

Overall, 89% of the surveyed enterprises in Tembisa are classified as TIEs. This overall result suggests that Tembisa Township has no substantial existence of a MIS and only shows a negligible emergence of MIEs.

Without the modernising informal enterprises, whose significance we have discussed, a township risks further marginalisation and a perpetual cycle of underdevelopment. Efforts to revitalise informal enterprises must consider the point at which various enterprises are along some kind of 'modernisation path', to improve the effectiveness of interventions. For instance, specific entrepreneurial programs targeted at unwilling entrepreneurs (lower TIS) may be inappropriate because the required intervention is jobs. Of course, this does not mean that TIS enterprises are not worthy of appropriate policy support or should not receive such support – they provide livelihoods to millions of poor people. The point is that policies should be appropriate to the target group.

7. Firm, owner and employment characteristics of traditional and modernising non-retail enterprises in Tembisa

It is instructive to consider whether the more traditional and more modernising informal enterprises differ with regard to various economic, employment and demographic character-istics.

7.1 Sectoral distribution

Table 4 shows the sectoral distribution of the surveyed non-retail enterprises classified according to the three applicable TIS and MIS sub-segments (bearing in mind that the num-ber of observations in sectors are very small). Overall, the results indicate that 30 % of the surveyed enterprises falls within the lower TIS sub-segment of which 56% are in manufactur-ing and the remainder in services. The corresponding sectoral distribution for the upper TIS enterprises is 62% manufacturing and 36% services respectively. The lower MIEs are over-whelmingly involved in manufacturing despite making a small proportion of the study sample. The result shows a notable bidirectional trend in the sectoral distribution as one moves from the lower TIS to upper TIS to lower MIS. Manufacturing activity increases with modernisation while services are concentrated in lower TIEs.

The lower TIEs are mostly involved in clothing and textile (50%) while the upper TIS are spread evenly across a number of subsectors. Interestingly, some of the Lower TIS enterpris-es show capabilities for diversification and vertical integration as they are involved in both manufacturing and services. Key among such businesses are those that produce metal prod-

ucts and collect scrap metal at the same time. The lower MIEs have a higher proportion of manufacturing activities and a much lower services activities when compared to the lower and upper TIS; few are involved in both manufacturing and services, though.

Table 4: Sectoral distribution of informal business activities in Tembisa

Manufacturing	Lower TIS		Upper TIS		Lower MIS		
	No of responses	% of TIS 1†	No of responses	% of TIS 2†	No of responses	% of MIS 1†	Total responses
Furniture	1	10%	6	26%	1	20%	8
Garments	0	0%	0	0%	0	0%	0
Food	1	10%	4	17%	0	0%	5
Clothing/Textile	5	50%	5	22%	0	0%	10
Metal products	1	10%	5	22%	1	20%	7
Cleaning products	0	0%	0	0%	0	0%	0
Bricks	0	0%	1	4%	2	40%	3
Food processing	0	0%	1	4%	0	0%	1
Unspecified	2	20%	1	4%	1	20%	4
*Total manufacturing**	*10*	*56%*	*23*	*62%*	*5*	*83%*	*38*
Services							
Mechanical car repairs	2	25%	1	7%	0	0%	3
Auto body repairs	0	0%	1	7%	0	0%	1
IT and internet services	0	0%	2	14%	1	100%	3
Printing	0	0%	0	0%	0	0%	0
Waste and Scrap metal collection	0	0%	3	21%	0	0%	3
Repair of electronic goods	0	0%	2	14%	0	0%	2
Tyre repairs	2	25%	2	14%	0	0%	4
Unspecified	4	50%	3	21%	0	0%	7
*Total services**	*8*	*44%*	*14*	*38%*	*1*	*17.%*	*23*
Total per enterprise category*	**18**	**30%**	**37**	**61%**	**6**	**10%**	**61**

Source: Survey data
* Percentages based on total responses for manufacturing and services respectively (column totals).
** Percentages based on total responses for each enterprise category (row totals). † Percentages based on responses per sub-segment.

It worth noting that the sectoral distribution of the enterprises depicted in the Table 4 is not a full reflection of non-retail business activities in Tembisa. Advertisements placed on the road side perimeters and retaining walls within Tembisa show that manufacturing and processing activities are relatively more diverse than covered in the study sample.[5] Notable activities include paint manufacturer, scrap batteries specialist, dangerous goods and security training, mag-wheels repairs, architectural and building services, computer repairs,

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[5] The sampling technique did not allow for covering of these enterprises because they operate from client premises and offices, away from the key business corridors where informal enterprise concentrate.

funeral services, personal loans and estate agents.[6] While the omission of these enterprises misrepresents the diversity of the business activities, it is worth to noting that others studies (Charman and Petersen 2014 and World Bank, 2014: 185) with larger samples have found the frequency of non-retail activities, such as those listed in Table 4, to be generally low; they constitute an average of 2% of the study sample in the five study sites of Cape Town and Diepsloot. Instead, liquor and food retail constitute 46% of informal enterprise activities across the five township surveyed in Cape Town and nearly 80% in Diepsloot (World Bank, 2014, p.185).

The composition of informal manufacturing and processing activities tends to respond to the localised demand patterns and the constraints of narrow market opportunities associated with the Townships. This implies that the growth of township manufacturing and service enterprises will continually be curtailed by the thin local market conditions. Strategies for growing the Tembisa informal manufacturing and services enterprises should therefore entail enabling access high value markets outside the immediate local economy (Philip, 2010: 14).

7.2 Owner characteristics of informal enterprises in Tembisa

Table 5 below shows the extent to which enterprise owner characteristics influence the type and nature of informal business activities. The survey reveals that the different sub-segments of informal enterprises in Tembisa are dominated by males and the youth, albeit with notable nuances. For instance, there is 45% representation of females in the lower MIS explained in part by dominance of clothing and textile activities. Youth ownership cascades as one moves from the lower TIS growing to 83% in the lower MIS. It is also notable that the preponderance of males is particularly acute within the (lower) MIS enterprises with a 100% representation.

Ownership patterns by nationality depict a strong dominance of non-South Africans in the lower and upper TIS. South Africans are more dominant in the lower MIS perhaps revealing housing ownership patterns in relation to the owners and types of enterprises. Migrant owned enterprises are more likely to be TIS by virtue of operating from informal business premises (e.g. streets and public spaces) in comparison to South Africans who may have a house or a business structure/stand from which to operate the business. This point is illus-trated by the 100% ownership of the lower MIS enterprises (which tend to operate from a separate business stand) by South Africans.

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[6] Based on observations and records made during the field work by the author.

Comparatively, the study results are consistent with the findings of World Bank (2014: 182) in Diepsloot where 68% and just over 50 % of enterprises are owned by males and South Africans respectively.

Table 5: Owner characteristics of Tembisa enterprise

	Lower TIS		Upper TIS		Lower MIS		Total responses	% total responses
Gender breakdown	**No of responses**	**% of TIS 1**	**No of responses**	**% of TIS 2**	**No of responses**	**% of MIS 1**		
Female	4	24%	14	45%	0	0%	18	33%
Male	13	76%	17	55%	6	100%	36	67%
*Total**	*17*	*31%*	*31*	*57%*	*6*	*11%*	*54*	
Age distribution								
Below 18	0	0%	1	3%	0	0%	1	2%
Between 18 and 35	12	71%	24	77%	5	83%	41	76%
over 35 < 60	5	29%	6	19%	1	17%	12	22%
Over 60	0	0%	0	0%	0	0%	0	0%
*Total**	*17*	*31%*	*31*	*57%*	*6*	*11%*	*54*	
Nationality								
South African	6	35%	14	45%	6	100%	26	48%
Non South African	11	65%	17	55%	0	0%	28	52%
*Total***	*17*	*31%*	*31*	*57%*	*6*	*11%*	*54*	*33%*

Source: Survey data
* Percentages based on total responses (column totals).
** Percentages based on total responses for each enterprise category (row totals).

7.3 Employee and employment characteristics of Tembisa non-retail informal enterprises

Table 6 gives a detailed breakdown of the employee and employment characteristics of Tembisa non-retail informal enterprises with a particular focus on the number of workers, gender, owner-worker relationship and education levels of workers.

The findings in respect of employment size within the lower and the upper TIEs concur with Ranis and Stewart (1999)'s parameters because most of the surveyed enterprises employs less than 3 workers. Surprisingly, 5 or 16% of the respondents or enterprises classified as upper TIS reportedly have 3 or more workers, thus indicating the fluidity of enterprises' characteristics. In contrast, MIS-type enterprises appear to be larger: 4 (67%) of the 6 respondents classified as lower MIS have 3 or more workers.

Male workers are dominant across the three sub-segments and in particular within the lower MIS enterprises. Enterprise owners and workers in the lower and upper TIEs are closely related to one another, mostly as family and friends, while the owner-employee relationship in the lower MIS enterprises are largely professional (83%). The MIS-type enterprise seems

to be more distinct, being more separate from family and household bonds as postulated by Ranis and Stewart (1999).

Table 6: Comparison of worker education levels and working hours by enterprise size

No of full-time workers per enterprise	Lower TIS		Upper TIS		Lower MIS	
	No of responses	% of TIS 1	No of responses	% of TIS 2	No of responses	% of MIS 1
1 worker	8	47%	6	19%	0	0%
2 workers	6	35%	16	52%	0	0%
3 workers	3	18%	4	13%	2	33%
> 3 workers	0	0%	5	16%	4	67%
Total responses	17		31		6	-
No of part-time workers per enterprise						
1 worker	2	67%	1	33%	1	50%
2 workers	1	33%	2	67%	1	50%
> 2 workers	0	0%	0	0%	0	0%
Total responses	3		3		2	-
Gender of workers (headcount)						
Female	2	13%	16	34%	0	0%
Male	14	88%	31	66%	24	100%
Total workers / category	16		47		24	
Owner/worker relationship						
Family members	5	29%	8	26%	0	0%
Friends	4	24%	11	35%	1	17%
Former colleagues	0	0%	1	3%	0	0%
Professional (no prior relationship)	2	12%	5	16%	5	83%
Do not know	6	35%	6	19%	0	0%
Total responses	17		31		6	-
Worker education levels						
No schooling	0	0%	2	4%	0	0%
Completed primary school	3	19%	6	13%	6	29%
Completed secondary school	13	81%	32	71%	12	57%
Vocational training	0	0%	4	9%	3	14%
Some university training	0	0%	0	0%	0	0%
Do not know	0	0%	1	2%	0	0%
Total Responses	16		45		21	-

Source: survey data
** Percentages based on total responses for each enterprise category (row totals).

When it comes to the education levels, both enterprise owners and the workers overwhelmingly indicate having completed secondary school. Counterintuitively, 81% and 71% of respondents classified as the lower and upper TIEs indicate to have completed secondary

schooling in contrast to 57% of workers in lower MIS enterprises. The sectors within which these MIS enterprise are located may explain this pattern.

The observation drawn from these results is that the number of workers per enterprise and the owner-worker relationship has a bearing on whether an enterprise is classified as TIS or MIS, while the effects of education levels are mixed.

Turning to the conditions of employment, the study reveals that informal enterprises in Tembisa are far from attaining earnings that are consistent with the South Africa's commitment to a decent and minimum wages. In 2014 minimum wages ranged between R1800 for a domestic worker in the rural areas to just under R4000 for a worker in the wholesale and retail sector, equating to an overall average minimum wage of R2681 (Coleman, 2014). Table 7 shows that average monthly wages in the Tembisa non-retail informal sector are significantly below the mean minimum wages (R2681) especially within the lower and upper TIEs.[7] The average monthly wage for the lower MIEs is 54% below the mean minimum wage. Nevertheless, the MIEs appear to pay higher wages than the two TIS categories.

Table 7: Wages and working conditions by enterprise size

Conditions of employment	Lower TIS		Upper TIS		Lower MIS	
	No of responses	% of TIS 1	No of responses	% of TIS 2	No of responses	% of MIS 1
Average monthly wages	R485		R977		R1208	
Working hours /worker /day						
Less than 8 hours	3	19%	5	11%	0	0%
8 hours a day	9	56%	28	61%	7	30%
More than 8 hours a day	4	25%	13	28%	16	70%
Total responses (No of workers)	16		46		23	-

Source: Survey data. Owners included.

When it comes to working hours, most workers in the lower and upper TIEs tend to work an 8 hour daily shift (or less), while those in the lower MIEs appear to put in more working effort; workers (including the owner) in 70% of enterprises classified as lower MIEs work more than 8 hours a day.

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[7] We have used the mean minimum wages for 2014 because of data availability and to align with the year in which survey data was collected. The mean minimum wage for 2015 is slightly higher than that of 2014 by an amount equal to the inflation rate.

7.4 Taxation, regulation and connection to services

The surveyed enterprises in Tembisa are informal in many other ways too. While the sampling exercise did not set-out to exclude any formal business, it would appear that informality in respect of non-compliance with regulations is prevalent. An overwhelming 100% of the lower and upper TIS as well as lower MIS enterprises are not registered with the Companies and Intellectual Property Registration Office (CIPRO) – which is not surprising, given their informal status. The condition is similar with respect to business licenses, Value Added Tax (VAT) compliance and registration with local business associations across the three classified informal enterprises (see Table 8). In comparison, the tax registration rate in Diepsloot is around 9.4% while the national Finscope survey, which notably includes formal enterprises, found a 13% tax registration rate (World Bank, 2014: 188 and Finmarktrust, 2010). Electricity and water connections, however, show mixed results. The upper MIEs have a near 100% percent connection electricity, signifying access better-serviced business premises. Approximately 41% and 71% of enterprises classified as lower TIS are not connected to electricity and water respectively. Lower MIEs seem to have lower water connections, again perhaps due to the nature of the activities.

Table 8: Tembisa businesses regulatory compliance and service connection.

	Lower TIS		Upper TIS		Lower MIS	
	No of responses	% of TIS 1	No of responses	% of TIS 2	No of responses	% of MIS 1
CIPRO/ CIPC*						
Registered	0	0%	0	0%	0	0%
Not registered	17	100%	31	100%	6	100%
Business licence*						
Registered	1	6%	9	41%	3	50%
Not registered	16	94%	22	71%	3	50%
VAT compliance						
Registered	0	0%	1	3%	1	20%
Not registered	17	100%	30	97%	5	83%
Business association*						
Registered	0	0%	4	15%	0	0%
Not registered	17	100%	27	87%	6	100%
Electricity*						
Connected	9	53%	28	90%	6	100%
Not Connected	8	47%	3	10%	0	0%
Water*						
Connected	5	29%	14	82%	3	50%
Not Connected	12	71%	17	55%	3	50%

Source: Survey data. *Based on 54 responses

7.5 Market awareness and business linkages

Typically, informal enterprises tend to have poor or adverse linkages with the formal sector (Skinner and Valodia, 2006) for many reasons, including a low level of market awareness. Table 9 provides a detailed assessment of the enterprise nature in respect of market linkages and awareness. The study reveals a linear pattern of that seem to conform to the modernisation pattern. Enterprises are less linked to the local suppliers the higher they move along the modernity path. The lower MIEs are starkly distinct as they source 83% of inputs from non-local suppliers and tends to diversify their supplier base and establish long term supplier relationships.

Table 9 depicts another linear pattern of modernity when it comes to product mix and differentiation as well as customer composition. Both the lower and upper TIEs provide finished sold mainly to the final consumer. In contrast, the product composition of MIEs is relatively more differentiated and further evident in the composition of the customer base. At least 67% of customers in the MIEs are business customers. In the Finmark trust (2010) survey private individuals were found to constitute 96% of small businesses' customer base.

Table 9: Local linkages and market awareness

	Lower TIS		Upper TIS		Lower MIS	
Local linkages and sourcing*	**No of responses**	**% of TIS 1**	**No of responses**	**% of TIS 2**	**No of responses**	**% of MIS 1**
PURCHASES of inputs						
From local suppliers in Tembisa	9	53%	8	26%	1	17%
From suppliers outside of Tembisa	8	47%	23	74%	5	83%
Supplier diversification*						
Only one supplier	3	18%	10	32%	0	0%
More than one supplier	14	82%	21	68%	6	100%
Supplier relations*						
Transactional (once off)	7	44%	7	23%	2	33%
Relational (long term)	9	56%	24	77%	4	67%
SALES of products/services						
Product type*						
Only sell finished products	13	81%	24	77%	4	67%
Only sell intermediate products	0	0%	4	13%	1	17%
Sell combination of the two	3	19%	3	10%	1	17%
Product differentiation*						
Only one product or services	8	47%	14	45%	3	50%
Also offer complementary products	8	47%	17	55%	3	50%
Produce multiple unrelated products	1	6%	0	0%	0	0%
Customer type*						
Direct to final consumers	17	100%	27	87%	2	33%
Mainly business customers	0	0%	4	13%	4	67%

Source: Survey data. * Based on 54 responses

Figure 3 gives a further breakdown of the non-retail enterprise customer base. Overall, the results suggest that informal non-retail enterprises in Tembisa are unable to develop Business to Business (B2B) transactions (both within the informal sector and with the formal sector) as deduced from a high number of respondents who indicate that neither government, formal manufactures and retail chains form part of their customer base. With regard to local informal enterprises, though, more than half of the respondents indicate that they conduct business with some of the local and fellow informal enterprises. The narrow customer base is a manifestation of limited access to wider markets, limited market awareness and most importantly the inability to provide goods and services at scale and at the standards required by the formal-sector firms or government (Philip, 2010: 17).

Figure 3: Composition of the customer base of non-retail informal enterprises
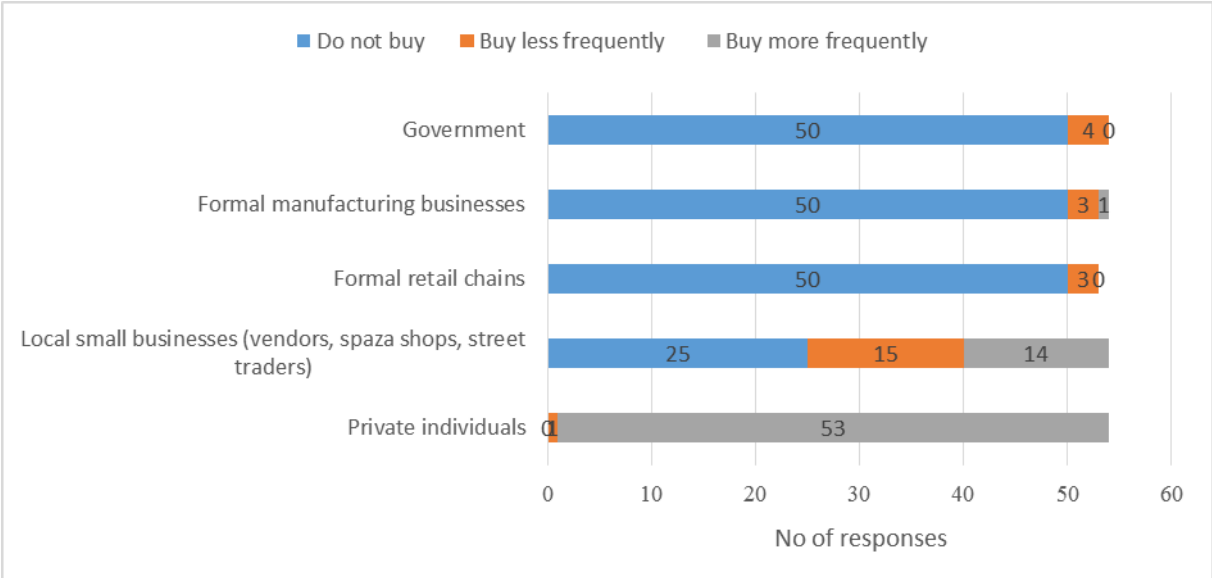
Source: Survey data.

The stark absence of upstream linkages or subcontracting arrangements with formal manufacturing firms or retail chains is startling in that Ivory Park and Kaalfontein are located opposite the Ollifantsfontein and Clayville Industrial Parks.[8] However, this may be attributable to the inability of the township enterprise to produce standardised quality products at scale and intermediate goods used in the production process of other manufactured products or commonly procured by the government. Further, becoming an accredited supplier can entails complex contractual relationships, compliance issues, stringent quality standards

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[8] Some of the big companies represented in the park include: Aspen, ABI, Clover, Marley recycling, Nestle, SASKO, Spar, Duram, BP, Imperial, Consol, Early Bird, MAN, Adcock Ingram, Nampak, Tiger brands, Huliman, Festive, Goldi, Bosch and Top Tiles.

and rigid delivery requirements which micro informal producers are incapable to meet (Philip, 2010: 17; also see Von Broembsen 2016/forthcoming, REDI working paper)).

The sectoral distribution of township enterprises outlined earlier is not responsive to the value-chain needs of nearby companies that are producing mass consumer goods. This industrial park is home to some of the biggest manufactures and warehouses of national and multinational food, soft drinks, medical, logistics, and packaging brands. The businesses surveyed are neither involved in the production of inputs for these mass consumer goods nor in the supply or repairs of industrial machines. In general, the narrow product mix and customer base of the non-retail informal enterprises in Tembisa reduce the scope for developing downstream linkages with formal firms, notwithstanding the fact that such linkages require a level of business sophistication that, in the view of Philip (2010: 16), is non-existent in most informal enterprises.

7.6 Business constraints affecting informal enterprises in Tembisa

When it comes to perceived business or growth constraints, the surveyed non-retail township enterprises see such factors as largely external to their businesses.[9] For instance, lack of support from government ranks the highest on the list of pre-identified business constraints, as shown in figure 4. Access to water connection, availability of business space, lack of access to finance also feature prominently as the perceived key growth constraints for informal entrepreneurs in Tembisa. Business registration costs, compliance with municipal regulations, and lack of skilled workers are regarded as some of the least business constrains. In comparison, and consistent with Tembisa results, informal enterprise owners in Diepsloot instead regard crime[10] and lack of access to space as the biggest impediments to the growth of their businesses (World Bank 2014: 202).

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[9] The respondents were given a total of 14 predetermined factors from which to choose from including crime.
[10] Crime was accidentally omitted in data capturing and analysis, therefore could not be incorporated.

Figure 4: Factors constraining growth of informal enterprise in Tembisa
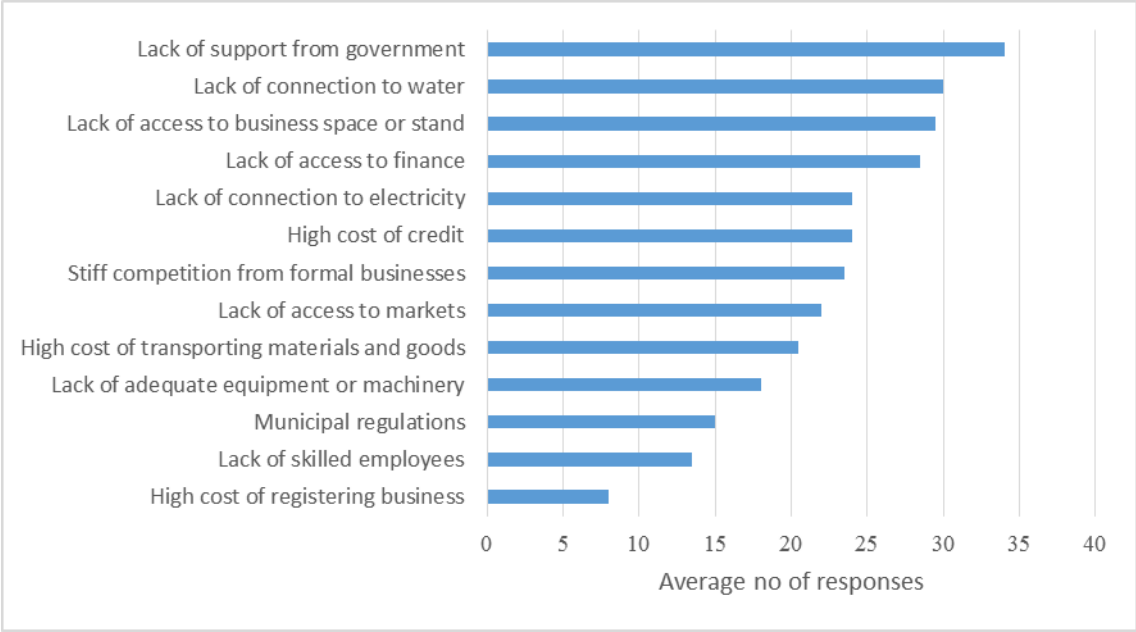
Source: Survey data

Counter-intuitively, but consistent with the results found in World Bank (2014: 202) and Finmarktrust (2010), surveyed informal enterprise owners do not perceive access to markets or competition as critical obstacles to the growth of their businesses, even though 89% of the respondents would want to expand their businesses. These results suggest that informal enterprise owners in Tembisa may have inadequate knowledge concerning how market access, market conditions and the competitive structure of the economy may limit the scope and growth prospects of their businesses. Philip (2010: 20) attributes the de-prioritisation of market access to the typical informal entrepreneur's growth strategy, which in the main entails horizontal aggregation through addition of small scale complementary products and services, rather than growing larger and eventually formal in a vertical manner.

The narrative about lack of support from government appears to be more a perception than a genuine constraint. When the respondents are probed about knowledge of available enterprise development programs and taking the initiative to acquire support, the results reveal a worrying picture. Over 68 % of the respondents are not aware of available business support programs and 96 % of the surveyed enterprises have neither received nor requested enterprise development assistance. By implication this result shows that enterprise owners do not match their growth aspirations with the required effort or awareness of government support programmes; alternatively, that available support programs are not adequately publicised. However, even if business support programs are made available, the low compliance level with regulatory requirements could restrict, or discourage, many enterprises from trying to access such programs.

8. Conclusion

This study sought to explore whether Tembisa township has the necessary conditions for the existence or emergence of a modernising informal sector that could form the basis for revitalising the local economy, e.g. through linkages with the formal sector. Townships, including Tembisa, are some of the most spatially marginalised and economically depressed areas in South Africa, with a very minimal level of economic activity and poor socio-economic attributes. A combination of these attributes, among other things, have created an over-concentration of low-value, low-volume informal economic activities which suppress local economic development and job creation. However, for many job seeking township residents the informal sector still provides the easiest access to work opportunities because of the low entry barriers.

The departure point of our analysis is making the distinction between the Traditional Informal Sector and the Modernising Informal Sector, which demonstrates the significance of various types of informal enterprises to the economy. Following, and adapting, the model of Ranis and Stewart we classify informal enterprises using thirteen enterprise characteristics. We propose a further adaptation of the model by splitting both the TIS (Lower TIS and upper TIS) and MIS (lower MIS and upper MIS) into two sub-segments. This novelty constitutes a substantial contribution to policy analysis and the study of informal enterprises in general. The adapted model enables the classification of informal enterprises along a 'progressive modernity path' - depending on applicable characteristics. This can inform the targeting of support interventions in accordance with the needs of the different categories of enterprises.

Our results clearly indicate that the informal sector is not homogenous, is a diverse sector with multi-sectoral enterprises of different sizes and productive capabilities and people of different backgrounds and aspirations, and most importantly is a source of livelihood for many households that would otherwise be destitute. Tembisa, like many other townships, is a hive of informal business activities. Such activities range from those that are synonymous with the 'unproductive' Traditional Informal Sector to those that resonate with the more 'productive' Modernising informal Sector.

The analysis reveals that the non-retail component of the two study sites of Ivory Park and Kaalfontein in Tembisa is dominated by traditional informal enterprises (TIEs). They account for 89% of the surveyed non-retail enterprises, with only a small percentage qualifying as 'lower' modernising informal enterprises (MIEs). There is no significant existence or emergence of the 'higher' level modernising informal enterprises that are likely to have a

larger role in stimulating growth in the local economy. Nevertheless, the 'lower' MIEs are not without significance.

Some of the surveyed TIS non-retail enterprises are involved in micro-manufacturing of furniture, clothing and welding products, while others are involved in service activities such as motor and tyre repairs as well as waste and scrap metal collection. There is great variability in the sectoral distribution, employment characteristics and other enterprise characteristics across the three sub-segments of the informal enterprises that was identified in the analytical framework. For instance, the results indicate that upper TIEs are involved in manufacturing and services while upper MIEs are concentrated only in manufacturing. The contribution of the surveyed enterprise to employment is low, although the MIEs stand out. It also ia notable that the MIEs have better levels of market awareness and linkages, which enables them to trade with business customers. The general lack of market awareness and linkages is partly explained by the inability of enterprise owners to produce intermediate goods and identify supply-chain opportunities within the immediate local formal economy, including nearby industrial parks.

Philip (2010: 20) is of the view that the ability of entrepreneurs to identify opportunities should be the driving factor in inserting informal producers in the formal value chains rather than the rush to formalise. Von Broembsen (2012) finds intermediation a useful strategy for facilitating access to wider markets by small producers, through consolidation of products produced by small manufactures, provision of administrative infrastructure, sharing of market information.

Informal enterprises in Tembisa are hampered by a number of factors to transition into MIS. Key amongst these is the perceived lack of support from government – although our analysis indicates that enterprise owners seldom actively look for support. In general, business constraints that are internal to the informal enterprise and critical to the transition process such as, investment in skills and availability of equipment are perceived as less constraining to business growth than those external to the business. Without the presence of or at least sufficient conditions to support emergence MIS, Tembisa and many other townships cannot achieve internally-driven local economic revitalisation.

Strategies to support informal enterprises or revitalise the township economy must be tailor-made to the needs of different informal enterprises in the local economy. While perhaps lacking market awareness, enterprises that are at the bottom of the modernisation path fulfil important market needs and provide much needed income to the owners. Support measures for these enterprises must focus on improving trade barriers, particularly access to space and security. The modernising enterprise may require intermediation, funding support

or facilitation of access to high value markets outside the immediate local economy as echoed by Philip (2010: 14).

The prevailing government approach to support informal enterprises and revitalise township economies entails the provision of grants, construction of township business incubation centres, rejuvenation township industrial parks intended to specialise in light manufacturing of automotive parts, furniture, plastics, polymer and chemicals. These interventions are premised on the orthodox view that government can identify opportunities on behalf entrepreneurs and local residents should consume locally produced goods and services. Efforts to revitalise township economies must improve the local economic environment for traditional informal enterprises to thrive while at the same ensuring rapid modernisation of enterprises that demonstrate willingness to progress.

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