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SUPPORTING LIGHT AND SMALL-SCALE MANUFACTURING IN THE TOWNSHIPS FOR INCLUSIVE INDUSTRIALISATION

WORKING PAPER PREPARED BY TIPS FOR THE DEPARTMENT OF TRADE, INDUSTRY AND COMPETITION

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CONTENTS

ABBREVIATIONS

BBBEE	Broad-Based Black Economic Empowerment
CHIETA	Chemical Industries Education & Training Authority
DSBD	Department of Small Business Development
dtic (the)	Department of Trade, Industry and Competition
EIP	Enterprise Incubation Programme
GDP	Gross domestic product
IDC	Industrial Development Corporation
IPAP	Industrial Policy Action Plan
IPRP	Industrial Parks Revitalisation Programme
LED	Local Economic Development
M&E	Monitoring and Evaluation
MEC	Member of the Executive Council
MTEF	Medium-Term Expenditure Framework
NEF	National Empowerment Fund
NPA	National Development Plan
NRCS	National Regulator for Compulsory Specifications
NYDA	National Youth Development Agency
SABS	South African Bureau of Standards
SALGA	South African Local Government Association
SANAS	South African National Accreditation system
Seda	Small Enterprise Development Agency
Sefa	Small Enterprise Finance Agency
SEZ	Special Economic Zone
SEIF	Shared Economic Infrastructure Facility
SETA	Sector Education Training Authority
SMEs	Small and medium enterprises
SMMEs	Small, medium and micro enterprises
TER	Township Economic Revitalisation
TERS	Temporary Employee/Employer Relief Scheme
TIA	Technology and Innovation Agency
TREP	Township and Rural Entrepreneurship Programme
UIF	Unemployment Insurance Fund

EXECUTIVE SUMMARY

South Africa's disturbing apartheid history saw certain segments of the population, principally black citizens, relegated to informal geographical locations, known as townships. These delineated regions were largely underserved and ignored, only being allowed to engage in a highly restrictive set of economic activities by state decree. Post democracy, today townships still remain core residential areas, housing significant proportions of South Africa's urban populations that emerged from that legacy, and have economically diversified by very little compared to more developed urban centres. Although representing a substantial purchasing power, townships remain "buying" centres based on retail and other service industries. There has of late been a noticeable policy focus and debate on shifting/creating (industrial) jobs in high-density townships and integrating townships as part of South Africa's inclusive industrialisation agenda.

The township economy is not accounted for, nor thoroughly researched, in terms of the total turnover of businesses, contribution to local gross domestic product (GDP) or employment levels. Despite this, the South African government recognises the potential opportunities that can transition townships into major economic hubs, therefore creating employment and contributing to the broader economy. Unfortunately, the various meritorious government interventions that have been tailor-made to address economic and socio-economic underdevelopment in townships have been largely ineffective. This has resulted due to the lack of knowledge around the worth, functioning and requirements of the township economy. This lack of knowledge not only results in inefficient public spending but also discourages private sector investment in prevalent and potential township markets. This has created a barrier for both the South Africa government and private sector to invigorate and grow township markets.

Unfortunately, the manufacturing sector in townships is small compared to service-oriented activity. As light industry tends to be labour-intensive, it has the potential to absorb more labour than heavy industry. It is better suited to residential areas and can be undertaken by small businesses such as those operating in townships. Light manufacturing could therefore contribute meaningfully to the township economy, reducing unemployment in townships by producing products that are for the immediate vicinity.

The difficulties in achieving these objectives persist and four challenges hinder the competitiveness of township firms: lack of municipality capacity; little understanding of township economies; low value chain inclusivity of township firms into the formal sector; and a lack of co-ordinated intervention across the various spheres of government.

While the Department of Trade, Industry and Competition (the dtic) has focused on economic infrastructure in the form of industrial parks, other interventions have focused on procurement set-asides, entrepreneurship programmes and ensuring funding for township-based firms. However, a substantial gap between the needs of firms and the forms of support available remains. Better co-ordination between the various support programmes (and related departments) would strengthen the linkages and grow the impact on firms.

1. INTRODUCTION

There has been a noticeable policy focus over the past decade to unlocking the economic growth opportunities in townships. This has seen policy measures towards shifting jobs to high-density townships and integrating townships as part of South Africa's industrialisation agenda. While there are some light manufacturing operations in townships (on average around 10% of firms are involved in manufacturing activities), there is potential to grow these types of firms. Therefore, there is a need for linking township-based manufacturers to industrial policy tools available to support firm growth and the strengthen capabilities to unlock employment.

To provide context to this study, the legacy of townships along with the constraints facing small businesses operating in townships is explored. The response measures taken by government need to be measured against these constraints, as the economic legacy has meant a coherent ecosystem for township businesses is lacking, coupled with an inadequate range of firms. As larger businesses (outside of shopping malls) have not located in townships, the opportunity to strengthen the township economy and create decent work opportunities closer to people's homes. This, it is argued by this study, lies in small businesses operating in the light manufacturing industry. The difficulties that have been encountered by government programmes to support township enterprises are then discussed.

Government industrial policy approach has recognised the potential of township economies and as such provided a basket of policy instruments through which the South African government plans to drive economic growth and development. The Industrial Policy Action Plan (IPAP) identifies key priorities as catalysts of growth within the South African economy, including driving industrial development in underdeveloped areas with potential to strategically support the growth of the local manufacturing industry. The objective of this study is to find ways to support the growth of small firms and light industry in South African townships, and overcome the difficulties in providing support measures.

Overview of townships

Townships have historically featured prominently in urban planning and housing policy literature; however, limited work has been done on the role of the townships in economic analysis. Significant policy focus is shifting towards "township industrialisation" with government programmes being implemented to "revitalise" the townships into spaces more conducive for businesses and investment.

Townships are residential areas that were created "pre-democracy" to house South Africa's black working class, which provided cheap labour for the mines and other industries. Contrary to a common belief, racial segregation predates apartheid which officially began in 1948.

Three years after the formation of the Union of South Africa in 1910, the Natives Land Act of 1913 was passed. According to Modise and Mtshiselwa (2013), this piece of legislation legalised the dispossession of black people of their land. In addition to the land dispossession, the black and white populations had areas that were reserved for them according to race and they were prohibited from buying land in other areas (Feinberg and Horn, 2009). Most notably, when it came to land ownership the majority black population was restricted to less than 10% of the land.

Two years after apartheid came into being, the Group Areas Act of 1950 was passed. The aim of this Act was to separate the residential areas in South Africa according to race (Phatlane, 2007). Under apartheid, only white people were allowed to live close to the city centres near job opportunities, while Asians, coloured and black people could only live on the outskirts of the cities far from the main commercial centres.

Post-apartheid, when the Natives Land Act and Group Areas Act were no longer enforced, some wealthy black people moved to the suburbs, while townships remained mainly residential areas with relatively little industrial activity. Due to the distance from business centres and job opportunities, the township residents that remained still spend a lot of time and money going to and from work.

The township economy

The township economy refers to businesses and markets based in townships. Township firms tend to operate in the informal sector, which is largely unregulated. These businesses are mainly involved in the trading of goods produced outside townships, meaning townships are still synonymous with consumption instead of production.

Townships are core residential areas, housing a significant proportion of South Africa's urban populations. Although representing a substantial purchasing power, townships remain "buying" centres based on retail and other service industries. The emergence of a black middle class in the townships has attracted property developers which have built shopping centres in these areas (Mashaba and Wiese, 2015). These malls have led to two notable observations on the business landscape in the townships. First, the high cost of rentals in the malls have meant that most of their tenants are retail outlets owned outside the townships, with a few township-based tenants.

Second, it has been observed that township-based spaza shops and general dealers operating outside the malls cannot compete on pricing with the large retail chains in the malls because of the discounts the latter enjoy through bulk buying (Mathenjwa, 2007).

It is estimated that only about a quarter of the money generated in townships is spent there. In addition to the spending on outlets owned by firms based outside the townships, this represents another worrying leakage out of the township economy because the circulation of money in any community is believed to generate economic activity and promote development. However, given the large populations living in townships, there is evidence of a large local demand pull with many working and middle-class families residing in proximity, thereby providing a viable base to demand products from firms.

For firms operating in townships, there is saturation in some of the industries which prevents individual businesses from achieving economies of scale. Economies of scale are achieved when a business reduces its cost per unit as volumes increase (Eicker and Cilliers, 2016). In markets where many small firms are operating (i.e. saturated), it becomes difficult for these firms to reach the critical mass required to achieve scale economies. Examples of saturated industries in the townships include food and beverages, clothing and textiles, and construction.

Why does the township economy matter?

According to the SBP SME Growth Index,[1] small, medium and micro enterprises (SMMEs) in South Africa play a crucial role in the country's economy and contribute between 40% and 41% of the country's GDP, and up to 61% of the overall employment in South Africa. The South African

[1] https://smegrowthindex.co.za/

National Development Plan (NDP) also set an ambitious aim of increasing the size of the economy by a minimum of 5.4% a year over 15 years up to 2030.

This initiative is, however, a necessary challenge to engage in, as South Africa's high rate of unemployment is increasing. The state of employment in South Africa remained unchanged at 44.4% in the first quarter of 2021, from 43.1% in the second quarter of 2018. The employment rate in South Africa averaged 43.21% from 2000 until 2018, reaching a high of 46.17% in the fourth quarter of 2008 and a record low of 41% in the first quarter of 2004, which was partly exacerbated by a chronic shortage of skilled labour. The COVID-19 pandemic has also impacted employment in the country. Despite the relatively rapid growth in the GDP, the Quarterly Labour Force Survey found that total employment flattened out from the first to the second quarter of 2021. South Africa had recovered almost a million jobs since the second quarter of 2020, but total employment was still 8% below pre-pandemic levels. Against this backdrop, the government is aiming to put policies, strategies, and programmes in place, which aim to create an enabling environment for township SMMEs.

Small and medium enterprises (SMEs), which typify the economy of South Africa's densely populated and underdeveloped townships, are estimated to account for at least third of total turnover generated by the country's formal business sector. Townships SMMEs have the potential to contribute positively to the South African economy. In Gauteng province, SMMEs created about 150 000 jobs in a single year, and this was as a direct result of government's support to SMMEs. It is therefore imperative that township SMMEs receive the necessary interventions and support to address the many challenges South Africa faces.

The deindustrialisation of the South African economy, and subsequent shift to service orientation, pushed entrepreneurs from the township to the periphery of the mainstream economy and restructured the township economy to a service-orientated economy, with no manufacturing capacity. The township economy had a minimal contribution in the development of productive sectors of the economy.

The typical township economy's most important characteristics are the high levels of unemployment, underemployment and widespread poverty, and high rates of in-migration from rural and other poorer areas in the country. In townships, unemployment rates are higher than the official rate for the country as a whole, while the extent and depth of poverty are also greater (Leibbrandt et al., 2010).

Townships are a major supplier of labour to nearby cities and towns, with wages and salaries the main source of income. Therefore, township economies depend on the state of (and cyclical fluctuations in) the economies of the cities and towns, to which they are linked, and the provincial, national and global economies.

It is estimated that about half of South Africa's urban population live in townships and informal settlements. Townships are where poverty and high unemployment are truly felt. Because a high proportion of urban populations reside in townships, high unemployment in big township populations is a concern to the government at national and local level.

Various initiatives to kick-start economic activity in townships have been tried but these have focused mainly on services such as banking, restaurants and retail, which are not labour-absorbing. Few township businesses are in manufacturing. TIPS (2019) highlights the existence of 640 000 formal small businesses and 1.5 million informal small businesses, up from 1.3 million in 2010. The main sectors for formal small business are business services (25% of the total number), retail (23%), community and personal services (14%), construction (14%), with only 9% operating in the manufacturing sector. Similarly, only 9% of informal small businesses reported operating in manufacturing, with the main sectors for informal small business being retail (49% of total number), personal and community services (14%), and construction (14%). Also, two thirds of formal small business are based in the five largest metros of the country, but only 20% of informal business are located in the same areas.

Manufacturers tend to source from a range of suppliers and distribute products to relatively widely dispersed markets. However, manufacturing takes place on a small scale in most townships because of the generally poor location and infrastructure, and limited backward and forward industries based in these areas. Where it does take place, manufacturing is often home-based, serves local markets and includes activities such as sewing, baking, furniture manufacture, and metal products. A survey of 240 small businesses in townships across Gauteng found that only 11% participated in the manufacturing sector, producing furniture, steel stands for domestic use and protective safety products (Nijiro et al., 2010). A similar percentage was found in another study of home-based entrepreneurs in Katlehong, Orlando East and Mamelodi townships: 6% participated in dressmaking; 3.5% in welding; and 2% in carpentry (Shisaka, 2006).

In contrast, manufacturing outside of township areas is an important source of employment for township residents. As many township residents are employed in the formal manufacturing economy, the slowdown in the country's manufacturing performance affects the job security of many township residents and reduces consumer demand in these areas. The main township manufacturing sectors are:

- Chemicals (cleaning products);
- Food and beverages (home-based food processing such as atchar, jams, confectionaries and bakeries);
- Wood and metal works (furniture and security features);
- Textiles, clothes and leather goods (bespoke and traditional wear, shoes and bags); and
- Transport equipment (spares).

The importance of supporting manufacturing

Policymakers at national level regard the manufacturing sector as crucial in reducing unemployment. Manufacturing has the highest job multiplier of any sector because of its significant vertical linkages with other sectors in the economy.

Large firms drive the demand and supply of inputs (access to inputs) and also set the standards and prices within their value chain. The power lies in the value chain and how that affects existing and prospective entrepreneurs' ability to participate in the sector, as well as the distribution of returns from such activities throughout the value chain. The exclusion from these upstream and downstream linkages means that township enterprises survive on low margins with no comparative or competitive edge.

In an economy, raw materials, intermediate inputs, and final goods and services flow within and between the sectors through a series of value chains. A value chain is simply an economic or geographic segment that contains interlinked industries, often stretching beyond (politically determined) geographic boundaries. Thus local or township enterprises may supply goods or services (inputs) to other enterprises within the chain (forward linkages), or buy goods and services (inputs) from other enterprises (backward linkages).

A small and open economy is part of one or more value chains. Therefore, it needs to keep abreast of and prepare for economic developments occurring along the same value chain(s) stretching beyond its own borders.

At the same time, such an economy needs to develop initiatives that either strengthen its nodal position on existing value chains or to enable it to become part of a lucrative new value chain. This ability of firms in the manufacturing sector to interact with other sectors generates higher levels of economic activity than other sectors, creating more jobs. This is why local governments concerned with maximising job creation might need to prioritise manufacturing in the townships.

Unfortunately, the manufacturing sector in townships is small compared to services. A greater manufacturing presence in townships would lead to economic diversification and possibly minimise the impact of shocks to the economy that come with a dependence on one or a few industries. As opposed to heavy industry, which is generally highly capital-intensive, produces intermediates goods used by other industries as inputs, and releases more pollutants into the atmosphere, light industry is more labour-intensive, produces products aimed at the final consumer, and emits less pollution.

Because light manufacturing industries produce less pollution and noise compared to heavy industry, they can be located near residential areas (Cotter, 2012). Examples of light industry include consumer electronics, clothing, chemicals, food and furniture production. Since light industry tends to be labour-intensive, it has the potential to absorb more labour than heavy industry. As a result, light manufacturing can contribute meaningfully to reducing unemployment.

The location of townships is a major obstacle for manufacturing because they were never created with development in mind. As a result, their distance from much needed water, adequate roads and other infrastructure needed for industrial activity raises costs for production. Many economic activities take place in residential properties or informal structures that do not command significant rentals. Nevertheless, the lack of formal economic space may also be due to development issues such as land ownership patterns, lack of title, and infrastructure constraints.

The one exception has been the growth of formal shopping centres in township areas over the past 10 to 15 years, a growth driven by various forces:

1. Many of the retail markets in the suburban areas are saturated and so retailers are looking elsewhere to expand their markets.
2. The incomes and living standards of township residents are higher, significantly increasing their buying power (effective demand).
3. Many township residents purchase their higher-cost goods (clothes, electronics, processed food) outside of the township, and so retailers are merely capturing this “leaked” income by locating closer to township residents.
4. Most of the retail centres that have been developed are large and able to draw on all or large parts of the township as their catchment area, ensuring sufficient market size.
5. The convenience factor that drives retail means that retailers have had to locate closer to their customers to capture these markets.

Challenges small businesses face

A small business is a livelihood strategy for poor people in both the developing and the developed world. However, most township SMMEs do not grow in size and develop like those in the formal sector in the cities. Bvuma and Marnewick (2020) argued that while some small businesses in inner cities grow, those in townships mainly just survive, i.e., they only make money to meet their family’s daily needs. He further stated that the challenges that SMMEs face may be internal or external, and they have a huge impact on the survival and the sustainability of the business. Since township SMMEs operate in environments that differ from the SMMEs operating in the cities, they have unique challenges. Some of the challenges are:

- Skills and knowledge (education, business management, finance and marketing and technological ability);
- Lack of finance, lack of funding, finance and obtaining credit;
- Lack of relevant information on government support, crime, and absent infrastructure;
- Access to markets, and developing relationships with customers and suppliers;
- Poor infrastructure, product cost, high inventory cost and logistics costs; and
- Increased competition from nearby malls for customers.

Other issues that limit township entrepreneurs include:

- Legal status of their business, which are not registered and cannot benefit from incentives that the provincial government, government agencies and other institutions are offering.
- Inability to obtain credit, lack of capital for start-up, and unavailability of collateral are other obstacles that inhibit entrepreneurs to grow their businesses.
- Liquidity problems and a lack awareness or access to business support.

Townships tend to be dominated by residential housing for relatively low-income people, which defines the "buying power" and (to a large extent) the skills profile of people living in a township, thus limiting market opportunities.

Also, a number of industries in South Africa are characterised by high levels of concentration and in some cases there is vertical integration, whereby a single firm operates in more than one level in a value chain. New entrants and other small businesses find it difficult to operate and survive in concentrated industries or industries in which there is a dominant firm. This is mainly due to anticompetitive practices the incumbent firm may undertake to protect its market share, such as underpricing, exclusive leases and locking supply agreements.

The retail sector is a critical element of a community's economic welfare as it provides consumers with products, services and choice. Income growth of township residents since 1994 resulted in a substantial increase in consumer expenditure in these areas. The emergence of shopping malls has fed into this consumption market while limiting customers and the market for small manufactured goods, which struggle to get on the shelf of large retailers.

As a step towards addressing these shortcomings, the Economic Development Department (2014) identified four challenges that hinder the competitiveness of township firms. These are the lack of municipality capacity; little understanding of township economies; low value chain inclusivity of township firms into the formal sector; and a lack of co-ordinated intervention across the various spheres of government.

2. UNDERSTANDING TOWNSHIP ECONOMIES

For decades, townships have been housing millions of people in South Africa and over the past decade, the development of the township economy into a more economically and socially sustainable economy has been a significant subject of interest in South Africa (McGaffin, et al., 2015; Hadebe, 2010). However, few or no studies have been able to come up with the aggregate township economic value or the size of the township economy (i.e. GDP) and its gross value add in the broader South African economy.

Against this background, it can be deduced that the accurate economic impact or contribution of the township economy is not known, but the township economy's role in driving economic development in South Africa is known. Nonetheless, there are studies that provide context or provide an idea of the South African township economy from distinctive perspectives. For instance, a World Bank (2014) study takes a vivid look at Diepsloot, a large township in the Johannesburg Metropolitan Area, which divulged the economic realities and choices of the township residents. It also focused particularly on the nature of business activity in Diepsloot, the main investment-climate challenges encountered by firms, income and expenditure patterns across households, and some aggregative social and human indicators in the township.

Some the key findings of the World Bank study that are not unique to Diepsloot but inclusive of dynamics transpiring within the overall township economy in South Africa indicate that approximately, half of South Africa's urban population live in townships and informal settlements, accounting for 38% of the overall working-age citizens in the country, but house nearly 60% of its unemployed citizens. The study also pointed out that South African townships share similar characteristics, such as joblessness, uneven access to basic public services, and overwhelming levels of crime and violence, but in some respect they are atypical – newer, poorer, more informal with a bigger proportion of foreign migrants. On the same topic, a study by McGaffin et al. (2015) shows that there are homogeneous characteristics in South African townships, despite their respective congenital nature that makes them vary when it comes to their historical footprint, location characteristics, status quo, constraints and future potential. This includes the following (McGaffin, et al., 2015:10):

- Most South African township economies still serve the dual purpose of providing cheap labour to established nodes and cities, and of absorbing growing numbers of "surplus" labour;
- South African townships are often relatively poorly located and spatially disadvantaged in terms of facilitating economic activity and accessing other economic nodes and job opportunities; and
- South African township economies generally have a disproportionate concentration of lower income households and lower skills levels.

The Gauteng provincial government's strategy document, *Gauteng Township Economy Revitalisation Strategy 2014-2019*, aimed to facilitate conditions for an inclusive economy by giving support to manufacturing, retail and financial services (Gauteng Provincial Government, 2014).

At the launch of the provincial revitalisation strategy in 2014, the Member of the Executive Council (MEC) for Economic Development identified two crucial problems that were limiting the success of township businesses: lack of support and the lack of funding.

Support looks at initiatives that are aimed at incentivising small businesses in the townships, while funding looks at how township-based businesses would be funded because conventional banks view them as high risk and are reluctant to provide them with finance.

The MEC also stressed the importance of light manufacturing for the township economy, stating that the provincial government would like goods consumed in the township to be produced in the township. Another issue raised is market concentration, whereby a few producers take part in an industry. Government would like to see more township businesses participating in the economy.

Furthermore, the Gauteng township baseline study (Gauteng Provincial Government, 2017) also provides context about the South African township economy, as the study contributes significantly towards understanding the township economy in South Africa, particularly the township economy that is prevalent in the Gauteng province. Equally important, the Gauteng township baseline study divulged the dynamics of Gauteng township businesses, focusing on townships housed by the Sedibeng and Ekurhuleni municipalities.

The Gauteng Township Economy Revitalisation Strategy (2014-2019) had five core focus areas targeted at addressing some of the challenges township businesses face namely:

1. Ensuring an appropriate legal and regulatory framework;
2. Promoting manufacturing and productive activities;
3. Economic infrastructure support and clustered enterprise development;
4. Promoting entrepreneurship development; and
5. Financing and investing in the township economy and ensuring access to markets.

Under the objective of promoting manufacturing and productive activities, this entailed:

- Developing a systematic approach to support productive enterprises;
- Supporting manufacturing and localisation; and
- Breaking down monopoly domination.

A formative evaluation of the programme design noted several observations and recommendations, namely learning from experience; leveraging existing government programmes; partnerships with the private sector; managing and tracking beneficiaries; targeting the right enterprises; and making use of data.

Positively, Focus Area 3 also focuses on economic infrastructure. It focuses on the provision of different kinds of specialised economic infrastructure to township businesses, thus reducing the cost of doing business as well as increasing linkages and co-operation between these businesses. It also focuses on the widespread roll-out of the Gauteng Broadband Network in business hotspots in the townships, as well as the establishment of industrial parks, business hubs and incubators, and the provision of management, administrative and technical support.

Incubators and hubs are usually established to meet specific needs and provide specialist services and support to deserving businesses at the early stage of their development. There is, however, often pressure on these “institutions” to increase volumes and generate quick results; and it can be difficult to push-out unsuccessful incubates or tenants. This can lead to a dilution of resources and services; and poor outcomes. There is also some risk that new businesses become overly dependent on the services and facilities provided by government and are unable to graduate or expand.

GAUTENG TOWNSHIP ECONOMIC REVITALISATION (TER) PROGRAMME

Between 2014 and 2018, the provincial government procured goods and services under the TER programme to the value of R80 billion from about 12 041 firms owned by historically disadvantaged individuals. More than R20 billion went to township-based firms.

In addition, significant investments were made to revitalise infrastructure that supports township businesses, such as building and renovating industrial parks, agriparks and eKasiLabs. Funding opportunities for township businesses were also increased.

Since 2014, 10 eKasiLabs have been set up across the five corridors of Gauteng through collaboration with various partners, including academic institutions and local government municipalities. eKasiLabs provides business development support to start-ups in priority sectors in various townships in Gauteng through collaboration with various partners including local government and academic institutions. The focus is on Smart Industry (information and communications technology (ICT) and advanced manufacturing), Bio-economy, Green Economy, the Creative Economy and Multimedia.

Incubation service offerings are geared towards enabling, growing and fostering start-ups that will create jobs, commercialise innovative technologies, and improve the competitiveness of Gauteng Province. Services offered to incubated starts-ups include advisory and skills development; access to markets; networking opportunities; infrastructure; and funding opportunities.

Of all the eKasiLabs, the Soweto eKasiLab is the most developed incubation centre in terms of infrastructure, developed entrepreneurs and lucrative solutions to date. eKasiLabs across Gauteng have created more than 635 jobs and recruited 565 entrepreneurs, with 147 of those entrepreneurs having innovations that are currently in the market.

Gauteng Township Economic Development Bill

The Gauteng Province is also the first to legislate for township economic development.

The Gauteng Township Economic Development Bill aims to structurally transform the Gauteng economy to bring the historically disadvantaged majority into productive mainstream activities as owners, wealth creators and asset builders. The Bill aims to revitalise and mainstream the township economy and move towards new ways of authentic empowerment for township enterprises and black-owned businesses. It would make it easier, more affordable and quicker to open, register and operate business in the township.

The proposed policies include the designation of specific businesses and sectors in the townships for locals. In addition, they will also ensure that retail shops and malls in townships partner with local businesses and source some of their products and services from local producers, service providers and manufacturers within the township economy.

The policies also indirectly promote horizontal and vertical linkages in specific sectors between businesses in these communities, to stimulate the emergence of local value chains and/or the exploitation of social capital.

The Township Economic Development Policy/Action Plan contains the following elements:

- Change in how townships are regulated and governed, to transform them into zones of widespread, job-creating commercial activity;
- Setting up better procurement rules and programmatic support, which allow government and its main contractors to buy from large groups of township-based firms, with systems linking them so they can supply if they were one large firm;
- Dedicated financing mechanism for firms engaged in TER activities;

- Deploying an installation, repairs and maintenance initiative as a consolidated buying platform for facilities management, maintenance and technical trades;
- Promoting consolidated buying via platforms with private sector partners;
- Manufacturing cluster pilots;
- Commercial rapid land release initiative;
- Taxi economy initiative; and
- Township backyard real estate initiative.

Although the Bill does highlight manufacturing clusters, which align well with the Industrial Parks programme, the Bill has been criticised for discrimination against foreign nationals in the country, with restrictions on the type of businesses foreign nationals can own and operate.

Support programmes

The legacy of the apartheid spatial development policies and practices in South Africa resulted in townships having underdeveloped industrial production systems (Gauteng Provincial Government, 2017). Such areas are characterised by large numbers of small-scale production and service activities that are individually or family-owned and use simple, labour-intensive technology (Todaro and Smith, 2003).

Although the township economy is not accounted for nor thoroughly researched in terms of total turnover of businesses, contribution to local GDP or employment levels, the government recognises the potential opportunities which can turn townships into major economic hubs, therefore creating employment and contributing to the broader economy. Government is leading the programme to revitalise the townships, with the private sector also staring to invest in key infrastructure. For example, the Township Industrial Cluster Programme aims to improve participation of marginalised regions by developing their productive capacity, facilitating their entry and participation in prioritised products and industrial value chains (Gauteng Provincial Government, 2017).

Financial and non-financial support programmes that cover townships fall under organisations set up by government to deal specifically with SMMEs, as well as those government institutions that run SMMEs support programmes. Table 1 presents such organisations and their role, with a description of what these institutions are doing to support township enterprises provided in the next section.

Table 1: Government organisations that assist in funding SMMEs

ORGANISATION	ROLE
Department of Small Business Development (DSBD)	Facilitate the development and growth of small businesses and co-operatives to contribute to inclusive and shared economic growth and job creation. The department and its agencies have a target for ensuring disbursements to township enterprises. It has developed a custom Township and Rural Entrepreneurship Programme (TREP) to transform and integrate opportunities in townships and rural areas into productive business ventures. The department also implements the Small Enterprise Manufacturing Support Programme.
Small Enterprise Development Agency (Seda)	An organisation established in 2004 with the mandate to implement government's small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government (BER, 2016). Seda has to target at least

	30% of approvals for township enterprises. Seda is an implementing arm of TREP.
Small Enterprise Finance Agency (Sefa)	The Small Enterprise Finance Agency was established in 2012 as a result of a merger of South African Micro Apex Fund, Khula Enterprise Finance Ltd and the small business activities of IDC. Sefa's mandate includes fostering the establishment, survival and growth of SMMEs. It also aims to contribute to poverty alleviation and job creation. Sefa provides loans from R50 000 to R5 million to SMMEs and co-operatives. Sefa is tasked with disbursing at least 30% of disbursements to township firms. Sefa is an implementing arm of TREP.
National Youth Development Agency (NYDA)	This organisation was established to assist youth between the ages of 14 and 35 years to finance existing businesses or to start up new ones. Programmes focus on business skills development, funding and scholarships. NYDA financial support is provided through micro grants to township and rural enterprises. The NYDA also developed a programme to support 1 000 township (and rural) entrepreneurs in 100 days. The NYDA is also a part of TREP.
Technology and Innovation Agency (TIA)	This was set up when seven entities were merged and has as its mandate the provision of funding that assists in stimulating and intensifying technological innovation that improve economic growth and the quality of life of all South Africans by developing and exploiting technological innovations.
National Empowerment Fund (NEF)	This organisation was set up to offer both financial and non-financial support to businesses that are owned or controlled by previously disadvantaged people. Township enterprises are free to apply to any programme. The NEF is a part of TREP.
Department of Trade, Industry and Competitiveness (the dtic)	The dtic promotes economic development and Black Economic Empowerment. This is achieved through a number of industrial development initiatives and incentives open to all qualifying firms. This includes a Rural and Township Industry Desk within the Special Economic Zone (SEZ) Unit and programmes such as the Industrial Parks Revitalisation.
Industrial Development Corporation (IDC)	A state-owned finance institution which functions as a means to generate balanced and sustainable growth in Africa. Funds start-ups and existing businesses up to a maximum of R1 billion. Qualifying entities can apply to any programme.

Source: Compiled by author

Funding programmes

To highlight the lack of company and firm information, the DSBD recently (2019) developed a measure to "Provide credible information on the status of the Cooperatives, Village and Township economies", including the creation of a database of SMMEs and co-operatives per sector, location, size, turnover, number of employees developed – highlighting the lack of such information previously (DSBD, 2019).

The Sefa agency provides financial support to "SMMEs and co-operatives that are unserved and underserved by commercial lenders, including women, black people, youth and township-based enterprises". It has a target of disbursing R324 million to township-based enterprises, culminating in just over R1 billion in direct support budgeted for township enterprises over the Medium-Term Expenditure Framework (MTEF) up to 2021. See Table 2.

Table 2: Sefa disbursements to township-owned enterprises (R'000)

	2018/19	2019/20	2020/21	2021/22	MTEF (2021-24)
Target	R168 000	R324 254	R364 523	R390 591	R4 000 000
Actual	R45 679	R107 745	R124 627	N/A	

Source: Compiled by author based on Sefa reports

In 2018, Sefa had a target of disbursing R168 million to township-based enterprises, however, only 27% of that target was reached, equivalent to only R46 million in support. According to Sefa (2018), disbursements to township-based enterprises remained below targeted levels due to the submission of few viable business proposals from the township. In response, Sefa is also introducing a Township Financing Solution that is geared to support enterprises that operate in the peri-urban townships with cheaper input goods, credit, business management support and logistics.

The targets for disbursements to township businesses were not met because of a lack of viable business proposals, according to Sefa. Another factor for the underperformance resulted from the tightening of the credit granting conditions, which in turn resulted in delays in approvals.

Consequently, National Treasury announced that the DSBD will get R4 billion over the next three years (2021-2023) to support township and rural enterprises. The TREP fund was also established to provide finance to either scale up existing projects or provide start-up capital for new projects. The Township and Rural Entrepreneurship Programme, founded in 2020, has been allocated a budget of R694 million for the 2021/22 financial year.

The fund, managed by Seda and Sefa, offers credit guarantees, loans, grants, and business support services to qualifying township and rural-based enterprises. In the 2020/21 financial year, more than 14 000 entrepreneurs and businesses benefited from various TREP subsidies, and the newly allocated budget is intended to benefit about 24 000 township and rural enterprises across eight industry-specific programmes namely:

1. Small-scale bakeries and confectionaries support programme;
2. Autobody repairers and mechanics support programme (as well as small and independent auto-spares shops and informal automotive entrepreneurs);
3. Butcheries support programme;
4. Clothing, leather and textiles support programme;
5. Fruits and vegetables support programme;
6. Personal care support programme;
7. Spaza-shop support programme; and
8. Shisanyama and cooked food support programme.

As this list shows, these sectors cover mainly food and other service-oriented industries, with clothing the only manufacturing-related industry targeted by the scheme. The scheme provides a maximum of R350 000 and R500 000 towards working capital, cost of equipment, or any other CAPEX with the rest of the financial package offered in the form of a blended finance with 50% of the total approved amount being a grant to a maximum grant amount of R50 000.

Table 3 outlines some of the other key programmes targeting township enterprises.

Table 3: Government programmes focusing on SMMEs and townships

PROGRAMME NAME	RESPONSIBLE ENTITY	PURPOSE OF INSTRUMENT	OPERATIONAL (Y/N)	TYPE OF SUPPORT
Enterprise Incubation Programme (EIP) business grant	DSBD	Support the establishment of new incubators and the growth and expansion of existing incubators. EIP is targeted at South African registered and tax compliant entities – SMMEs and co-operatives with vast experience in the development and mentoring of early stage enterprises and co-operatives with potential to supply goods and services to firms in the local economy on a sustainable basis. The registered entities will support incubatees which are early stage enterprises and co-operatives with a focus on township and rural areas and potential to create livelihoods, but need extensive targeted guidance in business improvement. Support for women, youth and people with disabilities will be prioritised incubator plans. Grants of 100%, maximum R10 million over three years, are offered.	Y	Financial – 100% Grant
Strategic Partnership Programme	the dtic	Encourage large private sector enterprises in partnership with government to support, nurture and develop SMEs within the partner's supply chain or sector in order to be manufacturers of goods and suppliers of services in a sustainable manner. The programme is intended to support Broad-Based Black Economic Empowerment (BBBEE) policy through encouraging businesses to strengthen the Enterprise and Supplier Development element of the Codes of Good Practice. The supported strategic partners are expected to develop and support programmes/interventions aimed at enhancing the manufacturing and services supply capacity of suppliers with linkages to strategic partner's supply chains, industries or sectors. The programme offers a cost-sharing grant to a maximum of R15 million towards the total qualifying costs, based on the number of suppliers to be supported. The grant support is available for machinery and equipment, infrastructure, commercial vehicles and business development services necessary to grow enterprises to ensure that, within a period of three years, the SMEs will have developed to be self-sustainable by providing locally manufactured products and/or services relevant to the sectors.	Y	Financial – Cost-sharing grant

Sector Specific Assistance Scheme	the dtic	Promote broader participation of black-owned SMMEs in the economy. Grants are divided into three categories: general funding, project funding, and project funding for emerging exporters. Grants offered go as high as 80%.	Y	Financial – Grant (up to 80%)
Black Business Supplier Development Programme	Seda and NYDA (voucher programme)	Objective is to fast-track existing SMMEs that exhibit good potential for growth into the mainstream economy; grow black-owned enterprises by fostering linkages between black SMMEs and corporate and public sector enterprises; complement current affirmative procurement and outsourcing initiatives of corporate and public sector enterprises; and enhance the capacity of grant recipient enterprises to successfully compete for corporate and public sector tenders and outsourcing opportunities. The programme provides grants to a maximum of R1 million: R800 000 for tools, machinery and equipment on a 50:50 cost-sharing basis; and R200 000 for business development and training interventions per eligible enterprise to improve corporate governance, management, marketing, productivity and use of modern technology on an 80:20 cost-sharing basis.	Y	Financial – Cost-sharing grant
Co-operative Incentive Scheme	DSBD	Objective is to improve the viability and competitiveness of co-operative enterprises by lowering their cost of doing business through an incentive that supports BBBEE. Offers 100% grant for registered primary co-operatives for the following activities: business development services (e.g. feasibility studies, business, manufacturing and production systems, and production efficiency and improvement); technological improvements; machinery, equipment and tools; commercial vehicles; infrastructure linked to the project (e.g. three-phase electricity; boreholes); and working capital.	Y	Financial – Cash grant
Shared Economic Infrastructure Facility (SEIF)	the dtic	Leverage public sector investment that would provide necessary infrastructure by creating an enabling environment for businesses to crowd in investment, mostly in townships, rural areas and the inner city where there is clear business activity taking place. Objective of the programme is to support businesses with an intention to improve access, create local economic benefits and optimise the performance of businesses operating in those facilities. SEIF is a 50:50 cost-sharing grant made available on a reimbursable basis, whereby the dtic contributes 50% towards qualifying infrastructure projects on the completion of agreed project	Y	Financial – Cost-sharing grant

		milestones. The dtic's contribution is capped at a maximum grant of R5 million (VAT inclusive) per qualifying applicant.		
Informal and Micro Enterprise Development Programme	DSBD	Provides developmental support to informal and micro businesses that are operating in depressed areas and owned by historically disadvantaged individuals. It aims to develop and strengthen their capacity to be sustainable through the provision of access to information; business development support services (including skills and mentorship); business infrastructure; and working capital. It facilitates the formalisation of informal enterprises as means of entering the economic mainstream. Eligible informal enterprises can receive an incentive grant value up to R80 000.	N	Nonfinancial – Skills development; infrastructure Financial – Grant
Emerging Enterprise Development Programme	DSBD	Provides support to enterprises owned and managed by women, youth and people with disabilities in order to increase their capacity to access economic opportunities and enhance their competitiveness. These enterprises are prioritised and supported to enable their meaningful participation and contribution to the economy through employment creation, poverty reduction and reduced inequality. Eligible entities can receive up to R200 000.	N	Financial
Asset Finance	Sefa	Finances a wide range of new and/or used moveable assets. The proceeds of Asset Finance are used to acquire business moveable assets (machinery and equipment). Assets purchased through this funding method must be identifiable by a means of serial numbers.	Y	Financial – Loan
Bridging Loan	Sefa	Short-term loan that is provided to an enterprise to finance its working capital, such as stock and/or operating overheads.	Y	Financial – Loan
Revolving Loan	Sefa	Revolving credit facilities are mainly used for operating purposes and the loan amount varies from month to month depending on the client's current cash flow needs.	Y	Financial – Loan
Term Loan	Sefa	Offers businesses the cash they need to purchase other forms of moveable assets. Unlike asset financing, term loans are used to acquire moveable assets that cannot be identified by means of serial numbers (e.g. office furniture, fixtures and fittings).	Y	Financial – Loan

Amavulandlela Funding Scheme	Sefa	The scheme is targeted at small and medium-sized enterprises and co-operatives with at least 50+1% ownership by entrepreneurs with disabilities. The scheme will offer entrepreneurs with disabilities the standard credit facilities ranging from R50 000 up to R5 million at a preferential fixed interest rate of 7% per annum.		Financial
Gazelles Enterprise Accelerator Programme	Seda	Identifies and supports high-growth SMEs, while at the same time supporting mostly black-owned value-adding and manufacture-focused enterprises, enhances their processes, infrastructure and managerial skills, access to markets, and general productive capacity.	N	Nonfinancial
Basic Entrepreneurial Skills Development	Seda	Programme is designed to transfer basic business skills to micro-business owners during weekly two-hour one-on-one training/coaching sessions at their business premises over a period of approximately 15 months.	Y	Nonfinancial
Export Development Programme	Seda	Aims to develop and generate export-ready small enterprises that are globally competitive and able to grow markets both locally and internationally. The programme is designed to help small enterprises in South Africa to acquire and apply practical skills in developing their export capabilities. The programme consists of assessments; training; workshops; export development assistance; and promotional support.	Y	Nonfinancial
Supplier Development Programme	Seda	Aimed at strengthening the performance of supplier firms by enabling them to acquire the skills and capabilities required to make them globally competitive. Capacitates SMME participants so that they have the ability to do business with corporate sector entities; provides a platform for SMMEs to access potential business opportunities provided by big businesses; improves growth and diversification through procurement; and facilitates localised supply chains.	Y	Nonfinancial

Source: Compiled by Author

Numerous programmes that target support for small enterprises. A number of these programmes are managed at a national government level, either through the DSBD or its entities. Some provincial governments similarly have local development agencies and initiatives servicing immediate localities. However, many of the programmes listed in Table 3 have been terminated, defunded or have been integrated into newer programmes or shifted responsibility to different departments and agencies. The following box highlights a more recently launched programme.

DSBD SMALL ENTERPRISE MANUFACTURING SUPPORT PROGRAMME (IN CONJUNCTION WITH SEDA AND SEFA)

The purpose of the programme is to build a manufacturing sector for an improved industrial base (productive economy) through a focused import replacement programme; and build the industrial base for both the domestic market and external market (in particular, the African Union market).

The focus is on light consumer goods manufacturers such as food and beverages/agro-processing; clothing, leather and textiles; petroleum and chemical products; and furniture and other manufacturing. There is also an intention to focus on hi-tech manufacturing and on electrical machinery such as green technology/digital technology- 3D; and printing and revitalising industrial production in basic iron and steel (DSBD, 2021).

The scope of the programme covers the following specific enterprises:

- Furniture manufacturing – Furniture manufacturers, including coffin makers;
- Basic iron, metal and steel manufacturing – Manufacturers and suppliers of iron and steel products;
- Petroleum and chemical manufacturing – Manufacturers of sanitisers, disinfectants, recycling, paints, oils, hair and skin products, and related products;
- Food and beverages manufacturing – Agro-processors of primary agricultural products including beverages sourced from small-scale farmers;
- Clothing, leather and textiles – The makers of shoes, linen, garments including pattern makers, designers, tannery and fabric manufacturers, among others;
- Electrical machinery manufacturing – Manufacturers of transformers, electric generators, electric motors, high voltage engineering, and power electronics; and
- Green technology/digital technology – Makers of PV solar panels, clean coal technology, 3D printing.

The types of support include:

Technical Skills

- Specialised business management training;
- Certification of products via South African Bureau of Standards (SABS) and other Standards Bodies;
- Technical skills training in collaboration with the Chemical Industries Education & Training Authority (CHIETA) and other relevant Sector Education Training Authorities (SETAs); and
- South African National Accreditation System (SANAS), National Regulator for Compulsory Specifications (NRCS), SABS to provide access to laboratory testing for the accreditation and certification of chemical and related products.

Business Infrastructure Support (Buildings and Machinery)

- Factory space in industrial parks for small enterprises;
- Refurbish unused government buildings and fit with machinery for small enterprises to rent;
- Processing facilities for small-scale agro-processors; and
- Machinery and equipment.

Route to Market

- Facilitate government departments and state-owned enterprises procurement from the supported producers;
- Enforce the Local Procurement Accord commitment on private sector procurement from the supported producers;

- Steel/metal work enterprises to participate in government infrastructure programme;
- Facilitate access to retail shelves;
- Facilitate access to exports markets; and
- Promote the #BuyLocalBuyMadeInSAcampaign.

Financial Support

- Funding to purchase machinery and equipment for the various manufacturing subsectors that will be supported;
- Working capital for the various manufacturing subsectors that will be supported;
- Funding for product accreditation, certification and testing;
- Maximum of R15 million per small enterprise;
- The term of the funding will be determined by the business cash flows up to a maximum of 84 months per small enterprise with a maximum moratorium of eight months;
- Blended finance instrument will be used whereby up to 50% of the funding required could be a grant (soft loans) and the balance could be a loan; and
- The loan will be repayable at prime lending rate.

Positively, this programme represents the first manufacturing targeted support measure that township enterprises could potentially access. It also supports the dtic's mandate of ensuring the growth of productive capacity (even at a small scale). The focus of the programme provides opportunities in the sort of business sectors typically found in townships and, crucially, aims to address the core constraints township enterprises face as alluded to earlier.

Download: http://www.dsbd.gov.za/wp-content/uploads/2021/05/small-enterprise-manufacturing-support-programme.pdf

At a national level the dtic has only one major programme targeting townships and rural areas, the Industrial Parks Revitalisation Programme (IPRP). As noted in Tsedu (2017), the programme began with just over R100 million on refurbishing 10 state-owned industrial parks in Seshego (just outside Polokwane, Limpopo), in the Eastern Cape (in Queenstown and Mthatha), the Free State in Botshabelo (about 40kms from the provincial capital Bloemfontein), Babelegi (in Hammanskraal), in North West Province, and one in KwaZulu-Natal (just North of Durban).

Since the inception of the programme in 2015, a total of R720 million has been approved in funding towards Phase 1 and Phase 2 of the revitalisation programme. Thirty parks have been identified for revitalisation, with 12 Industrial Parks completing in Phase 1 revitalisation, five parks in progress in Phase 2 revitalisation, and six new applications being prepared for Phase 1 revitalisation.

- During the 2020/21 financial year, seven Industrial Parks were in construction phase and 427 construction-related jobs were generated, with 262 representing the youth.
- The IPRP also focus on supporting local SMMEs in the respective areas where they are implemented. During the period, 69 SMMEs were used in construction, with a cumulative contract value of R60 million awarded to the SMMEs. Ten of the SMMEs were female-owned SMMEs.

Gauteng and the Eastern Cape received the most funding for Critical Infrastructure Programme funding, disbursed per province, in the scheme provided by the department. Provisions included making sure there is a consolidated strong business case for such provinces to be able to access and identify those nodes which could be revitalised. It is crucial for such provinces to have a state-owned Industrial Park supported by investment, and this would stimulate the local economy.

It is estimated that cumulatively 65 000 people are employed in the first 12 Industrial Parks which underwent Phase 1 revitalisation. The Industrial Parks have an occupancy rate of between 60% to 90% of their Gross Lettable Area.

In Limpopo, the Seshego and Nkowankowa Industrial Parks received a combined support of about R52 million. In Gauteng, the Babelegi and Ga Rankuwa Industrial Parks received a combined support of about R89 million. Babelegi received support for the first phase, and the second phase was approved for another R49 million. Ekandustria received support of about R49 million. KwaZulu-Natal also received a relatively large amount of support, of about R49 million for the Isithebe Industrial Park. The department is working with other Industrial Parks as well, and mainly with the provinces in identifying and centring activities around Industrial Parks.

The Industrial Parks had a positive impact on retaining jobs, and on attracting new clients. The department saw a particularly striking example when it visited a black industrialist who was supplying some of the heavy steel manufacturing and steel equipment to the mining houses and Transnet as well. This person is based in Bophirima in the North West. A number of multinationals retained, and strengthened positions in the parks. This is due to such companies seeing the positive role government is playing in providing a competent infrastructure for its companies to thrive. However, there are issues that impact business retention in the parks which would need to be tackled, these include:

- Unresolved governance issues;
- Interrupted and unstable power supply;
- Crime;
- Market conditions/foreign competition and cheap imports;
- Regulatory environment;
- Basic Service delivery and infrastructure;
- No financial support; and
- Human resources and labour relations.

Further to this, many municipal or local government programmes targeting townships enterprises fall under the guise of Local Economic Development (LED) or Urban Renewal Projects. As noted by the South African Local Government Association (SALGA), LED was not taken seriously and was mainly project driven, with unrealistic targets, and little monitoring and evaluation (M&E). Critically, it noted limited integration into provincial and national strategies and programmes, with limited political (and budgetary) support and little to no connection or relationship with the formal business sector.

Two contrasting approaches emerged In the early stages of developing LED in South Africa, one which can be described as "pro-market" and the other "pro-poor", and there were difficulties in agreeing on a common approach. It was often perceived as direct intervention in the local economy by local authorities to ultimately develop and fund job creation projects. There was a divergent view which saw the role of local government systemically – more pro-market – in which it essentially creates an enabling environment conducive to business development and growth, addressing economic infrastructure constraints, enhancing skills and building partnerships. Community groups favoured a pro-poor approach with these community initiatives and projects centred on poverty alleviation. For a number of years this was the preferred approach by national government, however, these LED projects were not successful and the approach lost ground as donors started redirecting their funding. It became apparent that without donor or public-sector funding many of the projects missed their intended objective with little to no long-term sustainable or impact on poverty reduction. (Rogerson 2010; Wood, et al., 2016; SACN 2019). There has since been a shift to more pro-market approaches.

A review of the 2006-2011 LED Framework considered the state of the economy and of local government, the existing national economic frameworks and LED issues, identifying LED challenges and opportunities. While municipalities differ and there are socio-economic and special differences that define a location, there are common impediments to effective LED. There is confusion about the LED department's role along with – broadly – a lack of common understanding of the role of LED and its processes. LED plans tend to be disconnected from reality (of townships), lacking strong economic rationale or making simplistic assumptions about local economic value chains, and assume that funding will come from other spheres of government (insufficient investment especially targeting townships). Strategic plans are also rarely updated. A lack of market information causes risk aversion at the local government level and contributes to a lack of direct investment by municipalities in local projects to address poverty and unemployment. In addition, issues such as poor infrastructure and service delivery, and inadequate local skills often play a role in diverting investment away from townships.

The extensive list of support programmes available belies the limited impact and access township firms have to these resources. In many instances the requirements (even for formal enterprises) are restrictive for township firms. The COVID-19 pandemic also presented specific challenges to township based firms.

COVID-19 RESPONSES

The initial lockdown of March 2020 hit especially hard in the townships where informal trade is a large economic activity. National Income Dynamics Study data also highlighted extensive income and employment losses in the immediate aftermath of the pandemic and lockdown.

Unisa conducted a survey in conjunction with the Township Enterprise Alliance on the impacts of COVID-19 on township-based firms. Most entrepreneurs were severely impacted by the lockdown as more than half could not operate. The type of enterprises span across many business categories, most trading in the services industries followed by transportation, tourism and the retail industry thereafter. Manufacturing accounted for 10% of the firms.

Since the lockdown started, many expressed that they could not operate while a small percentage said they continued operations from home. This was confirmed by the statistics, which showed that a reduction in entrepreneurs working from their normal places of work and an increase in home operations. Three quarters of the enterprises reported a reduction in their sales, and one out three that they may lose their businesses, the same amount reported that they will not, while others were uncertain about the future of their businesses. Further initiatives included:

- The Unemployment Insurance Fund (UIF) the COVID-19 Temporary Employee/Employer Relief Scheme (TERS) benefit for qualifying enterprises: TERS payments were paid to staff whose employers were not able to operate fully due to lockdown restrictions. The maximum a worker can get is R6 730 a month (if you earn more than R17 700) – while the minimum amount is R3 500. At the height of lockdown last year, TERS was opened to even non-UIF paying employees. However this is no longer the case.
- DSBD has also initiated the following schemes for qualifying entrepreneurs:
  - Spaza shop support programme;
  - Clothing, leather and textiles support programme;
  - Small-scale bakeries and confectionaries support programme;
  - Autobody repairers and mechanics support programme (as well as small and independent auto spares shops and informal automotive entrepreneurs);
  - And the newly introduced Small Enterprise Manufacturing Support Programme, which offers COVID-related support to the following priority subsectors:
    - Furniture manufacturing
    - Basic iron, metal and steel manufacturing
    - Petroleum and chemical manufacturing

Although widespread complaints about the accessibility and requirements of various COVID-related relief funds has been reported, these programmes represent substantial support in keeping businesses afloat. Further investigation of the impacts of the relief funds would add to the insights around township enterprises.

3. KEY INSIGHTS

Industrial infrastructure

Investment in a township's economic or physical infrastructure can boost the productivity of inputs used by existing private enterprises by lowering transport and communication costs, and thus cutting down on travel time; reducing the time and costs involved in sourcing; and facilitating the discovery of new input and output markets. It may also "crowd in" (encourage or attract) new private investment, including foreign direct investment, as new firms open up or existing firms expand operations.

Government policies, especially around infrastructure and urban management in townships, should be developed to be on a par with other economic nodes and plans in a city, so that townships can begin to benefit from productive public investments. However, the scale of the impact is likely to be relatively limited because: (1) the growth of economic activities is constrained by the size of the local market in townships, which is sometimes saturated; and (2) infrastructure investment is only likely to stimulate economic activity when the full range of supply and demand side factors necessary for an enterprise to succeed are in place.

Importantly, infrastructure investments in township economies also serve to address the poverty problem directly. Such investments may well assist in the creation of new SMME enterprises, attracting new investments from neighbouring cities and towns (and from further afield) and, in the process, creating new job opportunities. It can therefore be argued that providing infrastructure services in township economies may serve the dual purpose of promoting sustainable growth and alleviating poverty.

Lack of infrastructure, access to suppliers and modern distribution networks in townships hampers growth potential. However, there is existing capacity for large-scale manufacturing available in other, better located areas, abandoned as a result of the general decline in manufacturing in the country. A trade-off may exist as cheap land is often available in many townships.

Enterprise development

There appears to be a wide array of incentives which, intuitively, township manufacturers should be able to access and utilise. However, many firms have alluded to the struggle of obtaining support. This may be due to onerous requirements; a lack of formalisation; and regulatory and governance measures at variance with the capability of township enterprises. Without the input of township enterprises, interventions can sometimes be inappropriate or mistargeted as evidenced by the closure or limited impact of past financial instruments developed.

Professional organisation is another problem. The lack of a "voice" to lobby for township enterprises is due to the disparate and fragmented business community. This lack of organisation limits the influence of township firms in policy debates and negotiations on support mechanisms required.

Market development/access

Value chain integration presents constraint and clear opportunity for township enterprises. However, the lack of collaboration and partnership with large formal private sector partners limits this growth opportunity, as the investment and business climate is still perceived as risky in the townships. Further, programmes to negotiate retail shelf opportunities for locally manufactured goods are useful in getting locally manufactured products into the homes of customers. Last, the state has tremendous purchasing power. Procurement spend and set-asides from government would open up increased market space for township enterprises. As shown in Gauteng, the province has managed to substantially scale up the level and spread of its procurement from township-based suppliers. In the manufacturing space, designated products such as school furniture, clothing, agro-processed goods and other items could be intentionally targeted for sourcing from township-based manufacturers.

4. CONCLUSION

This report has highlighted the myriad interventions available to township firms to develop a more equitable industrial landscape that supports firm growth and employment growth. Many of these response measures aim to address the constraints facing small businesses and industrial development in townships. Gaps however remain. Economic geography is a key component of industrial policy, and requires appropriate policies that supports development in a decentralised urban landscape in order to bring about inclusive and sustainable industrialisation.

Based on the gaps identified in this research, the policy recommendations to strengthen small manufacturing businesses in townships include:

Ensuring inter-governmental collaboration on township development programmes

This report has highlighted some deficiencies in municipality support and capacity targeting townships. There was a noticeable lack of manufacturing-focused initiatives, with most programmes targeting general enterprise development and incubation programmes.

Improving the operations and environments of township enterprises must be based on a systemic understanding of how and where these enterprises operate that considers the distinct challenges township enterprises encounter. The issue of value chain inclusivity and market access of township firms into the formal sector would also need to be tackled, for example through leveraging public procurement across the various spheres of government. Government also sees potential in light manufacturing in townships and aims to facilitate it through cluster development such as Industrial Parks. Last, an array of government entities are ultimately responsible for developing sustainable enterprises in the townships. As shown by the variety of initiatives already initiated, there is a need for co-ordinated interventions across the various spheres of government. Stronger collaboration, especially with DSBD, would align the growth potential of small enterprises (such as those supported through TREP and the Small Enterprise Manufacturer Support Programme), with the scaling of interventions and incentives available to the dtic.

Improving M&E and understanding of township economy needs

A range of factors (other than location, real estate and infrastructure) determines the success of township economies and policy implementation. These include factors such as access to informal supplier networks; customer preferences and industry networks such as township business forums; and the impact and outcomes of government policy interventions (e.g. set-asides) and regulations, which are hardly measured. However, often little is known of the nature and issues relating to these factors beyond informal traders, hence significant research needs to be done to address these gaps.

The limited quantification and little understanding of township economies limits the efficiency of any township-focused initiatives. As a consequence, various meritorious government interventions that have been tailormade to address economic and socio-economic underdevelopment in townships have been ineffective due to the lack of knowledge around the worth, functioning and requirements of the township economy. Equally important, this does not only result in ineffective government intervention in townships, but also discourages the private sector from effectively intervening in the prevalent and potential markets in the townships.

Insufficient knowledge about the township economy makes it burdensome for both the South Africa government and private sector to invigorate and grow prevalent township markets.

Addressing spatial planning and making land available in townships for firms to operate

On the one hand, as the scale of many of the enterprises is limited, the ability to afford specialised space such as offices, shops and factories is low. On the other hand, the public provision of commercial space (such as public incubators, trading stalls) has generally met with limited success in the past, as such space is often badly located and costly to manage. As a result, the use and conversion of residential space should not be prohibited, but rather the provision and design of such properties should manage the negative externalities (e.g. noise) and accommodate (e.g. through increased infrastructure capacity) these uses.

To transform townships from areas of consumption to those of production, their spatial structure needs to be assessed and rectified. Post-apartheid township spatial planning looks at addressing the economic challenges that result from the fact that townships are detached from the main commercial centres, which was the defining feature from inception. Since 2006 the Neighbourhood Development Partnership Grant, managed by National Treasury, has funded development projects in those areas, generally townships, delivering infrastructure like roads, bridges and trading stalls, business hubs and clusters, among others.

With manufacturing identified as having the potential to strengthen the economic base of townships, the provision and maintenance of infrastructure will benefit township-based manufacturers by reducing the cost of doing business and the time it takes to transport goods, enhancing their competitiveness.

Unfortunately, because of their design, many townships do not have land zoned specifically for economic activity and this limits the development of clusters and the agglomeration benefits that arise from geographic proximity between related businesses in a value chain. As a possible solution, it has been suggested that any new Industrial Parks be located on the periphery of townships. This should be done with the main or national roads in mind to facilitate the movement of raw materials, intermediate goods and finished products.

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