Harnessing Entrepreneurial Potential in Soweto as a Catalyst for Inclusive Growth

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Over the course of the past several decades, momentum has grown across developing nations in favor of the advancement of policies rooted in the linkage between entrepreneurial activity and economic growth. In line with this momentum, South Africa – a nation experiencing depressed entrepreneurial activity, sluggish growth rates, and unemployment rates just under thirty percent – has adopted the development of the small, medium, and micro enterprise (SMME) sector as a national priority. This analysis sought to assess the accessibility of public supports in place to facilitate the startup and development of SMMEs in historically underrepresented communities of the country, particularly in urban settlements colloquially referred to as "townships," where tens of millions of South Africans live. This study was conducted as a case study of the communities of South Africa's largest and oldest township, Soweto. This research supports that there is a severe lack of access to SMME supports in Soweto, as well as various institutional barriers, many due to legacies of the apartheid structure, and an inability of top-down governmental policy to filter to Sowetan communities.

Introduction

Over the course of the past several decades, with roots in the 1980s and 1990s, recognition has arisen of the transformative economic potential of the growth of the small businesses sector (Caree & Thurik, 2003). Consequentially, the emergence of a global consciousness with regard to the linkage between entrepreneurial activity and economic growth is also well underway. Thurik and Wennekers (2004) assert that small businesses today are increasingly being viewed as a vehicle for entrepreneurship and contribute to job creation, social and political stability, as well as innovative and competitive power.

Further, econometric evidence suggests that entrepreneurship is a critical indicator of economic growth, "…the positive and statistically robust link between entrepreneurship and economic growth has now been verified across a wide spectrum of units of observation, spanning the establishment, the enterprise, the industry, the region, and the country" (Thurik & Wennekers, 2004, p. 142).

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Acs (2006) summarizes the connection between entrepreneurship and economic growth,

> A nation's economic development depends on successful entrepreneurship combined with the force of established corporations. However, the beneficial value of this mechanism varies with the national income, as measured by GDP per capita. At low levels of national income, self-employment provides job opportunities and scope for the creation of markets. As GDP per capita income increases, the emergence of new technologies and economies of scale allows larger and established firms to satisfy the increasing demand of growing markets and to increase their relative role in the economy. At the same time, the numbers of business start-ups decrease as a growing number of people find stable employment. Finally, as further increases in income are experienced, the role played by the entrepreneurial sector increases again, as more individuals have the resources to go into business for themselves in a business environment that allows the exploitation of opportunities. (Acs, 2006, p. 104)

An understanding of the linkage between entrepreneurship, small business development, and economic growth is certainly not a modern conceptualization. Before its widespread application as an economic policy tool in the 1980s and 1990s, scholars such as Joseph Schumpeter, as early as 1911, identified entrepreneurs as providing the engine for economic growth (Audretsch, Keilach & Lehmann, 2006). Industrialized nations – specifically the U.S. and the Euro bloc – incited this magnified focus on governmental and non-governmental provision of small, medium, and micro enterprise (SMME) sector supports (Audretsch et al., 2006). Increasingly though, less-developed nations around the world have begun to follow suit as they continue to face burdensome challenges including exorbitant unemployment, surging inequality, and stagnant growth rates. In the face of these barriers to economic growth, policy makers, non-governmental leaders, and social entrepreneurs in many developing nations have responded with new motivations to promote small business creation and development, evidenced by data indicating that countries which have shifted industry structure towards a larger share of small firms in a more rapid fashion have achieved higher growth rates (Thurik & Wennekers, 2004). This has initiated the increased implementation of legislation, programs, and initiatives in favor of the sustained growth of SMMEs and the opening of industry space for these businesses.

In line with this global consciousness, the Republic of South Africa – a nation experiencing depressed entrepreneurial activity, sluggish economic growth, and notorious unemployment rates – has adopted the development of the SMME sector as a national priority, particularly given the inability of the existing formal sector to absorb the growing labor force (Republic of South Africa, 2011). As made evident in the National Development Plan (2011), South African policy makers have grabbed hold of the prospects of the SMME development movement in hopes of improving certain economic and social conditions that have plagued the nation for decades. Evidence of South Africa's embrace of the SMME movement exists in the varied spectrum of legislation that has been implemented at the national level as early as 1994 by the administration of President Nelson Mandela (Republic of South Africa, 2014). Such efforts to support the small business sector are an attempt at spurring employment opportunities and equalizing the income distribution by redirecting a share of wealth to the nation's long-suppressed black majority.

This research has concluded with the assertion that despite national and local policy efforts, the accessibility of supports for SMME development and for emerging entrepreneurs is severely restricted in South Africa's historically underrepresented communities, specifically urban settlements colloquially referred to as "townships." The impact of the recent influx of policy initiatives lending themselves to the development and sustainment of SMMEs is disparate. The existence of various institutional barriers, many due to legacies of the apartheid structure, and an inability of top-down governmental policy to filter to these economically depressed communities, is critically hindering the establishment and advancement of SMMEs and stifling growth in Soweto.

Methodology

The methodological design of this study is a combination of qualitative fieldwork techniques as well as policy research and analysis. To investigate the policy climate in regards to SMME development and entrepreneurial advancement, in addition to their accessibility and effectiveness, ethnographic techniques were applied to study three target populations. Population 1 consists of local entrepreneurs who own a SMME (as defined by the National Small Business Act in regards to retail sector enterprises in South Africa), some of whom are working with a governmental organization to expand their enterprise. Population 2 is representative of business officials, policy makers, community leaders, and directors and employees of non-governmental organizations who are involved in the development of SMMEs in some fashion or are implementing business training or support initiatives to advance grassroots entrepreneurialism. Population 3 is comprised of local South Africans who have directly experienced, observed, or have formulated opinions on the accessibility or effectiveness of the governmental and non-governmental organizations supporting the advancement of local businesses or initiatives whose mission is business training and support of local entrepreneurs.

This project was executed over an eight-week period between May and July of 2013 in multiple regions of South Africa, with a particular focus in Johannesburg. Inquiry consisted of semi-structured interviews with key informants among the three populations, both individually and in the form of focus groups. In addition, several different participant observation strategies were utilized. This consisted of casual and unstructured observations and conversations in informal settings.

Non-probability sampling techniques known as purposive sampling and snowball sampling were used to identify key informants and interview participants. Babbie (2014) describes purposive or judgmental sampling as the selection of study participants or on the basis of the researcher's judgment about which subjects will be the most useful and representative of the target population. Snowball sampling refers to a strategy in which study participants are accumulated by way of locating each subject and expanding scope based on their suggestions for other subjects (Babbie, 2014).

There are various limits to non-probability sampling methods of data collection such as those used in this study; however these methods are a critically important qualitative technique, particularly when initially exploring the scope and depth of a concept in the field. The use of purposive and snowball sampling result in samples with representativeness that can be called into question because these procedures are vulnerable to the subjectivity and biases of the researcher and the study's participants. Babbie (2014) references the theoretical notions put forth by Noy which contend that the use of snowball sampling reveals important aspects of the target population, "…the dynamics of natural and organic social networks" (Noy, 2008, p. 329). In addition, Babbie (2014) merits snowball sampling as an appropriate method when members of the target population are difficult to locate. Babbie's examples of such populations include homeless individuals, migrant workers, or undocumented immigrants. In regard to this study, entrepreneurs in the informal business sector like hawkers and street venders, which have a heavy presence in Soweto, also fall into this category. The use of these techniques is an acknowledgment on the part of the researcher that there is a great deal to be learned regarding the SMME climate in Soweto and South Africa generally, upon initial penetration of the field. This work serves as the basis of a forthcoming quantitative research project.

South Africa's Economic Landscape in the Context of SMMEs

Prior to the birth of democracy in 1994, the economic landscape of South Africa was epitomized by a clear absence of small enterprises due to prohibitive apartheid laws obstructing the establishment and development of small, particularly non-white businesses (Republic of South Africa, 2014). Although the post-apartheid era has brought about major formal economic sector restructuring in an attempt to promote black economic empowerment, South Africa has struggled to redistribute wealth to the predominantly poor black majority, which is evidenced by key macroeconomic indicators.

The current status of unemployment in South Africa is a rate just over twenty-four percent, with youth unemployment at a staggering fifty-two percent, which is now recognized as third worst in the world (World Economic Forum, 2014). In addition, the nation's economic growth rate has stagnated, currently at 2.5 percent, compared to the average for BRICS countries of 3.86 percent (The World Bank, 2013). BRICS nations – Brazil, Russia, India, China, and South Africa – are those which have been identified as developing or newly industrialized countries that are distinguished by their large and rapidly expanding economies and international influence. Despite the classification, economic indicators continue to reveal that South Africa performs poorly compared to its BRICS competitors. In comparison to similar BRICS economies, data reveal that South Africa's entrepreneurial environment demonstrates poor performance when early-stage entrepreneurial activity and business ownership rates are examined (see Table 1 for more BRICS entrepreneurial activity and business ownership information). Further, according to the World Bank in 2009, South Africa is regarded as the one of the most unequal countries in the world with a Gini Index of 63.1, compared to the BRICS average of 46.78, with an index of 100 representing perfect inequality (The World Bank, 2009). This makes strategies for inclusive growth in South Africa of the utmost importance going forward.

Table 1
Total early-stage entrepreneurial activity and established business ownership rates across the BRICS countries (Herrington, Kew, Simrie & Turton, 2011, p. 25).

Country	**Total early-stage entrepreneurial activity**		**Total established business ownership rate**	
	2006	**2011**	**2006**	**2011**
Brazil	**11.6%**	**14.9%**	**12.1%**	**12.2%**
Russia	**4.8%**	**4.6%**	**1.2%**	**2.8%**
India	**10.4%**	**n/a**	**5.6%**	**n/a**
China	**16.2%**	**24.0%**	**8.9%**	**12.7%**
South Africa	**5.3%**	**9.1%**	**1.7%**	**2.3%**

Dalberg Global Development Advisors and J.P. Morgan have investigated the correlation between economic growth and small and medium enterprise development. Specifically, their initiative has examined methods for fostering this development in the Gauteng Province of South Africa, encompassing the City of Johannesburg (2012). In a report released by the leaders of the initiative, The Small and Medium Enterprise (SME) Sector – Catalyst for Growth in South Africa, it is cited that in addition to disturbing unemployment rates, South Africa has a low level of entrepreneurial activity compared to other emerging markets such as Ghana, Zambia, Brazil, and Chile, which makes it an effective location for investigation (Dalberg Global Development Advisors & J.P. Morgan, 2012). The report touches on the many challenges of SME development in the developing world, which include significant barriers to entry and sustainment, such as access to finance, market access, skills and networks, and the enabling environment. It further reports that in South Africa, seventy-five percent of applications for credit by new businesses are rejected and only two percent of new SMMEs are able to access loans (Dalberg Global Development Advisors & J.P. Morgan, 2012).

Soweto in Context: Post-Apartheid Township Economy

An exaggerated microcosm of these challenges has developed in areas of the country that many considered to be at the epicentre of the apartheid struggle: townships. In South Africa's townships – areas where black

Africans were forced to reside during the apartheid years that were marginalized politically, socially, and economically – these impacts are felt exponentially. The majority of unemployed South Africans who can benefit from the job creation that can be brought about via SMME-driven economic activity live in townships, which are still characterized by poverty and high levels of unemployment. Johannesburg's Soweto region, established as an early consequence of the apartheid system, exhibits the manifestation of these attributes.

Soweto is an acronym for the South Western Townships and is a region which consists of about 59 square miles (153 square kilometres) and approximately 1.2 million people, making it the most populous urban residential area in South Africa (City of Johannesburg, 2008). Soweto was established in 1904 to house black, Indian, and coloured South Africans who were increasingly being evicted by city and state authorities and who were used in large scale industrial development, particularly the mines located on the northern border of the region. Soweto exploded as an informal settlement as the apartheid government took hold and formal legislation was passed to separate and oppress black and brown South Africans by regulating places they could live and work, most notably the Group Areas Act of 1950, the Bantu Building Act of 1951, the Bantu Services Levy Act of 1952, and the Native Urban Areas Act of 1952 (City of Johannesburg, 2008). When liberation was realized in South Africa in 1994, it was clear that Soweto had become an important part of the city of Johannesburg and needed to be integrated into both the economy and the governance of the city. This remains a challenge for policymakers today.

While a historical context of this critically important region of the country cannot be encapsulated in a one-paragraph synopsis, what is crucial to understand in the context of this research is the impact of the historical motivations for the establishment of Soweto – as dormitory space for a labor reservoir – on the development of the community's economy. During its 100 years under the above described system of systematic oppression and marginalization, the economy of Soweto was unable to diversify in any way. In addition, "apartheid systematically denied Africans opportunities to develop their own businesses. The result was, on the one hand, inadequate market institutions and infrastructure to support emerging producers, and, on the other, a widespread lack of experience in starting and running enterprises" (Republic of South Africa, 2014, p. 97).

The consequence, as experienced in Soweto today, is that despite being the largest urban residential area in South Africa, the formal economic footprint of Soweto is negligible. While Soweto comprises about forty-three percent of the total population of the city of Johannesburg, its economic footprint is less than five percent of the city's economy. Further, Soweto faces unemployment rates above fifty percent, as compared to the city of Johannesburg's still alarming, but significantly lesser rate of thirty-five percent (City of Johannesburg, 2008).

SMME Policy Framework

South Africa's National Development Plan of 2011 specifically highlights SMME development as a key method to combat the unemployment crisis and spur economic growth. The City of Johannesburg, therefore, has an obligation to ensure its efforts in this realm effectively follow suit. In 2010, the city of Johannesburg's Department of Economic Development launched its Jozi Rising initiative, aiming to create an environment in the city that is enabling for small business development and to simplify the accessibility of business support tools already being offered by various public development players (The City of Johannesburg, 2015). Despite the implementation of this framework, the communities of Soweto continue to be a neglected region in terms of SMME supports and the region's entrepreneurial environment remains stark.

Even after small businesses are established, they are unable to sustain themselves in Soweto. A University of South Africa (UNISA) study found that over sixty percent of small businesses shut down between the years of 2007 and 2008. At the same time, relatively few new enterprises opened, which led to a net decline of close to fifty percent of small businesses during the period of examination (University of South Africa Bureau of Market Research, 2009).

The preceding data begs a couple of questions. In the context of the state of entrepreneurship in South Africa overall, why does Soweto continue to have such concentrated levels of unemployment and such a low economic contribution compared to greater Johannesburg? Next, why are such a significant portion of Sowetan SMMEs unable to sustain themselves? A critical factor in the solution to these questions is that the infrastructure simply does not exist to support the entrepreneurial pursuits promised by both national and municipal initiatives like Jozi Rising. Entrepreneurs are forced to travel impractically far and expensive distances to Johannesburg's Central Business District to accomplish foundational steps in starting a business such as registration. In addition, both private and public support initiatives continue to be concentrated predominantly in the downtown city network, which deems them virtually inaccessible to Sowetan entrepreneurs.

The magnitude of this issue is profound as Soweto is not just a substantial component of the city of Johannesburg, but its more than one million inhabitants constitute the most populous urban residential area in the nation, and thus should be considered integral to economic prosperity. Yet, the region continues to be dependent on the economic activity of the Johannesburg metropolitan area for its formal employment opportunities and social support services, which have proven to be both inaccessible and insufficient. The lack of an adequate entrepreneurial support infrastructure in Soweto, as a result, has severely hindered momentum of the SMME development movement in Johannesburg.

More broadly, in the adoption of a varied array of strategies for local economic development, which will be critical for Soweto going forward, Barnekov and Rich (forthcoming) suggest lessons from urban development in the United States can be useful to policymakers in South Africa. They argue that a culture of privatism has been the underlying pattern of the development of American cities and although they highlight the absence of privatism is often a source of community impoverishment, privatism alone is not sufficient in meeting the complex challenges facing modern cities.

> The challenge to the embattled American city was to create a new economic base – one that would transform declining physical and capital infrastructure, attract new firms, new population and new employment, and enable the city to successfully compete for a prominent role in a global post-industrial service society. The key to meeting this challenge was to stimulate private investment. (Barnekov and Rich, forthcoming, p. 12)

A public-private partnership model for urban development proliferated in the U.S. in which policymakers utilized public resources targeted at leveraging private investment. The generation of local investment and the strengthening of local private sector infrastructure were identified as key components for sustainable economic development as opposed to the sole reliance on limited public resources programs to conquer the unequal distribution of wealth in cities.

Private infrastructure is not only unevenly distributed throughout the city of Johannesburg, but for the most part absent in the city's depressed areas, such as the communities of Soweto. Taking the arguments of Barnekov and Rich into account, it will be important for the municipal government of Johannesburg to employ policy to aggressively work toward stimulating private sector activity in Soweto for the city to be a contender in the twenty-first century global economy.

Understanding conditions of Soweto's political economy will be key in identifying a viable solution to achieving an enabling environment for SMMEs as strategy for inclusive growth in the region. As the preceding twenty years of South African growth have demonstrated, the Sowetan economy does not respond to simply the growth of the nation's economy at large. A vibrant Johannesburg economy will also be an insufficient solution to address the issue of economic growth in Soweto. While many people will benefit from the growth of either the city or the nation generally, most South Africans living townships will not reap the benefits of growth at this scale without the adoption of a targeted approach.

In response to Barnekov and Rich's arguments on the benefits of privatism in American cities in this regard, it is important to note that when the American economy was booming throughout their narrative, economically depressed cities do not parallel this trend. For example, beginning in the post-WWII era, during the period of 1945 through 1970, the United States experienced an economic expansion, which resulted in growth of both employment and average of annual GDP. Despite positive growth during this period, America's old industrial cities, such as Detroit, Pittsburgh, and Cleveland, were experiencing just the opposite in the 1960s, demonstrated by steep economic decline, skyrocketing unemployment, and significant reductions in population. This is due to a specific set of circumstances, which dictated the individual economic response of these cities despite nationwide growth. This underlines the need for a policy platform by the city of Johannesburg, which specifically targets Soweto, as opposed to a reliance on overall city or nation-wide growth, which will not penetrate to the most economically depressed parts of the city facing a specific set of structural challenges.

Recognizing the structural conditions in the South African political economy that are embedded within Soweto is crucial to understanding the conditions in Soweto that constrain SMME growth. Many of these embedded constraining structural conditions are a product of apartheid, which make the political, economic, and social environment in this region unique to anywhere else in the world. At their conception, policies shaped Apartheid cities through strict social segregation in addition to their intentional marginalization and geographic separation of economic and residential zones to keep commercial and industrial activities out of non-white areas. The legacy of this policy has transcended the twenty-year period since the ending of apartheid, as regions such as Soweto continue to be isolated from their municipalities.

Turok (2011) stresses the relationship between the built form of cities and its relationship to the welfare of its residents as well as its impact on patterns of social integration and economic development. In his research into South Africa's urban centers, he touches on the role of apartheid in creating sprawling, splintered, and racially divided cities, which has stifled accessibility to jobs, amenities, and economic resources to huge sectors of the population. He explains that most of South Africa's poor are confined to overcrowded settlements on the periphery of cities, which has resulted in worsened poverty and exclusion by trapping poor households in these marginal areas removed from employment nodes with deficient services. This geographic and demographic phenomenon has characterized the city of Johannesburg and its peripheral communities like Soweto. As Turok describes, the scale and density of Soweto's population is profound, yet its separation from central Johannesburg has posed significant challenges to the welfare of its residents (2011).

Historically embedded social characteristics, overall levels of education, the nature of and awareness of support structures, and the regulatory environment also play a highly significant and negative role in determining the entrepreneurial landscape. The Global Entrepreneurship Monitor (GEM) South Africa provides useful data and analysis on the state of entrepreneurship in South Africa and the largest challenges facing entrepreneurs. The study notes,

> During the apartheid era, there was a conspicuous absence of small businesses in the dominant sectors of the economy and very little attention was paid to small enterprise promotion in public policy. During the apartheid era, black South Africans, except in specially designated areas, were largely prevented from owning property. This meant that they were unable to leverage their property as a form of finance, which had a negative effect on their ability to start businesses. (Herrington, Kew, Kew, 2010, p. 31)

In terms of training and education, GEM found that only twenty-six percent of South African adults believed that they had the knowledge, skills, and experience required to start a business. Education has consistently been identified as a key inhibitor of entrepreneurialism in South Africa. Further, a particularly high proportion of informal entrepreneurs lack the skills to comply with the legal and tax requirements facing registered businesses. This begins to shed light on the cumbersome government regulations and ineffectual federal support programs are hindering sustainable growth of the SMME sector.

> Registered businesses are hindered by the enormous administrative and cash flow burden that registration adds to the business. Although numerous small business incentives are becoming available, excessive bureaucracy and cumbersome application processes, offices that are only open on weekdays and the protracted, inefficient decision-making has limited the positive impact of these incentives. International evidence suggests that the regulatory environment has a major influence on the survival and growth of small and new businesses…The 2002 GEM Report found that few business support centres specifically targeted the informal sector while government initiatives directed towards the formal sector were largely too generic and had had limited success. (Herrington et al., 2010, p. 48)

Taking the arguments of Turok and GEM into account, turning to economic development theory or adopting "best practices" of inclusive economic growth or SMME development that have been successful elsewhere will be insufficient in coming up with a viable solution to address the distinct challenges facing Soweto. Many of such theories and "best practices" are not intended for or are unsustainable in places that have a level of embedded constraint as experienced in Soweto, and many other parts of South Africa as the aforementioned reports have demonstrated.

At this point in time, Soweto is without a viable economic base or support infrastructure from which to facilitate growth. While one method of addressing this issue is attracting established corporate enterprises to invest in the region, which is an immense challenge because of its stark economic landscape, another approach is to concentrate on the development of a favorable economic climate to promote homegrown business development. The Department of Economic Development must play a lead role in ensuring that the pursuit of entrepreneurship is at the forefront of a targeted policy agenda and additional public resources are allocated toward building local private infrastructure in Soweto. In advancing the key elements that underpin adequate support infrastructure for the SMME sector to develop and begin to sustain itself in Soweto, the City of Johannesburg's Department of Economic Development must address issues such as access to finance, physical proximity to support services and business networks, and an economically conducive policy environment to entrepreneurship.

Evaluation Criteria

In looking for an effective solution to this set of challenges facing the communities of Soweto, establishing a set of criteria to evaluate current policy and in weighing policy alternatives will be important. The most critical characteristic underlying this set of evaluation criteria will be the effectiveness of impacting the conditions that the policy hopes to address. Over the course of the past two decades following the end of apartheid, while various policies have been introduced in attempts to target economic growth and SMME development in Soweto, a significant impact has not been made upon the examination of key economic indicators for success. Targeting a selected set of these indicators with a chosen policy must become priority.

Included in the measurement outcomes for determining policy effectiveness should be the number of start-ups and established SMMEs, as well as SMME survival and long-term growth rates, as indexed by the expansion in the numbers of employees and revenue generation. In terms of determining the effectiveness of physical support infrastructure in the designated target area, mapping national and municipal SMME support agency offices in the target region will be important to ensure the magnitude of their presence and the equitable geographic distribution of their location throughout the region. Further, as has been cited, capital accessibility for aspiring entrepreneurs, particularly in South Africa's townships has been a consistent challenge in SMME development. Therefore tracking interest rates, loan approval rates, and average loan disbursements for publicly sponsored loans for SMME development projects to Soweto residents will be indicative of the success of the implemented policy framework. In terms of long-term determinants of success of the aggregate economy of targeted communities, annual percentage change in local private investment, and annual GDP growth in the context of Greater Johannesburg will also be key indicators to consider.

Another key criterion is efficiency. It will be important to weigh the current policy options against alternatives under consideration based on an evaluation of the cost of each, in the context of both the short and long term intended achievements. It will also be important to calculate the cost of changing policies and the fiscal impact of reconstructing the infrastructure to implement those policies. Examples of such costs include the creation of new offices or divisions, hiring additional staff, and merging political entities.

A final criterion is equity of each of the policies to be considered for adoption as well as the equity of the existing policy structure for the population under the jurisdiction of the City of Johannesburg. To determine equity, geographical distribution of physical SMME support infrastructure will be critical, as will monitoring the residential area, race, and socio-economic status of the constituents who utilize the implemented policy structure.

Current Policy

Beginning in 1994, South Africa's national policy focus on the SMME sector of the economy was derived from the conceptualization of three key roles for SMMEs in the post-apartheid economic reconstruction era. These roles included SMMEs as agents of employment promotion, as grassroots tools to redistribute wealth, and as a method to improve global competitiveness. The 1995 White Paper on Small Business expressed goals of improved and decentralized access to information, training, markets, finance and technology (Department of Trade and Industry, 1995). It also expressed the need for improvements in business infrastructure and the market environment and the strengthening of networks between enterprises to address the apartheid legacy of the disempowerment of black business.

Since this point, various policy supports have been implemented at the national level to support this sector of business namely the Small Enterprise Development Agency, the Small Enterprise Finance Agency, the National Youth Development Agency, and the Tshumisano Trust (Department of Trade and Industry, 2010). The national framework intended to support the SMME sector of the South African economy has been beset with its own distinct set of challenges, but analytical focus has been placed on the city government of Johannesburg because it is the level of government which has the largest potential for direct impact on the communities of Johannesburg in dire need of stimulation and growth. Notably, these same communities stand to be crucial asset to the South African economy as a whole. Current policy instruments at the national level have failed to effectively address the SMME challenges experienced by marginal Johannesburg communities, like Soweto, due to their inaccessibility to residents, a lack of awareness of their existence, and their sparse physical presence in these communities.

The City of Johannesburg therefore holds the key to enacting SMME sector policy with the capacity to effectively harness the economic and entrepreneurial potential of Soweto to provide an essential boost to the Johannesburg economy and take steps toward inclusive growth in the region. The Department of Economic Development for the City, charged with spearheading policy initiatives in this realm, has implemented a series of three core policy projects through its SMME Development and Support Directorate: Jozi Rising, the Dirang Ba Bohle Community Finance Institution, and the Jozi Skills Hub.

Jozi Rising was launched in 2010 with the goal of offering a comprehensive range of business support programs due to the lack of coordination within the sector among the numerous public and private institutions, making it virtually impossible for entrepreneurs to navigate they system in seeking support (City of Johannesburg, 2015). Jozi Rising is meant to provide a platform to simplify how entrepreneurs access SMME support from public and private development players within the City, thereby taking steps toward creating a simplified and integrated business support platform.

Despite the inception of Jozi Rising, in practice, the Department of Economic Development plays virtually no role in its execution. The work of the policy has been contracted out to various organizations, which has negatively impacted coordination. The University of Johannesburg's Centre for Small Business

Development has been hired as the project manager of Jozi Rising on a day-to-day basis, while the University of the Witwatersrand Business School's Centre for Entrepreneurship has been charged with conducting research on supply-side factors of the economy necessary to the effective implementation of the policy (City of Johannesburg, 2015). A national initiative, the Sector Education Training Authorities, have also been brought in to introduce and develop sector development programs, "…in order to leverage and grow local competencies in industries that show growth potential" (The City of Johannesburg, 2014, p. 1). While involving various development partners in developing an effective framework has potential benefits, the fragmented implementation strategy of Jozi Rising has led to a lack of accountability for the policy, a lack of coordination of constituents passing through each arm of the policy, and an insufficient deployment of resources to crucial regions of the municipality.

The Dirang Ba Bohle (DBB) Community Finance Institution, the second component of the SMME development framework in the City, was implemented in 2011 to serve as a community microfinance institution to assist emerging entrepreneurs in the city in accessing financial services (City of Johannesburg, 2015). While data on the work of DBB were unavailable for analysis, the organization does publicize its focus and preference in funding SMEs involved particularly in city-owned and driven projects, which significantly limits the scope of support the DBB provides and further inhibits access to the institution for entrepreneurs in economically-depressed communities on the margins of center city, such as Soweto, who are far less likely to be able to engage in city-driven projects. This speaks specifically to the lack of equity and effectiveness of the DBB in providing fiscal support to all segments of the Johannesburg population. Further, the city has recently rolled out the Jozi Equity Fund, which has leveraged 180 million Rand in external funding to fund thirty-six SMEs, all of which are businesses that support city-owned and city-driven projects. This focus significantly mitigates the success of the policy in bringing finance to the poor, one of its stated core objectives.

The final institution of the triad of SMME supports implemented by the Department of Economic Development is the Jozi Skills Hub (JSH). Established in 2010, the JSH is intended to serve as quasi-public employment support and placement service with the mission of increasing the employability of particularly vulnerable job seekers and vulnerable businesspersons. This policy has not introduced anything new to the existing framework of resources in the realm in the city, but attempts to better organize and deploy what is already available and to adjust the mismatch between skills supplied and demanded. The City of Johannesburg has invested 20 million Rand over the course of the first five years of the initiative.

Unfortunately, while recognized under the Department of Economic Development's SMME Development and Support Directorate, the JSH does not serve a community of entrepreneurs in the city, but instead simply targets the unemployed. The actions undertaken by this initiative to increase employability of its constituents does not offer support to increasing entrepreneurialism in the city and is therefore deemed ineffective in the realm of SMME support.

When utilizing the evaluative criteria selected to examine these three core policies, the effectiveness of each one has been called into question. When examining SMME start-up data, survival and long-term growth rates, physical support infrastructure, and capital accessibility, significant improvements have not been experienced on a city-wide scale since the implementation of these policies over the course of the past four years. Therefore, this policy framework is deemed inefficient when compared to the public investment made through the cost of administrative infrastructure and implementation of the program. The millions of Rand invested, intended to be returned to entrepreneurs of the community, have not made a significant positive impact on either short or long term expected outcomes.

Finally, the evaluative criterion that has revealed the largest disservice to the peripheral and economically depressed communities of the city is the lack of equity demonstrated by this framework since its inception. The lack of township outreach through these policies is a major impediment to the success of these initiatives in providing equal access and distribution of their benefits to the region. Insufficient levels of local awareness regarding existing tools and support infrastructure exist in the parts of the City that have been traditionally politically isolated and marginalized due to this lack of outreach.

Policy Options

In considering the way forward for the City of Johannesburg's public support of SMME development and in adoption of a revised policy framework, there will be a need for a multifaceted approach in constructing a policy bundle, as opposed to choosing among options. As the Department of Economic Development seems to have realized, there is no single lever that will be strong enough on its own to impact the course of this issue, but a series of levers might begin to target and unlock the necessary infrastructure to support this critical sector of the economy. The recommended policy alternative for consideration of the Department of Economic Development will include the implementation of a policy to directly target geographically and economically marginalized communities of the city of Johannesburg.

The first component of the recommended policy framework is the establishment of Urban Enterprise Zones (UEZs) in Soweto and all regions of the city that are operating at an Economic Contribution/Population Ratio (ECPR) score of less than 0.5. This index has been formulated to assess the extent to which a region's population, compared to the City of Johannesburg as a whole, matches its economic contribution to the city. For example, the Soweto region, as previously discussed, represents forty-three percent of the population of the city, yet contributes only four percent to the economy of the city, thus giving it a ECPR score of 0.09, significantly below the benchmark identified for targeted policy attention. This will ensure that the communities of the city in dire need of support will be provided additional infrastructure needed to facilitate the growth of the SMME sector by granting benefits for businesses to start up in these economically depressed areas as opposed to regions that are more economically attractive.

Once these communities are identified and qualify for UEZ status, they will be eligible for publicly provided fiscal inducements, including subsidies and tax breaks to reduce the private investment risk in starting a SMME in these targeted zones while increasing entrepreneurial activity and economic growth. Barnekov and Rich stress the importance of stimulating the demand for labor in low-income areas and the potential to achieve this by subsidizing the costs of doing business there, "using public policy to gain advantage in a bidding war for investment and employment, using tax credits, contract incentives, location subsidies, and a range of other incentives that may be attractive to private firms and entrepreneurs" (forthcoming, p. 22).

The implementation of UEZs will also be critical in the implementation of a strategy to address the uneven geographical distribution of service providers and support infrastructure, which has led to a lack of awareness and access to initiatives in economically depressed and marginal communities of the city. In each UEZ, there will be a requirement for the establishment of at least one Jozi Rising office and additional offices depending on the square mileage of the area in question. The Jozi Rising initiative will be revamped to be composed of Department of Economic Development staff who are expert navigators of the framework of local, provincial, and national policy supports regarding SMME establishment, development, and growth. This will push public efforts in combating the lack of local business networks outside of the central business district to expand to marginal communities of the city.

Analysis has revealed a lack of clarity about the roles and responsibilities of different levels of public sector, which has caused their efforts to be uncoordinated and less effective. It has also presented an issue of circulating clientele, which results in an inefficient allocation of resources due to a lack of coordination between organizations. By establishing one central authority for UEZ community members to access, staff will be able to tailor support packages to aspiring entrepreneurs by directing them to the necessary organizations and reduce the circulating clientele issue.

Further, according to Turok, over the course of the past two decades, a pattern of policy neglect of microenterprises and the informal economy has been uncovered (2011). During this post-apartheid era, emphasis has been placed on policy supports for SMMEs, where white ownership is dominant, while microenterprises and survivalist informal sector businesses have been underserved. Mircroenterprises are the majority of businesses operating in Soweto, so this style of policy disproportionately favors white-business, further diluting the path toward inclusive growth. In an attempt to shift toward an increased focus on microenterprise, the existing DBB infrastructure will be adopted in concert with the reconstructed Jozi Rising policy and the physical infrastructure it will establish in UEZs.

In crafting public policy around SMME development and support it is critical to differentiate between opportunity-driven entrepreneurship, an active decision to launch a new enterprise based on the perception that a business opportunity exists, and necessity-driven entrepreneurship, which is when one is pushed into entrepreneurship as a survival mechanism due to a lack of employment opportunities. Opportunity-driven entrepreneurs intend their entrepreneurial ventures to eventually result in high-growth firms and which will manifest in the creation of new employment opportunities. Based on analysis of South Africa's Global Entrepreneurship Monitor (Turton & Herrington, 2012), Acs (2006) determined that necessity entrepreneurship has no effect on economic development while opportunity entrepreneurship has a positive and significant effect.

Acs reveals the discernible trend that occurs between the ratio of opportunity-to-necessity entrepreneurship and the per capita income of a country. South Africa, a nation with relatively low per capita income, has struggled with an unemployment crisis that has produced a great deal of necessity-driven entrepreneurs, or survivalists. Due to the large emphasis South Africa's National Development Plan places on SMME sector growth as a solution to the nation's unemployment crisis, it is imperative that policy solutions targets opportunity- driven entrepreneurs.

> 'How is entrepreneurship good for economic development?' The answer depends clearly on what one means by entrepreneurship. If one means self-employment, either in agriculture or very small-scale industry, then in most cases entrepreneurship will not lead to economic development because there is no mechanism to link the activity to development. In fact, we know that self-employment declines as economies become more developed. It is only when economies are able to remove people from self-employment that we start to see an increase in development. To quote Adam Smith, when the division of labor increases, so will economic development. Our data clearly indicated that the ratio of opportunity-to-necessity entrepreneurship is a key indicator of economic development. As more and more of the population becomes involved in opportunity entrepreneurship and as more and more people leave necessity entrepreneurship (self- employment), the more we see rising levels of economic development. (Acs, 2006, p. 102)

GEM reports that in 2012, thirty-two percent of South African entrepreneurs had necessity-driven motivations (Turton & Herrington, 2012).

> The importance of opportunity-driven entrepreneurship for a country can be seen in the number of jobs that have been created, in comparison to those that have been created by necessity-driven businesses […] a mean of 6.1 people have been employed by the early-stage opportunity-driven entrepreneurs, compared to just 2.1 employees for the necessity-driven entrepreneurs. (Turton & Herrington, 2012, p. 41)

According to the arguments of Acs (2006) and Turton and Herrington (2012), the economic growth potential of SMME sector growth and development in South Africa hinges the ability of public policy to effectively target and leverage this group of opportunity-driven entrepreneurs.

Conclusion

For policymakers in South Africa pursuing the creation of an economic renaissance in Soweto, lessons can be learned from the plight of marginalized and segregated black communities in the United States. Scholars have cited various economic implications of residential segregation on the basis of race. In William Julius Wilson's (1987) The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy, Wilson pushes an intricate economic argument to convey segregation as the cause of systematic disadvantage. The argument maps a self-sustaining cycle of how factors such as low property values, bank disinvestment, a low tax base, poor public services, business flight, poor job opportunities, low business ownership rates, isolation from social networks, and concentrated poverty are both caused by and contribute to, deepening segregation. This cycle, unfettered, accounts for the grossly elevated levels of segregation that persists today and along with it the urban poverty, blight, and stagnation experienced by African American communities.

While all of these factors are critical in assessing the economic consequences of segregation and their policy implications, the core of economic disadvantage of such communities is lack of productivity. Productivity is the key to making strides toward inclusive economic growth and economic equality, which have been stifled by laws enforcing residential segregation. Raising productivity levels and thus economic growth is the only way to achieve sustainable poverty reduction to combat segregations effects (Taylor, 2003). Productivity is also critically related to standard of living.

Marginalized hyper-segregated black enclaves in the United States, returning to the Wilsonian (1987) argument, have lower levels of productivity than that of their white counterparts due to the lack of sustainable market infrastructure manifesting in a lack of jobs and formal economic activity in these communities. This is a direct consequence of historical legal institutions establishing racially divided communities, which have directed investment away from inner-city neighborhoods. The result is effectively the transformation of such communities into dormitory spaces, completely devoid of any quality goods and services upon which to build a sustainable market infrastructure. The lack of formalized and sustainable markets culminates in minimal productivity levels and a poor standard of living. Citizens of these communities are forced to travel far and expensive distances to shop and work creating substantial market leakage. In essence, because no market structures are in place to provide either a place for citizens to spend and invest their money, nor to employ them, any money that exists within the community is funneled out.

Experiences in the United States and South Africa demonstrate the impossibility of untangling residential segregation and economic stratification, and their lasting impact. Moving forward, the key to chipping away at the economic stratification that has been created, and eventually the segregation that caused it, is reducing the disparity between the human capital potential and economic output of such communities by introducing interventions that elevate productivity levels to meet their potential. Building a sustainable market infrastructure in these communities must be a priority. Creating an infrastructure to support the growth of the SMME sector in Soweto is one powerful intervention that will begin to build sustainable formal markets in the region and pave the way towards inclusive growth.

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