



Free State rural and kasi economy overview: Lejweleputswa



destea

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tourism and environmental affairs
FREE STATE PROVINCE

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SECTION B: SECTORAL OVERVIEW

2. Township Economy

Over the past decade, the endeavour to develop townships into more economically and socially sustainable communities has been the subject of growing interest in South Africa. The fundamental questions that arise are whether the socioeconomic problems that exist within townships, can they be addressed by intervening within township economies or alternatively by improving the access of township residents to opportunities outside these areas. Additionally the degree to which economic activities within a city can be confident to relocate to township areas, and the extent to which the existing business activities in townships can be grown to supply the city at large and beyond.¹

The Free State province in South Africa has a diverse economy that includes agriculture, mining, manufacturing, and services. The empirical data collected within Mangaung affirms that the retail sector is one of the fastest growing segments in the informal sector. According to the data, the retail sector is the largest segment representing (91%) of the segment in Mangaung's Kasis' economy. The second largest segment is manufacturing at (4.1%), followed by finance representing (1.4%) (DESTEA, 2019 B).

It is important to determine the number of SMMEs and their classification, formal or informal in nature as well as the sectors in which they participate. The picture of the informal sector has changed quite significantly in South Africa; our investigation takes place Free State and Mangaung in particular. It has been widely documented that the number of foreign owned businesses in the townships has risen significantly over the past decades or so, as we navigate the kasi and the informal sector, we aim to investigate this phenomena. In 2018, DESTEA commissioned a study on the Hair Salon Industry as a Contribution to Growth of the Economy of the Free State, which found that 60% of the hair salons in the Free State were owned by non-South Africans. Furthermore, a majority of these small businesses had not registered; thus, the connotation is that they do not contribute to the GVA of Mangaung (DESTEA, 2018 A).

¹ SACN township economies

In the 2019, DESTEA Kasi study within Mangaung, found that foreign-owned SMMEs in Mangaung's Kasi made up 47% of the n=200 participants from the various city/towns. It was found that South Africans own a majority of 53% of SMMEs in Mangaung region. However it was clear that the South African enterprises earnings were significantly lower, when compared to their Bangladesh tuckshop counterparts. There are several initiatives aimed at promoting township economies in the Free State. One such initiative is the Free State Enterprise Development Fund (FSEDF), managed by the Free State Development Corporation (FDC), which provides financing and support to small and medium-sized enterprises. The fund also provides training and mentorship to help entrepreneurs develop their businesses.

However, township economies in the province face significant challenges, including a lack of access to finance, limited infrastructure, and high unemployment rates.

Table 1: Summary of challenges

Challenge	
Limited access to finance	Access to finance is a major challenge facing township entrepreneurs in the Free State. Many lack the collateral and credit history necessary to secure loans from traditional financial institutions.
Limited infrastructure	Townships in the Free State often lack basic infrastructure, such as reliable electricity, water, and transportation networks, which can make it difficult for businesses to operate effectively.
High unemployment rates	High unemployment rates in the Free State townships mean that many potential customers have limited disposable income, which can make it challenging businesses to generate revenue.

Markets and accessibility go beyond just seller and buyer, a range of people and institutions, including regulators, quality-control bodies and service providers. Well-established, functioning markets tend to exhibit certainty and stability, while newer markets can be characterised by greater fluctuation, with the different roles still to be defined.

Skop, Mogodu, Kota, Sishebo , Amagwinya , 7 Colours, amaplati 50 000 outlets employing 200 300 000 people (all SA owned) R 87 Billion + in value.²

² Kasinomics, 2020.

2.1 Lejweleputswa

The Lejweleputswa economy is driven largely by mining contributing 33% to the economy and second is agriculture at 10%, with maize, wheat, sunflowers, with potatoes being the main crops grown in the area. Livestock farming, including beef and dairy cattle, sheep, and goats, also plays an important role in the local economy. Lejweleputswa district has the second lowest GDP of R48.2 bn compared to all the Free State Districts (Mangaung with R134 bn, Fezile Dabi with 81.6 bn, Thabo Mofutsanyane with R58.3 bn and Xhariep with R9.79 bn). The unemployment rate is 47%, the highest in the province.³

Table 2: Free State Province Sector Composition 2022

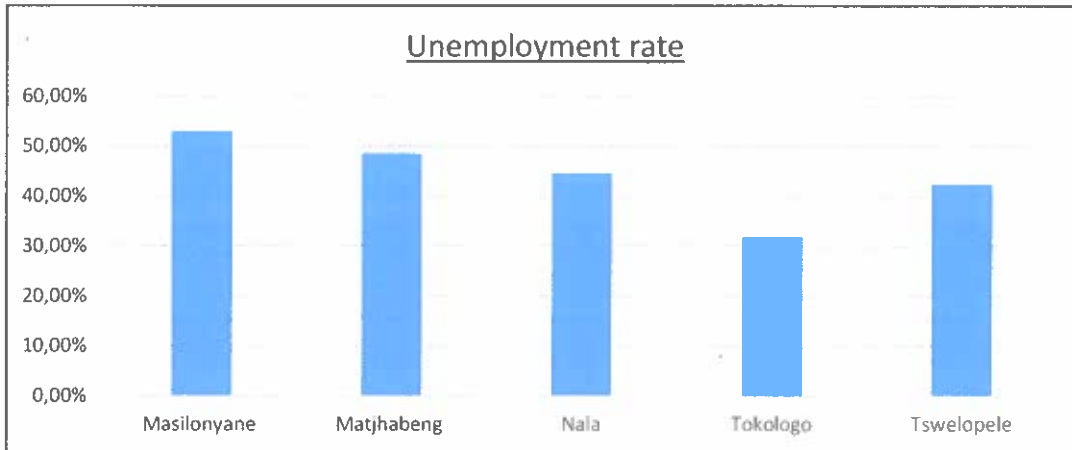
	Lejweleputswa	Fezile Dabi	Thabo Mofutsanyane	Xhariep	Mangaung
Agriculture	10%	5%	14%	21%	2%
Mining	33%	17%	2%	10%	1%
Manufacturing	3%	27%	6%	3%	5%

Source: South Africa Regional eXplorer v2374.

The districts mining activities, with gold, uranium, and coal being mined in the area. Manufacturing and construction are other key economic sectors in Lejweleputswa, with a number of companies engaged in these activities. Despite the presence of these economic activities, historically, the Free State province has faced significant challenges regarding unemployment. The high unemployment rate in the region can be attributed to various factors, including a sluggish economy, limited job opportunities, lack of and skills and mismatches, as well as socio-economic disparities. Youth unemployment is an important aspect to consider concerning their limited involvement in the Free State economy.

³ South Africa Regional eXplorer v2374.

Figure 1: Unemployment rate of Lejweleputswa district



Source: South Africa Regional eXplorer v2374.

The highest unemployment is experienced in Masilonyana at 52,9% followed by Matjhabeng at 48,50%. Nala and Tswelopele came third and fourth at 44.60% and 42.40% respectively.

3. Research Methodology

This research report makes use of a mixed method approach integrating qualitative and quantitative methodology. Having engaged extensively with locals throughout the Lejweleputswa District a total of n=100 questionnaires were distributed throughout the townships of Lejweleputswa. A total of n=71 questionnaires were received back from the participants. Approach, and the instrument used was a semi-structured interview, where the information obtained was directly from the participants. The semi structured interviews consisted of open-ended questions. The quantitative data collected through the literature review and the qualitative data collected through distributing questionnaires in Hertzogville, Hoopstad, Theneusien, Wepener, and Ventersburg.

SECTION C: RESEARCH FINDINGS AND RECOMMENDATIONS

5. Research findings

This section will discuss the research findings based on the interviews and observations by the Researchers. This section will further determine whether there is a correlation between the empirical data collected and previous research conducted.

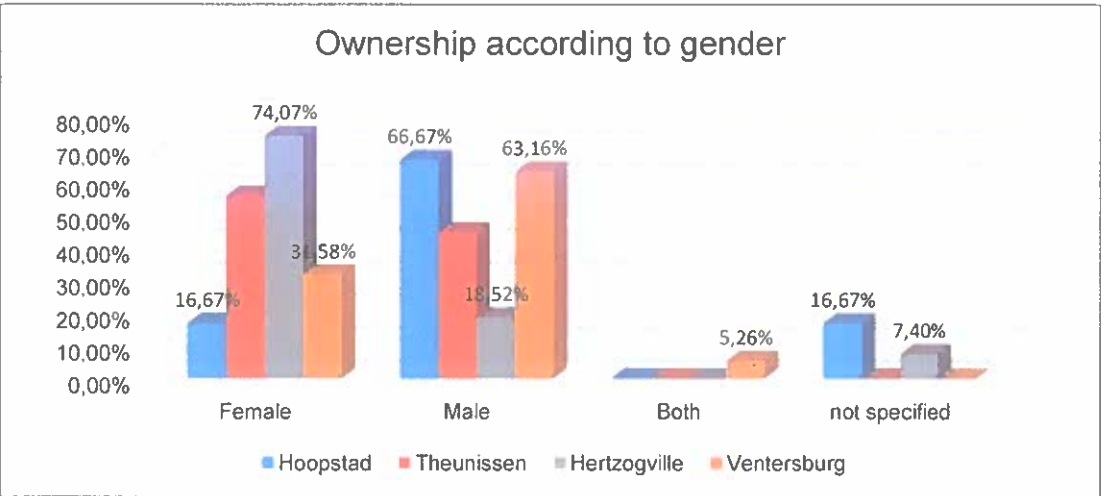
Free State province has implemented various initiatives and programs aimed at supporting entrepreneurship and economic development in townships and rural areas. These programs have been in place for several years and have helped many entrepreneurs start and grow their businesses.

A total of n=100 questionnaires were distributed throughout the townships of Lejweleputswa. A total of n=71 questionnaires were received back from the participants. The empirical data collected in the Mangaung study confirmed that there is a correlation between the data and findings from other parallel research conducted, that demonstrates that males predominately own SMMEs.

However as we take a look at Figure 2 below the Lejweleputswa data indicates that Hertzogville had the highest concentration of female owned business at 74% of the participants which is significantly higher than the other cities, while Hoopstad only 16,67% and a mere 5% are co-owned in the Ventersburg.

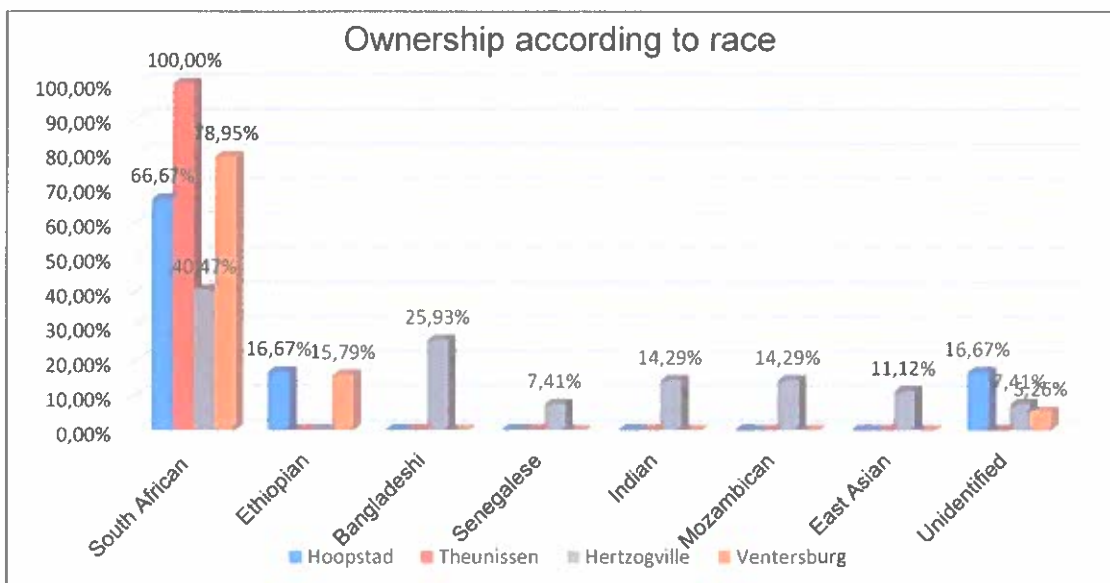
Ownership patterns

Figure 2: Ownership according to gender for local & informal businesses in Lejweleputswa District



Through the survey that we conducted, when analysing ownership according to gender it indicated that there were more female entrepreneurs in Hertzogville (74.07%) and Theunissen (55.67%), and more male entrepreneurs in Hoopstad (66.67%) and Ventersburg (63.16%). Although literature had expressed that men have dominated the informal business sector in the past, all indications are that women are on the rise, as women in Lejweleputswa are becoming role players at an overall 35.71% and while males still hold the majority at 60%.

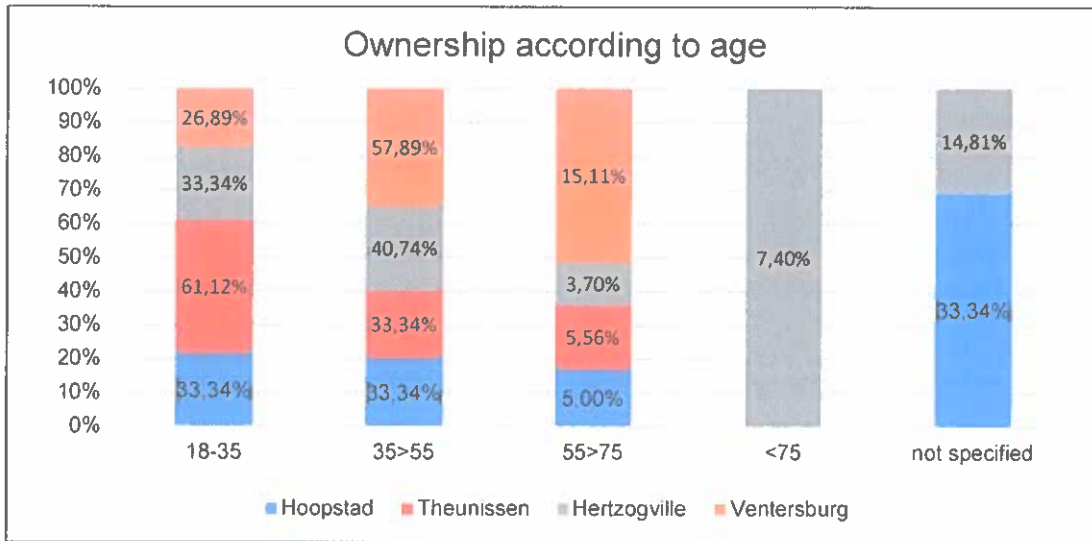
Figure 3: Ownership according to race for local & informal businesses in Lejweleputswa District



Since 2015, a fierce competition had emerged between foreign-owned businesses and South African owned spaza shops. This perception has been highly publicized by the media; some might argue that this perception has been highly hyperbolised.

Having engaged extensively with locals throughout the Lejweleputswa District, we learned that black South Africans occupy a significant portion of the tuckshop economy. As described by participants they have “taken back the kasi economy/tuckshop industry” in these 4 towns. In Theunissen 100% of the local businesses are South African owned, followed by 78.95% in Ventersburg. The highest percentage of foreign nationals are in Hertzogville at 59.53%.

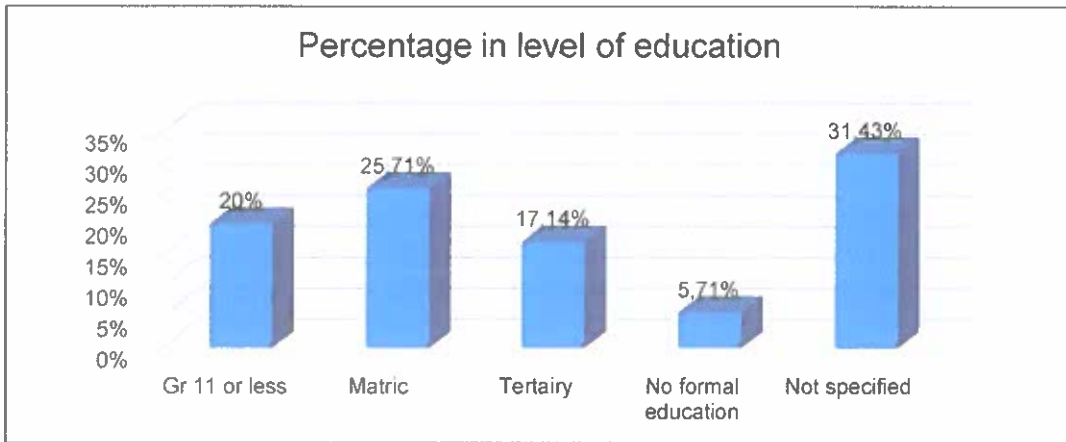
Figure 4: Ownership according to Age for local & informal businesses in Lejweleputswa District



Among the participants, the age group with highest representation is the youth (18-35 years) at 61.12% in Theunissen and the highest representation in Ventersburg at 57.89%. The overall dominating age group in terms of ownership of small business is 18-35 years and 35-55 years, who make up the majority of the working population, Hertzogville is the only town with business owners that are older than 75 years.

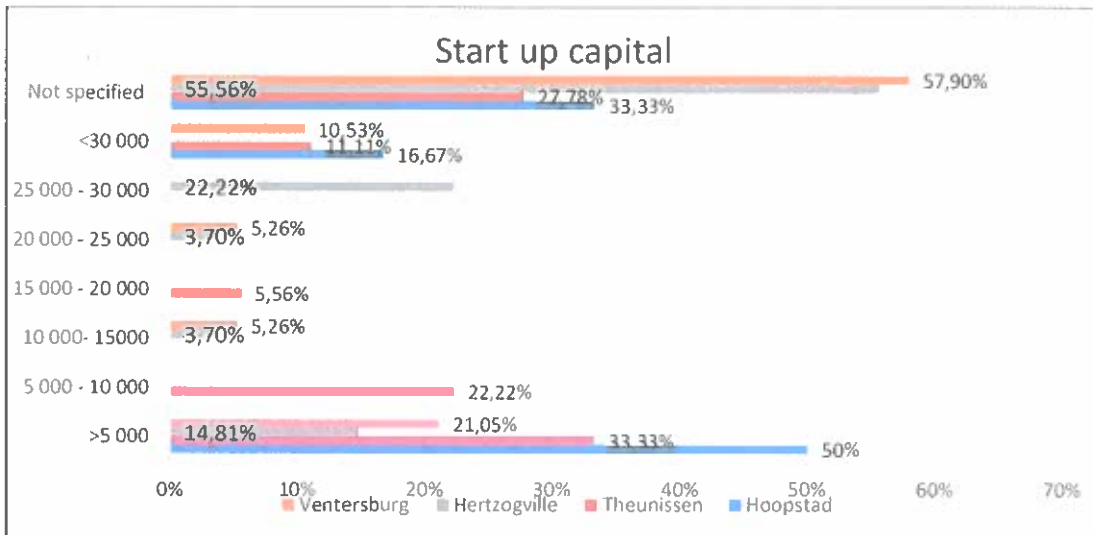
An investigation into the level of education of the participants to ascertain, the role that education plays in the broader scale of a township enterprises. Considering that, a great majority of the enterprises that were surveyed in Lejweleputswa belonged to South Africans, it begged the question, is a formal education a key factor for the successes of a survivalist enterprise. As entrepreneurship is a complex field, where factors like innovation, marketing, timing, competitive advantage and financial management play significant roles for an emerging enterprise. While education can contribute to the success of an enterprise. Past research also shows that a combination of education, practical experience and an entrepreneurial mind-set collectively shape the trajectory of an emerging enterprise.

Figure 5: Ownership according to Age for local & informal businesses in Lejweleputswa District



As indicated in Figure 5 the highest education level of informal business owners in Lejweleputswa is Gr 12 (Matric) with 25.71%. Only 5.71% of entrepreneurs in this area have no formal education at all. 20% did not complete matric and 17.14% went to Tertiary. Our survey further indicated that the highest percentage of local business owners with tertiary academic level is in Ventersburg with 26.32%.

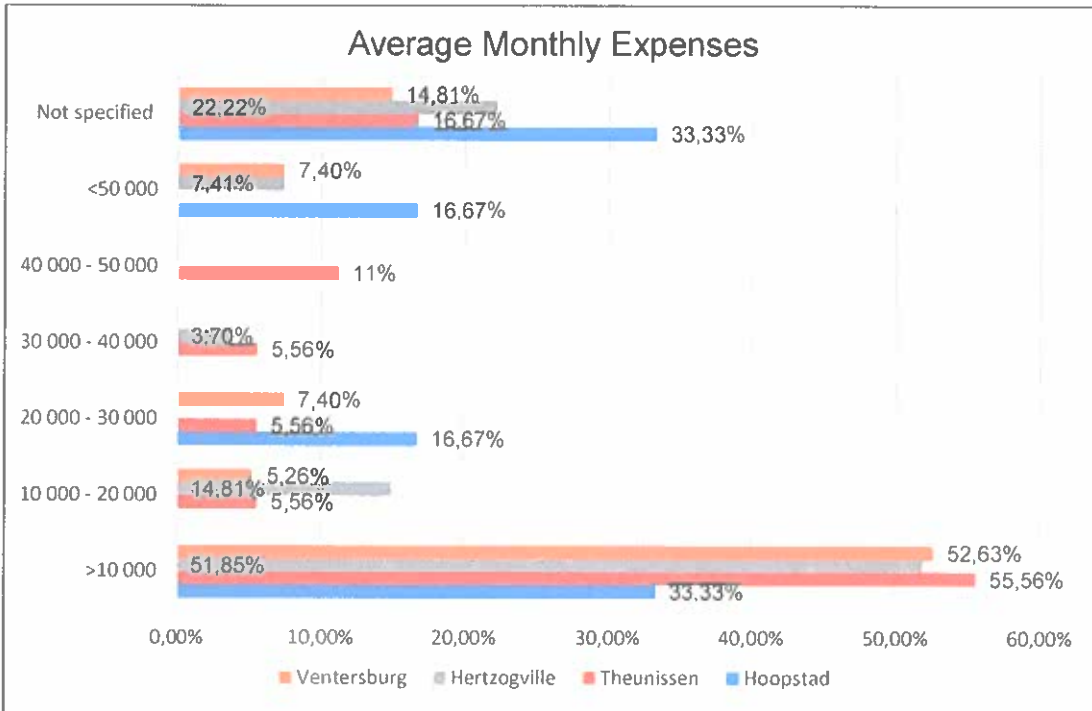
Figure 6: average start-up capital for local & informal businesses in Lejweleputswa District



Most of the informal business that participated in our survey chose either not to answer or didn't know how much capital they started with. One participant indicated that he started gradually, only selling 1 or 2 products and the more his customer base grew the more he increased the variety of his products. Only 33% of the small businesses in Lejweleputswa have Business Banking Accounts. These vendors hardly keep track

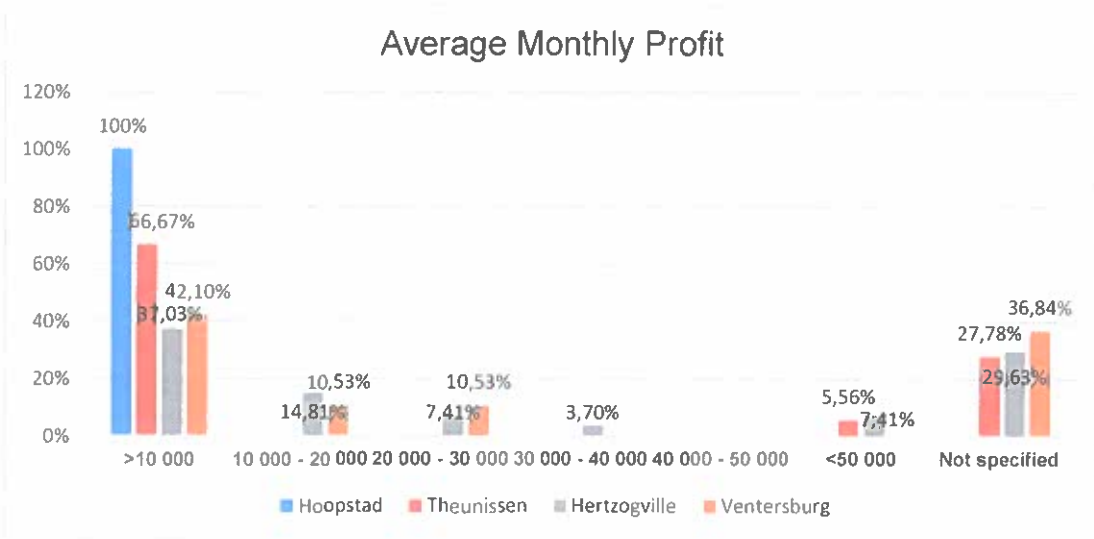
of their expenses or do book keeping. 22.22% of Hertzogville had invested capital of between R25 000- R30 000 and 33.33% of Ventersburg businesses had a start-up capital less than R5000.

Figure 7: Average Monthly Expenses for local & informal businesses in Lejweleputswa District



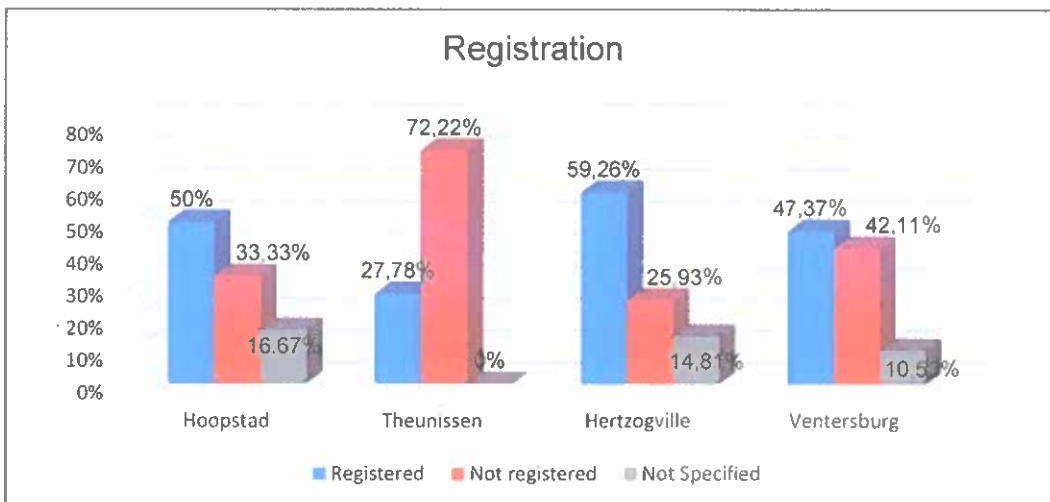
Majority of the township businesses have monthly expenses less than R10 000, Ventersburg 52.63%, Hertzogville 52.85%, Theunissen 55.56% and Hoopstad 33.33%. Only Theunissen had monthly expenses between R40 000 – R50 000. Most participants indicated transport as a major factor/barrier when it comes to business expenses.

Figure 8: Average Monthly Profit for local & informal businesses in Lejweleputswa District



The majority of township businesses in these towns are able to make a profit of less than R10 000 on a monthly basis (Ventersbrg 42.10%, Hertzogville 37.03%, Theunissen 66.67% and Hoopstad 100%). No business made a profit of R40 000-R50 000 and only Ventersburg and Hertzogville had businesses with more than R50 000. Business that seem to be able to achieve higher profits are those in the Health (e.g Pharmacies), Education (e.g Pre-Schools) and Entertainment (e.g bottle stores/ tarvens).

Figure 9: Formal Registration for local & informal businesses in Lejweleputswa District



About 72% of businesses in Theunissen have not registered, followed by Ventersburg with 42%. When asked why, participants said they are little to no benefits to formalising

small businesses in the form registration; those who register do so with the hope of meeting the requirements for possible funding. Over 59% of businesses in Hertzogville are registered, followed by Hoopstad with 50%.

Table 2: Summary of Lejweleputswa challenges

Challenge	
High unemployment rates and crime	High unemployment rates in the Free State townships mean that many potential customers have limited disposable income, which can make it challenging businesses to generate revenue. The high crime rates also make it unsafe for newer business
The weather	Vendors who sell fruits and vegetables on the streets are obliged to close down when it is raining. Creating a factor that influences the inconsistency of income.
Survivalist	Subsistence enterprises often do not reach their full potential as grow in most instances is intentional.
Competition	Entering saturated markets, without a clearly defined strategy does exacerbate, the effects of the surrounding competition.

6. Recommendations

It is essential to consider township markets when planning for renewal and economic development. Planners and practitioners need to be aware of how interventions will affect different markets, having a sound understanding of what is happening on a ground level. Having an appreciation of the limitations that range from road access to local supportive infrastructure, together with development of township value chains where entrepreneurship is key, playing a central part in the process.

6.1. Supporting residential markets and restructuring of business models.

The formal market is generally inaccessible to the poor because of high land values, land regulations that protect former white areas and high costs of accessing land linked to the need for specialist skills and legal costs.

6.2. Individualised approach emphasising the cycle of development assistance.

Configuring for a sector specific approach, with comprehensive databases that highlight the competencies and differentiating the different levels of expertise per

enterprise per sector, to create a streamline approach. The use of partnerships and mentoring in a customized sector specific manner, creating a system of criteria that monitors the cycle of development for all enterprises that are offered any kind of assistance financial or otherwise.

6.3. Infrastructure development

The infrastructure deficit in the rural areas and within township has exacerbated the challenges faced by local and informal enterprises. Therefore planning, infrastructure, services to accommodate increased densities and diverse land usage housing becomes paramount. Urban regeneration/upgrading roads, access routes and increased electricity supply, up to date municipal services are all key components toward a functional society where communities and businesses can thrive.

6.4. Access to information and Finance

A number of the township enterprises within the towns of Lejweleputswa are able to make a profit of less than R10 000 on a monthly basis, with Ventersburg at 42.10%, Hertzogville 37.03%, Theunissen 66.67% and Hoopstad 100%. Which is significantly below the micro enterprise threshold as per the definition of a small enterprise in South Africa. Financial inclusion enables entrepreneurs to invest in their businesses and expand their markets.

6.5. Access to Market and Constant evaluation

Promoting access to markets, through collaborations and partnerships, stimulating incubations centres. Where market intelligence can be disseminated, including pricing, consumer trends as well as market opportunities.

7. Conclusion

Despite the challenges, there are several successful township businesses in the Free State, including those in the retail, food, and the services sectors. These businesses often play an important role in providing goods and services to local communities and creating employment opportunities. The retail sector is a significantly large sector in the Free State kasi and rural economy dominant in Mangaung. Lejweleputswa had pockets of areas that had taken over the local tuckshops. From the description of participants, it was a mostly hostile takeover.

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