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Unlocking the growth and employment potential of business in the margins

Eddie Rakabe, *Financial and Fiscal Commission*

Marginalised businesses provide livelihood and income opportunities for a large section of the population but these businesses are not able to capture growth opportunities because of several constraints. They continue to operate on the periphery of the mainstream economy. Yet they could become a major source of employment growth. Efforts to unlock this potential must concentrate on exploiting value chains and making government policy more responsive to the unique needs and challenges of marginalised businesses.

Introduction

South Africa is frequently characterised as a dual economy due to a wedge between the development of businesses in the mainstream economy and those found in the margins – that is, in the so-called informal sector as well as in the survivalist segment of the economy. Mainstream and peripheral businesses co-exist in an environment in which the former produces the bulk of the country's output while the latter operates on the fringe of the core economy and appears to make only a small contribution to GDP. The processes and benefits of a growing economy are concentrated in the mainstream businesses with little integration of those that operate in the periphery.

The integration of the marginalised sector with the mainstream and the realisation of their mutually beneficial co-existence remain the missing links in the discourse concerning development and employment policy. Not only are marginalised businesses hampered by sometimes heavy-handed government regulations (Charman 2012 in *Econ3x3*), but they are also structurally disconnected from, or disadvantaged vis-à-vis the core economy. In the light of this, strategies are required to develop and boost marginalised businesses to pursue and attain self-generated growth and become sources of economic growth (see Rakabe 2012; Fourie 2013 in *Econ3x3*).

This article evaluates the opportunities for growth and market-based employment in marginalised businesses within existing value chains with reference to four business types.

The world of marginalised businesses

A significant number of South Africa's working-age population work in marginalised businesses. These workers are predominantly black, poor and unskilled, and they work in enterprises that are mostly informal or even survivalist in nature.

Marginalised businesses often are disconnected from the mainstream economy or are on an unequal footing with it. Consequently these businesses show signs of long-term underdevelopment and stagnation, and low or nonexistent employment growth; they also receive minimal economic policy support from government.

The oligopolistic structure of South Africa's mainstream economy and the operational inefficiencies of marginalised businesses aggravate their marginalisation and thus erode opportunities for their development and capital growth. The lack of growth and development is exacerbated by factors ranging from stringent regulations (often at the level of local government, see Charman 2012), entry barriers, the dominance of the market by large corporations (Philip 2010), limited demand in the markets that they do have access to, and an inability to exploit new market opportunities due to limited business skills.

Marginalised businesses in South Africa: four illustrative cases

Businesses that fit the above description include the taxi sector and related services, informal savings and insurance schemes that are popularly known as *stokvels*,¹ informal or street trading, and small informal enterprises in the construction industry.

The minibus taxi sector is an integral part of the public transport system in South Africa. It is responsible for carrying 65% of daily commuters (Lowit 2006), employs in excess of 250 000 people and generates an estimated annual turnover of R35 billion. Despite this contribution taxis often are survivalist businesses: they generate over 90% of their income from commuter fares, but it is estimated that they under-recover by as much as 70% on their fares (Santaco 2010). The sector seems to have reached a state of stasis with limited opportunities for growth (Venter 2013). The sector is said to be riddled with internal conflicts, poor safety records, lawlessness and a bad public image. In addition, it is characterised by high overhead costs and low profit margins. It is estimated that taxis spend R15 billion on fuel, R10 billion on vehicles and R150 million on tyres annually (Santaco 2010). However, because of fragmented ownership, they do not benefit from bulk purchases of new vehicles and other consumables, for example. Taxis also do not receive government subsidies to counter the high input costs of public transport.²

¹ A South African term used to refer to informal savings clubs. These can be in the forms of Rotating Saving and Credit Schemes (ROSCAS) and burial societies.

² It is common practice internationally for government to subsidise public transport.

Stokvels play a pivotal role in increasing access to finance for the so-called *unbanked*. The number of stokvels is estimated to be 811 000. They have 11.4 million members that generate savings of R44 billion per annum (African Response 2012). Stokvels relate to banks and insurance companies in a relationship that is skewed in favour of the dominant players. Stokvels are unable to use their considerable funds to develop into viable community-based financial and investment enterprises through which banking and insurance products could be distributed. The reasons for this underdevelopment are varied. First, the informal nature of their membership means that stokvels are poorly governed. Secondly, the cash reserves and financial asset base of stokvels are generally low because of poorly determined benefits and irregular monthly premiums. Thirdly, the appetite among members to venture into formal business or banking activities is poor. Lastly, members of stokvels tend to use their savings mainly to finance household consumables and durables – as opposed to using the funds for investment.

The informal or street trader sector, with its diverse activities, (self-)employs more than three million people and account for an estimated 7 to 10% of national output. It is an important source of livelihood for people who are unable to find formal jobs or who have been laid off in the formal labour market. The most noteworthy impediments to the growth and development of the sector are its over-concentration on resale activities, its dependence on low-income market niches, as well as limited product differentiation (Willemse 2011). Especially the latter is a key element in entrepreneurial success.

Small construction firms have been earmarked for creating employment opportunities through participation in government infrastructure construction projects. However, the procurement and tender model as well as the oligopolistic nature of the industry concentrate work and profits in the centre – to the detriment of small contractors. A combination of limited technical skills, strong competition among small contractors and from large companies, and cumbersome requirements for procurement and for the grading of a construction company keep the small-firm construction sector largely underdeveloped (Mofokeng 2003). There is a high failure rate among small contractors.

Government support for marginalised businesses

The government interventions that are intended to support marginalised businesses generally are top-down, welfare- and regulation-oriented and formulated around so-called second economy interventions. Prominent among these are the Expanded Public Works Programme (EPWP) – which is not really intended to stimulate entrepreneurship or strengthen existing marginalised businesses – and small-business licensing programmes.

The most notable sector-specific interventions are the Taxi Recapitalisation Programme (TRP) and Bus Rapid Transit System (BRT), the Cooperatives Bank Act and the National Con-

tractor Development Programme to develop the taxi industry, stokvels and small construction firms respectively. The main aim of the TRP is to improve the safety of passengers and reduce the oversupply of vehicles by upgrading old taxi fleets. The full impact of the programme has yet to be realised but it is generally considered to have had limited success (Venter 2013). However, the Johannesburg BRT reforms are hailed as a success for having integrated 313 taxi operators into companies that operate public bus transport.

In contrast, the transformation of stokvels into Cooperative Financial Institutions has been slow, apparently due to the high minimum registration requirements of R1 million and 200 members.

Support for informal traders, as articulated in various local economic development strategies, has come in the form of training, the provision of trading space and the creation of an enabling business environment. However, Charman (2012) indicates that people's experiences of the effects of policies are often inconsistent with policy goals and that policy-makers do not understand the peculiar dynamics of township economies. The support programme offered to small construction firms also appears to have too many objectives.

Overall, the current economic policy discourse, as articulated in the New Growth Path (NGP) and the National Development Plan (NDP), pays little or no attention to marginalised businesses (Rakabe 2012). Policies to promote small business entrepreneurship appear to be focused on the formal sector and thus are unresponsive to the unique needs and challenges of marginalised businesses.

Exploring opportunities for marginalised businesses

South Africa needs a two-pronged developmental approach in order to realise its employment goals, particularly with regard to low-skilled job seekers. Both the mainstream and the margin must be developed, in an integrated fashion. The government's overemphasis on the mainstream economy as the main source of job creation tends to overlook the unexplored growth and employment potential of marginalised businesses; these are important platforms from which to develop enterprises, create employment and enable empowerment and inclusive growth (see Fourie 2013 in *Econ3x3*).

There are many strategies that could be used to grow and develop taxi enterprises. Among these are the adoption of cost-based fares, centralised purchases, vertical integration (e.g. the ownership of taxi ranks by operators) and venturing into feeder services for other public transport systems (e.g. the Gautrain) and scholar transport .

Pooling stokvel savings and redirecting them towards the financing of productive business activities could transform them into viable community-based investment and financial services enterprises. The stokvel sector could become a small-scale capital market through

which marginalised businesses with demonstrable growth potential could raise financing. Other potential investment areas for stokvels are the financing of low-cost housing and underwriting low-cost insurance.

The agenda for the development of informal traders needs to focus on diversifying their businesses and moving away merely reselling food to the sale of other consumer goods targeted at the lower end of the market (e.g. clothes, phone chargers, sun glasses). Informal art and crafts activities could grow if intermediaries that sell their products to the formal sector were set up (Von Broembsen 2012 in *Econ3x3*). Linkages between the taxi sector and informal businesses such as vehicle repair shops could also be developed.

Strategies to support small construction firms could entail setting aside a certain portion of public construction projects for smaller, lower-graded contractors, or establishing requirements for project-sharing and/or sub-contracting by large companies. In this way small constructors would be able to share in the profits of the industry whilst gaining the experience and track records that are essential for moving up the value chain.

Exploring such opportunities for the marginalised sector requires paradigm shifts in two important areas. First, government policy interventions must respond to the unique environment, challenges and opportunities of marginalised businesses. Standard (formal sector) small-business policy initiatives may actually be inappropriate in many ways. For example, government must consider providing law-compliant taxis with transport subsidies and reduce regulatory requirements for cooperative banks and, in particular, street trading. Informal activities should be allowed to spread across different parts of cities rather than being concentrated in low-income corridors (i.e. around taxi ranks and railway stations). A proportion of public procurement could be earmarked for marginalised businesses.

Secondly, marginalised businesses need to initiate self-driven reforms to explore growth opportunities in their value chains and invest in their own capabilities. An important aid for such efforts would be the creation of a dedicated sector-driven institution to provide intermediary, marketing, technology, incubation and capacity-building services. For example, in China and Kenya the government offers incentives to the informal economy to produce inexpensive alternatives to expensive imported goods by assisting micro and small businesses with group purchasing, marketing, information and technology adaptation through intermediaries. Better organisational skills would help marginalised business to engage with mainstream businesses from a position of greater strength and thus develop more advantageous linkages.

Conclusion

The current thinking on economic development policy views the creation of employment as the preserve of the mainstream economy because of the low-wage and 'subsistence' stigma attached to marginalised businesses. Yet, for the millions of unemployed, the reality is that they are not able to participate in the modern sector in a meaningful way (e.g. as self-employed entrepreneurs or as the owners of enterprises). It must be realised, however, that marginalised businesses hold opportunities for growing the economy and absorbing the unemployed through the exploitation of existing and new markets. Efforts to unlock these opportunities will require tailor-made and imaginative interventions by government on the one hand and, on the other hand, self-driven initiatives by the marginalised business sector.

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