INFORMAL SMALL MEDIUM
AND MICRO ENTERPRISES (SMME)
RETAILERS IN SOUTH AFRICA

ILDP 2014
TEAM NAME: RATOON

TEAM MEMBERS

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- Simon Ntshangase
- Reagan Mackenzie
- Fatima Rawoot

SIGNIFICANCE OF THE TEAM NAME – RATOON

Ratoon (comes from the Spanish word Retorio – meaning sprout)

It is a method of harvesting a crop which leaves the roots and lower part of the plant uncut to give the Ratoon. In sugarcane cultivation and in the ratooning procedure the upper part of the plant which is sweet, is first harvested and the bottom of the plant left which has buds from which new shoots develop.

As a team, our journey through the ILDP programme started as ordinary leaders with talents and strengths and that is the first harvest. The remaining is the leadership growth and development that we have experienced that has transformed us to shift to extra-ordinary leaders who will be able to pre-empt and identify change in our world and be able to respond to it. To be able to have a new growth that inspires and empowers change.

TEAM CHARTER

Our team charter is to uphold the following commitments we made to each other:

- To treat each other with respect and being open, honest and transparent.
- To create a learning environment in which each team member’s input is valued and considered. We will be tolerant and patient with each other.
- To grow and change both individually and as part of teams, no matter how uncomfortable and challenging it may become and we will remain committed to our team deliverables.
- To learn and consider how to apply our course content and skills to enhance every aspect of our lives. This will enable us to work effectively and efficiently as a team.
- To apply all ten components in the “learning to think in teams” module to our team engagements.
- To hold each other accountable for our deliverables and to impose sanctions where deliverables are not met.
- To remember to have fun and enjoy what we do, having a passion for our project.
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1. EXECUTIVE SUMMARY

South Africa is ranked well behind fellow African countries such as Ghana and Zambia in our ability to establish, sustain and grow successful new businesses (Source: Global Entrepreneurship Monitor (GEM) Report 2010). In seeking to improve the quality of life for all inhabitants, South Africa must reduce poverty, create employment and redress widening inequality both nationally and provincially.

Table 1: Global Entrepreneurship Monitor (GEM) Report 2010

<table>
<thead>
<tr>
<th>New and established business</th>
<th>Start-up</th>
<th>New</th>
<th>Established</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership rate(^2) Percentage, 2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>4</td>
<td>11</td>
<td>25</td>
</tr>
<tr>
<td>Ghana</td>
<td>25</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Zambia</td>
<td>25</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>Brazil</td>
<td>25</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Chile</td>
<td>11</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Global Entrepreneurship Monitor (GEM) Report 2010

Current structures in the retail and wholesale sector that support informal and SMME businesses appear to be inadequate to support new business start-ups, their long term growth and sustainability. The barriers and facilitators to growth and sustainability need to be clearly understood to drive economic growth within this sector. Our economy continues to grow at a lower rate compared to global and regional economies. Current levels of unemployment exceed 25%. The World Economic Forum’s statistics show that South Africa’s gross domestic product (GDP) grew at an average of 3.4% between 2003 and 2013 and that GDP growth is projected at 2.5% in 2014 and 3.8% in 2015. This is about 50% lower
than some of our counterparts in sub-Saharan Africa.
Outside of manufacturing and government, the wholesale and retail sector of our economy is the largest contributor to GDP at 12.5%. Additionally, informal and SMME businesses are estimated to contribute more than 50% to employment in South Africa.
The barriers to entry into the informal and SMME sectors are generally lower and less capital intensive than the formal sector. This sector is generally labour intensive and using endogenous growth as a basis; it can be argued that by employing greater number of workers the level of skills in the economy can also be raised.

In this paper it is argued that by targeting Informal and SMME businesses there is meaningful scope for the creation of jobs and the increasing of skills levels in the South African economy.

2 INFORMAL AND SMALL, MEDIUM AND MICRO ENTERPRISES (SMMEs)

2.1 Definition and Background

2.1.1. International Overview
While the importance of the SME sector and the informal sector is acknowledged internationally, defining an SME is a challenging task, as every country has its own definition. There is no single, uniformly accepted definition of a small firm (Storey, 1994). Firms differ in their levels of capitalisation, sales and employment. Hence, definitions which employ measures of size (e.g. number of employees, turnover, profitability and net worth) when applied to one sector might lead to all firms being classified as small, while the same size definition when applied to a different sector might lead to a different result.

This section provides a broad overview of small enterprise definitions used across the globe with the objective of understanding what an SME really is. SME definitions can be broadly categorised into two, “economic” and “statistical” definitions. Under the economic definition, a firm is regarded as small if it meets the following three criteria: (1) it has a relatively small share of their market place; (2) it is managed by owners, or
part owners, in a personalised way and not through the medium of a formalised management structure; and (3) it is independent in that it is not part of a larger enterprise.

The “statistical” definition, on the other hand, is used in three main areas: (1) quantifying the size of the small firm sector and its contribution to GDP, employment and exports; (2) comparing the extent to which the small firm sector’s economic contribution has changed over time; and (3) in a cross-country comparison of the small firms’ economic contribution. These definitions, however, have a number of weaknesses. For example, the economic definition, which states that a small business is managed by its owners or part owners in a personalised way and not through the medium of a formal management structure, is incompatible with its statistical definition of a small manufacturing firm which might have up to 200 employees.

According to UNIDO, the definition of SMEs is a significant issue for policy development and implementation and depends primarily on the purpose of the classification. For the purposes of policy development, UNIDO generally advises countries to take into account the quantitative and qualitative indicators for SME definition. The following table summarises the main qualitative indicators that may be used in order to differentiate between SMEs and large companies.
Table 2: Application for Qualitative Indicators

<table>
<thead>
<tr>
<th>Category</th>
<th>SMEs</th>
<th>Large Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>•Proprietor entrepreneurship</td>
<td>•Manager-entrepreneurship</td>
</tr>
<tr>
<td></td>
<td>•Functions-linked personality</td>
<td>•Division of labour by subject matters</td>
</tr>
<tr>
<td>Personnel</td>
<td>•Lack of university graduates</td>
<td>•Dominance of university graduates</td>
</tr>
<tr>
<td></td>
<td>•All-round knowledge</td>
<td>•Specialisation</td>
</tr>
<tr>
<td>Organisation Sales</td>
<td>•Highly personalized contacts</td>
<td>•Highly formalised communication</td>
</tr>
<tr>
<td>Buyer’s relationships</td>
<td>•Competitive position not defined and</td>
<td>•Strong competitive position</td>
</tr>
<tr>
<td></td>
<td>uncertain</td>
<td>•Based on long-term contracts</td>
</tr>
<tr>
<td>Production</td>
<td>•Unstable</td>
<td>•Capital intensive, economies of scale</td>
</tr>
<tr>
<td>Research development</td>
<td>•Labour intensive</td>
<td>•Institutionalised</td>
</tr>
<tr>
<td></td>
<td>•Following the market, intuitive approach</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>•Role of family funds, self-financing</td>
<td>•Diversified ownership structure, access to anonymous capital market</td>
</tr>
</tbody>
</table>

Source: UNIDO

Table 3: Synopsis of SMME definitions by region

<table>
<thead>
<tr>
<th>Category</th>
<th>EU</th>
<th>USA</th>
<th>ASIA(M)</th>
<th>EGYPT</th>
<th>GHANA</th>
<th>BRAZIL</th>
<th>RUSSIA</th>
<th>INDIA</th>
<th>CHINA</th>
<th>RSA</th>
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<tbody>
<tr>
<td></td>
<td>Industri</td>
<td>Comme</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>&lt; 5</td>
<td>1 to 4</td>
<td>up to 5</td>
<td>Up to 10</td>
<td>Up to 0</td>
<td>0</td>
<td>0</td>
<td>&lt; 20</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>&lt;100</td>
<td>5 to 14</td>
<td>6 to 29</td>
<td>20 to 10</td>
<td>15 to 0</td>
<td>&lt;300</td>
<td>50-99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>&lt;250</td>
<td>&lt;500</td>
<td>51 to 150</td>
<td>30 to 100</td>
<td>50 to 101</td>
<td>300 to 100-200</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

TURNOVER

<table>
<thead>
<tr>
<th>Category</th>
<th>EU</th>
<th>USA</th>
<th>ASIA(M)</th>
<th>EGYPT</th>
<th>GHANA</th>
<th>BRAZIL</th>
<th>RUSSIA</th>
<th>INDIA</th>
<th>CHINA</th>
<th>RSA</th>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>$3m</td>
<td>0</td>
<td>RM250.0</td>
<td>0</td>
<td>$10k</td>
<td>0</td>
<td>0</td>
<td>&lt;Rs50</td>
<td>0</td>
<td>&lt;R150k</td>
</tr>
<tr>
<td>Small</td>
<td>$13m</td>
<td>0</td>
<td>RM250.0</td>
<td>0</td>
<td>$100k</td>
<td>0</td>
<td>0</td>
<td>400</td>
<td>Rs50-</td>
<td>&lt;Y30</td>
</tr>
<tr>
<td>Medium</td>
<td>$67m</td>
<td>0</td>
<td>RM</td>
<td>10m</td>
<td>$1mill</td>
<td>0</td>
<td>0</td>
<td>1 B</td>
<td>RUB</td>
<td>Rs60-</td>
</tr>
</tbody>
</table>

Source: Author’s compilation from various sources

The abbreviation "SME" occurs commonly in the European Union (EU) and in
international organisations such as the World Bank (WB), the United Nations (UN) and the World Trade Organisation (WTO). The term "small and medium businesses" or "SMBs" is predominantly used in the USA. In South Africa the term is “SMME” for small, medium and micro-enterprises, and elsewhere in Africa, MSME is used for micro, small and medium enterprises.

2.1.2. Defining an SMME in South Africa – The “official Definition”

Like other countries, the issue of what constitutes a small or medium enterprise is a major concern in SA. Various authors have usually given different definitions to this category of business. “A common definition of SMEs includes registered businesses with less than 250 employees” (IFC, 2009: 9). In practice, SMEs are defined in a number of different ways, generally with reference either to the number of employees or to turnover bands (or a combination of both, as in the National Small Business Act 1996, which also allows for variations according to industry sector). The definition of SMEs by size is necessary, but it is not sufficient for an understanding of a sector where the realities are not only complex, but also dynamic.

In SA, a ‘small business’ is officially defined in Section 1 of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) as:

“ ... a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy mentioned in Column I of the Schedule ... ”.

The NSB Act further categorises small businesses in SA into distinct groups, namely; survivalist, micro, very small, small and medium, hence the use of the term “SMME” for small, medium and micro-enterprises. However, the terms ‘SMME’ and ‘SME’ are used interchangeably in SA. The SME definition uses the number of employees (the most common mode of definition) per enterprise size category combined with the annual turnover categories, the gross assets excluding fixed property.
2.1.3. Photographs: Informal and SMME in South Africa

2.1.4. Broad Definitions of SMME’s in the National Small Business (NSB) Act

**Survivalist enterprise:** The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector.

**Micro-enterprise:** The turnover is less than the value added tax (VAT) registration limit (that is, R150, 000 per year). These enterprises usually lack formality in terms of registration. They include, for example, spaza shops, minibus taxis and household industries. They employ no more than 5 people.

**Very small enterprise:** These are enterprises employing fewer than 10 paid employees, except for the mining, electricity, manufacturing and construction sectors, in which the
figure is 20 employees. These enterprises operate in the formal market and have access to technology.

**Small enterprise:** The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.

**Medium enterprise:** The maximum number of employees is 100 or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer.

The NCA, which established the NCR, adopts and uses the definition of small business in the NSB Act, 1996 as amended and categorises any lending to small business as developmental credit. The NCA uses the NSB Act definition for small business, and it further distinguishes between natural and juristic persons.

**TABLE 5: NCA DEFINITION (JURISTIC PERSONS)**

<table>
<thead>
<tr>
<th>Natural persons</th>
<th>Juristic persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Personal customers</td>
<td>• Partnerships</td>
</tr>
<tr>
<td>• Sole proprietors</td>
<td>• Close corporations</td>
</tr>
<tr>
<td>• Trusts with two or less natural person trustees</td>
<td>• Companies</td>
</tr>
<tr>
<td></td>
<td>• Trusts with three or more trustees</td>
</tr>
</tbody>
</table>

*Source: NCA (2006)*

Only certain provisions of the NCA apply to juristic persons. Provisions relating to marketing, over indebtedness and reckless credit do not apply to juristic persons. The NCA in its entirety does not apply to juristic persons with an asset value or annual turnover of more than R1 million, nor does it apply to juristic persons with an asset value or annual turnover of less than R1 million who enter into a mortgage agreement or an agreement with a loan value of more than R250,000. Thus, the NCA only covers small business which is sole proprietors, partnerships, close corporations, companies and trusts with an annual turnover of R1 million or less and enters into a loan agreement of not more than R250,000.
2.1.5. A common understanding of SMME’s

Compared to developed-country standards, SA thresholds are low. Many businesses which Americans or Europeans regard as SMEs would be regarded as large enterprises in South Africa. Moreover, the fact that the NSB Act distinguishes between enterprises in the different economic sectors and further uses different thresholds for the different sectors is an acknowledgement that what is considered “small” in the different economic sectors will vary depending on the nature of the activity undertaken. Despite the categorisations having been stipulated in the Act, these categories are not used consistently by state agencies or by private sector data-bases and research studies, making comparisons difficult and unreliable.

The DTI report states that “the terms ‘small business’ and ‘SMME’ are used as synonyms, whereas the term ‘enterprise’ refers specifically to entities (especially close corporations, cooperatives and companies) emphasising the fact that there are different concepts of businesses. For statistical purposes, it would make a great deal of sense for the various data-gathering bodies in the public and private sectors to arrive at, and use, agreed categories covering the SMME sector.

Table 6. Traditional characterisation of the informal and formal sector

| HYPOTHEZIED DEFINING CHARACTERISTICS OF THE INFORMAL SECTOR AND FORMAL SECTOR |
|---------------------------------|------------------|
| **INFORMAL SECTOR**             | **FORMAL SECTOR** |
| 1. Ease of entry                | 1. Restricted entry |
| 2. Indigenous resources         | 2. Reliance on national and foreign finance capital |
| 3. Family ownership             | 3. Corporate ownership |
| 4. Small-scale operation        | 4. Large-scale operation |
| 5. Labour-intensive and adapted technology | 5. Capital-intensive and imported technology |
| 6. Skills acquired outside the formal system | 6. Formally acquired skills |
| 7. Unregulated and competitive markets | 7. Protected markets |

2.2 Problem Statement

South Africa ranked well behind fellow African countries such as Ghana and Zambia in our ability to establish, sustain and grow successful new businesses (Source: Global Entrepreneurship Monitor (GEM) Report 2010). The current structures in the retail and
wholesale sector that support informal and SMME businesses are inadequate to support new business start-ups, their long term growth and sustainability. The barriers and facilitators to growth and sustainability need to be clearly understood to drive economic growth within this sector.

2.3 Goal Statement
This research study aims to obtain a clear understanding of the barriers and facilitators to starting and sustaining informal and SMME businesses in the retail and wholesale sector of South Africa. To fully realise the potential of informal and SMME businesses, the sector needs to be approached with a fresh perspective attuned to the challenges it currently faces. There is a need for the focus to shift to providing support for businesses to grow and flourish.

2.4 Relevance to the industry and economy
In terms of activity, informal and SMME businesses are mostly engaged in retailing, trading, or manufacturing (Fisher and Reuber, 2000). Their relevance can therefore be further underscored by considering the role they play as discussed below.

2.4.1 Contribution to GDP growth
The wholesale and retail sector is a major contributor to economic growth in South Africa contributing 12.5% to GDP as can be seen in the graph below. In the US, the eMarketer benchmarking index shows that retail sales represent 27% of GDP. An opportunity exists to expand this sector in South Africa by using informal and SMME participation as a vehicle for achieving this growth.
2.4.2 High employment ratio
SMMEs account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry et al., 2002). Growing SMMEs in South Africa can significantly contribute to reducing unemployment.

2.4.3 Skills development incubator
Informal and SMME businesses being labour intensive depend on the transfer of skills to and between employees to keep them competitive and sustainable. Retail businesses perform much of their skills training in-house and therefore provide a platform for getting the youth skilled and into the labour pool. The retail and wholesale sector can therefore be used as a first tier incubator for younger people wanting to enter the job market and having an opportunity to then move into other sectors should they wish.

2.4.4 Low entrance requirements
Businesses in this sector can be easily and quickly established and provide a springboard for budding entrepreneurs into other sectors of the economy. The high labour ratio often means capital requirements of starting a new business are lower. These businesses can also adapt much quicker to changing market conditions making them potentially more
sustainable.
South Africa has a high rate of unemployment among youth, defined by the government as persons between 15 and 34 years of age. In December 2010, three million youth were unemployed, representing 72% of overall unemployment in the country. South African youth also lag far behind other sub-Saharan African youth in perceiving that entrepreneurial opportunities exist (39% compared to 70%) or that they have the capabilities necessary to capture them (40% compared to 76%).

3 RESEARCH DESIGN

3.1 Qualitative Approach

3.1.1. Participant observation
This method is highly dependent on the researcher's ability to blend and extract information by being part of an event or group. This method requires the researcher to become an active participant, while observing events around him and often requires months or years to collect the required data for analysis. Using the two entrepreneurs that are part of our ALP team gave us a unique and distinct advantage of leveraging their experiences gained over a significant period of time to give us insight through their active participation in their natural environment. Our two entrepreneurs will provide us with the experiences and insights around our topic.

3.1.2. Unstructured interviews
This allows for more exploration and deviation in its approach, which is useful for exploring a subject more broadly. It encourages responses from the respondents' point of view, a very meaningful strategy in qualitative data collection. We will use this format of data gathering when interviewing informal and SMME business owners and other significant stakeholders (government, etc).

3.2 Quantitative Approach

3.2.1 Structured questionnaire
A structured questionnaire was used to systematically gather data on SMME feelings and thoughts around our topic. It also measured smme actions around the way and why things
are done.

4  Key drivers of the informal sector
The informal sector is seen as a source of income and survival for the many that engage in it. Various factors drive or keep people in the informal sector. These include unemployment, depreciation of capital, low economic growth, increasing taxation and regulations, need for greater work flexibility and work life balance, lack of formal skills and education, increased population growth and in particular urban population, low formal job creation, increased use of technology leading to reduced use on manpower and poor economic policies especially pro-poor policies.’ Neither the public sector nor the private sector is able to provide enough jobs for the expanding labour force. Informal sector is increasingly recognised as an alternative option to the growing unemployment, particularly among the youth and the poor. Efforts to improve the performance of the sector should be seen in light of the potential contribution of informal sector to increasing the overall performance of the economy including its provincial and local productive economic capabilities. Our emphasis is on the relative importance of the sector in the economy of South Africa.

Policy development and innovation can lead to improved performance of the informal sector particularly in the context of increasing need to reduce poverty and increase employment opportunities in South Africa.

5. RESEARCH FINDINGS AND INSIGHTS
5.1 Growth in the informal sector tends to be influenced by a number of factors including:
- Increased urbanisation of black population
- Slow pace of economic growth
- Incidence of jobless growth
- Decreased incidence of formal employment
- Promotion of SMMEs
- Informalisation of formal businesses
- Costs and regulatory barriers of entry into the formal economy
- Limited education and training opportunities
- Increasing demand for low cost goods and services
- Migration motivated by economic hardships and poverty

5.2 Issues of Gender

Women tend to form the majority of workers. Women and girls tend to form the poorest group of workers in the sector. They tend to lack opportunities to accumulate start-up capital and tend to lack assets that can be used as collateral. This situation prevents their meaningful participation in the economy.

5.3 Human Capital

The sector has low levels of education therefore emphasis is on the role of training in creating more productive employment, strengthen skills base of informal sector entrepreneurs. Skills development among participants can help participants move away from subsistence activities and gradually progress towards value add activities. Other policy instruments are equally important, example, finance, expanded markets and marketing.

5.5 Economic impact of formalisation

The benefits of formalisation can be felt across businesses, consumers and the government. The formalisation of SMME’s benefit from an increased access to resources, greater markets and reduced risk. Governments expand their tax base and more economic data and consumers have increased access to more better paying jobs.

5.6 Constraints to the SMME sector in South Africa

- limited access to finance and credit;
- inadequate business infrastructure and service provision;
- inadequacies in the content and delivery of training;
- distortions produced by urban land markets and the fragmentation of apartheid cities;
- the strict separation of land use and racial groups;
- competition from existing formal enterprise;
- restricted market access;
- historical underdevelopment of business procurement and subcontracting linkages between large enterprises and the SMME sector.

An aggressive SMME policy must include an effective competition policy which can counter market collusion and oligopolistic control. The successful upgrading of SMMEs requires the implementation of policy at a range of levels, as outlined below:
- Micro-level policies aimed at enhancing small-firm capacity;
- Sector-wide policies that can improve the performance of all enterprises in a particular sector;
- Competition-type policies that improve levels of competition in the South African economy generally; and
- Macro-economic policies that improve credit and financial flows to the disadvantaged SMME sectors.

5.7. Financial Barriers to formalisation

Loazaya (1997) states that the costs of staying formal can be divided onto three broad categories: taxes, regulations and bureaucratic requirements. Regulations include e.g. environmental protection, allocation of imported inputs and labour. Of all the regulations, those related to workers welfare are the most restrictive and costly. In South Africa this could be a lengthy process of dismissal plus the minimum wage. These also include indemnities, health insurance, fringe benefits and wages. Schoombee (2003) states that the lack of access to formal bank credit is one of the challenges faced by micro – entrepreneurs in the informal sector. Although the government has addressed these issues, private banks have still not transformed to create credit offerings to benefit SMME’s. A major financial consideration in the formalisation process for SMME owners is the cost-benefit analysis of the formalisation decision. These are, broadly, costs of entry into the formal sector e.g. License fees, registration costs and bribery costs and then there are the costs of staying formal e.g. regulatory costs, compliance costs, taxes, etc. These have weighed against the financial and non-financial benefits of formalisation.

5.8. Non-Financial barriers to formalisation

These include bureaucratic regulatory procedures e.g. lengthy registrations of business, poor law enforcement, corruption and limited human resource skills. Contrary to popular belief, there is also a level of job satisfaction that may discourage formalisation and especially where people are seeking a better work – life balance or where they enjoy more flexibility and or specialisation. However, little work has been done to crystallise the South African situation.
5.9. Financial facilitators to formalisation
The fear of incurring costs related to being informal is as good an incentive as the benefits acquired from formality, in stimulating the formalisation process. Avoiding costs of being informal is a good incentive to formalise. The desire to avoid costs associated with corrupt government officials in the informal sector and the lower costs of credit in the formal sector are good enough financial facilitators to drive formalisation.

5.10. Non – Financial facilitators to formalisation
The necessary non–financial requirements of formalisation are key in the formalisation process. These include skilled labour. The level of government enforcement, a good business location, improved property rights and the desire to access legal and other government support services are other non-financial facilitators.

The traditional demand- and supply-oriented policies adopted by governments in support of the SMME economy are inadequate. Such policies should be accompanied by a range of sectorial and macroeconomic policies that fully utilise the potential role of the informal sector in government’s economic growth policies. The case study conducted, revealed the influence one has growing up as a child of an entrepreneur and the impact on his entrepreneurship abilities and skills. This gave him the insights and skills to successfully run his own formal business today. He was also financially supported by a business in the formal sector, without which he may not have achieved what he has today. It is therefore recognised that skills and finance are two of the key attributes in establishing and running a successful business. Loans for start-ups are difficult to obtain and interest rates are usually high, adding to the cash flow challenges of the business. Increasing competition, especially in the informal sector, from foreign immigrants. Supply challenges, especially as these businesses cannot compete with the larger formal business when buying product. Many entrepreneurs lack the skill and management expertise to run successful businesses. Hiring of professional staff is expensive. Labour regulations and policies hinder businesses as they are applied via a blanket approach to all businesses, whereas small businesses have unique
situations for which the policies become a barrier to growth. The government compliance requirements are far too onerous, with entrepreneurs spending a significant amount of time meeting these requirements. Time that could be better spent growing their businesses.

Many informal and SMME businesses are unaware of the government incentives available to help them start and grow their businesses. The communication used does not appear to be reaching the target audience it is intended for. Formal financial institutions play a limited role in supporting entrepreneurship and criteria to qualify for loans are often out of reach of the applicant. Informal traders face major difficulties with crime and violence perpetrated against them. Support from the metro police to limit crime, violence and theft of stock is needed. Small business’s contribution has remained static for the last 12 years due to the numerous barriers to growth and sustainability. Interview with café owner revealed the potential of business owners to work together and pool their resources, including money, to give them critical mass when starting and expanding a business. Working together they see that they can achieve more and this is a lesson for us that informal and SMME businesses working together can create synergies that benefit both businesses.

5.11 Insights from surveying SMME’s - The key issues affecting the SMME’s include:

- Finance and credit;
- Infrastructure and service provision;
- Markets and trading spaces;
- Urban planning and management;
- Linkages with other enterprises;
- Labour;
- Regulation;
- Lack of skills.

5.12 Local Economic Development - Insights from International Immersion into Canada and United States of America (US)

In South Africa, new thinking about the SMME sector and its contribution to local economic development is required. This will encourage local municipalities to view the SMME sector as a key service delivery function. Municipalities need to balance their regulatory function of the sector with the need to support livelihoods and employment that reflects the
developmental agenda of the country. Canada believes that the sector helps navigate the future and helps to build the country and help fix the economy. For this purpose all public and private partnerships are geared to the single goal of supporting and aiding development within the sector and this is particularly evident with the increase and sustainability in the “mom and pop” shops in Canada. One of the claimed advantages of small business owners is the ability to serve market niches not covered by mass production. The significant increase and business sustainability of mom and pops shops and its contribution to positive economic growth and enhanced the culture of multiculturism in both Canada and the US. Other contributing factors are public – private partnerships that have yielded significant benefits and have paved the way for sustainable growth for existing SMME’s and created a growth path for new SMME entrants.

5.13 Canada and United States of America Immersion Insights – SMME

In New York, vending space on the street corners is regulated by government, per square metre and managed by the local government. Citizenship is a requirement or alternatively entrepreneurs have to acquire a permit to apply for a site to trade. Before pursuing this opportunity, the business must be registered to trade. The SMME pays a levy and tax, regulated by government. Electricity and water is provided by the state (standard meter boxes provided to each site by government on a “pay as you use” concept. Further to water
and electricity waste removal, security and the basic operating guidelines are provided to the business to ensure regulatory and operational compliance. The local government conducts random inspections to ensure that businesses are operating within regulation.

6. ALTERNATE SOLUTION TO PROBLEM STATEMENT

6.1 Public – private partnerships

It is imperative to develop a system of local incentives to encourage linkages between formal and informal businesses in conjunction with all stakeholders. This will further urge and help larger enterprises to play a mentoring role. Incentives can be developed to encourage and reward formal businesses that support informal and SMME business, e.g. higher tax breaks for procurement spend by formal businesses from registered informal and SMME businesses. The rolling out of more franchise type initiatives where informal and SMME entrepreneurs are given the opportunity to be mentored and run their own business using the formal business brand. This in turn could give these entrepreneurs the opportunity to start their own businesses in different sectors.

6.2 Government subsidies

To introduce flexible tax rates and utility costs for small business. Introducing easier compliance requirements, e.g. quarterly or bi-annual submission of statutory returns based on the number of employees and annual turnover. Government sponsored training programmes, e.g. recognising informal and SMME businesses as a single sector and establishing a new Sector Agency Training Authority (SETA) dedicated to working with this sector to establish and grow small business. The planned National Mentorship Scheme provides impetus for local municipalities and other stakeholders to think creatively about a local programme. Increasing local government procurement from emerging contractors.

6.3 Financing Initiatives

Reform of the current banking system, e.g. different qualification requirements for informal and SMME businesses, especially in the first year of trading when it is difficult to turn a profit. To ensure that the ecosystem enables all SMME’s to track financials over a five year period to be able to maintain and sustain the business with a view to funding possibilities
post the incubation period, from larger financial institutions. Better communication of available avenues of financing, e.g. Government and government sponsored financing institutions could use local municipal buildings to advertise their financial assistance (as an alternative to just the Web) in order to reach as many potential rural businesses that do not have access to the internet. Shorter payment periods from government to support business cash flow.

7. RECOMMENDED APPROACH

7.1 Motivation and Business Case
Small and growing enterprises will only thrive in large numbers in the long run if they are embedded in strong and supportive “business ecosystems” that include, but go beyond social responsibility. Enterprise development is fundamental to poverty alleviation, job creation, economic growth, and human development. Strengthening business ecosystems means raising awareness, aligning incentives, and helping to change mind-sets and behaviours within the interconnected, interdependent community of stakeholders whose actions affect small enterprises’ prospects for growth and success, both now and into the future.

7.2 The Creation of a Business Ecosystem
The term “ecosystem” comes from ecology, where it refers to a community of organisms that depend on one another and a shared natural environment. Strategist James Moore coined the term “business ecosystem” in a McKinsey Award-winning Harvard Business Review article in 1993, noting that firms, too, depend on communities of interconnected, interdependent stakeholders, including suppliers, distributors, retailers, customers, companies selling complementary products, competitors, investors, trade associations, regulators and other government agencies, educational institutions, the media, and others. Moore also suggested that, unlike most organisms, firms could strengthen their business ecosystems in ways that supported their long-term growth and competitiveness.

Increasingly, businesses operate in a broader network of related businesses offering particular products or services. This is known as a business ecosystem which is a network of
interlinked companies, such as suppliers, distributors and other services that interact with each other, primarily complementing or supplying key components of the value propositions (benefits for customers) within their products or services. The business ecosystem will also create opportunities for entry for new SMME’s, and the further development of existing SMME’s to eventually migrate from informal to formalisation. Infrastructure remains a key challenge in the sector, negatively impacting growth and sustainability. For this reason it made sense to propose the utilisation of the current infrastructure that was previously developed in preparation for the “World Cup 2010” and to create the business ecosystem using this established infrastructure.

7.3 Illustration 1: Johannesburg Rea Avaya line from City Centre to Johannesburg South.

A clear, diverse support strategy is required to be developed with stakeholders and should be widely publicised. A first step would be to publicise the municipality’s commitment to small industry promotion as aligned to the National government strategic
plan. The support and understanding of (potential) partners in the community, the formal business sector, NGOs, and research and educational institutions have to be mobilised. Other local SMME support initiatives and stakeholders must be identified and brought on board. Proposals from private developers, existing entrepreneurs and community groups should also be solicited. There must be critical and open debate about the options, feasibility, financial or other support that is required. The outcome of this consultative process would be a clearly formulated strategy focusing on diverse support policies.

An appropriate project structure has to be established: An appropriate legal entity (such as a Section 21 Company) has to be created and its representatives appointed. This requires a clear and transparent process. Furthermore, an interim management committee, representative of all stakeholders, must be appointed. It will have to authorise expenditure and manage the ecosystem fund in accordance with the project plan.

Site selection and refurbishment plans are crucial: Site selection is critical and there are no simple rules. Questions to ask include: Where will the products be sold? What sectors are manufacturers / retailers/ wholesalers operating in? How close is the site to transport routes, suppliers and service facilities? Is there an active or latent demand for small industrial/repair sites in the area?

Deciding on the suitability of a site requires working in conjunction with private property development companies and established/emerging informal (traders/manufacturers) associations and local government. Small-scale manufacturers located in informal settlements may not want to relocate for fear of losing their customer base.

Locally appropriate ownership models must be explored and adopted: Various ownership models are available. These include:
- ownership/development by a private developer, which is then transferred to the local authority;
- ownership/development by the financier, while a private sector company or local authority manages the project;
- the project can be owned and developed by the occupants in the form of a co-operative, but managed by the private sector;
- ownership and/or management by a Section 21 Company – this model allows for the participation of donors and stakeholders while providing the necessary financial and managerial controls.
Research shows that private owners who are also managers can have good relations with tenants, but tend to be poor landlords. In the case of local authority management, rental discipline tends to become a thorny political issue. Co-ops, on the other hand, could find it difficult to ensure cost and rental recovery.

Careful consideration must be given to the management and operationalisation of the ecosystem. The property must be run in accordance with strict commercial principles. This demands that the ‘incubator’ function (business development, support services, etc) should be separated from the management of the property. Responsibility for the property management should sit with the private sector. Managing and running an incubator is a specialist function, but management capacity can be created and transferred through training, guidance and support. Local government can play a key role on this front.

Numerous studies suggest that rents can turn out to be prohibitively high and end up excluding the very same tenants the project is meant to assist. One way to reduce rents is cross-subsidisation. This would entail attracting one or two large firms to serve as anchor tenants, which would pay higher rents. This could also help the facility to achieve financial independence. These anchor firms could also serve as sources of contracts and contacts for start-up firms. The local municipalities can also help reduce rents – by providing grants in the form of (un)serviced land and building, arranging corporate ‘hand-holding’, encouraging large corporations to ‘adopt’ an emerging enterprise, or by tapping into corporate social responsibility programmes.

The aim of a business ecosystem is to support entrepreneurs in the value chain and broader community by strengthening the wider environment in which they are embedded. Neither one organisation nor government alone can tackle the challenge of job creation and small business development. Companies, financial institutions, governments, and civil society groups must engage to reinforce the ecosystems that affect what they can achieve. Public and private partnering is therefore vital. Large firms are critical to small and medium enterprise development. They can support entrepreneurs through corporate social investment in start-up capital, basic business skills, mentoring, and networking with peers and potential customers. However, large firms increasingly realise that when it comes to supporting entrepreneurs, their comparative advantage is not social investment but rather demand for goods and services within their core business operations and value chains,
demand that creates the business opportunities entrepreneurs need to grow. To help them take advantage of these opportunities, many large firms adjust their procurement policies and practices and provide small-scale suppliers, distributors, and retailers with information, training, technology, and other capacity-building resources.

**Illustration 2: Business Ecopark concept**

To strengthen the value chain and build more prosperous societies, both to address local development priorities such as job creation and enterprise development providing these enterprises and the entrepreneurs who run them with various types of support, depending on local contexts and needs. Generally, support falls into the categories of:

- Training and mentoring,
- Access to finance, and
- Access to markets

Small and growing businesses certainly depend on healthy, supportive business ecosystems. They flourish when suppliers offer the right products and services at affordable prices, with payment and delivery terms that suit their cash flows; when banks offer appropriate payment, investment, and risk management services; when educational institutions equip them and their employees with the knowledge and skills they need to succeed; when government provides an enabling regulatory and tax environment and puts relevant
Collaboration of all stakeholders does this by using its own business processes and practices, partnering with other organisations capable of leverage and influence, and working through broader platforms for collective action. The first step is to set compelling objectives, which are critical to mobilising the internal and external resources, capabilities, and allies needed to run a successful business ecosystem. In order to set compelling objectives it is imperative to determine how the concept of a business ecosystem dovetails with the strategic objectives of National government. Extensive research into key stakeholders and the wider environment to build contextual understanding and to help define project objectives and strategies is an imperative to develop a stakeholder engagement strategy. Entrepreneurs may have one or more of the following challenges: e.g.

- **Capacity**: related to knowledge, skills, assets, or resources among target
entrepreneurs
- **Market**: related to market linkages with entrepreneurs’ suppliers, distributors, retailers, or customers
- **Finance**: related to entrepreneurs’ access to financial services including credit, savings, and insurance
- **Policy**: related to government regulation, enforcement, or public services.

To encourage companies to contribute to the objectives of the Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003, which focuses on developing small businesses that are black-owned. To create successful entrepreneur role models, which aims to encourage a culture of market-driven entrepreneurship in South Africa.

To provide grant financing, training and mentoring for entrepreneurs; managing and delivering a multi-layered, nation-wide enterprise support programme which includes formal training to develop certain entrepreneurial skills (such as preparing and pitching a business plan), business management skills (such as customer service), and sector-specific technical skills. In particular, capacity building programmes that integrate these three types of skills. Programmes that offer professional or technical certification could be especially helpful, lending credibility to the entrepreneurs and their young businesses. Formalised mentoring programmes through large business and academia. Offering government vouchers to defray training costs for eligible small businesses.

Access to financing for business needs such as working capital and leasing or purchasing equipment and other assets because the entrepreneurs have early-stage businesses with limited track records, they face far more stringent collateral requirements and higher interest rates. Even with longer track records, however, small businesses often struggle to find appropriate products, for example, a flexible financing facility from a bank at realistic interest rates to manage cash flow fluctuations (e.g. overdraft). There are a number of government agencies, (Small Enterprise Development Agency (SEDA); Shanduka Black Umbrella Incubator; MEDO, and private companies through their enterprise development programmes that also provide financing, but smme’s are not always aware of these
programmes or simply find the application process too complex. Satellite government offices situated in the business ecosystem will be able to educate and assist entrepreneurs with this process.

Private sector financial institutions have a critical role to play in helping young entrepreneurs to start and grow their businesses. To grow their businesses by finding and accessing markets. Larger companies and government entities are promising in this respect, because of their buying power they need large customers in order to scale, but until they scale, they cannot produce at the levels of quantity or price competitiveness that such customers require. They may lack contacts or other means of finding out about procurement opportunities. They may also lack the specific skills necessary to win and successfully execute large contracts – such as health, safety, and environmental compliance or be unable to obtain loans at the required levels to expand production capacity. Therefore, collaboration between similar multiple small businesses through appropriate competition control through the ecosystem can help facilitate this process.

Standard Bank, Absa Bank, Nedbank, First National Bank, and GroFin, an SME fund manager, are just a few of the financial institutions in South Africa that work with small businesses. Standard Bank, for example, offers small businesses vehicle and asset financing as well as working capital financing through products such as purchase order finance and contract finance. Absa Bank has enterprise development centres where entrepreneurs can walk in and receive assistance, advice, and support on how to start or grow their businesses. Nedbank, through its small business services division, provides the “Startup Offer,” which gives business loans, coaching, and mentoring; the bank also features web-based tools such as a business plan guide for entrepreneurs. First National Bank offers Biznetwork, a network club aimed at small and medium business owners who want to develop their business capacity. GroFin is an example of a financial institution whose overall business is focused on serving small businesses in South Africa and other countries.
7.5 Government.

In 2011, the South African government released its National Development Plan (NDP) to eliminate poverty and reduce inequality by 2030. The NDP set several milestones, including “increasing employment from 13 million in 2010 to 24 million in 2030 and establishing a competitive base of infrastructure, human resources, and regulatory frameworks.” South Africa’s Department of Trade and Industry (DTI) is one of the agencies tasked with implementing these elements of the NPD. It has responded through capacity building and regulation.

On the capacity building side, the government offers training programmes that entrepreneurs could participate in. For example, the Black Business Supplier Development Programme (BBSDP) is a DTI initiative which includes grant funding up to R200,000 for black-owned businesses to participate in training in management, marketing, productivity, and use of modern technology. One of the criteria for a business to be eligible to receive this funding is an annual turnover between R250,000 and R35 million. While BBSDP contributes 80% of the training cost, entrepreneurs must contribute the remaining 20%. There are also some government programmes for small businesses to acquire technical skills in certain industries, though there remains a need to simplify the application process for small business entrepreneurs to secure funds for training.

On the regulatory side, DTI is responsible for the administration of the B-BEEE Act of 2003. In particular, the Minister of Trade and Industry is empowered to pass guidelines and codes as well as to create an Advisory Council to advise DTI on the implementation of the B-BEEE Act. The DTI also works with the South African National Accreditation System (SANAS) for accreditation of B-BEEE verification agencies. In 2007, the DTI created the B-BEEE Codes of Good Practice, thus creating a standard measurement framework and scorecard for all relevant entities in different industry sectors to assess black economic empowerment.

Preferential procurement is one of seven criteria for how a company is evaluated on meeting B-BEEE requirements. In October 2013, DTI released revised B-BEEE Codes of Good Practice which place strong emphasis on supplier development in order to encourage the
identification and promotion of high value-add product and service opportunities in large companies’ supply chains that could be fulfilled by small businesses.

Through the new B-BBEE codes, DTI is encouraging large companies to develop supplier development programmes tailored to their specific product and service requirements. By doing so, it is expected that large companies would benefit in the medium to long-term by gaining access to small business suppliers that complete these programmes and would, therefore, be better equipped to fulfil large company contracts. By integrating these businesses into their supply chain, large companies would also be able to comply with B-BBEE codes. This is a process that can be effectively managed through the business ecosystem.

The South African government also offers various types of financial support for small businesses. For example, the National Youth Development Agency (NYDA) used to offer loans to small businesses, but has moved to a grant-based model as of May 2013. NYDA anticipates that by offering grants between R1, 000 and R100, 000 to people aged 18 to 35, it will encourage them to start or develop a small business while taking away the pressure of repaying a loan if the business fails. As a precursor to receiving a grant, young entrepreneurs will receive vouchers for business training, mentoring, access to market linkages, and other support services. The grants may be used for working capital, stock purchases, and assets. Altogether NYDA has allocated approximately R25 million to fund vouchers for training and mentorship and grants for 37,000 young people. Small businesses can also access grants to purchase assets and participate in training through the BBSDP, which offers up to R800, 000 for tools, machinery and equipment on a 50:50 cost-sharing basis between the entrepreneur and the BBSDP. In addition to grant funding, the government offers loans to small businesses through the Small Enterprise Finance Agency (SEFA) and Industrial Development Corporation (IDC), which have allocated R2.7 billion for loans to entrepreneurs over the next five years. It is expected that entrepreneurs who are able to successfully develop a business could progress from grant funding through NYDA to a small loan from SEFA to a larger loan from IDC.
7.6 Educational institutions (including universities and FET colleges).

Many universities and colleges offer entrepreneurship and business management training in South Africa. These courses are mainly geared toward full-time college students, although some evening courses do exist for working professionals and business entrepreneurs. For their part, further education and training (FET) colleges, which are equivalent to technical and vocational education and training providers in other countries, offer a variety of industry-specific technical offerings. Some FET colleges receive government funding and are able to offer courses in the government’s priority sectors. But few FETs integrate entrepreneurship or business management training with technical subject matter. There is recognition of the need for this integration, which is the focus of the Centre for Entrepreneurship (Cafe) that was launched at the King Hintsa FET College in Butterworth, Eastern Cape in October 2013. Further, neither universities nor FETs facilitate access to start-up financing for graduates at the required levels. These types of linkages are critical for students seeking to make the jump from learning to launching and growing a small business. Apart from strengthening their course offerings and financing linkages to equip students to launch businesses after graduation, universities and FETs can play a role in developing and expanding short-term training programmes for young entrepreneurs who are already running a business and need to enhance their business and technical skills. Strategic partnering with academia is therefore a critical component to the success and sustainability of the business ecosystem.

It must be emphasised that strengthening business ecosystems is not easy. It is a long-term process that involves collaboration across departmental, organisational, and sectorial boundaries. Key stakeholders have different motivations, mental models, and vocabularies, which can make it difficult to see how objectives align. Relationship-building takes time and trust. However, joining forces would reduce transaction costs, make more effective use of limited resources, and increase the scope of business ecosystem strengthening that could be done, thereby enhancing sustainability and scale of impact. Such infrastructure can help to bring a sufficient critical mass of business ecosystem stakeholders together around a shared long-term vision and objectives, clarify the roles each stakeholder should play, channel energy and resources where they are most needed, and catalyse innovation and
specific partnerships.

It should also be noted that the principle of ecosystem strengthening could apply not just to enterprise development, but to any sustainable development challenge rooted in the complex interplay of behaviours, capabilities, and incentives of broad networks of interconnected, interdependent stakeholders. In health, food, security and nutrition, education, women’s empowerment, and other areas, individual efforts are absolutely necessary, but not sufficient. As momentum towards greater collaboration and partnership builds, ecosystem strengthening approaches offer the potential to combine the comparative advantages of business, government, and civil society in ways that drive economic growth and human development more sustainably and at scale.

8. IMPLEMENTATION PLAN

It is proposed that the concept of a business ecosystem be created which dovetails with the National Government strategic objectives, example the Corridors of Freedom which is aimed at re-stitching the city to create a new future.

The City of Johannesburg is embarking on a new spatial vision for the City in line with the GDS 2040. Strategy based on corridor Transit-oriented Development. The shape of the future City will consist of well-planned transport arteries, the “Corridors of Freedom”, linked to interchanges where the focus will be on mixed-use development, high-density accommodation, supported by office buildings, retail development and opportunities for leisure and recreation. In this future, Joburgers will live closer to their workplace and be able to work, stay and play without having to use private motorised transport. Safe, affordable and convenient buses, cycling and pedestrian activity will replace the carbon-burning private car. The “Corridors of Freedom” will transform entrenched settlement patterns which have shunted the majority of residents to the outskirts of the City, away from economic opportunities and access to jobs and growth. The economy of Johannesburg is the largest economy in the country, contributing about 17% of the national GDP and approximately 47% of Gauteng’s economy. The City’s economy is the main driver of national
growth – historically performing at 50% higher in growth rates relative to national growth. - 

Clr Mpho Parks Tau, Executive Mayor, City of Johannesburg.

8.1 PROJECT TIMELINES

Targeted areas

In the medium term - 2016

• Soweto to CBD along Perth Empire
• CBD to Alex
• Alex to Sandton
• Turfontein node
• Mining Belt

In the long term - 2040

• Sandton/Randburg to Diepsloot
• Alex to Ivory Park

Apartheid spatial planning has left the City with sprawling low-density areas without viable public transport systems. The majority of working class and poor citizens are still living on the fringes of the City and have to commute over long distances to access work and economic opportunities. Private car use is a significant driver of energy consumption and greenhouse gas emissions in the City. A 10% shift of private car users to public transport for their daily commute will result in an 8% reduction in energy consumption. Future plans include addressing both the issues of sustainability and inequity. The most efficient urban form is compact, mixed land-use with an extensive public transport network that includes high intensity movement corridors and with attractive environments for walking and cycling. Such a compact City is energy efficient, provides residents with greater access, promotes social cohesion and creates a vibrant urban environment.

8.1.1. The key features of the Corridors of Freedom

Safe neighbourhoods designed for cycling and walking with sufficient facilities and attractive street conditions. Safe complete streets with features to calm traffic, control vehicle traffic speeds and discourage the use of private transport. Mixed-use developments where residential areas, office parks, shops, schools and other public services are close together,
stimulating economic activity and creating opportunities for emerging entrepreneurs. Rich and poor, black and white living side by side - housing options provided cover a range of types and prices including rental accommodation. Limited managed parking to reduce the amount of land devoted to parking and further discourage the use of private transport. Convenient transit stops and stations.

8.1.2. The Long Term Impact
The development of dedicated transport corridors hold a number of advantages for the City. The City will focus productive land use and economic activities in areas where transport infrastructure – both rail and road – are already present or being planned. This will then address one of the key infrastructure challenges facing SMME’s. The demand for private motorised transport will be reduced and the average trip length will be shortened. Public transport will become a viable alternative because residents will live in closer proximity to work, shopping and leisure opportunities. Currently employees pay approximately 30% of their salaries on travelling costs. High-density housing will further stimulate opportunities for the SMME sector and small-scale operators in the informal economy. The environmental impact of public transport in high-density areas will be significantly smaller than in the case of low-density urban sprawl reliant on private cars. Residents will benefit because they will not have to spend so much time and money on transport. Unemployed people will benefit because it will be easier to get to places to look for work. Businesses will benefit because workers will come to work on time. Shopping centres and hawkers will benefit along the corridors and nodes due to increased number of people passing their shops. The environment will benefit with less private car use and dangerous carbon emissions. Construction and other related industries will benefit because of the job opportunities throughout the lifetime of the project.

8.2 Resources and Budget
When delivering his state of the city address, Mr Tau said in the coming three years capital expenditure would total about R30bn, almost doubling from R4.3bn this financial year, to almost R8bn in 2015, and R11bn will be spent in the 2015/2016 and 2017/2018 years for infrastructure development. Mr Tau said spending on the first two corridors would begin in
2013/14. One would travel north linking the central business district with Rosebank and Sandton and the other South West, linking the city with Soweto. The infrastructure spending would take place alongside efforts to open up land use rights along the corridors to allow for development. The city was also intending to be the first to take the special economic zones concept to a local level, and would identify specific areas that merit being declared "local special economic zones". - Karl Gernetzky, 2013.

8.3 Dependencies
Partnering with the City of Johannesburg on the strategic objective relating to the Corridors of Freedom project and alignment of the business ecosystem concept. Partnering with the City of Johannesburg on the Smart City concept for free WIFI for SMME businesses within the business ecosystem.

8.4 Success Measures
- Increase in number of new SMME’s into the economy
- Reduction is exit rate of existing SMME’s from the economy
- Reduction in the unemployment rate

9. CONCLUSION
The SMME sector is demand driven. The skills are directly linked to the activities that are undertaken. The most marginalised and vulnerable groups are often driven by necessity rather than by opportunity motives to become entrepreneurs. They are of particular significance in the labour market. No single policy prescription can be applied in the entire sector. Policy instruments can include the development of skills and training, and provision of credit (Banking Transformation). The overall aim of these improvements is to transform what are often marginal and survivalist activities into decent forms of work. Our knowledge of the informal sector still needs to be improved particularly the use of empirical studies to enhance evidence based policy development and innovation. Not enough policy guidance on how local municipalities can create an enabling environment for the development and promotion of the SMME sector. Empirical studies can also assist in determining the effects of economic policy instruments on SMME sector development and innovation. SMMEs and
innovation are both seen as drivers of the economy, therefore innovative SMMEs can steer the economy towards a much higher level of competitiveness. From a development perspective, SMME’s are crucial to creating jobs, improving living standards, raising productivity, and achieving more inclusive models of economic growth and social cohesion. By creating and sustaining existing SMME, the ultimate goal is to achieve a reduction in poverty, creation of employment and redress widening inequality both nationally and provincially. This can only be achieved through strategic partnering between the private and public sector and civil society in an ecosystem that creates sustainable and profitable businesses.
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