

Center for International Private Enterprise

ECONOMIC REFORM

Feature Service®

October 31, 2007

Supporting Young Entrepreneurs in Soweto

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Article at a glance

- Existing business support organizations in South Africa are not doing enough to help small- and medium-sized enterprises, especially in places like Soweto.
- Young entrepreneurs are particularly affected by crime, weak infrastructure, and labor issues.
- By taking the initiative to organize and advocate for change, young entrepreneurs can lead the way to a better business environment for everyone.

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published by the

Center for International Private Enterprise

an affiliate of the U.S. Chamber of Commerce

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Entrepreneurship in South Africa

To overcome its most pressing challenges of unemployment and poverty, South Africa urgently needs to become a more entrepreneurial society. Stated attempts to create entrepreneurs through training and access to special loans have had disappointing results. Comparing business creation in both developed and developing countries, studies by the Global Entrepreneurship Monitor show that South Africa's entrepreneurial levels, which have always been below the average of developing countries, have actually declined in performance since 2001.¹ In 2004, CIPE partner the Centre for Development and Enterprise (CDE) concluded a major research project on entrepreneurship in South Africa with the verdict that "after ten years of good intentions, the results of the state-driven delivery approach to entrepreneurial support have not been impressive."² Further, a 2007 World Bank report revealed that there are continuing problems with most government support programs in this area.³

One reason for this generally unimpressive performance is that all too often, attempts to support small businesses do not address the broader constraints that make life difficult for all businesses – new and established, large and small. Specialized programs for emerging small businesses that do not tackle the broader problems that constrain all businesses – including infrastructure and rule of law – do nothing to keep emerging entrepreneurs and the programs themselves from failure.

Promoting entrepreneurship means reducing the costs and barriers that stand in the way of small business start-ups and business development in general. Entrepreneurs know best what is required to create a better business environment and must play a more active role in bringing about the changes to create that environment. Bearing these things in mind, CDE carried out an analysis of what small entrepreneurs in Soweto are saying about the constraints to establishing and developing businesses. CDE also asked what could be done to encourage emerging entrepreneurs to become more effective advocates for the kinds of reform that Soweto and other areas need to fulfil their potential as centers of dynamic business activity.

As the country's largest township, Soweto was an ideal arena for exploring the issues of entrepreneurship and business organization in South Africa. The focus on young people was driven by concern over the high rates of youth unemployment. According to government figures, 33 percent of all unemployed people in South Africa are between the ages of 15 and 34.⁴

Entrepreneurs in CDE's Study

Age: 35 and under

Length of business operation: at least six months

Average age of businesses: 3.5 years

Business sectors: gardening, computer services, hairdressing, retail, small-scale manufacturing

Rate of informality: 44 percent of the businesses were not registered at all

Number of people employed

Total: 135 people (often part time)

Average per business: 5.4

Range: maximum 35, minimum 1

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Challenges of the Soweto Business Environment

Business organizations in South Africa are not doing enough to promote the interests of the kinds of businesses found in Soweto. President Mbeki recently voiced the concern that 'NAFCOC [the National African Federal Chamber of Commerce and Industry] has to be actively involved in solving [the problems of small businesses], but are they? One gets the sense that they do not [even] exist.'⁵ There is little evidence of any impact on improving the business climate made by organizations such as NAFCOC or even the Soweto Small Business Executive Council.⁶ While the Johannesburg Chamber of Commerce and Industry may be committed to representing the interests of Soweto businesses, they do not have a strong organizational presence in the township. Existing business organizations have failed to provide Soweto entrepreneurs with an effective voice, and fail to follow up their commitments with action. Furthermore, government departments have largely ignored organizations that represent small- and medium-sized enterprises (SMEs).

Young Soweto entrepreneurs have much in common with the rest of the South African private sector in their concerns about crime, infrastructure costs, and regulation.⁷ Incorporating these concerns into the general structures of business advocacy would have the dual benefit of helping SMEs in the townships as well as strengthening the arguments of the private sector as a whole. The most pressing constraints include:

Crime

The dangers entrepreneurs encounter while trying to run their businesses result in high costs in terms of self-defence and equipment replacement. Worse, the feeling that the risks imposed by lawlessness are too great often prevent entrepreneurs from expanding or even carrying on with their business ventures. Clothing designer Anthony explains, 'I once had a container from which I operated a public phone service. I got robbed three times. It was quite risky so I left the business.' Sithandiwe, a garage owner, also points to security as a major problem: 'robberies at service stations are common. Better policing would make it easier to do business here.' Ingrid, a mattress wholesaler, explains that 'crime is the major risk when doing business in Soweto.' She has been robbed more than once at gunpoint. As a result, she pays for extra security and is thinking about installing cameras at her premises.

Infrastructure

Infrastructure has a high cost and in many areas is lacking. The Soweto city council is helping by tarring roads and providing taxi-rank facilities, but it is not doing enough to support business activities. Improvements with the potential to stimulate business development include a public transport system that would allow people to move more easily within the township and cost-effective access to telephone lines and broadband services. Sibusiso, who owns a print shop, has to rely on dial-up internet, which is slow and expensive. More efficient connections are simply not available.

Informality and Regulation

Many Soweto entrepreneurs find the process of company and tax registration too expensive and time-

consuming, and therefore prefer to 'fly under the radar.' Informality makes it difficult for them to access loans, benefit from formal small business networks, and request assistance from local government structures.

Corruption

An additional problem related to government is corruption. Clement, who provides computer and networking services, reports that 'some government officials are opening their own companies and buying from themselves.'

Labor Problems

Many entrepreneurs struggle to find committed, hard-working employees in Soweto. Problems are related to erratic work habits, employer reluctance to trust employees, and difficulties transferring family relationships into the workplace environment where one family member is the boss and other family members are workers expected to take orders.

Increased Competition

Some entrepreneurs think that increased competition threatens to undermine business prospects in Soweto, viewing the influx of big chains as unfair. Others see increased competition as a challenge to be met by exploiting their competitive advantages, such as access to local networks and knowledge of local markets, or by offering a superior product and educating the public about quality differences.

Negative Public Perceptions

Soweto entrepreneurs often feel hindered by negative public perceptions of the quality and dependability of businesses based in Soweto. Japie, a shoe maker, notes: 'people have a perception that if something is made in a township it is of poor quality.'

Expanding Beyond Soweto

Expanding beyond the boundaries of Soweto can help put businesses on a more sustainable footing. Yet the world outside Soweto remains unfamiliar to many of its entrepreneurs. Soweto offers them social networks and, in many ways, a protected environment that allowed them to make a start in business despite limited resources. Entrepreneurs need to build on successful beginnings by developing business strategies

that will allow them to survive the more competitive and impersonal business environment beyond Soweto.

Implications

The voice of young entrepreneurs from townships like Soweto and elsewhere should be added to the public debate about how to create the best possible environment for business activity and expansion in South Africa. Adding the voice of young black entrepreneurs, who are largely hidden away in places like Soweto, to general calls for cheaper and more effective infrastructure, a reduction in crime, and more efficient local government can only strengthen others in the business sector and elsewhere calling for more effective government action on these issues. It would be to the advantage of existing business organizations to engage young entrepreneurs in the townships.

Currently, the plethora of national, provincial, and local government programs designed to promote small business development, especially among young people, are making very little impact and are not connecting with active entrepreneurs.⁸ A gardening service provider, Velaphi, voices the prevailing feeling: 'there are so many disadvantages. I'm alone; no one is helping me.' Government should be open to alternative approaches to these ineffective programs.⁹

Still, if entrepreneurs want to achieve a better operating environment, they must start by helping themselves. By organizing and cooperating toward specific goals, they can improve the business prospects for all businesses, even if this creates competition. Entrepreneurs could strengthen their voice and influence in the policy process by building strategies of mutual assistance, information-sharing programs, and outlets for voicing their concerns to the appropriate public sector representatives.

SMEs would also benefit from partnerships with large, established, private companies. Some of these companies are already promoting small entrepreneurs in places like Soweto via business partnerships, and would greatly benefit from engaging with a more organized and structured Soweto business sector. Ironically, these

large businesses are the very companies funding the existing national business organizations that are failing to operate in or represent the views of struggling SMEs in places like Soweto. If these national business organizations are not present in a large township like Soweto – right at the heart of the country's largest city – it should be asked how representative they are of the private sector at all.

Small Business Organizations with Potential

While large, established business organizations have made almost no inroads into Soweto, a number of smaller, sector-based organizations are beginning to make a difference.

The Afro Hairdressing and Beauty Employers Association of South Africa assists members with business registration and represents them in various bargaining councils and the Services SETA. With 600 active members across the country, it has focused on gaining access to the government's skills development programs. Its members tend to fall below the minimum payroll level required for participation in these programs. The association also works with the Department of Labour to help with business management and financial management training. It should be encouraged to link up with other sector-specific associations to create a broader movement that could directly represent the interests of Soweto-based entrepreneurs.

The Soweto Tourism Association works in the areas of information sharing and public perception that are important for effective business organization. Its aim is to promote Soweto as a tourism destination. Members (it had 35 in 2004) include tour guides, owners of bed-and-breakfasts, and travel agents. It also assists members in acquiring suitable training for employment, and provides placements.

The South African Spaza and Tuck Shop Association represents 4,000 spaza and tuck shop (small convenience stores and snack shops, respectively) owners across the country. It is specifically focused on the threat presented by the current wave of large, retail mall developments. The association provides services and assistance, including bulk buying, negotiating with suppliers, and publicizing business opportunities.

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Recommendations for Reform

Young Soweto entrepreneurs have much to gain by organizing. Positive developments along these lines are already emerging, driven by sector-based organizations (see box: Small Business Organizations with Potential). It is vital that young entrepreneurs recognize the value of collective action. Many of these young entrepreneurs would like to be part of an organization, but do not know how to join one, or feel that existing organizations did not provide value-for-money services. To overcome these perceptions, business owners in Soweto should either pressure existing organizations to deliver, or they should form a new organization. Entrepreneurs themselves must take action to raise their voice in the policymaking process, address problems like crime, educate themselves and their peers about what support is available to them, and publicize their businesses and services.

Large, private companies – as influential members of business organizations – should recognize their organizations' limited representation of small businesses in places like Soweto and work to reverse the situation. They must recognize the contributions of SMEs to the private sector, and should examine how biased funding perpetuates racial and social divides.

Existing business organizations should accept some responsibility for improving the business environment in places like Soweto. They could:

- Extend their organizational drive to include more small-scale businesses.
- Link up with smaller, less-known organizations that represent small businesses.
- Identify organizations that fail to deliver on their pledges to represent SMEs and hold these organizations publicly accountable.

At the provincial and municipal levels, it is imperative for those who promote entrepreneurship to engage in regular, two-way interactions with business owners. Such interactions are largely viewed as important by government officials and are happening in certain instances, but not often enough. Many government agencies are still driven by a top-down logic that places emphasis on achieving bureaucratic

order and visibility rather than providing useful support and opportunity for existing and potential businesses.

Government at all levels must find better ways to promote entrepreneurship in South Africa. This can best be done by learning from the experiences of those who have already used opportunity and their own resources to move forward – existing small entrepreneurs. State-driven, bureaucratic approaches have not worked. Government needs to interact much more extensively with the private sector in all its forms. At the national level, President Mbeki's call for the better organization of small businesses so they can interact more effectively with government is clearly a step in the right direction.

"The limited access to infrastructure and its high cost inhibit business expansion... Existing business organizations will be strengthened if they engage with young entrepreneurs... By being more inclusive, the organized private sector could be more effective – both in voicing concerns holding back entrepreneurs and in assisting people who need it."

Ann Bernstein,
"Entrepreneurs in the wilderness," *Business Day*, May 31, 2007.

Conclusions

SME development in South Africa remains weak despite the government's insistence that encouraging emerging entrepreneurs is central to transforming the private sector and tackling poverty. A recent World Bank report on the government's actions states: "Growth and performance of the [SME] sector has... not been commensurate so far with efforts and investments involved. Though there has been a large increase in small and micro-business start ups over the past decade, survival rates have also been low and a critical mass of small enterprise has yet to be integrated into a number of sub-sectors. In addition, the impact of the various incentive programs, in terms of economic returns and additionality, has been less than consistent."¹⁰

Solutions to this ongoing problem will not be easy, but young Soweto entrepreneurs demonstrate

that energetic entrepreneurs do exist. Moreover, the constraints that stand in the way of their success hamper business development across the country: crime, deficient infrastructure, inefficient or absent local government, unhelpful regulations, and corruption.

Organizing to voice the concerns of emerging entrepreneurs will not solve all problems, but it will have tangible, positive results:

- Entrepreneurs will be encouraged to actively make a difference rather than simply accept their fate.
- Government will construct policies that more readily connect with the concerns and realities of the people it hopes to assist.
- The private sector will develop a more powerful and representative argument in favor of a better business environment in South Africa.

Notes

¹ G. Maas and M. Herrington, *Global Entrepreneurship Monitor: South Africa Executive Report 2006*, Cape Town, 2007.

² CDE, *Key to Growth: Supporting South Africa's Emerging Entrepreneurs*, Johannesburg, 2004.

³ World Bank, *South Africa, Enhancing the Effectiveness of Government in Promoting Micro, Small and Medium Enterprises*, Washington, D.C., 2007.

⁴ L. Richter et al (eds), HSRC/Umsombomvu, "Young people in South Africa: the status of youth report: 2003," Pretoria: HSRC Press, November 2005,

⁵ K. Brown, "Mbeki Urges Business Leaders to Shape Up," *Business Day*, April 16, 2007.

⁶ See also Q. Wray, "Skulduggery and drawn daggers are part of Nafcoc's show," *Business Report*, November 15, 2006.

⁷ For examples of other studies that produce similar results see: Paul Cichello, Colin Almelh, Liberty Ncube, and Morne Oosthuizen, "Perceived Barriers to Entry into Self-Employment in Khayelitsha, South Africa," Unpublished DPRU, TIPS Conference Paper, Johannesburg, 2006. The Johannesburg Council survey of the CEOs of 385 companies across a range of industries revealed that 61 percent of decisions to invest in Johannesburg were influenced by high crime levels. See Colin Hossack, "Joburg 2030: The high road to growth," February 19, 2002, www.Joburg.org.za.

⁸ S. Zake, "Wanted: Young, Committed Entrepreneurs," *Business Day*, April 3, 2007.

⁹ 'Mlambo-Ngcuka: Jobless Youth Great Concern,' *Mail & Guardian*, March 22, 2007.

¹⁰ World Bank, *South Africa, Enhancing the Effectiveness of Government in Promoting Micro, Small and Medium Enterprises*, Washington, D.C., 2007.

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