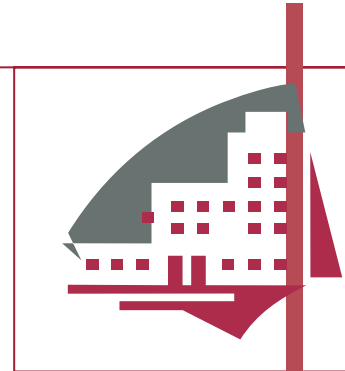


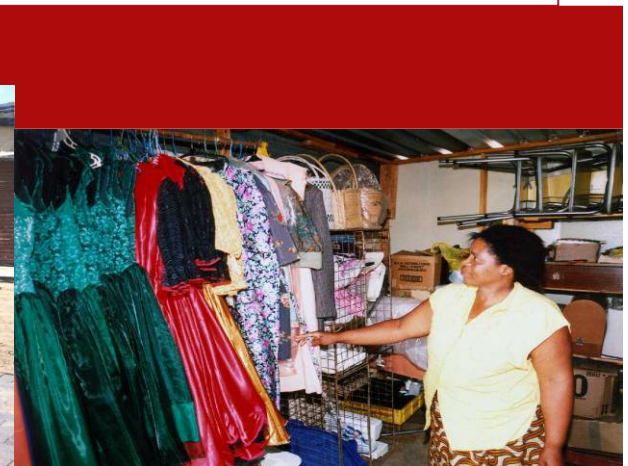
A research project sponsored by the Gauteng Department of Housing,
the Social Housing Foundation, Nedbank Ltd, the National Department of
Housing and the FinMark Trust

Undertaken by Shisaka Development Management Services Pty (Ltd)
In association with the CSIR Built Environment



Home Based Entrepreneurs

Key findings and proposals

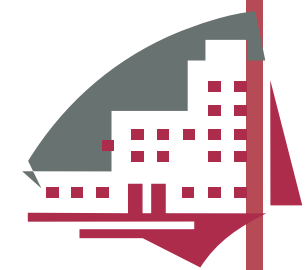


Presentation overview

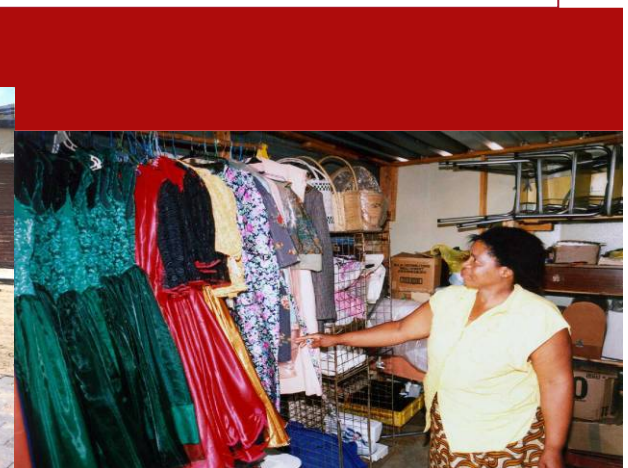


- ❖ Introduction
- ❖ Findings of research
- ❖ Proposals
- ❖ Conclusions





Introduction



Rationale for the research



- ❖ South Africa faces a **number of challenges** - of these **two** are significant:

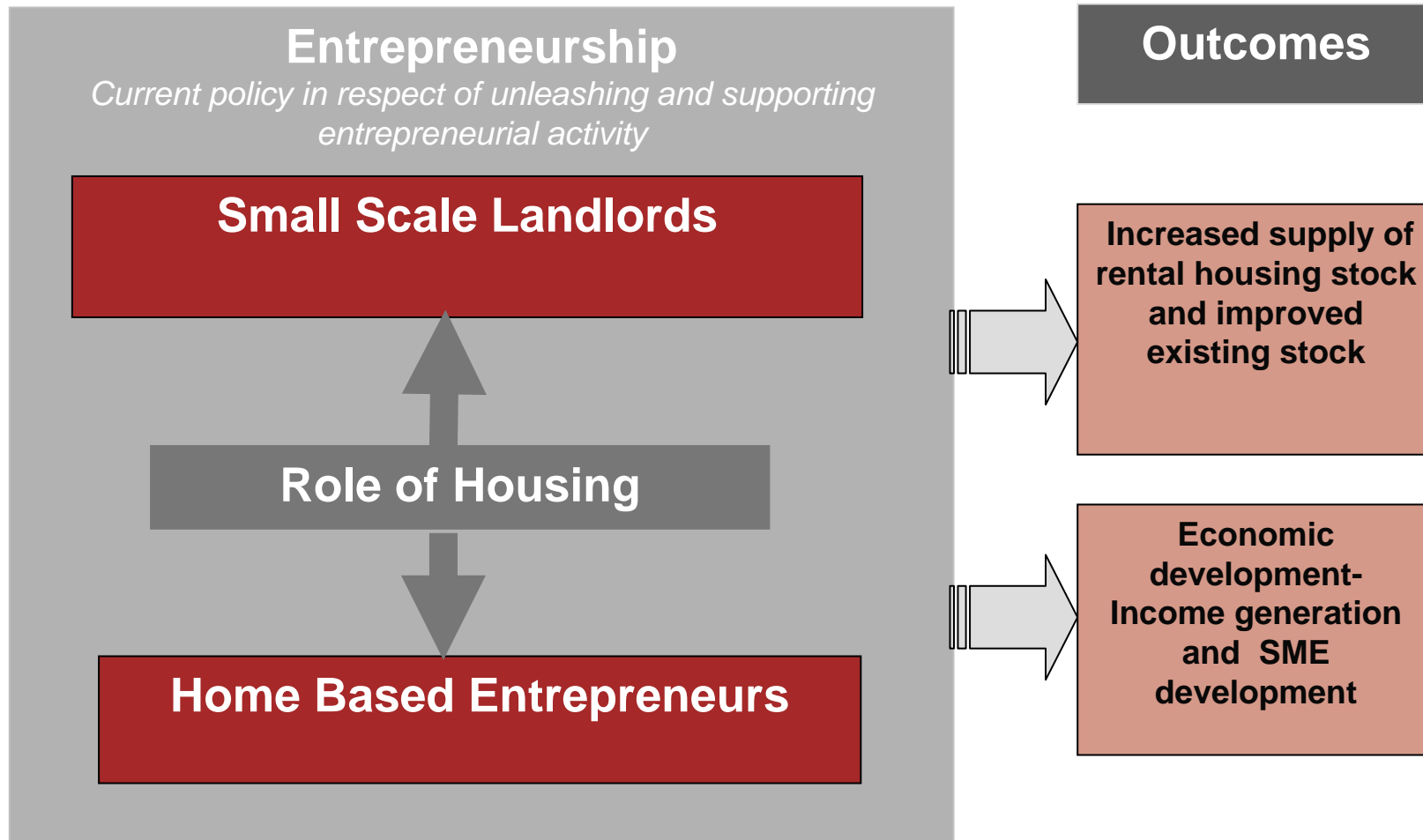
Poverty : Approximately 49% (21,9 million people) live below the national poverty line.

Unemployment : Currently assessed as 26%

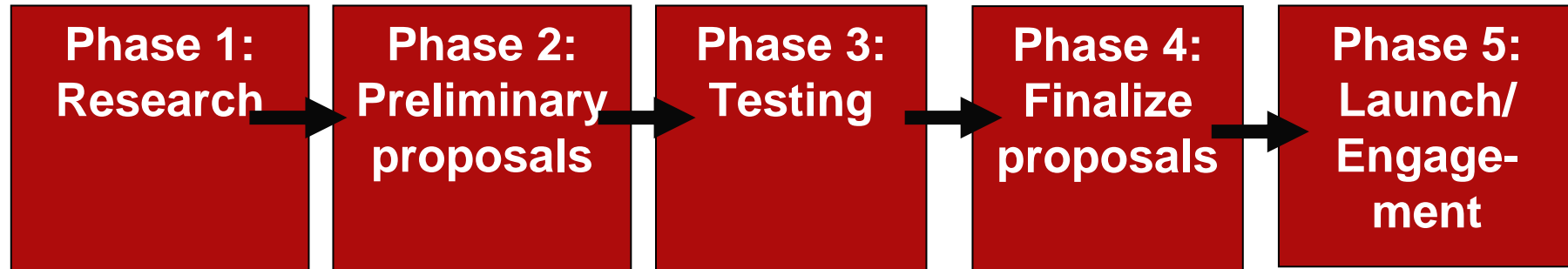
- ❖ Government has set a target of reducing unemployment to below 15% and halving the poverty rate by 2010.
- ❖ One of the critical elements identified to achieve this is promoting SME's

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. It studies the activities of Home Based Entrepreneurs [HBEs] and Small Scale Landlords [SSLs]

Conceptual approach



Methodology



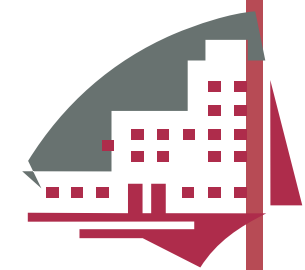
This presentation focuses on Home Based Entrepreneurs and covers research findings and proposals

Total Research Undertaken

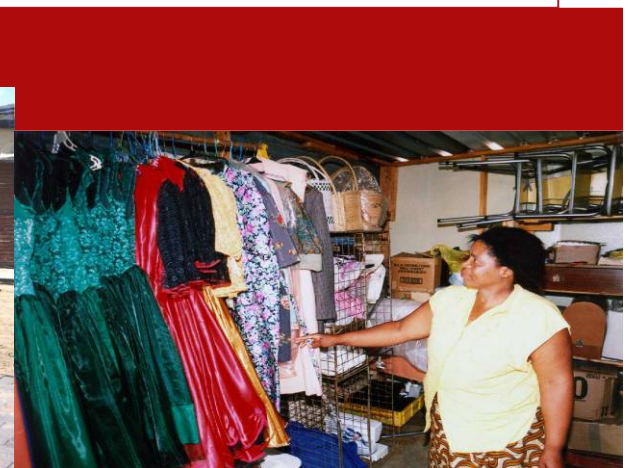
- 4 Literature reviews
- 1 Desktop study
- 3 Social Surveys [700 interviews]
- 4 Focus groups
- 40 Success stories
- 2 Case Studies

Research Specific to HBEs

- Literature review of entrepreneurship
- Literature review of HBEs
- Literature review on financial needs and products available to HBEs
- **Research into HBEs in Inner Cities** – 140 interviews with HBEs [Hillbrow/Berea, Sunnyside Pretoria Central]
- **Research into HBEs in Townships**- 210 interviews with HBEs in Katlehong, Orlando East and Mamelodi
- **20 Success stories**



Research Findings



Importance



Housing in South Africa is an economically productive asset, offering opportunities for income generation and poverty alleviation – not using house as collateral but rather as business venue

- ❖ Up to 355 000 HBEs active in Townships and Inner Cities – comprising 13% of total population of these areas- generating approximately R6 billion per year
- ❖ Rate of entrepreneurship is low – indicating that there is untapped opportunity
- ❖ Services provided are affordable, personalised and appropriate to local residents



Sector provides significant development spin-offs

Value in supporting the growth of the sector

Small Scale Landlords as HBE's



SSLs are contributing significantly to the supply and management of affordable rental housing for poor people, as well as contributing to income generation and wealth creation

- ❖ Provide a range of accommodation types for 15% of all South African households [1,85 million households]
- ❖ 60% comprises Household Rental
- ❖ Stock is well located and affordable for poor households – average income of tenants is R1800 pm
- ❖ Generating rental income of approximately R5 billion per year [nationally]
- ❖ Generally tenants are satisfied with quality & have good relationships with landlords



Use of the home



Activities being undertaken by HBEs are well accommodated in the house in residential areas- some will grow beyond and out of the house

- ❖ **Few HBEs [6-7%] used their house as security for a loan** – high risk of failure of entrepreneurial enterprises.
- ❖ **Range of services provided** – mainly in retail and services sectors and to lesser extent production sector
- ❖ They provide credit, rely on local customer base, **offer services that are personalized, convenient and structured to needs of customers**
- ❖ Only **small portion of house used** [less than half].
- ❖ **Uses vary** but include storage and parking, a place to produce goods and a location for business
- ❖ **House important during incubation phase** of business or if business not growing
- ❖ **Many will move out of house** when they can
- ❖ Level of **objections by residents limited**
- ❖ **Access to services** appears good in Inner Cities and adequate in townships



Township vs. Inner cities



Profile of HBEs in Inner Cities and Townships are different

	Inner City	Township
Demographic profile	<p>Young (36 yrs), mostly male (57%) High level of education (52% matric+) Income –R3251 pm. 77% run bus only</p>	<p>Older (44 yrs), more female (54%) Lower level of education (31% matric+) Income lower – R2053. 91% run bus only</p>
Type of dwelling	<ul style="list-style-type: none"> ❖ Flats (88%) ❖ Rent (R1021) ❖ Lived in unit 4 yrs 	<ul style="list-style-type: none"> ❖ House (88%) ❖ Rent (R272) ❖ Lived in unit 21 yrs
Reason to start business	Survival (29%), business opportunity (17%)	Survival (39%)
Skill source	35% self taught	52% self taught
No of yrs [bus]	5	9
Sector	Retail [42%] and Services [40%] sector	Retail [65%] sector dominates

Different types of initiatives and programmes are required in respect of supporting existing Township and Inner City HBEs and encouraging emergence of new HBEs in these areas

Types of business



Subsistence

Earn less than R1000 pm from business
Business started to survive [37%]
Operate informally [2,5% financial statement, 88% not registered as bus]
Many not growing [45% perceived business growth]

Sustainable

Earn between R1000 and R2499 pm from business
Business started to survive [33%] or as business opportunity [14%]
Operate informally [6% financial statement, 78% not registered as business]
Many are growing [62% perceive business to be growing]

Growing

Earn above R2500 pm from business
Business started as business opportunity [23%] or to survive [31%]
Some operate formally [27% financial statements, 68% not registered as bus]
Many are growing [76% perceive the business to be growing]

No 'ladder of development' identified - not all HBEs entrepreneurial – success depends on each person. Challenges and opportunities different with respect to each type and different support reqd. Focus should be on entrepreneurial HBEs

Finance and support



- ❖ Access to formal finance limited – most used savings or an informal loan
- ❖ Two main sources for formal loans – Commercial Banks and Specialist Lenders
- ❖ Lack of access due to complexity of lending to small start up's and high levels of informality
- ❖ Financial support not enough – business skills and helpful environment needed
- ❖ No Service Providers focus on HBEs
- ❖ Support Programmes need to be focused -high levels of understanding of Entrepreneurs motivation, nature of business and market sector
- ❖ Very few backward and forward linkages exist



Appropriate finance for HBEs needs to be significantly increased – but must be linked to focused business support. Developing backward and forward linkages are important

Regulation



- ❖ Most HBEs do not comply with business or zoning regulations
 - Business regulations** – SA has high regulatory compliance burden – this affects small business most
 - Zoning regulations** – particular impact on HBE's – barriers result from unsupportive by-laws, zoning regulations and licensing limitations
- ❖ Government should play an **enabling rather than facilitative role** by creating a positive environment:
 - Access to infrastructure services and property rights
 - New areas planned to accommodate entrepreneurial activity
 - Streamline the regulatory environment
 - Support service providers

Regulatory environment should be reformed – eliminate artificial and non-essential constraints and creating an enabling environment which supports enterprise growth



Case studies – based on interviews undertaken



Sina converted her home to successful guesthouse - converted garage into a bedroom and bathroom. Employs 2 people permanently.



Money to start business provided by daughter. Sina's biggest concern is fluctuation in business.

Oupa buys and sells electrical supplies. Started going door to door, business to business – his office was his home. As he grew he realised his home based office in a township was limiting and rented other business premises - still uses home to do admin work.



Used savings to start business. As business grew obtained R8000 overdraft facility from bank. Also secured a R2000 loan from Business Support Organisation. Both loans provided without security. Oupa has plans to expand and grow business - biggest challenge is finance - perceives bank costs and loans to be expensive.

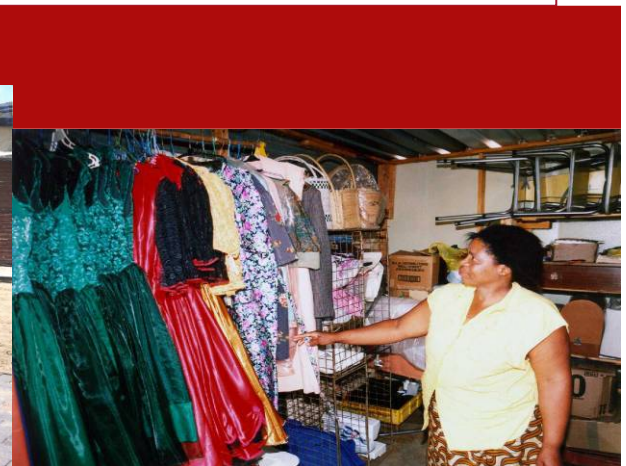
Reg has been running a small business for 21 years. Currently provides premises and services to a number of businesses located together under the same roof. Reg started from home as a cost saving – as he grew he moved out.



Reg started his business by borrowing from family and friends. Unable to get loan from a bank. He found operating from home tempted him to be less professional- would not dress up for work, could not separate home and work life.



Proposals



Terms of reference



Develop a range of interventions to:

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

Proposals developed

Policy implications
Financial products
Information products and tools

Proposal 1: Policy implications



Key considerations:

- ❖ House provides a **critical platform for enterprise/business activity – offering opportunities for income generation and poverty alleviation**
- ❖ **The house is generally not used as collateral – but as a venue for business**
- ❖ The limited use of houses means there is **untapped opportunity**
- ❖ **Value exists in supporting** existing HBE's and promoting new HBE's
- ❖ To achieve this **regulation and support for HBEs must be changed**

Proposed programmes

Recognition
and support

Review of
regulation

Support to
Municipalities

Promoting
linkages

Design of
new areas

Proposal 1: Policy implications



PROGRAMME 1: RECOGNITION AND SUPPORT OF HBEs

Aim

Create a national framework whereby Public Sector Politicians and Officials recognise and promote the house as an economically productive asset that HBEs can use to create income and generate wealth, in a manner not detrimental to the environment or residential areas

Activities

Draft national policy framework
Secure approval
Public launch

Implementing agent

Dept of Trade and Industry in partnership with the Dept of Housing

Proposal 1: Policy implications



PROGRAMME 2: REVIEW OF REGULATORY REQUIREMENTS

Aim

To review and streamline the regulatory requirements impacting on HBEs.

Activities

Undertake Regulatory Impact Assessment focusing on:

- Business regulations
- Land use and building regulations
- Health and safety

Review and streamline regulations

Implementing agent

Dept of Trade and Industry in partnership with the Dept of Housing

Proposal 1: Policy implications



PROGRAMME 3: SUPPORT TO MUNICIPALITIES

Aim

To assist Municipalities to support and regulate HBEs, in a manner that creates an enabling environment.

Activities

Prepare model policy and bylaws
Hold workshops and briefing sessions
Provide funding and technical support – to revise existing policies

Implementing agent

Dept of Trade and Industry in partnership with the Dept of Housing

Proposal 1: Policy implications



PROGRAMME 4: PROMOTE LINKAGES TO THE FORMAL SECTOR

Aim

To promote backward and forward linkages of HBEs to the formal sector.

Activities

Undertake research into ways to improve and strengthen backward and forward linkages
Develop practical plan of action to be implemented by Govt and Service Providers
Provide investment incentive to businesses that outsource to HBEs in designated areas [Townships]
Encourage Service Providers to develop support programmes and financial products to support such linkages
Develop and implement training programmes for businesses and Service Providers

Implementing agent

Dept of Trade and Industry and its agencies such as Nsika and Khula

Proposal 1: Policy implications



PROGRAMME 5: PROMOTING THE APPROPRIATE DESIGN OF NEW AREAS

Aim

To provide support to Municipalities to locate, plan and design new areas in a manner that physically better accommodates HBEs

Activities

Develop a training programme for Local Government Officials [Planning Departments] and planning professionals to locate, plan and design new areas in a manner that will accommodate HBEs
Relevant Officials required to attend training programme

Implementing agent

Dept of Land Affairs

Proposal 2: Financial products



Key considerations

- ❖ **Financial products exist** – but access for HBEs limited due to operating complexity of lending
- ❖ **Mortgage linked products not appropriate** - loans should be small and provided through relationship based lending procedures linked to business support services
- ❖ **Business support should not be generic but sector and market specific** [high levels of understanding of opportunities and constraints required]
- ❖ **Loans should be focused** on applicants with entrepreneurship and a growth vision for the business
- ❖ **Existing** Financial Institutions and Service providers **don't focus on HBEs**

No new loan product proposed – but high level technical briefing programme that educates specialist Service Providers and Financial Institutions on HBEs

Proposal 2: Financial products



EDUCATION PROGRAMME

Aim

To educate Specialist Lenders, Service Providers and Financial Institutions on HBEs

Activities

Develop an information booklet and workshop material based on the findings of the research – including case study material
Hold workshops with relevant Financial Institutions and Service Providers

Implementing agent

Finmark Trust

Proposal 3: Information products and tools



Key considerations

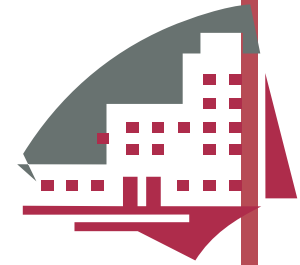
- ❖ Need for information products and tools that will change the attitudes of key stakeholders – so the house is more widely recognized as a productive asset
- ❖ Key stakeholders are:
 - Govt Officials and Politicians
 - Service providers and lenders
 - HBEs
 - General public



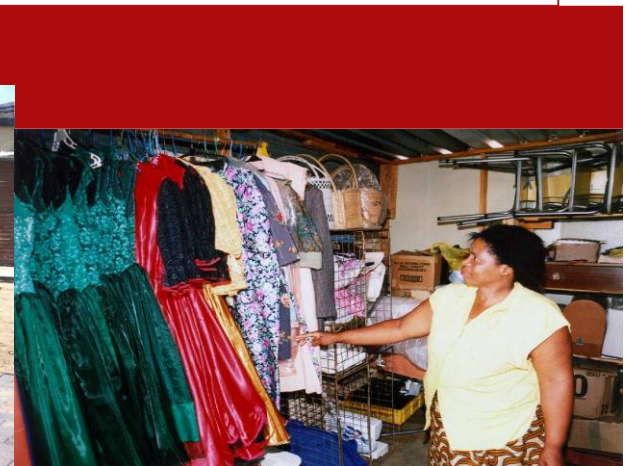
Proposal 3: Information products and tools



Programme	Aim	Activities	Implementer
Govt Officials and Politicians	To disseminate the findings of the research – to highlight the use of the house as an economic asset	Hold high level meetings Hold workshops Publish articles	Funders of the research
General public	To promote the ability to generate wealth through being a HBE	Undertake a national information campaign Publish success stories	Dept of Trade and Industries
Forums	To facilitate information sharing among HBEs and improve business practice and knowledge	Establish forums	Lenders and Service Providers



Conclusions



Conclusions



- ❖ **HBEs generate significant income** [estimated at R6 billion per year] and **provide appropriate affordable and convenient services** for lower income customers
- ❖ The research found that **significant growth opportunities exist** – both in terms of existing and emerging new business
- ❖ Government, Financial Institutions and Business Service Providers need to recognise the **house is an economically productive income generating asset** [seldom detrimental to environment or residential areas]
- ❖ **Government policy** needs to be developed and supported
- ❖ The **practice of Financial Institutions and Business Service Providers** need to be adjusted
- ❖ **Focused initiatives and programmes** should be implemented

