

Township economic development

A framework for the development of metro strategies

Why focus on township economic development?

Cities are the engines of growth in the South African economy and metros have to take a wide view of their competitive advantage as a city, in order to optimise this potential. The economy as a whole depends on it. Yet, within every metro, there is significant spatial inequality in the spread of economic opportunity, with townships often marginalised from the benefits of growth in the wider city as well as constrained in their ability to contribute to growth. This arises from a number of linked apartheid legacies, often compounded by current planning choices, that have the effect of concentrating unemployment and poverty within townships. Within the wider context of economic development strategies for the city as a whole, a particular policy focus and set of strategies is therefore needed on a spatial basis, that takes account of the specific and differentiated challenges facing these areas: as part of city-wide strategy.

The main aims of township economic development strategy are:

To enhance incomes from economic activity taking place in townships. This includes better returns to entrepreneurs, better wages for workers – and better choices for consumers, that allow their incomes to go further.

To strengthen asset accumulation. Title deeds or other forms of secure tenure enable investment in upgrading business facilities and in home improvements, too. Investments in vehicles or equipment can enhance productivity – but such investment requires a sense of security. A stronger asset base limits vulnerability for entrepreneurs and households.

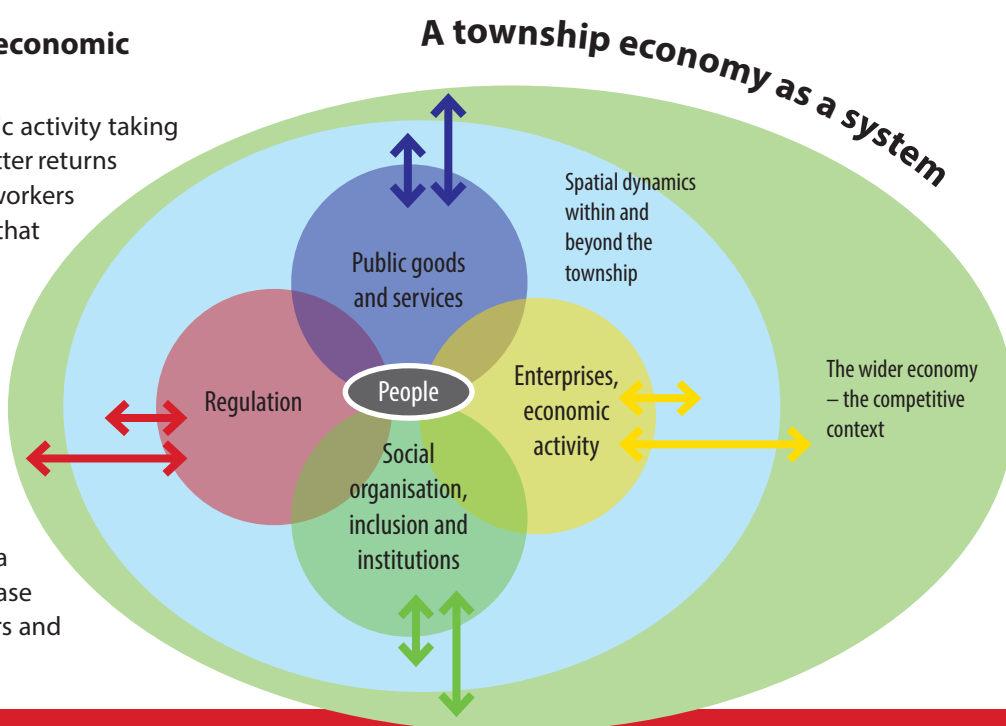
To strengthen the enabling environment so that the scale of all of the above can grow.

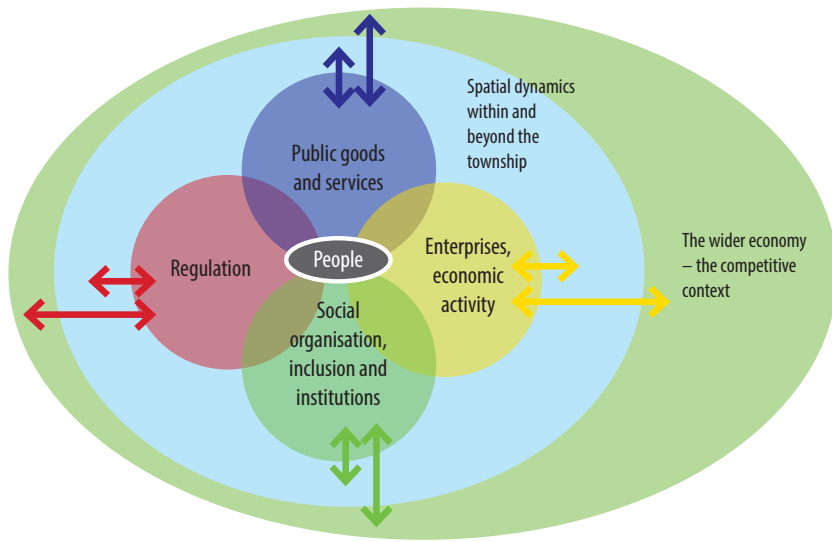
Different spheres of government have different roles in this process; the focus here is on the role of metros. This forms part of an ongoing exploration by the Cities Support Programme, to assist metros to develop a framework for the development of township economies.

What is a 'township'?

In South Africa, a 'township' is a dense urban settlement usually built at a distance from centres of commercial and industrial activity. In the apartheid era, this was by design: with townships established as dormitory towns for black workers, with no internal economic logic and limited social services. In the post-apartheid period, this pattern has often been reproduced, because large-scale housing projects have been built on cheap land, which is typically far from economic opportunities in the core economy. The social, infrastructural and economic costs of this ineffective urban planning are under-estimated and become set in concrete. Yet what are commonly referred to as 'townships' in South Africa can have highly divergent features. For example, in relation to the following:

- The quality of socio-economic infrastructure
- Their distance from industrial and commercial areas
- The level of income differentiation
- The nature of the available skills set
- Size and history
- The extent and character of existing economic activity.
- The nature of tenure arrangements and the scale of informal housing.





What are the features of a township economy – as a system?

If the aim is to achieve systemic-level change, then we need a systems-level understanding of the township economy – with all its complexity. As illustrated, every element of the system interacts with other elements – and with impacts flowing in both directions. So while the wider economy impacts on the township economy – the township economy impacts on it in turn. In understanding this system, the starting point is the people at the heart of the system. Each of the elements of this system – and the role of metros in relation to them – are explored further below.

People, organisation and institutions

People

Social organisation, inclusion and institutions

At the heart of a township economy are people – engaged in buying, selling, producing, consuming and creating, within the township and beyond it. What is the history of a given community? Who lives here? Who works here? Their choices and opportunities as economic actors influence their own well-being and impact on – and are impacted by – the local economy and also the wider economy. While the township economy does not just involve those who live there, residents are particularly affected by how it operates and the extent to which they can meet their needs locally.

This includes their social, recreational and cultural needs – all of which in turn create economic opportunities. Early Childhood Development Centres, for example, create local jobs; but they also contribute to the local economy by buying food and using services. Sporting events create market opportunities; so do religious, music and cultural events.

The social fabric at a local level is also influenced by the extent and diversity of forms of local organisation. Are businesses organised into associations? Are consumers organised? Are there street-traders associations? Stokvels? Community Safety Forums? Diverse forms of organisation create a web of links and networks that help build cohesion and influence whether business thrive. They also provide counterparts for metros in tackling common problems – including those that may be inhibiting economic dynamism.

Are there places and spaces in which people gather? All these dimensions of the social fabric contribute to a culture of participation and inclusion, to placemaking and to a ‘buzz’ at local level through which a neighbourhood develops an identity. In the process, this creates opportunities for enterprise activity, enhancing the circulation of money within the local economy – and also potentially attracting people from outside the township to come and spend their money there too.

People

Social organisation, inclusion and institutions

The role of metros

Metros need to understand the particular history of each township, and their social and economic profiles.

Townships side by side can have very different levels of internal social organisation, inclusion, class differentiation, racial and ethnic composition, balance of old and new residents and many other dynamics that can inform their social fabric – and economic dynamism.

Strengthening the social fabric: There are many ways in which metros can encourage and support the development of local organisation and activity, often with minimal resources. This includes actively enabling the use of public facilities, such as local halls, for diverse activities and ensuring visible policing at events such as sports activities.

Building partnerships and organisation: Sustaining organisation can depend in part on the responsiveness of government to partnering to achieve results. This requires consultation and mechanisms to address problems in a structured way, giving feedback and progress reports, with officials held accountable for results. This can include setting up hot-lines and implementing strict minimum service levels. The metro also has significant convening power – to bring together diverse forms of organisation locally.

Crucially, the partnerships that are built do not need to be limited to within the township, with a role for the metro in linking township associations to wider business associations, cluster organisations, value chains and innovation and research communities such as those linked to Technikons and universities.



Public goods and services

As you drive into a township or informal settlement, the status of public goods and services is often immediately apparent. While these vary significantly from one township to the next, they are too often of poor quality. The core services that people need are also the services that businesses need – waste collection, reliable access to water and electricity, street lights, decently maintained roads and pavements, effective storm-water drainage, reliable public transport and community safety. The lack of these basics cripples the scope for township economic development.

Other services matter to businesses too; in particular, telecoms and access to the internet determine the range of types of transactions in which business can engage. Without these, they are constrained to cash-based systems and face-to-face transactions. For more formal businesses, power outages can cripple production activity; cable theft leads to missed orders and poor customer service; lack of waste collection creates health hazards that will particularly affect food-related businesses. Crime is one of the biggest constraints to business in these areas – it's one of the reasons for business closures and it deters people from starting up. If basic services are poor, entrepreneurs will seek to locate their businesses elsewhere – even if they live in the township.

Even where Capex budgets for improvements are tight, many improvements are possible from effective use of operational budgets.



Potholes in the industrial node of Nancefield, outside Soweto and Eldorado Park.

The role of **metros**

The efficient delivery of quality public goods and services matters to people in townships – and could also hardly matter more to economic development. This is a core mandate of the metros; it is a crucial, systemic-level contribution to the local economy and it really matters to get these basics right. This includes the following:

- Waste management. This is crucial to the health and safety of residents – but also to the ability of businesses to comply with minimum standards – and to attract customers.
- Street-lights and visible policing: with crime a significant inhibitor of business activity, the Metro needs to provide safety and security.
- Potholes and pavements: Bad roads affect business logistics; bad pavements limit opportunities for traders and local services.
 - In addition to basic maintenance, the provision of access to storage facilities, electricity powerpoints, water and sanitation facilities in key trading spaces would all enhance the scope for local traders and service business – transforming the scope of opportunities at this level.
- Consistent energy supply; consistent water supply.
- Innovation in new public services. The provision of free wifi, for example, can be a gamechanger – transcending spatial distances in the process.



Getting regulation right

Despite the common emphasis on 'getting rid of red tape' to enable economic activity, certain regulations – appropriately enforced – are crucial to creating an environment for investment. Illegal dumping, for example, creates unsightly health hazards that negatively affect residents and businesses alike, with a dire need for enforcement in many areas.

Zoning regulations are critical to enabling – or disabling – economic activity. Historically, the design of townships as dormitory towns meant they were zoned as residential, with limited or no planning for economic activity. Yet today, enterprises tend to be dispersed throughout the township, often home-based; such as spaza shops. Such enterprises are often in breach of current zoning regulations, making them vulnerable to fines or bribes.

Certainly, no-one wants manufacturing activity with toxic environmental risks on the doorstep of their home. But that is not the risk that a spaza shop brings – which residents often welcome because it allows them to access basic supplies within walking distance of their home. It is possible to manage genuine health and safety risks – and noise pollution – in a residential area without outlawing all economic activity.

Townships also have a high concentration of economic activity around transport hubs such as taxi ranks. This extends along 'high street' corridors that have high levels of foot-traffic. Yet many of these spaces are not zoned for economic or mixed-use activity.

Lack of titling and/or of other secure forms of tenure also limit the scope for investment in business premises or housing and therefore for asset accumulation in townships – for residents and businesses – and inhibits the operation of township property markets.

The combined effect of the above factors means many enterprise are doomed to what the Sustainable Livelihoods Foundation calls 'enforced informalisation,' unable to access the benefits, protection and security of formalisation or to take out loans against their property: limiting the scope for growth.

While most **business regulation and licensing requirements** apply at a wider level than just the township, there are sometimes differences in how regulations are enforced and how licensing processes are enabled. In the Doing Business in South Africa study, cities are compared against the procedures, time and cost involved for a small business in relation to key indicators including the following:

- Obtaining the approvals required to build a commercial warehouse and connect it to water and sewerage, and permitting of construction safety.
- Obtaining a commercial electricity connection
- Transferring title deeds.



The Doing Business survey measures how a city is doing on aggregate, where formal processes are used; in many townships, these issues are informal and unregulated. If the data could be spatialised, how would townships compare? How much might the differences in this regard be informing the location choices of businesses? While in some instances, Industrial Nodes are set up near to townships to encourage local job creation – how do efficiencies in such contexts compare to the urban centres? Factors such as this can reproduce inequality in the spatial distribution of economic development, because businesses will choose locations that offer maximum efficiencies in relation to these factors.

The role of metros

Zoning: A significant but important challenge for metros is to get the balance right in enabling mixed-used zoning that recognises and enables home-based economic activity on terms that residents support. This will require strategies for consultation, experimentation with models and commitment to fair enforcement when models are agreed.

Review of regulations and by-laws: Assess which regulations and by-laws enable – or disable – local economic activity. What are the trade-offs between cutting red tape and protecting communities and residents?

Licensing procedures and permits: Are the processes clear and efficient? Are there particular constraints to the issuing of licenses and permits in townships? If the Doing Business survey was spatialised – how would the performance of townships compare to the rest of the city?

Enforcement: Is enforcement predictable and fair? How is this monitored and assessed? The lack of regulatory enforcement means many townships function as unregulated zones, inhibiting all but informal activity.

Tenure: How secure is tenure for residents and business people? What range of tenure options exist? How do these impact on the incentives to invest in the township? While metros may have to work with other spheres of government to address these issues, their role in driving progress is key.

The spatial context

Part of what defines townships is their spatial distance from economic opportunity. This has huge economic consequences for the costs of public infrastructure and for the high costs of commuting. This includes costs in relation to family life, stress, health and nutrition, as well as high job-search costs – and many more.

Making sure public transport gets people to economic opportunities outside the township safely, reliably and affordably is an important part of the equation. But connectivity also matters for bringing economic opportunities closer to townships – and into townships. Apartheid township design focused on having one access road into townships for security purposes. Internal road networks are often weak. This impacts on accessibility and logistics of goods in and out of townships, also limiting the scope for participation in wider supply chains.

Township design often includes large, unused public spaces, which become dump-sites and high crime areas. Planning for the use of such sites provides opportunities – whether as public space or for the development of particular support facilities – depending on their location.

This is linked to ‘placemaking’ – to locally-driven processes through which communities shape their neighbourhoods to meet a wide range of needs, including the creation and maintenance of green spaces, of institutions and facilities that enable recreation, roles for public art and cultural activity, and the creation of safe – and attractive – spaces around social service facilities. This creates economic opportunities in the process.

WHAT IS ‘PLACEMAKING’? ‘Placemaking’ is a community driven process that aims to strengthen the connections between people and the places they share, through collaborative processes that reshape public spaces to create shared value and meet people’s needs.

The role of metros

City-wide spatial planning: The Metros have significant levers in relation to land use management, the spatial form of the city and how city-wide planning might change the dynamics of spatial inequality. This includes the creation of development corridors that aim to integrate townships into the wider urban fabric, along main public transport routes. As cities grow, the scope for infill development arises – with an opportunity to promote mixed-income housing. This is all the more important where the middle classes are moving out of the townships, and new urban entrants are settling informally on their edges: creating new concentrations of poverty.

Public transport remains a critical dimension of strategy, in relation to cost, efficiency, safety and accessibility. This also needs to take into account the nodal development of cities, opening new destinations from townships to economic opportunities. Within townships, public transport nodes are centres of economic opportunity. Space needs to be created to optimise these opportunities – and managed. Proposals for facilities such as pay-as-you-go electricity and water may be appropriate at these nodes.

The development of industrial hubs adjacent to townships: These can crowd in business activity on terms that enable easy access to freeway routes, quality services and efficient licensing and other processes: but to work, they must indeed do so.

High streets and activity routes: Much enterprise activity is concentrated on ‘high streets’ with high foot traffic. Planning interventions need to anticipate this need, in relation to zoning but also, for example, the width of pavements. In some contexts, townships were planned with ‘road reserves’ – large open spaces on the side of main roads to allow for expansion. Often, these are undeveloped pieces of land. These provide opportunities for improved business facilities and activity and for pedestrian access, enhanced through pavements, landscaping and greening.

Placemaking: the process of developing a sense of identity for a place requires the involvement of the people who live there, in identifying their needs and local improvements. Such community initiative can be supported by EPWP and the CWP, which can provide the labour and associated inputs such as for greening the township, maintaining and improving facilities, creating public art, transforming dump-sites to public parks and much more.





The wider economy
and the competitive
context

The township economy – part of the wider economy

All enterprises, no matter where they are located, operate within the context of the wider society and economy.

The overall structure of the South African economy has implications for the competitive context in which all enterprises – including township enterprises – operate. South Africa's unequal economic structure is characterised by high levels of concentration, including in sectors that produce the fast-moving consumer goods typically found in the shopping baskets of township residents. Here are some of the items – and the all too familiar brand names:

Maize meal (Iwisa, Ace, White Star), bread (Albany, SASKO, Blue Ribbon), sugar (Illovo, Tongaat-Hulett), milk and dairy products (Clover, Dairy Belle), sunflower oil (Nola, Epic), flour (SASKO, Premier Milling), tea (Joko, Glen, Five Roses), coffee (Ricoffy, Frisco), peanut butter (Yum-Yum, Black Cat), margarine (Flora, Rama), canned goods (Koo, Gold Crest, All Gold). And Cremora.

If small enterprises produce the same products, it can be hard to compete with the economies of scale the giants enjoy – and the brand recognition, too. This does not mean there are no opportunities. Finding them does however require an understanding of the competitive context. So for example, to succeed, entrepreneurs may need to differentiate their products or to find niche markets not already taken – rather than competing head to head with the large, established firms in relation to the most popular branded goods.

These impacts of concentration apply most directly to manufacturing and agro-processing activity. By contrast, there are certainly opportunities in retail, as the high rates of participation in this sector reflect. While some are survivalist, others make good incomes. Ironically, spatial inequality can also provide a degree of protection for enterprises in the services sector, with spatial distance from the CBD's potentially creating a competitive advantage for the local provision of services. So for example, even if it costs more to make a photostat copy in the township or to use an internet café, it's still probably cheaper than traveling to the CBD to do so.

Internet connectivity also changes the game. In the past, buyers expected to visit the premises of an enterprise. Today, on-line purchasing options can mean that as long as your website looks professional, the rubbish in the street on the way to your premises is no longer visible to clients.

Nor do high levels of concentration always make large firms more competitive. In the fresh produce sector concentration in the retail sector has given supermarkets huge power over farmers, squeezing down their prices. This has led to a growing gap between farm gate prices and food prices in the supermarkets. This provides an opportunity for new linkages between farmers and consumers. The nature of local markets is not static either, with changes in levels of disposable income in townships opening new market opportunities.

The point is that township enterprises do not function in isolation from the wider economy and need to be aware of this wider competitive context. For more on this, see #1 in this series on Township economies.

The role of metros

The wider economy
and the competitive
context

Although metros have limited leverage to change the structure of the economy or counter concentration within it, most of the economy is in fact located in the cities, and city strategies for economic development are vital to the overall economy.

Develop integrated city development strategies: Township economic development strategies need to form an integral part of integrated city-level strategies for economic development, with attention paid to complementarities, synergies and linkages wherever possible – to avoid compounding current inequalities by treating the township economy as somehow outside the core economic and growth logic of the city.

Procurement: Metros can use their procurement spend to support smaller players and new entrants. Such strategies need to avoid simply adding a 'township premium' to government costs, however. This applies where township entrepreneurs simply add a mark-up to goods procured in the nearest CBD. If payment is late, contracts with metros can also destroy small enterprises, who often don't even have the cashflow to last 30 days, let alone longer. The contract that was intended to 'make' them breaks them instead.

Support to township enterprises

Direct support to enterprises is not strictly within the mandate of metros, although they do play roles in this regard. The risk, however, is that metros see this as the starting point for support to township economies – leap-frogging those elements of the system in which they actually have real leverage and power – and in relation to which they are **the only sphere of government** in a position to make the required systemic-level changes.

There is a risk that a focus at the level of enterprise support benefits a handful of enterprises a great deal – but unlocks no wider or exponential effects. So while there are interventions that can be made that will make a difference: the strong advice at this level is that limited management time and capacity should first be focused on the urban management agenda: on **getting the basics right** in terms of **the delivery of public goods and services, enabling regulatory frameworks – and their fair enforcement**. This will benefit **all** economic activity. While outcomes are more indirect and have less ribbon-cutting potential, this can have the systemic-level impacts so badly needed.

In terms of enterprise support, there are different circuits of economic activity – targeting different types of markets and business relationships – with different implications.

- **Township enterprises serving local markets.** At present, informal retail and service activities dominate this segment. This circulates money in the local economy, limiting outflows.
- **Township enterprises breaking into markets beyond the township.** Although this could include informal traders in the CBD, this typically requires greater levels of formality if it involves business to business transactions, including, for example, access to shelf space in retail outlets.



On-line marketing and IT-based services change the spatial constraints and create new opportunities for this, however. This brings new income into the township economy.

- **External investment into townships and adjacent areas, creating local jobs.** This could be in industrial nodes adjacent to townships or within townships. This is enabled by getting the basics right. Often, this has taken the form of retail malls, with sometimes ambiguous impacts on local enterprise. On what terms should such investments be enabled? Can these terms include shelf-space for local products, or design of physical infrastructure that enables participation of local entrepreneurs?
- **Less extractive forms of participation in wider value chains and supply chains.** Enterprises don't have to produce a final product or service; they can contribute into wider value chains or form part of supply chains. Negotiating decent terms is crucial here.

Township enterprises are the most visible part of the township economy.

- What is their profile?
- In which sectors are they operating?
- Are they formal or informal? Why?
- Are they thriving?
- What constraints do they face?

Most metros don't have answers to these questions. Yet this is crucial to crafting a support strategy. As part of Tsheppo 1 million, Gauteng Province initiated township economy surveys in nine townships. They employed 750 local youth to do so, using a tablet-based survey, yielding a wealth of information on which strategy has since been based.

The role of metros

1. Start with what exists

Township economy surveys of various kinds can assist in mapping local enterprise activity, with existing surveys showing common clusters and patterns in many townships. How can these be strengthened?

- Street traders and street-based service providers are a large segment of township entrepreneurs. Many are survivalist – but survival matters. Are they concentrated spatially? How diverse are the goods and services provided? Could they benefit from support such as access to shelter, storage facilities, electricity points, water and ablution facilities? How can they be engaged and consulted?
- The food economy is typically the single largest sector, including street traders, spazas, shisanyamas, shebeens and more – with their transport and logistics also part of this cluster of activities.

The food economy is vital to the food-provisioning and nutrition strategies of township residents. What are the supply chains? For fresh produce, what is the supply chain from farmers to consumers?

- Commuters leaving early and returning late struggle to cook, affecting nutrition. How can food preparation enterprises fill this gap – with healthier options?
- Home and business improvement is thriving as people add on, add up and extend their houses. This includes construction-related activity, the sale of materials, welding, as well as purchases of furniture and appliances.
- Transport related services, largely supporting the taxi industry, such as tyre repair, panel beating and car wash – often with a shisanyama on the side.
- Services such as hair care, tailors, shoe repairs. Often, personal services dominate, but with scope for business services such as internet cafés.

In developing strategies for such clusters of activity, the same framework applies as for an overall township economic development strategy, as illustrated in relation to the food economy below.



2. Build the support eco-system

Support eco-systems can be spatial or specific to particular sectors, clusters or value-chains. What is the focus of the eco-system being built? Is the focus on start-ups – or on strengthening existing businesses, to improve their returns and to expand and innovate? The strategies for each will differ. Either way, though, building such eco-systems requires building partnerships, linkages and networks – not only with roleplayers within the township, but in the wider environment also, to crowd in support of different kinds and to identify the assets on which the process can draw – including intangible assets like goodwill and experience. Don't forget the role of local social and civic organisations, which are an important part of local network effects.



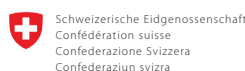
Despite the rationale for the dispersed nature of certain home-based economic activity, there is also a need to enable agglomeration effects – where proximity of enterprises to each other can enable business services and crowd in consumers. How can this be done? High streets play this role. But does it also involve setting up incubators or perhaps light industrial zones? Enough of these have become white elephants for this to need effective consultation with potential users before deciding whether, where and on what terms to make such investments. How else could agglomeration effects be supported?

What about finance? Metros are not in the game of providing finance directly, but can they unlock and catalyse solutions in partnership with financial institutions that do?

As economic activity grows, so does the importance of linking township economies into innovation systems, engaging other spheres of government, the private sector, and technikons and universities – because starting with what exists does not mean ending there.

Conclusion

The tools presented here provide a framework for the development of township economy strategies, as part of integrated city-wide economic development strategies. Which metros are willing to partner with the Cities Support Programme to test – and improve – this framework?



Swiss Confederation

