



MODULE 2



UNLOCKING TOWNSHIP MARKETS

FOCUS OF THE MODULE

- Nature of markets, how they operate, how public and private sector actions can improve how well they function.
- Goals of township economic development
- Area-based interventions in relation to other non-spatial interventions
- Desired outcomes of township economic development
 - Improving the land market
 - Enhancing township labour market competitiveness
 - Supporting township residential property markets
 - Commercial property markets and small business

MARKET DEFINITIONS

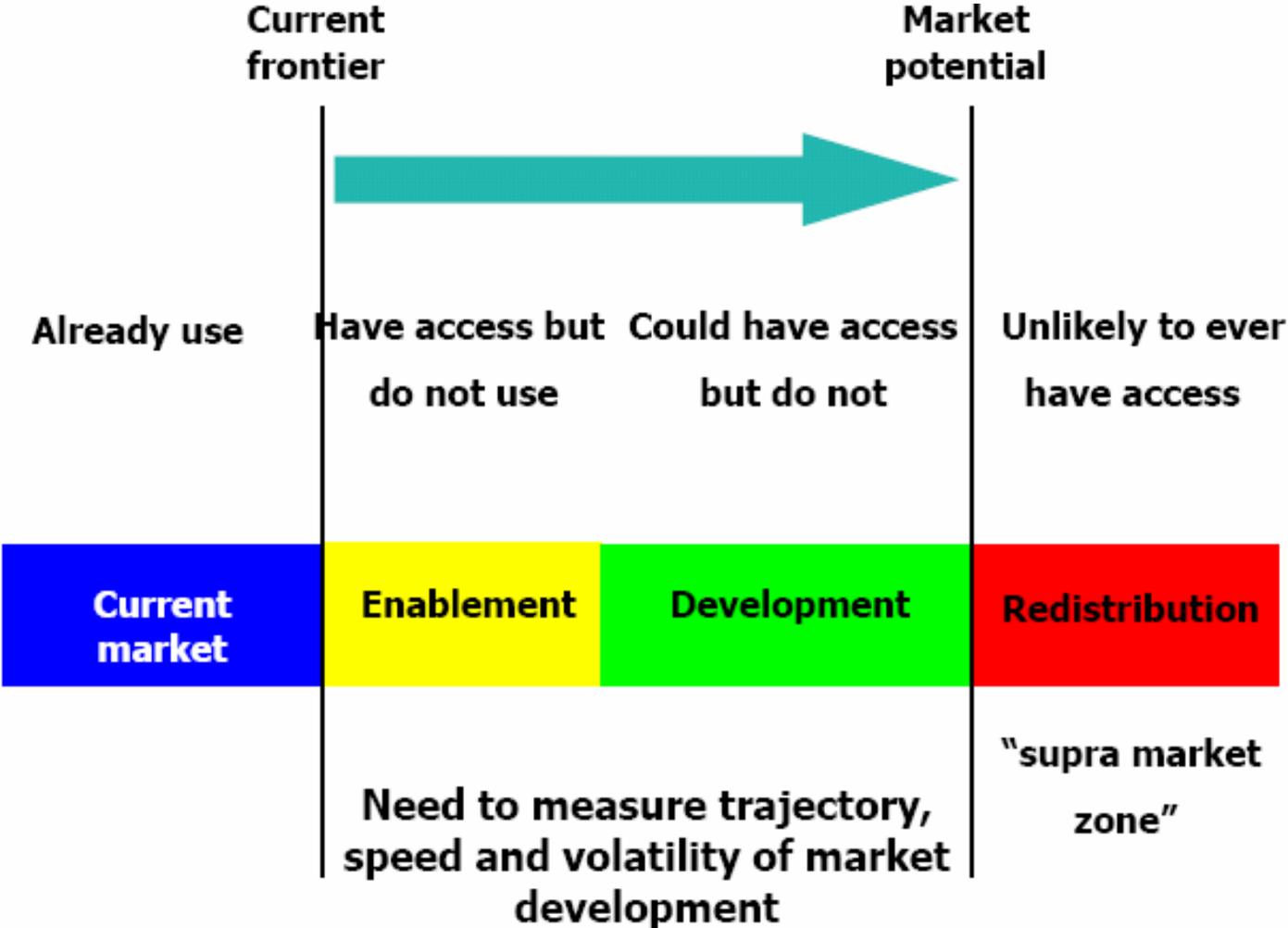
- Market - a set of arrangements by which buyers and sellers exchange goods, services or information; involves the interaction of demand and supply
- Markets consist of:
 - an institutional foundation (laws, rules, regulations, enforcement)
 - organisations which provide services (banks, financial institutions, loan sharks)
 - support organisations such as audits, legal, IT, and market research
- Market failure occurs when the market fails to distribute resources efficiently (state intervention may be needed)

Access frontiers (1)

- Defined as the current maximum proportion of people in a society who could access a product or service, given the current configuration of costs and market structure
- Segments the market for a product into four groups:
 - those who use it now
 - those who could have it but don't want it
 - those who are within the reach of the market now and in the foreseeable future if changes were made in the environment,
 - those outside of the reach of the market due to poverty



Market zones

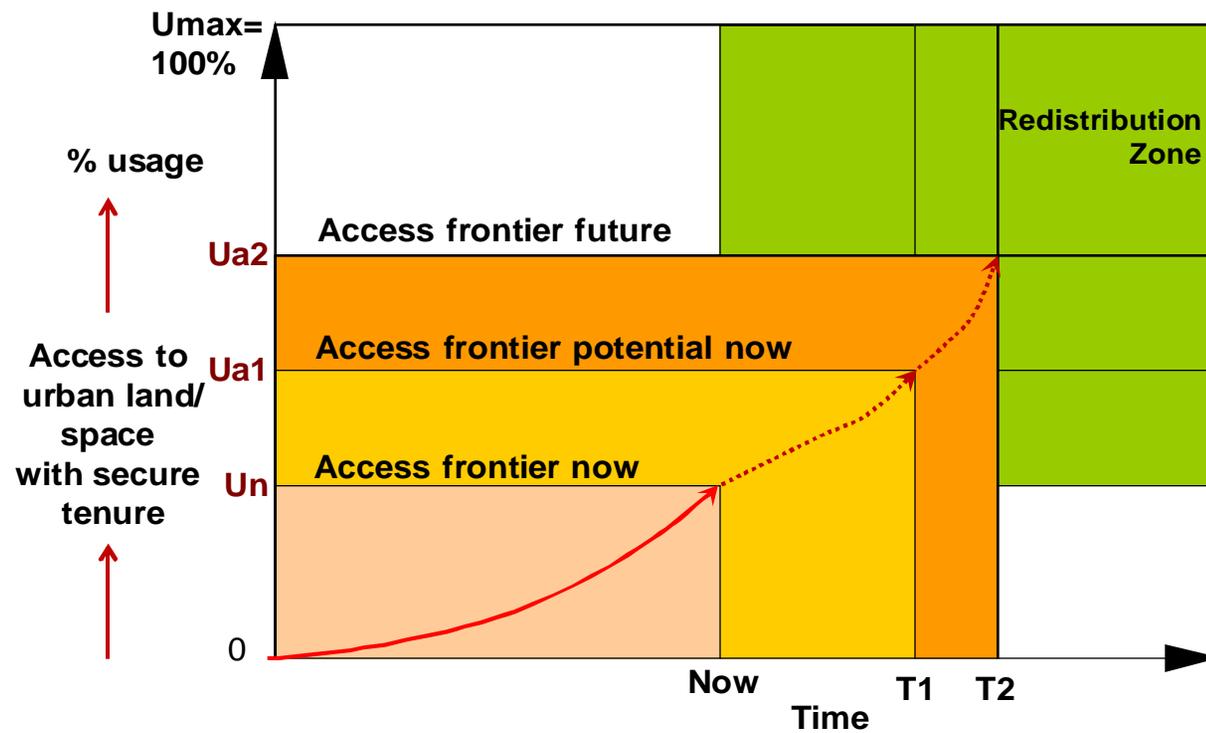


Access frontiers (2)

- Focuses on how to increase the proportion of the eligible population who can access a product or service, such as land or urban services.
- This requires understanding why people are not using a product or service, and defining effective access carefully.
- Distinguishes three zones in a market, based on the positions of current usage and current and future access frontiers:
 - market enablement zone
 - market development zone
 - market redistribution zone



Market development and the access frontier



Expanding the access frontier

- There is a need to move the current access frontier to include more users.
- In a healthy market, the frontier will move outwards over time, bringing new consumers into the market.
- Policies need to be developed to ensure that the frontier is able to move outwards to increase the number of people served.
- Pay attention to how people make the transition from redistribution zone to interaction with formal markets and state administration.



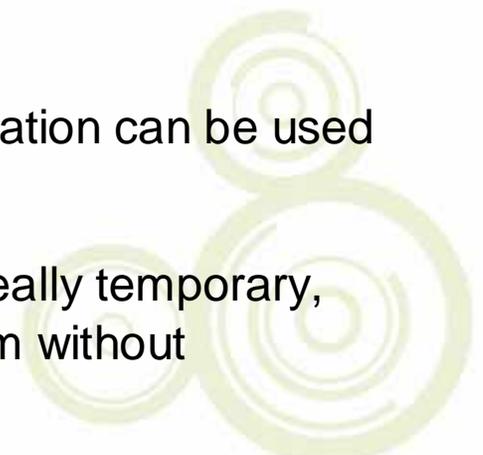
How government can expand the access frontier

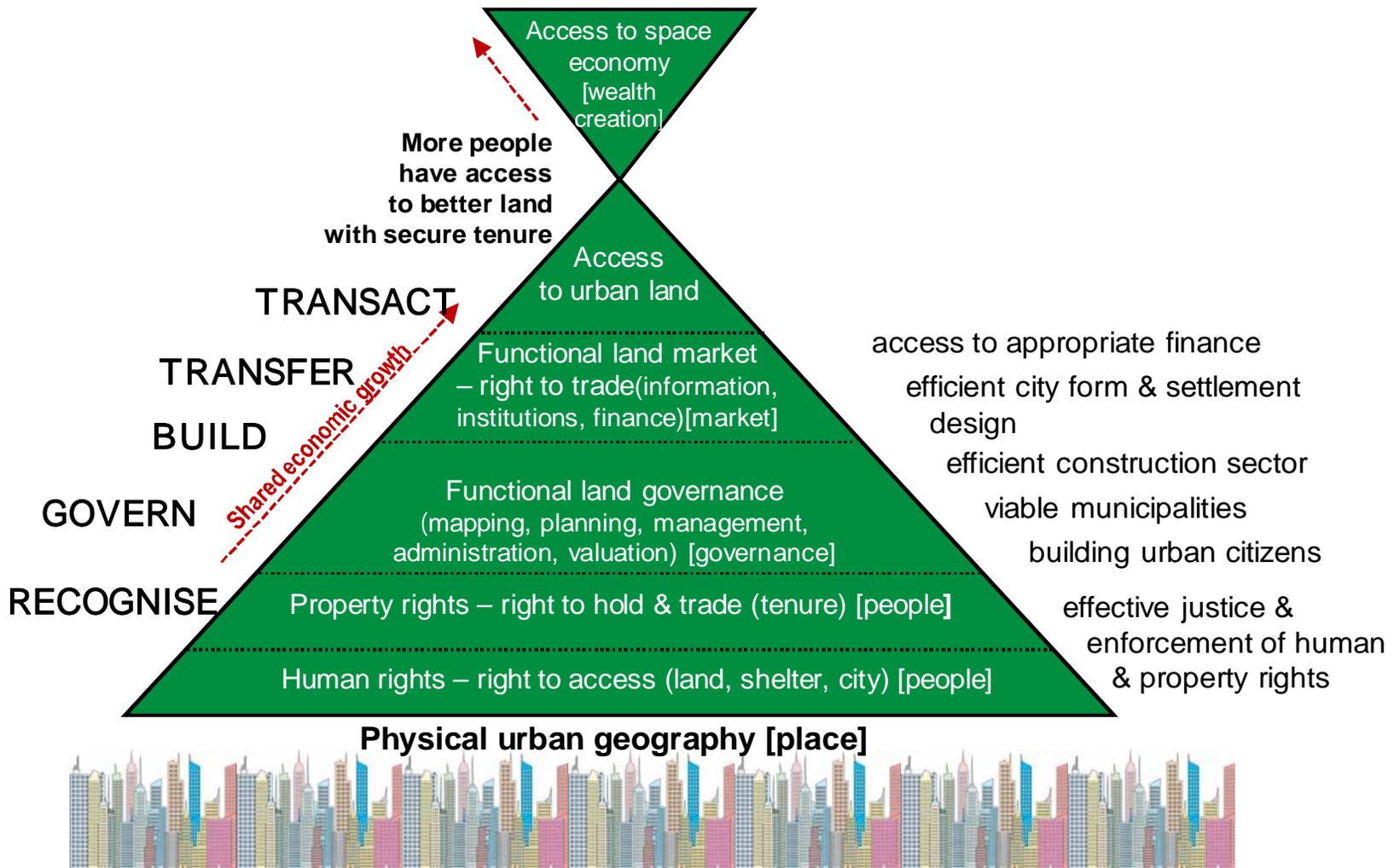
- State interventions must focus on the redistribution zone (consumers who are beyond the reach of the market due to poverty)
- State interventions in the redistribution zone:
 - direct investments in urban infrastructure, good planning, skills development etc.
 - regulate the market
 - incentivise market players
- State intervention can meet the needs of the very poor, while maintaining the incentive for private firms to push the access frontier, and remove barriers to market development





Making markets work for the poor

- Aims to expand poor people's choices - it establishes where the poor are in markets
 - Addresses key impediments to a better functioning market
 - Markets need to be harnessed to work for the poor
 - Private-sector involvement in opening up markets will help to reduce poverty
 - Highlights both monetary and non-monetary forms of exchange, i.e. market systems
 - State action such as regulation, research and information can be used to intervene and promote access
 - The role of government is a facilitating one that is ideally temporary, and acts as a catalyst for others in the market system without becoming part of the system directly
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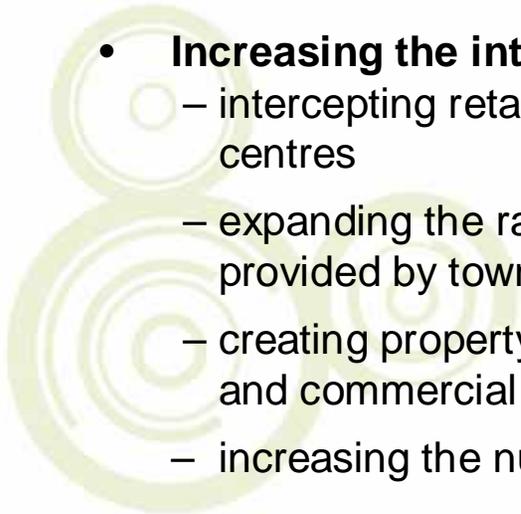


TOWNSHIP MARKETS AND ECONOMIC DEVELOPMENT



Outcomes of township economic development

- **Increasing net township financial flows:**
 - Increasing the demand for township residents in external work
 - retaining higher income households and attracting new wage earners as residents of townships
 - increasing sales to township enterprises from external markets
- **Increasing the internal circulation of money in townships:**
 - intercepting retail expenditure by township residents at ‘in township’ centres
 - expanding the range and competitiveness of goods and services provided by township enterprises
 - creating property investment opportunities in the township for residents and commercial enterprises
 - increasing the number of jobs within townships



Area-based and other interventions (1)

- Economies can be grown in three ways:
 - creating new enterprises (generates 15 – 25% jobs)
 - attracting investment from outside (10 – 20% jobs)
 - growing existing businesses (60 – 80% jobs)
- Spatial and non-spatial interventions:
 - build on local advantages and opportunities
 - develop partnerships
 - integrated action by government, the private-sector and NGOs
 - invest in hard, soft and institutional infrastructure
 - develop strategies to grow and retain local business and skills
 - provide integrated, multi-sector initiatives



Area-based and other interventions (2)

- Strategies to unlock the markets and promote township economic development:
 - develop local capital (human, natural, financial, physical and social)
 - bring money into the area
 - keep money circulating within the township
 - foster existing business (i.e. ensuring that they are not disadvantaged by new developments)
 - maximise local spin-offs from development
 - integrate into the mainstream economy



Area-based and other interventions (3)

- Massive investment in education (ECD – ABET/FET)
- Development of skills and linkage centres (satellite incubators and mini-hives, buying clubs, marketing clubs and enhanced business networks)
- Provision of a range of financial sources including savings and loans clubs, micro-finance, banks
- Increased investment in infrastructure and affordable and appropriate services
- Incremental housing development
- Development of a commercial and economic hub
- Improving transport linkages to the CBD, and promoting a transport and industrial corridor along this access
- Retaining talent and addressing quality of life issues



IMPROVING THE LAND MARKET



Government's role

- Government is responsible for land administration – necessary for a well functioning land market.
 - Public sector intervention should be through instruments that enhance knowledge, skills, relationships and market information of potential entrants to the market.
 - The state's role is to harness the power of the market to broaden access to new players so more poor people have access to better land, leading to access to the other markets (labour and capital).
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Role of municipalities in improving the land market

- Planning and land use management (identify desired patterns of land use; allocate rights to use and develop urban land)
- Taxing land use values
- Land acquisition and disposal
- Fulfil planning, regulatory and enforcement functions
- Align policies and interventions to work with the market, not in isolation of it
- Interventions must be market enhancing and incentive compatible:
 - introduce market compatible incentives
 - simplify legislation
 - enhance affordability (home-loan tax relief, declining interest rates for first time home buyers, greater incentives for employer-financed housing and accommodation schemes)



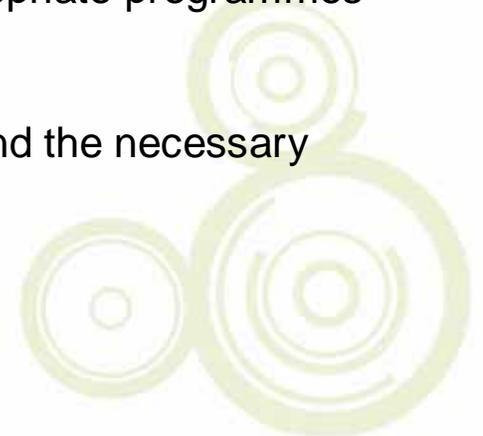
ENHANCING LABOUR MARKET COMPETITIVENESS

- Three pronged approach:
 - 1.** Increase the overall demand for labour and make township labour more attractive to increase its share of total city labour demand
 - 2.** Align skills of township labour pools with the city's economic growth trajectory
 - 3.** Reduce transaction costs by facilitating information flows and providing cheap and efficient transportation links between the township and the city
- To stimulate township labour markets, the economy both within the township and external to it need to be considered
- Enhancing labour market competitiveness needs to address:
 - individual issues such as skills and educational qualifications
 - structural issues of access (transport and access to information)

Interventions (1)

Improving skills and qualifications:

- Aligning skills of township labour with the city's economic growth trajectory:
 - improve access to education and relevant training
 - provision of bursaries and information on education opportunities
 - on-the-job training, mentorships, internships, apprenticeships
 - part-time classes and local training
- Municipality database with current employment opportunities and requirements - can be used to develop skills placement programmes
- Work with the private sector and tertiary institutions to ascertain the skills and qualifications needed in the area, and develop appropriate programmes to address these
- Work with other spheres of government to develop or fund the necessary programmes



Interventions (2)

Facilitate information flows and reduce transaction costs:

- Labour's competitiveness is linked to the ability to access jobs, skills and information. This includes geographic or spatial access (transportation infrastructure), and virtual access (IT connectivity, databases, etc)
- Reduce the amount households spend on transport into the city, by improving the road and rail infrastructure, improving the public transport system, and promoting corridor development
- Increase access to IT and related services, train SMMEs and provide career advice, increasing workers' knowledge of, and access to, work opportunities



SUPPORTING RESIDENTIAL MARKETS

Typical residential elements of a South African township

- Old township (51/9) houses (with and without backyard accommodation)
- Hostels
- RDP housing
- Informal settlements
- Vacant land suited for residential purposes
- Sometimes - middle income/gap housing

Understanding financially dominated markets

- Financially dominated markets are generally inaccessible to the poor due to:
 - high land values
 - land regulations which protect former white areas
 - high costs of accessing land (specialist skills and legal costs)
- The setting of price dominates the supply and demand of land

Understanding socially dominated markets

- Land markets operate outside traditional formal areas in:
 - informal settlements
 - RDP projects
 - backyard shacks
 - traditional authority areas
- Social relations are more dominant than financial relations
- Socially dominated markets are organised and functional
- Transactions are highly responsive to state action
- Supply and demand of land is mediated more by social relations



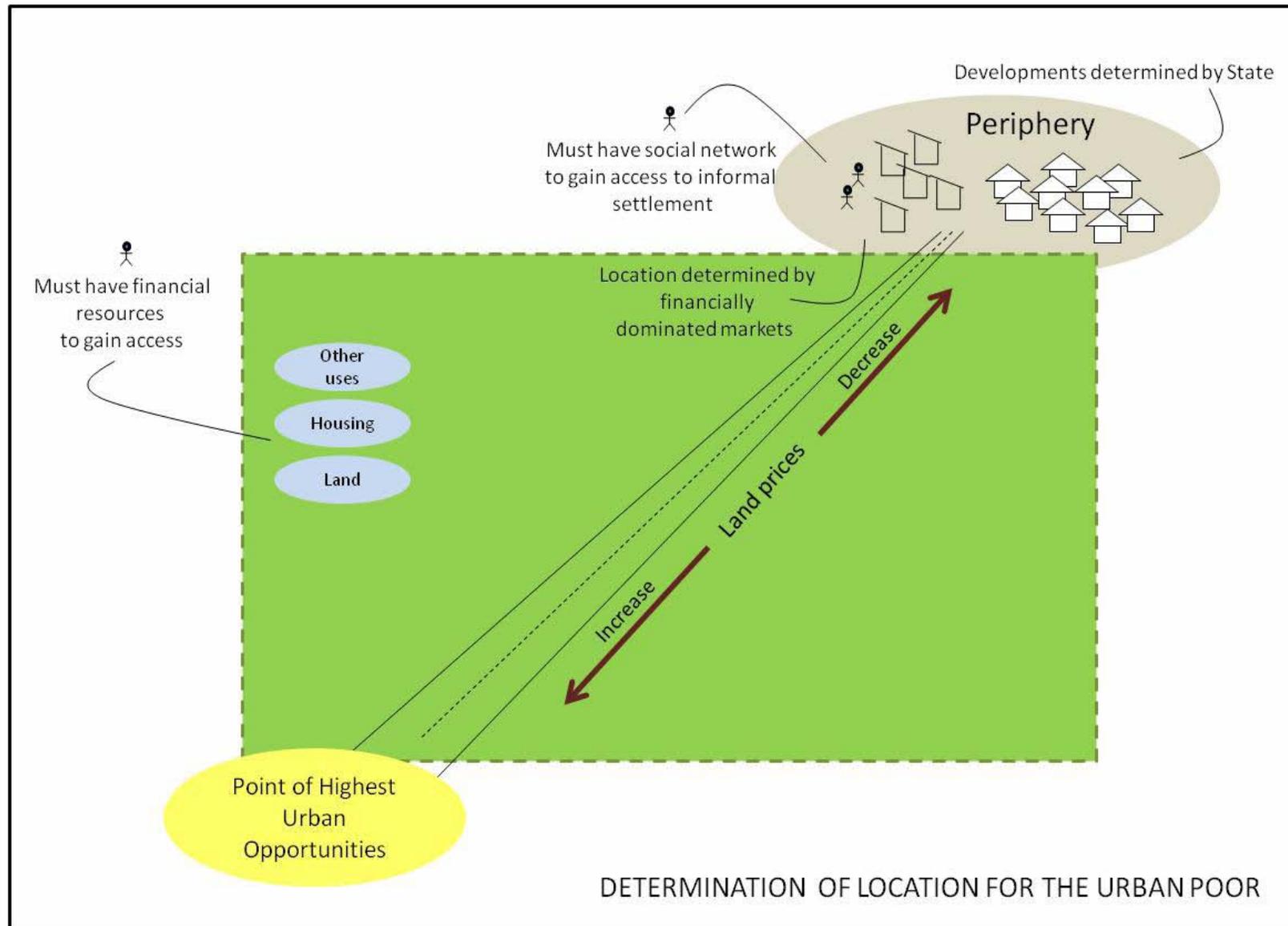
Understanding the dynamics of locational choices for the urban poor

Choices are limited and determined by a number of factors:

- Financially dominated markets in relation to the delivery of mass housing on the periphery
- Financially dominated markets and the individuals' ability to pay – the ability to pay is directly proportional to the freedom to choose
- Primary value for the poor is access to future development - driven by the need to secure a foothold in the city
- Extent of social networks



Locational choices



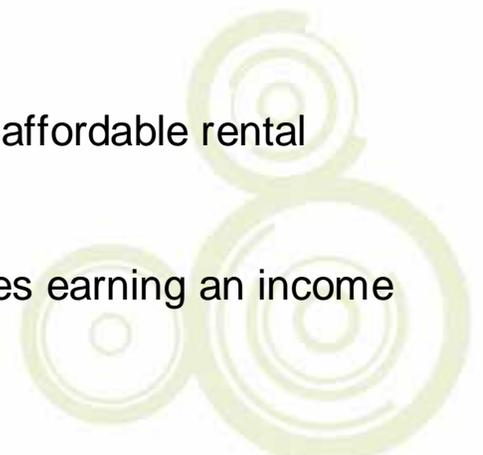
Understanding housing as an asset

Housing as a **social asset**:

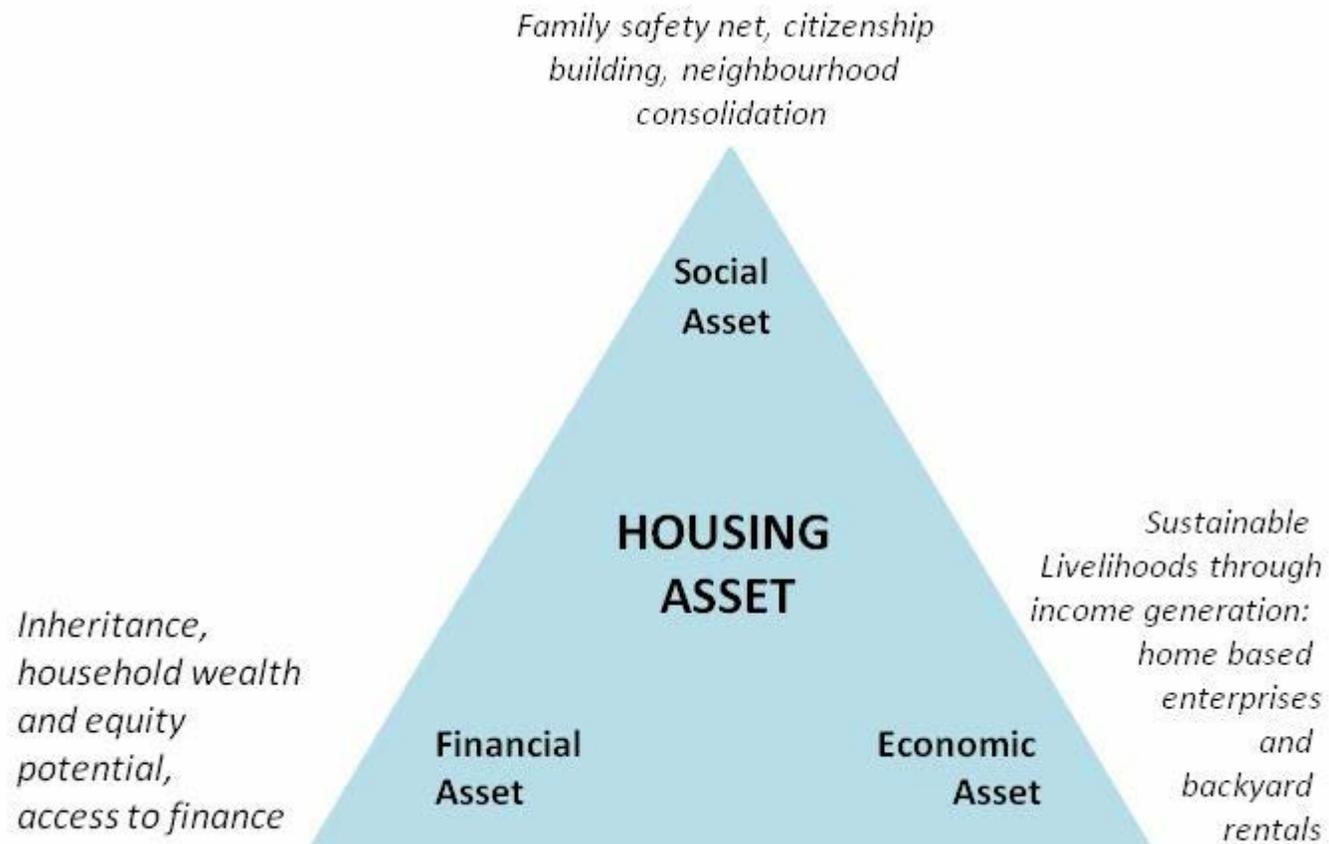
- Provides the household with a safety net
- Sense of citizenship
- Sense of belonging in the city

Housing as an **economic asset**:

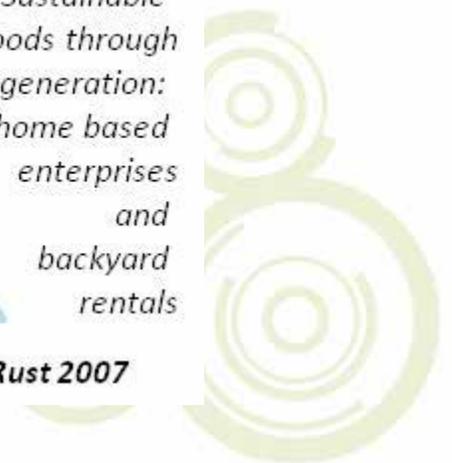
- Home-based enterprises are significant contributors to local economies
- The home is an important asset for entrepreneurs
- Many HBEs are entrepreneurial
- There is potential for growth
- Rentals/small scale landlords are delivering at scale:
 - small scale landlords are offering well located, affordable rental housing for low income earners
 - small scale landlords are small scale enterprises earning an income
 - there is potential for growth



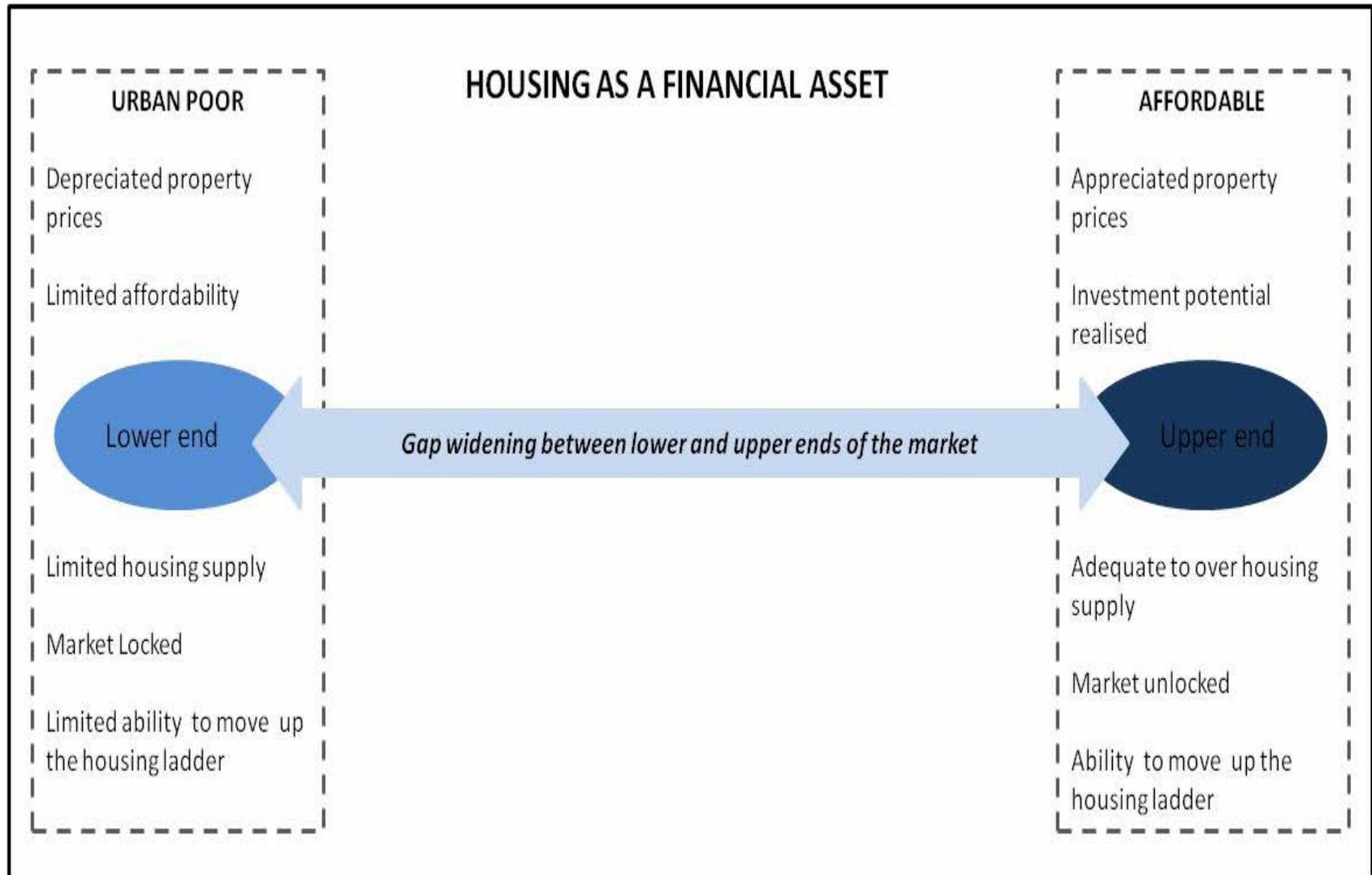
Housing as an asset



Extract from Rust 2007



Investment potential of housing



Common problems with township residential market performance

Housing type	Economic asset realisation	Financial asset realisation	Social asset realisation
Old 51/9 housing stock	Limiting town planning regulations	Access to finance Limited housing stock for trading	Family safety net Citizenship building
RDP housing	Limiting town planning regulations	Access to finance Limited housing stock for trading May not be formally sold due to state imposed 10 year ban on trading Commonly traded below market related or construction price	Family safety net Citizenship building Requires social network No formal tenure given when traded Limited stock
Informal settlements	Location Vulnerable to demolition	No formal financing mechanism Price determined in social negotiations Limited stock for trading	Insecurity of tenure Requires social network for access Location Informal settlement eradication programmes
Gap housing	Town planning regulations	Access to finance Limited housing stock for trading	Location Family safety net Citizenship building

Interventions

- Decisions and actions taken by township managers will have a direct and indirect impact on residential markets
- Township managers can influence at least the following:
 - the location of informal settlements
 - the level of legitimacy of the informal settlements
 - off site activities such as provision of public amenities
 - the link between the informal settlements and RDP housing development
 - demolishing shack settlements, thus affecting the supply of housing for the poor
- Improve access to urban infrastructure, allowing for a greater land differentiation
- Acknowledge that both financially and socially dominated market operate in our urban areas
- Acknowledge the income generating and economic aspects of housing via:
 - the management of zoning rights
 - improving access to markets
 - appropriately targeted support programmes





Desired outcomes for a well functioning township residential property market

- Sellers are able to secure the real value of their property assets, thereby catering for job market mobility
- Owners are able to invest in properties and secure the capital gains
- Township residential property markets provide entry and secure tenure to the full span of income groups
- Residential properties can be optimally used to generate incomes and support livelihoods
- Residential tenure can be used to access credit (for improvements and income enhancement purposes)



COMMERCIAL MARKETS

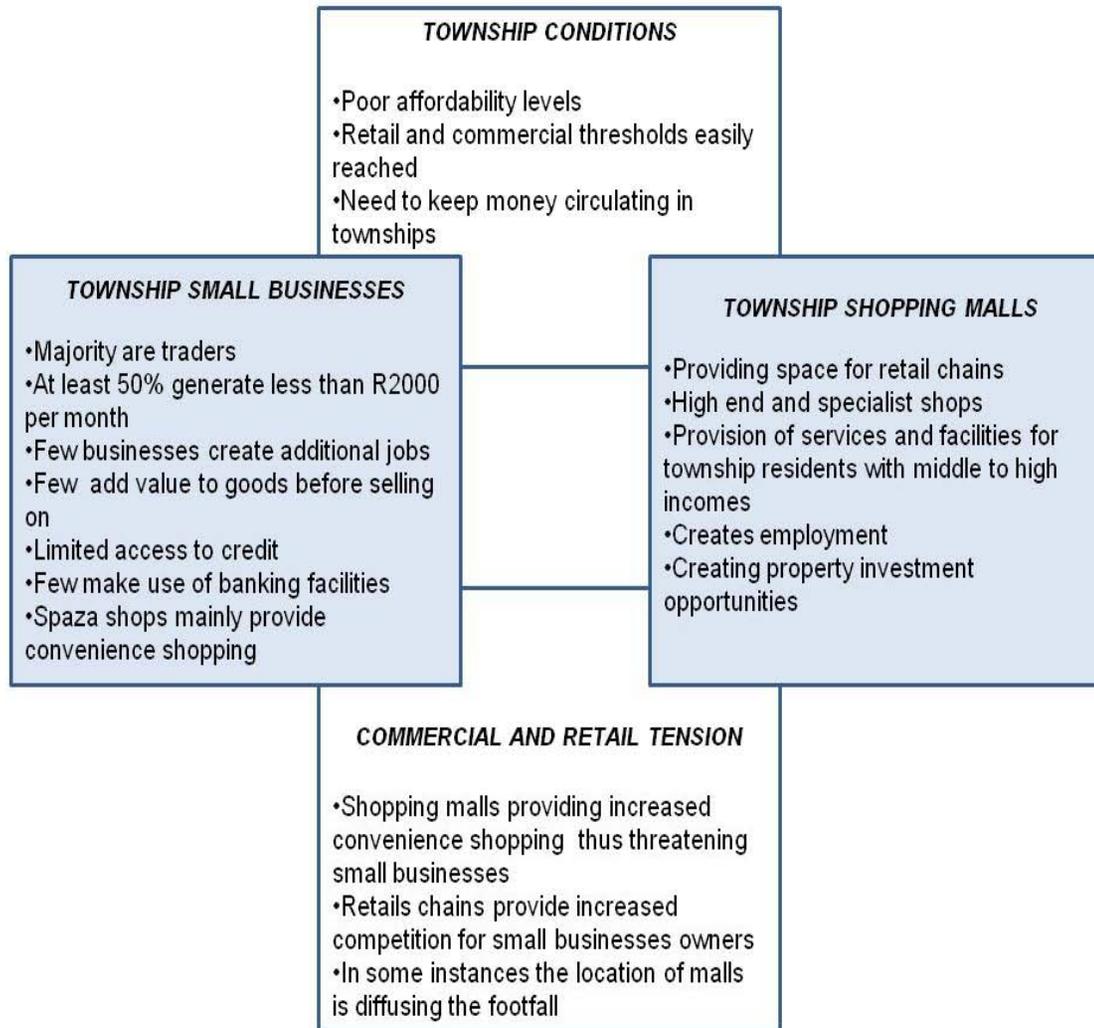
Key aspects of commercial markets:

- Small business development:
 - a key contributor to faster economic growth
 - performs a vital role by providing employment, competition and innovation
- Formal retail and commercial development:
 - shopping centres, offices, industrial facilities, hotels

To achieve economic growth, township practitioners need to attract large-scale commercial development, whilst ensuring that such developments do not choke off opportunities for small businesses.

(the diagram on the following slide illustrates this tension)

Understanding Retail and Commercial Township Markets



Understanding the constraints facing small business

- Business Sophistication Measure (BSM) developed by Finscope, listing seven business types ranging from BSM 1 to BSM 7

Key findings:

- 50% of small businesses are youth-owned
- 22% of the income generated in small businesses is below the poverty line
- 50% of small businesses generate less than R2000 per month
- Income generated in 78% of the small businesses was the only source of income in the household
- 69% of small businesses operate from home
- 70% of small businesses do not create jobs

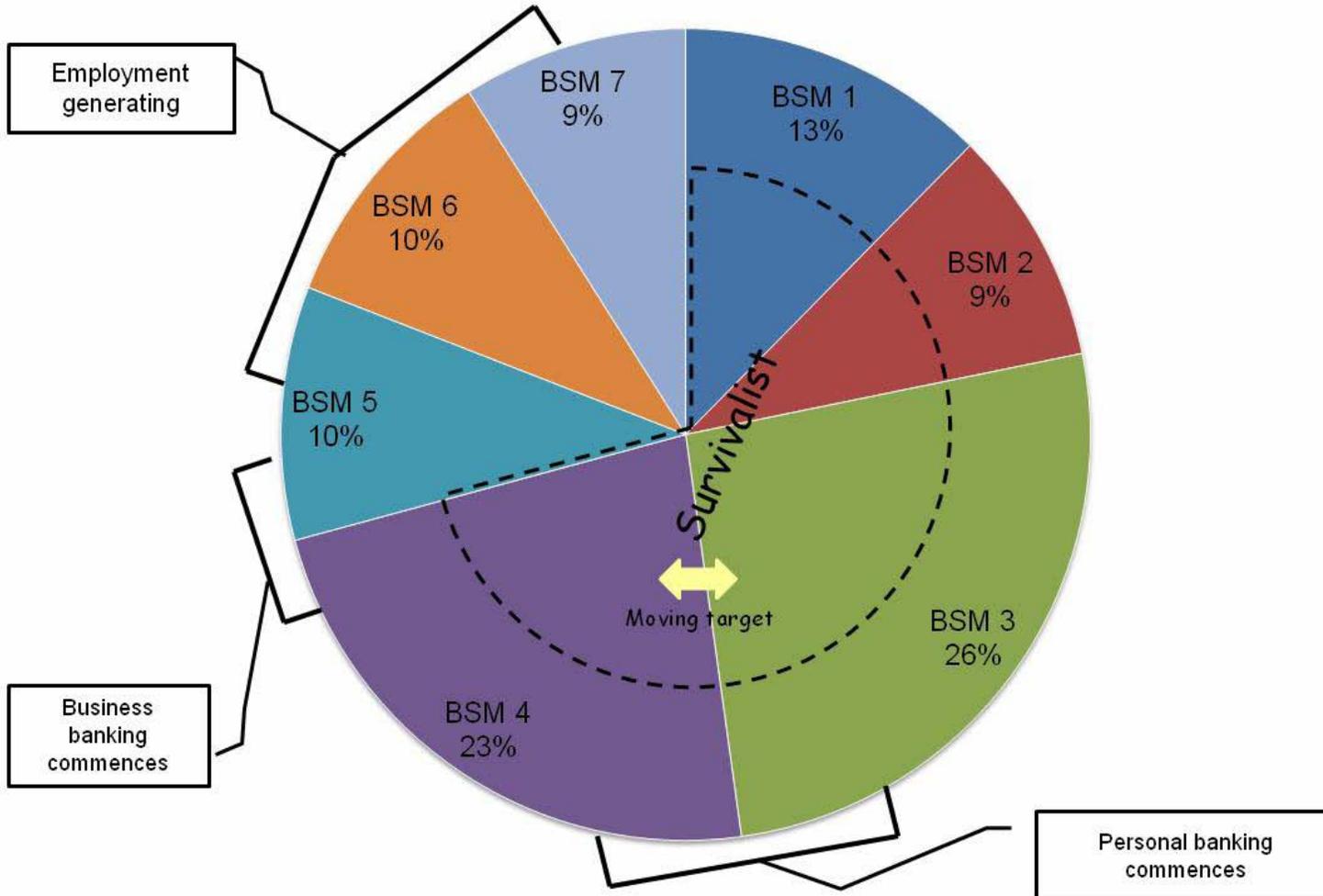
(baseline characteristics table on following slide)

Small business development

BSM	1	2	3	4	5	6	7
% of total	12%	9%	26%	23%	10%	10%	9%
Informal businesses:	99%	92%	74%	64%	58%	30%	1%
Unregistered individuals:	1%	7%	18%	24%	29%	41%	5%
Registered businesses	0%	1%	8%	12%	13%	29%	94%
Average type	Stall trader	Stall trader	Sale of goods/ HBE	HBE	Sole prop / HBE	Sole prop / HBE	CC, office block, shop
Employees	0.1	0.14	0.23	0.47	0.85	1.78	8.88
Annual turnover	R9 113	R10 723	R16 793	R24 710	R27 841	R66 597	R463 747
% banked	21%	36%	38%	47%	64%	81%	97%

Small business development

Business Sophistication Measure



Support required by small businesses

Whether subsistence or entrepreneurial (BSM 1 – 7) small businesses provide a viable livelihoods strategy that deserve (and need) support:

- Appropriate policy & regulations
 - business registration: registration, reporting, tax
 - land use and building regulations: by-laws, zoning
 - health and safety
- Home-based enterprises (HBEs) and small-scale landlords (SSLs) included in LED strategies
- Planning, infrastructure, services to accommodate increased densities and diverse land usage
- Settlement design to accommodate and stimulate emergence of HBEs and SSLs
- Financial products: savings



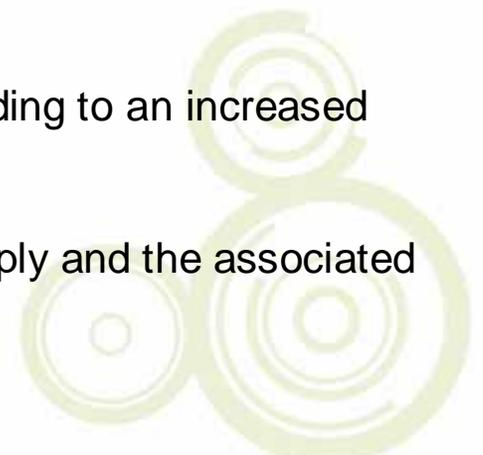
Commercial property markets

Property markets are influenced by four different markets:

- User market
- Financial market
- Development market
- Land market

Property markets may be affected by the following:

- General conditions in the economy as demonstrated by the recent recession
- Increased demand for rentals resulting in higher rental demanded by developers
- Interest rates – increased rates reduces the rate of return for investors
- The capitalisation rate
- Property prices increasing more rapidly than building costs, leading to an increased supply
- A rise in the supply of the space market, leading to an over-supply and the associated decline in rentals and property values
- A combination of all of the above factors



Constraints to township retail development

- Crime: a rise in burglaries, muggings and theft from delivery vehicles
- Shortage of parking
- Unstructured and unmanaged street vendors
- Limited banking facilities
- Limited business management skills among entrepreneurs
- Difficulties with rental business space – poor building maintenance, low rental take-up and high rents
- Long queues at retail outlets
- Developers distrust of local government to ensure proper management and maintenance of the proposed development area – municipalities must show commitment

Key interventions (1)

In order to release the potential of commercial property markets, the following activities should be undertaken:

- Urban regeneration/upgrading – roads, access routes, increased electricity supply
- Providing incentives – building / tax etc
- Undertaking a property and retail market analysis
- Organising existing businesses:
 - negotiating for space for existing enterprises
 - facilitating the development of business networks
 - facilitating bulk buying
 - encouraging mentorship
 - promoting franchising



Key interventions (2)

- Understanding the market drivers – appropriate policy timing
- Maintaining the area – commitments may be reflected in the following manner:
 - the municipal urban renewal policy or strategy
 - funding allocations
 - targeted service delivery strategies
 - MOUs between the municipality and the developer
- Addressing safety:
 - general crime prevention
 - public transport nodes
 - open spaces
 - public spaces
 - emergency access



Key interventions (3)

- Linking the planning and development to wider city/town strategies
- Catalytic projects
- Having a project champion
- Managing and supporting small traders:
 - Mechanisms will need to found to ensure support for small traders while also balancing the needs of the retail developers



CONCLUSION

- Township commercial markets experience high levels of competition from elsewhere in the city
- Therefore, township markets must be competitive, offering investors specific market advantages
- Commercial markets occur in an institutional environment
- Planning and developing retail space requires:
 - resources
 - political commitment
 - ongoing management
- Development of the formal commercial and retail sector in townships must secure the interests and growth potential of small businesses through:
 - training
 - improved access to credit
 - maximising BEE opportunities
 - partnership arrangements between large and small businesses