

Business Day

# The state expects too much from township economies

More procurement opportunities should be awarded to enterprises that provide township value-added products

18 AUGUST 2017 - 06:13 EDDIE RAKABE

As SA continues to debate radical economic transformation, Gauteng appears to have completed the sloganeering phase and is formulating a policy instrument that leads to implementation.

In 2014, the province adopted a Township Economic Revitalisation Strategy as a policy lever to transform, modernise and stimulate township markets and enterprises. In demonstrating the commitment to implementation of the strategy, the MEC of finance, Barbara Creecy, reported in her 2017 budget speech that the Gauteng government spent more than R6bn sourcing goods and services from more than 2,800 township enterprises.

Underlying the strategy is the assumption that government procurement spend at township-based enterprises will catalyse local activity and set in motion a ripple multiplier effect of economic transformation.

But the spatial organisation of economic activity and the market structure in SA may dilute the stimulus effect of state procurement on township spaces. Townships are laden with community-embedded, small and survivalist informal businesses incapable of doing business with the government. They are low-income areas with marginal and undiversified business activities, thin markets and little or no industrial base to catalyse local development.

The most ubiquitous township business activities are micro convenience stores (spaza shops), personal services (hair salons), artisanal repairs (panel beating) and manufacturing (furniture). These enterprises are constrained by the structural conditions in the informal sector and the wider economy relating to access to land and finance, strict licensing regimes, lack of business skills and competition from formal businesses, among other things.

A combination of these challenges and informality limits the scope for township enterprises to gainfully absorb and exploit government procurement opportunities. Accessing these opportunities requires a different level of business sophistication.

Becoming an accredited government supplier entails complex compliance and rigid administrative requirements, and informal microenterprises or even small formal ones are incapable of meeting these.

The government procurement spend is predominantly on goods and services that are generally unavailable within informal enterprises and, similarly, the product market offering of informal enterprises is unresponsive to government sourcing requirements.

Many township enterprises have an impaired ability and capacity to serve big markets beyond their neighbourhoods.

The government typically procures turnkey infrastructure products such as hospitals and school supplies, information and communication technology equipment and professional and maintenance services, which are commonly unobtainable from the township markets.

Some township-based businesses are formal and sufficiently sophisticated to respond to the government's procurement needs, but this is the exception rather than the norm. Such enterprises would be generally eligible for low-to medium-value procurement opportunities mainly acting as intermediaries that source their inputs and supplies from large formal businesses.

As a result, a bigger proportion of the procurement spend needs to stimulate and sustain economic activity leaks out of the township to the external markets where supply chain structures are highly concentrated and returns to the townships as meagre wages.

The last hurdle to cross in driving location-specific procurement spend for development is in defining the parameters for township enterprises and retaining the injected spending within township markets.

Having a residential address in a township is by no means a sufficient indication that a business is township-based or will spend its earnings there.

Spreading the allocated procurement budget thinly across many townships and enterprises may not produce the desirable large-scale developmental effect.

Driving a procurement-led township economic revitalisation agenda will require more than just a seven-figure spend. Sustainable and market-driven economic transformation will need strategic sourcing.

The product market offering of township enterprises must be aligned to the government's procurement needs. To do this, the government must invest in enterprise development initiatives that would, among other things, expose township entrepreneurs to an available comprehensive array of state procurement opportunities.

More procurement opportunities should be awarded to enterprises that provide township value-added products or those that have high township input content.

Requirements for awarding state contracts must, to the extent that it is feasible, demand from business to indicate inputs sourced from local townships in the same way as car manufacturers are required to comply with local content laws.

In this way, township entrepreneurs will be incentivised to diversify away from informal low-value retailing towards high-value intermediate and final manufactured goods.

Beyond just focusing on procurement, complementary interventions should aim to improve the township investment climate, especially easing structural constraints affecting informal township businesses; improve institutional linkages between township enterprises and external markets to enable peer learning and technology exchange; and ensure a sustained commitment to the delivery of quality education and infrastructure.

Increasing state procurement spend on township enterprises without these interventions is likely to benefit businesses outside the townships under the current structure — to the detriment of the broader economic transformation agenda.

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