



## YOUNG SOWETO ENTREPRENEURS

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### Organising for small business advocacy

*For more than ten years, state-led support for small business in South Africa has been a story of poor organisation and mainly wasted resources. The government remains committed to supporting entrepreneurship as one of the drivers of the levels of economic growth needed to make an impact on poverty and unemployment. But despite repeated policy revisions, and repeated restructuring of new and weak agencies, South Africa still lags behind its developing country peers in creating sustainable and employment-creating small businesses. What can we learn from others? A key lesson from successful and dynamic economies is the importance for small businesses of organising to tell government what the real obstacles to their success are, and what should be done about them. Following this approach, CDE researchers profiled 25 young Soweto entrepreneurs to find out more about their needs, and the support currently available to them.*

**I**F SOUTH AFRICA IS to overcome its pressing challenges of unemployment and poverty, it urgently needs to become a more entrepreneurial society. State-led attempts to create entrepreneurs through training and access to special loans have had disappointing results. Studies by the Global Entrepreneurship Monitor (GEM), which tracks business creation in both developed and developing countries, show that South Africa's entrepreneurial levels, which have always been below the average for developing countries, have actually declined since 2001.<sup>1</sup> In 2004 CDE concluded a major research project into entrepreneurship in South Africa with the finding that 'after ten years of good intentions, the results of the state-driven delivery approach to entrepreneurial support have not been impressive'<sup>2</sup>, and a 2007 World Bank report has revealed that there are continuing problems with most government support programmes in this area.<sup>3</sup> One reason for this generally unimpressive performance is that, all too often, attempts to support new small businesses do not address the broader constraints that make life difficult for all businesses, new and established, large and small.

The point is simply made. If one tries to craft specialised programmes for emerging small businesses without tackling broader problems - including infrastructure provision as well as law and order - that constrain *all* businesses, both emerging entrepreneurs and these government programmes are set up for failure.

The emphasis of any programme seeking to promote entrepreneurship should be on reducing the costs of, and eliminating other barriers to, small business start-ups and business development in general. Entrepreneurs themselves know best what is required to create a better business environment, and must play a more active role in demanding the changes needed to create that environment. Bearing these factors in mind, CDE conducted research into what small Soweto entrepreneurs are saying about the constraints on establishing and developing businesses in this area, where it is crucially important to deepen economic opportunities for the population of a very large part of metropolitan Johannesburg. A second focus for the research was to investigate what could be done to encourage emerging entrepreneurs to become more effective advocates of the kinds of changes that Soweto and other areas need to reach their full potential as centres of dynamic business activity.

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## THE PROJECT

CDE's partner in this project was the Centre for International Private Enterprise (CIPE), a Washington-based, non-profit affiliate of the United States Chamber of Commerce. CIPE has conducted numerous programmes in transition economies and developing countries aimed at strengthening the role of business organisations in improving governance, and building an understanding of market-based democratic systems. CIPE was willing to provide funding and technical assistance for a programme that would explore and promote the role of organisation and advocacy in promoting entrepreneurship among young South Africans. Soweto, the largest township in South Africa, was seen as an ideal arena in which to start exploring the issues of entrepreneurship and business organisation. The focus on young people was driven by a concern over the high rates of unemployment in this age category. According to government figures, 33 per cent of all unemployed people are between the ages of 15 and 34.<sup>4</sup>

The project consisted of three components: research, stakeholder meetings, and advocacy training. Two stakeholder meetings were held to set the agenda for the research and recommendations. Participants included representatives of business organisations, national, provincial, and local-level government officials, representatives of non-government organisations, experts in entrepreneurship promotion, and entrepreneurs themselves.

To conclude the project, CDE organised and – in conjunction with CIPE – ran an advocacy training workshop at the Soweto Campus of the University of Johannesburg. It was decided at the workshop that an effective coalition of young entrepreneurs could help to overcome the capacity constraints of many existing organisations, formulate strategies for drawing existing young entrepreneurs into the process, and establish a forum in which young business people could engage with municipal and provincial government structures. This idea has now been taken up by the Gauteng Enterprise Propeller, an SMME agency established by the department of economic development of the Gauteng provincial government.

On 16 April 2007 the Enterprise Propeller's regional operations manager, Tello May, called a special meeting of the Soweto Stakeholder Forum, a forum for discussions between government officials – including local councillors, representatives of the

City of Johannesburg, and representatives of the Gauteng government – and SMME ‘partners and representative organisations’. On the agenda for this meeting was a call to explore further CDE’s idea of a young entrepreneurs’ business alliance.<sup>5</sup>

## THE RESEARCH

The first phase of the research was aimed at assessing the current state of support for entrepreneurship in Soweto. This was done by drawing up a comprehensive list of organisations that assist small business development in the area (see box: **Organisations that could assist Soweto entrepreneurs**, page 4). Telephone interviews with these organisations helped build up a picture of the extent of their programmes, and the operational problems they have encountered. This provided a basis for the second phase of the research which consisted of in-depth interviews with 25 young business owners in Soweto (see box: **The entrepreneurs**, page 6). Support organisations active in Soweto were helpful in making contact with young entrepreneurs, and names were also obtained from the Black Suppliers Database on the City of Johannesburg website. Interviewers then used their own networks in Soweto to identify suitable respondents. Interviews covered the core characteristics of the businesses before going on to explore how the entrepreneurs had established their businesses, what support they had received from other organisations, what barriers stood in their way, and what types of interventions they required to improve the business environment in Soweto.

CDE’s research confirmed the president’s view that business organisations do very little to represent or assist young entrepreneurs

## KEY FINDINGS

### Soweto entrepreneurs don’t get support from business organisations

President Thabo Mbeki recently declared that ‘NAFCOC has to be actively involved in solving [the problems of small businesses], but are they? One gets the sense that they do not exist.’<sup>7</sup> CDE’s interviews with organisations and entrepreneurs themselves, as well as discussions held during the two stakeholder workshops, reinforced the president’s view that business organisations do very little to represent or assist young entrepreneurs in Soweto. Many of our interviewees had never heard of organisations such as the National African Federal Chamber of Commerce and Industry (NAFCOC) and the Soweto Small Business Executive Council (SSBEC), and a number of respondents claimed that joining such organisations was a ‘waste of money.’<sup>8</sup> Johannesburg Chamber of Commerce and Industry (JCCI) representatives indicated their commitment to representing the interests of Soweto businesses, but confirmed that they did not have a strong organisational presence in the township (see box: **JCCI calls for Soweto Chamber**, page 8).

In discussions with CDE, a representative of the Association of SADC Chambers of Commerce and Industry, which was launched in August 2006, confirmed the failure of existing business organisations to provide the real entrepreneurs of Soweto with an effective voice. He said many of the organisations failed to follow up their stated intentions with effective actions and had been side-tracked by attempts to become

Soweto entrepreneurs face many of the same constraints as larger companies do

## Organisations that could assist Soweto entrepreneurs

CDE's research has revealed a range of institutions that could, in theory, provide support to Soweto-based businesses. These include:

**The Business Place:** A partnership between Investec and the City of Johannesburg, located in the CBD. It comprises a walk-in business information and referral centre and also provides free access to the internet for business purposes; free consultations with corporate practitioners; business training; networking; and displaying franchise opportunities.

**ABSA:** Provides finance to SMMEs, and helps them to apply for finance. Also provides mentorship in the start-up phase.

**Business Partners:** A private organisation that provides equity and bridging finance as well as mentoring for viable businesses. It administers the Egoli Fund and the Umsobomvu Franchise Fund.

**KickStart (SABMiller):** Provides training, start-up capital, mentorship, and start-up assistance. Once entrepreneurs are selected they attend training sessions and then prepare business plans. If they win through they are given grants as seed capital, and are mentored.

**Johannesburg Fresh Produce Market:** Helps young people to start businesses making home deliveries of fresh produce. The programme provides stalls and transport, training in making fruit hampers, and training in sales and customer relations.

**First National Bank Progress Fund:** Provides financing (from R5 million to R8 million) to start up or expand a business or buy an existing business, either in whole or in part.

**Small Enterprise Development Agency (SEDA):** Established and funded by the national government, SEDA runs countrywide information centres that incorporate the old DTI Brain (Business Referral, Advice and Information Network). It provides a broad spectrum of support services via a network of regional support agencies. SEDA is busy setting up a business support centre in Soweto.

**Umsobomvu Youth Fund:** This government-funded institution provides information, training, referrals, and networking for start-ups. It largely focuses on historically disadvantaged young people who have been unemployed but want to start a business. It also offers a business development service voucher programme, as well as enterprise finance. Both Umsobomvu and SEDA use the Business Place as their implementing agent for Soweto-based businesses, even though the Business Place's main office is in the Johannesburg CBD, with only a small 'satellite site' in Kliptown.

**National Empowerment Fund:** This state body offers acquisition funding and venture capital in support of black empowerment, from R200 000 upwards.

**Department of Labour (Gauteng South):** Provides funding for skills training in formal and informal South African businesses. It seeks to train business support providers who will concentrate on sustainable businesses.

**Gauteng Enterprise Propeller:** Established in April 2005 by the Gauteng provincial government to encourage the growth and development of SMMEs. Entrepreneurs must have a registered business and a tax clearance certificate before they can access assistance. Provides financial and non-financial support to SMMEs.

involved in black economic empowerment (BEE) deals. He also claimed that government departments were failing to consult with organisations that represented small and medium enterprises, despite the government's goal of promoting this economic sector.

## The constraints on business in Soweto

The responses of the young Soweto entrepreneurs revealed how much they have in common with the rest of the South African private sector in their concerns about crime, infrastructure costs, and regulation.<sup>9</sup> This suggests that incorporating these concerns into the general structures of business advocacy would have at least a dual benefit. It would help small-scale township entrepreneurs such as the ones we interviewed to exert more control over the environment in which they operate. It would also strengthen the arguments of the private sector as a whole – its advocacy efforts could now represent a wider diversity of businesses, while maintaining a united position in favour of a better business environment for all. The most important constraints that were identified included the following:

- **Crime**

Crime was the most frequently expressed concern of entrepreneurs. They spoke about the dangers they encountered while trying to run their businesses, the costs they incurred in the course of defending themselves against criminals and replacing stolen equipment, and the feeling that the risks imposed by lawlessness often prevented them from expanding or even continuing with their business ventures. For example, Anthony, a clothing designer explained that he 'once had a container from which I operated a public phone service. I got robbed three times. It was very risky, so I left the business.' Sithandiwe, the garage owner, said security was a major problem: 'Robberies at service stations are common. Better policing would make it easier to do business here.' Ingrid, the mattress wholesaler, explained that 'crime is the major risk when doing business in Soweto.' She has been robbed more than once at gunpoint. As a result she has to pay for extra security, and is thinking of installing surveillance cameras on her premises.

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- **Infrastructure**

Another major barrier to business success is the lack of infrastructure and the high cost of what infrastructure there is in the township. The City of Johannesburg is helping by tarring roads and providing taxi rank facilities, but is not doing enough to support business activities in Soweto. Interviewees suggested improvements with the potential to stimulate business development in Soweto, including a public transport system that would allow people to move more easily within the Soweto area, and cost-effective access to telephone lines and broadband services. For example, Portia, the owner of an internet café, believes that a cheap, convenient, and efficient bus service would help immeasurably in expanding her customer base. Sibusiso, who owns a print shop, has to rely on dial-up internet, which is very inefficient and expensive. He applied for an ADSL line, but the Telkom exchange in his area does not support ADSL.

- **Informality and regulation**

Informality is a serious hindrance for many Soweto entrepreneurs. They find the process of company and tax registration too expensive and difficult, and therefore prefer to 'fly under the radar'. As a result they find it hard to access loans, become part of formal small business networks, and extract assistance from local government structures.

- **Corruption**

An additional problem relating to government identified by some entrepreneurs was corruption. For example, Clement, who provides computer and networking services, claims that 'some government officials are opening their own companies and buying from themselves.'

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### The entrepreneurs

Criteria for inclusion in CDE's study were that subjects had to be 35 years old or younger, must have operated a business for more than six months, and be willing to attend a workshop on how to tackle their problems through advocacy. Most of the selected entrepreneurs were active in the service sector. Others were active in the retail sector, with many running informal shops known as spazas, while a few manufactured items such as curtains, shoes and welded goods. The following provides a summary of some of the key characteristics of interviewees:

**Location:** Across Soweto, including the following areas: Devland Extension 3; Dlamini; Meadowlands; Naledi; Rockville; Protea Glen Ext 12; Dobsonville; Snake Park informal settlement; Kliptown; Pimville.

**Businesses:** 3 gardening services; 3 computer services; 2 hair salons; 1 laundry service; 2 printing shops; 4 textile and footwear producers; 1 service station owner; 1 bed & mattress wholesaler; 1 dairy, 1 general retailer and 1 bakery; 1 farming and livestock delivery business; 2 events co-ordinators; 1 taxi owner; 1 welding business.

**Extent of informality:** 44 per cent of the businesses were not registered at all.

**Average age of the businesses:** 3½ years

**Number of people employed:** Total: 135 people (often part-time); average per business: 5.4; range: maximum 35, minimum 1.

A recently published report that focused on home-based entrepreneurs using census figures and a FinMark survey of 6 000 households found that typical types of businesses in townships are found in the retail (65 per cent), services (24 per cent) and to a much lesser extent production sectors. Most non-home-based entrepreneurs are active in the retail and services sectors.<sup>6</sup> Our respondents are therefore fairly typical of township-based enterprises; but, rather than conduct another survey, our research focused on in-depth interviews that sought to draw out the perspectives of the entrepreneurs themselves.

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- **Labour problems**

Almost all the respondents complained about the difficulty of finding committed, hard-working employees in Soweto. The problems are related to erratic work habits, a reluctance among employers to trust employees, and difficulties with transferring family relationships to a workplace environment where one family member is the boss and others are workers expected to take orders.

- **Increased competition**

Another consistent complaint was that increased competition was threatening to undermine businesses in Soweto. Some saw this as illegitimate, and the solution was to somehow stop 'the big chains' from entering Soweto, or to prevent upstarts from 'copying our ideas.' There were, however, no concrete proposals as to how this could be achieved. Others saw the new competition as a challenge they would meet by exploiting their 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. As gardening service provider Velaphi, put it: 'Competition doesn't scare me, as I have identified many gaps.'

- **Negative public perceptions**

Many respondents felt hindered by negative public perceptions about the quality and dependability of businesses based in Soweto. As Japie the shoemaker put it: 'People have a perception that if something is made in a township, it is of poor quality.'

- **Expanding beyond Soweto**

Many of the profiled entrepreneurs believe they need to expand beyond the boundaries of Soweto in order to put their businesses on a more sustainable footing. This is a challenging proposition largely because the world outside Soweto remains very different and unfamiliar to many of the entrepreneurs we interviewed. Soweto offered them social networks and, in many ways, a protected environment which gave them a chance, despite limited resources, to make a start in business. The entrepreneurs need to build on this by developing business strategies that will allow them to survive the more competitive and depersonalised business environments that lie beyond Soweto.

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## The advantages of advocacy

The advantages of advocacy for companies have long been recognised in South Africa, and representative business organisations have a long history, although complicated by issues of language and race. For example, the leading representative business organisation, Business Unity South Africa (BUSA), is the recent product of a merger between the Black Business Council and Business South Africa. This organisation constitutes a confederation of chambers of commerce and industry and it tackles macroeconomic and high-level issues affecting South African businesses. Below this are organisations representing specific groups within the private sector such as the Afrikaanse Handelsinstituut; the Foundation for African Business and Consumer Services; the Steel and Engineering Industries Federation of South

Africa (SEIFSA), and the Minara Chamber of Commerce which represents Muslim businesses and entrepreneurs. Below this level there are at least 23 regional business chambers scattered across the country.<sup>10</sup>

CIPE's work in emerging market economies across the globe has shown that business organisations have an important and constructive role to play. This is especially the case in countries that are newly capitalist or confronted with the challenges of economic reform and development, where business organisations have been particularly beneficial in fostering a favourable climate for emerging businesses. For example, CIPE reports on the following cases in different parts of the globe:

In **Bangladesh** the Dhaka Chamber of Commerce and Industry succeeded over a seven-year period in influencing and improving government policies relating to procurement, education, privatisation, and the regulation of export-based industries. With the passage of the 2005 Procurement Act, transparency, efficiency, and accountability were injected into public procurement for the first time.<sup>11</sup>

In **Romania** the formation of the Strategic Alliance of Business Associations led directly to the creation of a non-partisan, public-private Commission for the Improvement of the Business Environment, which advocated and drafted a modern tax code for Romania.<sup>12</sup>

In **Montenegro** the Montenegro Business Alliance backed a grass-roots advocacy strategy that focused on addressing excessive bureaucracy, reducing the size of the informal sector, and improving an inefficient property rights system. The government incorporated a key section of the private sector's national business agenda into its economic reform package and several key reform laws.<sup>13</sup>

In **Uganda** the Federation of Uganda Employers opened new district offices in the west and north to advocate at the local government level for a better business environment. The federation established new business resource centres in these regions, recruited more members, and conducted advocacy campaigns that facilitated private sector input into the local policy-making process.<sup>14</sup>

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### JCCI calls for a Soweto Chamber

In August 2006 the Johannesburg Chamber of Commerce and Industry (JCCI) called for the Soweto Chamber of Commerce to be resuscitated. Keith Brebnor, the JCCI's chief executive officer, provided the following reasons for this call:

'The Soweto Chamber of Commerce was going very strong eight years ago, but it fell into disuse because the office bearers were looking for opportunities for themselves. There has also been a feeling that Soweto businesses were not viable enough to keep a viable chamber going. Now they have reason to revisit the issue. A chamber harmonises businesses in its area and speaks out against issues that affect business. At the moment JCCI is fighting these battles for small Soweto businesses but it needs arms and legs in Soweto. We need a bigger Soweto region. We can show the way, but it has got to be business members from Soweto who take most of the responsibility. Progress cannot be halted because it is crucial for Soweto's future.'<sup>16</sup>

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In **Tanzania** a programme was launched to strengthen local business associations which have subsequently achieved significant successes in tackling local problems and improving local business environments. For example:

- The Tunduru (Ruvuma Region) business coalition succeeded in getting the government to speed up land valuations and the processing of title deeds.
- Songea Rural (Ruvuma Region) transporters demonstrated that the officials operating the weighbridge in their district were not following the proper procedures. The roads department acted swiftly to rectify the situation.
- In Sumbawanga Town (Rukwa Region), the Associations in Action campaign and round table led to the rapid removal of nuisance taxes.
- In Tanga, the business coalition demonstrated that local tax collectors were incorrectly applying a service levy to all business in the municipality. The municipal council responded by directing the tax authorities to apply the tax only to corporate companies, as stipulated in the text of the law.<sup>15</sup>

Participating in business associations, both at the local and national level, can clearly be beneficial, both in promoting local forms of collective action and in enhancing the prospect for improvements in the general business environment. Collective action has real benefits for individual competitive businesses.

## IMPLICATIONS

CDE's research was limited to 25 people in an area where business activity has not been intensively surveyed in the past. Nevertheless, its findings have significant implications, and point to an alternative way forward in the continuing effort to raise levels of entrepreneurship in South Africa.

We need to **add the voice of young entrepreneurs from townships such as Soweto and elsewhere to the public debate** about how to create the best possible enabling environment for business activity and expansion in South Africa. In addition, adding the voice of young black entrepreneurs, who are largely hidden away in places such as Soweto, to general calls for cheaper and more effective infrastructure, for a reduction in crime, and for more effective local government can only strengthen others in the business sector and elsewhere who are calling for more effective government action on these issues. It would therefore be to the advantage of existing business organisations to engage more effectively with young entrepreneurs in former townships and find ways of involving them in those organisations.

CDE's study once again confirmed that, in the largest township in South Africa, the many **national, provincial and local government programmes** designed to promote small business development, especially among young people, **are making very little impact** and are not connecting with active entrepreneurs.<sup>17</sup> A prevailing feeling among the entrepreneurs we interviewed was captured by the gardening service provider, Velaphi, when he said: 'There are so many disadvantages. I'm alone; no one is helping me.' The government should surely be worried about the ineffectiveness of its current approach, and be open to trying alternative approaches.<sup>18</sup>

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If entrepreneurs want changes in the operating environment, they have to **start by helping themselves**. By organising among themselves and by co-operating in specific areas for particular goals, they can improve the business prospects for all businesses, which nevertheless remain in competition. They should focus on the following outcomes:

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- They could strengthen their influence and **voice in the policy process**. For example, they could try to influence the requirements for formalising businesses so that the process can be simplified and made more accessible. For some, the enforcement of formality is a key issue as they feel that they are being undercut by informal businesses that do not follow safety and health standards. They could draw the municipality's attention to the need to ensure that businesses have licenses without making those licenses very difficult to obtain. Many entrepreneurs feel threatened by growing competition, both from below in the form of unlicensed small operators and from above in the form of large supermarkets and chains, and are desperate to make their voices heard on this issue. Not all of their suggestions will be constructive or for the greater good, but if they at least feel that their concerns are being taken into account they may be more willing to accept, and work within, the changing economic environment. Through constructive engagement, compromises can be reached that will benefit everyone. Through negotiations with the authorities they could also raise their concerns, and obtain information about what is required.
- They could devise strategies of **mutual assistance**, such as pooling information and devising common activities through which producers can distinguish themselves from incoming competitors. Business organisations could also implement their own certification programme, which could allow more formal businesses – with, for example, good hygiene standards – to distinguish themselves from their competitors. They could also play a role in launching Business Improvement Districts (BIDs) in Soweto. These BIDs, also known as City Improvement Districts, have been formed in a number of suburbs, including Sandton, Bryanston and Randburg in Johannesburg. Services such as safety and security patrols, pavement cleaning, litter collection, the maintenance of public spaces, and the removal of illegal posters are provided as part of these initiatives.
- They could devise programmes to **publicise and share information**. For instance, they could launch publicity campaigns pointing to the strengths of township businesses. As suggested by the CIPE advocacy trainer, they could formulate a 'Proudly Sowetan' campaign that could counter prevailing negative perceptions of township businesses, and bring Sowetan businesses into new and larger markets.
- They could find out who the city councillors are for their area, who the members of the provincial legislature are who live in their area, and who the Members of Parliament are with responsibility for Soweto, and ensure that they **pressurise** these public representatives to play a more effective role in working with entrepreneurs and improving the local business environment.

**Large, established private companies**, many of which are already promoting small enterprise in places such as Soweto by forming partnerships with black-owned businesses, could only benefit from **engaging with a more organised and structured Soweto business sector**. Many of these large established businesses are the

very companies that fund the national business organisations which are failing to organise in or represent the views of struggling small businesses in places such as Soweto. This is happening despite commitments made by all these organisations to promote small and medium business enterprises and to contribute to economic empowerment on a more widespread basis. If these national business organisations are not present in a large and famous township such as Soweto – at the heart of the country’s largest city – where exactly are they? And why do the companies that fund these organisations not exert more pressure on them to become more representative of the different kinds of businesses that make up the private sector in South Africa? If the president is right about NAFCOC and other business organisations – and our research certainly reinforces his suspicion – then what pressures are donors bringing to bear on the formal national business organisations they are funding to make them more effective?

## RECOMMENDATIONS

**1 Young Soweto Entrepreneurs** can gain a great deal by organising among themselves. Positive processes along these lines are already emerging, driven by sector-based organisations (see box: **Small business organisations with potential**, page 12), and by the Gauteng Enterprise Propeller, which has established links with some Soweto-based organisations and is aiming to bring young entrepreneurs into its Soweto Stakeholder Forum. But much more could be done, and it is vital for young entrepreneurs to recognise the value of becoming more organised. Many respondents said they would like to be part of an organisation but did not know how to join one, or felt that existing organisations did not provide value for money. To overcome this, business owners in Soweto should either pressurise existing organisations to deliver, or form a new organisation. Either way, entrepreneurs themselves should take action to increase their voice in policy debates and processes; address problems such as crime; educate themselves about what support is available to them; and publicise the positive aspects of their business.

**2 Existing business organisations** should accept some responsibility for improving the situation in places such as Soweto.

- They should extend their organisational drive to include more of the kinds of small-scale businesses identified in our research.
- They should link up with smaller, less well known organisations that represent some of these small businesses. Examples uncovered in our research include the Afro Hairdressing and Beauty Employers Association of South Africa, the South African Spaza and Tuck Shop Association, and the Soweto Tourism Association. There must be many others in Soweto and other townships around the country.

**3** As influential members of business organisations, large **private companies** should recognise the limited extent to which many of these organisations represent small businesses in places such as Soweto, and discuss ways to change this situation. They should also recognise the advantages to them of a more organised small business sector. They should look at how their funding perpetuates a situation in which large national business organisations can claim to represent black entre-

If these national business organisations are not present in a large township such as Soweto, where exactly are they?

Large private companies should recognise the advantages to them of a more organised small business sector

## Small business organisations with potential

While the big, established business organisations have made almost no inroads into Soweto, a number of smaller, sector-based organisations are beginning to make a difference in the area. The ones we encountered in the course of our research include:

**The Afro Hairdressing and Beauty Employers Association of South Africa**, which assists members with business registration and represents them in various bargaining councils, as well as in the Services SETA. It focuses on seeking access on behalf of members to the mandatory skills development levies. However, members tend to fall below the minimum payroll level required by amendments to the Skills Development Act. The organisation also works with the Department of Labour to help with business management and financial management training. The association appears to be looking for ways to promote its members' interests, but is struggling to formulate coherent plans, and lacks administrative capacity. Such an organisation could be strengthened and form the foundation for pursuing the kinds of strategies outlined in this report. It should also 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 association has 600 active members across the country, and charges a R200 joining fee and a R75 monthly membership fee.

**The Soweto Tourism Association** does a lot of work in the kind of information-sharing and public perception areas we have pinpointed as important for effective business organisation. Its main aim is to promote Soweto as a tourism destination. Its members include tour guides, owners of bed and breakfasts, and travel agents. They also assist members to acquire suitable training for employment, and provide placements. In 2004 it had 35 members.

**The South African Spaza and Tuck Shop Association** represents spaza shop owners across the country and focuses specifically on the threat presented by the latest retail mall developments in Soweto. It also provides services and forms of assistance that could sustain businesses. These include bulk buying from and negotiating with suppliers, and publicising business opportunities such as selling airtime, and referrals for household insurance. It has about 4 000 members nationwide, and membership costs R150 a year.

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preneurs when they in fact do not or do this in a very partial way; and how to use their funding of these organisations to promote a closer involvement with and better representation of township entrepreneurs.

**4 Government** at all levels needs to find better ways to promote entrepreneurship. This can best be done by learning from the experiences of those who have already used their own resources to make something happen – in other words, existing small entrepreneurs trying to make a go of things on their own. What has not worked are state-driven bureaucratic approaches, generally staffed by people without the necessary expertise or experience in the business world. Government needs to interact much more extensively with the expertise and concerns of the private sector, in all its forms. At the national level, President Mbeki's call for more effective organisation among small businesses so that they can interact more extensively with

government is clearly a step in the right direction. In April 2007 Mbeki criticised business leaders for not displaying the type of leadership required to address challenges raised by individual business owners in areas such as Soweto.<sup>19</sup>

**5** At the **provincial and municipal levels** it is imperative for the success of programmes seeking to promote entrepreneurship that they engage in regular, two-way interactions with actual business owners. Our sense from interviews and workshop discussions is that such interactions are seen as important by government officials and are happening in certain instances, but are not yet extensive enough. Government interventions – including those by the City of Johannesburg – are still driven by a top-down logic that emphasises bureaucratic order and visibility rather than really listening to the concerns of entrepreneurs and providing useful support and opportunity for existing and potential businesses.

## CONCLUDING REMARKS

Small business development in South Africa remains weak despite the government's insistence that encouraging emerging entrepreneurs is central to transforming the business sector and tackling poverty. The recently published World Bank report on the government's small business interventions sums up the situation in the following, extremely diplomatic words: 'A new SMME strategy was presented by DTI in 2003, articulating the Government's strategic directions, creating a new Small Enterprise Development Agency and promoting the objective of broad-based Black Economic Empowerment. Growth and performance of the sector has, however, 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 programmes, in terms of economic returns and [added value], has been less than consistent.'<sup>20</sup>

Solutions to these continuing challenges will not be easy to find, but the young entrepreneurs who contributed to this project have shown us that energetic risk-takers and enterprise-builders do exist in places such as Soweto, and that many of the constraints that stand in the way of their success are the common ones hampering business development across the country: crime, deficient infrastructure, inefficient or absent local government, unhelpful regulations, and corruption.

Organising to make the concerns of emerging entrepreneurs heard will not solve all the problems, but will have positive consequences across the board:

**Entrepreneurs** will benefit, as they are encouraged to make a difference rather than to accept their fate;

**Government** will be able to construct policies that more readily connect with the concerns and realities of the people they hope to assist;

**The private sector** will be able to develop a more powerful and representative argument in favour of a better business environment in South Africa.

Government at all levels needs to find better ways to promote entrepreneurship

## Endnotes

- 1 G Maas and M Herrington, *Global Entrepreneurship Monitor: South Africa Executive Report 2006*, Cape Town, 2007.
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As influential members of business organisations, large private companies should recognise the limited extent to which many business organisations represent small businesses in places such as Soweto, and discuss ways to change this situation. They should also recognise the advantages to them of a more organised small business sector.



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