

Home Based Entrepreneurs: Research Findings and Recommendations

A research project sponsored by the National Department of Housing, the Social Housing Foundation, Nedbank and the FinMark Trust



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in Association with CSIR Built Environment

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Reports produced as part of the Housing Entrepreneurs Research Project:

Final Reports:

Research Report: Consolidated analysis of research into Small Scale Landlords and Home Based Entrepreneurs (April 2006)

Small Scale Landlords: Research Findings and Recommendations (3 May 2006)

Home Based Entrepreneurs: Research Findings and Recommendations (to be released in July 2006)

Resource Reports

Literature Review

Resource Report 1: Literature review of Small Scale Landlords (6 February 2006)

Resource Report 2: Literature review on the financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks. (6 February 2006)

Resource Report 3: Literature review on entrepreneurship, housing and housing finance (6 February 2006)

Resource Report 4: Literature review on Home Based Entrepreneurs (6 February 2006)

Small Scale Landlords

Resource Report 5: Research into Landlords in Inner Cities (6 February 2006)

Resource Report 6: Research into Landlords in Townships (6 February 2006)

Resource Report 7: Research into Successful Landlords (6 February 2006)

Resource Report 8: Research into Service Providers in respect of Small Scale Landlords (6 February 2006)

Resource Report 9: Research into Public Sector Stock (6 February 2006)

Home Based Entrepreneurs

Resource Report 10: Research into Home Based Entrepreneurs (6 February 2006)

Resource Report 11: Research into Successful Entrepreneurs (6 February 2006)

Resource Report 12: Research into Service Providers in respect of Entrepreneurs (6 February 2006)

Contents

EXECUTIVE SUMMARY	VI
1 INTRODUCTION	1
1.1 Rationale for the research	1
1.2 Conceptual approach	3
1.3 Purpose of the research	4
1.4 Overview of this report	5
2 METHODOLOGY OF THE RESEARCH	6
2.1 Overall Methodology	6
2.2 Phase 1: Research	7
2.3 Phases 2 and 3: Preliminary Proposals and Testing	8
2.4 Definitions	9
3 KEY FINDINGS OF THE RESEARCH INTO HOME BASED ENTREPRENEURS	10
3.1 Entrepreneurship in South Africa	10
3.2 Prevalence of Entrepreneurship	12
3.3 Contribution of Home Based Entrepreneurs	14
3.4 Profile of Home Based Entrepreneurs	15
3.5 Overview of the home based businesses	16
3.6 Market sectors	21
3.7 Categories of HBEs	22
3.8 Formal vs informal	27
3.9 Motivation and attitudes	28
3.10 Access to finance	31
3.11 Support of Home Based Entrepreneurs	34
3.12 Use of the house in the business	37

3.13	Regulation	41
3.14	The role of government	44
3.15	Non Home Based Businesses	46
3.16	Successful Entrepreneurs	47
3.17	Conclusions: Home Based Entrepreneurs	48
4	RECOMMENDATIONS	56
4.1	Terms of reference for the recommendations	56
4.2	Proposal 1: Policy implications	56
4.2.1	Key considerations	56
4.2.2	Proposed programmes	59
4.3	Proposal 2: Financial products	63
4.3.1	Key considerations	63
4.3.2	Proposed programme	65
4.4	Proposal 3: Information products and tools	65
4.4.1	Key considerations	65
4.4.2	Proposed programmes	66
5	OVERALL CONCLUSIONS	69
	ANNEXURE A: DETAILED OVERVIEW OF THE METHODOLOGY APPLIED DURING PHASE 1	70
	ANNEXURE B: SCHEDULE OF ATTENDANTS TO WORKSHOPS	74

List of Tables

Table 1: Components of Phase 1: Research	8
Table 2: Prevalence and type of Entrepreneurship.....	13
Table 3: Extent of Subsistence of Enterprises identified	14
Table 4: Estimation of the size and contribution of Home Based Entrepreneurs	15
Table 5: Profile of Home Based Entrepreneurs	16
Table 6: Characteristics of the businesses of the Home Based Entrepreneurs interviewed.....	17
Table 7: Typical business types	21

Table 8: Comparison of income groups 24

Table 9: Formality of HBEs 27

Table 10: Motivation and attitudes..... 29

Table 11: Access to finance by Home Based Entrepreneurs 32

Table 12: Summary of findings of interviews with Support Service Providers..... 35

Table 13: Use of the house in business 38

Table 14: Way in which dwelling is used by sector..... 39

Table 15: Advantages and disadvantages of using the home for business purposes 48

List of Figures

Figure 1: Conceptual approach of the research 4

□ Figure 2: Overall methodology 6

Executive Summary

Introduction

This research seeks to provide a deeper understanding of housing as a **productive asset** and its role in **promoting economic activity and improved affordable housing supply**, through supporting the activities of Home Based Entrepreneurs and Small Scale Landlords. The research focused on obtaining a detailed understanding of how **Small Scale Landlords** and **Home Based Entrepreneurs** operate, the key constraints that they face and the extent to which they are using their home as a productive asset. This was set within the context of a **broad understanding of entrepreneurship** and current policy and practice in unleashing and supporting entrepreneurial activity.

The research is funded by Finmark Trust, the Social Housing Foundation, Nedbank, the Gauteng Department of Housing and the National Department of Housing. Shisaka Development Management Services in association with the CSIR were appointed to undertake the research. Specifically the study aims at:

- **Identifying the housing finance interventions** necessary to build an entrepreneurial and small scale landlord sector in low income areas.
 - Developing **appropriate information products and tools** to assist emerging entrepreneurs and landlords in their efforts at becoming housing entrepreneurs.
 - Focusing on the potential for small scale entrepreneur landlords to be the model for dealing with **difficult to transfer state owned stock**.
 - Understanding the key issues which would support a **productive relationship between the landlord and the tenant** in the small scale sector in the mutual interests of both parties.
 - Inform policy and strategy directions so as to facilitate **better access to housing investment opportunities for either entrepreneurs or small scale landlords**, such as are already being realised in the middle and upper income sector of South Africa.
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Methodology of the Research

The methodology applied in undertaking this study comprises five phases. **This report provides an overview of the work undertaken in Phases 1 to 4 in respect of Home Based Entrepreneurs (HBEs).** A separate report is available in respect of Small Scale Landlords.

The research comprised the following:

- **Literature reviews:** Four literature reviews focusing on both international and South African literature were undertaken
- **Research into Small Scale Landlords:** This research included; a survey of Small Scale Landlords in Inner Cities, research into Small Scale Landlords in Townships based on an existing survey undertaken by Nurcha, interviews with 20 Successful Landlords, interviews with Service Providers in respect of Small Scale Landlords and research into Public Sector Stock.
- **Research into Home Based Entrepreneurs:** This research included; a survey of Home Based Entrepreneurs in Inner Cities, a survey of Home Based Entrepreneurs in Townships, interviews with Successful Entrepreneurs and interviews with Service Providers and Lenders in respect of Entrepreneurs.

Key findings of the research into Home Based Entrepreneurs

This section summarises the analysis of the research undertaken into HBEs and **provides an overview of HBEs and the context in which they operate.** The key conclusions of the analysis of the research are as follows:

- **Importance of the home in Entrepreneurship:** The Entrepreneurial sector in South Africa is seen as a critical component in addressing the fundamental issues of unemployment and poverty, as well as contributing to meaningful Black Economic Empowerment. However **low rates of entrepreneurship are occurring.** This survey of HBEs in Inner Cities and Townships found entrepreneurial activity in these areas ranging between 13 and 22% within the neighbourhoods surveyed. These low rates confirm that the overall growth of the enterprise sector in South Africa has been modest and lags in terms of international comparisons. Government's interventions into this sector have been poor. This is consistent with experience in other countries, which have also found it difficult to support small business.
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De Soto in his books *The Other Path* and *The Mystery of Capital* expounds the theory that to escape from poverty, poor households need assets that they can put to work. By using their properties such households can apply for loans to start or expand their businesses. The survey of HBEs in Inner Cities and Townships found that small Entrepreneurs in South Africa **are not using their houses as collateral**, as they believe the risk is too high given the rate of failure of small businesses.

However as suggested by Rust¹ **a large number of small Entrepreneurs in Inner Cities and Townships are using their home for business purposes i.e. as a venue for the business.** It is estimated that up to **355 000 Home Based Entrepreneurs are active in Townships and Inner Cities comprising 13% of the total population of these areas. These HBEs are generating a significant monthly income of approximately R476 million per month.** While most of these businesses can be classified as micro or small, for many of the Entrepreneurs who own them, they represent their sole income.

It can therefore be concluded that housing in South Africa **is an economically productive asset, offering opportunities for income generation and poverty alleviation.** This is not necessarily in respect of using the house as collateral for a loan as indicated by de Soto, but rather as a venue for a business. The limited number of households currently using their houses (either as collateral to raise finance or as venue for business) represents an **untapped opportunity. There is therefore value in supporting existing HBE's, so that they can operate more effectively and expand, as well as promoting the use of the house to assist the emergence of new Entrepreneurs.** In order for this to occur there is a need to change the way in which HBEs are regulated and supported.

- **Use of the home:** Very few of the HBEs interviewed (6-7%) **used their house as security** for a loan for their business. This is mainly attributed to the high risk of failure of entrepreneurial enterprises. HBEs were not prepared to offer their houses as collateral for business loans. Rather HBEs use the house as a **venue for their business.** In this regard, HBEs are providing a range of services predominantly in the retail and services sectors and to a lesser extent in the production sector.

¹ Rust, K The role of housing in entrepreneurial activity in South Africa, 8 November 2004

The survey of HBEs in Inner Cities and Townships found that the type of business differs between Inner Cities and Townships and includes a range of diverse activities. These services are offered on the basis that they:

- **Provide credit**
- Rely on a **local customer base**
- Provide goods and services on a **personalised basis and with high levels of convenience**
- Structure their services to the **needs of the customer base** for example Townships retail outlets offer smaller quantities that cannot be purchased in more formal retail outlets.

In providing this service, most HBEs use only a small portion of their house (less than half). Uses vary by area and sector but include:

- **Storage and parking** which is the highest usage in both areas and in almost all sectors
- A **place to produce goods**, obviously in respect of the production sector in both Inner Cities and Townships
- A **location for the business**, which occurs predominantly in Townships in respect of the Retail Sector and to a lesser extent the Service Sector.

It was evident both in respect of the interviews with HBEs and Successful Entrepreneurs, that the house plays an important role particularly in the **incubation phase** of a business or if a **business is not growing**. However as a business grows and expands, unless the house is the location for the business and the customer base is located in the area, many **Entrepreneurs will move the business out of the house** if they can afford to do so.

There does not appear to be **any significant level of objection by residents** in the area in which the businesses are located, to the activities that are undertaken. **Access to services appears good** in Inner Cities and **adequate** in Townships.

On the basis of the above it is evident that the activities being undertaken by HBEs in Inner Cities and Townships are **well accommodated in the house in residential areas**. Some will grow beyond and out of the house and into business premises and some will remain.

- **Township vs. Inner cities:** The survey of HBEs in Inner Cities and Townships (see Resource Report 10) found that the profile of HBEs that operate in Townships and Inner Cities are different. HBEs in Inner Cities are predominantly male, whereas in Townships they are more likely to be female. On average HBEs in Inner Cities are almost ten years younger than those in Township areas. HBEs in Inner Cities are also better qualified than those in Townships and more have training than those in Townships).

HBEs in Townships **are less profitable** than those in Inner cities. Township HBEs appear to be more survivalist businesses; in which people supplement the little they have in providing services to their neighbours. **The reason for this is that the physical, social, economic and legislative context of Townships militates against the emergence of more viable home businesses. The customer based in Townships is limited with low incomes. There is better access to markets and higher thresholds of customers in Inner Cities because of the greater population density and because it is a mixed use settlement.**

Given the above it is evident that different types of initiatives and programmes are required in respect of supporting existing Township and Inner City HBEs and encouraging the emergence of new HBEs.

- **Types of HBEs:** An analysis of the data obtained through the survey of HBEs indicates that HBEs can be categorised into three distinct types namely **Subsistence, Sustainable and Growing**. The key characteristics of these categories have been documented. **Within each category there is evidence that** some businesses are growing and other are stagnant. **Furthermore it is evident that the** challenges and opportunities are different **with respect to each category and therefore** different types of support are required.

The research **did not identify a 'ladder of development'**. While categories of business were identified as detailed above, there did not seem to be any evidence of businesses moving from one category to the other. The reasons for this vary and include for example the amount of capital an HBE can access, the talent for entrepreneurship that the HBE has and his/her innovation, passion determination, energy and willingness to take risks.

- **Entrepreneurship:** Not all HBEs show entrepreneurial characteristics. However there are a significant number of HBEs who are entrepreneurial. The interviews with successful
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Entrepreneurs found that **success depends on each person** – their vision for the business and their comfort levels. A Multivariate Regression analysis of the HBEs interviewed determined that factors that impact on the growth of a business include education levels, formality of the business, access to capital, willingness to take risks and a positive attitude towards growing the business. **The above suggests that when providing support to HBEs care should be taken in the selection of the HBE, so that the support is provided to those individuals who are entrepreneurial.**

- **Access to finance:** Access to formal finance for most HBEs appears to be limited and most used savings or an informal loan to finance their business. There are two main sources of formal funding for HBEs, namely loans provided by Commercial Banks and finance provided by Specialist Lenders. The lack of access to these loans is the result of the complexity of lending to small start up businesses, which are often informal, have no collateral or risk capital, questionable business plans and limited managerial resources. Important variances in respect of the different types of HBEs influence the different types of financial products required.

Access to finance that is appropriate for HBEs **needs to be significantly increased**. The high risk of small business has resulted in a reluctance by HBEs to use their house as collateral for a loan for their businesses. This implies that Lenders should develop alternative lending products that do not rely on the home as collateral. The raising of awareness around access to finance, and knowledge of the types of conditions that come with such schemes, is an area that needs to be actively supported.

Financing support on its own is not enough – business skills and a helpful environment for private sector growth must be developed in tandem.

- **Business support:** While there are a number of Service Providers providing focused support to SMEs, **none of these provide specific support to HBEs and none focus on the role of the house in respect of the SME sector**. Support should include capacity building, access to services and funding. In many cases the support is relationship based, and this is seen as a key success factor.
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Key challenges exist including lack of capacity and funding for Service Providers, lack of coordination among Service Providers and poor quality and monitoring of the quality of services provided. **Support programmes to Entrepreneurs have to be focused and there needs to be high levels of understanding of the Entrepreneurs motivation and commitment and the business and market sector in which s/he operates in order to improve the chances of success.**

- **Formal vs. informal:** The majority of the HBEs interviewed operate informally. However levels of formality are higher in Inner Cities and for Sustainable and Growing HBEs. **Development of a business requires formality** because it is only when a small enterprise operates in the formal sector that they can access capital and utilise infrastructure in order to grow. Linkages between the formal and informal sectors are critical to growing the informal or HBEs. Very few effective linkages exist with the formal sector. **Given the above it is evident that support must be provided to HBEs to assist them in formalising their businesses. Developing backward and forward linkages are important in this regard.**

- **Regulation:** Most HBEs do not comply with business or zoning regulations:
 - In respect of **business regulations** South Africa has a high regulatory compliance burden. This affects small business to a greater extent than larger business because of their limited administrative resources, uncertain cash flows and limited understanding of rights and responsibilities.
 - In respect of **zoning regulations**, these regulations have a particular impact on HBEs because they regulate the type and basis by which a business can operate within an area. Regulations governing HBEs in South Africa create barriers through unsupportive by-laws and zoning regulations and licensing limitation.)

It is evident therefore that there is a need for regulations pertaining to business and zoning to be reviewed. Regulatory Impact Assessments are seen as a basis for understanding the impact that regulations have and to ensure that any revisions made are effective and appropriate. **Reforming the regulatory environment should focus on eliminating artificial and policy induced constraints and creating an environment that will facilitate enterprise growth.**

- **Role of Government:** The role of Government is to create a positive environment within which existing HBEs can grow, as well as creating opportunities for new HBEs to emerge.

Government role should focus on:

- Providing **access to services, infrastructure and property rights**
- Ensuring that **new areas that are developed accommodate and support** entrepreneurial development
- **Amending the regulatory environment** in respect of planning, environmental and business regulations
- **Provide support to and monitoring the services** of Service Providers who are assisting Entrepreneurs

Local and Provincial Government also have a **particular role to play**.

Recommendations

- **Proposal 1: Policy implications:** The research into HBEs shows that the house provides a critical platform for enterprise/business activities. Housing in South Africa is an **economically productive asset, offering opportunities for income generation and poverty alleviation**. This is not only in respect of using the house as collateral for a loan as indicated by de Soto, but also as a **venue for a business**. The fact that so few people are using their houses for business purposes means that there is **untapped opportunity**. There is value in supporting existing HBEs, so that they can operate more effectively and expand, as well as promoting the use of the house to assist the emergence of new Entrepreneurs. In order for this to occur there is a need to change the way in which **HBEs are regulated and supported**. Accordingly five programmes are proposed:

- **Recognition and support of HBEs:** The aim of this programme is to create a national framework promoted by Public Sector Politicians and Officials, which recognises the house as an economically productive asset that can be used by HBEs to create income and generate wealth, in a manner that is not detrimental to the environment or residential areas. The proposed implementer for this programme is the National Department of Trade and Industries in partnership with the Departments of Provincial and Local Government and Housing.
 - **Review of regulatory requirements:** The aim of this programme is to review and streamline the regulatory requirements impacting on HBEs. The proposed
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implementer of the programme is the National Department of Trade and Industries in partnership with the Department of Provincial and Local Government.

- **Support to Municipalities in managing and regulating HBEs:** The aim of this programme is to provide support to Municipalities to manage and regulate HBEs, in a manner that creates an enabling environment. The proposed implementer of this programme is the Department of Trade and Industries in partnership with the Department of Provincial and Local Government.
 - **Promoting linkages to the formal sector:** The aim of this programme is to promote backward and forward linkages of HBEs to the formal sector. The proposed implementer of this programme is the Department of Trade and Industries.
 - **Promoting the appropriate design of new areas:** The aim of this programme is to provide support to Municipalities to locate, plan and design new areas in a manner that physically better accommodates HBEs. The proposed implementer of this programme is the National Department of Trade and Industries in partnership with the Department of Provincial and Local Government.
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- **Proposal 2: Financial products:** The research into HBEs shows that while financial products exist, access to such products for most HBEs appears to be limited. Most HBEs use savings or informal loans to finance their business. There are two main sources of formal funding for HBEs, namely loans provided by Commercial Banks and finance provided by Specialist Lenders. The lack of access to these loans is the result of the complexity of lending to small start up businesses, which are often informal, have no collateral or risk capital, questionable business plans and limited managerial resources.

The research indicates that a mortgage linked product for HBEs is not appropriate. Rather loans should be small and provided through relationship based lending procedures with business support services. Such business support should not be generic but should be sector and market specific (Inner City or Township) with high levels of understanding of the opportunities and constraints of each individual business. In addition loans should be provided on the basis of a careful selection process that determines the extent of entrepreneurship of the applicant and his/her vision for the business.

A number of Financial Institutions and Specialist Service Providers already exist that provide loans and business support but who are not necessarily focusing on HBEs.

Accordingly no new loan product is proposed but rather a high level technical briefing programme that educates specialist Service Providers and Financial Institutions on HBEs.

The aim of this programme is to educate specialist Lenders, Service Providers and Financial Institutions on HBE's. The proposed implementer of the programme is Finmark Trust.

- **Proposal 3: Information products and tools:** The research into HBEs shows that the house being used as a venue for a business, provides a critical platform for enterprise/business activities. Housing in this regard is an **economically productive asset, offering opportunities for income generation and poverty alleviation and wealth creation**. However this is to a large extent an **untapped opportunity** as few people are using their houses in this way. Accordingly there is a need for information products and tools that will change the attitudes of key stakeholders so that the house is more widely recognised as a productive asset in that it can be a venue for a business and to support HBEs. Three programmes are proposed:
 - **Communication programme for Officials and Politicians within National, Provincial and Municipal Government:** This programme is targeted at Government Officials and Politicians. The aim of the programme is to disseminate the findings of this research, particularly to highlight the use of the house as an economic asset, the developmental role of the HBE sector and to promote debate. The proposed implementer of this programme is the funders of the research (Finmark Trust, the Social Housing Foundation, Nedbank, the Gauteng Department of Housing and the National Department of Housing).
 - **Information campaign to the general public:** This programme is targeted at the general public and aims to promote the ability to generate wealth through being a HBE. The proposed implementer of this programme is the Department of Trade and Industries.
 - **Forums:** This programme is targeted at HBEs and aim at facilitating information sharing among HBEs and improving business practices and knowledge. The implementers of this programme should be Lenders and Service Providers who could establish and manage these Forums as part of the activities that they undertaken in this market sector.
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Overall conclusions

This report sets out research into **Home Based Entrepreneurs**, who use the home to run a business that generates income. It is estimated that currently these HBEs are **generating significant income** as a result of their activities. This is estimated to be **R476 million** per month within Townships and Inner Cities. Most of these HBEs fall within the low income categories.

The research found further that **significant opportunities exist**, both in terms of existing HBEs growing their businesses, as well as encouraging the emergence of new HBEs.

Given the challenges faced by South Africa in terms of high levels of unemployment and poverty, key stakeholders including Government, Financial Institutions and Business Service Providers needs to recognise that the **house is an economically productive asset** that can be used to create income. This can occur in a manner that is **not detrimental to the environment or residential areas**. Government policy and the practice of Financial Institutions and Business Service Providers needs to be adjusted to recognise this and initiatives and programmes should be implemented to support the growth and development of HBEs.

1 Introduction

1.1 Rationale for the research

Since the formation of the Government of National Unity in 1994, there have been significant strides towards the transformation of the lives of ordinary South Africans. Set within a macroeconomic policy, which is focused on stimulating economic growth, there has been **significant delivery** in respect of the provision of housing, engineering services such as water and electricity and social services such as education, health and social safety nets for the most vulnerable.

Yet despite these efforts by Government, **poverty has increased**². The South Africa, Human Development Report (2003)³ indicates that **48,5% of the South African population (21,9million people)** fall below the national poverty line⁴.

Unemployment continues to be a significant problem. While important strides have been made in overcoming the past inequalities in the labour market, employment opportunities remain low. Unemployment is currently assessed as being 26%⁵. Government has set a target to reduce unemployment to below 15% and halve the poverty rate by 2010.⁷

Addressing poverty, unemployment and service delivery has increasingly become **a central theme and focus** of all stakeholders both within the public and private sectors. Initiatives being undertaken range from high level macroeconomic interventions to small scale community based programmes. One of the critical elements identified is that of **promoting small and medium sized enterprises (SMME's)**.

² It is noted that there are a number of different statistics and measures on poverty and there is currently no official definition of the term. The statistics quoted in this paragraph are therefore indicative only to highlight the severity of this issue.

³ South Africa, Human Development Report 2003, Published for the United Nations Development Programme, Oxford University Press, 2003

⁴ The poverty line is R354 per month per adult

⁵ Media briefing by Deputy President Phumzile Mlanbo-Ngcuka, 6 February 2006, Background document, A catalyst for Accelerated and shared Growth-South Africa

⁶ This is considerably better than the 31,2% (in terms of the strict definition) or 41,8% (in terms of the expanded definition)⁶ estimated in 2003, but is still extremely high

⁷ Media briefing by Deputy President Phumzile Mlanbo-Ngcuka, 6 February 2006, Background document, A catalyst for Accelerated and shared Growth-South Africa

In his **State of the Nation Address of the 3 February 2006, President Thabo Mbeki said:**

“We should move faster to address the challenges of poverty, underdevelopment and marginalisation confronting those caught within the Second Economy, to ensure that the poor in our country share in our growing prosperity. ASGISA has once more confirmed the need for us to expand our small, medium and micro enterprise (SMME) sector, paying particular attention in this regard to Broad-Based Black Economic Empowerment, and the development of women and the youth”.

This research seeks to contribute **by providing a deeper understanding of housing as a productive asset and its role in promoting economic activity and improved affordable housing supply**, through supporting the activities of **Home Based Entrepreneurs and Small Scale Landlords**.

The Labour Force Survey for 2002 indicates that 53% of households (5,63 million) in South Africa own their house. For these households their **house offers opportunities for wealth creation** in that:

- It can be **used to create capital** - the house can be used to leverage capital (currently through obtaining mortgage finance) or through selling the house and using the finance to establish or expand a business, or
- To **generate income** - by either offering accommodation for rent (Landlord) or operating a business from the property (Home Based Enterprise).

Research undertaken by Finmark into the Workings of Township Residential Property Markets in 2004, found that the estimated value of residential properties in Black Townships in South Africa was R68,3 billion. Nevertheless the **use of these properties for wealth creation and or income generation is extremely limited**.

By and large households are unable or unwilling to leverage capital using their property as an asset and are not making use of such property to generate income, either through rental or the use of the property for business purposes. Other research particularly that undertaken by Nurcha also in 2004 however **found viable rental markets, in low income areas**, where backyard rental is being used as a productive asset and providing affordable housing options to the poor.

Accordingly, this study poses the question as to how housing finance can be used to increase the extent to which Landlords and Home Based Entrepreneurs use their housing asset productively and contribute to affordable housing supply in South Africa.

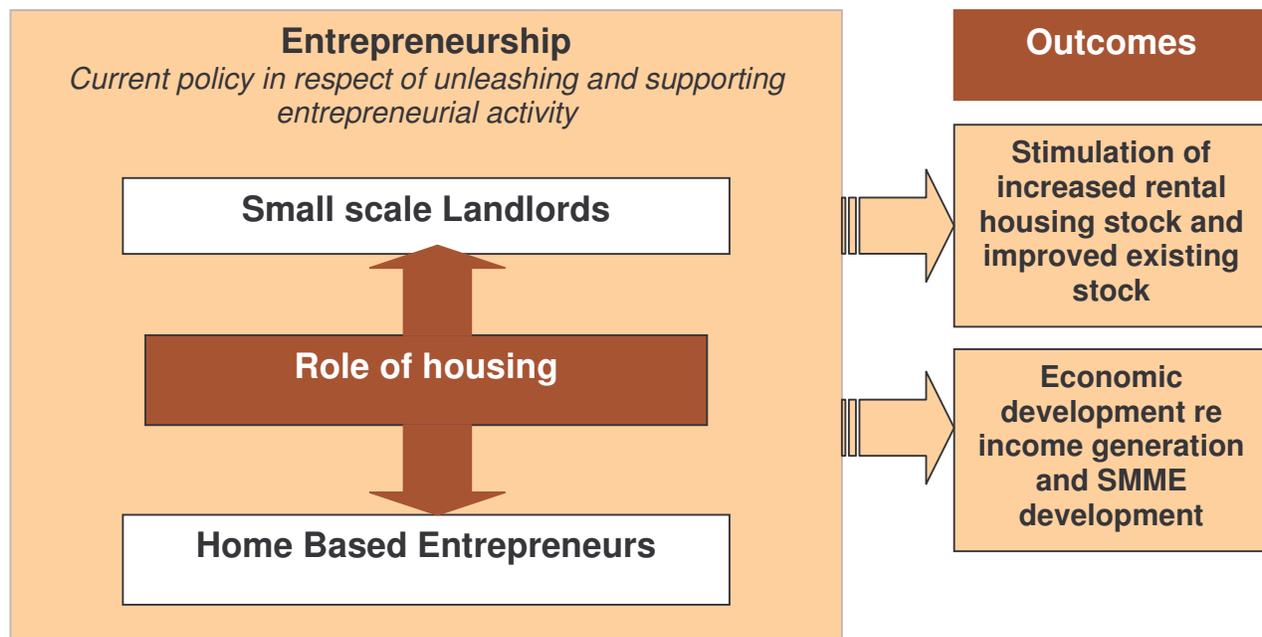
1.2 Conceptual approach

The research focused on obtaining a detailed understanding of how **Small Scale Landlords** and **Home Based Entrepreneurs** (see Section 2.2 for a definition of these terms) operate, the key constraints that they face and the extent to which they are using their home as a productive asset. This was set within the context of **a broad understanding of entrepreneurship** and current policy and practice in unleashing and supporting entrepreneurial activity.

While the research focused on addressing key research questions raised by the Funders of the research (see Section 1.3 below), it also addressed the following questions:

- How can the **rental housing sector be stimulated so as to increase the amount of rental stock available to low income households**, as well as **improve the quality of stock that is already available**?
- How can Entrepreneurs be assisted to **start new businesses or grow existing business through the use of their housing asset** thereby assisting in income generation and wealth creation and overall economic development within South Africa?

Figure 1 below provides an overview of the conceptual approach underpinning the research.

Figure 1: Conceptual approach of the research

1.3 Purpose of the research

The research is funded by Finmark Trust, the Social Housing Foundation, Nedbank, the Gauteng Department of Housing and the National Department of Housing. Shisaka Development Management Services in association with the CSIR were appointed to undertake the research.

The purpose of the research is to understand **how housing and housing finance can be used as a tool to promote the emergence and growth of entrepreneurs and small scale landlords**. Specifically the study aims at:

- **Identifying the housing finance interventions** necessary to build an entrepreneurial and small scale landlord sector in low income areas.
- Developing **appropriate information products and tools** to assist emerging entrepreneurs and landlords in their efforts at becoming housing entrepreneurs.
- Focusing on the potential for small scale entrepreneur landlords to be the model for dealing with **difficult to transfer state owned stock**.
- Understanding the key issues which would support a **productive relationship between the landlord and the tenant** in the small scale sector in the mutual interests of both parties.

- Inform policy and strategy directions so as to facilitate **better access to housing investment opportunities for either entrepreneurs or small scale landlords**, such as are already being realised in the middle and upper income sector of South Africa.

1.4 Overview of this report

While it is recognised that Small Scale Landlords and Home Based Entrepreneurs are both undertaking entrepreneurial activity linked to the home, **they are different, operating in different markets and regulatory frameworks and using the house as a productive asset differently**. In addition, the availability of research material in respect of each of these target groupings differs. Accordingly research and the formulation of proposals with respect to each of these groupings was undertaken separately and structured differently for each group. **This report focuses specifically on Home Based Entrepreneurs, outlining the findings of the research undertaken and recommendations.** A separate report is available in respect of Small Scale Landlords.

This report covers:

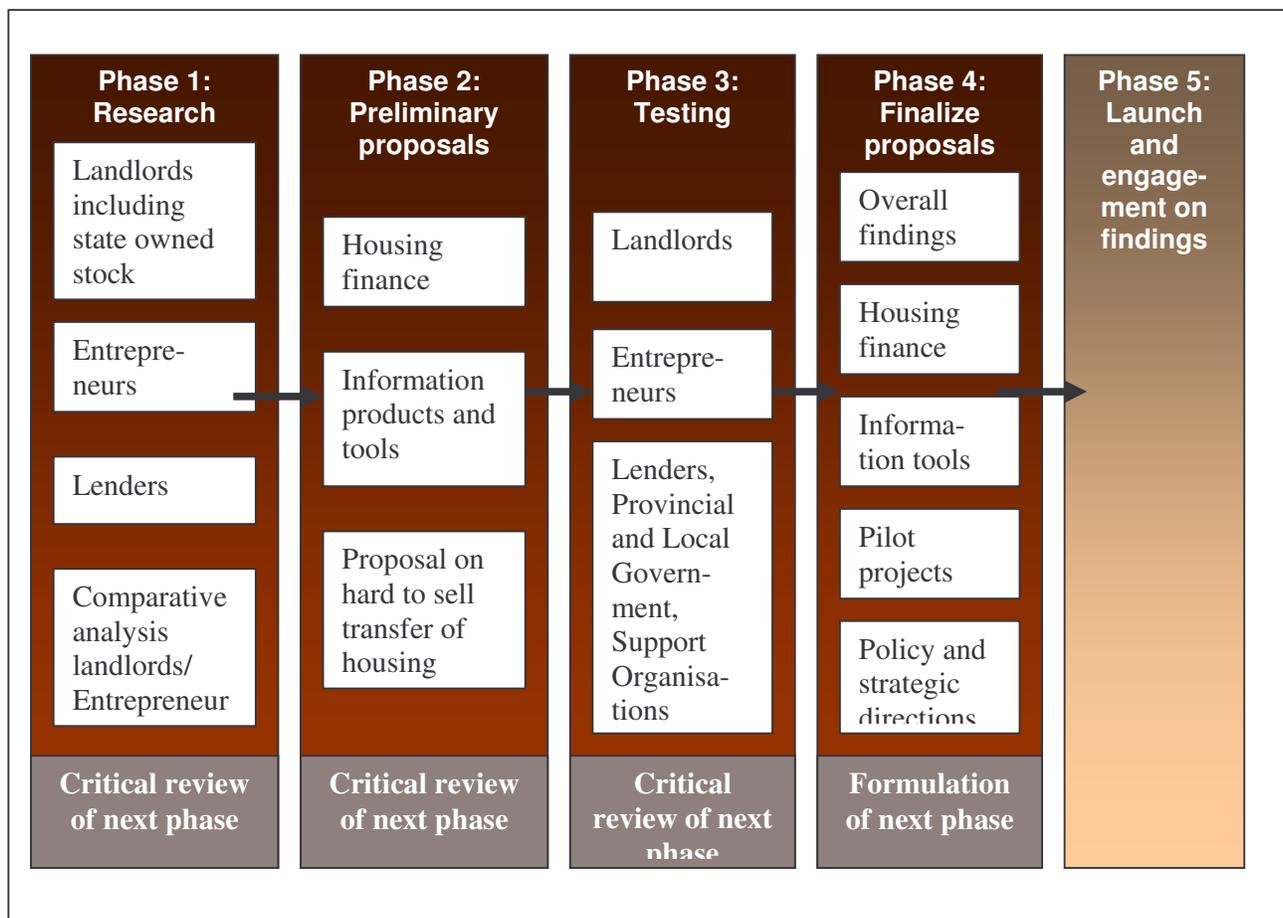
- Methodology of the research undertaken
 - Key findings of the research into Home Based Entrepreneurs
 - Recommendations
 - Overall conclusions
-

2 Methodology of the Research

2.1 Overall Methodology

The methodology applied in undertaking this study comprises five phases as detailed in Figure 2. **This report provides an overview of the work undertaken in Phases 1 to 4 in respect of Home Based Entrepreneurs.** A separate report is available in respect of Small Scale Landlords.

Figure 2: Overall methodology



A brief overview of the activities undertaken in each Phase is outlined below.

2.2 Phase 1: Research

The research undertaken during Phase 1 included the following:

- **Literature reviews** : Four literature reviews focusing on both international and South African literature were undertaken in respect of the following areas:
 - Small Scale Landlords
 - Financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks.
 - Entrepreneurship, housing and housing finance
 - Home Based Entrepreneurs
- **Research into Small Scale Landlords:** This research included:
 - Survey of Small Scale Landlords in Inner Cities
 - Research into Small Scale Landlords in Townships based on an existing survey undertaken by Nurcha
 - Interviews with Successful Landlords
 - Interviews with Service Providers in respect of Small Scale Landlords
 - Research into Public Sector Stock
- **Research into Home Based Entrepreneurs:** This research included the following
 - Survey of Home Based Entrepreneurs in Inner Cities
 - Survey of Home Based Entrepreneurs in Townships
 - Interviews with Successful Entrepreneurs
 - Interviews with Service Providers and Lenders in respect of Entrepreneurs

Table 1 below provides a summary of the components of the Phase 1 research. Details on each component can be seen in Annexure A. The research resulted in the development of twelve Resource Reports and a Final Phase 1 Report, all of which are listed in Annexure A and all of which are available on request from Finmark.

Table 1: Components of Phase 1: Research

	Small Scale Landlords	Entrepreneurs
Literature reviews	Small Scale Landlords	Entrepreneurship and Home Based Entrepreneurs
	Lending products linked to housing finance	
Township	Desk study using Nurcha research (Katorus (400), Orlando East (400), Cato Manor (291)) 4 focus groups	Three townships (Katlhong, Orlando East, Mamelodi. Households scanned to identify entrepreneurial activity. 70 interviews undertaken with entrepreneurs in each area (210))
Inner City	Two inner cities (Hillbrow/Berea, Sunnyside /Pretoria Central) Scan of tenants undertaken to identify landlords 237 interviews with Landlords 125 interviews with Tenants	Two inner cities (Hillbrow/Berea, Sunnyside /Pretoria Central) Scan of tenants undertaken to identify entrepreneurial activity 70 interviews undertaken with entrepreneurs in each area (140)
Success stories	Successful Landlords Scan undertaken to identify successful landlords – 20 in-depth interviews undertaken	Successful Entrepreneurs Scan undertaken to identify successful entrepreneurs – 20 in-depth interviews undertaken
	Public Sector Stock 2 case studies reviewed	

The work undertaken is **highly exploratory in nature** resulting in the defining of new terminology and concepts. Accordingly the definitions developed and applied are set out in Section 2.2.

2.3 Phases 2 and 3: Preliminary Proposals and Testing

The preliminary proposals were documented in the form of a slide presentation. This presentation was then used during the testing process. Five workshops were held between the 27 September and the 18 November 2005 attended by a range of stakeholders (see Annexure B for details).

The slide presentation was amended after each workshop to incorporate the comments and input received during the workshop. In some cases additional analysis of the research data was undertaken as issues were identified and explored in more detail.

The final analysis, conclusions and recommendations as reflected in this report therefore incorporate the views and insights gained from participants in the workshops.

2.4 Definitions

The following definitions were used in this study:

- *An **Entrepreneur** is a person who generates revenue through the utilisation of their own resources, as their main source of income.*
- *A **Small Business** is defined as ‘a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, is predominantly carried on in any sector or sub sector of the economy’. Small businesses can be classified as micro, very small, small or medium enterprises. **Survivalist business** is generally defined as only providing income below the poverty line⁸.*
- *A **Housing Entrepreneur** is defined as an Entrepreneur who:*
 - *Generates income from his/her house by offering accommodation for rent (Landlord)*
 - *Generates income from his/her house by operating a business from the property (Home Based Enterprise)*
- *A **Home-based enterprise** is income generating activities undertaken by residents of a house, using the home as a base.*
- *A ‘**Successful**’ Entrepreneur is an individual/enterprise that displays one or more of the following characteristics:*
 - *The scale of operation is large whereby more than 10 people are employed.*
 - *The enterprise consistently shows high turnover and margins (over 5% profit increase pa)*
 - *The enterprise has been in operation for 3 years or more.*
 - *The product or service provided is competitive in that the enterprise services a stable customer base.*
 - *The relationship with customers is generally good.*
 - *The enterprise diversifies in order to meet customers needs*
 - *The entrepreneur is recognised by his/her peers or customers as being successful*
 - *The enterprise has the ability to adapt to changing demand or market conditions.*
 - *The enterprise is able to deal with external environmental factors.*

⁸ The National Small Business Act

3 Key findings of the research into Home Based Entrepreneurs

This section summarises the analysis of the research undertaken into Home Based Entrepreneurs (for more details see the Phase 1 Research Report), **providing an overview of Home Based Entrepreneurs and the context in which they operate.** The section covers:

- Entrepreneurship in South Africa
- Prevalence of Entrepreneurship
- Contribution of Home Based Entrepreneurs
- Profile of Home Based Entrepreneurs
- Overview of the home based businesses
- Types of HBEs
- Formality vs informality
- Motivations and attitudes
- Access to finance
- Support to Home Based Entrepreneurs
- Market sectors
- Use of the house in the business
- Regulation
- The role of Government
- Non Home Based Businesses
- Successful Entrepreneurs
- Conclusions: Home Based Entrepreneurs

3.1 *Entrepreneurship in South Africa*

Entrepreneurship in South Africa has the potential to drive growth, reduce unemployment and contribute to meaningful BEE. However the growth of the SME sector has been modest. The challenges are considerable. Despite this there are indications that entrepreneurship is becoming an increasingly viable option. The focus of this study is the role of housing in entrepreneurship, particularly in respect of SME's.

Entrepreneurship in South Africa holds the potential to drive growth, reduce unemployment, and contribute to meaningful BEE. The importance of this role is difficult to overstate in the South African context (see section 1.1). However, in the last ten years the growth of the enterprise sector in South Africa has been **modest and the country lags in terms of international comparisons**⁹. Moreover, despite its good intentions, government's 'reach' into this sector is seen to be **poor**. South Africa is not unique in this regard. Many countries have found supporting small business to be difficult. The **challenges are considerable**. South Africa has the double challenge of simultaneously integrating itself into the global markets as a competitive economy, and overcoming internal problems created by apartheid.

Despite these difficulties there are promising signs. According to Trade and Industry Policy Strategies,¹⁰ the number of businesses overall in SA increased between 2002-2003, as did the number of employers and self-employed individuals. The number of new private Companies and Close Corporations registered every year has increased almost steadily over the past 12 years. This suggests that **entrepreneurship is becoming an increasingly prevalent option**.

Micro-enterprises employ approximately one third of South Africa's workers and small businesses account for almost 75% of employment¹¹. SMEs have increased their role as suppliers of the public and corporate sectors as well as their share in national exports and in overall employment¹².

The focus of this study is particularly on the **role of housing in entrepreneurship particularly in respect of SMEs**. There are predominantly two ways in which an Entrepreneur can use his/her house – firstly as the **venue for the business or some of the business functions and secondly as collateral against which finance can be raised to grow the business**.

⁹ Global Entrepreneurship Monitor

¹⁰ TIPS, The economics of SMME's December 2002

¹¹ Trade and Industry Policy Strategies *Annual review of small business 2003*

De Soto in his books *The Other Path* and *The Mystery of Capital*, expounds the theory that to escape from poverty, poor households need assets that they can put to work. By using their properties, such households can apply for loans to start or expand their businesses. A study commissioned by the Finmark Trust et al (2004), estimated that housing in former black townships is worth R68,3 billion¹³. Yet the study found that for a range of reasons, Township Entrepreneurs generally do not leverage capital using their property as collateral. Part of the reason was a reluctance to put their homes at risk, given the up-and-down, extremely dynamic nature of many entrepreneurial endeavours, and their downright failure in many circumstances.

Rust¹⁴ however argues that housing is not ‘dead capital’ but does play a role in entrepreneurial development. **Many households use their home as a base for their initial forays into entrepreneurialism.** By using their house as a retail space, a place of production, or for storage within their overall livelihood strategy, households are operating as emerging entrepreneurs.

Sections 3.2 to 3.13 that follow set out the extent to which households in Inner Cities and Townships in South Africa are using their home for business purposes and the basis by which this home based small and medium scale entrepreneurial activity is occurring. Section 3.2.14 sets out findings in respect of Entrepreneurs who do not use their home for business purposes. Section 3.2.15 summarises findings from interviews with 20 Successful Entrepreneurs, particularly on whether they used their home in starting and growing their businesses.

3.2 Prevalence of Entrepreneurship

Low rates of entrepreneurial activity are occurring in the Inner Cities and Townships surveyed. Of the Entrepreneurs identified most operate from the home (Home Based Entrepreneurs). Many of these HBEs operate below subsistence levels.

¹² The National Small Business Act defines a small business as ‘a separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more, which, including its branches or subsidiaries, is predominantly carried on in any sub sector of the economy’.

¹³ Township Residential Property Markets, June 2004, Shisaka

¹⁴ Rust, K *The role of housing in entrepreneurial activity in South Africa* 8 November 2004, p.3

The survey into Entrepreneurs in Inner Cities and Townships commenced with an initial screening to identify Entrepreneurs who could be interviewed (see Resource Report 10). As detailed in Table 2 below, this initial screening revealed **low rates of entrepreneurial activity ranging between 13 and 22% within the neighbourhoods surveyed**¹⁵. The highest levels of entrepreneurial activity occur in Hillbrow/Berea (22%) and the lowest levels in Orlando East (13%). Entrepreneurial activity is slightly lower in Townships (16% on average) than Inner City areas (20% on average). Of the Entrepreneurs identified, **most (70%) operate from the home** (Home Based Entrepreneur's). This is higher in Township areas (83 to 89%) than in Inner City areas (39 to 63%).

Table 2: Prevalence and type of Entrepreneurship

		Prevalence*	Extent of HBEs**
Inner City	Tshwane	18	39
	Hillbrow/Berea	22	63
Town-ship	Katlehong	19	89
	Orlando East	13	83
	Mamelodi	17	85
Total		18	70

* Prevalence = No of entrepreneurs identified as a percentage of total number of units visited.

** Extent of HBE = No of HBEs as a percentage of total number of Entrepreneurs in the area

To assess the extent to which the Enterprises identified are viable, Table 3 below shows the proportion of subsistence enterprises. It is assumed that those earning below R1000 per month are operating on a subsistence basis. As is evident in the Table, just over half of Entrepreneurs that are Home Based are operating on **a subsistence basis**. Only one third of Non Home Based Entrepreneurs operate on a subsistence basis. Generally more Entrepreneurs in Townships operate on a subsistence basis (47-67%) than those in Inner City areas (27-49%).

¹⁵ These rates are comparable to other studies but are low considering the high levels of unemployment and poverty in the country.

Table 3: Extent of Subsistence of Enterprises identified

		% of Entrepreneurs earning below R1000 pm	
		Home Based	Non Home based
Inner City	Tshwane	27	48
	Hillbrow/Berea	49	34
Town-ship	Katlehong	66	50
	Orlando East	67	50
	Mamelodi	50	47
Total		54	31

3.3 Contribution of Home Based Entrepreneurs

There are approximately 355 000 HBEs active in Townships and Inner Cities in South Africa comprising 13% of the total population of these areas. These HBEs generate an estimated income of R476 million per month.

While the prevalence of HBEs is limited in Township and Inner City areas (see 3.2 above), the number of HBEs and the cumulative income generated by them is significant. Table 4 below sets out an estimate of the number of and income earned by HBEs in Inner Cities and Townships in South Africa. This is determined by combining data from the 2001 Census and the 2002 Labour Force Survey with findings from the survey of Home Based Entrepreneurs in Inner Cities and Townships (see Resource Report 10).

Table 4: Estimation of the size and contribution of Home Based Entrepreneurs

Area	No of households ¹⁶	No Home Based Enterprises			Estimated income earned	
		Assumption ¹⁷		No	Assumption ¹⁸	Amt / month (R million)
		Sector	%			
Townships	2 100 000	Service	3,4	71 400	1302	92,96
		Retail	9,1	191 100	1243	237,5
		Production	1,6	33 600	1096	36,8
		Total	14,1	296 100		367,26
Inner Cities	590 000	Service	4,0	23 564	2398	56,5
		Retail	4,3	25 332	1374	34,8
		Production	1,7	10 015	1723	17,3
		Total	9,99	58 910		108,6
Overall Total	2 690 000	-	13,20-	355 010	-	475,86

On the basis of the above it is estimated that there are approximately **355 000 households** operating an HBE in their home in Townships and Inner Cities in South Africa. This comprising **13%** of the total population of these areas. These HBEs generate an estimated income of **R476 million per month**.

3.4 Profile of Home Based Entrepreneurs

The profiles of HBEs in the Inner City and Townships are different. Entrepreneurs in Inner Cities are predominantly male and are on average almost 10 years younger than those in the Township areas, where more are female. Inner City Home Based Entrepreneurs are also better qualified with significantly more having matric and tertiary qualifications. They also have smaller households and earn higher incomes.

On the basis of the survey undertaken of HBEs in Inner Cities and Townships (see Resource Report 10) the profiles of HBEs in Inner City areas and Townships are as follows:

- **Inner City:** Most of the HBEs are male (57%). Their average age is 36 years. They are well educated with just over half (52%) having matric or above. Approximately 35% are

¹⁶ Census 2001 and Labour Force Survey 2002

¹⁷ Based on an analysis of the data obtained from the Survey of Home Based Entrepreneurs, Resource Report 10

¹⁸ Data obtained from Home Based Entrepreneurs, Resource Report 10

self taught in terms of the skills used in their business. The average size of household is 4 and the mean household monthly income is R3251¹⁹.

- **Townships:** Just over half of the HBEs are female (54%). Their average age is 44 years. They are also less educated with only one third having matric or above (31%). Over half (52%) are self taught in terms of the skills used in their business. The average size of household is 5 people and the household income is R2053²⁰.

A comparative analysis is shown in Table 5 below.

Table 5: Profile of Home Based Entrepreneurs

Characteristic	Measurers	Inner City	Township
Gender	% male	57	46
Age	Mean years	36	44
Education	% with matric or above	52	31
Skills source	% self taught	35	52
Household income	Mean (R per month)	3251	2053
No of people per hh	Ave size	4	5

3.5 Overview of the home based businesses

Most HBEs have stable businesses and most work in the business full time. For many the business is the only source of income. Businesses are generally small and profitability is limited. Most HBEs operate on a personal basis and social networks are a critical success factor.

On the basis of the survey undertaken of HBEs in Inner Cities and Townships (see Resource Report 10) key characteristics of the businesses of the HBEs interviewed is shown in Table 6.

¹⁹ This income would include that earned from the Home Based Enterprise, as well as other income

²⁰ Including both income earned from the Home Based Enterprise and income from other sources

Table 6: Characteristics of the businesses of the Home Based Entrepreneurs interviewed

Characteristic	Measurers	Inner City	Township
Stability	Mean no of years in operation	4	9
	% who work in business full time	77	91
	% where business income is only source of income	57	66
Size	% who have paid employees	19	22
	Av no of full time employees	1	3
	Av no of full time employees who are related to Entrepreneur	0,3	0,5
Profitability	% monthly income less than R1000	33	63
	% monthly income between R1000 to R2499	46	28
	% monthly income above R2499	21	9
	% who made money in the last year	71	56
Customers	% who find customers by passing trade	47	67
	% who find customers by word of mouth	49	52
	% who said it took time to grow a customer base	66	59
	% who provide credit to customers	55	65
	% who charge interest on credit	14	11
Competition	% who have competition	71	82
Social capital	% who receive a lot or some help from family and neighbours to run business	65	73
	% who have contact with other people in the field	54	46

On the basis of the above Table the following is evident:

- **Stability:** The mean period that HBEs have been operating is 4 years in Inner Cities and 9 years in Townships. This implies high levels of stability, in spite of indications from the Literature Review that most SME businesses fail within their first year of operation (see Resource Report 3).

Most Home Based Entrepreneurs **work in the business full time** (77% in Inner Cities and 91% in Townships) and for most the business is the **only source of income** (57% in Inner Cities and 66% in Townships)

- **Size:** Most businesses appear to be **small** with less than quarter having paid employees (19% of Inner City businesses and 22% of Township businesses). Where there are employees, the average number is 1 in Inner Cities and 3 in Townships (full time). Only **some of the employees are related** to the Entrepreneurs (30% in Inner Cities and 20% in Townships).²¹ The National Small Business Act for example defines a business with less than 3 employees as micro and those with below ten employees as very small. It appears therefore that most of the businesses identified in terms of the survey would fall into these categories.
- **Profitability: Profitability** of the HBEs interviewed **appears limited**. Just over one third earn less than R1000 per month in Inner Cities while just under two thirds (63%) earn less than this amount in Townships. Just under half (46%) earn between R1000 and R2499 in Inner Cities, while only 28% in Townships. Approximately one fifth (21%) are earning above R2500 in Inner Cities and only 9% in Townships. Despite this most HBEs (74% in Inner Cities and 56% in Townships) indicated that they made money in the last year.

A multivariate regression analysis of those HBEs who felt that they made money as opposed to those who felt they had lost money revealed the following:

- Young, male, well educated entrepreneurs are more likely to have made money.
- HBEs who have paid employees are more likely to have made money than those without paid employees
- HBEs who took a loan (formal or informal) are more likely to have made money than those who did not.
- Businesses that are not registered are more likely to have made money than those that are registered.
- HBEs in the Inner Cities are more likely to have made money than those in the Townships.
- HBEs that provide credit are more likely to have made money than those who do not provide credit.

²¹ Trade and Industry Policy Strategies

- **Customers:** 47% of City Entrepreneurs and 67% of Township Entrepreneurs **attract customers from passing trade**. This indicates the importance of location of the business. Many HBEs (55% in Inner City and 65% in Townships) **provide credit to customers**. Most **do not charge interest** on this credit (86% in Inner City and 89% in Townships).
- **Competition:** Most HBEs (71% in Inner Cities and 82% in Townships) indicated that they **have competition**. The limited diversity of the types of business that operate explains in part, the high levels of competition.
- **Social Capital:** The majority of HBEs interviewed said that they **receive help** from family or neighbours. This occurs to a greater extent in Township than Inner City areas (65% in Inner Cities and 73% in townships). Approximately half have contact with other people in their field (54% in Inner City and 46% in Townships).

Social networks appear to have value in that the multivariate regression analysis revealed that HBEs who have regular contact with other Entrepreneurs and people in the same sector are more likely to perceive their business as growing, than those who do not have such contact.

The Literature Review (see Resource Report 3) supports this finding. Godsell points out, it is easy to overlook the role of trust and personal relationships in business, but the success of the enterprise will depend substantially on relationships and networks of this kind.²² **Social networks - who people know - have value**. This is particularly the case for SMEs.²³ This trust is good not just for business operations but also plays an important role in terms of poverty alleviation. For example, the bulk of customers of spazas are passing trade or local neighbours. Research by the Finmark Trust in the Financial Diaries Project illustrates that credit lines from spaza shops are one of the most significant financial instruments used by the poor (Finmark Trust 2005).

The interviews with Successful Entrepreneurs (see Resource Report 11) found that the Entrepreneurs interviewed tended to be well networked; 18 out of the 20 belonged to business associations and some even belonged to more than one. Every interviewee pointed to the role played by family and friends- not just in terms of informal loans, but as the source of skills transfer for those skills they use in their businesses.

²² Sunter, C and Godsell, G 'Climate change? Job creation through small and medium enterprises' in *CPS Policy Forum* Job creation series 6, 1999, p.3.

²³ Whereas physical capital refers to a physical object (house), human capital refers to properties of individuals (education), social capital refers to the connections among individuals – social networks and the norms of

On the basis of the above the following can be concluded:

- Most Home Based Enterprises are **stable businesses**.
- Most HBEs work in the **business full time** and for many the business is the **only source of income**.
- Home Based Businesses are **generally small (micro or very small)** with less than a quarter having paid employees.
- **Profitability of HBEs is limited and many operate below subsistence levels. This is more significant in Townships than Inner Cities.**
- Most HBEs **operate on a personal basis**, attracting most of their customers from passing trade and having a direct relationship with them and most do not charge interest in this regard (86-89%).
- **Competition among HBEs is high**
- **Social networks are important** with most HBEs receiving high levels of support from family or neighbours. This is identified as **a key success factor** by successful entrepreneurs.

Sina worked for years as a seamstress, but one day she realized that her days of making clothes were over, because her eyes could not deal with the demands of sewing, and the delicate beadwork involved in the dresses she made. It was at this time that she realized that another opportunity was lurking in the many tourists that are nowadays visiting Soweto. After a visit to her daughter in America, she further realized that some of the South Africans who had emigrated would like to visit the country. She knew that she could be their home away from home when they visit the country.

Sina felt confident that she could convert her home into a successful guesthouse. With some money provided by her daughter she converted her a garage into a bedroom and built extra bathrooms with showers. Sina is still living in her house, and has many plans to expand on her business. Currently she employs 2 people on a permanent basis. Her biggest concern relates to the fluctuation in business. Some months are busy and others are slow. It is difficult to keep the business going, paying employees and maintaining the standard of the guesthouse with big gaps in income.

“To run a guest house is very close to our culture. It is our culture to welcome people, entertain them, give them a place to sleep, provide them with something to eat. But according to our culture we used to do it for free but now we do it for living.”

3.6 Market sectors

HBEs operate predominantly in the retail and services sectors. Different market segments offer different opportunities and challenges. It is important to segment the market and to understand each segment.

The Literature Review (see Resource Report 4) indicates that HBEs generally operate in the following sectors:

- **Service:** including for example hair salons, mechanics, traditional healers, taxi owners and shebeen operators.
- **Retail :** Including spaza shops and frozen food retailers
- **Production:** Including for example fence and gate manufacturers, clothes makers and preparing food.

On the basis of the survey of HBEs (see Resource Report 10) it appears that the predominant sectors within which Inner City HBEs operate is retail (42%) and services (40%), as opposed to Township areas where the predominant sector is retail (65%). Activities in respect of the production sector are extremely limited (18% in Inner Cities and 11% in Townships). The typical business types found in the two areas are shown in Table 7 below.

Table 7: Typical business types

Area	Retail	Service	Production
Inner City	16% Spaza shops and informal fast food businesses 15% Selling (clothes, fruit etc) 5% Shebeens and taverns 2% Street vendors	11% Public phones 5% Hair salons 2,5% range of services including shoe repairs, transportation, car repairs, computer businesses etc	6,5% Dress making 6% Crafts 3% Tailors 2,5% Carpentry
Township	27% shebeen, taverns and beverage sellers 19% spaza shops and fast food sellers 11,5% Selling (sweets, fruit, clothes etc	5% Crèches 3% Hair Salons 2% Traditional healers 1,5% range of services including satellite installations, scrap collectors, public phone, shoe repairs etc	6% Dressmaking and tailors 3,5% Welding 2% Carpentry

Key findings in respect of the market segments are as follows:

- Of HBEs in the Inner City, 65% in the Service Sector said their enterprise is currently growing, while only half of Entrepreneurs in the Retail and Production sectors said their business is growing. In the Township, HBEs in the Retail sector (64%) said their businesses are currently growing. While only 46% in the Services sector and 36% in the Production Sectors said their business is growing.
- In the Inner City, the Retail (21%) and Services (19%) Sectors have the highest number of paid employees, while the Services Sector overall has by far the highest number of paid employees of all sectors (60%). HBEs in the Retail Sector in Township areas employ on average the most full time employees (7 people), while in the City the Production Sector employs the greatest number of full time employees (2 people).
- HBEs in the Production and Services Sectors in both the City and Townships generally show higher business income than HBEs in the retail sector. Almost half (43%) the respondents in the retail sector in the City and 68% in Township areas earn less than R1 000 a month.
- The retail sector seems to be most exposed to crime, with almost a third of enterprises (31%) in the Inner City reporting being a victim of crime in the last year, and almost a fifth of Township enterprises (19%) reporting this. This is explained by the fact that the retail operators often store valuable (movable) stock, which exposes them to victimisation.
- HBEs in the production sector across both areas reported that the use of the house was constraining, suggesting that some businesses are more suited to HBE activity than others (58% in Inner Cities and 42% in Townships).

3.7 Categories of HBEs

HBEs can be categorised into three distinct types namely **Subsistence, Sustainable and Growing**. The **challenges and opportunities are different with respect to each category and therefore different types of support are required**.

As detailed in the Literature Review (see Resource Report 3), small businesses are generally categorised by size. The National Business Act details four categories namely micro, very small, small and medium on the basis of a range of measures, including number of full time employees and annual turnover.

As detailed in 3.2.5 above, on the basis of this categorisation and looking at number of employees only, most of the small business surveyed fell into the micro and very small categories. For the purposes of this research the HBEs surveyed have been categorised into the following three categories which is based on monthly income earned by the HBE:

- Less than R1000
- R1000 to R2499
- R2500+

Table 8 below outlines a comparison of these income groups in respect of key measures relating to formality of the business, motivation and perceptions of profitability and growth of the business.

Table 8: Comparison of income groups

Charac- teristic	Measurers	Less than R1000	R1000 to R2499	R2500+	Total
Formality	% that have financial statements for the business	2,5	6	27	7
	% not registered as a business	88	78	68	82
	% who made money in the business	56	66	70	61
Motivation	% who would leave the business for a permanent job	38	33	9	32
	% who started the business as they saw a business opportunity	5	14	23	11
	% who started the business in order to survive	37	33	31	35
	% who would like to expand	92	91	93	92
Growth	% who perceive the business to be growing	45	62	76	55
	Main reasons for business growth	More customers (35%), good service (22%), loyal customers (16%)	More customers (28%), good service (17%)	More customers (29%), good service (21%)	
	Main reasons for lack of business growth	Funds (29%), low customer base (25%)	Funds (32%), high competition (18%), low customer base (18%)	Funds (52%)	

On the basis of the above table the HBEs surveyed can be categorised into the following three categories:

- **Subsistence HBEs** : The key characteristics of these HBEs are as follows:

- **They earn less than a R1000 per month from the business.** If the amount assumed as the Poverty Datum Line (R397²⁴ per adult per month) is applied (see section 1.1) to the average household size determined in respect of Townships (5) and Inner Cities (4), it can be assumed that households in these areas require a minimum income of between R1389 to R1985 in Townships and R1191 to R1588 in Inner Cities.²⁵ These HBEs are earning below this amount.
 - **The majority operate informally** (2,5% have financial statements and 88% are not registered as a business).
 - **Very few saw a business opportunity** (5%) when they started the HBE , rather the business was started in order to survive (37%)²⁶
 - **Many are not growing but are stagnant.** This is evidenced by the fact that just under half did not make money in the business and over half (55%) do not perceive the business to be growing. The main reasons for the business not growing are a low customer base and poor access to funds. Over a third of the HBEs in this category (38%) would leave the business in favour of a permanent job.
 - **Equally there are some businesses which are growing,** 56% of HBEs indicated that they had made money and 45% perceive the business to be growing. The reasons for a business growing is more and loyal customers and good service.
- **Sustainable HBEs:** The key characteristics of these HBEs are as follows:
- **They earn between R1000 to R2499 per month** from the business. Given a minimum income requirement of between R1389 to R1985 in Townships and R1191 to R1588 in Inner Cities (based on the Poverty Datum Line above), these HBEs are beginning to meet the income requirements of their families, with some excess for those in the higher categories and are therefore sustainable.
 - **Slightly more of these businesses are formalised** than the Subsistence HBEs although most still operate informally (6% have financial statements and 78% are not registered as a business)

²⁴ South Africa Human Development Report 2003. United National Development Programme. The Poverty Datum Line determined for South Africa in 2002 was R354 per month per adult. This has been escalated by an inflation rate of 4% per annum to 2005

²⁵ This range assumes a household made up at the lower end of 2 adults and children to all adults. 50% of the Poverty Datum Line is assumed for children.

²⁶ Other reasons included wanting to make money (30%), could not find formal employment (15%), other (13%)

- **Slightly more of these businesses saw a business opportunity** (14%) when the HBE's were started than the Subsistence HBEs, although just over a third (33%) started the business in order to survive²⁷.
 - **Significantly more of these businesses appear to be growing** than in the case of Subsistence HBEs. Of the sample 66% of HBEs said they made money and 62% perceive the business to be growing. The main reason for growth is customers and good service.
 - **At the same time there are a portion of these businesses that are not growing.** Of the sample 38% are not growing and just over one third (33%) of HBEs would leave the business for a permanent job.
- **Growing HBEs:** The key characteristics of these HBEs are as follows:
- **They earn above R2500 per month from the business.** Given a minimum income requirement of between R1389 to R1985 in Townships and R1191 to R1588 in Inner Cities (based on the Poverty Datum Line above), these HBEs are therefore earning incomes above minimum levels.
 - **Significantly more businesses are formalised** than the Subsistence and Sustainable HBEs (27% have financial statements and 68% are not registered as a business)
 - **Significantly more saw a business opportunity** when they started these businesses (23%) than the Subsistence HBEs, although just over a third (31%) started the business in order to survive²⁸.
 - **More of these businesses appear to be growing** than in the case of the Subsistence and Sustainable HBEs. Of the sample 70% of HBEs said they made money and 76% perceive the business to be growing. The main reason for growth is customers and good service.
 - **Significantly less businesses in this category are not growing.** Of the sample less than a quarter (24%) perceive their business to be not growing and only 9% of HBEs would leave the business for a permanent job.

Of significance is that **the majority of HBEs regardless of category would like to expand their business** (over 91%).

²⁷ Other reasons included could not find formal employment (23%), wanted to make money (20%) and other (9%)

Within the three categories, there is evidence that **some businesses are growing and other are stagnant or stable** and some HBEs are more entrepreneurial than others. It is important to understand the type of business that people are operating in each case. It may, for example, suit some subsistence operators to remain so, because that allows supplemental income to be generated within the home, without having to extend to non-family employees and the need for separate business premises.

It is evident that the **challenges and opportunities are different with respect to each category and that different types of support are required.**

3.8 *Formal vs informal*

The majority of Home Based Businesses are informal. To grow and expand they need to formalise. Backward and forward linkages are critical components of integrating home based businesses into the national economy.

On the basis of the survey undertaken (see Resource Report 10) it appears that **most Home Based Businesses operate informally**. Table 9 below indicates that the majority of Businesses in both Inner City (73%) and Township areas (93%) are not registered for VAT or as a business. Most do not prepare financial statements. Furthermore few of the HBEs interviewed belong to business associations. (Entrepreneurs in the services sector in both areas had the highest involvement in Business Associations).

Table 9: Formality of HBEs

Measurers	Inner City	Township
% not registered as a business	80	83
% registered for VAT	13	7
% who prepare financial statements	11	4
% who belong to a Business Association	18	12

²⁸ Other reasons included could not find formal employment (18%), wanted to make money (18%) and other (10%)

Development of a business requires formality²⁹, because it is only when a small enterprise operates in the formal sector that they can access capital, utilise infrastructure to grow or tender for Government contracts (Resource Report 3).

The Literature Review (see Report 4) indicates that **linkages between the formal and informal sectors are critical**. Such linkages indicate the extent to which the informal sector is integrated into the national economy. **Backward linkages** can include:

- A HBE investing his wages, earned through supplying services in the formal sector, into the business
- Marketing networks of dependent or commission sellers (for example S A Breweries supplying beer to a shebeen in the Townships).

Forward linkages are when the output of the informal sector is marketed and sold beyond its own borders (for example a traditional craftsperson selling wares into the formal tourist market).

South African cases studies have found that very few forward linkages exist with the formal sector, but that backward linkages are prevalent, suggesting that HBEs are currently dependent upon the formal sector.

Given the above it can be concluded that the majority of Home Based Businesses in Townships and Inner Cities are **informal**. This is more prevalent in Townships than in Inner Cities. If these businesses are to grow and expand they **need to formalise**. Backward and forward linkages are critical components in respect of integrating Home Based Businesses into the national economy.

3.9 Motivation and attitudes

Not all HBEs show entrepreneurial characteristics. The majority do want to expand and require funds, better business premises and training. The research did not find solid evidence for a 'ladder of development' in which businesses grow along predictable paths.

The survey undertaken (see Resource Report 10) identified key findings in respect of the motivation and attitudes of the HBEs interviewed. These are detailed in Table 10 below.

²⁹ SBP An enabling environment for private sector growth: Lessons from the international experience November 2002

Table 10: Motivation and attitudes

Characteristic	Measurers	Inner City	Township
Commitment	% willing to leave business for permanent employment	33	32
Reason for starting	% who started business as they saw a business opportunity	17	7
	% who started as they could not find formal employment	15	20
	% who started to survive	29	39
Entrepreneurship	% who were the first person to undertake the business in the area	33	42
Expansion and growth	% who want to expand	95	90
	% who feel business is growing	55	56
	Main reasons for business growth	Customer base growing (27%), loyal customers (16%)	Customer base growing (34%), excellent service (27%)
	For those not growing main reason why	Insufficient money (45%)	Insufficient money (25%), Poor customer base (29%)
	Main things that will help the business grow	Proper place (26%), more money (30%) Training (17)	More money 38%, Proper place (20%) Training (17)

On the basis of the above the following is evident:

- **Entrepreneurship and commitment:** Over one third of HBEs in Inner Cities and just under half (42%) in Townships **show entrepreneurial characteristics**-having been the first person to undertake the business in their area. Only one third of HBEs surveyed in both Inner Cities and Townships said they would **take permanent employment if it was offered to them. This suggests that not all HBEs are entrepreneurial but of those that are there are high levels of commitment and for them entrepreneurship is a viable option.**

The interviews with successful Entrepreneurs (see Resource Report 11) found that success depends on each person-their vision for the business and their comfort levels. In the words of one of the Entrepreneurs interviewed 'not everyone wants their enterprise to be listed on the JSE'.

- **Reason for starting the business:** The most dominant reasons for both Inner City and Township HBEs to start their business relates to survival and an inability to find formal

employment. In the Inner City an additional reason is the identifying of a business opportunity.

- **Expansion:** The majority of HBEs in the Township and Inner City want to expand. Many (approximately 55%) feel that their businesses are growing. The main reason given is that the customer base is growing. Factors that will help them to grow are predominantly more funds, better business premises and training.

A Multivariate Regression Analysis to determine the variables that impact on whether a HBE perceives his/her business to be growing revealed the following:

- Younger males, with higher levels of education in the retail and services sectors, who have employees are more likely to perceive their businesses as growing.
- HBEs whose businesses are registered are less likely to perceive their businesses as growing than those who are not registered.
- HBEs who will take a permanent job if it becomes available are less likely to perceive their business to be growing than those who will not take a permanent job.

The research **did not identify a ‘ladder of development’**. While there was some evidence of categories of business, particularly a high prevalence of subsistence (earning below R1000 pm) there did not seem to be any evidence of businesses progressing predictably from one category to the other.

This finding is supported in respect of the interviews with Service Providers and Lenders (see Resource Report 12), where it was indicated that the growth of a business from small to large or from informal to formal does not happen that often and the number of businesses who transcend from one to the other is low.

The reasons for this vary for example Marcell Newsome of The Business Place believes that the growth of a business often depends on how much capitalization the business has. Jo Schwenke from Business Partners on the other hand believes it is related to the talent of the entrepreneur and the willingness to take calculated risks – vision, innovation, passion, determination and energy are key factors.³⁰

³⁰ Marcell Newsome says ‘Most businesses that start small generally stay small, medium sized businesses – unless they are able to find significant funding – tend to stay medium, and similarly larger ones tend to stay large. This does not necessarily relate to success or failure, businesses in each of these categories can equally fail or succeed’.

The interviews with Successful Entrepreneurs (see Resource Report 11) found factors that both support and undermine the concept of a ‘ladder of development’. In support of a ladder of development, was clear evidence that many of the Entrepreneurs interviewed had started small and steadily built up their businesses into the successes they currently were. On the negative however many of the Entrepreneurs also suffered set backs and experienced business failure. The dynamic nature of many successful enterprises, the up and down character, downright failure in some cases, means that the metaphor of a **ladder** is perhaps better understood as ‘**snakes and ladders**’.

On the basis of the above the following can be concluded:

- **Not all HBEs show entrepreneurial characteristics.** Of those that do however there are **high levels of commitment and for them entrepreneurship is a viable option.**
- The majority of HBEs interviewed **want to expand.**
- **Many HBEs feel that their businesses are growing.** Factors that will help them to grow are predominantly more funds, better business premises and training.
- The research **did not identify a ladder of development** and it appears that the growth of a business from small to large or from informal to formal does not happen often and is difficult to achieve.
- Factors that impact on the growth of a business include **education levels, formality of the business, access to capital, willingness to take risks and a positive attitude towards growing the business.**

3.10 Access to finance

Access to formal finance for most HBEs appears to be limited. There are practical difficulties to lending to start up businesses. Financing support on its own is not enough – business skills and a helpful environment for private sector growth must be developed in tandem.

The survey undertaken of HBEs (see Resource Report 10) indicates that **access to formal finance for most HBEs appears to be limited.** As detailed in Table 11 below most Entrepreneurs have never had a loan for the business. Most used savings to start the business.

For those who did use a loan in most cases it was an informal loan. This is despite the fact that levels of blacklisting among Entrepreneurs appears to be low.

Table 11: Access to finance by Home Based Entrepreneurs

Measurers	Inner City	Township
% who have never had a loan for the business	73	87
% who used savings to start business	64	69
% who applied for a loan but were rejected	4	4
% where Bank Manager asked for house as security	1	3
For those who have had a loan % where it was informal	77	77
% who have been blacklisted	16	12

Other than informal loans, there are **two main sources of formal funding for HBEs**, firstly loans provided by Commercial Banks and finance provided by specialist Lenders. In respect of the former such loans are generally in the form of micro loans. (see Resource Report 2). Finance provided by Specialist Lenders is detailed in Section 3.2.9 that follows.

The lack of access to formal financial loans and reliance on savings or informal loans is supported in the Literature Review (see Resource Report 3). This report indicates that the reality of small business lending is complex, resulting in limited access to loans from formal financial institutions. Consequently, SME's rely on savings or informal loans.

There are practical difficulties in lending to start-up businesses with no collateral or risk capital, questionable business plans and limited managerial resources³¹. In addition there are important variances between lending to the small, medium and micro categories – different issues relate to different types of businesses-survivalist businesses have different constraints to medium sized businesses.

Several problems experienced by lending institutions in SA, for example, stem from a lack of capacity to provide aftercare mentoring and support. Small loans to micro and very small enterprises are expensive to administer. Despite the Saambou and Unifer

³¹ Antonie, F 'Financing development: The banking sector and SMMEs' in *Indicator* Vol 18, No. 2, June 2001, p.2.

reminders³², it is often forgotten that banks are fragile institutions. In the words of a South African banker ‘you go a bit loose and soft and you go belly up very quickly in this market.’³³

The Commission on the Private Sector and Development notes that ‘SMEs are risky ventures. They require risk capital, but the sources of such capital are difficult to tap. So SMEs generally have to turn to classic debt financing. This can be difficult for them, because few entrepreneurs in developing countries can leverage assets as collateral the way they do in developed countries’

The Literature Review (see Resource Report 3) indicates further that while the lack of access to capital is a key constraint to small businesses, they face a range of constraints over and above financial needs including access to improved technology, raw materials, skills training and information on market opportunities. **Finance support therefore on its own is not enough – business skills and a helpful environment for private sector growth must be developed in tandem.**

Business support that is targeted, sector specific and delivered in a market based approach are likely to meet with greater success. Several problems experienced by lending institutions in South Africa, stem from a lack of capacity to provide aftercare mentoring and support.

On the basis of the above the following is concluded:

- HBEs have **limited access to formal finance** and rely predominantly on savings and informal loans.
- There are two main sources of formal funding for HBEs firstly **loans provided by Commercial**

³² Both of these institutions suffered significant losses due to an inability to recover funds lent in respect of micro loans

³³ Interview with Iraj Abedian, Standard Bank, 14 August 2002

Oupa started working for someone else, buying and selling engineering supplies. He felt uncomfortable knowing that his hard work was generating an income for someone else. He decided to start his own business buying and selling electrical supplies. It was a difficult beginning but he was motivated. He started literally going from door to door, business to business, marketing himself and trying to get a foot in the door. It soon paid off. His office was his home. He soon realized that although he had all the skills to do the work, having a qualification would add to his success and the way people perceive him. Through hard work he obtained a Certificate in Engineering Supply. As he grew more successful he realized that a home based office in a township is problematic to some of his clients who were scared and skeptical about delivering goods to the township. It was then he rented proper business premises, from which he now operates his business. Even though he still use his house to do much of his administration work. Once the business was up and running Mr. G managed to get an overdraft facility of R8000 from his bank, which he obtained without too much difficulty. He stressed however that this facility was only available to him after he became successful. He also secured a small loan of R2000 from a Business Support Organization. Both these facilities were provided without security. Mr. G has lots of plans to expand and grow his business. His biggest challenge remains financing, as he perceive bank costs and loans to be expensive

Banks and finance provided by specialist Lenders.

- There are **practical difficulties** to lending to start up business. **Providing effective support and after care mentoring** are key factors.
- Finance support on its own are not enough – **business skills and a helpful environment for private sector growth** must be developed in tandem.

3.11 Support of Home Based Entrepreneurs

There are a range of Service Providers providing support services to SMEs, None provide specific support to HBEs and none focus on the role of the house in respect of the SME sector. There is a lack of coordination among Service Providers and many face key challenges. Support programmes to Entrepreneurs have to be focused with a good understanding of the Entrepreneurs motivation and the sector in which s/he operates.

Interviews with Service Providers and Lenders (see Resource Report 12), demonstrate that there are a number of Service Providers providing focused support to SMEs. Only the Tourism Enterprise Programme provides focused specialised support - to Bed and Breakfast facilities. The extent of the support varies and is influenced by the agenda of the Service Provider. The support includes capacity building, access to services and funding. In many cases the support is relationship based and this is seen as a key success factor. An overview of the Service Providers interviewed is set out in Table 12 below.

Table 12: Summary of findings of interviews with Support Service Providers

Organisation	Type of support provided	Processes applied
The Business Place	<ul style="list-style-type: none"> - Business support - Referrals to financial services - Information on financial products and mentoring on the process of accessing financial support (strong focus on relationship with the entrepreneur) 	<p>Focus on Micro to small business providing a one-stop-shop environment including:</p> <ul style="list-style-type: none"> - 3-4 different financing companies - 3 consulting companies - 3-4 business training companies <p>Almost all services are free but a nominal charge is required for some training programmes. Funded by the City of Johannesburg and Investec.</p>
Tourism Enterprise Programme	<ul style="list-style-type: none"> - Acts as a facilitator - Provides support up to 50% of the cost to grow a business in the tourism sector 	<ul style="list-style-type: none"> - Subsidies are provided for the implementation of a business plan brought to them by an Entrepreneur - Work with SMEs - Links the SME to technical support etc.
ABSA	<ul style="list-style-type: none"> - A range of financial products are provided - Non – financial support is provided including training and mentorship. 	<ul style="list-style-type: none"> - A needs analysis determines the most appropriate financial product. - Offer workshops, mentorship and business counselling on a broad basis (not sector specific) - SMEs are required to pay for this support
Gauteng Enterprise Propeller	<ul style="list-style-type: none"> - Provides financial support in the form of grants and loans - Provides non financial support in the form of training, business mentorship 	<ul style="list-style-type: none"> - SMEs register - An assessment is undertaken and support provided
Business Partners	<ul style="list-style-type: none"> - Provides finance through a range of products - Mentoring support 	<ul style="list-style-type: none"> - Help the SME raise finance and will share the capital/equity component with the SME - Mentoring is done through business units where mentors meet with the entrepreneur monthly - Also have a pool of consultants who have specific expertise to solve specific problems

Some of the Service Providers interviewed are exploring new opportunities for expanding their activities as follows:

- **Business Place:** Business Place has developed two new ventures that are more proactive than their current activities. The first is encouraging SMEs based on their interests in a

specific sector and the second providing pre-packaged small businesses, for a nominal amount of money (mini-franchises). Business Place is currently looking for resources for these programmes.

- **TEP:** TEP is focusing on developing cultural and business tourism. In this regard TEP focuses on promotion, providing information and developing services in each of these sectors.

Key challenges identified by the Service Providers include:

- **Lack of capacity** and funding for the Service Providers
- **Lack of co-ordination** of activities between Service Providers
- **Quality, monitoring and control of Service Providers** providing support to SMEs is a problem, as many are not accredited, are overcharging and provide bad services.
- The Financial Services Charter could result in Financial Institutions **lending recklessly** so as to meet their targets.
- Staff in **Financial Institutions often lack sufficient experience** to provide information and support to SMEs. The skills in these institutions is often problematic. In addition the lack of clarity as to who reviews application is also problematic and SMEs are often referred from one Department to another.
- There is an **entitlement mentality** in SA, where Entrepreneurs do not want to put any of their own finance at risk. For many Financiers unless the Entrepreneur is prepared to provide capital they are not sufficiently committed.
- Most people are not entrepreneurs and have **no desire to be an entrepreneur**. If they are forced to become entrepreneurs they are likely to fail. The idea that everyone can run a small business is not true, many people would prefer to be an employee.
- **Business failure of SMEs is high** and is often due to the Entrepreneur underestimating the challenges to be faced. Skills of Entrepreneurs is an issue, as is passion and vigour. Access to capital is also a key issue.

On the basis of the above it can be concluded that:

- There are a **range of Service Providers providing support services to SMEs. None of these Service Providers provide specific support to HBEs and none focus on the role of the house in respect of the SME sector.**
 - There is a **lack of coordination among Service Providers** and many face **key challenges** including access to funding and lack of capacity.
-

- There appears to be increasing recognition among Service Providers that Support Programmes to entrepreneurs have to be **focused** and there needs to be **high levels of understanding** of the entrepreneur's motivation and commitment and the business and market sector (see 3.7 below) in which s/he operates in order to improve chances of success. Accordingly Service Providers seem to be adopting a new approach whereby they are focusing on intensive engagements with fewer SME's rather than providing superficial support to a large number of SME's.
- There is increasing recognition of the need to **provide business support and mentorship together with funding support**. Accordingly there is a collapsing of the old separation of financial and non-financial support modes.

3.12 Use of the house in the business

HBEs generally use a small portion of the house for business purposes. The house has an important impact on reducing the costs of entrepreneurial activity and is therefore a useful incubator in the initial phases of the business. The use of the house as collateral is less widely practiced and is unlikely to be a consideration for businesses that have not reached a certain level of maturity.

The Literature Review (see Resource Report 3) indicated that there are a number of ways in which housing can play a role in entrepreneurship. The two most frequently mentioned are as the venue for the business and as collateral against which finance can be raised to grow the business.

The survey of HBEs (see Resource Report 10) determined the following key findings (set out in Table 13) in respect of the use of the house in the business.

Table 13: Use of the house in business

Characteristic	Measurers	Inner City	Township
Description of dwelling	% house	10	100
	% flat	88	0
	% with electricity in dwelling	100	100
	% with water in dwelling	99	72
	% who own	21	62
	% who rent	73	23
	% who acquired dwelling with a loan	39	32
	Amt of rent paid (Mean)	1021	272
	Years in dwelling (Mean)	4	21
Use of house as security	% who know of other entrepreneurs that used house as security	7	6
	For those that used house, % who found it a positive experience	9	29
	% who used house as security for a loan	7	6
Use of house for business purposes	% who use a little space	69	66
	% who use half or more of the space in the house	15	35
	% who feel use the house is helping the business	76	72
	Main ways in which the house helps	Savings on rental (43%)	Savings on rental (42%)
	% who would relocate if they could	71	63
	Main reason for not relocating	Cannot afford to (69%)	Cannot afford (78%)
	% who have received complaints about the business	8	11

On the basis of the above table the following is evident:

- **Description:** Most HBEs in the Inner City live in flats, while all HBEs in the Townships live in houses. Access to services is generally good. This can be expected as the survey focused on formal, serviced neighbourhoods. Township entrepreneurs had lived 5 times longer in their current dwelling than Inner City HBEs. Most HBEs in the Inner City rent their accommodation. More than half of the Township HBEs own their accommodation,

while approximately a quarter rent. The amount of rentals paid in the Inner City (R1021) is much higher than in the Townships (R272).

- **Use of house as security:** Very few HBEs used their house as security for a loan for their business and very few know other Entrepreneurs who did. For those who did use their house most did not find it to be a positive experience..

The Literature Review (see Resource Report 3) indicated that the extremely dynamic nature of many entrepreneurial endeavours often results in early mortality of small firms. This is a global phenomenon. Colin Anthony notes that about 75% of businesses fail within their first three years³⁴. In a post-apartheid context where for many owning a house generates a ‘sense of security, independence and pride’ losing your house might be a devastating consequence of business failure if housing is providing collateral to the business.

- **Use of house for business purposes:** Most HBEs use only a small portion (less than half) of the house for business purposes. Table 14 below sets out the way in which the dwelling is used in the business by sector.

Table 14: Way in which dwelling is used by sector

Sector	Inner Cities				Townships			
	Retail	Production	Service	Tot	Retail	Production	Service	Total
Produce goods	15	48	27	26	20	49	24	24
Bus in house	19	13	12	15	46	4	24	36
Storage/Parking	65	39	52	55	34	47	52	40
Other	1	0	9	4	0	0	0	0

As detailed in the table it is evident that:

- Of the HBEs interviewed many use their house for business-related storage or parking.
- In Inner Cities just over a quarter of HBEs use the house to produce goods and, as expected this is most predominate in respect of the Production Sector and to a lesser extent the Service Sector..
- In Townships 36% of HBEs use the house as the location for the business and this occurs predominantly in respect of the retail sector (46%) and to a lesser extent the services sector (24%). Using the house to produce goods occurs to a lesser extent (24%), predominantly in respect of the Production Sector (49%).

³⁴ Anthony, C ‘Time for government to get its SME policies right’ in *Real Business* 22 March 2005

Most HBEs feel that the house is helping the business predominantly in terms of reducing rentals. Most HBEs interviewed indicated that they would relocate if they could. The main reason for not relocating the business is affordability.

These findings support the Literature Review (see Resource Report 3), which indicated that many households use their home as a base for their initial forays into entrepreneurialism. Where the nature of a business is small scale, space costs can be a significant drain on the operation. Using one's home results in an important cost saving. While not identified through this survey, the Literature Review (see Resource Report 4) suggests other benefits including a closer relationship with the local customers and employing people within the family.

Reg has been running small businesses for the past 21 years. He is currently running an incubator business - where a number of businesses are located together, under the same roof and sharing facilities. Like many entrepreneurs, Reg found he'd stumbled into the incubator business as one thing followed another - 'I started by mistake. I had no idea at the outset that I would be in the incubator business.' His business grew organically as one by one other businesses who were experiencing similar difficulties joined him. That was four years ago, Reg is currently employing more people to assist him in scaling up the business further.

Reg started his business from home as a cost savings option. Money was acquired by 'buying and selling things on the side', borrowing some from family and friends. 'I had a computer, printer, telephone, internet and that's about it.' He initially approached a banking institution but was told, 'don't waste my time.'

After a time, Reg realised that the business had grown beyond the home. 'I was travelling to 3 different premises constantly, it was too much. I found the experience of being at home tempted me to be less professional, sometimes I wouldn't get dressed up for work because I was at home, maybe I didn't shave every day. I lost the discipline of separating my home and work life. It was hard to bring clients home too, it felt less professional and wasn't the right image I wanted to project as my business was growing. I found the experience lonely as well and missed the stimulus of being in an office environment.'

It is evident that the house plays a very dynamic role in terms of the entrepreneurial process:

- **HBE generally use a small portion** (less than half) for business purposes. The most common use is for **storage or parking or for producing goods**.
- Housing has an important impact on **reducing the costs of entrepreneurial activity**, and is therefore a useful business incubator in the initial phases of many businesses.
- However over time or as the business grows many Home Based Enterprises seem to find the **house uncomfortable and move out if they can**.
- The **home is not suited to all types of businesses** this is particularly the case in respect of the production sector.
- **The use of the house as collateral is not widely used and is unlikely to be a consideration for businesses that have not reached certain levels of maturity.**

3.13 Regulation

Most HBEs do not comply with business or zoning regulations. High levels of non-compliance imply that the regulatory environment in South Africa is too complex or inappropriate. Reforming the regulatory environment by eliminating artificial and policy induced constraints is a key aspect in facilitating an environment for enterprise growth.

Two forms of regulation are important in respect of Home Based Enterprises firstly **business regulation and secondary zoning regulation.**

In respect of business regulation one fifth of the successful entrepreneurs interviewed (see Resource Report 11) mentioned **statutory requirements as a constraint to their business.** As detailed in Section 3.2.6 above most of the HBEs interviewed **do not comply to business regulations.** Successful entrepreneurs interviewed indicated (and reinforced by the high levels of informality among the HBEs interviewed) that the regulatory environment is **too complex or inappropriate** (see Resource Report 3). While it is not possible to make a direct comparison with other countries, the impression is that South Africa **has a high regulatory compliance burden.** A 2004 study suggest that South Africa businesses incurred regulatory compliance costs of about R79 billion, or 6,5% of GDP³⁵.

While a certain degree of informality is inevitable in Small Scale Enterprises, **widespread non-compliance can devalue the regulatory instruments, be detrimental to the individual businesses and drive a wedge between the informal and formal sectors.** In overly-regulated sectors many government requirements cannot be enforced. This brings the law into disrepute and can encourage corruption.³⁶ Informal enterprises tend to operate without a 'paper trail' making enforcement of compliance that much more difficult.

Not all businesses are affected by regulation and compliance costs in the same way. Sectoral considerations, the size of the firm, its location, how long it has been in operation,

³⁵ SBP, Counting the cost of red tape for business in South Africa, Headline report, November 2004

³⁶ See Hudson, J 'An enabling environment for private sector growth: Lessons from the international experience' SMME Alert published by the SBP, November 2002

and whether the firm is in the formal or informal sector all play a role. The Literature Review (see Resource Report 3) indicates that generally **small business suffers most** because of their limited administrative resources, uncertain cash flows and limited understanding of their rights³⁷. A South African study found that compliance costs represent 8,3% of turnover for enterprises with annual sales of less than R1 million and 0,2% of turnover for corporations with sales of R1 billion or more³⁸.

Zoning regulations have a particular impact on Home Based Enterprises because they regulate the type of and basis by which a business can operate within an area. Regulations governing Home Based Businesses in South Africa reflect the history of separation that existed in the country for many years. **This framework is partly the reason why this form of entrepreneurship is so limited and has also limited the diversity of activities undertaken (particularly in township areas)**³⁹ South African home businesses have remained small also because of real regulatory barriers to economic activity in the past, and real and perceived barriers, which still pertain (e.g. unsupportive by-laws and zoning regulations, and licensing limitations). The survey of HBEs (see Resource Report 10) determined that there is **low compliance by HBEs with local by-laws** with 69% of HBEs in Inner Cities indicating that they did not know if their business complies and 40% in Townships.

This does not seem to have a negative impact on the businesses (only 22% of Entrepreneurs in Inner Cities and 7% in Townships feel that operating outside of zoning regulations constrains their business). The exception to this was City entrepreneurs in the production sector, who all reported that not complying with zoning regulations was constraining their business.

The Literature Review (see Resource Report 4) indicates that generally home based businesses receive criticism from three perspectives:

- Some activities are deemed too noxious or nuisance generating in residential areas
- There are concerns about the exploitation of labour
- There are concerns that business activity will overload existing infrastructure.

³⁷ J Hudson, An enabling environment for private sector growth: Lessons from international experience, SMME Alert published by the SBP, November 2002

³⁸ SBP, Counting the cost of red tape for business in SA: Headline report, Nov 2004

³⁹ Resource Report 4

The above criticisms do not seem to be applicable in South Africa in that very few HBEs interviewed as part of the survey (less than 11%) had received complaints about their businesses.

The Literature Review (see Resource Report 3 and 4) indicates that commitment to reforming the regulatory environment by eliminating artificial and policy induced constraints to growth has to be a key aspect in terms of creating a facilitating environment for enterprise growth. The objective of regulatory reform for small business is gaining currency. This is evident in measures announced in South Africa's 2005 budget speech⁴⁰.

The concept of Regulatory Impact Assessments, has been adopted by the Presidency and National Treasury. This concept focuses on determining the impact of regulations both existing and proposed on small business. The commitment to the RIA process was reinforced in President Mbeki's State of the Nation address on the 3 Feb 2006 when he said *'We will also speed up the consultative process to determine the measures we must take to improve the regulatory climate to facilitate the expansion of the SME sector. This intervention will form part of the overall programme to introduce a regulatory impact assessment system to enable government regularly to assess the impact of its policies on economic activity in this country.'*

The World Bank's *Doing Business*⁴¹ report indicates that the **payoffs for reform appear to be large**. Businesses spend less time and money on dealing with regulations, government spends fewer resources regulating and more providing basic social services. An improved regulatory environment could increase annual economic growth in many developing countries by as much as 1,4% a year.

On the basis of the above the following is concluded:

- Two forms of regulation are important in respect of home based businesses namely **business regulation and zoning regulation**.
- Most of the HBEs interviewed **do not comply with business regulations**. High levels of non-compliance imply that the **regulatory environment in South Africa is too complex**

⁴⁰ For example the turnover limit for eligibility for tax relief raised from R5million to R6 million and a change in VAT payment requirements and exemptions in respect of the Skills Development Levy

⁴¹ 2005 study

or inappropriate. The negative effect and cost of high levels of regulation is **more severe in respect of small businesses than larger businesses.**

- Zoning regulations are important because they impact on the type of and basis by which businesses can operate in an area.
- South African businesses have **remained small and limited both in number and diversity as a result of regulatory barriers to economic activity** including unsupportive by laws and zoning regulations and licensing limitations. This is despite the fact that most HBEs interviewed do not comply and do not see compliance as limiting their businesses.
- **Reforming the regulatory environment by eliminating artificial and policy induced constraints is a key aspect in facilitating an environment for enterprise growth.** This objective is gaining currently and measures in this regard have been announced. In addition the Presidential and National Treasury is exploring the application of **Regulatory Impact Assessments** in this regard.
- **The benefits of reform appear large-**business spends less time and money on dealing with regulations and government spend fewer resources regulating.

3.14 The role of government

International debates and practice reveal a shift in the role of Government from that of direct government led provision of support to Government undertaking a facilitative or enabling role. This means that Government focuses on creating an enabling environment for Enterprises. This must be done in a manner, which balances protecting public interest, with not imposing unnecessary burdens on businesses.

The Literature Review (see Resource Reports 3 and 4) reveal a shift internationally in approaches to the role of Government from **direct government-led provision of support to entrepreneurs** to Government taking on **a facilitative or enabling role.**

This affords the private sector a greater role in the delivery of business development services. Thus, there is a shift from supply side interventions to more demand-led strategies. By adopting this approach, government does not 'crowd out' private sector business development services but supports them to provide services, while at the same time creating an enabling environment for enterprises.

Says Bannock, '*Government's explicit focus might usefully shift to removing the barriers that might make the support less necessary and creating an enabling environment...*'⁴²

This new focus is driven by the recognition that it is typically the private sector, which creates jobs and adds value by combining capital and labour to produce goods and service output.⁴³

Government's role is not minimised but rather focused as an enabler.

The key activities undertaken by Government, as an enabler would include:

- **Providing appropriate service infrastructure**
- **Reducing unnecessary bureaucracy** so as to reduce compliance costs for businesses and also lessens the odds against an informal business entering the formal economy by making the process of formalising easier⁴⁴.
- **Ensuring that existing regulation and any new regulation is relevant and easy to understand**
- **Shifting the focus from punishing wrongdoers to making the system easier to comply with.**
- **Opening public contracts to informal players willing to formalise if they win the contract.**
- **Focusing on self correcting measures based in local mechanisms (e.g. complaints tribunals) rather than restrictive, across the board, regulations.**

Concerns about health and safety, social and environmental costs and benefits are important. In undertaking the above activities therefore, it is important that Government 'strikes a balance so that regulations protect the public interest, but do not impose unnecessary burdens on businesses or stifle growth'.⁴⁵ Business should be free to conduct their affairs except where there is a compelling case to protect the public⁴⁶-whether it is from noise disturbance, noxious products, pollution, health and safety hazards and environmental concerns. Policy should ideally take full account of the practical realities for business, particularly small enterprises operating in their specific sectors of the economy.

⁴² Quoted in Hudson, J *An enabling environment for private sector growth: Lessons from the international experience* published by the SBP, November 2002

⁴³ See Bannock, G et al *Indigenous private sector development and regulation in Africa and Central Europe: A 10 country study* August 2002, p11.

⁴⁴ *ibid* p.20

⁴⁵ www.cabinet-office.gov.uk/regulation

⁴⁶ OECD quoted in Hudson, J 'An enabling environment for private sector growth: Lessons from the international experience' SMME Alert published by the SBP, November 2002

3.15 Non Home Based Businesses

The use of the house is not appropriate for all businesses. The home is a useful incubator for businesses but as businesses formalise and grow they will tend to move out of the house.

The following key findings were determined in respect of those Entrepreneurs interviewed who do not have their business in their home. (see Resource Report 10).

These Entrepreneurs were not the main focus of the survey, but a statistically valid sample was interviewed in order to understand why such Entrepreneurs were not using their houses. The findings indicate:

- In Inner Cities the main reasons were that their customers are far from their house (28%), but also insufficient space (18%) and unsuitability of the home (17%)
- In Townships the main reasons were that they have a better place (19%), insufficient space (17%) and unsuitability of the home (16%).

Key differences between the Non Home Based Entrepreneurs and the Home Based Entrepreneurs were as follows:

- **Non Home Based Entrepreneurs are better educated** than Home Based Entrepreneurs with 72% having matric or above in Inner Cities and 46% in Township areas.
- **Fewer Non Home Based Entrepreneurs have the business as their only source of income** (49% in Inner Cities and 58% in Township areas).
- **More Non Home Based Entrepreneurs have registered businesses** than Home Based Entrepreneurs.
- **More Non Home Based Entrepreneurs have experienced crime** in respect of their business in the past year than Home Based Entrepreneurs. This is more significant in respect of Township areas.
- **More Non Home Based Entrepreneurs have businesses that comply** with zoning regulations than do Home Based Entrepreneurs.

On the basis of the above the following can be concluded:

- The use of the house is **not appropriate for all businesses**-in some cases it is not near the customer based and in others is not suitable or does not have sufficient space.
-

- The HBEs not using their home are better educated, less reliant on their business in terms of income and appear to be more formalized (having registered their business and complying with zoning regulations). **This appears to support the finding that the home is a useful incubator for business, but businesses formalise and grow they will tend to move out of the home or chose not to use the house at all.**

3.16 Successful Entrepreneurs

Most Successful Entrepreneurs used their home as an ‘incubator’ for their businesses initially. As the business grew it was moved out of the house. Most used savings to start their business. Only one used their home as security for a loan and this was the Entrepreneur with the largest annual turnover.

The 20 Successful Entrepreneurs interviewed (see Resource Report 11) were undertaking a mix of business activities, all of which were being operated on a formal basis (mostly as Close Corporations). The Entrepreneurs employed between 1 and 425 employees.

Most of the Entrepreneurs used the house in terms of their entrepreneurial ventures (18). Uses made of the house included as a venue for the business (Bed and Breakfast) and as an ‘incubator’ for their business in the initial phase.

Table 15 below sets out the advantages and disadvantages of using the home for business purposes as identified by the Entrepreneurs interviewed.

Table 15: Advantages and disadvantages of using the home for business purposes

Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ Convenience ▪ Being close to family ▪ Savings on office rental and cost of travelling to work ▪ Good security ▪ Reduced risk if the business fails 	<ul style="list-style-type: none"> ▪ Difficulty in separating work and home life and negative impact on personal space ▪ The difficulty in providing a professional image – a concern which grew as the business grew ▪ Clients tend to see the individual rather than the business ▪ Easy to lose discipline-working from home leading to ‘loafing’ ▪ Space constraints – difficult to take on more employees ▪ Isolation of working at home which constrains access to markets

While the majority of the Entrepreneurs interviewed used their house to locate their businesses initially, only one used the house as security for a loan for the business. This was the largest of the Entrepreneurs interviewed, with a turnover of some R12 million per annum. Own savings was the dominant form of finance used to finance their business. While calculated risk taking is a key feature of Successful Entrepreneurs, part of the reason for not using the house is related to the possible of losing it. This was considered an unacceptable risk for many.

All of the Entrepreneurs interviewed had negative perceptions about Financial Institutions. Key issues noted were that Financial Institutions do not understand small business, are inflexible and have complex bureaucracies. There was some fear in terms of committing to loan repayments while the business is still small, especially when cash flow varies from month to month. In the words of one Entrepreneur interviewed *‘Banks are quick to confiscate your property. I won’t risk losing mine’*.

3.17 Conclusions: Home Based Entrepreneurs

3.17.1 Importance of the home in Entrepreneurship: The Entrepreneurial sector in South Africa is seen as a **critical component** in addressing the fundamental issues of

unemployment and poverty, as well as contributing to meaningful **Black Economic Empowerment**.

However **low rates of entrepreneurship are occurring**. This survey of HBEs in Inner Cities and Townships (see Resource Report 10) found entrepreneurial activity in these areas ranging between 13 and 22% within the neighbourhoods surveyed. These low rates confirm that the overall growth of the enterprise sector in South Africa has been modest and lags in terms of international comparisons. Government's interventions into this sector have been poor. This is consistent with experience in other countries, which have also found it difficult to support small business.

De Soto in his books *The Other Path* and *The Mystery of Capital* expounds the theory that to escape from poverty, poor households need assets that they can put to work. By using their properties such households can apply for loans to start or expand their businesses. The survey of HBEs in Inner Cities and Townships (see Resource Report 10) found that small Entrepreneurs in South Africa **are not using their houses as collateral**, as they believe the risk is too high given the rate of failure of small businesses (see 3.17.2 below).

However as suggested by Rust⁴⁷ **a large number of small Entrepreneurs in Inner Cities and Townships are using their home for business purposes i.e. as a venue for the business**. It is estimated that up to **355 000 Home Based Entrepreneurs are active in Townships and Inner Cities comprising 13% of the total population of these areas**. **These HBEs are generating a significant monthly income of approximately R476 million per month**. While most of these businesses can be classified as micro or small, for many of the Entrepreneurs who own them, they represent their sole income.

It can therefore be concluded that housing in South Africa **is an economically productive asset, offering opportunities for income generation and poverty alleviation**. This is not necessarily in respect of using the house as collateral for a loan as indicated by de Soto, but rather as a venue for a business.

⁴⁷ Rust, K The role of housing in entrepreneurial activity in South Africa, 8 November 2004

The limited number of households currently using their houses (either as collateral to raise finance or as venue for business) represents an **untapped opportunity**. **There is therefore value in supporting existing HBE's, so that they can operate more effectively and expand, as well as promoting the use of the house to assist the emergence of new Entrepreneurs.** In order for this to occur there is a need to change the way in which HBEs are regulated and supported.

3.17.2 Use of the home: Very few of the HBEs interviewed (6-7%) **used their house as security for a loan for their business.** This is mainly attributed to the high risk of failure of entrepreneurial enterprises. HBEs were not prepared to offer their houses as collateral for business loans.

Rather HBEs use the house as a **venue for their business.** In this regard, HBEs are providing a **range of services** predominantly in the retail and services sectors and to a lesser extent in the production sector. The survey of HBEs in Inner Cities and Townships found that the type of business differs between Inner Cities and Townships and includes a range of diverse activities.

These services are offered on the basis that they:

- **Provide credit**
- Rely on a **local customer base**
- Provide goods and services on a **personalised basis and with high levels of convenience**
- Structure their services to the **needs of the customer base** for example Townships retail outlets offer smaller quantities that cannot be purchased in more formal retail outlets.

In providing this service, most HBEs use only a small portion of their house (less than half). Uses vary by area and sector but include:

- **Storage and parking** which is the highest usage in both areas and in almost all sectors
 - A **place to produce goods**, obviously in respect of the production sector in both Inner Cities and Townships
-

- A **location for the business**, which occurs predominantly in Townships in respect of the Retail Sector and to a lesser extent the Service Sector.

The use of the house has both **advantages and disadvantages**. The interviews with Successful Entrepreneurs identified the advantages as being convenience, close to family, savings on office rental and costs of travelling to work, good security and reduced risk if the business fails. The disadvantages included difficulties in separating work and home life, difficulty in providing a professional image, space constraints and isolation.

It was evident both in respect of the interviews with HBEs and Successful Entrepreneurs, that the house plays an important role particularly in the **incubation phase** of a business or if a **business is not growing**. However as a business grows and expands, unless the house is the location for the business and the customer base is located in the area, many **Entrepreneurs will move the business out of the house** if they can afford to do so.

There does not appear to be **any significant level of objection by residents** in the area in which the businesses are located, to the activities that are undertaken. **Access to services appears good** in Inner Cities and **adequate** in Townships.

On the basis of the above it is evident that the activities being undertaken by HBEs in Inner Cities and Townships are **well accommodated in the house in residential areas**. Some will grow beyond and out of the house and into business premises and some will remain.

3.17.3 Township vs. Inner cities: The survey of HBEs in Inner Cities and Townships (see Resource Report 10) found that the profile of HBEs that operate in Townships and Inner Cities are **different**. HBEs in Inner Cities are predominantly male, whereas in Townships they are more likely to be female. On average HBEs in Inner Cities are almost ten years younger than those in Township areas. HBEs in Inner Cities are also better qualified than those in Townships and more have training than those in Townships).

HBEs in Townships are less profitable than those in Inner cities. Township HBEs appear to be more survivalist businesses, in which people supplement the little they have in providing services to their neighbours.

The reason for this is that the **physical, social, economic and legislative context** of Townships militates against the emergence of more viable home businesses. The **customer based in Townships is limited** with low incomes. There is better access to markets and higher thresholds of customers in Inner Cities because of the greater population density and because it is a mixed use settlement.

Given the above it is evident that different types of initiatives and programmes are required in respect of supporting existing Township and Inner City HBEs and encouraging the emergence of new HBEs.

3.17.4 Types of HBEs: An analysis of the data obtained through the survey of HBEs indicates that HBEs can be categorised into three distinct types namely **Subsistence, Sustainable and Growing**. The key characteristics of these categories have been documented.

Within each category there is evidence that **some businesses are growing and other are stagnant**. Furthermore it is evident that the **challenges and opportunities are different** with respect to each category and therefore **different types of support are required**.

The research **did not identify a 'ladder of development'**. While categories of business were identified as detailed above, there did not seem to be any evidence of businesses moving from one category to the other. The reasons for this vary and include for example the amount of capital an HBE can access, the talent for entrepreneurship that the HBE has and his/her innovation, passion determination, energy and willingness to take risks.

3.17.5 Entrepreneurship: Not all HBEs show entrepreneurial characteristics. However there are a significant number of HBEs who are entrepreneurial.

The interviews with successful Entrepreneurs found that **success depends on each person** – their vision for the business and their comfort levels. A Multivariate Regression analysis of the HBEs interviewed determined that factors that impact on the growth of a business include education levels, formality of the business, access to capital, willingness to take risks and a positive attitude towards growing the business.

The above suggests that when providing support to HBEs care should be taken in the selection of the HBE, so that the support is provided to those individuals who are entrepreneurial.

3.17.6 Access to finance: Access to formal finance for most HBEs appears to be limited and most used savings or an informal loan to finance their business:

There are two main sources of formal funding for HBEs, namely loans provided by Commercial Banks and finance provided by Specialist Lenders. The lack of access to these loans is the result of the complexity of lending to small start up businesses, which are often informal, have no collateral or risk capital, questionable business plans and limited managerial resources. Important variances in respect of the different types of HBEs influence the different types of financial products required.

Access to finance that is appropriate for HBEs **needs to be significantly increased**. The high risk of small business as detailed in 3.17.2 has resulted in a reluctance by HBEs to use their house as collateral for a loan for their businesses. This implies that Lenders should develop alternative lending products that do not rely on the home as collateral. The raising of awareness around access to finance, and knowledge of the types of conditions that come with such schemes, is an area that needs to be actively supported.

Financing support on its own is not enough – business skills and a helpful environment for private sector growth must be developed in tandem.

3.17.7 Business support: While there are a number of Service Providers providing focused support to SMEs, **none of these provide specific support to HBEs and none focus on the role of the house in respect of the SME sector**. Support should include

capacity building, access to services and funding. In many cases the support is relationship based, and this is seen as a key success factor.

Key challenges exist including lack of capacity and funding for Service Providers, lack of coordination among Service Providers and poor quality and monitoring of the quality of services provided.

Support programmes to Entrepreneurs have to be focused and there needs to be high levels of understanding of the Entrepreneurs motivation and commitment and the business and market sector in which s/he operates in order to improve the chances of success.

3.17.8 Formal vs. informal: The majority of the HBEs interviewed operate informally. However levels of formality are higher in Inner Cities and for Sustainable and Growing HBEs

Development of a business requires formality because it is only when a small enterprise operates in the formal sector that they can access capital and utilise infrastructure in order to grow.

Linkages between the formal and informal sectors are critical to growing the informal or HBEs. Very few effective linkages exist with the formal sector.

Given the above it is evident that support must be provided to HBEs to assist them in formalising their businesses. Developing backward and forward linkages are important in this regard.

3.17.9 Regulation: Most HBEs do not comply with business or zoning regulations:

- In respect of **business regulations** South Africa has a high regulatory compliance burden. This affects small business to a greater extent than larger business because of their limited administrative resources, uncertain cash flows and limited understanding of rights and responsibilities.
- In respect of **zoning regulations**, these regulations have a particular impact on HBEs because they regulate the type and basis by which a business can operate within an area. Regulations governing HBEs in South Africa create barriers through unsupportive by-laws and zoning regulations and licensing limitation.)

It is evident therefore that there is a need for regulations pertaining to business and zoning to be reviewed. Regulatory Impact Assessments are seen as a basis for understanding the impact that regulations have and to ensure that any revisions made are effective and appropriate.

Reforming the regulatory environment should focus on eliminating artificial and policy induced constraints and creating an environment that will facilitate enterprise growth.

3.17.10 Role of Government: The role of Government is to create a positive environment within which existing HBEs can grow, as well as creating opportunities for new HBEs to emerge.

Government role should focus on:

- Providing **access to services, infrastructure and property rights**
- Ensuring that **new areas that are developed accommodate and support** entrepreneurial development
- **Amending the regulatory environment** in respect of planning, environmental and business regulations
- **Provide support to and monitoring the services** of Service Providers who are assisting Entrepreneurs

Local and Provincial Government also have a **particular role to play**.

4 Recommendations

4.1 *Terms of reference for the recommendations*

As detailed in Section 1.3 the purpose of the research is to **understand how a range of identified interventions** can be used as a tool to **promote the emergence and growth of Home Based Entrepreneurs (HBE's)**. Specifically the study aims at:

- **Identifying the housing finance interventions** necessary to build a home based entrepreneurial sector in low income areas.
- Developing **appropriate information products and tools** to assist emerging entrepreneurs in their efforts at becoming home based entrepreneurs.
- Inform policy and strategy directions so as to facilitate **better support to home based entrepreneurs in establishing and growing their home based enterprises**.

Accordingly this section sets out proposals in respect of:

- Policy implications
- Financial products
- Information products and tools

These recommendations specifically do not deal with “home based landlord enterprises”. Small Scale Landlords are the subject of a parallel report, which has been published as part of this research project.

4.2 *Proposal 1: Policy implications*

4.2.1 **Key considerations**

The current policy context of South Africa shows a strong recognition of and support for the growth and development of private enterprise and particularly those enterprises that are small and informal. This is evidenced for example from the following remarks by Finance Minister Trevor Manuel at the G20 Seminar on Economic Growth in August 2005 where he said the following;

“Since 1994 there have been two main pillars in respect of South Africa’s growth and empowerment strategy – the need to create an enabling environment for productive investment by enterprises, and the need to invest in skills and human capabilities..... Currently in South Africa, two economies live side by side, one a modern first world economy and the other a poverty stricken and informal economy. Thus, in addition to the need to create

an enterprise economy, we have to also recognise that South Africa is a developmental state where government has to take active steps to close the gap between the two economies”.

The research into HBEs as detailed in Section 3 above shows that the house provides a critical platform for enterprise/business activities. Housing in South Africa is an **economically productive asset, offering opportunities for income generation and poverty alleviation**. This is not only in respect of using the house as collateral for a loan as indicated by de Soto, but also as a **venue for a business**. It is estimated that up to 355,000 HBEs are active in Inner Cities and Townships. This comprises 13% of the total population of these areas. These HBEs are generating a **significant monthly income** estimated at approximately R476 million per month. While most of these businesses can be classified as micro or small, for many of the Entrepreneurs who own them, they represent their sole income.

The fact that so few people are using their houses for business purposes means that there is **untapped opportunity**. There is value in supporting existing HBEs, so that they can operate more effectively and expand, as well as promoting the use of the house to assist the emergence of new Entrepreneurs. In order for this to occur there is a need to change the way in which **HBEs are regulated and supported**.

The research determined the following in respect of HBEs:

- HBEs provide **useful services** predominantly in the retail and services sector and to a lesser extent in the production sector. They provide these services on a personalised basis and with high levels of convenience. Many (55-65%) provide credit to their customer base.
 - The use of the house as a venue for a business has both **advantages and disadvantages**. The advantages are convenience, being close to family, savings on office rental and costs of travelling to work, good security and reduced risk if the business fails. The disadvantages include difficulties in separating work and home life, difficulty in providing a professional image, space constraints and isolation.
 - The house plays an important role particularly in the **incubation phase of a business** or if a business is **not growing**. However as a business grows and expands, unless the house is the location for the business and the customer base is located in the area, many Entrepreneurs will move the business out of the house if they can afford to do so.
-

- The majority of HBEs interviewed **operate informally**. Development of a business requires formality because it is only when a small enterprise operates in the formal sector that it can access capital, secure Government contracts and utilise infrastructure in order to grow.
- The activities undertaken by HBEs are well accommodated and suitable in residential areas and there did not appear to be any **objection by residents** to the activities undertaken. Access to services by HBE's appears good in Inner Cities and adequate in Townships.
- Most HBEs **do not comply with business or zoning regulations**. This is partly the result of the fact that South Africa has a high regulatory compliance burden which affects small business to a greater extent than larger business. Zoning regulations have a particular impact on HBEs and create barriers through unsupportive bylaws, zoning regulations and licensing limitations.
- **No evidence of either backward or forward linkages** between HBEs and the formal sector were identified through the research, yet these are critical. Other South African research found very few forward linkages with the formal sector, but that some backward linkages occur.
- The role of Government is to perform an **enabling role** in accommodating HBEs and not an interventionist role in trying to create or sustain individual entrepreneurs directly. Governments role should focus on creating a positive environment within which HBE's can form and grow through :
 - Providing access to services, infrastructure and property rights.
 - Ensuring that new areas that are developed accommodate and support entrepreneurial development.
 - Amending the regulatory environment in respect of planning, environmental and business regulations so that they support legitimate business activities and assist and encourage individuals who wish to start businesses.
 - Providing support to and monitoring the services of Service Providers who are assisting Entrepreneurs, so that they have increased capacity and provide high quality services.

Local and Provincial Government have a particular role to play. They should not be directly providing support to individual businesses, but rather focusing on creating an enabling environment within their areas of jurisdiction . The kinds of activities that should be undertaken could include:

- Providing information which promotes home based enterprises
- Providing information about service providers, which are able to assist entrepreneurs with skills, finance and other support.
- Training their officials and politicians in the importance of supporting home based enterprise and on striking the balance between regulating harmful practices and unnecessarily obstructing harmless activities.
- Ensuring that commercial sites for small enterprises are available both within existing residential areas and in planned residential areas.

4.2.2 Proposed programmes

Given the above key considerations, it is proposed that the following programmes are undertaken:

- Recognition and support of HBEs
- Review of regulatory requirements
- Support to Municipalities
- Promoting linkages with the formal sector
- Promoting the appropriate design of new areas

Details on each of these programmes are outlined below.

– **Recognition and support of HBEs**

Aim: The aim of this programme is to create a **national framework** promoted by Public Sector Politicians and Officials, which recognises the house as an economically productive asset that can be used by HBEs to create income and generate wealth, in a manner that is not detrimental to the environment or residential areas.

Activities/projects to be undertaken: The activities/projects to be undertaken in respect of this programme include the following:

- A **national policy framework** should be drafted for supporting and promoting the house as a productive asset to be used by HBEs to create income and wealth.
 - **Approval for the policy framework should be secured** from the Ministers of Trade and Industries, Housing, Provincial and Local Government and of Treasury and the Provincial MEC's of Housing and of Local Government.
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- **A public launch** should be undertaken of the policy framework in each Province and the top ten Municipalities.

Implementing agent: This programme should be implemented by the National Department of Trade and Industries in partnership with the Departments of Provincial and Local Government and Housing.

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- **Review of regulatory requirements**

Aim: The aim of this programme is to review and streamline the regulatory requirements impacting on HBEs.

Activities/projects to be undertaken:

The following activities/projects are proposed:

- **Regulatory Impact Assessment:** A Regulatory Impact Assessment should be undertaken in respect of the legislation and regulations pertaining to HBEs. As detailed in the Literature Review this method of reviewing regulations has been adopted by National Government. It includes extensive consultation with stakeholders both within the public and private sectors. The regulations to be reviewed should include:
 - **Business regulations as they pertain to HBEs.** This should include registration, reporting and tax.
 - **Land use and building regulations.** Building by-laws should limit enterprises as little as possible and leave much of the regulation of uses of properties to an enhanced complaints process where neighbours define what is socially acceptable in any given locality. By laws and building regulations should avoid unrealistic building lines and servitudes as far as possible, so as to allow maximum use of the property.
 - **Health and safety.** Environmental and health regulations and the basis on which they are enforced needs to be reviewed. These should only curtail activities, which are proven to be harmful or anti-social.
 - **Revise and streamline regulations:** On the basis of the outcome of the Regulatory Impact Assessment, proposals for streamlined regulations should be formulated and supported as guidelines to municipalities (see section 4.2.2.3 below). These proposals
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should be in accordance with and supportive of the National Policy Framework developed (see 4.1.3.1 above).

Implementing agent: This programme should be undertaken by the National Department of Trade and Industries in partnership with the Department of Provincial and Local Government.

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– **Support to Municipalities in managing and regulating HBEs**

Aim: The aim of this programme is to provide support to Municipalities to manage and regulate HBEs, in a manner that creates an enabling environment.

Activities to be undertaken: The following activities are proposed:

- **Preparation of model policy and bylaws:** On the basis of the National Policy Framework and the revised and streamlined regulations (see 4.2.2.2 above) a document setting out recommended policies and bylaws to be implemented by Municipalities that will create an enabling environment for HBEs should be developed. In addition procedures should be developed as to how the policies and bylaws should be implemented and managed over time. In developing the procedures, a special focus should be on ensuring coordination and a shared focus to promote enterprises by the Economic Development, Building and Regulation and Environment Departments.
- **Workshops and briefing sessions:** Workshops and briefing sessions should be held with relevant Politicians and Officials within Municipalities to brief them on the National Framework, the recommended policies and bylaws and implementation procedures.
- **Funding Technical Support Programme:** A Programme should be undertaken that provides funding and technical support to Municipalities to revise their existing policies and bylaws, so as to bring them in line with the National Framework in terms of the model policies and by laws above.

Implementing agent: This programme should be undertaken by the Department of Trade and Industries in partnership with the Department of Provincial and Local Government.

– **Promoting linkages to the formal sector**

Aim: The aim of this programme is to promote backward and forward linkages of HBEs to the formal sector.

Activities to be undertaken:

The following activities are proposed:

- **Research:** Research should be undertaken into ways to improve and strengthen backward and forward linkages of HBEs to the formal sector. The research should result in a practical plan of action to be implemented by Government and Service Providers providing support to SME's.
- **Provide investment incentives:** The Urban Renewal Tax Incentive, which is available for 16 municipalities in terms of the Revenue Laws Amendment Act, no 45 of 2003 should be extended (in some appropriately amended form), to include businesses that outsource to HBEs in designated areas (like Townships). Training programmes on how to structure businesses so as to take advantage of this incentive should be developed and offered in relevant sectors.
- **Encouraging Service Providers and Lenders:** Service providers who provide support to SME's and Lenders should be encouraged to develop support programmes and financial products that would support such linkages. Financial and technical support should be provided to Service Providers to develop a cadre of middle men/women who would act as intermediaries linking HBEs to potential external markets. Such links could either be to formal companies but also to markets.

Implementing agent: This programme should be undertaken by the Department of Trade and Industries and its agencies such as Nsika and Khula

– **Promoting the appropriate design of new areas**

Aim: The aim of this programme is to provide support to Municipalities to locate, plan and design new areas in a manner that physically better accommodates HBEs.

Activities:

The following activities are proposed:

- **Training programme:** An accredited programme should be developed that will train Local Government Officials to locate, plan and design new areas in a manner that will accommodate HBEs. This training should ensure that:
 - Residential settlements are located in the urban economy so as to support efficient backward and forward linkages of enterprises to markets (peripheral location makes many HBEs less efficient and limits growth)

- Higher built densities allows greater access to customers within settlements
 - Mixed used residential areas must be planned from the outset, with areas for commercial premises for small businesses that enable HBEs to move out of the home when they grow.
 - All residential areas should be linked to nodes (preferably coupled with transport interchanges) where there are supermarkets and a range of other retail and service outlets.
 - Stand sizes, orientation and service levels should be differentiated according to potential usefulness as a home business. For example corner stands and stands along main activity routes should be larger and have land use rights for business use.
 - Stands, which accommodate production oriented HBEs (block making etc) should be planned into settlements.
 - Stands should be designed and serviced (service layout and placing of the house) to accommodate the future use of the house for business.
- **Application of the training programme:** Relevant Officials in the Planning Departments of Municipal and Provincial Governments should be required to attend the training programme. This requirement should be in the form of a directive from the MEC or the Municipal manager.

Implementing agent: This programme should be undertaken by the National Department of Land Affairs.

4.3 Proposal 2: Financial products

4.3.1 Key considerations

The research into HBEs as detailed in Section 3 above shows that while financial products exist, access to such products for most HBEs appears to be limited. Most HBEs use savings or informal loans to finance their business.

There are two main sources of formal funding for HBEs, namely loans provided by Commercial Banks and finance provided by Specialist Lenders. The lack of access to these loans is the result of the complexity of lending to small start up businesses, which are often informal, have no collateral or risk capital, questionable business plans and limited managerial resources. In addition the research determined the following:

- **Different types of HBE's were identified** namely subsistence, sustainable and growing. Within each category there is evidence that some businesses are growing and others are stagnant. Furthermore it is evident that the challenges and opportunities are different with respect to each category and therefore different types of support are required.
- **Not all HBE's show entrepreneurial characteristics.** Success depends on each person – their vision for the business and their comfort levels. When providing finance and support to HBE's care should be taken in the selection of the HBEs so that the support is provided to those individuals who are entrepreneurial. The main drivers for a successful business are that the Entrepreneur who owns it is willing to take risks, fill niches and grab opportunities.
- **Very few HBE's (6-7%) use their house as security for a loan for their business** as this is seen to be too high risk given the high rates of failure of many entrepreneurial endeavours (75% of businesses fail within their first three years).
- **Financial institutions are not favourably perceived by HBEs** and there is a lack of trust.
- **HBE's in Inner Cities and Townships are different.** Most significantly HBE's in townships are less profitable and appear to be more survivalist. The reason for this is that the physical, social, economic and legislative context of Townships militates against the emergence of more viable home businesses. The customer base is limited and has lower incomes. Accordingly different types of initiatives and programmes are required in respect of HBE's in Townships and Inner Cities.

The research indicates that a mortgage linked product for HBEs is not appropriate. Rather loans should be small and provided through relationship based lending procedures with business support services. Such business support should not be generic but should be sector and market specific (Inner City or Township) with high levels of understanding of the opportunities and constraints of each individual business. In addition loans should be provided on the basis of a careful selection process that determines the extent of entrepreneurship of the applicant and his/her vision for the business.

A number of Financial Institutions and Specialist Service Providers already exist that provide loans and business support but who are not necessarily focusing on HBEs. Accordingly no new loan product is proposed but rather a high level technical briefing programme that educates specialist Service Providers and Financial Institutions on HBEs.

4.3.2 Proposed programme

Aim: To educate specialist Lenders, Service Providers and Financial Institutions on HBE's.

Activities: The following activities are proposed:

- **Information booklet and workshop material:** An information booklet and workshop material should be developed based on the findings of this research. Case study material should be developed and utilised throughout the workshop sessions. The booklet and workshop should outline:
 - Use of the house for business purposes
 - Appropriate markets for HBEs
 - The different types of HBEs and their requirements
 - Particular requirements of Inner City and Township HBEs
 - Selection criteria for HBEs (both in terms of whether the owner is an Entrepreneur and whether the business has the potential to grow)
 - Potential for supporting backward and forward linkages of HBEs to the formal sector (see 4.2.24 above)
 - Creating forums (see 4.3.2.3)
- **Workshops:** Workshops should be held with relevant Financial Institutions and Service Providers using the information booklet and workshop material developed.

Implementing agent: This programme should be undertaken by Finmark Trust.

4.4 *Proposal 3: Information products and tools*

4.4.1 Key considerations

The research into HBEs shows that the house being used as a venue for a business, provides a critical platform for enterprise/business activities. Housing in this regard is an **economically productive asset, offering opportunities for income generation and poverty alleviation and wealth creation.**

However this is to a large extent an **untapped opportunity** as few people are using their houses in this way. Accordingly there is a need for information products and tools that will change the attitudes of key stakeholders so that the house is more widely recognised as a

productive asset in that it can be a venue for a business and to support HBEs. In this regard the key stakeholders that should be targeted include:

- Officials and politicians within National, Provincial and Municipal Government
- Service Providers and Lenders
- HBE's
- General public

The programmes to be undertaken in respect of each of these stakeholders are outlined below, with the exception of Service Providers and Lenders, which is detailed in Section 4.2.2 above.

4.4.2 Proposed programmes

- **Communication programme for Officials and Politicians within National, Provincial and Municipal Government**

Aim: This programme is targeted at Government Officials and Politicians. The aim of the programme is to disseminate the findings of this research, particularly to highlight the use of the house as an economic asset, the developmental role of the HBE sector and to promote debate.

Activities: The following activities are proposed:

- **High level meetings:** High level meetings should be held with Ministers in the Departments of Trade and Industries, Housing, Provincial and Local Government and Treasury, as well as the MEC's of the nine Provinces. The meetings should provide an overview of the findings of the research and the recommendations.
 - **Workshops:** Workshops which provide an overview of the research and the proposed recommendations should be held with relevant Officials and Politicians at National and Provincial Government and Municipalities. In this regard the 20 largest Municipalities should be targeted. Officials in the Departments of Town Planning, Environment and Economic Development should be targeted. The aim of the workshops should be to inform and stimulate debate around the findings and recommendations.
 - **Publications:** Articles should be written on the research findings and recommendations and published in Government publications and other specialist media.
-

Implementer: The implementer of this programme should be the funders of the research (Finmark Trust, the Social Housing Foundation, Nedbank, the Gauteng Department of Housing and the National Department of Housing).

– **Information campaign to the general public**

Aim: This programme is targeted at the general public and aims to promote the ability to generate wealth through being a HBE.

Activities: The following activities are proposed:

- **National information campaign:** A national information campaign, that provides information on how a house can be used to generate income through using it as a venue for a business, should be undertaken. This campaign should be sector specific in that it should provide different information relevant to the different activities that can be undertaken. The campaign should provide relevant and simple information that shows how wealth can be created and high-lights the opportunities and constraints. In addition it should provide information as to where assistance can be found.
- **Success stories:** Success stories of HBEs who are operating in both Townships and Inner Cities should be published in relevant media.

Implementer: The implementer of this programme should be the Department of Trade and Industries.

– **Forums**

Aim: This programme is targeted at HBEs and aim at facilitating information sharing among HBEs and improving business practices and knowledge

Activities: This programme comprises establishing and operating Forums of HBEs that are market and area specific. The purpose of the Forum:

- Is to allow HBEs operating in an area or market to share information and ideas.
- To provide information to HBEs on how to improve business practices and to provide information on policy initiatives and regulatory requirements.

Implementer: The implementers of this programme should be Lenders and Service Providers who could establish and manage these Forums as part of the activities that they undertaken in

this market sector (for example a Lender could establish a Forum for all HBEs that it funds in a specific area or market).

5 Overall conclusions

This report sets out research into **Home Based Entrepreneurs**, who use the home to run a business that generates income. It is estimated that currently these HBEs are **generating significant income** as a result of their activities. This is estimated to be **R476 million** per month within Townships and Inner Cities. Most of these HBEs fall within the low income categories.

The research found further that **significant opportunities exist**, both in terms of existing HBEs growing their businesses, as well as encouraging the emergence of new HBEs.

Given the challenges faced by South Africa in terms of high levels of unemployment and poverty, key stakeholders including Government, Financial Institutions and Business Service Providers needs to recognise that the **house is an economically productive asset** that can be used to create income. This can occur in a manner that is **not detrimental to the environment or residential areas**. Government policy and the practice of Financial Institutions and Business Service Providers needs to be adjusted to recognise this and initiatives and programmes should be implemented to support the growth and development of HBEs.

Annexure A: Detailed overview of the methodology applied during Phase 1

Phase 1 comprised undertaking research into the following focus areas:

- Small Scale Landlords
- Home Based Entrepreneurs

The research undertaken included the following:

- **Literature reviews:** Four literature reviews were undertaken in respect of the following areas:
 - Small Scale Landlords
 - Financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks.
 - Entrepreneurship, housing and housing finance
 - Home Based Entrepreneurs

International and national literature was reviewed through an Internet search, as well as documentation already assembled by the Team.

- **Research into Small Scale Landlords:** This research included the following:
 - **Survey of Small Scale Landlords in Inner Cities:** This research comprised primary research into Landlords operating in two inner city areas (Hillbrow/Berea in Johannesburg and Sunnyside/Tshwane Central in Pretoria). A total of:
 - 237 Landlords were interviewed of which 91 Landlords were interviewed in Tshwane and 146 in Johannesburg, and
 - 125 Tenants were interviewed of which 50 were in Tshwane and 75 in Johannesburg.
 - **Research into Small Scale Landlords in Townships:** Due to the fact that Nurcha had undertaken extensive research into Landlords in Townships in 2003, it was decided to make use of the research that already exists rather than undertake primary research.

The research undertaken by Nurcha focused on three areas namely **Orlando East** in Soweto, Gauteng, **Katorus** in South East of Johannesburg, Gauteng and **Cato Manor**

in Durban, KwaZulu Natal⁴⁸. The size of the sample researched was **400 landlords** each in Orlando East and Katorus and **291** in Cato Manor.

The review and detailed analysis of the Nurcha data was complemented by four focus groups, two of tenants and two of Landlords, undertaken as part of the study, to test some of the key issues pertaining to the study and not covered in the Nurcha data.

- **Interviews with Successful Landlords:** This research comprised qualitative in-depth interviews with 20 Landlords perceived as being ‘successful’.
- **Interviews with Service Providers in respect of Small Scale Landlords:** This research comprised qualitative in-depth interviews with Service Providers (including Lenders) providing services to Small Scale Landlords. A total of 7 individuals were interviewed.
- **Research into Public Sector Stock:** This research comprised a review of the current status and availability of Public Sector stock and the issues pertaining to the transfer of such stock to determine the feasibility of applying an approach whereby such stock is transferred to Small Scale Landlords. As part of this research two case studies were reviewed.
- **Research into Home Based Entrepreneurs:** This research included the following
 - **Survey of Home Based Entrepreneurs in Inner Cities:** This research comprised primary research into Home Based Entrepreneurs operating in two inner city areas. The two inner city areas selected were the same as for the research into Small Scale Landlords namely (Hillbrow/Berea in Johannesburg and Sunnyside/Tshwane Central in Pretoria). A total of 140 Home Based Entrepreneurs were interviewed (70 in each area).
 - **Survey of Home Based Entrepreneurs in Townships:** This research comprised primary research into Home Based Entrepreneurs operating in three township areas. The three township areas selected were Orlando East, Mamelodi and Katlehong. A total number of 210 Entrepreneurs were interviewed (70 in each area).
 - **Interviews with Successful Entrepreneurs:** This research comprised qualitative in-depth interviews with 20 Entrepreneurs perceived as being ‘successful’.

⁴⁸ Despite the fact that all of the primary research undertaken in terms of the research into Small Scale Landlords was Gauteng based, Cato Manor was included as it formed part of the Nurcha research.

- **Interviews with Service Providers and Lenders in respect of Entrepreneurs:** This research comprised qualitative in-depth interviews with Service Providers and Lenders providing services to Entrepreneurs. A total of 5 individuals were interviewed.

The Table below provides a summary of the components of the Phase 1 research. Details on the methodology applied in respect of each component of the research are set out in separate Resource Reports that have been developed in respect of each component (as detailed below).

Table: Components of Phase 1: Research

	Small Scale Landlords	Entrepreneurs
Literature reviews	Small Scale Landlords	Entrepreneurship; Home Based Entrepreneurs
	Lending products linked to housing finance	
Township	Desk study using Nurcha research (Katorus (400), Orlando East (400), Cato Manor (291)) 4 focus groups	Three townships (Katlhong, Orlando East, Mamelodi). Households scanned to identify entrepreneurial activity. 70 interviews undertaken with entrepreneurs in each area (210)
Inner City	Two inner cities (Hillbrow/Berea, Sunnyside /Pretoria Central) Scan of tenants undertaken to identify landlords 237 interviews with Landlords 125 interviews with Tenants	Two inner cities (Hillbrow/Berea, Sunnyside /Pretoria Central) Scan of tenants undertaken to identify entrepreneurial activity 70 interviews undertaken with entrepreneurs in each area (140)
Success stories	Successful Landlords Scan undertaken to identify successful landlords – 20 in-depth interviews undertaken	Successful Entrepreneurs Scan undertaken to identify successful entrepreneurs – 20 in-depth interviews undertaken
	Public Sector Stock 2 case studies reviewed	

The social survey undertaken was sampled on a basis, which ensured the statistical representivity of the areas surveyed. A number of problems were experienced in undertaking the research. The most significant of these were as follows:

- The scan of tenants in Sunnyside resulted in insufficient landlords and entrepreneurs being identified, as many tenants are students or Government employees. Accordingly the sample was expanded to include Pretoria Central.

- Of the landlords identified in the inner cities, 21% were landlords that do not interact directly with tenants but use a Managing Agent or other means to interface with the tenants. Managing Agents contacted to request details of the Landlords so that they could be interviewed, however refused to disclose this information on the basis that it transgressed their Ethical Code. Deeds searches were then used to attempt to identify the Landlords but did not provide a sufficient number of Landlords. Accordingly interviews were held with the Managing Agents to obtain a broad understanding of this category of Landlord.

The research has been documented in twelve Resource Reports. These Resource Reports contain the detailed data (in respect of the primary research) and the analysis undertaken. The Resource Reports are available on request. This report comprises a summary of each Report. The Resource Reports include the following:

- **Resource Report 1:** Literature review of Small Scale Landlords
 - **Resource Report 2:** Literature review on the financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks.
 - **Resource Report 3:** Literature review on entrepreneurship, housing and housing finance
 - **Resource Report 4:** Literature review on Home Based Entrepreneurs
 - **Resource Report 5:** Research into Landlords in Inner Cities
 - **Resource Report 6:** Research into Landlords in Townships
 - **Resource Report 7:** Research into Successful Landlords
 - **Resource Report 8:** Research into Service Providers in respect of Small Scale Landlords
 - **Resource Report 9:** Research into Public Sector Stock
 - **Resource Report 10:** Research into Home Based Entrepreneurs
 - **Resource Report 11:** Research into Successful Entrepreneurs
 - **Resource Report 12:** Research into Service Providers in respect of Entrepreneurs
-

Annexure B: Schedule of attendants to workshops

Date of workshop	Name of participants	Organisation
27 Sept 2005	R Polkinghome	Sharewise Consulting
	M Rubin	SHF
	G Mandelowitz	JPC (BBP)
	A Schaefer	Trafalgar
	W Plit	Afhco Group Holdings
	D Herron	Badiri Housing Association
	R Gallocher	NDOH (SPSH)
	A Raiz	Raizcorp
	T Adler	JHC
29 Sept 2005 (Advisory Committee)	M Napier	Finmark Trust
	T Ngonyama	Finmark Trust
	S Arjun	NDOH
	P Jackson	TUHF
	A de Leeuw	YDL
	T Duko	NDOH
	J Strelitz	Nurcha
	D Jackson	Nedbank
	M Motlana	Sizwe
	K Rust	Finmark Trust
30 Sept 2005	A Gouws	City of Tshwane
	Y Horowitz	JDA
	D Bauwas	ECT Africa
	M Mokgohloa	Ekurhuleni Metro
	M Pitjeng	JPC
	T Matsho	Massel Matsho
15 November 2005	Representatives of the Social Housing Foundation (5)	
18 November 2005	T Masimini	National Dept of Housing
	X Mkhali	GDOH
	T Duko	National Dept of Housing
	T Ngonyama	Finmark Trust
	M Napier	Finmark Trust
	K Rust	Finmark Trust
	W Odendaal	GDOH
	E Stroebel	Gauteng Partnership Fund
	E Raboroko	GDOH
	Steyn Van Blerk	GDOH