TRADE & INDUSTRIAL POLICY STRATEGIES

Trade & Industrial Policy Strategies (TIPS) is a research organisation that facilitates policy development and dialogue across three focus areas: trade and industrial policy, inequality and economic inclusion, and sustainable growth

info@tips.org.za
+27 12 433 9340
www.tips.org.za

INCLUSIVE BUSINESS AS EMPLOYMENT GENERATOR IN RURAL SETTLEMENTS

Wytske O. Chamberlain

February 2019

CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF BOXES

ABBREVIATIONS

B-BBEE	Broad-Based Black Economic Empowerment
BIS	Black Industrialists Scheme
CCS	Coca-Cola Sabco
CDC	Coega Development Corporation
CSI	Corporate Social Investment
CWP	Community Work Programme
DFI	Development Finance Institution
dti (the)	Department of Trade and Industry
DPRU	Development Policy Research Unit
DSBD	Department of Small Business Development
ED	Enterprise Development
ETI	Employment Tax Incentive
GDF	Grameen Danone Foods
HDI	Historically Disadvantaged Individual
IB	Inclusive Business
IDC	Industrial Development Corporation
IDZ	Industrial Development Zones
IFC	International Finance Corporation
IPRP	Industrial Parks Revitalisation Programme
IPAP	Industrial Policy Action Plan
KZN	KwaZulu-Natal
MDC	Manual Distribution Centre
NDP	National Development Plan
NGO	Non-Governmental Organisation
NPD	National Planning Commission
NPAT	Net Profit After Tax
NPO	Not-for-Profit Organisation
PPCO	Pocket Public Calling Offices
PPPFA	Preferential Procurement Policy Framework Act
PPRs	Preferential Purchasing Regulations
ROI	Return on Investment
SAB	South African Breweries
SARS	South African Revenue Service
SED	Socio-Economic Development
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SEWA	Self-Employed Women’s Association (India)
SEZ	Special Economic Zone
SMME	Small, Medium and Micro-sized Enterprise
SWOT	Strength, Weakness, Opportunity, Thread
TCB	The Clothing Bank
TCCC	The Coca-Cola Company
WBCSD	World Business Council for Sustainable Development

1 INTRODUCTION

South Africa suffers from high levels of unemployment, particularly in the rural areas where the unemployment rate is above 40% (DPRU, 2016). As a result, many rural households are trapped in poverty. Social grants and projects such as the Community Work Programme (CWP), have relieved the most severe level of poverty, but are unable to structurally enhance the livelihoods and economic opportunities in non-urban communities. High incidences of rural unemployment result in a significant rural to urban migration, putting pressure on urban centres (Visagie and Turok, 2017).

The South African government acknowledges the need to create job opportunities outside the main urban areas to raise the living standards of the rural population (NPC, 2011). To achieve this, the focus is mainly on stimulating the agricultural, and in particular the smallholder, sector. But, the composition of rural areas presents a high degree of de-agrarianisation, with a large portion of rural households not able to engage in agricultural activities (Neves and Du Toit, 2013). In addition, the large-scale commercial orientation of the agricultural sector questions the role of small-scale agriculture as catalyst for job creation and economic development in rural areas (Ashley and Maxwell, 2001). Alternative sources of income outside of farming are thus crucial to allow rural households to diversify their livelihoods.

However, it is suggested that the dominance of a concentrated, highly mechanised manufacturing sector which serves poor consumers impedes the establishment of local small-scale enterprises, and consequently stifles employment opportunities (Philip, 2010). To gain access to these concentrated value chains and markets is particularly difficult. Rather than trying to compete with the large corporates, an alternative is to make the companies in this “core economy” more inclusive through better engagement with excluded segments of the labour force, particularly in rural areas. This means a change from competition between urban and rural localities to one of complementarity (Start, 2001).

For corporate enterprises to integrate rural communities into their supply chains requires a change of attitude. Business as usual will not lead to inclusion of these communities at scale. Hence, a particular strategic objective of employment creation needs to be incorporated into how these businesses take decisions, aside from their profit objective. In effect, the corporate sector must be stimulated to establish inclusive business models.

The term inclusive business (IB) was coined by the World Business Council for Sustainable Development (WBCSD) in 2005. Inclusive businesses are enterprises that have the simultaneous objectives of making profit and offering livelihood opportunities to low-income communities, the so-called Base of the Pyramid. As such, they fit in the vision that the private sector is a crucial partner in economic growth in the developing world (OECD/WTO, 2015; Warner and Sullivan, 2017). Through IBs, partnerships are formed between for-profit businesses and low-income communities with the aim to include the latter in commercial value chains through direct employment, as suppliers, distributors or customers. Other IBs provide basic services such as sanitation, energy, or water (WBCSD, 2016). It is argued that financially sustainable IBs, which do not depend on grant funding, have the potential to reach large numbers of previously disadvantage people (The Practitioner Hub, 2018). The foremost commercial objective sets them apart from social enterprises, whereas the livelihood opportunity enhancement differentiates IBs from pure profit-driven firms. In the particular scope of this report, the livelihood opportunities relate to employment opportunities for rural communities.

IBs are independently operating enterprises or projects. In the context of this report, an inclusive business is considered as a business operation of an existing corporate entity that aims to integrate poor rural communities into its *core* value chain. But, the firm needs to engage with other partners who are familiar with the poor community which it wants to integrate. As such, the know-how and financial resources of the corporate actor are combined with local community insights through a diverse network of partners.

Considering the high incidence of rural poverty, globally a large number of IBs are active in the agricultural sector, providing services to smallholder farmers (e.g. inputs, irrigation infrastructure or credit), or sourcing produce from these smallholders (Gradl et al., 2012; USAID, 2014). In providing goods and services, inclusion is, for example, implemented in the mobile telephony segment, food and beverages, and financial services.

Box I describes a three IBs in these sectors to illustrate the workings of IB partnerships.

Box 1: Inclusive business partnership examples

Idea Cellular is an Indian telecom service provider which has implemented a growth strategy that focuses on poor populations in rural areas. As part of this strategy, it has built an extensive distribution network across the country through which it makes its products available. Product introductions to suit the specific target market of poor rural communities are very low-value recharge vouchers and the ability to receive music in areas where FM radio is not available. Of particular interest is the so-called Pocket Public Calling Offices (PPCO) initiative which allows the extremely poor who don't have the resources to purchase their own mobile phone to still use the Idea network. A micro-entrepreneur operates the mobile phone as a public phone. The user only pays for the airtime used. To establish this project, a number of organisations formed a partnership: the International Finance Corporation (IFC) provides knowledge and funding to Idea Cellular and to the Self-Employed Women's Association (SEWA), a grassroots-level organisation supporting self-employed women. SEWA builds the relationships with the micro-entrepreneurs, trains them and provides funding for the starter kits needed to establish the PPCOs. Idea Cellular manages the overall project and provides the network and network services. This model provides Idea Cellular, SEWA and the micro-entrepreneurs income, it allows the micro-entrepreneurs to gain ownership over the handset, and it enables the poorest people access to mobile phone services when needed. – *Source: Jenkins and Ishikawa, 2010.*

The Coca-Cola Company (TCCC) supplies non-alcoholic beverages, bottled by local partners, to consumers across the world. Whereas most distribution takes place through large retailers, the road infrastructure and different retail markets and customer needs forced the company to implement an innovative distribution strategy. To this end, TCCC, together with its local bottling partner Coca-Cola Sabco (CCS), established the Manual Distribution Centre (MDC) model, initially rolled out in Ethiopia. An MDC is independently owned by a micro-entrepreneur and serves as a local warehouse in an urban area. From the MDC, beverages are delivered, mostly manually, to small-scale retail outlets that require low volume but high service frequency and which have limited cash flow. MDC owners finance their operation through personal savings, bank loans or can use credit from CCS, indicating that these entrepreneurs are not from the poorest segment. CCS plays a key role in the management of the model: it determines where an MDC is needed, it recruits the MDC owners, it determines the area in which a specific MDC can operate and which retail outlets in can serve, and closely monitors the MDC's operations and performance. As such, the company tightly controls the overall system. The MDC model has enabled TCCC/CCS to expand its business in low-income urban communities, and at the same time has provided business and employment opportunities in these communities. – *Sources: Jenkins and Ishikawa (2010); Nelson, Ishikawa and Geaneotes (2009)*

Grameen Danone Foods (GDF) is a 50:50 joint venture between Danone, a French multinational food producer, and Grameen Bank, a Bangladeshi non-governmental organisation (NGO). GDF produces fortified yoghurt at a price affordable to poor children in rural and urban areas of Bangladesh with the aim to enhance these children's health. GDF has implemented a proximity-based business model, with sourcing, production, sales and consumption geographically concentrated. Milk is sourced from over 100 contracted small-scale dairy farmers, as well as dairy cooperatives, and collected in a network of GDF and externally owned collection centres. Production takes place in the GDF factory. Distribution and sales in rural areas is in small quantities through daily visits by a team of door-to-door sales people (mostly women) equipped with a cooling unit, overcoming the need for refrigeration at the customer's house. These entrepreneurial ladies are also involved in alternative income sources through other Grameen activities and work on a commission basis. A more traditional distribution through retail outlets serves the urban areas. Since inception, it has expanded its product range fully focused on poor consumers. Any profits made by GDF have to be reinvested into the company or other initiative that benefits the poor; the shareholders are only allowed to recoup their investment. GDF can leverage on both the knowledge of one of the world's leading dairy producers and the local network and positive image of Yunus Grameen, noble prize winner and founder of the Grameen Bank. – *Sources: Yunus, Moingeon and Lehmann-Ortega (2010); Rodrigues and Baker (2012)*

An IB engages the networks, know-how and financial resources of an existing corporate actor to benefit poor communities. The dominance of large companies in the South African economy thus makes inclusive businesses a particularly relevant player for job creation in rural settlements, either formally or in an informal structure.

2 SCOPE OF THE REPORT

The aim of this report is to identify how commercial businesses can generate employment opportunities in rural areas through inclusive business models. Three aspects are thus in scope: commercial business, employment and rural areas.

First, for commercial businesses, this term refers to companies which operate according to a traditional profit objective and form the "core" or "first' economy. The social and/or environmental objective, if present, is subordinate to the economic aim. In South Africa, the core economy is highly centralised with a skewed distribution of ownership (Philip, 2010). For example, despite the food sector providing livelihoods for a large number of independent agents, five large retailers have captured a significant share of the South African market (Das Nair, 2017). The top-five corporations in the consumer food service segment account for more than 61% of the market value (Greenberg, 2017). The manufacturing sector is highly capital intensive, having an equally exclusionary effect on small-scale entities and entrepreneurs in low-income communities

(Black, Craig and Dunne, 2016). The light industry manufacturing sector, including agro-processing activities, offer one of the highest potentials for non-agricultural rural job creation (Cities Support Programme, 2018). The leading corporate entities in these highly competitive value chains thus have the muscle to contribute meaningfully to a solution for the employment challenges in the rural areas.

Second, when talking about employment opportunities, this refers to both formal and informal employment, acknowledging the large role the informal economy plays in the South Africa economy, particularly in rural areas and in poor communities (Visagie and Turok, 2017; Valodia et al., 2006; Fourie, 2018). Furthermore, the connections between the formal and informal sector are considerable (Valodia et al., 2006; Philip, 2010). Taking into account the relatively small size of the informal sector compared to other middle-income countries, and the underdeveloped small, medium and micro-sized enterprise (SMME) segment, there is potential to build opportunities in these two areas through IBs.

Third, the South African landscape does not lend itself easily to a clear classification of rural and urban areas. Population densities can be considerable outside the major urban areas, particularly in the former homelands where settlements have spread over large areas without proper planning. This is acknowledged by the South African government which defines “rural area” as:

a. “A sparsely populated area in which people farm or depend on natural resources, including villages and small towns that are dispersed through the area; or
b. An area including a large settlement which depends on migratory labour and remittances and government social grants for survival, and may have a traditional tenure system” (National Treasury, 2017b, p. 22)

The large settlements, as specified in point b, are one of the two focus areas of this particular report. Examples are Jane Furse and surrounding towns in the Makhuduthamaga Local Municipality in Limpopo Province, the Mbombela Local Municipality in Mpumalanga province, or Mbizane Local Municipality in the Eastern Cape province. The second focus area consists of the smaller urban centres such as Harrismith in the Free State province, Grahamstown in the Eastern Cape province, or Kokstad in the KwaZulu-Natal (KZN) province. These rural settlements and secondary urban centres, which have been largely neglected by policymakers, register particularly high levels of urban poverty but nevertheless serve as a first step for economic migrants from the deep rural areas (Du Toit and Neves, 2007; Thornton, 2008).

Following this particular scope, what is not included in this study needs to be detailed. First, excluded are models that work only in townships bordering the major urban centres. Economic activities are already concentrated in these areas, with unemployment figures, although high, generally below the national average. This report aims to identify models that can level the distribution of economic activities away from the major centres. Also out of the scope are the more rural areas with a low population density. Alternative strategies, beyond inclusive businesses, need to be implemented to economically develop these regions.

Second, primary agricultural activities through smallholder engagement are not included in this study. A large body of work already exists on inclusive businesses in the agricultural sector (see for example Chamberlain and Anseeuw, 2017 for IBs in the South African context).

A particular note relates to social enterprises, businesses mostly driven by a social objective that implement a business approach to secure the financial sustainability of the enterprise. Whereas these economic actors have the potential to employ unskilled workers outside major urban areas, the recommendations in this study do not relate to how to stimulate and grow this specific business segment. They can, however, be valuable partners in a business model that also incorporates a profit-oriented corporation, as will be illustrated in this report.

3 METHODOLOGY

This report is primarily based on a literature review. It analyses IBs across the developing world, where these novel partnerships are established to adjust to a context that differs from that in developed markets. Sources of information include policy documents, academic research, IB practitioner websites, policy briefs and case study descriptions. The insights that flow from the literature review are further worked out through personal communications with stakeholders in the field of inclusive business in South Africa. This includes IB representatives, policymakers, Development Finance Institution (DFI) employees, and others. A list of people interviewed is provided in Appendix A.

The structure of this report is as follows. Section 4, describes rural economies in South Africa to sketch the context in which these IBs are to operate. Section 5 gives an overview of the relevant policy environment in South Africa that aims to stimulate a more inclusive economy, and which IBs can benefit from. Section 6 presents four basic models of IBs that are applicable to the scope of this report. Section 7 analyses these models and gives insights into how these IBs can contribute to rural job creation and how inclusive and transformative these models are. Section 8 presents the crucial elements required for the set-up of an IB. Section 9 provides recommendations for the successful establishment of an IB that benefits both the commercial partner and the community in which the IB operates. Section 10 concludes with a summary.

4 RURAL ECONOMIES IN SOUTH AFRICA

The current South African landscape is shaped by its apartheid history. which was based on spatial segregation. Black people were restricted to designated areas, the so-called homelands or bantustans, which covered about 13% of South Africa. The large number of people who had to relocate to this small area resulted in densely populated, and even overcrowded homelands. These homelands served as reservoir of cheap labour for industry, the mines, and commercial white-owned farms, extracting the most productive segment of the population (Cochet, Anseeuw and Fréguin-Gresh, 2015). Villagisation programmes put further pressure on land and resulted in rural areas that were largely de-agrarianised (Collinson et al., 2006). Urban planning was absent, leading to the establishment of vast peri-urban settlements within commuting distance of the industrial urban centres. Outside the bantustans, designated townships close to, but physically separated from, “white” cities and towns served as home to thousands of labourers.

As a result of the segregationist policies of the past, these areas, despite being called “rural”, are still characterised by a high population density. Although the share of the population living in the former homelands is falling, around a third of South Africans still live in these areas (Makgetla and Levin, 2016). The homelands developed without sufficient spatial guidelines and were largely neglected from an investment perspective (Du Toit and Neves, 2007). Settlements in these locations are sprawling and suffer from inadequate infrastructure such as roads, schools and clinics. The provision of basic services such as water and electricity is highly unstable, if available at all. Poverty is disproportionally high in rural areas, resulting in low levels of education and high levels of HIV/AIDS and other health issues (Neves and Du Toit, 2013).

Rural economies are still characterised by a high level of migration with household members looking for economic opportunities in cities or mining areas. Larger rural towns are often a first step of migration for remote rural dwellers, but on-migration to cities stagnates in absence of jobs in these larger cities (Du Toit and Neves, 2007). Indeed, it is expected that the biggest growth will be in small- and medium-sized cities, rather than in the large metropolises (Joubert et al., 2016). These larger rural towns, offering little economic opportunities themselves, then become poverty traps. Whereas this migration takes on more permanent forms compared to earlier temporary, circular character, remittances from migrants still form a significant contribution to the multi-modal livelihoods of rural households (Makgetla and Levin, 2016; Mnwana, 2015; Neves and Du Toit, 2013; Visagie and Turok, 2017).

The migration pattern has built strong relationships between the rural and urban areas (NPC, 2011). The economic integration is further intensified through the penetration of non-local products and services supplied by national corporations. Traditional local trading networks have been replaced by the leading domestic retailers, resulting in monetisation in even the most remote areas (Du Toit and Neves, 2007). The following quote illustrates the intricate linkages between rural towns and large business:

> *"cash comes into Mount Frere in armoured transit vans; is deposited into the ATMs; is drawn by local people – often against funds deposited there by distant relatives or drawn down as social grants; it typically moves five or ten metres across the street or lobby of a store, and then leaves again: repatriated as profits to South Africa's retail giants"* (Du Toit and Neves, 2007, p. 15).

This situation underlines the important role these large firms play in rural towns and hence in providing employment and livelihood opportunities in these non-traditional markets.

The realities sketched in this section illustrate the challenges and potential for corporate firms to engage with rural communities. The densely populated rural areas offer a potential workforce, predominantly in the younger cohorts and increasingly with higher levels of education than the previous generation. These areas offer a large market, albeit for low-value, low-margin products and services. Linking in to local value chains, such as agri-processing, can reduce costs to serve these markets and build a positive local image. The links with the formal economies, particularly an established financial system, allow for relative ease of doing business from a financial transaction perspective. Last, as will be detailed in the next section, the policy framework is highly stimulative to include rural actors in commercial operations. However, a company needs to be able to operate in an environment where infrastructural works, including electricity, water and roads are less developed.

5 THE POLICY FRAMEWORK

A number of government departments and agencies are tasked with facets that feed into the arena of economic development in general and employment creation in rural townships in particular. This section highlights both the policy initiatives and the development finance institutions (DFIs) which support the implementation of these policies. Considering that government policies and DFI portfolios are still allocated mostly to established firms (The dti, 2015), IBs could be one mechanism to pass-on this support to the small and/or black-owned companies that the South African government intends to grow. The policies and DFIs described here are those that have a specific impact on rural job creation outside the farming sector, but by no means present the overall framework. For example, IPAP has identified a number of high-potential sectors for which targeted support is available from government.

5.1 Acts and policies

The South African government has instituted a number of acts and implemented various policies that serve to stimulate the generation of job opportunities outside the main urban areas. This section describes some of the main programmes that aim to make a positive contribution to employment creation particularly in more rural areas. Corporate firms have to adhere to this policy framework in order to qualify for government-related business. By using an IB construction, the framework can also be used by corporates to de-risk business initiatives in rural areas, allowing firms to move from an approach of compliance to actively supporting rural economic development.

5.1.1 B-BBEE Act

The fundamental objective of the Broad-Based Black Economic Empowerment (B-BBEE) Act, effected in 2003 and updated subsequently, is to bring about economic transformation and enhance the participation of black people in the South African economy. It builds on five pillars: ownership, management, skills development, enterprise and supplier development, and socio-economic development. Within the B-BBEE Act, enhanced recognition is given to women, youth, people with disabilities and people in rural areas (B-BBEE Commission, 2016). Compliance with this framework is crucial for companies wishing to do business with government and thus forms a strong incentive for private businesses to engage with SMMEs, particularly in rural communities. First, under the B-BBEE regulations, companies are stimulated to *procure from domestic SMMEs* which creates market opportunities for these small enterprises. Second, through the prescribed *enterprise development* element, these SMMEs gain skills that increase their performance and opportunities to diversify their customer base in the medium to long term. Both these targets relate directly to the core value chain of the corporate actors. Third, companies are stimulated to spend 1% of their net profit after tax on *socio-economic development* (SED) initiatives. These SED initiatives often take the form of corporate social investment (CSI) projects and are usually managed by a separate units or entities (inside the firm or outsourced to a third party), and as such have more relaxed financial targets.

5.1.2 Preferential Procurement Regulations

Governments can use public procurement as a tool with dual objectives, namely to deliver services to citizens and to bring about socio-economic development (Ambe, 2016). To enhance the impact of public expenditure on the transformational objective of the South African government, National Treasury has implemented the PPPFA, which was first promulgated in 2001 with revisions issued in 2011 and 2017. The 2011 revision enhanced mechanisms to benefit SMMEs, cooperatives, township and rural enterprises, which were further strengthened in the additional revision of 2017 (National Treasury, 2017a). The PPPFA and Preferential Purchasing Regulations (PPRs) apply to all organs of state, thus including state-owned enterprises.

Preferential purchasing implies that government tenders are not assigned based solely on price and functionality, but that consideration is also given to the B-BBEE status of the bidder. This allows government to favour companies and contractors that benefit historically disadvantaged individuals (HDIs). Smaller tenders (between R30 000 and R50 million) are evaluated based on 80% price and 20% B-BBEE, whereas larger tenders (above R50 million) have a 90:10 price to B-BBEE ratio. Furthermore, the PPPFA contains details regarding subcontracting. For very large contracts (over R30 million) the winning bidder must subcontract at least 30% of the contract value to designated groups such as SMMEs owned by black people, black youth, black women, black people with disabilities and black people in rural areas. The PPPFA also allows the Department of Trade and Industry (the dti) to designate sectors or products for local content and manufacturing thresholds. As such, the dti has specified 100% local content for clothing, textiles, leather and footwear and for school furniture procurement, as well as 90% for power cables, to name a few. Through the PPPFA, government purchasing supports both SMMEs and HDIs.

5.1.3 Geographical zones

The dti actively encourages the development of non-urban industrial activities through supporting two different types of zones in designated geographical locations. These are the establishment of Special Economic Zones (SEZs) and the Industrial Parks Revitalisation Programme (IPRP). These two programmes follow on from the previous Industrial Development Zones (IDZ) programme.

The SEZ is one of the flagship programmes of the dti. The aim of this programme is to attract investors to specific geographical areas, by providing infrastructure and financial incentives. Thus, the dti gives financing for the development of Special Economic Zones, and, together with Treasury, determines the incentives which an investor qualifies for. These incentives include a range of tax reductions and employment incentives. The IDZs were established in areas with good access to ports, but were viewed as perpetuating the spatial development patterns from the apartheid era, bringing further development to already well-developed cities. Examples are Coega in the Nelson Mandela Bay Metropolitan Municipality and the East London IDZ.

In contrast, the current programme includes a number of SEZs in more rural areas. These include Musina/Makhado in the far north of the Limpopo province, Maliti-a-Phofung in Harrismith, Freestate province, and Nkomazi in Komatipoort, Mpumalanga province. Among the selection criteria for these new SEZs are that they offer economic opportunities, adhere to the wider national policy framework and redress historic inequalities. Employment creation in the SEZs is further supported by lifting the age-restriction that normally applies to the Employment Tax Incentive (ETI) scheme implemented by the South African Revenue Service (SARS). As such, employers in these SEZs can benefit from lower tax rates on employees in low-salary positions.

Whereas the dti serves as the custodian and Treasury provides the incentives, SEZs are operated and managed by a company specifically established for this purpose. This company falls under the provincial government in which the particular SEZ is located. These companies provide an essential role to bring the numerous stakeholders together: other government departments such as the municipal government, service providers such as Eskom, and the private sector investors.

SEZs target foreign investors and stimulate exports. Nevertheless, they acknowledge the importance of domestic firms and SMMEs in particular. Accordingly, SEZs incorporate a platform for market access for the Black Industrialists Scheme (see next section), and offer an incubator programme for entrepreneurs. The objectives of these SEZs are expressed in investment amounts, rather than jobs created. The experience of the already implemented SEZs illustrate that, despite the absence of specific job targets, these industrial areas generate employment opportunities for a large number of workers.

SEZs thus play an enabling role for IBs: they provide financial incentives to make rural partners more competitive with urban-based suppliers, they overcome the challenges related to insufficient infrastructure and unstable service delivery, they offer a network for participants in local value chains, and they provide support for new entrepreneurs which partially reliefs corporate firms from this task.

The Industrial Park Revitalisation Programme, as the name indicates, aims to resuscitate and revitalise old industrial areas. During the apartheid regime, government established these parks in the former homelands, mining towns and secondary cities. Without the heavy subsidies, which were abolished after 1994, these industrial parks became neglected and derelict. The dti now re-invests in these parks to retain the activities that still exist in these areas, and offer an attractive opportunity for new businesses to establish. The parks in the first implementation phase are spread around the country and include Ekandustria (Gauteng), Phuthaditjhaba (Free State), Seshego (Limpopo) and Mthatha (Eastern Cape). Most of these parks have an occupancy rate of over 80%.

The primary role of the dti in the IPRP is updating the security infrastructure, followed by an improvement of electricity and water management facilities and repair of the top infrastructure. The industrial areas are to be revitalised to suit a particular sector, in line with the wider cluster approach adopted by the dti. No tax incentives are available to the tenants, although support in the form of business incubation can be offered. The dti ties the revitalisation in with other programmes such as the Black Industrialist Scheme. The industrial parks are managed by an implementing agent within the municipal government, which also owns the buildings in the park. Similar to SEZs, these agents are part of a wider network consisting of government institutions, state-owned service providers, the private sector and other stakeholders.

The IPRP is a programme that is particularly focused on the large rural townships and hence can serve as a strong generator of direct employment creation in these areas. They offer growth opportunities for business that corporate firms can partner with in an IB set-up.

As an indication of the employment potential of production facilities in designated geographical zones, the Seshego industrial park provides work for 1 600[1] people, Ekandustria industrial park for 6 000[2] people, and Isithebe industrial park in KZN provides around 20 000[3] jobs through large companies such as Whirlpool and Nampac, but also to small and medium-sized enterprises. Nearly 17 000 jobs in construction and operations were created in Coega IDZ in the 2016/7 financial year (CDC, 2017).

[1] http://www.engineeringnews.co.za/article/upgrade-and-revitalisation-of-seshego-industrial-park-will-provide-a-business-friendly-environment-davies-2016-07-29
[2] https://www.parliament.gov.za/news/committee-visits-three-projects-mpumulanga-and-commits-resolve-challenges-ekandustria
[3] http://www.engineeringnews.co.za/article/dti-to-launch-latest-industrial-park-revitalisation-2016-09-29

5.1.4 Other Department of Trade and Industry programmes

The dti has adopted a number of other policies that can benefit the establishment of IB partnerships in rural areas. The *Black Industrialists Scheme* (BIS) aims to unlock the potential of black-owned and managed businesses, specifically in the manufacturing sector. Its objective is to enhance transformation and stimulate participation of black people in mainstream economy, which aligns the BIS with the National Development Plan (NDP) and the Industrial Policy Action Plan (IPAP). As such, it focuses on black-owned businesses operational in the manufacturing sub-sectors identified in IPAP, including agro-processing, clothing, textiles/leather and footwear, and pulp, paper and furniture, which are also industries suitable for rural areas. BIS provides both financial and non-financial support. Financial support is managed by the Black Industrialists Financing Forum and channelled through the established DFIs such as the National Empowerment Fund and Industrial Development Corporation (IDC). Financial support can be in the form of incentive grants, loans, equity or export guarantees. Between inception in November 2015 and mid-2018 a total of 79 projects had been approved for grant funding. The R1.9 billion related to these projects leveraged R7.2 billion in private investment. From an employment perspective, the dti estimates the retention of 8 000 jobs and the creation of nearly 9 500 new jobs during this period (the dti, 2018). An example of a BIS benefactor is Dursot All Joy which received R48 million grant funding that allowed for an expansion of its agro-processing operation in Modjadjiskloof, Limpopo Province, creating 300 permanent and 500 contract jobs (the dti, 2017).

The dti furthermore provides *sector-specific incentives* to those sectors identified as high-potential in the IPAP. These sectors include automotive, agro-processing, film and television production, and clothing and textiles. Funding is also available for export activities, innovation projects, infrastructure programmes, and others. [4]

5.1.5 The Department of Small Business Development (DSBD)

The NDP states that SMMEs play an important role in employment creation (NPC, 2011). Hence, the establishment of a government department specifically for this segment of the economy. The DSBD manages a number of programmes to stimulate the growth of SMMEs. The first programme is the *Black Business Supplier Development Programme* which supports majority black-owned small businesses with a 50:50 cost-sharing grant for tools, machinery and equipment. Additional funding is available for development and training activities. Secondly, the *Cooperative Incentive Scheme* provides grant funding to primary cooperatives. This grant aims to improve the viability of cooperative enterprises by giving them the opportunity to invest in an asset base. The third programme focuses on the establishment and operation of small business incubators, particularly through the Small Enterprise Development Agency (SEDA) network. Lastly, the department has a specific programme to support *informal businesses* through information management and enterprise development. [5]

---

[4] A full overview of the financial and non-financial incentives provided by the dti is available at www.thedti.gov.za.

[5] www.dsbd.gov.za has further details on support for SMMEs.

5.2 Development Finance Institutions

Other than through the policy frameworks drawn up by the South African government, IBs can benefit through partnering with DFIs. These DFIs are independent entities owned by the State and have the mandate to financially support projects that can have a developmental effect but are considered too high-risk for commercial lenders. They are instrumental in the implementation of the policies described in the previous section. This section highlights a few of the DFIs in South Africa that have a particular interest in employment creation in rural areas. This is not a complete overview of all DFIs and other financial institutions active in the developmental arena, but it serves as an indication of the available tools for IB partnerships.

5.2.1 Industrial Development Corporation (IDC)

The IDC is a DFI that falls under the Economic Development Department. It is mandated to provide funding for industrial development in South Africa, which it achieves through debt, equity, guarantees, trade finance and venture capital. For example, it provided financial support to a furniture manufacturer in the provincial town of Brits in the North West province, creating 183 jobs (IDC, 2017). Of specific interest to rural township employment is the Agency Development and Support department. This department operates two funds that partly operate in this arena, namely the Spatial Interventions and Social Enterprise funds. Furthermore, it targets a number of regions with comprehensive support of the local development agencies.

IDC funding can assist financing IB partnerships, through favourable loans or by equity investment in the IB. IDC equity financing has been used in numerous agricultural IBs, where the IDC warehouses equity on behalf of farm workers (Chamberlain and Anseeuw, 2017). Similar equity structures can be implemented in other sectors such as manufacturing.

5.2.2 Small Enterprise Finance Agency (SEFA)

SEFA is owned by the IDC, but with the DSBD as executive authority. SEFA provides financial products and services to SMMEs and cooperatives and as such is an agency that implements government's small business strategy. It covers a wide spectrum, with credit facilities made available to SMMEs and cooperatives in manufacturing, agriculture, mining, construction and other sectors. The SEFA portfolio of products include both direct loans (e.g. asset finance, loans, purchase order finance) and wholesale lending (e.g. credit guarantees, equity) as well as broader support services.

SEFA has created joint venture funds with, for example, Anglo American (as one of the Anglo Zimele funds – see page 24) and Awethu Projects. Through these joint venture funds particular sectors are targeted, such as small-scale mining, or young entrepreneurs in the townships of Gauteng. This structure allows SEFA to reach a large number of SMMEs and leverage the knowledge and networks of the co-investing partner. This innovative construction underlines the contribution SEFA can make to establishing IB partnerships between established firms and SMMEs.

5.2.3 The Jobs Fund

The Jobs Fund is an initiative managed by the National Treasury, with the specific objective of addressing the challenge of high unemployment. It provides grants for innovative projects proposed by public, private and civil society organisations. The Jobs Fund is set up as a challenge fund, selecting projects based on a competitive process. It supports proposals for enterprise development, infrastructure investment, institutional capacity building and support for work seekers. The Jobs Fund requires co-funding from the applicant. The Jobs Fund has supported Non-for-Profit Organisations (NPOs) and social enterprises, such as The Clothing Bank (TCB) (Box 9), public entities including the Eastern Cape Rural Development Agency, and many private initiatives for enterprise development, ranging from large corporates such as Mondi and Clover SA to small start-up businesses such as A2Pay. Thus, the agency can serve as a funding partner to de-risk novel partnership models involving large commercial businesses.

6 BASIC MODELS

As indicated in the Introduction, inclusive businesses are commercial partnership structures between corporate firms and low-income groups or individuals with the object to integrate these disadvantaged communities into commercial value chains (WBCSD, 2014). Poor communities can participate as employers, distributors, producers or consumers (UNDP, 2010). These varied roles indicate the many options available to corporate firms to interact with poor communities, and thus the diversity of business models.

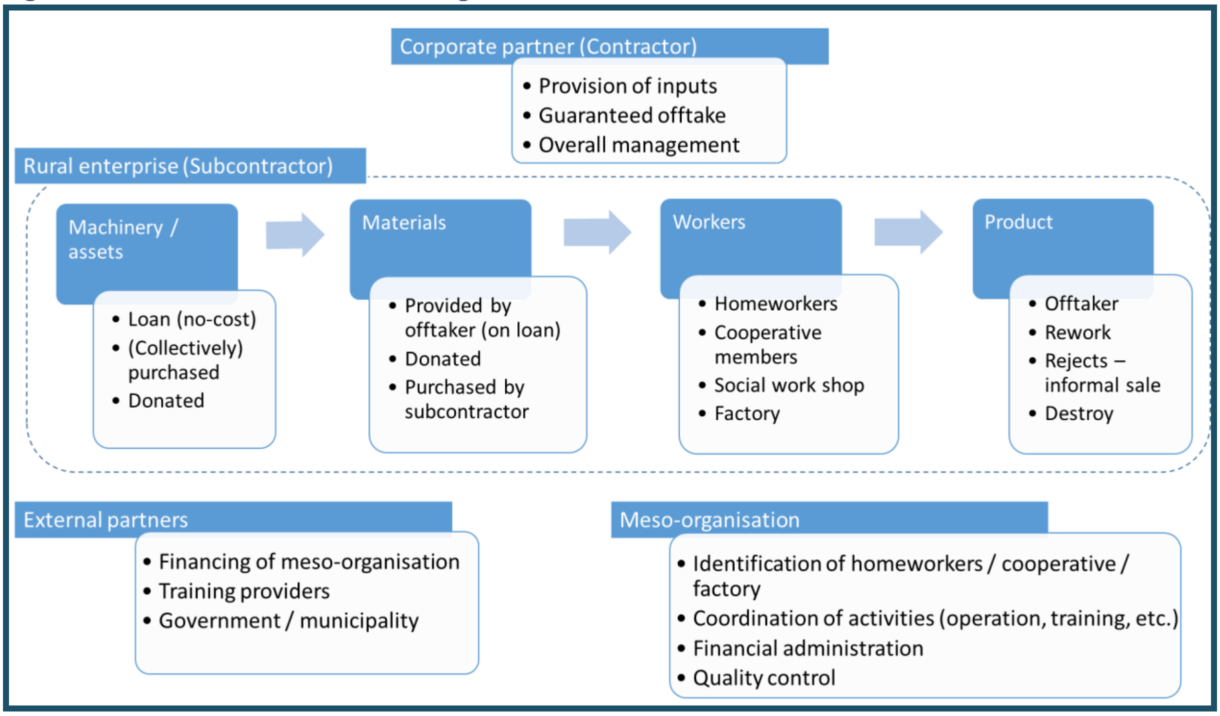
This section will describe four basic inclusive business models that can be identified, particularly in the manufacturing sector: contract manufacturing, enterprise development, franchising and corporate social investment. These models can be considered as archetypical structures that serve as a basis for complex and unique business set-ups that take into account the specific complexities of each IB on implementation and operation. The four specific models are selected because they create employment opportunities for rural communities, in line with the scope of this report. IB models that solely focus on rural communities as consumers are excluded from this section. Equally, IB models that operate in the primary agricultural sector are not included in this report.

6.1 Contract manufacturing

Contract manufacturing is a business model in which manufacturing activities within a value chain, for example of components, are contracted to another actor. This model, which is also called outsource manufacturing or subcontracting, has seen a considerable development globally, particularly since the late 1900s. Although the details of subcontracting structures vary, the basic concept is that one business entity, the subcontractor, provides a service or good for another business entity, the contractor, according to the specifications provided by the latter (van Mieghem, 1999). The coordination and control over these activities remain firmly with the contractor. Contract manufacturing has been implemented in many industries, using relatively low-skilled workers. This implies potential for the rural areas across South Africa, with an ample supply of low-skilled labour. Contract manufacturing or subcontracting to black-owned enterprises in rural settlements counts towards a firm's preferential procurement contribution of its B-BBEE score as described in Section 5.

Figure 1 provides a graphic overview of several variations of inclusive value chains based on contract manufacturing. It illustrates the different stakeholders in such a model. One of the noteworthy aspects is the diversity of contract manufacturers. Subcontracted work on a small scale can take place at an individual's home or in a cooperative setting using independent workers. Alternatively, contract manufacturing can take place with salaried labourers employed by SMMEs, or in a factory environment on a much larger scale.

Figure 1: Basic contract manufacturing model



Source: Compiled by Author

In a contract manufacturing model the corporate partner serves as the contractor/offtaker, managing the overall project. It dictates the details of the product to be made by the subcontracting partner. The contract between the corporate partner and the rural subcontractor includes aspects such as the quantity, product specifications like dimension and colour, quality standards, the price, and time of delivery. The contractor usually provides the necessary input materials to the subcontractor partner. To prevent the sales of these provided materials, the contract can specify that the subcontractor carries the costs on an interest-free loan basis. In case of input material loss, the corporate partner has the opportunity to (partly) recover the costs of this material. The materials or other inputs required for production, rather than being provided by the offtaker, can also be donated by external partners or purchased by the subcontractor. Considering the strict guidelines for production issued by the contractor, and the limited financial resources of the targeted rural subcontractors, this last option is less likely. Rather, contract manufacturing is regarded as a means to overcome financial barriers to obtain required inputs for resource-poor SMMEs. In return for the activities by the subcontracted workers, the corporate partner guarantees offtake of the produced goods.

Assets

The assets, in particular machinery, required by the contract manufacturer to execute the work can be obtained in a number of ways. The offtaker can loan the equipment to the contract manufacturer. Ownership remains with the offtaker, but the contract manufacturer is able to use the machinery. On termination of the subcontracting contract, the machinery returns to the contractor. In contrast, ownership of assets provides further growth opportunities and increases independence for the contract manufacturer. The contract between the offtaker and the contract manufacturer can state that payment of the asset can take place over an agreed period. For example, the offtaker pre-finances a sewing machine that a subcontracted homeworker pays off over a number of months or garments produced. The contract manufacturer can also opt to purchase assets itself, albeit in the particular setting of this report, the contract manufacturer generally has limited resources and (commercial) loans are out of its reach. This option is mainly available to subcontracting in a factory-based environment. Collective ownership for homeworkers is therefore a more likely scenario, implying the establishment of a collective organisation that allows for such collective ownership. External partners can also donate assets, particularly as part of a CSI programme.

Work arrangements

The work itself can be organised on an individual or collective basis. Individuals can act as homeworkers, also called self-employed, or micro-entrepreneurs. But this implies a large number of contracts for the offtaker that need to be managed, supplied, monitored, and the like. To reduce the transaction costs related to subcontracting to rural individuals, collective organisation of the workers is required by the offtaker. Collectives can be organised in a (paid) membership-based cooperation, a loose collection such as a church organisation, or independent homeworkers who organise themselves. The Community Work Programme can also serve as a collective organisation that can coordinate commercial outsourcing activities within a community. Such local meso-organisations are crucial in identifying rural people that are able to execute the offered work. These local meso-organisations are aware of local capabilities, resources and experience, to name but a few aspects. Subcontracting offers flexibility to the workers, accommodating part-time work or work from home. As such, there is considerable scope to include informal employment into this particular model. Alternatively, subcontracting can be done by salaried workers either as an employee of an SMME or a much larger subcontractor. As such, contract manufacturing can be executed by third party firms with their own factory facilities, employing salaried or contract labourers. A more novel option is the set-up of a social workshop. This is a central facility that employs people and provides (production) services to corporate entities using its own infrastructure. The social workshop can be established by a government entity such as the provincial government, or by an NPO that manages this facility as a financially sustainable entity.

Remuneration

Rewards for home-based workers and micro-entrepreneurs are based on their production; their income depends on quantity of product completed or services delivered. In a cooperative set-up, piece rewards are possible when the production system allows for individual identification of products made. If individual identification is not possible, the workers are rewarded based on their hours worked and the overall income of the cooperative. Both these methods create a direct relationship between production and remuneration. A third option is for the subcontractor to employ staff, as proposed in the social workplace scenario and the factory-based model. Wage employment transfers the incentive to increase both quantity and quality of work performed to the employing subcontractor, rather than the workers who receive an income independent of their efforts.

Quality

Adherence to quality standards are of the utmost importance to the outsourcing company. Although specifications are outlined in the manufacturing contract, the implementation needs to be checked.

Quality checks are particularly relevant when the work takes place at the workers' homes or other decentralised locations. In these set-ups the local meso-organisation also plays a central role. Before products are collected by the offtaker, the meso-organisation performs quality control checks in a central location. Products that do not meet the standards are reworked or destroyed. Considering the low-income community context on which this report is concentrated, a fair assumption is that the costs for discarded products cannot be absorbed by the subcontractor due to lack of financial means. It is unviable to transfer this risk to the rural communities engaged in the subcontracting activities. Nevertheless, the subcontracted workers need to be aware of the implications of bad quality products. A cost-sharing agreement that transfers progressively more costs to the subcontracted partner is one option to manage costs for rejected products. An alternative is to allow informal sales of sub-standard products in the local township. Sign-off by the offtaker, as well as (partial) repayment of inputs to the offtaker, is required to prevent such extra-contractual sales to become the norm for the subcontractor. Income from these extra-contractual sales should be lower than those products delivered to the offtaker. Rejects can furthermore be donated to local NGOs or community caregivers.

Markets

The subcontracted product can be for the local market or serve a wider geographic area (as illustrated in Box 2). Subcontracting for the local market can greatly reduce the transportation cost for low-value, low-margin items. Contract manufacturing for the domestic or export market is more suitable for high-value products where transportation costs can be absorbed more easily. The detailed instructions incorporated in the manufacturing contract can overcome the unfamiliarity with the high-value market product that the workers can experience, overcoming this particular challenge when integrating low-income communities in high-value supply chains (Philip, 2010). Subcontracted items can be a final product, such as a garment, or a sub-assembled part to be included in further manufacturing activities, e.g. bicycle wheels.

For subcontracting in a rural environment to have potential, it must link into the specific geographic context of that locality. The location factors must make a sufficient business case to be able to compete with manufacturing in urban centres, where the general business environment is more supportive. Industry segments that are thus suitable to explore contract manufacturing with rural subcontractors are textile and clothing, home and personal care products, furniture, and branded items for the tourism sector feeding into the local markets, or agro-processing that uses local inputs.

Manufacturing activities in these sectors furthermore can be executed without expensive machinery, do not require high-skilled labour, and have limited intellectual property rights that need protection. These contexts allow for the integration of homeworkers and SMMEs. Contracting firms can furthermore benefit from government programmes aimed to stimulate rural job-creation (see Section 5), albeit choosing a more rural production base does not have an overall positive effect on national job creation.

Subcontracting for a large enterprise can stimulate the development of SMMEs clusters in rural areas, as illustrated in the Indonesian metal and furniture sectors (Tambunan, 2008). Such subcontracting clusters can particularly link in to offtakers with larger markets that establish in the IDZs, which delinks contract manufacturers from their location-specific limitations of low-value markets and undiversified inputs.

Box 2: Inclusion through contract manufacturing in South Africa

Little Green Number is a private business that recycles PVC billboard posters into a wide range of bags, such as laptop bags and shoppers. It sells its products on-line and in a small shop at the same site as its manufacturing operations, mainly serving the local Johannesburg market. At this site, materials are washed, prepared and cut to size. The sewing of the products is done by community-based individual entrepreneurs in a contract manufacturing structure. The pre-cut material is delivered to their work place, located in numerous townships around Johannesburg, and the finished product is collected. This set-up reduces transport related costs for these independent workers. Little Green Number employs around eight such entrepreneurs, in addition to its pre-production and management staff. The company started when a large advertisement company approached a social development organisation with the idea to upcycle their PVC billboards into functional products. This advertiser still donates the PVC material to Little Green Number, enabling Little Green Number to keep its material costs minimal. The company relies on its own revenue for its continued operation. *– Source: www.littlegreennumber.com.*

Ivili Loboya is a vertically-integrated enterprise that processes wool from indigenous iMbuzi goats into products along the value chain, from wool scouring and fibre processing to high-value cashmere yarn and textiles. The company produces its own luxury garments under the Dedani Collection brand. Central is the processing factory, located near Butterworth, Eastern Cape, which employs 24 full-time employees and 30 seasonal sorters. Factory workers are trained in skills such as spinning, weaving and machine knitting. Aside from its own factory, the company has included local women in a subcontracting construction. Ivili Loboya provides wool which is then spun or woven by these women, who work either as an individual subcontractor or as a member of a collective. Wool is sourced from around 500 local small-scale farmers, mostly women. Fabrics are sold to clients in the décor, upholstery and fashion sector, both in South Africa and internationally. The company works together with a range of specialists, such as the Department of Animal Science at the University of Stellenbosch and the Council for Scientific and Industrial Research. Lower quality wool is turned into sustainable insulation material for housing and other buildings. *– Sources: http://ivili.co.za/; Sishuba, 2018.*

External actors

External partners, aside from the contract manufacturer, the contractor and the coordinating meso-organisation, play a role in areas such as financing and training. Financing allows the mitigation of financial risk for the corporate offtaker by reducing its monetary commitment. For example, an external partner can opt to donate machinery to the contract manufacturer as part of its CSI programme.

Training provides opportunities for the subcontracted community to enhance its skills and is essential to ensure that it can deliver the manufacturing services required by the offtaker. However, to fit into the demanding reality of the commercial value chain, training needs to go beyond the mere technical training, and must include financial literacy and life skills, which has been shown to build a more reliable and motivated workforce (Chamberlain and Anseeuw, 2017). Other practical training enables the subcontracted workers to diversify their income base. A holistic and continuous training programme allows for these workers to benefit from their inclusion in the commercial value chain rather than serving as mere cheap labour that is unable to grow the township economy.

Table 1 provides a SWOT (strengths, weaknesses, opportunities, threats) analysis of the contract manufacturing model, summarising the main strengths, weaknesses, opportunities and threats.

Table 1: SWOT analysis contract manufacturing model

Strengths	**Weaknesses**
• Scalable • Flexible (for workers and subcontracting companies) • Low-risk for subcontracting company	• Low-income rewards for subcontracted workers • Little voice for subcontracted workers
Opportunities	**Threats**
• Informal sector engagement • Government policies • Upscaling of skills for subcontracted workers	• Extra-contractual sales by subcontractor • Short-term commitment by corporate offtaker • Subcontractor dependency on single offtaker • Potential cannibalisation of urban manufacturing activities

6.2 Enterprise development and SMME linkages

Business linkages between large firms and SMMEs are considered to create benefits for both partners. The SMMEs gain access to market, knowledge and skills, technology, and opportunities to innovate, whereas the large corporates can reduce their costs, enhance their reputation, improve their reach to low-income markets, and comply with government policies (Jenkins et al., 2007; Ramagaga, 2015). But, these SMMEs are often not equipped to be integrated into commercial value chains (Philip, 2010). Hence, there is the need to implement programmes focusing on enterprise development (ED) to build proficient SMMEs.

In an ED programme, a corporate entity aims to build the capacity of an SMME supplier to deliver goods/services to the corporate client. SMMEs can also be integrated in distribution and retail activities at the downstream part of the value chain. The supported small enterprises can furthermore be external to the supporting company's supply chain. The model in this section does not include a set-up in which SMMEs are developed through contract manufacturing as was described in the previous section.

Enterprise development can be implemented through numerous mechanisms, such as financial assistance to the supplier, business development support, and training and mentoring (Fröhlicher and Pothering, 2013). Preferential purchasing and preferential trading terms can be regarded as a form of financial assistance, and thus as part of an ED strategy. Whereas subcontracting, as discussed in the previous section, primarily focuses on procurement transactions, the central element of ED is to enhance the skills of a supplier and hence tends to bring about a closer relationship between supporting firm and supported enterprise. Contract manufacturing can be extended with training and other skills development activities to upgrade the relationship with the subcontractor into an ED programme.

In line with international thinking, the South African government considers the development of SMMEs as crucial in the creation of (rural) jobs (NPC, 2011). In its efforts to grow this segment of the economy, it has established a Department of Small Business Development, which, alongside other departments, provides support packages to small businesses (see Section 5.1.5).

One of government's core elements of SMME development is the B-BBEE framework (see Section 5.1.1). As part of this equality pursuing framework, policies have been implemented that set targets for businesses to integrate small enterprises owned and managed by HDIs into commercial value chains. ED programmes can potentially increase the survival rate of SMMEs in South Africa, which scores low on a global scale. It is estimated that 70%-80 % of new SMMEs fail within the first three years (Anglo Zimele*,* 2005; SEDA, 2016). Box 3 presents two examples of SMMEs that were able to gain access to a leading South African retailer through inclusion in the retailers ED programme.

In essence, ED requires a firm to incorporate a social perspective into its operation, namely the enhancement of capacity of the local SMMEs in its value chain. Although the social objective is not specifically focused on job creation, SMMEs tend to be more labour intensive than large corporates, and offer opportunities for lower skilled workers (Reinecke, 2002; Lewis and Gasealahwe, 2017). As such, ED has the potential to generate employment opportunities in rural townships.

Box 3: Enterprise development programmes in the retail sector

Two examples of companies that have benefitted from Enterprise Development programmes in the retail sector are Chic Shoes and Isikhwama. *Chic Shoes* was established in 2004 when factory supervisors, with IDC funding, bought out footwear manufacturing equipment after the closure of its predecessor company, resulting in an ownership structure where "The owners of the business all come from the factory floor". The company, located in Cape Town, employs about 300 workers from the local community. It supplies Woolworths with a range of pumps. Being part of this retailer's supplier development programme has enabled the company to grow considerably. Despite the support from both the IDC and Woolworths, Chic Shoes closed down in early 2018. – *Sources: http://www.woolworths.co.za/store/recipe/_/A-cmp205141; http://www.chicshoes.co.za/about-us/; http://www.svmag.co.za/newsletterpage/2018/01/29/203/Newsletter_Vol04_No04_Jan_29_2018.*

Isikhwama is another Cape Town-based business supported by the Woolworths Supplier Development Programme. It manufactures a range of re-useable bags. Being integrated as supplier to Woolworths allows Isikhwama to employ over 70 people from poor communities. – *Source: http://www.woolworths.co.za/store/recipe/_/A-cmp205127.*

Companies do not necessarily have the ability to run a holistic ED programme that would encompass financing, skills and business development, as well as networking opportunities. A proliferation of organisations that provide services in the ED arena has been established in South Africa to assist corporate entities with their ED objectives. Their services range from mentorship to financing, networking and implementing programmes at grassroots level. The existence of these companies and organisations illustrates a number of essential characteristics when aiming to grow small- and medium-sized enterprises.

These elements are detailed below, but not in a particular order of importance, and are summarised in Figure 2.

First, the model needs to focus on tackling financial barriers. Young SMMEs lack both collateral and a credit history to gain access to commercial credit. Whereas multiple government sources of finance are available, these are either cumbersome to apply for, slow to materialise, or the entrepreneurs are simply unaware of these funding opportunities. Providing (loan) finance to emerging businesses does count towards a company's B-BBEE score and hence is an often applied strategy. It is important to note that funding should be adjusted to the context of the supported enterprise, in particular the development stage of the enterprise (Roberts, 2017). Financial institutes, such as DFIs and government, offer (co-)financing tools. The leading corporate banks and asset managers have also developed products that allow for investment in ED, albeit on a small scale (Discala, 2015).

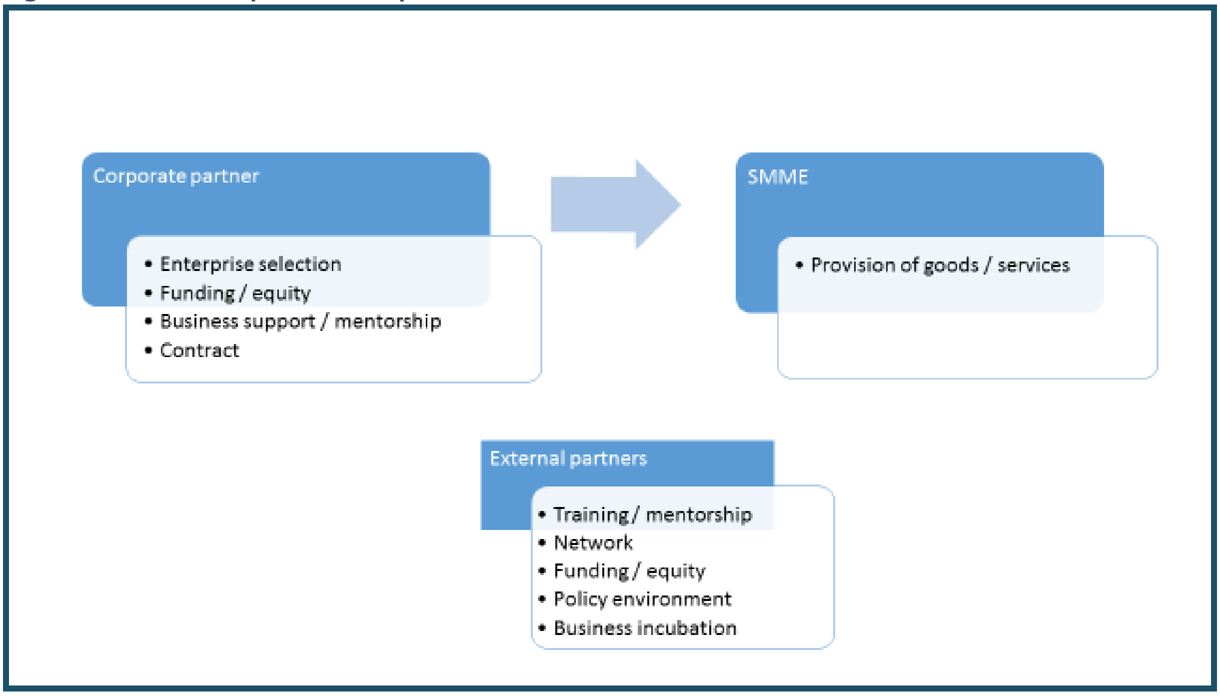
Second, the model needs to integrate a knowledge and mentorship component. SMMEs often lack the required skills to effectively and efficiently manage their business in a sustainable manner, and are not familiar in how to transact with large corporates. General business, as well as sector specific, training needs to be made available to the selected SMMEs. For the long-term sustainability of the enterprise, mentorship support that stretches over a number of years is essential to guide the business through its growth process.

Third, a contract between the corporate partner and the selected enterprise is required to provide security for both partners. It is an indication that the corporate partner commits to the relationship: it compels to engage the contracted SMME in its activities. Such a contract can be an offtake agreement in the case of a supplier, or an approval to distribute the corporate's product for downstream enterprises. This contract, as a mentorship agreement, needs to span a number of years to allow the relationship to grow and stabilise. The contract needs to be understood by the supported SMME, and the terms and conditions need to consider this SMME as an equal business partner.

Last, it is vital to provide the SMME with networking opportunities to share its experiences, to identify opportunities, to enhance its performance and to establish relationships with other enterprises, large or small. Diversification of its client base is essential for the long-term success of an SMME.

A more integrated option is to provide equity financing, and take a minority ownership share in the selected enterprise. Shared ownership aligns the objectives of both shareholders, with the corporate partner taking a stake in the SMME's development and a seat on the board of directors. It allows for a closer relationship between the two partners with easier transfer of knowledge and mentorship. With shared ownership, decision-taking and management responsibility is also shared, offering the entrepreneur the opportunity to learn these skills in practice. Whereas this set-up requires a higher commitment by the corporate partner, taking an equity share also mitigates the risks related to interactions with the selected business.

Figure 2: Basic enterprise development model



Source: Compiled by Author

The equity approach has been adopted by Anglo American in its Zimele ED programme. The Zimele model is one of the longest running enterprise development models. Anglo Zimele in essence is a funding vehicle for SMMEs, registered as an independent company, but owned 100% by Anglo American South Africa (Anglo Zimele, 2005). The objective of Anglo Zimele is to establish and sustain SMMEs. Anglo Zimele provides either loan or minority equity funding, as well as a network of knowledge providers through which the entrepreneurs receive a range of trainings (Anglo American and IFC, 2008). Through its equity, Anglo Zimele has direct impact on the operation of the SMME, which is enhanced through the company's business development officers and other Anglo Zimele staff. The supported SMMEs are included in the Anglo American supply chain, but are motivated to diversify their client base for long-term sustainability of the business. The critical elements when selecting entrepreneurs to invest in are the commercial viability and the own contribution made by the entrepreneurs so as to share the risks of the business venture. An exit plan is included from the start, in which Anglo Zimele sells its share, based on business value, to the entrepreneur or a third party (Anglo American and IFC, 2008). Besides capital gains on exit, Anglo Zimele has three other income streams: dividends, interest from loan recovery, and management fees. In the period between 2008 and 2016, Anglo Zimele funded 2 306 companies, which employed 50 651 people, and generated nearly R9 billion in turnover (Anglo American, 2017).

Another example of a holistic ED model is that in which South African Breweries (SAB) has partnered with Awethu Project, a DFI focused on job creation by enabling access for (young) entrepreneurs to market, financing and networks. Beer brewer SAB has established the SAB Thrive Fund, investing US$23 million (Awethu Project, 2018). Awethu Project, which is qualified as 100 % black-owned according to B-BBEE guidelines, uses the fund to obtain equity in suppliers within the SAB supply chain, thus allowing SAB to increase its preferential procurement. These suppliers are selected by SAB based on a number of criteria such as size of the business and area of service (SAB Entrepreneurship, 2018). Black-owned suppliers can apply for the capital as growth equity, whereas white-owned suppliers can use this opportunity to transform their B-BBEE ownership structure. In this later scenario, a black entrepreneur is placed within the white-owned business to be mentored with the aim of a long-term takeover of the business and which enables the exit of Awethu Project as shareholder. The model incorporates long-term offtake agreements between SAB and the suppliers, de-risking the investment for Awethu Project. This model has not yet reached a significant scale.

Despite the expectations, there is mixed evidence of the employment generation effects of SMMEs (Roberts, 2017). Furthermore, a survey among JSE-listed companies found that their ED programmes failed to meaningfully integrate SMMEs into their core supply chains (Fröhlicher and Pothering, 2013). One of the main challenges in ED implementation cited by these firms is the lack of capable and reliable suppliers that have the skills to successfully be integrated into their supply chains. In addition, the firm's own capacity to train and develop the SMMES is limited.

Furthermore, ED programmes are implemented to conform to B-BBEE targets, rather than as a central business strategy. The SMMEs that were selected into ED programmes tended to not link into the company's core supply chain, but supplied peripheral goods and services (*ibid*). Suppliers of peripheral goods and services pose a smaller risk to the firm, but still allow the company to adhere to B-BBEE requirements. The recent adjustments to the B-BBEE Act aim to intensify ED programmes and to include SMMEs into the core value chains of the large corporate entities. The adjustment places the highest weight on the Enterprise and Supplier Development element, indicating the intention of the government to strengthen local SMMEs. In the context of this report, it also needs to be stressed that enterprise development is mainly concentrated in South Africa's industrial centres where the large corporate sponsors are located. A concerted effort needs to be made to include non-agricultural rural SMMEs in these programmes.

What becomes obvious from the available studies and case studies is that a thorough pre-implementation assessment is crucial (Jenkins et al., 2007). Among the pre-conditions to engage with a beneficiary enterprise are identification through stakeholder mapping and engagement, followed by needs assessment through dialogue (Kloppers, 2014). An example of such an eco-system approach is illustrated by SABMiller in its enterprise development programme incorporating 10 000 small-scale shopkeepers in Colombia (Jenkins, Gilbert and Baptista, 2014).

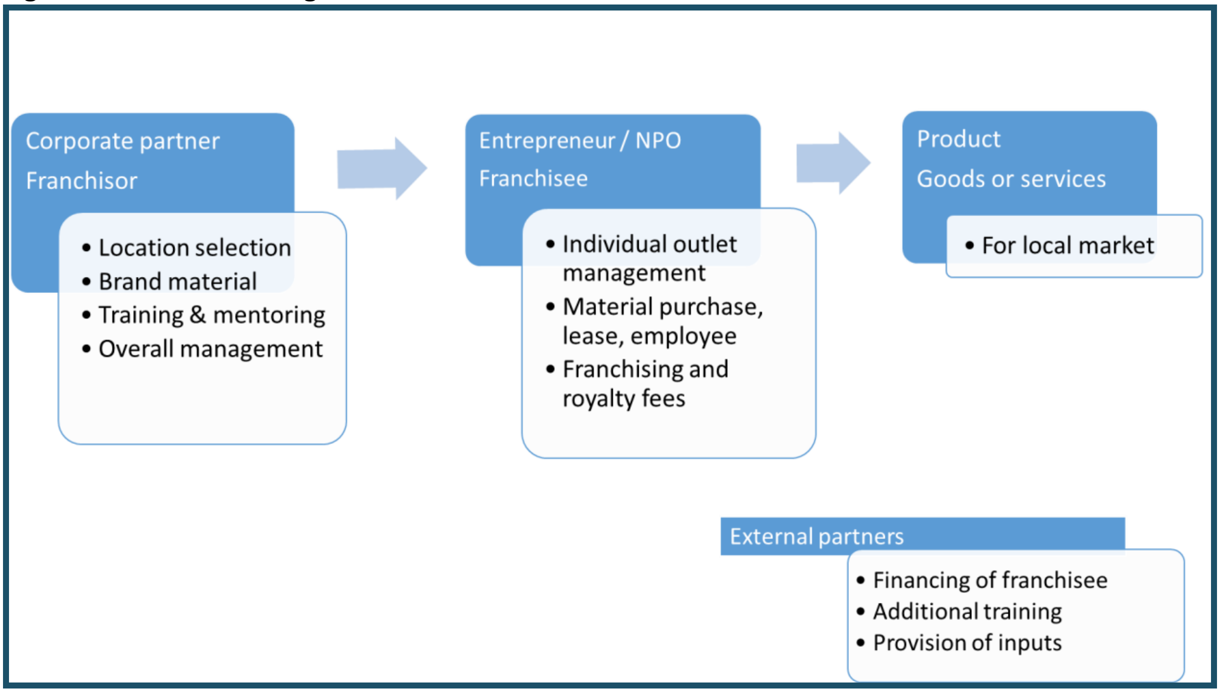
Table 2: SWOT analysis enterprise development model

Strengths	**Weaknesses**
• Holistic, long-term approach builds sustainable SMMEs • Allows for diversification of SMME client base • Builds overall skill set and competitiveness	• Intense nature of programme limits scaling • Few opportunities in rural areas outside agriculture
Opportunities	**Threats**
• Collaboration between stakeholders through platforms • Availability of co-funding	• Lack of commitment within firm • Frequent changes in policy framework • Absence of insight in impact reduces stakeholder buy-in

6.3 Franchising

A franchising business model consists of two independent actors: a franchisor who has developed a product or service and a franchisee who is allowed to sell this particular product or service. In general, the franchisor selects the location and a contract details, among many other items, and the time period for the franchising activities. The franchisee pays an initial franchising fee and an annual royalty fee. A franchising model allows the franchisor access to capital and local knowledge (provided by the franchisee), whereas the franchisee benefits from the brand knowledge and support provided by the franchisor. Franchising allows the franchisor the opportunity to quickly grow the footprint of its business.

Figure 3: Basic franchising model



Source: Compiled by Author

Within the franchising model, local proximity to the market is key. This means that in the context of rural settlements, franchising is limited to low-value goods and services in order to serve the majority of the township population. The product offering might thus have to be adjusted to the low-income market served. For example, retailers Shoprite and SPAR have developed a separate outlet brand to operate in the very low-income market, offering a reduced range of only low-priced basic items. This indicates that the franchisor needs to understand the market specifics in which it wishes to grow. This includes insights in existing (informal) trading activities operating in the rural settlements. Crowding-out, or cannibalisation, of these activities is a major risk for corporate franchising, which likely has a negative impact on the livelihoods of the displaced entrepreneurs. With cannibalisation, the overall employment creation effect is minimal, with jobs created in the franchising operation only compensating for jobs lost by the informal activities. A possible solution to this risk is to integrate the existing traders into the franchising system.

Franchisees can operate with a considerable level of control of their business, albeit within the strict guidelines detailed in their franchising contract. They can benefit from the brand image built up by the franchisor and lower their entry barrier to market. Furthermore, the pre-implementation phase is characterised by intensive training and monitoring by the franchisor to ensure that the franchisee can adhere to the standards set by the franchisor. But the risks for the franchisee are high. The entrepreneur needs to provide considerable start-up capital to fund the set-up costs and the franchising fee. Thus, a franchising model can have an exclusionary effect, with only the well-off able to establish a franchise.

External funders can assist in meeting the capital requirements, by providing favourable funding in the form of low-interest loans, patient capital or other constructs. The donation of material can further reduce the costs for the low-income franchisees, albeit this is only possible in a model in which the franchisor does not pose strict guidelines for materials used. But, equally to franchisors, funders also need to be aware of the existing informal activities in the area. The potential is that a franchising enterprise, through subsidised funding, is able to undermine these local entrepreneurs. Another role for external partners is providing additional training and mentoring that stretches beyond the enterprise training included in the mentorship contract. The rural franchisees often lack skills that are required to successfully apply for a franchise and to efficiently run such an operation. The example of Unjani Clinic in Box 4 shows how a franchise with a network of partners firstly can increase the level of services for the higher-than-average income group in rural settlements, and secondly how it can offer entrepreneurial opportunities for local people with intermediary skills.

Box 4: Making a franchise work in a rural area

Unjani Clinic was established as an NPO by Imperial Health Science. The aim of this project is to offer affordable private healthcare services in underserved townships. An Unjani Clinic provides basic care, such as antenatal consults, wound care, and HIV testing and counselling. These clinics are owned and operated by black female nurses rather than qualified doctors. This set-up allows for basic services only, but at a much lower price. Clinics, in the form of converted shipping containers, are funded, built, equipped and installed on site by Imperial Health Science. The nurse is responsible for securing the site and providing evidence for a sufficient customer base in the proposed area. The nurse also pays a monthly network fee to cover some of the operational expenses of Unjani Clinic. The nurse-owners sign a five-year ED contract, during which they receive training, IT, business and managerial support. Unjani Clinic also gives stipends in the first 24 months.

The model is designed as an owner-operator franchise model, in which the franchisees benefit from the support of Unjani, but are also exposed to risks in case of failure. Unjani Clinic has entered into numerous partnerships, for example with Johnson & Johnson and with The Jobs Fund, to be able to sustain and increase its network. The Unjani initiative allows Imperial Health Science and its commercial partners to gain access to the bottom of the pyramid, as well as contribute to its B-BBEE score. The network consists of nearly 50 clinics with each clinic providing three to five jobs. – *Sources: www.unjaniclinic.co.za; Seo (2017)*

To enhance the social aspect of a rural settlement franchise model, the franchisee can be a local NGO, rather than a local entrepreneur. The advantage of working with such a collective organisation is the intimate knowledge the organisation has about the community the franchise would operate in. It can also combine the commercial franchising activity with its core social mission (e.g. youth empowerment). The complication of this set-up is that the NGO needs to be able to combine the generally incompatible commercial and social objectives. This greatly limits the pool of suitable organisations a franchisor can partner with. An example of such a social franchise is Aspire in the UK.

This business franchisor included NGOs caring for homeless people as franchisees to employ them in a catalogue sales model. The social aspect in this inclusive business is to generate income opportunities and work experience for the homeless people in cities across the country. An immature business model in this case led to the collapse of the IB after making losses for four years (Tracey and Jarvis, 2007).

Box 5 describes the PartnerShop franchising model implemented by ice cream producer Ben & Jerry's.

Box 5: The Ben & Jerry's franchising model for enterprise development

A Ben & Jerry's PartnerShop is an independently owned and operated franchise that offers Ben & Jerry's ice cream. But, the owner-operator is an NPO rather than a commercial entrepreneur. In this model, Ben & Jerry's waives the franchising and annual royalty fees to reduce the franchisee costs. The franchisor selects both the NPO, which needs to have a proven track record in commercial activities, and it selects the site where such a PartnerShop can operate. It then provides a more extensive mentoring and training programme than that offered to its commercial franchisees. The NPO has to provide the start-up capital, which can (partly) be funded by an external partner. For example, the Latin American Youth Center operated a franchise in Washington D.C. and received financial support from the Hitachi Foundation. Ben & Jerry's has partnered with several NPOs that serve their local city, with one or multiple PartnerShops.

The aims of the PartnerShops are to offer job and entrepreneurial training to disadvantaged youth, to generate income for the NPO, and to further the social mission of the commercial franchisor. – *Sources: http://hitachifdn.nonprofitsoapbox.com/stories-of-grantees-in-action/34-the-latin-american-youth-centerben-a-jerrys-partnershop; https://www.benjerry.com/values/how-we-do-business/partnershops*

As with the contract manufacturing model, the corporate franchisor can establish a separate business unit to manage these franchisees, as illustrated by Shoprite and SPAR. Such a set-up allows a business framework that allows for a longer term for performance. It also allows the corporate to adjust a franchise model to fit the rural context, rather than the more urban-based market.

Table 3: SWOT analysis franchising model

Strengths • Local ownership and control • Overcomes barriers to market • Incorporates local knowledge of franchisee	**Weaknesses** • Limited market of low-value items and services • Small pool of suitable franchisees
Opportunities • Allows for additional NPO income stream • Increase availability of products/service in rural settlements • Access to favourable external capital	**Threats** • Crowding-out of informal activities • High level of franchisee debt • Unfitting franchisee selection

6.4 Corporate Social Investment

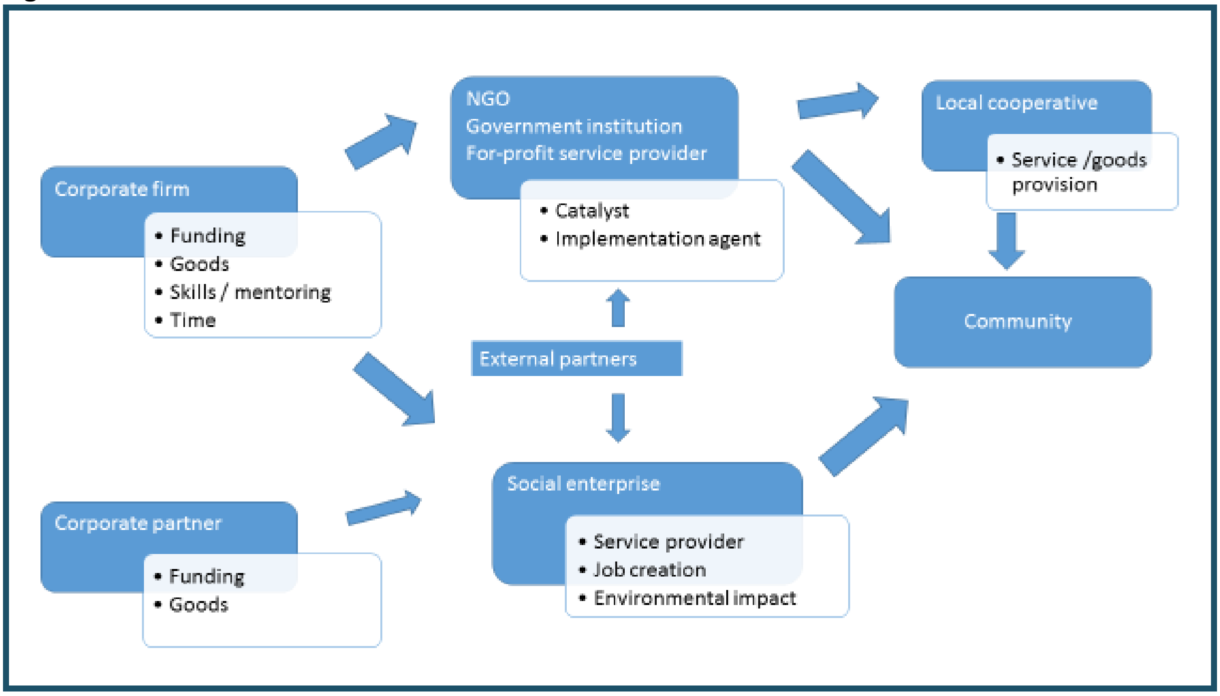
The B-BBEE Act stimulates corporate business to spend 1% of net profit after tax (NPAT) on socio-economic development. Triggered by these regulations, and by a moral imperative, all major South African companies engage in CSI projects. According to Trialogue, more than R9 billion was spent on CSI in the 2016/17 financial year by large corporates and state-owned enterprises (Trialogue, 2017). This same report states that 15% of the CSI spend goes to entrepreneur and small business support, with a further 4% targeting job creation programmes in the social and community development sector. Furthermore, 41% of CSI expenditure goes to rural areas. These numbers indicate the large potential of CSI for employment generation outside the major urban areas.

Firms can engage with CSI through cash contributions and through non-cash giving. This second option incorporates elements such as product and service donations as well as staff volunteering. As such, it can link in to other IB models. Companies can support starting franchisees or rural home workers with machinery or other assets to lower the barriers to set up their enterprises. Many firms have adopted a CSI flagship project, such as early childhood development or entrepreneur development, in which its efforts are concentrated.

Most corporations have established a separate entity or division to coordinate and manage their CSI programmes (Fröhlicher and Pothering, 2013; Trialogue, 2017). The separate budget, or even entity, allocated to CSI projects allows corporates to mainly sidestep the traditional corporate profit objectives. Budgets are mostly determined as % of NPAT, adhering to B-BBEE requirements, or are set as a company decision (Trialogue, 2017). CSI programmes have a wider mandate than core firm operations, integrating social measures, rather than mostly financial impact. Nevertheless, corporate operations continue to impact CSI: the risk related to these projects is often still incorporated in the company's overall risk function (Trialogue, 2017), and the annual CSI funding cycles still hamper the longer-term commitment that suits SED (van Dyk and Fourie, 2015).

Considering the non-core character of the CSI activities of a business, CSI programmes are often channelled through a partner, such as an NGO or government institution. These organisations tend to have a better understanding of both the communities targeted by CSI programmes and the particular activities to be implemented. These organisations directly service the community, with support from the corporate firm. Alternatively, they work with local organisations for the provision of goods or services. For example, a firm can sponsor the feeding programme at a particular government-owned school. The Department of Education can then engage the services of local cooperatives to provide these lunches (Beesley, 2010). The use of local partners for coordinating and implementing CSI programmes results in often complex networks or organisations involved in the delivery of such programmes (see Figure 4).

Figure 4: Basic CSI model



Source: Compiled by Author

It is a challenge in practice to establish a good and trustworthy relationship between a corporate firm and a non-governmental organisation. Financial sponsorship makes the corporate sponsor powerful and the NGO dependent for its sustainability. The different arenas in which the partners operate result in misunderstanding expressed in frustration with reporting needs of the firm and with the extent of community needs the NGO aims to meet (Van Dyk and Fourie, 2015).

An alternative partner in a CSI programme is a social enterprise (which can be registered as an NPO). Social business is a form of commercial enterprise, but its central role is its social mission. Economic performance of the enterprise is required to make the enterprise sustainable, rather than to generate financial returns for its stakeholders (Chell, 2007).

Partnering with a social business rather than an NGO can ameliorate the dissimilarities between the partners compared to a commercial firm-NGO partnership.

One observation in the CSI arena is that multiple companies support the same NGO or social enterprise. This allows the firms to pool their resources and complement their contributions to the social initiative. Additional funding from a DFI further strengthens the programme. The Unjani Clinic, as described in Box 4, is an example with the main corporate sponsor securing additional support from other firms in the healthcare sector as well as from DFIs. Despite the advantages of multiple partners contributing to a CSI project, the myriad of stakeholders can also create a challenging environment when the agendas of different agents need to be aligned.

Box 6 describes two CSI initiatives that align with the donor's core activities and which have been able to generate jobs in rural areas.

Box 6: Using corporate social investment to create community jobs

Clover is one of the largest dairy producers in South Africa. Its flagship CSI project is called Clover Mama Afrika. Clover Mama Afrika provides skills trainings to female community caregivers who are widely respected in their communities. These skills include baking, beading, sewing, hairdressing, food gardening and other activities focused on servicing their own communities. The craft training is complemented with basic business training. The selected mamas use their new skills to generate income for themselves, and become self-sustaining entrepreneurs and employers. In addition, they share their skills with other women in their communities to create a ripple effect and generate further job opportunities. Equipment, such as ovens and sewing machines, as well as infrastructure, is provided to the mamas (although ownership remains with Clover) to establish local industry centres, creating further job opportunities. This initiative aligns with the overall business of Clover, particularly in the bread making and baking projects which require dairy inputs, and it provides opportunities in the rural areas where Clover sources its milk. In total, 140 income generating projects have been created and 358 project participants have found permanently employment. The project works with a large number of corporate partners who provide training and/or financing of the activities. *– Sources: personal communication; Trialogue (2017); www.clovermamaafrika.com*

Sumitomo is a leading tyre manufacturer with production facilities in Ladysmith. The company was looking to create a good-news story to feed into its public relations and its B-BBEE programme. The company partnered with Africa!Ignite, a rural development agency in the KwaZulu-Natal province which works with a number of craft groups across the province. For the project with Sumitomo, Africa!Ignite engaged Eyethu Craft since this group was located in Ladysmith, close to the Sumitomo factory, a wish expressed by the corporate partner. In this particular partnership, Sumitomo provided waste rubber from its factory to the crafters. It also gave start-up funding to allow for product development, training of the artisans, and the purchase of tools, all of which was coordinated by Africa!Ignite. Sumitomo also purchased many of the items produced as corporate gifts. A number of challenges, such as lack of long-term funding and a difficult material for crafters to work with, led to the collapse of this initiative after a year. *– Source: personal communication*

Traditionally, CSI projects in South Africa have particularly been community focused, rather than linking into the primary corporate objectives. With the on-going development of CSI, there is an increasing concentration on activities that align a firm's CSI programme with its core activities, with longer horizons to create deeper impact (Trialogue, 2017).

This can be regarded as a move towards a corporatisation of CSI, where effectiveness and efficiency become more important, and where corporate beneficiation is a central driver. As such, CSI programmes can increasingly be integrated into other corporate programmes such as contract manufacturing and enterprise development, and other forms of inclusive business. Whereas this can have positive effects for the company (Benlemlih and Bitar, 2018), and for the selected partners such as NGOs which gain long-term financial sustainability (Van Dyk and Fourie, 2015), and which can potentially generate more jobs in the rural areas, the threat is that the neediest segments of society might be left behind.

Table 4: SWOT analysis CSI model

Strengths	Weaknesses
• Wide mandate and low profit pressure • Reach into rural areas • Creation of innovative business models	• Ineffective implementation through challenging relationship with NPO • Lack of holistic, long-term approach
Opportunities	**Threats**
• Large corporate budget • Builds innovative networks of partners • Good fit with Agri-BEE policy	• Increasing programme corporatisation • Driven by government policy framework • Lack of buy-in from corporate leadership

7 INCLUSIVE BUSINESS FOR RURAL JOB CREATION

The private sector can play a significant role in creating job opportunities within the semi-urban rural townships across South Africa. As is clear from the definition of an IB in the Introduction, low-income communities can be included in commercial value chains through employment, as suppliers, distributors or customers. This section analyses inclusion in the form of employment, supplier or distributor, which directly creates jobs based on the four models identified in the previous section.

7.1 Employment

Employment in this section means both formal and informal jobs, either full-time or part-time, permanent or temporary, and casual as well as subcontracted work as a homeworker. It does not incorporate self-employed workers integrated as supplier to, or distributor for, the IB. Considering the scope of this report, employment in the agricultural sector is excluded. Employment engagement in an IB differs from the supplier and distributor options which provide opportunities for entrepreneurs (albeit it is expected that these entrepreneurs generate additional jobs).

Salaried employment

Employment creation in rural settlements through IBs mostly takes place in the contract manufacturing model in which the subcontractor operates a factory-style production. These factory-style production facilities for subcontracting activities in the rural settlements and secondary cities have high employment potential, particularly in employment-intensive industries such as the textiles, clothing, leather and footwear sector, furniture making and agro-processing. These sectors require a relatively large number of workers, including low-skilled employees. They also produce low-value items that serve the low-income markets in the rural settlements. Furthermore, they can apply local sourcing strategies for materials such as wool or maize from smallholder farmers in the area. As such, these sectors can build a circular economy with large multiplier effects.

Considerable capital outlay is required to establish a factory. An investor will thus make a detailed study of the business case before embarking on such a venture, heightening the expected long-term existence of a factory and hence the sustainability of jobs. The large scale of a factory offers career opportunities for workers within the company. Furthermore, formal employment gives the workers the ability for collective organisation and unionisation. On the one hand this provides a certain level of protection of workers' rights. On the other hand, most of the jobs will be for unskilled labour, with workers receiving low remuneration and little skills development, with little to no say in their work activities or their work environment, and which they do not share in the ownership of the company for which they work. In effect, a corporate contractor can use the contract manufacturer to create flexibility in its supply and reduce its own workforce, thereby transferring risk to the rural contract manufacturer. Government incentives and favourable DFI financing enable rural contract manufacturers to compete with the urban subcontractors, as highlighted in Section 5.

Overall, business structures in a factory-based contract manufacturing model remain similar to those in the main urban areas. Financial incentives might persuade corporates to locate their supply elsewhere, but it does not require them to change the fundamentals of operation. This implies a continued focus on capital-intensive manufacturing processes, rather than labour-intensive practices. Of additional concern is that it does not change the existing concentration of ownership and control. There is little inclusiveness about traditional manufacturing activities in a traditional production set-up, despite the creation of (mostly low-income) jobs in a more rural setting.

Whereas a large portion of jobs created in a contract manufacturing model in a factory environment are in the form of formal employment, this model also creates strong linkages between the formal sector (the contractor) and the informal subcontractors (Mehrotra & Biggeri, 2005). Analysis of the informal labour structures in developing countries shows that activities within formalised workplaces occur through the use of both registered and unregistered employees), and through the use of labour contractors (Phillips, 2011). Similar structures and linkages can also be observed in South Africa.

Contracted employment

Particularly for home-based and self-employed workers, IBs can create a significant opportunity to engage more women in income-generating activities. The reality in South Africa is that women are often bound to home due to their household responsibilities (Fourie, 2018). Research in India found that home-based work mostly takes place in rural areas (Raveendran, Sudarshan and Vanek, 2013). Home-based subcontracting allows these workers an income opportunity at minimum cost: raw materials are provided by the contractor and a market for the product is guaranteed. Supporters of subcontracting to home-based production units point out that these manufacturing activities create labour opportunities for poor and often unskilled labourers, and allows for productivity growth, technology transfer and accumulation of capital with the subcontractors (Arimah, 2001; Dunn and Villeda, 2005). Homeworking has the additional advantage of flexible work hours and it saves travel time (Mehrotra and Biggeri, 2005). A particularly striking example is India where over 83% of the work force is either self-employed or classified as casual worker.

Critics often highlight the occurrence of exploitation and adverse incorporation, particularly for actors in the informal economy. It is argued that these informal structures allow the corporate outsourcers to exploit vulnerable populations, bypassing regulations pertaining to employee protection, health and safety, and the like (Carr, Chen and Tate, 2000; Barrientos, 2008; Meagher, 2013). The lack of alternative livelihood opportunities nevertheless pushes poor workers into these subcontracting activities which reinforces vulnerability and poverty of the workers (Phillips, 2011). Expected rewards for contracted home-based workers depend on the contracted quantity and hence can fluctuate considerably. These workers thus lack stability in their income. Furthermore, the piece-based remuneration is often low to keep the end product competitive for the contractor. Incomes are further reduced if an intermediate organisation coordinates between the contractor and a number of home-based workers to reduce the transaction costs for the commercial contractor (see Section 6.1). As outlined in Section 6.1, the risk for sub-standard product cannot solely be with the homeworker who is incapable of carrying this risk, but this is not necessarily implemented, which poses a significant threat to homeworkers. As informal homeworkers they receive less labour protection, adding to their vulnerable position. Through a contract manufacturing model, the corporate partner is able to reap the benefits of informal activities, thus stimulating labour informalisation rather than curbing this practice, and hence continuing the practice of exploitation of the weakest segments of the population, including in South Africa (Valodia, 2001).

Increasing inclusiveness

To improve the position of workers in IB set-ups, two alternatives are proposed. The first is a worker-owned cooperative, in which the workers own and control the activities of the entity that engages in contract manufacturing work for a corporate firm. The cooperative is thus responsible for the internal division of work orders, quality control, remuneration and the like. This set-up allows for bundling the resources and voice of the workers, while accommodating the corporate contractor's need to reduce transaction costs. But the full remuneration, as well as the asset ownership, accrues to the cooperative's members and not to any intermediaries. In effect, this set-up approaches that of the enterprise development model. Whereas a producer cooperative that concentrates on contract manufacturing activities avoids the challenge of market development, internal tensions that have marred cooperatives, including those in South Africa, remain (Philip, 2018).

A second alternative is a social workshop. These entities offer employment opportunities for those people who struggle to find jobs in mainstream enterprises. This makes social workshops particularly relevant in the rural settlements of South Africa, where many people have never had any formal employment and where skills levels are limited. Whereas sheltered employment often serves the re-integration and development of people with disabilities, such a set-up can be replicated to abled people who are unable to gain formal employment. In Europe, social workshops operate in manual labour sectors such as construction and carpentry, recycling waste products, and packaging activities (Davister, Defourny and Gregoire, 2004). Individuals with disabilities in India are engaged in activities such as soft toy making, tailoring and other arts and crafts (Gupta et al., 2011).

Whereas a range of set-ups have been implemented, the most relevant constructions for IBs are social workshops that offer transitional occupation in preparation for work in the open labour market, or that aim to become financially self-sustainable enterprises with their own staff. Workers in these social workshops can be formally employed with a salary or have a trainee status receiving benefits. Some form of financial compensation for trainees' work is required. Absence of any monetary remuneration would put a traineeship out of reach of the poor people in the rural communities which lack reserves to bridge such a trainee period.

Contract work for mainstream enterprises in the form of an IB can contribute to the financial independence of these social workplaces. Additional funding can come from government subsidies, DFIs and other developmental assistance such as grant funding from the European Union, as well as from donations and volunteering. These additional resources can allow the social workshop to offer competitive services to commercial offtakers. The ownership of a social workshop can be with a local municipality, a separate NPO entity, but can also be incorporated in the companies who manage the industrial zones mentioned in Section 5.1.3.

7.2 Supplier

IBs including suppliers in rural settlements go beyond ad-hoc market transactions, but integrate rural suppliers with a higher degree of vertical integration. This can be in the form of a contract manufacturing arrangement as described in Section 6.1, or through an enterprise development programme outlined in Section 6.2. A closer relationship between commercial partner and rural entrepreneur is required to overcome the barriers to entry that have traditionally excluded rural enterprises from engaging with large commercial clients. This section applies specifically to small enterprises in rural settlements. Engagement with local SMME suppliers is stimulated by policies such as the local content policy in the B-BBEE Act. But to engage with entrepreneurs in rural settlements, non-traditional approaches are required, as outlined in Section 6.

Positive developments that encourage rural SMME businesses include the rise of flexible manufacturing and 3D-printing that allow for smaller production runs which lessen the benefits of scale, and telecommunications that partly do away with the disadvantage of distance (Malecki, 2003). Such developments can stimulate the return to rural settlements of skilled youngsters who have completed tertiary education but are unable to find work in the urban centres. Thus, enhanced options are available for commercial clients to partner with rural SMMEs. IB partnerships can link into local value chains using local inputs such as micro-mills for flour production and other agri-processing facilities processing smallholder produce. Or they can use rural enterprises for more skilled services that can be done remotely, for example design work or call-centre functions. Despite these opportunities, reliable telecommunications infrastructure and skilled staff is in better supply in urban areas. Furthermore, whereas infrastructure and skills are necessary to build such businesses, they are by no means sufficient conditions (Malecki, 2003).

Integrating a rural SMME as a supplier into commercial value chains allows the SMME to build its business, with ownership of this business with the rural entrepreneur. Although the asymmetric power relation allows the commercial partner to influence the terms of trading to its advantage, the rural supplier theoretically is able to participate in contract negotiations and has the (limited) freedom to reject (parts of) an IB contract. Entrepreneurs are inherently open to risk-taking. Partnering with a commercial client can expose the SMME to severe risk if the corporate client is responsible for the lion’s share of its business, creating an unbalanced mutual dependence. This risk exposure is enhanced when the liability of the business is not separated from a personal liability and the entrepreneur uses personal assets as collateral for business loans. This is often the case in small and informal businesses in rural settlements (Fourie, 2018). Hence the need for the commercial partner for risk-sharing in the IB. Lastly, IB participation can lead to significant rewards for the rural entrepreneur. ED programmes can build knowledge that the entrepreneur can apply to build a better business, it can enable the entrepreneur to extend its client base and expose the entrepreneur to new technologies. A well-operating rural SMME can generate employment for local workers. Preferential financing, such as under a B-BBEE programme, by a DFI, or government funds, is an often used tool for supplier development to overcome initial investment hurdles. Whereas this indeed is an important tool, it is essential to ensure the sustainability of the SMME after such favourable funding terminates. Many businesses and projects have faltered once subsidies expired. But, overall, IB partnerships are a significant option for rural entrepreneurs to enter on a path of asset accumulation and serve as an engine for local development. The commercial partner equally benefits through aspects such as a flexible supplier base, cost reduction, and local loyalty.

A category of supplier that is particularly suitable to IB partnerships in rural townships is a social enterprise. Defourny and Nyssens (2016) have identified four main types of social enterprise: the entrepreneurial non-profit model, social cooperatives, public-sector social enterprises, and social businesses. From these models, the social businesses are the most suitable partner for a commercial business as they are the closest aligned to the market. What distinguishes a social business from a commercial enterprise is the central role of the social mission, rather than the economic performance of the enterprise (Chell, 2007). This allows a social enterprise to prioritise employment creation, particularly in a rural environment, over financial targets but still remain profitable. Overall, it can be stated that these types of enterprises combine social/environmental goals with profitability (Doherty, Haugh and Lyon, 2014). Whereas their objective resembles that of a non-profit organisation, their management includes an effectiveness that is similar to a traditional commercial business (Brenche, 2015). Social enterprises in South Africa have been established across a diversity of sectors, including education and healthcare, but also arts and recycling (Krige and Silber, 2016).

The main income stream for a social enterprise is revenue from its business activity with profits being re-invested into the business. Nevertheless, external funding is essential for the start-up and scaling of the business. Depending on the legal status of the social enterprise, either as a for-profit or a not-for-profit entity, a social business can gain access to shareholder equity investment, market-based lending, donations, grant funding or subsidies. A range of more novel financing tools such as crowd-funding, microfinancing and impact investment funds are also available. In South Africa, there is no clear regulation that determines the legal form of a social business, hence the co-existence of social enterprises as either for-profit or not-for-profit structures (The Bertha Centre, 2016).

A quick analysis of some social businesses operating in South Africa shows that social businesses tend to be small-sized and are individual driven. The social entrepreneur is crucial to the establishment, management and structure of the business. The social nature of the business allows for job creation in areas where mainstream business is hesitant to establish, including the rural settlements. These types of enterprises are particularly strong in including people from excluded communities, such as women and the disabled. But, whereas their impact on individual beneficiaries can be significant, they tend to have a limited potential for substantial job creation. Furthermore, the critical role of the individual social entrepreneur does not allow for easy replication of such a business. Box 7 describes a number of social enterprises engaged in manufacturing activities in South Africa.

Box 7: Social enterprises engaged in manufacturing activities

Khayelitsha Cookies bakes hand-made biscuits, supplying local hospitality clients and a national retailer. The company specifically aims to create jobs for women in the Khayelitsha township of Cape Town. To enhance its job creation potential, Khayelitsha Cookies limits the use of machinery in its production. The company is registered as a for-profit business with a 30% share owned by the staff trust, enabling it to share any profit with its employees, which is close to 100 women. Beside revenue from sales, Khayelitsha Cookies also receives donations. *– Source: The Bertha Centre, 2016.*

The *Zulu Beadwork Project* is an income generating project of the Thembanathi organisation. The initiative produces a range of beaded jewellery for the global market. The Zulu Beadwork Project generates a sustainable income for the forty local women it employs, and contributes to the wider work of Thembanathia, a grassroots fundraising organisation which provides care and support for children and families affected by HIV/AIDS*.* *– Source: thembanathi.org.*

7.3 Distributors

The third way to create jobs within IBs in rural settlements is the distribution of consumer goods and services throughout these settlements. For commercial firms, densely populated rural settlements are a potentially large market. But, the operational realities in this segment differ from those in higher-income market segments which these firms traditionally serve. The retail network in the densely populated rural settlements is made up of a large number of small and informal outlets, called spaza shops. Limited cash confines the size of product sold, as demonstrated in items such as small shampoo sachets. The physical infrastructure is often insufficient to deal with the trucks that deliver goods to the supermarkets in urban centres. Furthermore, retail outlets are too small to store large quantities of stock. Serving this market hence requires a dense distribution network using frequent but small replenishment to a high number of outlets.

The required small-scale, manual distribution system allows for penetration of areas that are difficult to reach with traditional supply chain networks. Whereas this creates a significant number of job opportunities, the remuneration from these activities is low. The small size of area served, together with the low price of goods or services sold do not allow for a high level of income. Distributors in the rural networks act as micro-entrepreneurs who are paid on a commission basis.

Despite the low income perspectives, this particular space is already well served in the South African context. Poor communities show high levels of corporate penetration, with national retailers and fast-food outlets present across the country (Du Toit and Neves, 2007). In addition, the informal sector is dominated by retail activities, in the form of a large number of small spaza shops throughout the townships (Valodia et al., 2006). Furthermore, street vendors are engaged in reselling goods in small quantities (such as single cigarettes or small packets of chips). These micro-entrepreneurs engage in “repackaging” activities from bulk to small quantities that cash-strapped consumers can afford. The distribution channels to serve poor communities, in urban, peri-urban, or rural areas, have thus been well established. They provide a livelihood for a large number of people at the bottom of the economic pyramid, either with a formal or an informal character.

Hence, competition with local initiatives will be severe if a commercial firm decides to formally enter the low-income settlements in rural areas. Furthermore, margins in this market segment are limited and require high sales volumes to make a profitable business case (Jenkins and Ishikawa, 2010). Nevertheless, opportunities for corporates exist in rural settlements: they can engage with informal businesses for distribution of their goods or services (e.g. automotive services, food outlets) by offering these informal businesses access to their knowledge and brand; technology allows for new channels to market; and corporate firms can target the middle-income segment in settlements around secondary urban cities. To make a successful entry, the corporate firm needs a thorough understanding of these settlements, including their diverse structures and characters, as well as a local network to penetrate this market. As such, local entrepreneurs and distributors can play a vital role in the commercial expansion into rural areas, as illustrated in Box 8, which highlights two initiatives in South Africa. This expansion allows for better access to goods or services (see the case of A2Pay in Box 8), and spread of knowledge to the rural settlements.

A franchising model can be a particularly effective distribution partnership structure. In 2017 South Africa had 845 registered franchise systems, with 40 528 outlets, employing 343 319 people (FASA, 2017). These franchises are active in sectors such as automotive repair, business services, education, health and beauty, restaurants and retail. Franchising is seen as a dual de-risking model: the corporate brand and support network lowers the risk for the franchisee, and the co-financing and local knowledge mitigates the risk for the corporate franchise holder. This de-risking further serves as a motivation to external financiers. As such, the IDC ran a programme in the early 2000s to fund the expansion of domestic fast-food chain Nando's into (urban) townships. Its favourable financing allowed new (black) franchisees from a disadvantaged background to establish fast-food outlets in the townships with the commercial support of a well-known franchisor. The mutual dependency that characterises a franchising relationship also creates a strongly inclusive model, with a high degree of franchisee participation in the value creation process. It needs to be stressed that IBs, including local distributors, are more suitable for urban townships where a larger segment of medium-income households create sufficient demand for goods and services.

Box 8: Linking commercial firms and local entrepreneurs

A2Pay offers an innovative technical platform to rural retailers. Their Biz Box allows traders to monitor their sales, profit and stock levels. Pre-paid products such as airtime, bus tickets and electricity are also available to their customers via this concept. A retailer can also opt to turn the store into a WiFi hotspot. The retailer earns a daily commission on the services sold. Traders have access to an A2Pay network for technical and entrepreneurial support. The products are designed to suit township conditions: they have a simple touch screen with picture buttons for illiterate operators, have battery back-up in case of power outages, and are water resistant. The company is partly funded by The Jobs Fund, which targets the creation of over 5 000 jobs in A2Pay support staff and additional employment in the participating retail stores. This grant allows for the equipment to be partially subsidised, lowering the financial commitment of the trader. A2Pay thus offers a technical platform to empower and grow small and medium-sized retail stores across the country. Rural populations benefit by reducing their travel time to obtain pre-paid services on offer by the A2Pay retailers. – *Sources: http://www.a2pay.co.za; http://www.jobsfund.org.za/projects/ProjectTemplate.aspx?projectKey=101*.

Coca cola beverages initiated the Bizniz in a Box project to provide entrepreneurship opportunities for township youth. Selected unemployed young people are trained in marketing, sales, stock management and finance. They are then provided with a container stocked with groceries, which they operate for a period of two months. Those youths who meet the performance criteria over this trial period are then enabled to start operating their container shop. This is when they start to repay the capital supplied for the store and the inventory. They become independent entrepreneurs when they have paid off part of these start-up costs. The project is funded by Coca Cola Beverages Africa, which works in partnership with a range of partners such as SEFA and the local municipalities where these containers are set up, such as Vosloorus (Ekurhuleni) and Nelson Mandela Bay. – *Sources: https://www.corporateimage.co.za/coca-cola-beverages-sa-boxing-clever-for-youth-entrepreneurs/; http://livelihoods.org.za/bizniz-in-box).*

8 CRITICAL ELEMENTS TO BUILD A SUCCESSFUL INCLUSIVE BUSINESS

For commercial firms to engage in the specific objective of creating sustainable employment opportunities outside of the main urban centres, a change in traditional decision-making and operation is required. Analysis of the IBs that have been implemented in South Africa, and in other countries, highlights a number of critical elements required for these IBs. This section will combine insights from the literature with the examples found across South Africa. The sequence in which these elements are listed does not imply a degree of importance.

8.1 Innovation

Engagement with low-income rural settlements requires innovation (George, McGahan and Prabhu, 2012; Angeli and Jaiswal, 2016). Inclusive business needs a rethinking in how to operate to achieve the goal of inclusive growth. This is reflected in the business model in which the commercial firm and the rural community come together. The models outlined in Section 6 mainly sketch a very broad categorisation. The details of each of these models in their implementation differs significantly. Each of the individual examples mentioned throughout this report has had to find an innovative way to make their particular IB work in their specific geographical and industry context. Innovation in a business model can apply to financing the inclusive business overall, or the rural suppliers integrated in the IB. Business model innovation can also apply to the technology and process in which the product is made, or the service delivered, or to the product and service itself. And an IB requires novel partnerships (see section 8.2). Furthermore, IBs deviate from profit-oriented activities in the very core through the incorporation of a social element into the business model. Combining profit and social objectives into a single business model requires innovative thinking from all the stakeholders involved. This extends to the way in which the stakeholders cooperate and share in the value creation and allocation process.

Considering the innovative nature of an IB, such a business is likely to need adaptations in time. Firms need to experiment to acquire the knowledge to turn the IB into a success (McFalls, 2007). As the stakeholders learn in the IB implementation, changes to the model are required. For example, the business partners in the Grameen Danone Foods case (Box 1) decided to add a higher margin product for sales in urban areas in order to cross-subsidise the loss-making sales in the rural regions. Similarly, the set-up of Anglo Zimele has changed over time, while keeping its objectives unchanged. A flexible, open approach to the IB is required by all stakeholders.

8.2 Financing

IBs that aim to generate rural job opportunities are not solely profit-driven, and thus are unlikely to meet shareholders' financial targets. Alternative sources of funding are also required to de-risk an IB, and to compensate for the (anticipated) higher costs of operating in rural areas. This funding can be provided by the commercial partner, by an external financer, or by co-financing with the rural entrepreneurs. Innovative financing constructions have been implemented in South Africa and other countries.

Commercial financing can be separated from the core company by establishing a dedicated entity for IB creation and support. Such a set-up circumvents the need to satisfy the financial requirements of the shareholders (Yunus, Moingeon and Lehmann-Ortega, 2010). In essence, this has been done by Anglo American: Anglo Zimele serves as an independent investment vehicle with 100% ownership by Anglo American. Similarly, Danone created a publicly-traded mutual fund, separate from the stock-exchange listed corporate entity, to allow for investment in its partnership with Grameen. In both cases, the independent entities provide equity financing for the IBs. Equity financing allows the corporate actor a degree of control over the IB, or the supported SMME, making this an attractive option for this partner. Equity in essence serves as a safeguard to ensure the invested money is earned back. Cross-subsidising the IB with higher income flows from alternative activities in high-end markets is another way for the commercial firm to fund an IB (Jenkins and Ishikawa, 2010; Humberg and Braun, 2014).

A commercial initiative with a social objective furthermore has access to a range of external funding options, particularly from DFIs and government grants. In the South African case, The Jobs Fund gives grants to a large number of commercial projects under the enterprise development umbrella, many of which are in partnership with leading commercial South African firms such as Clover, Anglo American and Mondi. The IDC takes equity in IBs or provides loans. Government issues grants for the establishment of cooperatives. Commercial banks and insurance companies have also established products to cater for enterprise development and CSI initiatives in the South African context. These financial actors have the knowledge and the resources to establish and scale IBs (Buckland, 2014). Such external funding is particularly important for SMMEs in South Africa, which face considerable barriers in obtaining loans from commercial banks. But, despite the sophisticated financial network and effective private businesses, the size of the commercial social impact investment sector in South Africa is still small.

The forms of external funding can take the shape of a grant, equity funding in the IB overall, or a loan to the rural partner(s). For example, a rural distributor can obtain favourable funding to invest in stock or to buy machinery for production. Alternatively, the rural partner can use the loan to fund its equity share in an IB joint venture construction. Whereas such co-financing can be regarded as a strong commitment to ensure the success of the IB, it also exposes the rural entrepreneur to a high level of risk and debt (Philip, 2010; Chamberlain and Anseeuw, 2018b). Overall, it can be stated that the corporate partner needs to provide the initial investment required for the IB. Its risk is then ameliorated by external funding such as DFI loans and government grants. De-risking the commercial partner’s contribution should, however, not result in a transfer of (financial) risk to the much more volatile rural communities.

8.3 Education

A third critical element for a successful IB is building local capacity (London and Hart, 2004). The corporate partner can benefit from skilled and efficient suppliers and workers through improved reliability and cost savings, and from productive distributors through increased sales (Jenkins and Ishikawa, 2010). Local capacity needs to be built in business-related aspects such as accounting, marketing and production skills.

For IB structures with a low level of value chain inclusion of the rural community, e.g. factory contract-manufacturing, on-the-job training to execute the task at hand might be sufficient and can be provided by the commercial partner. But in closer business relationships, a more holistic training approach is required to not only build the necessary operational skills, but to also enable the rural community members to become independent entrepreneurs. A large number of organisations exist to assist IBs in this respect. These include industry bodies, SEDA, and also NPOs such as Awethu Project. Business incubators can also cover part of the training needs. Furthermore, financial partners in the IB tend to train the enterprises they invest in (Anglo American and IFC, 2008; Buckland, 2014). In a rural environment where low-skilled workers without work experience are incorporated in a commercial value chain, training needs to extend to life-skills and basic financial and computer literacy to allow these workers to operate successfully in this environment (see Box 9).

Considering the crucial aspect of building local capacity, it is important that it is clear to the stakeholders what training needs exist, who is responsible for providing/sourcing this training, and consequently, who is financially responsible. Agreements between the multiple partners within the IB need to detail these responsibilities as they often relate to activities not core to a particular partner's activities. For example, when working with a newly-established cooperative, it is important to develop the leadership capacity of this collective to make it an efficient and reliable partner to work with. It needs to be clear who will be responsible for leadership development of this cooperative, and who will pay for such a programme. The additional needs for skills development in an IB partnership compared to traditional operations form one of the aspects that need to be well inventoried ahead of implementation.

Box 9: The importance of training and mentoring

The Clothing Bank (TCB) provides unemployed mothers in urban townships with the opportunity to become independent entrepreneurs, initially as franchisees of TCB. As franchisor, the role of TCB is to provide clothing items to sell, as well as an extensive training programme and mentoring support to the franchisees. For the required clothing items, TCB has entered into strategic partnerships with the major clothing retailers to donate any excess clothing items. These items are then de-branded and repaired if needed before being sold on, at much discounted prices, to the franchisee micro-entrepreneurs TCB works with. These micro-entrepreneurs go through a practical 2-year training course to prepare them to independently run their business. Sales do not take place from a branded outlet, but through a distribution network established by the franchisee herself. This can be from her home, at markets, or she can visit offices where employees can buy her products. As such, there are little to no set-up costs, and no franchising and royalty fees. TCB takes a holistic approach in training and mentoring these women, incorporating a 1,000-hour training programme that incorporates life skills training, business management and financial and computer literacy. TCB offers a wide support network to accommodate for the numerous challenges their micro-entrepreneurs have to deal with on a daily basis, such as abuse or the responsibilities of single parenthood. To ensure a sustainable business after their 2-year partnership with TCB terminates, the women are encouraged to diversify their businesses from the clothing retail activities. The Clothing Bank has also branched out, among others into the repair and distribution of household appliances, also donated by major retailers, for which it trains unemployment men. – *Sources: Personal communication; The Clothing Bank (2018)*.

8.4 Collaboration

The previous three elements highlight the need for partnerships and collaboration with a range of stakeholders. Innovative models need to be created with financial actors, mentors, trainers, and government for financial and operational de-risking. A third type of partner essential for successful IB implementation is a local developmental partner with a focus on the social aspect of the IB. Local partners provide context specific knowledge. The history and internal power dynamics within a community can disrupt an IB initiative if not properly understood. There can be distrust to outsiders, and in particular to large commercial firms, which needs to be addressed (McFalls, 2007). As such, many IBs partner with a local NPO. Such an organisation can build the local legitimacy in the community (London and Hart, 2004; Gold, Hahn and Seuring, 2013). An NPO can also be the stakeholder responsible for the final implementation of an IB, as illustrated by the partnership between Sumitomo and Africa!Ignite (Box 6 in Section 6.4).

Africa!Ignite is one of the many organisations that commercial firms can partner with to connect them with rural communities. Other meso-organisations include Harambee, an NPO with the objective of solving youth employment through partnerships, according to its website, Vumelana Advisory Fund which works with land reform communities to "structure commercially viable partnerships that create jobs, income and skills"[6], and FABCOS to name but a few. Corporate-owned trusts, such as Yellowwood (by Hollard) and Zimela (by Anglo American) often partake in the IB networks. A large number of more locally operating NGOs, such as foundations and trusts, also supplement the nationally operating organisations. A particularly relevant type of civil society partner for rural job creation is that which organises workers in the informal sector. Examples are the Waste Pickers Association of South Africa and the Self-Employed Women's Union. These organisations are a valuable source of information, have a large network of workers that can potentially engage in IBs and can represent their members in multi-stakeholder platforms. These civil society organisations play an important role as network brokers, capacity builders, coordinators and they serve the social interests of the communities (Aldaba, 2002)

In addition, government is essential in creating a supportive and enabling framework for the development of IBs, such as through the provision of incentives and infrastructure (see the recommendations in Section 9). The industrial park management organisations are crucial for the attraction of commercial businesses to these parks, but are equally important to encourage linkages with local SMMEs, ensure the supply of skilled workers and enhance the cluster forming as envisaged in IPAP (Tsedu, 2017). Research organisations can contribute to the provision of data, but also to the development of specific technologies, as demonstrated by Ivili Loboya (Box 2 in Section 6.1).

Partnerships are considered to overcome governance failure for governments, market failure for companies and the good intentions failure for NPOs (Kolk, Van Tulder and Kostwinder, 2008). They open access to resources in the poor communities (labour and entrepreneurship, as well as markets in the case of this report), whereas participation of NPOs or other development agencies address business behaviour to make IBs more social (Bitzer, 2012). Multi-stakeholder platforms ensure transparency between the partners, and reduce information asymmetry and transaction costs (Gold, Hahn and Seuring, 2013). They thus overcome unfamiliarity between non-traditional business partners and business environments. It needs to be noted, however, that linkages between low-income communities and commercial value chains through complex partnership structures do not necessarily lead to the empowerment of these communities. The complex structures with multiple partners are often motivated by the commercial partner to safeguard its investment or reduce its transaction costs within the IB. Whereas this might be favourable to the commercial partner, these complex set-ups are incomprehensible to the local communities, and result in their subordination, rather than beneficiation (Meagher, 2013; Van Dyk and Fourie, 2015; Chamberlain and Anseeuw, 2018a). Participation of the local communities is essential to ensure that an IB is adapted to the local context, that these communities buy into the IB, and that the IB can generate economic impact in the community (Romijn, 2001).

[6] www.vumelana.org.za

8.5 Scale

For IBs to make a sustained and meaningful impact on livelihoods in rural settlements, they need to be scalable or replicable (Jenkins and Ishikawa, 2010). IBs must either be able to absorb large numbers of workers themselves, or integrate and grow a substantial number of SMMEs in these communities to significantly reduce unemployment levels in these locations. Scale is also important to offer liveable income levels to individual homeworkers and suppliers. A homeworker who only makes one garment a month will not be able to earn an income to get her out of poverty (Philip, 2010). For those IBs that serve low-income markets, scale is needed to be profitable with large quantities compensating for low margins.

It is therefore important to recognise scaling up of the IB from the early design phase. Provision is required for sufficient resources, both financially and from a skills perspective. The IB needs to learn throughout the preparation and piloting phases, and make adjustments when necessary. As such, a long-term vision is essential (see next section). The input of the local partners is a crucial aspect in this iterative process. Once an efficient and effective model has been created, it can be rolled out on a larger scale. For example, local suppliers or distributors can be integrated in different regions, the quantity of product sourced from a rural supplier can be increased, or other groups of suppliers can be included into a firm's activities. Box 10 illustrates how TCB has been able to scale its business from one to five cities and replicate its business model from clothing to household items.

Box 10: Finding partners to scale up a small business

The Clothing Bank started with reselling clothing items in Cape Town. After eight years of operation, the enterprise has fine-tuned its model and expanded the clothing franchising to another four cities across South Africa. Furthermore, it has replicated its franchising model to household appliances under The Appliance Bank banner. Instead of end-of-line and returned clothing items, it has established a partnership with two retailers who supply TCB with broken household appliances. TCB trains unemployed township men to repair these items which they then sell as The Appliance Bank franchisee. TCB is however limited in its growth by two main factors: the supply of goods from the commercial partners and the need for its products. There is no market for high-end clothing and appliances at middle-range prices in rural areas where incomes simply don't allow consumers to buy anything but the lowest price items. – *Sources: Personal communication; The Clothing Bank (2018)*

8.6 Long-term horizon

Putting the previous elements together, leads to the last element when establishing an IB with the aim to create rural employment: time. Inclusive partnerships between commercial firms and rural communities do not happen overnight (McFalls, 2007). First, the identification of partners is an intense process. These stakeholders are unfamiliar with each other; their objectives, priorities, character and ways of working differ fundamentally. To build trust between the different partners is essential, but takes time. Second, to build an innovative business model that overcomes the failures of the market underlying the exclusion of rural communities in current value creation processes is a process of trial and error. A flexible attitude open to learning allows for the iterative improvement of an IB. Third, taking account of the skills gap, time and effort are needed to build the required capacity. Not only in the rural workers or entrepreneurs, but equally in the commercial partner and a coordinating meso-organisation. Last, for an IB to reach scale and impact, its model needs to prove itself reliable over time. Whereas some simple partnerships, using existing networks, might generate employment opportunities within a relatively short timeframe, more inclusive IBs that build the capacity of the rural communities require at least three to five years before any outcome is visible.

The reality of a medium time period until IBs deliver results obliges the partners to commit beyond a one-year financial cycle. This can clash with the annual reporting cycles of B-BBEE programmes and with the overall horizons for return on investments (ROIs) of commercial firms and financing partners. There needs to be a commitment up to senior management from these stakeholders to invest in the IB for a considerable time period. The local communities equally need to understand that results, such as jobs and contracts, do not materialise without effort and investment from their side. For example, they need to adhere to employment contracts, engage in mentorships, invest capital into production tools, and the like. Comparable intentions, mutual understanding between all partners involved, a sense of realism and willingness to learn from failure form the basis of any partnership to achieve economic activity in rural settlements.

8.7 Legislation and policy framework

Finally, while new legislation is not required, a policy framework that stimulates and enables IBs is essential. Such a framework either must create a dependence/benefit for commercial firms to invest in rural communities, or assist these firms to overcome (economic) barriers that prevents them from creating livelihood opportunities within these communities. Regarding dependence, the South African government has already put in place numerous initiatives and policy requirements to encourage commercial firms to expand their value chains into rural communities which could be taken forward through an IB framework. These requirements and initiatives include the B-BBEE regulations, the Mining Charter, and telecommunications licencing, among others, as well as the IPRP to support infrastructure in rural areas, and a range of financial incentives as described in Section 5.1.3. But the government equally needs to ensure viability by creating an enabling environment. Road, electricity, water and internet infrastructure are basic services necessary for operating a business. Alternatively, financial incentives are often used by governments to assist in overcoming the commercial risks of operating in rural areas, however, such incentives need to be provided in a sustainable way. Training and educational centres to complement IB investments would address labour and skills concerns. These are all elementary conditions to allow commercial partners to engage with rural areas. Whereas a stimulating and enabling environment is important to motivate the commercial firms, it is equally important that the framework protects the more vulnerable rural communities, and the IB workers in particular, from exploitation.

9 RECOMMENDATIONS

A number of recommendations can be made from the observations in this report. These recommendations are not meant as a checklist for IB implementation, nor do they guarantee a successful IB partnership. They merely serve as general guidelines to stimulate rural job creation through cooperation between the corporate sector and rural communities.

The IB needs a clear business case. This business case needs to detail the objectives of the IB, which are not purely commercial. At the heart of the IB is rural employment creation, albeit in a commercially viable manner. This social goal must be specifically spelled out, or the IB risks this objective being lost to the (short-term) cash-flow objective to keep the IB operational. A key feature is the identification of how and for whom job opportunities will be created. Furthermore, the business case must incorporate details on the sector and geographical areas in which the IB will operate, how it will be financed in the short term and how the model will be financially sustainable in the long run, it needs to identify the business partners and the wider network of stakeholders with the roles and responsibilities of each of these actors, and it needs to allow for scaling and replication. In effect, this is similar to normal commercial business activities, but requires a different approach with regards to elements such as financing, partnership and skills development.

This business case needs inputs from all stakeholders from the start. Senior management as well as the implementing lower management levels, local meso-organisations, and government entities can identify opportunities but also raise crucial points based on their local knowledge during the design phase. Collaboration, engagement and transparency between all stakeholders from inception builds trust and buy-in to reach the same goals. Throughout the design and implementation process, the stakeholders need to stay focused on the problem the IB aims to solve, namely a reduction of rural unemployment.

The business case for an IB in the non-farm rural sector has to offer something to make it compete with a similar set-up in a more developed urban context. Thus, such an IB can best be aligned to local comparative advantages (Ashley and Maxwell, 2001). These advantages can be in the form of inputs, traditional skills, but also as a market. Linking into local opportunities enables the IB to keep transportation costs low, which is particularly important for low-income markets goods where any costs immediately erode the margin for the IB. A so-called proximity-based business model also promotes local community development, generating additional job opportunities through linkage effects, and allowing for industry clusters to develop (Yunus, Moingeon and Lehmann-Ortega, 2010; Rodrigues and Baker, 2012). Successful examples of IBs in local value chains are the Clover Mama Africa project in which women produce for their own communities, and the Danone-Grameen case which sources milk from local smallholders and sells the processed items to the local population through a network of micro-entrepreneurs. A thorough understanding of the local resources, markets and business activities (both formal and informal) beforehand provides insights into the opportunities and challenges for new IB partnerships.

Taking note of the non-standard investment criteria, it is recommended that the commercial partner establishes a separate financial entity to engage in IB projects. This shelters the investments from the ROI and profit targets set to satisfy the short-term objectives of shareholders. At the same time, it offers a vehicle for external investors looking to invest in socially responsible undertakings. Bundling of funds enlarges the monetary pool for IB engagement. DFI, government and other funds supplement the corporate investment. To increase the survival rate of the IB, particularly SMMEs integrated within the IB, favourable financing needs to be both buffering i.e. protecting the new enterprise to develop internal resources absent in the rural settlements, and bridging, to create access to external resources (Amezcua et al., 2013). As such, there is a need for a combination of subsidies, grants and tax incentives as well as networking and partnership building.

Not only does the corporate partner need to be incentivised to engage in an IB partnership, incentives must also exist for the community members included in the IB: complacency and a sense of entitlement has been observed in projects where competitive pressure was absent (Romijn, 2001). This indicates a balance between rewards and responsibilities. Those community members who demonstrate effort should be remunerated accordingly, either monetary or through training and career opportunities, for example. A point of attention is the short-term income needed for the community members who lack financial reserves. Hence, whereas it takes time for an IB to make profits, the financial rewards for the community members should not be compromised (Chamberlain and Anseeuw, 2017).

Lastly, government plays an important enabling role in motivating IB partnerships for rural employment, as illustrated throughout this report. In particular, local municipalities need to focus on the core strengths of their geographical location and serve as network generators to bring multiple partners together. Provincial governments have a similar role, but also need to provide the financing for infrastructural development. The role for national government lies in implementing a consistent, reliable policy framework that provides the (financial) incentives for commercial partners to invest in rural settlements.

10 CONCLUSION

South Africa offers a conducive environment for partnerships between commercial firms and rural communities to generate employment opportunities for the latter. First, the commercial sector is strong and well-developed. It has financial muscle to invest in IBs. And it has the knowledge and experience to operate in the specific social context of the country, both in urban and rural environments. Second, the country is home to a large number of excluded people in densely populated rural settlements. Hence, concentrated groups of beneficiaries and markets can be targeted for integration in commercial value chains. Third, the policy environment actively stimulates commercial firms to engage with excluded communities. As such, incentives and infrastructure are available to de-risk initiatives that generate economic opportunities in rural communities. Last, a range of meso-organisations and financing institutes support, coordinate and implement IBs. These organisations are crucial to build bridges between the commercial firms and rural communities.

The IB partnerships are not pre-defined models. They offer flexibility to engage people as salaried staff, as self-employed individuals (organised in collectives), as entrepreneurs, but also as informal workers. Commercial firms can serve as contractor, as financer, mentor, franchisor, or manager, to name a few of the direct ways of IB engagement. Opportunities for commercial business exist, particularly in engaging with rural small and medium-sized enterprises that can be assessed on their past achievements (Start, 2001; Amezcua et al., 2013). Alternatively, a commercial firm can fully outsource ED and CSI programmes to a third party. These meso-organisations, with their specialised insights into entrepreneur development, community affairs, or skills training, form a crucial partner in an IB network. IB models are also not static and firms can move between them. For example, a CSI project can turn into an NPO that is included in an ED programme, which in turn can be promoted to contract manufacturers or independent suppliers in the commercial value chains.

Inclusive businesses can build on the strong linkages that already exist between urban and rural locations (Start, 2001). Urban-based corporates can thus benefit from rural advantages such as low rental costs and lack of congestion, and from a flexible supplier base. New technologies foster smaller production runs, further enabling these rural partnerships. Hence, there is not only the philanthropic motivation of being a good corporate citizen, there is also an economic business case for moving segments of the value creation process to rural settlements.

Employment and income opportunities for rural communities can thus, over time, certainly result from innovative, financially sustainable partnerships with commercial firms. For maximum impact, the social aspect of inclusion needs to be kept in firm view, or these partnerships run the risk of becoming either exploitative or available solely to a privileged group of beneficiaries. The realities of the South African case form a sound basis to design, develop and implement linkages between the two polar, but mutually dependent, business and low-income community segments.

11. REFERENCES

Aldaba, F.T. (2002) ‘Philippine NGOs and Multistakeholder Partnerships: Three Case Studies’, *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, 13(2), pp. 179–192.

Ambe, I. M. (2016) ‘Public procurement trends and developments in South Africa’, *Research Journal of Business and Management*, 3(4), pp. 277–290. doi: 10.17261/Pressacademia.2016.351.

Amezcua, A. S., Grimes, M. G., Bradley, S. W. and Wiklund, J. (2013) ‘Organizational sponsorship and founding environments: A contingency view on the survival of business-incubated firms, 1994-2007’, *Academy of Management Journal*, 56(6), pp. 1628–1654. doi: 10.5465/amj.2011.0652.

Angeli, F. and Jaiswal, A. K. (2016) ‘Business Model Innovation for Inclusive Health Care Delivery at the Bottom of the Pyramid’, *Organization and Environment*, 29(4), pp. 486–507. doi: 10.1177/1086026616647174.

Anglo American. (2017) ‘Partnering to create shared value’. Corporate brochure, Anglo American. Available at: http://www.angloamerican.co.za/~/media/Files/A/Anglo-American-South-Africa-V2/downloads-slider/1084-aa-zimele-brochure.pdf (Accessed: 28 August 2018).

Anglo American and IFC. (2008) *The Anglo Zimele Model. A Corporate Risk Capital Facility Experience*. Marshalltown/Washington D.C.: Anglo American/International Finance Corporation.

Anglo Zimele. (2005) *An Independent Management Review*. Anglo Zimele – Creating Sustainable Businesses. Available at: https://www.angloamerican.com/development/social/socio-economic-development/~/media/Files/A/Anglo-American-Plc/siteware/docs/zimele_independentreview.pdf (Accessed: 28 August 2018).

Arimah, B.C. (2001) ‘Nature and determinants of the linkages between informal and formal sector enterprises in Nigeria’, *African Development Review*, 13(1), pp. 114–144. doi: 10.1111/1467-8268.00033.

Ashley, C. and Maxwell, S. (2001) ‘Rethinking Rural Development’, *Development Policy Review*, 19(4), pp. 395–425.

Awethu Project. (2018) *SME Equity Fund*. Available at: http://www.awethuproject.co.za/products/sme-equity-fund (Accessed: 23 July 2018).

B-BBEE Commission. (2016) *Broad-Based Black Economic Empowerment Act. Act 53 of 2003 as amended by Act 46 of 2013*. Pretoria, South Africa.

Barrientos, S. (2008) ‘Contract Labour: The “Achilles Heel” of Corporate Codes in Commercial Value Chains’, *Development and Change*, 39(6), pp. 977–990. doi: 10.1111/j.1467-7660.2008.00524.x.

Beesley, A. (2010) *School feeding in KwaZulu-Natal: challenges faced by local women’s cooperatives as service providers*. University of KwaZulu-Natal.

Benlemlih, M. and Bitar, M. (2018) ‘Corporate Social Responsibility and Investment Efficiency’, *Journal of Business Ethics*, 148(3), pp. 647–671. doi: 10.1007/s10551-016-3020-2.

Bitzer, V. (2012) ‘Partnering for change in chains: The capacity of partnerships to promote sustainable change in global agrifood chains’, *International Food and Agribusiness Management Review*, 15(Special Issue B), pp. 13–38.

Black, A., Craig, S. and Dunne, P. (2016) *Capital intensity, industrial policy and employment in the South African manufacturing sector*, *Redi 3×3*. Working paper 23. Cape Town: SALDRU, University of Cape Town.

Brenche. (2015) *Why Social Entrepreneurship in South Africa*. Available at: https://www.gibs.co.za/news-events/news/Pages/why-social-entrepreneurship-in-south-africa.aspx (Accessed: 7 May 2017).

Buckland, L. (2014) *Social Impact Strategies for Banks – Venture Philanthropy and Social Investment*. Brussels: European Venture Philantropy Association (EVPA).

Carr, M., Chen, M.A. and Tate, J. (2000) 'Globalization and Home-Based Workers', *Feminist Economics*, 6(3), pp. 123–142.

Coega Development Corporation (CDC) (2017) *Integrated Annual Report 2016/17*. Port Elizabeth: Coega Development Corporation.

Chamberlain, W.O. and Anseeuw, W. (2017) *Inclusive Businesses in Agriculture. What, how and for whom? Critical insights based on South African cases*. Stellenbosch: SUN MeDIA MeTRO. doi: 10.18820/9781928355090.

Chamberlain, W.O. and Anseeuw, W. (2018a) 'Inclusive Businesses and Land Reform: Corporatization or Transformation?', *Land*, 7(18). doi: 10.3390/land7010018.

Chamberlain, W.O. and Anseeuw, W. (2018b) 'Inclusiveness revisited: Assessing Inclusive Businesses in South African Agriculture', *Development Southern Africa*. doi: 10.1080/0376835X.2018.1518708.

Chell, E. (2007) 'Social enterprise and entrepreneurship: towards a convergent theory of the entrepreneurial process', *International Small Business Journal*, 25, pp. 5–26.

Cities Support Programme (2018) *Why is there so little economic development in South Africa's townships?* Township Economies Series 1. Pretoria: Cities Support Programme of National Treasury.

Cochet, H., Anseeuw, W. and Fréguin-Gresh, S. (2015) *South Africa's Agrarian Question*. Cape Town: HSRC Press.

Collinson, M., Tollman, S. M., Kahn, K., Clark, S. and Garenne, M. (2006) 'Highly prevalent circular migration: Households, mobility and economic status in rural South Africa', in Tienda, M. (ed.) *Africa on the move: African migration and urbanisation in comparative perspective*. Johannesburg: Witwatersrand University Press, pp. 194–216.

Das Nair, R. (2017) 'The internationalisation of supermarkets and the nature of competitive rivalry in retailing in southern Africa', *Development Southern Africa*, 35(3), pp. 315–333. doi: 10.1080/0376835X.2017.1390440.

Davister, C., Defourny, J. and Gregoire, O. (2004) *Work integration social enterprises in the European Union: An overview of existing models*. EMES Working Papers, 4–4. Liège: EMES European Research Network.

Defourny, J. and Nyssens, M. (2016). *Fundamentals for an International Typology of Social Enterprise Models* (No. 33) (Vol. 33).

Department of Trade and Industry (the dti). (2015) *Black Industrialists Policy*. Pretoria: Department of Trade and Industry.

The dti. (2017) *The Dti Helps Company Create Jobs In Limpopo*, *Engineering News*. Available at: http://www.engineeringnews.co.za/article/the-dti-helps-company-create-jobs-in-limpopo-2017-12-05 (Accessed: 30 July 2018).

The dti. (2018) *Industrial Policy Action Plan 2018/19 - 2020/21*. Pretoria: Department of Trade and Industry.

Development Policy Research Unit. (2016) *Monitoring the performance of the South African labour market. An overview of the South African labour market for the year ending 2016 quarter 3*. Cape Town: University of Cape Town.

Discala, A. (2015) Performance of enterprise development funds backed by Financial Institutions in South Africa: lessons learnt in Impact Investing. Thesis Master of Business Administration, University of Pretoria.

Doherty, B., Haugh, H. and Lyon, F. (2014) 'Social enterprises as hybrid organizations: A review and research agenda', *International Journal of Management Reviews*, 16(4), pp. 417–436. doi: 10.1111/ijmr.12028.

Du Toit, A. and Neves, D. (2007) *'In search of South Africa's second economy: Chronic poverty, vulnerability and adverse incorporation in Mt. Frere and Khayelitsha'*. CPRC Working Paper 102. Bellville/Manchester: Programme for Land and Agrarian Studies (PLAAS)/Institute for Development Policy and Management (IDPM).

Dunn, E. and Villeda, L. (2005) *Weaving Micro and Small Enterprises Into Global Value Chains. The Case of Guatemalan Textile Handicrafts*. microREPORT #31. USAID.

Franchise Association of South Africa (FASA), (2017) *Annual report 2017*. Bedfordview: Franchise Association of South Africa.

Fourie, F. (ed.) (2018) *The South African Informal Sector: Creating Jobs, Reducing Poverty*. Cape Town: HSRC Press.

Fröhlicher, P. and Pothering, J. (2013) *The Enterprise Development Report*. Cape Town/New York: Impact Amplifier/NYU Center for Global Affairs.

George, G., McGahan, A.M. and Prabhu, J. (2012) 'Innovation for Inclusive Growth: Towards a Theoretical Framework and a Research Agenda', *Journal of Management Studies*, 49(4), pp. 661–683. doi: 10.1111/j.1467-6486.2012.01048.x.

Gold, S., Hahn, R. and Seuring, S. (2013) 'Sustainable supply chain management in "Base of the Pyramid" food projects - A path to triple bottom line approaches for multinationals?', *International Business Review*, 22(5), pp. 784–799. doi: 10.1016/j.ibusrev.2012.12.006.

Gradl, C., Ströh de Martínez, C., Kükenshöner, C. and Schmidt, J. (2012) *Growing Business with Smallholders. A guide to inclusive agribusiness*. Bonn: GIZ.

Greenberg, S. (2017) 'Corporate power in the agro-food system and the consumer food environment in South Africa', *The Journal of Peasant Studies*, 44(2), pp. 467–496. doi: 10.1080/03066150.2016.1259223.

Gupta, N., Solomon, J. and Raja, K. (2011) Employment after paraplegia in India: A postal survey. *Spinal Cord* 49, 806–811. doi: 10.1038/sc.2011.1.

Humberg, K. and Braun, B. (2014) 'Social Business and Poverty Alleviation: Lessons from Grameen Danone and Grameen Veolia', in Grove, A. and Berg, G. A. (eds) *Social Business*. Heidelberg: Springer-Verlag, pp. 201–223. doi: 10.1007/978-3-642-45275-8_12.

Industrial Development Corporation (IDC). (2017) *Integrated report*. Johannesburg: Industrial Development Corporation.

Jenkins, B., Akhalkatsi, A., Roberts, B. and Gardiner, A. (2007) *Business Linkages: Lessons, Opportunities, and Challenges*. IFC, International Business Leaders Forum/Kennedy School of Government, Harvard University.

Jenkins, B., Gilbert, R. and Baptista, P. (2014) *Sustaining and Scaling the Impact of Enterprise Development Programmes: SABMiller's Approach to Strengthening Business Ecosystems*. Cambridge MA: The CSR Initiative at the Harvard Kennedy School and Business Fights Poverty.

Jenkins, B. and Ishikawa, E. (2010) *Scaling Up Inclusive Business: Advancing the Knowledge and Action Agenda*. Washington D.C./Cambridge MA: IFC/Harvard Kennedy School.

Joubert, L., Smallhorne, M., Cowen, A. and Ziniades, J. (2016) *Fostering local wellbeing in South African communities*. FLOW, Cape Town.

Kloppers, H. (2014). Driving corporate social responsibility through Black economic empowerment. *Law, Democracy and Development*, *18*, 58–79. Available at https://doi.org/10.4314/LDD.V18I1.4.

Kolk, A., van Tulder, R. and Kostwinder, E. (2008) 'Business and partnership for development', *European Management Journal*, 26(4), pp. 262–273. doi: 10.1016/j.emj.2008.01.007.

Krige, K. and Silber, G. (2016) *The Disruptors - Social Entrepreneurs reinventing business and society*. Bookstorm. doi: 978-1-928257-17-2.

Lewis, C. and Gasealahwe, B. (2017) *Lowering barriers to entrepreneurship and promoting small business growth in South Africa.* OECD Economics Department Working Papers 1449. Paris: OECD Publishing. doi: 10.1787/d60e254f-en.

London, T. and Hart, S.L. (2004) 'Reinventing Strategies for Emerging Markets: Beyond the Transnational Model', *Journal of International Business Studies*, 35, pp. 350–370. doi: 10.1057/palgrave.jibs.8400099.

Makgetla, N. and Levin, S. (2016) *A Perfect Storm : Migrancy and Mining in the North West Province*.Working Paper. Pretoria: TIPS.

Malecki, E.J. (2003) 'Digital development in rural areas: Potentials and pitfalls', *Journal of Rural Studies*, 19(2), pp. 201–214. doi: 10.1016/S0743-0167(02)00068-2.

McFalls, R. (2007) *Testing the Limits of 'Inclusive Capitalism': A case study of the South Africa HP i-community*. Thesis Masters of Philosophy, University of Stellenbosch.

Meagher, K. (2013) *Unlocking the Informal Economy: A Literature Review on Linkages Between Formal and Informal Economies in the Developing Countries*. WIEGO Working Paper #27. Manchester: Women in Informal Employment: Globalizing and Organizing (WIEGO).

Mehrotra, S. and Biggeri, M. (2005) 'Can Industrial Outwork Enhance Homeworkers' Capabilities? Evidence from Clusters in South Asia', *World Development*, 33(10), pp. 1735–1757. doi: 10.1016/j.worlddev.2005.04.013.

Mnwana, S. (2015) Between 'Locals' and 'Foreigners': Mining and rural politics of belonging in North West province, South Africa, *Labour, Capital & Society*, 48 (1&2), pp. 157–181.

National Treasury. (2017a) 'Media statement Revised Preferential Procurement Regulations, 2017'. Pretoria: National Treasury.

National Treasury. (2017b) *Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017*. Pretoria: South African Government.

Nelson, J., Ishikawa, E. and Geaneotes, A. (2009) *Developing Inclusive Business Models. A review of Coca-Cola's Manual Distribution Centers in Ethopia and Tanzania*. Cambridge/Washington D.C.: Harvard Kennedy School/International Finance Corporation. doi: 10.2217/pmt.13.66.

Neves, D. and Du Toit, A. (2013) 'Rural livelihoods in South Africa: complexity, vulnerability and differentiation', *Journal of Agrarian Change*, 13(1), pp. 93–115. doi: 10.1111/joac.12009.

National Planning Commission (NPC). (2011) *National Development Plan: Vision for 2030*. Pretoria: Office of the President.

OECD/World Trade Organization (WTO). (2015) *Aid for trade at a glance: Reducing trade costs for inclusive sustainable growth*. Paris: OECD Publishing. doi: http://dx.doi.org/10.1787/aid_glance-2015-en.

Philip, K. (2010) 'Inequality and economic marginalisation: How the structure of the economy impacts on opportunities on the margins', *Law, Democracy & Development*, 14(1). doi: 10.4314/ldd.v14i1.14.

Philip, K. (2018) *Markets on the Margins*. Suffolk: James Currey.

Phillips, N. (2011) 'Informality, global production networks and the dynamics of "adverse incorporation"', *Global Networks*, 11(3), pp. 380–397. doi: 10.1111/j.1471-0374.2011.00331.x.

Ramagaga, P.M. (2015) *Factors affecting corporate South Africa's strategies to support SMMEs*. Thesis Master of Business Administration, University of Pretoria.

Raveendran, G., Sudarshan, R. M. and Vanek, J. (2013) *Home-Based Workers in India: Statistics and Trends*. WIEGO/HomeNet South Asia.

Reinecke, G. (2002) *Small enterprises, big challenges: A literature review on the impact of the policy environment on the creation and improvement of jobs within small enterprises.* SEED Working Paper 23. Geneva: International Labour Office (ILO).

Roberts, G. (2017) *Is it possible to promote entrepreneurship at scale in South Africa? A review of the evidence*. Centre for Development and Enterprise.

Rodrigues, J. and Baker, G. (2012) 'Grameen Danone Foods Limited (GDF)', *International Food and Agribusiness Management Review*, 15(1), pp. 127–158.

Romijn, H. (2001) 'Technology support for small-scale industry in developing countries: A review of concepts and project practices', *Oxford Development Studies*, 29(1), pp. 57–76. doi: 10.1080/13600810120016209.

SAB Entrepreneurship. (2018) *About Supplier Development*. Available at: https://www.sabentrepreneurship.co.za/suppliers (Accessed: 23 July 2018).

Small enterprise Development Agency (SEDA). (2016) 'Accelerating SMME growth in South Africa', *Imbadu*. Pretoria: Small Enterprise Development Agency.

Seo, M. (2017) 'Health-Clinic Entrepreneurs', *Stanford Social Innovation Review*, 15(2), pp. 13–14.

Sishuba, S. (2018) 'SA's first commercial cashmere success story', *Farmer's Weekly*, January. Available at: https://www.farmersweekly.co.za/agri-business/agribusinesses/sas-first-commercial-cashmere-success-story/ (Accessed: 28 August 2018).

Start, D. (2001) 'The rise and fall of the rural non-farm economy: Poverty impacts and policy options', *Development Policy Review*, 19(4), pp. 491–505. doi: 10.1111/1467-7679.00147.

Tambunan, T. (2008) Development of rural manufacturing SME clusters in a developing country: The Indonesian case, *Journal of Rural Development,* 31 (2), pp. 123–146.

The Bertha Centre. (2016) *A Guide to Legal Forms for Social Enterprises in South Africa*. Cape Town: UCT Graduate School of Business.

The Clothing Bank (2018) *Annual Report*. Cape Town: The Clothing Bank.

The Practitioner Hub. (2018) *What is inclusive business*. Available at: http://www.inclusivebusinesshub.org/starter-pack-what-is-ib/ (Accessed: 14 May 2018).

Thornton, A. (2008) 'Beyond the Metropolis: Small Town Case Studies of Urban and Peri-urban Agriculture in South Africa', *Urban Forum*, 19(3), pp. 243–262. doi: 10.1007/s12132-008-9036-7.

Tracey, P. and Jarvis, O. (2007) 'Toward a Theory of Social Venture Franchising', *Entrepreneurship Theory and Practice*, 31(5), pp. 667–685. doi: 10.1111/j.1540-6520.2007.00194.x.

Trialogue. (2017) *The Business in Society Handbook*. 20th edn. Cape Town: Trialogue.

Tsedu, M. (2017) *Making the Industrial Parks Revitalisation Programme work for employment and firm growth*. Policy Brief 3/2017. Pretoria: Trade & Industrial Policy Strategies (TIPS).

United Nations Development Programme (UNDP). (2010) *The MDGs: Everyone's Business. How inclusive business models contribute to development and who supports them*. New York: UNDP.

USAID. (2014) *From Smallholders to Shareholders. A Guide to Optimizing Partnerships with the Private Sector for Smallholder Impact*. USAID.

Valodia, I. (2001) 'Economic policy and women's informal work in South Africa', *Development and Change*, 32(5), pp. 871–892. doi: 10.1111/1467-7660.00230.

Valodia, I., Lebani, L., Skinner, C. and Devey, R. (2006) 'Low-waged and informal employment in South Africa', *Transformation: Critical Perspectives on Southern Africa*, 60(1), pp. 90–126. doi: 10.1353/trn.2006.0007.

Van Dyk, L. and Fourie, L. (2015) 'Challenges in donor–NPO relationships in the context of corporate social investment', *Communicatio*, 41(1), pp. 108–130. doi: 10.1080/02500167.2015.1022563.

Van Mieghem, J.A. (1999) 'Coordinating Investment, Production, and Subcontracting', *Management Science*, 45(7), pp. 954–971. doi: 10.1287/mnsc.45.7.954.

Visagie, J. and Turok, I. (2017) *Rural-urban migration as a means of getting ahead*. Cape Town: HSRC Press.

Warner, M. and Sullivan, R. (eds) (2017) *Putting partnerships to work: Strategic alliances for development between government, the private sector and civil society*. Routledge.

World Business Council for Sustainable Development (WBCSD). (2014) *About Inclusive Business*. Available at: http://www.inclusive-business.org/inclusive-business.html (Accessed: 30 January 2017).

WBCSD (2016) *Delivering on the Sustainable Development Goals: The inclusive business approach*. Geneva: WBCSD.

Yunus, M., Moingeon, B. and Lehmann-Ortega, L. (2010) 'Building social business models: Lessons from the grameen experience', *Long Range Planning*, 43(2–3), pp. 308–325. doi: 10.1016/j.lrp.2009.12.005.

12 APPENDIX A – PEOPLE INTERVIEWED

Margaret Gribble	Africa!Unite
Judy Abrahams	IDC
Stuart Bartlett	IDC
Jorge Maia	IDC
Maiphepi Lekalakala	Little Green Number
Elain Vlok	Mama Clover Africa
Patricia Masanganise	SEFA
Rob Smorfitt	SEFA
Ulrich Klins	Southern Africa Trust
Tracey Chambers	The Clothing Bank
Maoto Molefane	The dti