

Inclusive Business Landscaping Series

South Africa



Preface

This report was written by Genesis Analytics in November 2014 for the Inclusive Business Action Network (IBAN) to identify and describe the inclusive business landscape of South Africa. The report is now part of a series of several country studies that IBAN published in order to publically share the findings. The series is edited by Ashley Insight.

This study is part of an ‘Inclusive Business Landscaping Series’ published by the Inclusive Business Action Network (IBAN). The objective of the series is to identify and describe the inclusive business landscapes and explore the potential for further inclusive business growth in selected developing countries. You can find more publications on inclusive business on www.searchinclusivebusiness.org.

The Inclusive Business Action Network (IBAN) is a multi-stakeholder network promoting inclusive business globally and supporting the scale and replication of inclusive business models. IBAN ‘connects the dots’ between the vast number of businesses, existing initiatives, networks, investors and other actors from the global inclusive business community. To enable successful business models and partnerships, IBAN creates and shares market insights as well as best practices and brings together relevant parties by offering peer-learning, networking and information spaces.
www.ib-an.net

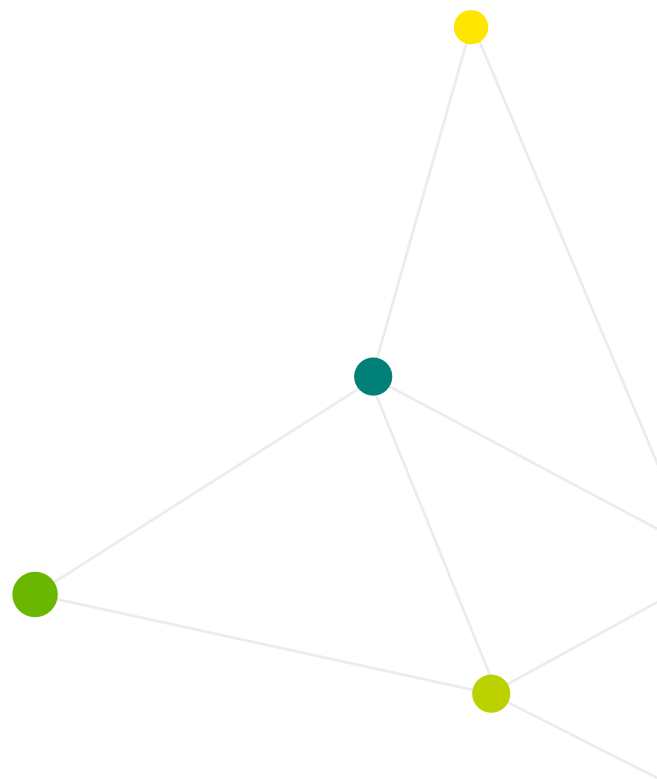


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Acronyms

ATM	Automated Teller Machine
B-BBEE	Broad-Based Black Economic Empowerment
BOP	Bottom or Base of the Pyramid
BPO	Business Process Outsourcing
CPP	Community-Private Partnership
CPPP	Community-Public-Private Partnership
CSR	Corporate Social Responsibility
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
IB	Inclusive Business
IBAN	Inclusive Business Action Network
IBM	Inclusive Business Model
ICT	Information and Communication Technology
IDP	Integrated Development Plan
NDP	National Development Plan
NGO	Non-Governmental Organisation
NPO	Non-Profit Organisation
SMEs	Small and Medium Enterprises
SMMEs	Small, Micro, and Medium Enterprises
TVET	Technical Vocational Education and Training

Executive summary

With a GDP of US\$ 350.1 billion and a per capita income of US\$ 6,482, South Africa is classified as an upper middle income country. Yet, due to the dual nature of the country's economy, many socio-economic aspects remain severely under-developed.

A high rate of unemployment and extreme inequality are major hurdles to sustainable growth. In recent years, the government has introduced a number of policies to kick-start job creation and enterprise development. The Broad-Based Black Economic Empowerment (BBBEE) initiative has been the most talked about as a means to stimulate the growth of black-owned enterprises. However, since its inception in the nineties, the BBBEE has failed to really correct the inequality which it was conceived to address. It has, however, seen a number of amendments in recent years including an increased emphasis on enterprise and supplier development that policy makers hope will promote more inclusive growth.

Despite somewhat ineffective policies, there is an emerging buzz around entrepreneurship in South Africa. Furthermore, while large South African companies have historically focused on corporate social responsibility (CSR) initiatives rather than integrating a base of the pyramid (BoP) approach into their core business, the concept of 'inclusive business' is beginning to find its place.

This study explores the emergence and the potential for further development of inclusive business in South Africa. Through interviews with companies implementing inclusive business models and a range of private and public organisations supporting the development of small and medium enterprises (SME), the study maps the existing inclusive business models in the country. It also explores the eco-system that exists to support the development of these models. The existing models are clustered under seven priority sectors and discussed according to their type of engagement with the BoP i.e. as suppliers, consumers, entrepreneurs and/or employees.

The inclusive business landscape is more mature in South Africa than in the other countries studied in the IBAN series so far. Compared to the other countries, it has the highest number of models across sectors as well as a high number of organisations that support the further development of SMEs and inclusive business. A buzzing eco-system of incubators, challenge funds and other private and public players has emerged. It is not evident, though, that this ecosystem works cohesively for the promotion of inclusive business. More needs to be done to bring these players together to work effectively.

The study brings to light some other key findings.

- Retail and consumer goods, skills and education, financial services and information and communication technology (ICT) are the sectors with the most untapped inclusive business potential in the country;
- Persistent infrastructure challenges hamper the development of inclusive business models particularly in the energy and tourism sectors;
- There is still insufficient understanding of low-income individuals and their potential roles along the value chain.



1. Introduction

The dualistic nature of the South African economy – in which well capitalised, globally integrated businesses co-exist with large numbers of poorly skilled, informally employed and economically dislocated communities – is well documented. A stark and enduring legacy of apartheid, this significant challenge in the South African economy simultaneously offers a major opportunity for its resolution. Long-term growth is the only sustainable basis for poverty reduction, and growth of this nature can only be driven sustainably by the private sector.

With a large proportion of the South African population still living below the poverty line, there are tremendous opportunities for business at the BoP. Companies are increasingly developing products and services specifically catering to low-income people not just to take advantage of the growth opportunities but to also have a positive social impact and improve people's lives. The South African government and other organisations have begun to recognise the importance of these inclusive businesses and there is a growing eco-system to help support the development of more.

1.1. Objectives of this report

This report maps the developing inclusive business landscape in South Africa. The main objectives of the report are to:

- Briefly describe the socio-economic and political context in South Africa to understand the framework within which inclusive business has to operate;
- Identify and map companies in South Africa with inclusive business models (IBMs) in order to better understand the different types of companies, the differences in IBMs across sectors, and the nature of their business models;

- Identify and map organisations/intermediaries that support the inclusive business environment in South Africa to understand the nature of this support, the services offered, and the role played in encouraging inclusive businesses.

1.2. Research methodology

It is important to note that this document is based largely on secondary research and, as such, is a high level mapping of the landscape. There are likely to be further inclusive businesses and models not identified in this research which will emerge with more in-depth engagement with the environment. Appendix 1 provides details of the research methodology that was used to produce this report.

Figure 1:

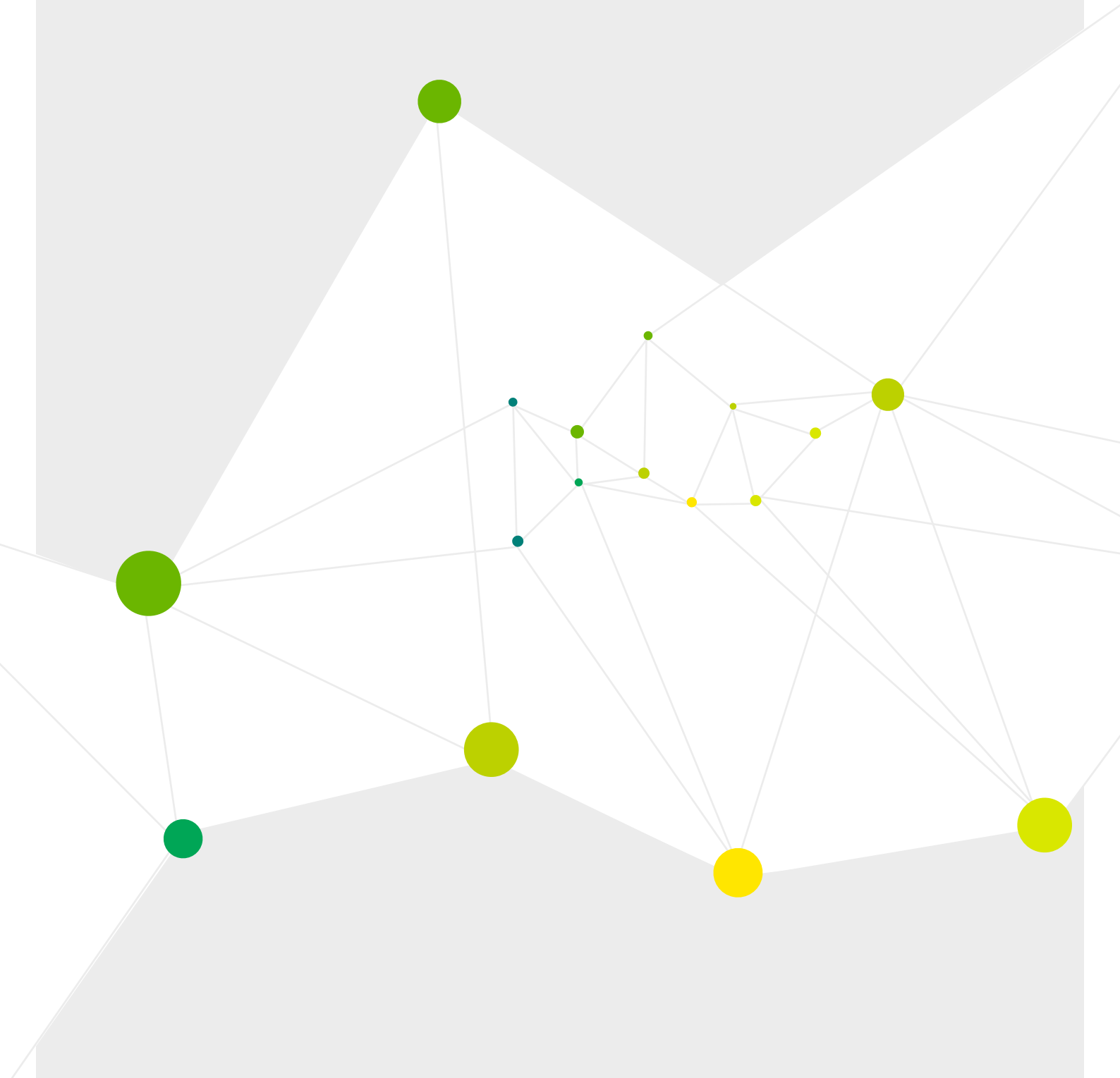
What is inclusive business?

“Inclusive business models are commercially viable and replicable business models that include low-income consumers, retailers, suppliers, or distributors in core operations.

By adopting the models, companies build the capacity of low-income businesses and entrepreneurs; increase access to finance for businesses and consumers; create or adapt products to meet local needs and requirements; and develop innovative distribution approaches to hard-to-reach communities. Far from philanthropy-driven, these business models can be part of a successful long-term growth strategy that creates new market-based opportunities, eliminates market inefficiencies, solidifies supply chains, and builds future brand loyalty (IFC, 2014).¹

¹ Cf. International Finance Corporation: Inclusive Business at the IFC, http://www.ifc.org/wps/wcm/connect/f669250043e-7497caa4aba869243d457/Inclusive+Business+Models+Group_Fact+Sheet_External.pdf?MOD=AJPERES, accessed 16 July 2015

Country context



2. Country context

With the changing interface between rural and urban (both formal and informal) sectors, the dualistic South African economy is clearly evident in the country's social and economic indicators. Some of these reflect highly developed aspects of the South African economy while others illustrate the social impact of the challenges facing the country, including exclusion, poverty, under-development, and the persistence of these issues.²

This duality is shown in Table 1.

Two factors are critical to understanding the socio-economic status of South Africa today:

- An extreme level of youth unemployment; and
- The knock-on effects of a dual economy: high levels of inequality in terms of incomes and asset ownership, high rates of rural-urban migration, infrastructure gaps and the rapid growth of an informal sector.

2.1. Research methodology

Youth unemployment is a global challenge which is particularly evident in the South African labour market. The National Development Plan (NDP) highlights concerns surrounding a 'youth bulge' in the South African economy, while recent Stats SA data indicates that youth³ unemployment in 2014 is currently at 36.1 per cent⁴ – significantly higher than the adult unemployment rate of 24.9 per cent.

Table 1: 2014 country statistics⁵

Population:

Size → 54 million

Growth → 1.58% p.a.

GDP:

Annual → 350.1bn US\$

Growth rate → 1.5% (constant local currency)

Per capita → 6,482.8 US\$

Income level → Upper middle income

Gini Coefficient → 63.4 (2011) 2nd worst poverty levels in the world, only Namibia is more unequal than South Africa.

Poverty headcount ratio

at national poverty lines → 53.8% (2010)

Because of the mismatch between job requirements and skill availability, unemployment is often described as a structural problem⁶ which has persisted in both pre- and post-apartheid labour markets.

Driven by ambitions and a large income differential, the post-apartheid years have seen significant numbers of rural-urban migrants. The urban formal sector economy is not able to absorb the numbers of largely unskilled South Africans, something that has been exacerbated by inadequate urban planning for the influx.

Furthermore, while informality has bred innovation to some extent, the lack of infrastructure and access to formal sector markets have led to a steady increase in the population of the unemployed poor, and the proliferation of informal settlements.

² Cf. North, D. (2007): Limited Access Orders in the Developing World: A New Approach to the Problems of Development, <http://www.gsdr.org/document-library/limited-access-orders-in-the-developing-world-a-new-approach-to-the-problems-of-development/>, accessed 18 April 2016.

He describes under-development as a "limited access order", whereby the lack of market access and the continued exclusion from such access, creates a monopoly on economic rents and further fuels the inequality within a dualistic economy such as South Africa.

³ 'Youth' are defined as the age group 15-34.

⁴ Cf. Stats SA (2014): National and provincial labour market: Youth, <http://www.statssa.gov.za/publications/P02114.2/P02114.22014.pdf>, accessed 16 July 2015

⁵ Cf. The World Bank: Data: South Africa, <http://data.worldbank.org/country/south-africa>, accessed 8 April 2016

⁶ Cf. Yu, D. (2012): Youths in the South African Labour Market since the transition: A study of changes between 1995 and 2011, p.2, www.ekon.sun.ac.za/wpapers/2012/wp182012/wp-18-2012.pdf, accessed 18 April 2016

2.2. Business environment

South Africa's well regulated, accessible, and developed financial services sector and strong market infrastructure encourages foreign direct investment (FDI) flows into the country; however, weak growth, increased regulatory intervention associated with the government's commitment to a 'developmental state', and an uncertain policy environment with respect to a market-based, private sector-led growth path have undermined South Africa's attractiveness as an investment destination – for both local and international investors.

In South Africa, the drive for job creation – a clear focus of the South African government – needs, critically, to be combined with skills development to ensure the increased (and meaningful) participation of previously-disadvantaged South Africans in the workforce.

In addition to skills, infrastructure remains one of the central inhibiting factors within the South African business environment with poor electricity supply and limited transportation networks, particularly to the 'last mile', hindering growth.

2.3. Policy and regulatory environment

There are many South African policies, laws, and regulations that have an impact on the inclusive business eco-system in the country. The most important of these for inclusive businesses is the legislation related to Broad-based Black Economic Empowerment (BBBEE). BBBEE is unique to the South African context, and through its implementation, the South African economy has seen the encouragement and growth of inclusive businesses. This has been further encouraged by the positive supporting role played by various "partnerships with other stakeholders including communities, government, NGOs and other business entities"⁷

13th most attractive global destination for FDI and the highest ranked African country in the AT Kearney FDI Confidence Index 2014.

- *Ranked 41st out of 189 countries in the World Bank's Ease of Doing Business indicator 2014.*
- *Rated 56th out of 144 countries by the World Economic Forum's Global Competitiveness Index for 2014.*⁸

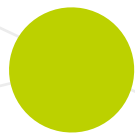
⁷ Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, p.124, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

⁸ Cf. AT Kearney (2014): Foreign Direct Investment Confidence Index – Ready for Takeoff, p.20, <http://www.atkearney.de/documents/856314/4582949/Ready+for+Takeoff+-+FDICI+2014.pdf/267d1c7b-8ba8-4c46-a9a8-480d19eb45af>, accessed 16 July 2015

Cf. The World Bank Group (2014): Doing Business 2014 – Understanding Regulations for Small and Medium-Size Enterprises, p.3, <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/DocDocume/Annual-Reports/English/DB14-Full-Report.pdf>, accessed 16 July 2015

Cf. Schwab, K. (2014): World Economic Forum: The Global Competitiveness Report 2014-2015, p.13, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf, accessed 16 July 2015

Emergence of inclusive business in South Africa



3. Emergence of inclusive business in South Africa

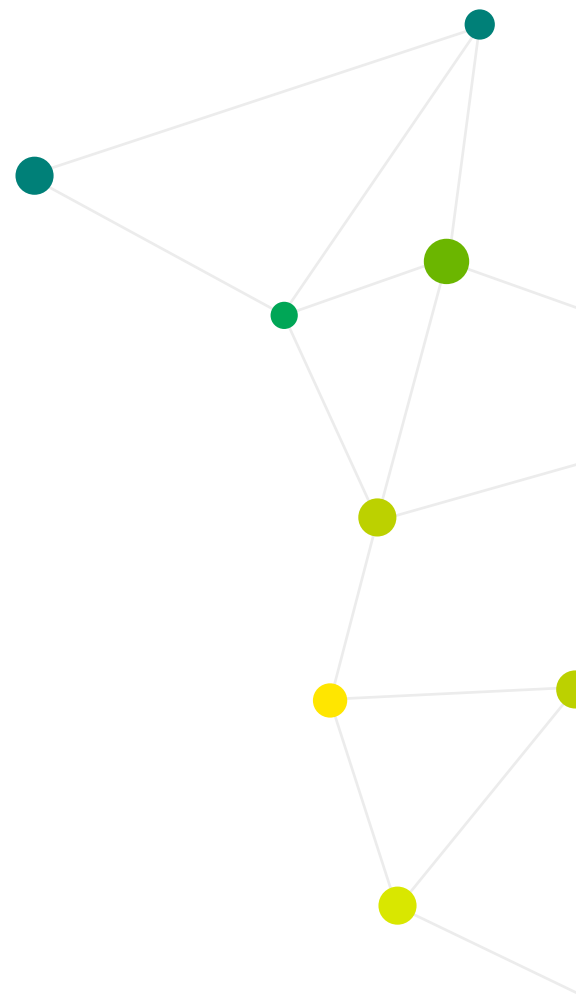
Historically, South African companies have tended to organise their efforts to address poverty in terms of corporate social responsibility (CSR) initiatives which are essentially de-linked from the corporate donor's core business. Global and national experience clearly indicates that, regardless of the merits of specific CSR initiatives, companies' core business activities are far more likely to have a sustainable effect on poverty reduction than CSR projects designed to address specific external development challenges. The challenge thus lies in South African businesses becoming more effective in developing and diversifying their value chains and markets to include enterprises and individuals historically excluded from them. While the organised formal private sector in South Africa increasingly understands this vision and aspires to its fulfilment, a number of challenges exist that have slowed progress.

- A difficult and uncertain investment climate in poor or 'thin' (remote rural and urban 'township') markets, leading to greater costs and risks of doing business there. This is related to a variety of structural factors, including communal land tenure systems, the absence (generally) of secure property rights, and the weak or inconsistent application of the rule of law.
- A lack of competitive pressure. The South African formal economy is highly concentrated in almost all sectors and firms are typically content to serve established, low-risk market segments. Until relatively recently, companies experienced little market pressure to seek new market opportunities.
- Poor information. Information on BoP remains somewhat weak creating uncertainty and risk, and preventing firms from pursuing opportunities in poor and undeveloped market segments.
- Historical mistrust. In certain parts of South Africa consumers have reportedly retained "an element of distrust[...] towards untried and untested brands, along with disdain of certain companies."⁹ Although this has eased significantly with time, a high level of brand awareness and loyalty persists among low-income consumers in the country.
- Charter- and BBBEE-driven compliance around nationally-regulated enterprise and socio-economic development and 'transformation' objectives. Such regulatory interventions have driven a great deal of activity within the private sector aimed at diversifying corporate ownership and sources of supply and recruitment. While results are mixed, this has contributed to a growing fatigue and inertia in corporate South Africa with regard to the search for, or adoption of, yet more 'innovative approaches and models' aimed at enhancing the pro-poor impact of business.

⁹ Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, p.122, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

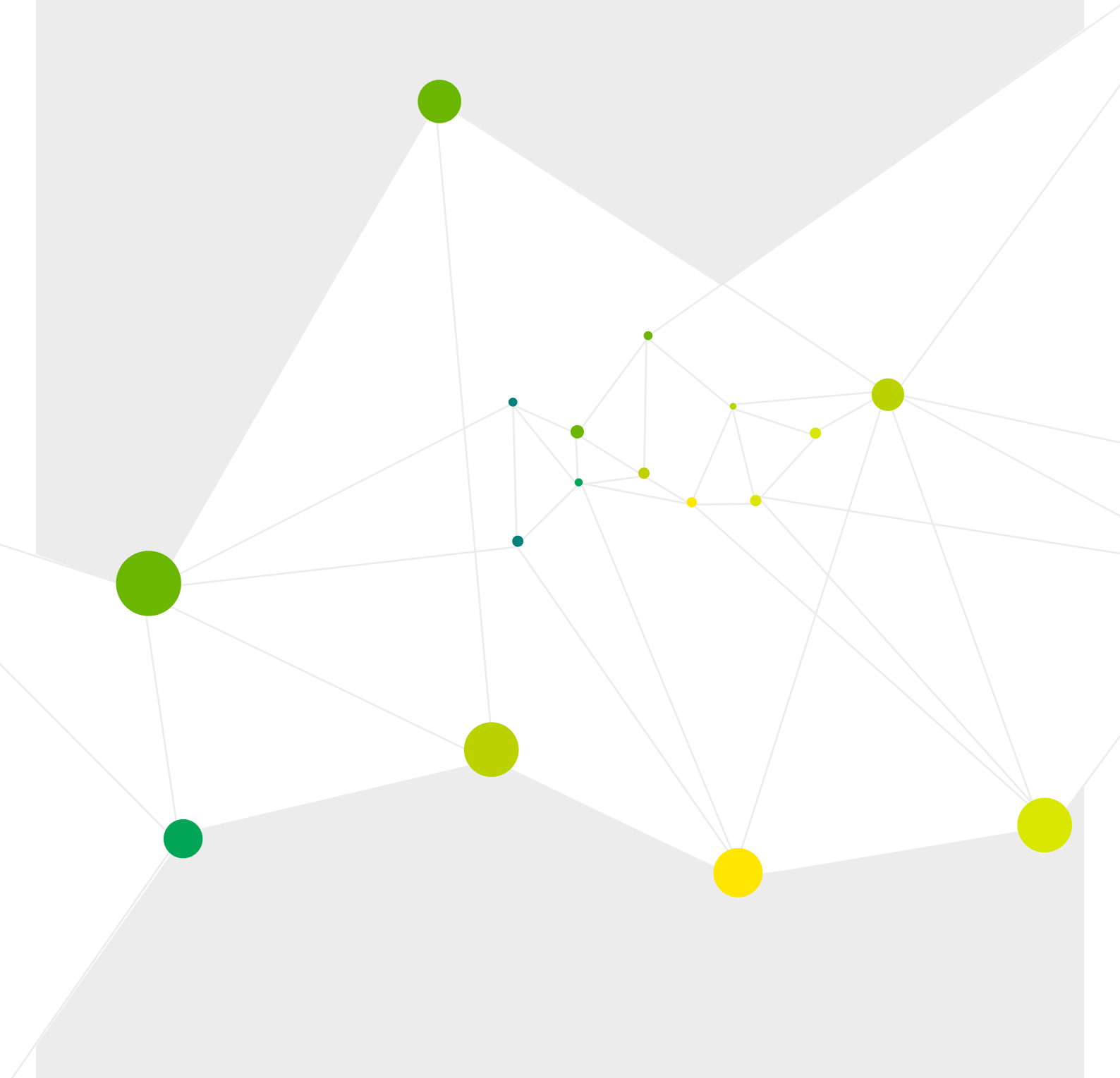
Despite these obstacles, many companies in South Africa, across multiple sectors, “have begun to integrate inclusive business models (or aspects thereof) in their day-to-day business”.¹⁰ In certain cases, however, this has been less deliberate than in others: many companies sell products to low-income consumers or employ low-income individuals as part of their ‘business as usual’ approach. These companies are – in theory – making use of inclusive business models, though more as a means of maximising profitability in the

South African environment than as a focused attempt at inclusivity. A good historical example is South Africa’s mining industry which relies heavily on low-skilled, low-income labour but would not necessarily be considered to be consciously ‘inclusive’ because of that fact. There are, however, numerous examples of companies that have deliberately adopted inclusive business models in South Africa and these will be discussed in the following section. The following section takes a close look at existing inclusive business models in South Africa.



¹⁰ Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, p.123, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

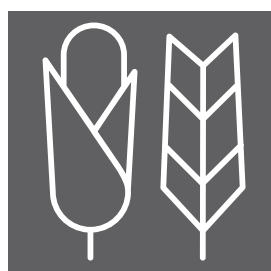
Existing inclusive business models



4. Existing inclusive business models

Companies are developing innovative models to engage low-income individuals in their business operations either as consumers that actually buy their product or service, or as suppliers, employees, entrepreneurs, retailers and distributors in their supply chain. This section explores the models being used by these companies in priority sectors, describing the type of engagement with the BoP and specific examples where this engagement is taking place. Priority sectors have been chosen based on inclusive businesses identified during stakeholder mapping, an assessment of sectors with scope for pro-poor linkages, and sector priorities as identified in existing inclusive business studies. Seven priority sectors have been identified for the purpose of this report.

Each of these is discussed in further detail below, with reference to selected examples of inclusive business models in each sector. It is important to note that these are not the only sectors with interesting inclusive business models, merely those that we feel are most appropriate for this report. For example, RTT's 'Unjani Clinics' is a well-documented inclusive business model in the health sector (a sector which has also been identified as having potential in South Africa¹¹) and the manufacturing and textile sectors have also been proposed as sectors with potential,¹² along with several others.



Agriculture



Tourism



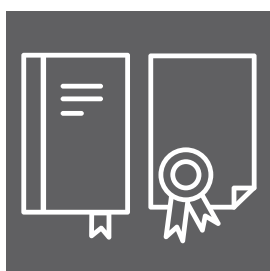
ICT



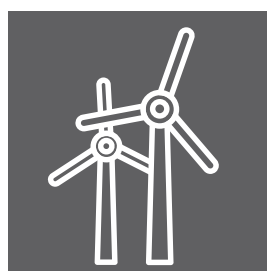
Retail/consumer goods



Financial service and insurance



Skills and education






Energy


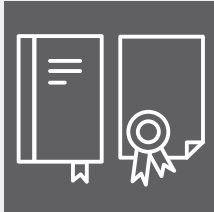
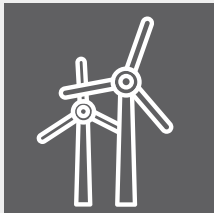
Table 2 below gives an overview of the inclusive business examples discussed in this section. The businesses have been distinguished by sector and by the type of BoP engagement i.e. whether they engage low-income individuals as consumers that actually buy their product or service, or as suppliers, employees, entrepreneurs, retailers and distributors in their supply chain.

¹¹ Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, p.121, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

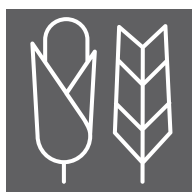
¹² Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, p.124, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

Table 2: Inclusive business examples in South Africa

	Suppliers/ Producers	Employees/ Entrepreneurs	Retailers/ Distributors	Consumers/ Clients
Agriculture 	Woolworths, Unilever Premier Foods Illovo Sugar Tongaat Hulett TSB Sugar Mondi Ltd SAPPI	Lima, Tongaat Hulett Backsberg Wines		
Tourism 	Township, Essay Gifts Hand-in-Hand Tsogo Sun & Beyond Wilderness Safari	Vamos, Open Africa Soweto Township Tours The Victoria Manor hotel Karoo Kuzuko Mongena Game Lodge		
ICT 			GSMA, Cell Vodacom	MTN, Flash SharedPhone Momconnect Flash Cow Mxit FNB' eWallet Vodacom M-Pesa
Retail/ consumer goods 	Spar, The Body Shop The Township Pattern Woolworths Massmart Pick n' Pay Shoprite Spar	Thandi	SAB Miller Danone Coca-Cola Entyce	Pick n Pay

	Suppliers/ Producers	Employees/ Entrepreneurs	Retailers/ Distributors	Consumers/ Clients
Finance 	<i>Rio Tinto</i> <i>Illovo</i> <i>Anglo and Mondi</i> <i>Zimele</i> <i>Anglo Platinum</i> <i>Sasol</i>		<i>FNB</i> <i>Standard Bank</i>	<i>Sanlam, Paycorp,</i> <i>Akwandze Fund</i> <i>LIMA Rural</i> <i>Development</i> <i>Foundation NPC</i> <i>Nedbank</i> <i>ABSA</i> <i>Rand Merchant</i> <i>Bank Sanlam</i> <i>AllLife</i> <i>The Community</i> <i>Development Trust</i> <i>and Kuyasa Fund</i> <i>SACCOL</i> <i>The Township</i> <i>Project</i> <i>The Women's</i> <i>Development Bank</i>
Skills & education 		<i>Redcap Foundation,</i> <i>Medipost</i> <i>Harambee</i> <i>EOH</i>		<i>Silulo</i> <i>Eduloan</i> <i>Jeppe College of</i> <i>Commerce and</i> <i>Computer Studies,</i> <i>DT Nursing</i> <i>Institute, Silulu</i> <i>Ulutho Techno-</i> <i>logies, Edu-fix</i> <i>Central Business</i> <i>Academy</i>
Energy 	<i>Eskom</i> <i>edf energy</i>			<i>Toyola Energy</i> <i>Limited, Restio</i> <i>Energy</i> <i>Triple Trust</i> <i>Organisation</i> <i>Specialised Solar</i> <i>Systems</i> <i>Kuyasa</i>

4.1. Agriculture



Agriculture is a relatively small sector in the South African economy, contributing only three per cent to GDP¹³, however, according to the 2011 Stast SA Census 19,9%

of households reported agricultural activity¹⁴.

Given the nature of agricultural activities, a large number of unskilled individuals from rural areas are absorbed into the value chain. The 2011 Stats SA Census confirms that there is a prominence of smallholder and subsistence farming over commercial farming activities for most agricultural households. There is an alignment of agricultural production to the more rural provinces – Eastern Cape, Kwazulu-Natal, Limpopo, and the Northern Cape. Rural households in these areas have limited market opportunities as well as poor extension support and social service delivery.

These findings clearly illustrate that the low-income group is already entrenched within the agricultural sector, whether as workers or as semi-subsistence/smallholder/emerging farmers. Therefore an expansion of normal agricultural activities could potentially have a significant impact on low-income consumers. Additionally, South African agriculture has a number of strengths which could be leveraged to improve future performance and help increase this impact:

- The climate and topography are diverse.
- Local content and domestic production is well supported, for example by the Proudly South African campaign¹⁵; the Johannesburg Declaration on Engaging the Private Sector in Furthering Africa's Agri-business, Food Security, and Nutrition Agenda; and the Local Procurement Accord.
- Internationally, South African niche markets (such as ostrich products) are gaining in prominence.

- The cost competitiveness of established commercial agriculture offers growth opportunities in relation to export markets, which are particularly relevant for South Africa's fruit and wine sectors. For sugar farmers, the planned drop in EU trade restrictions, will likely lead to significant opportunities in sugar exports.
- Inclusive businesses within the agriculture and agro-food¹⁶ sectors are looking to source from low-income individuals and there are a large number of subsistence/smallholder farmers who are not currently operating in the formal market and are available in this regard.

Engaging low-income individuals as suppliers

Integration of low-income suppliers and producers is currently the most important means by which inclusive businesses operate in agriculture in South Africa. Low-income suppliers either provide final agricultural goods or facilitate agricultural inputs which will be utilised in the production of other goods, for example fertiliser, seedlings, and grapes for wine production. There are three main categories of inclusive business models in South African agriculture:

An agricultural aggregator model as used by Premier Foods¹⁷ and Unilever¹⁸: Aggregators collect crops from a large number of low-income farmers to supply a commercial business. They are able to spread their supply risk by sourcing from multiple suppliers and can thereby create a relatively stable supply, though quality control can simultaneously become more challenging. To help address this and facilitate smallholder suppliers' increased productivity, cost-effectiveness and production volumes¹⁹, aggregators often also provide 'embedded' assistance in the form of seed, advice, and credit.

¹³ Cf. Stats SA (2013): Gross Domestic Product Report, Third Quarter 2013, p.4, <http://www.statssa.gov.za/publications/P0441/P04413rdQuarter2013.pdf>, accessed 16 June 2015

¹⁴ Cf. Stats SA (2011): Census 2011 - Agricultural households, p.2, http://www.statssa.gov.za/census/census_2011/census_products/Agricultural_Households.pdf, accessed 12 April 2016

¹⁵ Cf. Proudly South African: <http://www.proudlysa.co.za/>, accessed 16 June 2015

¹⁶ Within agriculture in South Africa, Animals and Field Crops contribute most to overall commercial agricultural production; these two activities help ensure national food security and will, for our purposes, be referred to as 'agro-food'.

¹⁷ Cf. UNDP (2012): The roles and opportunities for the private sector in Africa's agro-food Industry, <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/Market%20Study.pdf>, accessed 16 June 2015

¹⁸ Cf. Unilever: <https://www.unilever.com/>, accessed 16 June 2015

¹⁹ Cf. Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, <http://web.mit.edu/idi/idi/Africa-%20PromiseAnd-Progress-MIM.pdf>, accessed 16 July 2015

Case Study 1:

Tongaat Hulett Sugar – value creation for all stakeholders

“Value creation for all stakeholders through an all-inclusive approach to growth and development”²⁰

In securing sugar cane supply, Tongaat Hulett Sugar follows a deep procurement process which enables the development of local, low-income sugar cane farmers. Deep procurement eliminates the middle man, thus the relationship is between Tongaat Hulett and the farmer, their 2014 annual report indicates 70 sugar cane agreements in that year.

An important project to achieve deep procurement objectives is the ‘Local Procurement and Enterprise Development Project’. This project grants local suppliers preferential access to Tongaat Hulett’s supply chain; and provides procurement guidelines to maximise developmental impact for local communities.

Contract farming or out grower schemes such as those used by Illovo Sugar²¹, Tongaat Hulett²², TSB Sugar²³, Mondi Ltd²⁴, and SAPPI²⁵ (forestry) to source products directly from low-income producers: This relationship is based on a formal agreement between farmers and the business entity, including quality, quantity, price, and delivery date requirements. It is common in these arrangements for a range of embedded services, including credit, to be provided. These serve to assist in improving the quality, productivity and reliability of the final product. This model is now being exported across Southern Africa – reportedly with success – by experienced proponents such as Tongaat Hulett²⁶.

Farmworker equity-sharing and Community-Public-Private Partnerships (CPPPs): Arising from the poor performance and sustainability of land transferred under land redistribution and restitu-

tion programmes, partnership-based models for land reform began to be explored in the late 1990s. A variety of models have emerged, essentially amounting to risk-sharing partnerships between private land owners and investors on the one hand, and worker households and communities who own or have acquired high potential land under the land reform programme.

A substantial track record of experience has been accumulated reflecting mixed results. However, highly successful, global best practice examples of equity-sharing partnerships proliferate in the Western Cape (see Thandi Wines²⁷ and Backsberg Wines²⁸, as examples). The Vumelana Advisory Fund²⁹ exists explicitly to facilitate partnership-based deals around land, and is an important reference point and interlocutor for inclusive business issues and opportunities in the land sector.

²⁰ Cf. Tongaat Hulett (2014): Integrated Annual Report 2014, http://www.tongaat.co.za/imc/annual_reports/ar_2014/downloads/ar_2014.pdf, accessed 12 April 2016

²¹ Cf. Illovo Sugar: <https://www.illovosugar.co.za/home>, accessed 16 June 2015

²² Cf. Tongaat Hulett: <http://www.hulett.co.za/>, accessed 16 June 2015

²³ Cf. TSB sugar: <http://www.tsb.co.za/>, accessed 16 June 2015

²⁴ Cf. UNDP (2013): Realizing Africa’s Wealth, <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP%20AFIM%20Realizing%20Africas%20Wealth.pdf>, accessed 16 June 2015

²⁵ Cf. SAPPI: <http://www.sappi.com/regions/eu/Pages/default.aspx>, accessed 16 June 2015

²⁶ Cf. Tongaat Hulett: Zimbabwe Overview, <http://www.hulett.co.za/ops/zimbabwe.asp>, accessed 12 April 2016

²⁷ Cf. Thandi Wines: <http://www.thandiwines.com/>, accessed 14 May 2015

²⁸ Cf. Backsberg: <http://backsberg.co.za/wine-range/>, accessed 14 May 2015

²⁹ Cf. Vumelana: <http://www.vumelana.org.za/>, accessed 14 May 2015

Large corporates such as **Woolworths**³⁰, **Massmart**³¹, **Pick 'n Pay**³² and **Shoprite**³³ have recently started to incorporate more inclusivity into their supply chain using various versions of the above models. For example, **Woolworths** – through their ‘**Good Business Journey**’³⁴ project – engages in contract farming with low-income agro-food suppliers; **Shoprite** and **Spar**³⁵ follow a similar model; and **Massmart** has been active through their ‘**Direct Farm**’ programme, which identifies SMME farmers and assists them in increasing the quality and stability of their fresh produce.

Engaging low-income individuals as employees and entrepreneurs

Contract farming and out grower schemes also engage low-income people as employees and entrepreneurs. For example, the contracted relationship between companies such as **Illovo Sugar**, **Tongaat Hulett**, **SAPPI** and **Mondi Ltd** and low-income individuals essentially means that the latter are employed by the relevant companies. A major incentive for smallholder farmers to enter into such arrangements is the assistance provided, as described above. Additional access to products such as micro-credit (for example the **Akwandze Fund**³⁶), crop insurance, and assistance in extension services and obtaining inputs (for example, **LIMA Rural Development Foundation NPC**³⁷) can further encourage their participation in similar models.

As such, most large farming operations engage low-income individuals as employees as part of their normal operations. However, some innovative companies – two (of many) good examples being **Thandi Wines** and **Backsberg Wines** – have extended shareholding and ownership agreements of various kinds to their employees. This approach has significant potential in South Africa as it helps

to overcome the affordability constraint faced by many aspirant farmers, to meet regulatory and legislative requirements (notably those relating to **BBBEE**), and ensures capital investment, skills transfer and the increased sustainability of the **CPPP** businesses, while providing reliable cash-flows and socio-economic improvements for employees, community partners and their dependents.

Key challenges for inclusive-agribusiness

Despite the significant potential of the agricultural and agro-food industries, they are subject to a number of challenges. In particular:

- **Climate change** could have a significant impact on agricultural production, resulting in volatile inputs and unpredictable crop yields.
- **Increasing rural-urban migration** has reduced the number of young, active and able-bodied agricultural workers, resulting in a smaller labour pool.
- **Low-income farmers are also relatively dispersed across large regions with limited infrastructure.** This creates transportation challenges and often places smallholders at the mercy of middle-men and farm-gate brokers.³⁸
- **Quality control and quantity consistency,** when sourcing from multiple suppliers can be a challenge for large companies. In addition, the common lack of small supplier access to communication infrastructure, formal record-keeping, storage facilities, and other logistics can be problematic.³⁹
- **South Africa’s land reform policy,** which targets the redistribution of land to those historically dispossessed, has created uncertainty around land rights and ownership.

³⁰ Cf. Woolworths: <http://www.woolworths.co.za/>, accessed 14 May 2015

³¹ Cf. Massmart (2013): Massmart’s Supplier Development Fund initiative, Ezemvelo, rolls out to four provinces, <http://www.massmart.co.za/press/massmarts-supplier-development-fund-initiative-ezemvelo-rolls-four-provinces/>, accessed 16 June 2015

³² Cf. Pick 'n Pay: <http://www.picknpay.co.za/home>, accessed 14 May 2015

³³ Cf. UNDP (2013): Realizing Africa’s Wealth, <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP%20AFIM%20Realizing%20Africas%20Wealth.pdf>, accessed 16 June 2015

³⁴ Cf. Woolworths Holdings Limited (2015): 2015 Good Business Journey Report, http://www.woolworthsholdings.co.za/investor/annual_reports/ar2015/whl_2015_gbj.pdf, accessed 12 April 2016

³⁵ Cf. Spar: <https://www.spar.co.za/Home>, accessed 14 May 2015

³⁶ Cf. Akwandze Fund: <http://www.companies-southafrica.com/khula-akwandze-fund-ksn7/>, accessed 14 May 2015

³⁷ Cf. Lima Rural Development Foundation NPC: <http://www.lima.org.za/>, accessed 14 May 2015

³⁸ Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, <http://web.mit.edu/idi/idi/Africa-%20PromiseAnd-Progress-MIM.pdf>, accessed 16 July 2015

³⁹ Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, p.155, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

4.2. Tourism



In 2013, South Africa received over ten million foreign visitors, a year-on-year growth rate of 10.5 per cent.⁴⁰ This positive growth suggests that there is significant potential for inclusive businesses in tourism, and many successful inclusive business models already exist across the country.⁴¹ However, there is additional potential for inclusive business development for two key reasons:

- **Many of South Africa's most well-known tourist destinations are located in rural and remote areas.** This lends itself naturally to the inclusion of the large concentrations of low-income people in the surrounding communities into the value chain, and creates the ability to influence socio-economic conditions in rural areas.⁴²
- **Growth within tourism is a government-driven policy objective.** In the **National Development Plan (NDP)**, tourism is identified as one of the sectors with the potential ability to stimulate the inclusion of rural economies in certain areas.⁴³

Key challenges for inclusive tourism

- **Lack of required skills.** A number of employment opportunities in the sector require a certain level of skill such as rangers, chefs, hotel managers. The skills level of the low-income segment often does not align with these types of technical abilities, creating an overwhelming need for more training programmes to bridge the skills gap.⁴⁴
- **Limited infrastructure within the rural areas⁴⁵** makes setting up a tourist venture in these

regions more costly and therefore less likely than an enterprise in a more urban environment. Poor infrastructure has an impact on transportation and logistics capabilities, thus limiting low-income suppliers who do not have the ability to deal with these issues. However, it may also simultaneously create opportunities for enterprising individuals able to address some of these supply challenges for tourism businesses.

Seasonality in tourism has a large bearing on the potential for new inclusive businesses. Inconsistency in annual revenue could deter market entrants and discourage low-income employees/suppliers in the sector who can ill afford inconsistent income.

Engaging low-income individuals as suppliers

Of the tourism and hospitality occurring within South Africa's rural regions, there is a natural affinity for the inclusion of low-income suppliers so as to decrease transport costs. A hospitality venture will generally rely on local suppliers mainly for fresh produce, and the relationship between these two players most commonly mirrors those models discussed in the agricultural section above – contract farming and the aggregator model. Other tourism initiatives engage low-income individuals as entrepreneurs with the intent of turning them into suppliers of tourism-related services. For example, the **Hand-in-Hand Southern Africa Foundation⁴⁶** facilitates entrepreneurship within the informal sector and aims to move a low-income individual from the position of employee within a tourist venture to fulfil the role of standalone supplier.

⁴⁰ Cf. SouthAfrica.info (2014): SA tourist arrivals approach 10-million mark, http://www.southafrica.info/travel/tourists-290514.htm#.VG2NJ_mUdqU, accessed 16 June 2015

⁴¹ This is in contrast to a recent UNDP study, which found that only 12 of the 400 inclusive businesses surveyed in sub-Saharan Africa were in the tourism sector: Cf. UNDP (2013): Realizing Africa's Wealth, <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP%20AFIM%20Realizing%20Africas%20Wealth.pdf>, accessed 16 June 2015

⁴² It is important to note that not all tourist activities are based in rural areas; in fact, the majority of companies operate within the urban areas, with the city of Cape Town receiving the largest number of tourists in the country.

⁴³ Cf. National Planning Commission (2008): National Development Plan: Our future – make it work, p.33,53, <http://www.gov.za/sites/www.gov.za/files/Executive%20Summary-NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf>, accessed 16 June 2015

⁴⁴ The established hospitality brands are investing heavily in SME-linkage and training initiatives (whether as part of their CSR or as a product diversification and development strategy), and the established success of the CPPP inclusive business model in eco-tourism offers an important platform for effectively overcoming these constraints.

⁴⁵ Although rural infrastructure is better than in multiple other developing countries, it remains a problem in many areas.

⁴⁶ Cf. Hand-in-Hand Southern Africa Foundation: <http://www.handinhandinternational.org/results/southern-africa/>, accessed 14 May 2015

Similarly, **Tsogo Sun**, through their SunCares programme, created the inclusive business ‘book-a-guest-house’⁴⁷, with guesthouses located in both urban and rural areas. This initiative creates a platform for young, small – and generally black female-owned (representing 92 per cent) – owners of guesthouses to market to a wide audience through the trusted **Tsogo Sun** brand and additionally provides them with access to a three-year development programme, run by **Tsogo Sun**. A notable extension of the tourism industry in South Africa is the supply of arts and crafts, where aggregator models are often applied. The **Township Pattern**⁴⁸, for example, is an inclusive business which aggregates arts and crafts sourced from a number of low-income producers to sell to larger businesses. **Essay Gifts**⁴⁹ aggregates products that are designed by low-income suppliers and sold through the company; however, the products in this case are not entirely tourist-focused.

Engaging low-income individuals as employees and entrepreneurs

There is no standard model for low-income employee integration in tourism, with each venture looking to meet their specific skills, local knowledge, and experience needs. In general, a significant advantage for low-income workers seeking employment is their geographical proximity to the tourist venture, especially in more remote parts of the country. A number of hotels, lodges, hostels and bed and breakfasts seek to employ local individuals in their operations both in the rural and urban areas. The **Victoria Manor Hotel**⁵⁰ in Cradock and the **Tsogo Sun** hotel chains have been particularly active in providing employment together with skills development and training for low-income workers.

Case Study 2:

Soweto Township Tours⁵¹

Township tours are a unique feature of the South African tourism sector; linking cities to informal settlements, this innovative model embraces the duality of the South African economy. Soweto Township Tours offers domestic and international tourists a glimpse into the Soweto through tours such as:

Home visits: tourists gain cultural insight into lifestyles while low-income individuals are provided with employment.

Soweto day tours: employing local tour guides, and injecting cash into the community through tourist attraction visits.

Soweto evening tours: employing local entertainers and tour guides.

In certain situations, the employment opportunities generated within the tourism industry require a higher level of skill; something that low-income individuals are not immediately able to provide. The **Southern African Wildlife College (SAWC)**⁵² and other development programmes assist in filling the skills gap by providing training to local low-income individuals and ultimately placing them as employees within a tourist venture. In the case of **SAWC**, the focus is on training field rangers for employment at the Kruger National Park and surrounding private game reserves and lodges. Lodge farms are also relatively important players in this area. Combining wildlife observation, hunting excursions or natural landscape attractions with accommodation in the more rural and remote areas, these lodge farms employ low-income workers from the surrounding rural community to work as lodge managers, caterers, cleaners, and tour guides (**Karoo Kuzuko**⁵³, **Mongena Game Lodge**⁵⁴),⁵⁵

⁴⁷ Cf. Book a Guesthouse: <http://www.bookaguesthouse.co.za/>, accessed 14 May 2015

⁴⁸ Cf. The Township Pattern: <http://township.co.za/>, accessed 14 May 2015

⁴⁹ Cf. Essay Gifts: <http://www.essaygifts.co.za/index.php>, accessed 14 May 2015

⁵⁰ Cf. Die Tuishuise & Victoria Manor: <http://www.tuishuise.co.za/>, accessed 14 May 2015

⁵¹ Cf. Township Travel: <http://www.sowetotownshiptours.com/>, accessed 14 May 2015

⁵² Cf. Southern African Wildlife College: <http://www.wildlifecollege.org.za/>, accessed 14 May 2015

⁵³ Cf. Legacy & Kuzoko: <http://www.legacyhotels.co.za/en/hotels/kuzuko>, accessed 14 May 2015

⁵⁴ Cf. Mongena: <http://www.mongena.co.za/content/social-responsibility>, accessed 14 May 2015

⁵⁵ Rural South African lodge farms are generally small. The owners are therefore often very involved in the day-to-day operations which limits employment creation potential for local workers.

Urban tourism is also prominent in South Africa, and innovative inclusive business models have developed in this space. A uniquely South African example is the ‘township tour’ which employs local tour guides to take tourists into an informal settlement (or ‘township’) on historical and cultural tours such as Soweto Township Tours⁵⁶. Other Township tour operators include Vamos⁵⁷, Cape Fusion⁵⁸ and Nomvuyo’s Tours⁵⁹ in Cape Town; and Soweto Bicycle Tours⁶⁰ and Mainstreet Walks⁶¹ in Johannesburg.

Another example unique to the South African landscape is the Mkambathi Land Trust⁶² which illustrates the opportunities in the political environment for partnership-based models (CPPPs and equity-sharing schemes) of the kind discussed in the context of agriculture. Following the Restitution of Land Rights Act of 1994, the Mkambathi Land Trust won a land claim for seven historically-dispossessed communities. As of 2004, this land is the Mkambathi Nature Reserve. It is owned by the trust and co-managed by the Eastern Cape Parks

and Tourism Agency with the majority of this land restricted to low-density tourism activities, while a smaller portion has been utilised in a SAPPi forestry project⁶³ to further stimulate the inclusion of the low-income community. Currently, the trust is working with Vumelana Advisory Fund⁶⁴ and Lima Partnership Facility⁶⁵ to develop the tourism potential of the reserve based on a ‘community-private partnership’ (CPP) between the community that owns the land and the investor.⁶⁶ Other successful partnerships worth mentioning in the tourism sector are Wilderness Safaris⁶⁷ and &Beyond⁶⁸. Both of these ventures provide wildlife safari tours, with Wilderness Safari operating throughout the African continent and &Beyond within Africa and South Asia. These companies employ existing tour companies, guest-houses and wildlife experts from the local areas so as to create the end-to-end tours.

⁵⁶ Cf. Township Travel: <http://www.sowetotownshiptours.com/>, accessed 14 May 2015

⁵⁷ Cf. Vamos: <http://www.vamos.co.za/>, accessed 14 May 2015

⁵⁸ Cf. Cape Fusion Tours: <http://capefusiontours.com/>, accessed 14 May 2015

⁵⁹ Cf. Nomvuyos Tours: <http://www.nomvuyos-tours.co.za/>, accessed 14 May 2015

⁶⁰ Cf. Soweto Bicycle Tours: <http://www.sowetobicycletours.com/>, accessed 14 May 2015

⁶¹ Cf. Mainstreetwalks: <http://www.mainstreetwalks.co.za/>, accessed 14 May 2015

⁶² Cf. Mkambathi Land Trust: <http://www.mkambathilandtrust.co.za/deals/dealsummary.html>, accessed 14 May 2015

⁶³ The SAPPi project is also referenced in the Agricultural sector as it includes low-income individuals as employees.

⁶⁴ Cf. Vumelana: <http://www.vumelana.org.za/>, accessed 14 May 2015

⁶⁵ Cf. Forest Carbon Partnership: <http://www.forestcarbonpartnership.org/>, accessed 14 May 2015

⁶⁶ With the window for claims on land, as described in the Restitution of Land Rights Act, having been extended until 2019, there is a large need for partnership-based initiatives, similar to Mkambathi, to be set up on behalf of local communities to provide a vision and engage the necessary partners so as to fully utilize the land opportunity for the benefit of low-income community members. In this regard, there is a high potential opportunity to work with the Vumelana Advisory Fund, whose core business is to facilitate the design and implementation of community – private partnership-based approaches to development and transformation, in both the agriculture and tourism sectors.

⁶⁷ Cf. Wilderness Safaris: <http://www.wilderness-safaris.com/>, accessed 14 May 2015

⁶⁸ Cf. Andbeyond: <http://www.andbeyond.com/>, accessed 14 May 2015

4.3. Information and communication technology



The information and communications technology (ICT) industry has experienced a large boom in recent years; however, this growth has not resulted in affordable access to the full suite of ICT services in South Africa⁶⁹. A recent Stats SA report⁷⁰ illustrates that access to mobile phones has significantly increased the number of rural households that have the ability to connect to the internet: although only two per cent of rural households have internet access at home, with 3.2 per cent having access at work, 17.8 per cent have internet access through their mobiles. Given its reach and growth in South Africa, ICT is an important sector for inclusive business – particularly as innovation, market driven demand and technological progress becomes more common within the South African ICT sector⁷¹.

Engaging low-income individuals as retailers/distributors

Providing ICT services to the low-income market requires innovative use of distribution channels, particularly given South Africa's infrastructure constraints in reaching the 'last mile'. Several inclusive business models have emerged which focus explicitly on utilising low-income entrepreneurs to distribute ICT services, most of which are enabled by mobile phones. Currently, broadband and other ICT services have not proved as popular for inclusive businesses in South Africa, a notable exception being GSMA's 'Shared Access Programme'⁷². In this programme, GSMsA works with MTN to leverage existing entrepreneurs based in low-income or rural areas as distributors of innovative products for data and internet services.

In the distribution of mobile phones and basic products like airtime, South Africa has seen a proliferation of inclusive businesses. Most of these use community retailers, spaza shops, or street traders as distribution points for their products. South Africa's large cellular providers Cell C⁷³, Vodacom⁷⁴ and MTN⁷⁵ are particularly active in this regard and have thereby been very successful in reaching low-income consumers through a trusted channel and increasing their market penetration in these areas.

Case Study 3:

Vodacom – using community shops to distribute to the BoP

Vodacom (as well as Cell C and MTN) makes use of a community shops distribution model to sell their products to low-income consumers. Local community, or spaza, shops retail the Vodacom products to local low-income community members. This innovative platform has stimulated high mobile penetration rates in South Africa. Further to the role of low-income distributors (the community shops) in the Vodacom supply chain, they also integrate low-income consumers at the end point. Pay-as-you-go products as well as free minutes and special talk-time deals appeal directly to low-income consumers.

⁶⁹ Cf. Gillwald, A.; Moyo, A.; Stork, C. (2012): Understanding What is Happening in ICT in South Africa, http://www.researchictafrica.net/publications/Evidence_for_ICT_Policy_Action/Policy_Paper_7_-_Understanding_what_is_happening_in_ICT_in_South_Africa.pdf, accessed 14 May 2015

⁷⁰ Cf. Stats SA (2013): General Household Survey 2013, p.52, <http://www.statssa.gov.za/publications/P0318/P03182013.pdf>, accessed 14 May 2015

⁷¹ Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, p.120, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

⁷² Cf. GSMA: <http://www.gsma.com/mobilefordevelopment/programmes/m4utilities/programme-overview/>, accessed 16 July 2015

⁷³ Cf. Cell C: <https://www.cellc.co.za/cellc/home>, accessed 16 July 2015

⁷⁴ Cf. UNDP (2013): Realizing Africa's Wealth, p.17, <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP%20AFIM%20Realizing%20Africas%20Wealth.pdf>, accessed 16 June 2015

⁷⁵ Cf. MTN: <https://www.mtn.co.za/Pages/Home.aspx>, accessed 16 July 2015

Engaging low-income individuals as consumers

The most common inclusive business model in the ICT sector in South Africa is the sale of cellular products to low-income consumers (often through the distribution channels mentioned above). MTN, Vodacom and Cell C have all developed innovative products such as 'Pay as you go' airtime, data bundles, free minutes, and off-peak deals which aim to match product and service offerings to the cash flow of low-income individuals. Shared-Phone⁷⁶, which assists consumers in controlling spend on calls and data for low-income consumers, has also proven to be an interesting and active player in this space.

There are also numerous mobile platform-enabled businesses that have made clever use of ICT to provide a range of services across several sectors. For example:

- **Momconnect⁷⁷**, an initiative launched by the Department of Health in 2014, provides health-related updates, general information and advice to pregnant women via SMSs on their mobiles.
- **Flash Cow⁷⁸** provides a SIM-based *Savings and Credit Cooperative (SACCO)* which helps the low-income segment access financial services.
- **Mxit⁷⁹**, a social, mobile-based, communications platform targets the low-income consumer with cheap rates and functionality that does not depend on smart phone technology.
- **FNB's eWallet⁸⁰** provides a means by which to transfer money to an unbanked individual via an SMS on their mobile phone.

- **Vodacom's M-Pesa⁸¹** also provides a means by which to send money to individuals via a mobile phone. It has been extremely successful in Kenya, East Africa and now other parts of the world, but this same success has not yet been experienced in South Africa. However, Vodacom believes that the service has significant potential and – although it did not perform well when initially launched in 2010 – has upgraded and re-launched the service in 2014.⁸²

Key challenges for ICT businesses at the BoP

- **Connectivity** remains a major challenge.
- **The oligopolistic nature of the mobile industry.** It is only in recent years that emerging players have started to place increasing pressure on MTN and Vodacom to bring down costs and diversify their product offerings. Recent ICASA rulings on service provider switching and inter-connection charges have enhanced competition and lowered costs, implying significant benefit and potential opportunity in low-income market segments.
- **Data and broadband remains extremely expensive and exclusionary.** Compared to other middle-income countries, South Africa's broadband penetration is underperforming, mainly due to poor quality and high pricing⁸³.
- **High brand loyalty among low-income consumers** in the ICT sector can make new market penetration particularly difficult. Companies can help overcome this by providing clear and relevant product information and using innovative marketing methods⁸⁴ to attract consumers⁸⁵.

⁷⁶ Cf. SharedPhone: <http://www.companies-southafrica.com/sharedphone-cst-15uvvm/>, accessed 16 July 2015

⁷⁷ Cf. SAnews.gov.za (2015): MomConnect to link mothers to vital healthcare, <http://www.sanews.gov.za/south-africa/momconnect-link-mothers-vital-healthcare>, accessed 16 July 2015

⁷⁸ Cf. Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>, accessed 16 July 2015

⁷⁹ Cf. Mxit: <http://get.mxit.com/>, accessed 16 July 2015

⁸⁰ Cf. FNB: <https://www.fnb.co.za/ways-to-bank/ewallet.html>, accessed 16 July 2015

⁸¹ Cf. UNDP (2013): Realizing Africa's Wealth, p.62-63, <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP%20AFIM%20Realizing%20Africas%20Wealth.pdf>, accessed 16 June 2015

⁸² Cf. Goldstuck, A. (2014): Vodacom re-launches M-Pesa (again), <http://mg.co.za/article/2014-08-04-vodacom-re-launches-m-pesa-again>, accessed 16 July 2015

⁸³ Cf. Gillwald, A.; Moyo, A.; Stork, C. (2012): Understanding What is Happening in ICT in South Africa, http://www.researchictafrica.net/publications/Evidence_for_ICT_Policy_Action/Policy_Paper_7_-_Understanding_what_is_happening_in_ICT_in_South_Africa.pdf, accessed 14 May 2015

⁸⁴ This includes using local languages, celebrity endorsements, and community platforms such as spaza shops.

⁸⁵ Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

4.4. Retail and consumer goods



Almost all major retailers in South Africa involve the poor in their supply chain or as consumers, and often as both. Examples of retailers engaging the poor as suppliers include large supermarket chains such as **Woolworths**, **Pick ‘n Pay** and **Spar**, as well as food corporations such as **Nestlé** and **Unilever**. Given the regulatory pressure on corporates to purchase from and develop qualifying suppliers and enterprises⁸⁶, this is perhaps unsurprising. Similarly, the sheer size of the lower income consumer groups in South Africa translates into significant aggregate purchasing power and makes the market attractive to retailers.

Engaging low-income individuals as suppliers

Massmart, **Pick ‘n Pay**, **Shoprite**, and **Spar** are all developing the inclusivity of their supply chains through contract production, local sourcing (particularly of fresh produce), deep procurement, or other inclusive business models.⁸⁷ Many retailers such as *The Body Shop’s ‘Ethical Trade Initiative’*⁸⁸ have corporate initiatives focused on the fair treatment and development of suppliers.

Engaging low-income individuals as employees

Given the nature of the retail sector, many retailers employ a large proportion of unskilled labour in their workforce. A handful of examples take this engagement one step further and look to ensure that a large component of their staff are previously disadvantaged individuals who are both employed and skilled up by the retailer. A good example of this is **Thandi Wines**, “the first wine brand in the world to receive Fair-trade⁸⁹ accreditation” and

“South Africa’s first agricultural Black Economic Empowerment (BEE) project”.⁹⁰

Engaging low-income individuals as consumers

Many of the major retailers in South Africa today aim to tap into the low-income market, often by segmenting their own stores to target different income groups (as **Pick ‘n Pay** does) or by seeking shop locations in lower-income areas. A good example of this approach is **Shoprite’s ‘Shoprite U Save’** stores which target low-income consumers by being “able to reduce non-essential costs (e.g. packaging) which allows consumers to purchase at close to bulk value”.⁹¹

Key challenges for inclusive businesses in the retail/consumer goods space

- Unreliability, fluctuating quality and quantity of outputs, and the unpredictability of delivery from small suppliers.⁹²
- Limited range of capabilities of entrepreneurs, owners, management, and staff, particularly in small businesses make interactions difficult and admin-intensive for businesses. Often training and financial assistance are also frequently needed.
- Consumers can often be fragmented and hard to reach, distribution channels unorganised and difficult to understand from the outside, and branding of products hard to get right – especially given the often limited knowledge of consumer preferences.
- Engaging low-income retailers or distributors can lead to increased local competition and related conflict over customers and market share.⁹³

⁸⁶ It is very important not to directly conflate income levels with race. However, given the nature of South Africa’s economy and due to the country’s history, there will be overlap between the black-owned companies that qualify as suppliers in this case and income level

⁸⁷ Cf. Massmart (2013): Massmart’s Supplier Development Fund initiative, Ezemvelo, rolls out to four provinces, <http://www.massmart.co.za/press/massmarts-supplier-development-fund-initiative-ezemvelo-rolls-four-provinces/>, accessed 16 June 2015

Cf. Cf. UNDP (2013): Realizing Africa’s Wealth, <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP%20AFIM%20Realizing%20Africas%20Wealth.pdf>, accessed 16 June 2015

⁸⁸ Cf. The Body Shop: <http://www.thebodyshop.com/commitment/ethicaltrade.aspx>, accessed 16 June 2015

⁸⁹ For more details on the Fairtrade criteria, see <http://www.fairtradelabel.org.za/whatis/fairtrade-international.2.html>

⁹⁰ Cf. Thandi wines: <http://www.thandiwines.com/>, accessed 14 May 2015

⁹¹ Cf. Coetzer, P.; Pascarel, N. (2012): Endeva Inclusive Business Country Factsheets – South Africa, p.2, www.endeva.org/wp-content/uploads/2015/07/end_cp_sthafr-05.pdf, accessed 16 July 2015

⁹² Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

⁹³ Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

Retailers

- Large retailers: Tiger Brands, the beverage company Entyce, Massmart and Mondelez International (former Kraft Foods)⁹⁴
- Some retailers formally engage and train low-income individuals to increase the efficacy of their own distribution such as Hot Dog Café's provision of training in retail franchising to entrepreneurs in their network of franchisees⁹⁵ and A2L Media Group's 'A2Pay'⁹⁶

Case Study 4:

Woolworths – supporting emerging suppliers

Through their Good Business Programme⁹⁷, Woolworths supports sustainability through a number of different projects. One of these is the Woolworths Enterprise Development⁹⁸ programme, which provides support for emerging, mainly black-owned, suppliers so they can integrate into the Woolworths brand. The mentorship, financial assistance, up skilling and access to specialists that is offered through this programme, allow for the development and sustainability of low-income suppliers, while simultaneously serving the core business functions necessary for Woolworths.

Chic⁹⁹ Shoes started as part of the Enterprise Development Programme, but is now a fully-fledged shoe supplier to the Woolworths range.

⁹⁴ Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015
Inclusive business models from these examples relating directly to agro-food are discussed in the Agriculture and Agro-food section of this document.

⁹⁵ Cf. Hot dog Café: <http://www.hotdogcafe.co.za/>, accessed 14 May 2015

⁹⁶ Cf. A2pay: <http://www.a2pay.co.za/>, accessed 14 May 2015

⁹⁷ Cf. Woolworths Holdings Limited (2015): 2015 Good Business Journey Report, http://www.woolworthsholdings.co.za/investor/annual_reports/ar2015/whl_2015_gbj.pdf, accessed 16 July 2015

⁹⁸ Cf. Woolworths Holdings Limited: Enterprise Development, http://www.woolworthsholdings.co.za/investor/annual_reports/ar2012/sustainability/times_are_changing/enterprise_development.asp, accessed 16 July 2015

⁹⁹ Cf. Chic Shoes: <http://chicshoes.co.za/>, accessed 12 April 2016

4.5. Financial services



All of South Africa's major banks and many major insurance providers are active in the inclusive business space. In many cases, the models used are enabled by innovative applications of ICT (as

discussed in the ICT section in this document), but there are multiple examples of particular products and services targeting low-income individuals that do not rely heavily on technology.

The financial services and insurance sector has significant potential to drive inclusive business in South Africa for several reasons¹⁰⁰ as outlined below:

- South Africa's financial sector is well-established and sophisticated, with a strong regulatory environment in place;
- Many major industry players are already innovating around inclusive business models in the country and have built up significant experience as a result;
- There is a history of (regulation-driven, for example through the Financial Sector Charter) **co-operation among large players with the industry** (for example, in developing low-cost bank accounts) as well as **between industries** (for example, **Hollard's partnership with PEP Stores¹⁰¹**);
- Despite the highly sophisticated nature of South Africa's financial sector, it is estimated that **over 30 per cent of South Africans remain unbanked¹⁰²**; and
- South Africa's large banks have significant **brand value to leverage** – all of the 'Big 4' banks as well as Investec appear in Brand Africa's top 10 South African brands¹⁰³.

Case Study 5:

Hollard and PEP Stores – engaging low-income consumers

Hollard generates around 1/7th of their annual turnover through the engagement of low-income consumers. In order to reach these individuals they have partnered with PEP, the largest retail brand in South Africa which has a network of over 1500 stores.

PEP as the distributor, and Hollard as the provider, together provide micro insurance to low-income consumers. The suite of products offered rely on small premiums and low margins with innovative products that are tailored to low-income consumer needs. Products include home insurance, funeral insurance, micro-life insurance, health insurance.

Engaging low-income individuals as suppliers

Low-income suppliers to mining and other large industries in South Africa often access financial services through their employers, through enterprise or supplier development spend (part of the criteria in the BBBEE Codes of Good Practice), or through SME development funds. With the BBBEE Codes set to change to further incentivise supplier development, it is likely that financing options available to black suppliers (including low-income individuals in many cases) increase with time¹⁰⁴. There are multiple good examples of companies that provide funding and support to SMEs in their own supply chain (including for non-core products), including **Anglo and Mondi Zimele¹⁰⁵**, **Anglo Platinum¹⁰⁶**, **Rio Tinto¹⁰⁷**, and **Sasol¹⁰⁸**.

¹⁰⁰ Cf. Coetzer, P.; Pascarel, N. (2012): Endeava Inclusive Business Country Factsheets – South Africa, http://www.endeva.org/wp-content/uploads/2015/07/end_cp_sthafr-05.pdf, accessed 16 July 2015

¹⁰¹ Cf. Hollard: Hollard Partners – PEP Stores, <https://www.hollard.co.za/insurance-partners/retail-partners/pep-funeral-insurance>, accessed 16 July 2015

¹⁰² Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

¹⁰³ Forbes (2014): Brand Africa Announces South Africa's Top 50 Most Valuable Brands, <http://www.forbes.com/sites/farai-gundam/2014/07/31/brand-africa-announces-south-africas-top-50-most-valuable-brands/#61cf9b532857>, accessed 16 July 2015

¹⁰⁴ It is important not to conflate race and income level; however, in South Africa it is a fact that many black South Africans remain excluded from the formal economy.

¹⁰⁵ Cf. AngloAmerican: Anglo Zimele – Empowering Partnerships, http://www.angloamerican.com/~media/files/a/anglo-american-plc/siteware/docs/anglozimele_brochure09_1.pdf, accessed 16 July 2015

Cf. Mondi Zimele: <http://www.mondizimele.co.za/index.html>, accessed 16 July 2015

¹⁰⁶ Cf. Anglo American: Platinum, <http://southafrica.angloamerican.com/our-operations/platinum.aspx>, accessed 16 July 2015

¹⁰⁷ Cf. Rio Tinto: <http://www.riotinto.com/>, accessed 16 July 2015

¹⁰⁸ Cf. Sasol: <http://www.sasol.com/>, accessed 16 July 2015

Most of these companies follow similar models to one another, though some – such as **Anglo Zimele** – have slightly different approaches. In the case of **Anglo Zimele**, a more flexible debt and equity financing model is used for enterprise development.¹⁰⁹

Engaging low-income individuals as retailers/distributors

In addition to low-cost products (discussed below), many banks are starting to leverage informal networks in low-income areas to increase access to those markets. For example, **FNB's 'Mini ATM'**¹¹⁰ and **Standard Bank's 'Access Points'**¹¹¹ leverage existing channels and low-income individuals in those channels to expand their market presence. Another **Standard Bank** initiative, '**Community Banking**', operates through known community spaza shops.¹¹²

Because of the penetration of spaza shops, street vendors, and other informal retailers, these points provide valuable access into low-income communities. In addition, many of these retailers experience high levels of customer loyalty, meaning that using them can assist private sector companies in creating brand value.

Engaging low-income individuals as consumers

By far the most active engagement of low-income individuals in the financial services and insurance sector is as consumers of products and services. All of South Africa's 'Big 4' banks have tailored,

low-cost transactional accounts¹¹³ as well as a range of products designed specifically for low-income consumers:

- **ABSA** has a '*Sekulula card*' – “a debit-card based transactional account that allows government grant recipients access to grants electronically at ATMs or point-of-sale devices”.¹¹⁴
- **First National Bank (FNB)** has the '*Easyplan*'¹¹⁵ programme and '*eWallet*' which “helps provide market access to the rural, unbanked poor”¹¹⁶.
- **Standard Bank** has various inclusive business programmes, including '*SME Quick Loan*' and the '*AccessAccount*', which is a “low-cost, entry-level retail account accessible via alternative channels” – including informal retailers, modified spaza shops, and mobile phones (incidentally, this model also makes use of a dedicated direct sales force).¹¹⁷
- **Nedbank**¹¹⁸ offers funding for large-scale affordable housing projects, making “mortgages available to low-income people” and **Rand Merchant Bank (RMB)** “finances affordable housing programmes that favour social diversity in township areas”.¹¹⁹

Insurance providers in South Africa have also shown a clear interest in reaching low-income consumers. Most major providers have developed products aimed at this market segment and many have internal divisions dedicated to, for example, alternative distribution channel strategies.

¹⁰⁹ Cf. AngloAmerican: Enterprise development – Zimele, <http://southafrica.angloamerican.com/our-difference/zimele-enterprise-development.aspx>, accessed 16 July 2015

¹¹⁰ Cf. FNB: Mini ATMs, <https://www.fnb.co.za/business-banking/banking-channels/mini-atm.html>, accessed 16 July 2015

¹¹¹ Cf. UNDP (2013): Realizing Africa's Wealth, <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP%20AFIM%20Realizing%20Africas%20Wealth.pdf>, accessed 16 June 2015

¹¹² Cf. Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>, accessed 16 July 2015

¹¹³ Cf. Business fights poverty: <http://businessfightspoverty.org/blog/tag/casestudies/>, accessed 16 July 2015

¹¹⁴ Cf. SAnews.gov.za (2011): Progress made in social grants re-registration, <http://www.sanews.gov.za/south-africa/progress-made-social-grants-re-registration>, accessed 16 July 2015

¹¹⁵ Cf. FNB: Easy banking for everyone, <https://www.fnb.co.za/downloads/easyplan/FNB-EasyPlan-Brochure-HR.pdf>, accessed 16 July 2015

¹¹⁶ Cf. FNB: Send money, <https://www.fnb.co.za/ways-to-bank/ewallet.html>, accessed 16 July 2015

¹¹⁷ Cf. Coetzer, P.; Pascarel, N. (2012): Endeva Inclusive Business Country Factsheets – South Africa, http://www.endeva.org/wp-content/uploads/2015/07/end_cp_sthafr-05.pdf, accessed 16 July 2015

¹¹⁸ Cf. Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>, accessed 16 July 2015

¹¹⁹ Cf. Nedbank: Property Finance. <https://www.nedbank.co.za/content/nedbank/desktop/gt/en/business/finance/property-finance.html>, accessed 16 July 2015

¹¹⁹ Cf. Africa Platform for Development Effectiveness (2007): Rand Merchant Bank (RMB) and Nedbank: Developing new financial products for low-income housing in South Africa, <http://www.africa-platform.org/resources/rand-merchant-bank-rmb-and-nedbank-developing-new-financial-products-low-income-housing>, accessed 16 July 2015

Sanlam, a major insurance provider in South Africa, offers micro-insurance products¹²⁰ and has also engaged in innovative partnerships to access low-income consumers – for example, they partner with the Zionist Christian Church (ZCC) to provide low-cost funeral cover to church members.¹²¹ Other insurance products have also been developed for specific categories of consumers which include a range of income groups. AllLife, for example, offers low-cost insurance specifically for HIV-positive individuals.¹²² Shoprite, similarly, sells over-the-counter insurance, aimed at low-income consumers.¹²³

Finally, it is important to note that low-income consumers in South Africa also have access to micro-credit and micro-finance products. Organisations such as The Community Development Trust and Kuyasa Fund¹²⁴, SACCOL¹²⁵, The Townships Project¹²⁶, and the Women’s Development Bank¹²⁷ extend “small amounts of credit, often via group lending, to the poor who are typically unable to access larger loans from formal banks due to a lack of collateral and formal credit histories.”¹²⁸ Other funds exist specifically to provide micro-finance services to smallholder farmers (for example, DAFF’s ‘Micro-agricultural Financial Services of South Africa’ or ‘Mafisa’)¹²⁹ or to individuals saving for education (such as the Fundisa Fund¹³⁰).

TSB Sugar and Illovo Sugar provide credit to the smallholder farmers that they work with “which is paid back over years”.¹³¹

Key challenges for business offering inclusive finance

- Difficulties in explaining and marketing certain categories of particularly complicated financial and insurance products to low-income consumers;
- Challenges when attempting to demonstrate the tangible benefits of products – especially as many products in this sector are ‘push’ rather than ‘pull’ products;
- Challenges relating to identifying and selecting distributors/retailers, particularly given skills shortages including computer skills and accounting;
- The potential for conflicts over market share between spaza shops¹³²;
- Limited physical and network infrastructure in certain areas;
- Consumers’ income volatility and resulting riskiness for service providers;
- Very low levels of financial literacy and financial capability in the lower income segments; and
- Lingering questions about the true developmental impact of micro-finance.

¹²⁰ Cf. Aliber, M.: South African Microinsurance Case-Study, p.16, <http://www.ilo.org/dyn/dwresources/docs/454/F1887598480/SFU%20South%20Africa%20microinsurance.pdf>, accessed 12 August 2015

¹²¹ Cf. Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>, accessed 16 July 2015

¹²² Cf. AllLife: <http://www.alllife.co.za/>, accessed 30 June 2015

¹²³ Cf. Coetzer, P.; Pascarel, N. (2012): Endeava Inclusive Business Country Factsheets – South Africa, http://www.endeva.org/wp-content/uploads/2015/07/end_cp_sthafc-05.pdf accessed 16 July, 2015.

¹²⁴ Cf. Houston, A. (2010): Housing Support Services for Housing Microfinance Lending in East and Southern Africa: A Case Study of The Kuyasa Fund, <http://www.housingfinanceafrica.org/wp-content/uploads/2012/03/Kuyasa-Fund-case-study1.pdf>, accessed 13 April 2016

¹²⁵ Cf. Saccol: Savings and Credit Co-operative League of South Africa, <http://www.saccol.org.za/>, accessed 13 April 2016

¹²⁶ Cf. The Townships Project: <http://thetownshipsproject.org/>, accessed 13 April 2016

¹²⁷ Cf. WDB Investment Holdings: <https://www.wdbinvestments.co.za/>, accessed 13 April 2016

¹²⁸ Cf. Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, p.10, <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>, accessed 16 July 2015

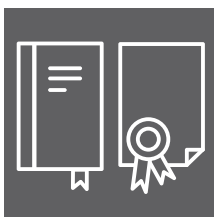
¹²⁹ Cf. Republic of South Africa Department of Agriculture, Forestry and Fisheries: Mafisa, www.gov.za/sites/www.gov.za/files/mafisa.pdf, accessed 16 July 2015

¹³⁰ Cf. Fundisa: <http://www.fundisa.org.za/>, accessed 18 April 2016

¹³¹ Cf. UNDP (2013): Realizing Africa’s Wealth, <http://www.undp.org/content/dam/undp/library/corporate/Partnerships/Private%20Sector/UNDP%20AFIM%20Realizing%20Africas%20Wealth.pdf>, accessed 16 June 2015

¹³² Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

4.6. Education and skills



Despite spending a disproportionately large portion (around six per cent¹³³) of GDP, and a clear public sector focus on education (see Appendix 3), outcomes are extremely

poor by regional and global standards. According to the WEF's Competitiveness Rankings¹³⁴, South Africa is ranked 86th out of 144 countries in higher education and training.

This suggests major opportunities for private providers of skills and education training in South Africa. Furthermore, it is not just education and training providers that are interested in engaging low-income individuals (in their case, as consumers of services). Employers in general appear to be keenly aware of the skills deficit among potential employees and many inclusive businesses are challenged by the skills and training of low-income individuals integrated into their business value chains.

Engaging low-income individuals as employees and entrepreneurs

Many inclusive programmes exist to increase the skill level of particularly low-income individuals with the express intent of graduating them into formal employment or setting them up as entrepreneurs. The Jobs Fund-supported **Awethu Project**, for example, identifies entrepreneurs with high potential and provides them with critical skills, connections, and resources for entrepreneurial success.¹³⁸ On the employee development side, the **Monyetla Work Readiness Programme**¹³⁹ provides training to unemployed youth for the Business Process Outsourcing (BPO) industry. It is a partnership programme, led by the South African Government's Department of Trade and Industry (DTI).

Case Study 6:

Harambee – up-skilling unemployed youth

Harambee¹³⁵ was set up in 2011 through the Yellowwoods investment company, the Jobs Fund¹³⁶ and other private partners. Yellowwoods is a social investment holding company for large corporates such as Hollard, Clientèle, Direct Axis and Nando's.

Harambee seeks to match-make low-income, unemployed youth and job opportunities available mainly through the members. However, in order to match-make successfully, the Harambee model includes the up-skilling of unemployed youth in areas such as literacy and numeracy, work-place behaviour and etiquette. It operates as a free service for job seekers, but a paid service for corporates looking to employ Harambee graduates.

It has succeeded in graduating over 10,000 placements in the last two years into the hospitality, business process outsourcing and financial services industries.

¹³³ Cf. The World Bank: Data: Government expenditure on education as % of GDP (%), <http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS>, accessed 13 April 2016

¹³⁴ Cf. World Economic Forum: <http://reports.weforum.org/global-competitiveness-report-2014-2015/rankings/>, accessed 16 July 2015

¹³⁵ Cf. Harambee: <http://harambee.co.za/harambee/>, accessed 13 April 2016

¹³⁶ Cf. The Jobs Fund: <http://www.jobsfund.org.za/>, accessed 13 April 2016

¹³⁷ Cf. Capricorn Capital Group: <http://www.capricorncapital.com/About-Us?accept=true>, accessed 13 April 2016

¹³⁸ Cf. Venture Burn (2015): Everything you need to know about the South African startup ecosystem. <http://ventureburn.com/2015/09/comprehensive-guide-sa-startup-landscape-ever-updated/>, accessed 16 July 2015

¹³⁹ Cf. South African Chamber of Commerce (2013): Evaluating Monyetla, the skills programme for the outsourcing sector, <http://www.southafricanchamber.co.uk/news/item/317-evaluating-monyetla-the-skills-programme-for-the-outsourcing-sector>, accessed 13 April 2016

Although public sector interest and involvement in such work readiness and job creation programmes is significant, their implementation success is poor. The most successful initiatives seeking to train and employ low-income individuals are run by private companies or industry associations, for example:

- The Redcap Foundation's 'Jumpstart Jobs Fund Expansion Project' provides skills training and placement into Mr Price retail stores.¹⁴⁰
- EOH "took on over 600 learners and graduate interns in 2012, absorbed them into the workforce, and set about imparting work skills to them". Most are now employed in EOH or in the company's broader network.¹⁴¹
- In health, MediPost trains and places youth into pharmaceutical support services employment roles.¹⁴²
- In the green economy, the South African National Biodiversity Institute (SANBI) Incubator – Natural Resource Economy provides "skills training and placement in ecosystem management for the green economy".¹⁴³
- In the automobiles sector, there are multiple examples of skills development and employment placement programmes, including those of the Automotive Industry Development Centre (AIDC)¹⁴⁴; Mercedes-Benz South Africa (who have an automotive assembly and manufacturing training centre)¹⁴⁵; and the Coega Development Corporations, who run the 'Coega Strategic Skills Development Programme' which looks to train artisans with the necessary skills for employment¹⁴⁶.
- The Buhle Farmers Academy has developed a 'Learning-by-Doing' farmer training pro-

gramme including post training support to assist the farmers to set up, operate, access funding and provide market access as well as grow their own farming enterprises.¹⁴⁷

- In financial services, Guarantee Trust Corporate Support Services runs a 'Work Readiness Program for Unemployed Graduates for Bank and Credit Sectors'.¹⁴⁸

Engaging low-income individuals as consumers

In the last few years there has been a massive investment by the private sector in education. Curro¹⁴⁹ and Advtech¹⁵⁰ are the leading investors, although their focus is still on servicing the needs of the 'emerging' middle class alienated by the poor outcomes of state educational facilities. These have been complemented by low-cost primary and secondary schools such as Spark Schools¹⁵¹. At the micro level, South Africa is experiencing a proliferation of very low-cost private educational facilities, from early childhood through primary and secondary schooling; a symptom of the crisis in service levels associated with public education.

Private Technical and Vocational Education and Training centres (TVETs) and other skills/vocational training institutions 'at the seam' have been well documented, notably by the Monitor Group.¹⁵² Although many of these serve middle-income (rather than low-income) consumers, they remain good examples of inclusive businesses in the education sector. They offer particular opportunities for partnerships aimed at taking the low-cost private education model to poorer communities, whether in partnership with the state, impact

¹⁴⁰ Cf. Center for Education Innovation: JumpStart Program: <http://www.educationinnovations.org/program/jumpstart-program>, accessed 16 July 2015

¹⁴¹ Cf. EOH: Sustainability - EOH Youth Job Creation Initiative, <http://www.eoh.co.za/about-eoh/sustainability>, accessed 16 July 2015

¹⁴² Cf. Medipost: <http://www.medipost.co.za/>, accessed 16 July 2015

¹⁴³ Cf. Sanbi: <http://www.sanbi.org/>, accessed 16 July 2015

¹⁴⁴ Cf. Aidc: <http://www.aidc.co.za/>, accessed 16 July 2015

¹⁴⁵ Cf. Mercedes-Benz: <http://www.mercedes-benzsa.co.za/>, accessed 16 July 2015

¹⁴⁶ Cf. Coega: <http://www.coega.co.za/Content3.aspx?objID=182>, accessed 16 July 2015

¹⁴⁷ Cf. Buhle Farmers Academy: <http://buhle.org.za/training/>, accessed 16 July 2015

¹⁴⁸ Cf. Guarantee Trust: <http://www.guarantee.co.za/>, accessed 16 July 2015

¹⁴⁹ Cf. Curro: <http://www.curro.co.za/>, accessed 16 July 2015

¹⁵⁰ Cf. Advtech: <http://www.advtech.co.za/Pages/default.aspx>, accessed 16 July 2015

¹⁵¹ Cf. Spark: <http://www.sparkschools.co.za/>, accessed 16 July 2015

¹⁵² Cf. Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>, accessed 16 July 2015

investors or donors. The private sector vocational facilities make innovative use of available resources through paraskilling and high levels of standardisation. Commonly cited examples include Jeppe College of Commerce and Computer Studies¹⁵³, DT Nursing Institute¹⁵⁴, Silulu Ulutho Technologies¹⁵⁵, Edu-fix¹⁵⁶, and the Central Business Academy¹⁵⁷, though there are scores more implementing inclusive business principles to a greater or lesser degree in the country.¹⁵⁸

Key challenges for inclusive businesses in the educations and skills sector

- The range of skill levels of individuals and the challenges in increasing those skills to the appropriate level for employment.

Furthermore, even those that 'graduate' to increased employability may struggle to find work because of the lack of jobs available in certain sectors, the inability of training providers to absorb all of those they train (in some cases), and the high competition for particularly lower-skilled jobs.

- Lack of infrastructure and finance. Accessing people living in remote, rural areas can be a challenge. Moreover, the ability of low-income individuals to fund their education and their capacity to dedicate time to skills development (because of existing, short-term financial needs) are often limited.



¹⁵³ Cf. Jeppe College: <http://www.jeppecollege.co.za/>, accessed 16 July 2015

¹⁵⁴ Cf. DT Nursing Institute: <http://www.snupit.co.za/durban/congela/dt-nursing-institute/283269>, accessed 16 July 2015

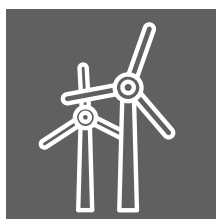
¹⁵⁵ Cf. Silulo: <http://silulo.com/>, accessed 16 July 2015

¹⁵⁶ Cf. Mictseta: Edu-Fix Training Institute (Pty) Ltd, https://www.mict.org.za/provider_details.aspx?section=4&page=27&providerId=694, accessed 16 July 2015

¹⁵⁷ Cf. Central Business Academy: <http://www.centralbusinessacademy.co.za/>, accessed 16 July 2015

¹⁵⁸ Cf. Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>, accessed 16 July 2015

4.7. Energy



Energy – particularly renewable energy – has been identified by many as a sector with significant potential for inclusive business¹⁵⁹ and has received a large amount of global attention in the form

of global initiatives, donor programmes, incentives schemes, and clean energy funds across the world.¹⁶⁰ South Africa’s energy sector, particularly in the areas of renewable energy and energy efficiency, is attractive from an inclusive business perspective for several reasons listed below. However, a large number of inclusive business initiatives in energy in South Africa could not be identified, suggesting that there may be significant potential for growth.

Key characteristics of the energy sector in South Africa

- “Combating climate change” is a national priority in South Africa;
- There is significant demand for “accessible, affordable, reliable and renewable energy”;
- Existing off-grid, micro-energy projects are fragmented¹⁶¹;
- “Markets are supported by solid infrastructure and thriving institutions which can attract sustainable capital flows from investors who are interested in inclusive business”¹⁶²;
- The national Independent Power Producer Procurement Programme¹⁶³ is, with the support of the DBSA and the KfW, developing a dedicated financial facility to support SMEs in developing viable renewable energy projects to feed the national grid;

- The increased demand for electricity in South Africa due to increases in disposable income and urbanisation – coupled with pressure on the national energy producer Eskom¹⁶⁴ (manifest in load shedding in many parts of South Africa) to meet this demand – creates an added incentive for innovations in energy production in the country.

Engaging low-income individuals as consumers

Low-income individuals are mostly engaged as consumers of energy products in the sector. An example of such a business is the Triple Trust Organisation that manufactures and sells energy-efficient cook stoves to low-income people in rural areas.¹⁶⁵

In South Africa, two examples were found of inclusive businesses building energy generation capacity to engage low-income consumers – Specialised Solar Systems¹⁶⁶, which incorporates the principles of last mile infrastructure in creating a rural micro-grid electricity generation system; and Restio Energy¹⁶⁷ (See Case Study 7).

An example of an inclusive business in energy that is not focused on micro-grids is the Konrad Adenauer Stiftung-supported Kuyasa ‘Clean Development Mechanism’, which installs solar water geysers, insulated ceilings and compact fluorescent light bulbs in townships. In addition, it has been reported that Kuyasa employ some financial innovations and have been able to secure a significant amount of community participation.¹⁶⁸

¹⁵⁹ Cf. Coetzer, P.; Pascarel, N. (2012): Endeava Inclusive Business Country Factsheets – South Africa, http://www.endeva.org/wp-content/uploads/2015/07/end_cp_sthafr-05.pdf, accessed 16 July 2015

¹⁶⁰ In South Africa, for example, the Development Bank of Southern Africa (DBSA) has a ‘Green Fund’ which operates in this space and the EDF’s ‘Energy Access Programme’ is helping electrify rural areas of KwaZulu-Natal and the Eastern Cape.

¹⁶¹ Due to the regulatory environment being in flux, large (mostly untapped) pools of resources exist amongst national and international investors and donors (funds, facilities, green credit loans and technical/management expertise).

¹⁶² Cf. GIZ (2013): Value Chain Development by the Private Sector in Africa: Lessons Learnt and Guidance Notes, <https://www.giz.de/expertise/downloads/giz2013-en-africa-value-chain-development.pdf>, accessed 16 July 2015

¹⁶³ Cf. Republic of South Africa Department of Energy: Renewable Energy Independent Power Producer Procurement Programme, <http://www.ipprenewables.co.za/#site/index>, accessed 16 July 2015

¹⁶⁴ Cf. Eskom: <http://www.eskom.co.za/Pages/Landing.aspx>, accessed 16 July 2015

¹⁶⁵ Cf. WPI: Triple Trust Organisation, <http://wp.wpi.edu/capetown/projects/p2010/spaza/triple-trust-organisation/>, accessed 16 July 2015

¹⁶⁶ Cf. Specialised Solar Systems: <http://www.specializedsolarsystems.co.za/>, accessed 16 July 2015

¹⁶⁷ Cf. Restio Energy, <http://www.restio.co.za/>, accessed 16 July 2015

¹⁶⁸ Cf. The Kuyasa Fund: <https://thekuyasafund.wordpress.com/>, accessed 16 July 2015

Case Study 7:

Restio Energy engaging low-income consumers

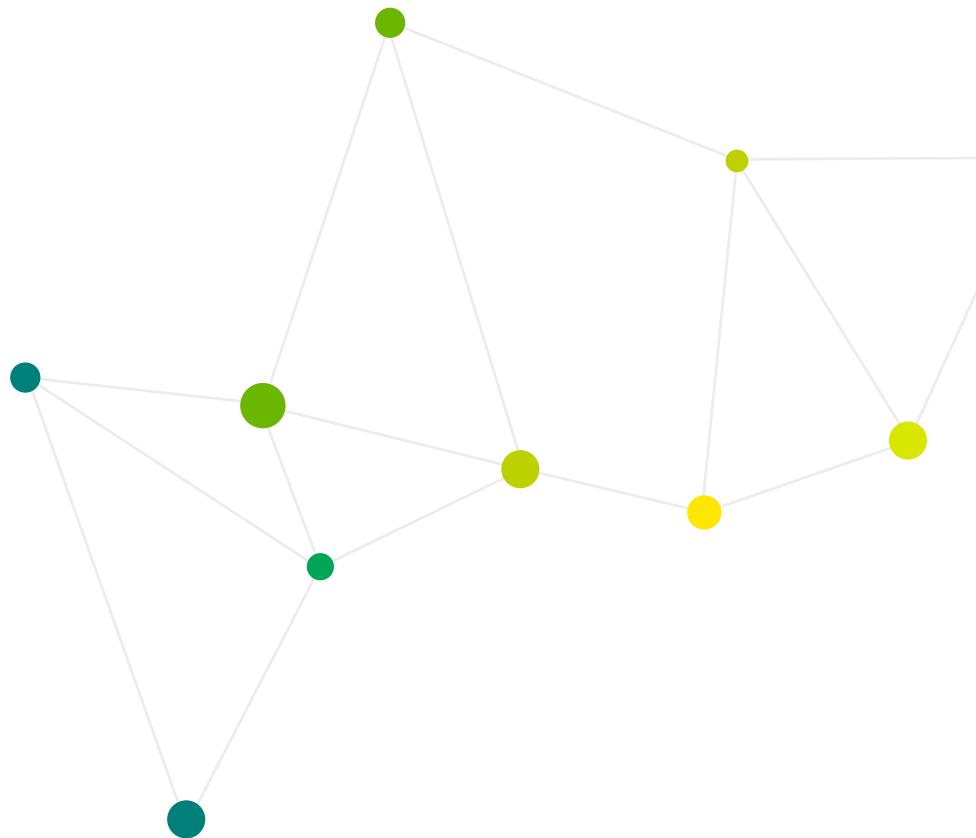
Restio Energy engages low-income consumers as the end point in their energy supply chain. Restio has developed innovative ways of getting into the 'last mile', and has successfully installed energy efficient products such as biomass stoves, off-grid energy provision in rural areas in Kwa-Zulu Natal and the Eastern Cape while also continuing to monitor and research the impact of these projects in the low-income areas.

Most of Restio's funding for the provision of clean and efficient energy to low-income consumers comes from donors such as DFID, KfW, the World Bank and the South African national government.

Key challenges for inclusive businesses in the energy sector

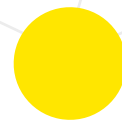
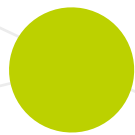
- The high capital expenditure, advisory and connection costs required up front, particularly for micro-grid and other generation systems, are the major challenge in this sector. This acts as a deterrent for many potential market players, and is the reason that many donor- and government-funded interventions aim to provide the infrastructure in underserved areas. In many cases, this challenge is aggravated by the lack of existing infrastructure in areas where interventions would be most valuable. Indeed, capital costs are extremely difficult to cover and economies of scale are difficult to achieve, making economic viability tough.¹⁶⁹

Community ownership (which is often the goal of such programmes) can bring with it a range of challenges from literacy and skills availability to difficulties collecting fees. In many cases, education and skills development is required for macro-projects to be successful.



¹⁶⁹ Cf. Kubzansky, M.; Cooper, A.; Barbary, V. (2011): Promise and Progress, <http://web.mit.edu/idi/idi/Africa-%20PromiseAndProgress-MIM.pdf>, accessed 16 July 2015

The inclusive business support ecosystem



5. The inclusive business support ecosystem

There are a variety of players currently operating in the South African inclusive business support environment. In this section, the types of support on offer are described and specific examples of each are considered.

Government-linked entities

The Industrial Development Corporation (IDC)¹⁷⁰ and the Public Investment Corporation (PIC)¹⁷¹ provide financial support to inclusive businesses through a number of entities such as the *Jobs Fund*. These entities are active across multiple sectors and are aligned with government policy – as administered by the relevant departments (for example, the Department of Agriculture, Forestry, and Fisheries (DAFF)¹⁷² and the Department of Tourism¹⁷³. In agriculture, the Department of Rural Development and Land Reform (DRDLR) is a key influencing factor.¹⁷⁴

Launched by the National Treasury in 2011, the *Jobs Fund*¹⁷⁵ is a particularly interesting player in this space. It specifically seeks to incentivise corporates and non-profit organisations (NPOs) to pursue innovative inclusive business approaches which engage low-income individuals within their supply chains. Because the fundamental purpose of the fund is job creation, projects have typically engaged low-income individuals as employees; however, projects also support businesses as suppliers (principally in agriculture).

With few exceptions, the track record of government-run ‘inclusive business’ initiatives, whether

linked to SME funding, incubation, skills development or small farmer support, has been poor.

Development programmes/projects

There are a number of corporates, NPOs and donors that are actively promoting development programmes which seek to enable the low-income segment in South Africa. While some of these have been set up to comply with BBBEE policies, projects such as BLSA’s Beyond Advocacy¹⁷⁶, the Practitioner Hub for Inclusive Business¹⁷⁷, and the Colab Furniture Range¹⁷⁸ go beyond compliance requirements and claim substantial advances in integrating low-income individuals into formal sector value chains. The LIMA Rural Development Foundation¹⁷⁹ is an interesting example in agriculture as it acknowledges the need of providers for access to support services and linkages to inputs, credit, mechanisation, agricultural information, and markets – and thus aids them in accessing formal value chains.

Sector associations/initiatives

Associations can assist current market players in pursuing new and innovative avenues for entry into low-income market segments. For example, BPESA¹⁸⁰ drives the growth of Business Process Outsourcing (BPO) in South Africa, targeting low-income employees; the Southern African Wildlife College (SAWC)¹⁸¹ facilitates education and training across companies in the wildlife industry; and the Automotive Industry Development Centre¹⁸²

¹⁷⁰ Cf. IDC: <http://www.idc.co.za/>, accessed 5 August 2015

¹⁷¹ Cf. Public Investment Corporation: <http://www.pic.gov.za/>, accessed 5 August 2015

¹⁷² Cf. Republic of South Africa Department of Agriculture, Forestry and Fisheries: <http://www.daff.gov.za/>, accessed 16 July 2015

¹⁷³ Cf. Republic of South Africa Department of Tourism: <http://www.tourism.gov.za/Pages/Home.aspx>, accessed 16 July 2015

¹⁷⁴ Cf. Republic of South Africa Department of Rural Development and Land Reform: <http://www2.ruraldevelopment.gov.za/index.php>, accessed 16 July 2015

¹⁷⁵ Cf. The Jobs Fund: <http://www.jobsfund.org.za/>, accessed 16 July 2015

¹⁷⁶ Cf. Business Leadership: Beyond advocacy, <http://www.businessleadership.org.za/beyond-advocacy/index.html?&re=1>, accessed 16 July 2015

¹⁷⁷ Cf. The Practitioner Hub for Inclusive Business: <http://www.inclusivebusinesshub.org/>, accessed 16 July 2015

¹⁷⁸ Cf. MRP Foundation (2013): Business with a heart, <http://www.mrfoundation.org/News/articles/Business-with-a-heart.aspx>, accessed 16 July 2015

¹⁷⁹ Cf. Lima Rural Development Foundation NPC: <http://www.lima.org.za/>, accessed 14 May 2015

¹⁸⁰ Cf. BPESA: <http://www.bpesa.org.za/home/about-us/>, accessed 16 July 2015

¹⁸¹ Cf. Southern African Wildlife College: <http://www.wildlifecollege.org.za/>, accessed 14 May 2015

¹⁸² Cf. AIDC: <http://www.aidc.co.za/>, accessed 16 July 2015

and Chamber of Mines¹⁸³ seek to establish incubators in their sectors. An additional, influential sector association is the South African Sugar Association (SASA)¹⁸⁴.

Funds and financiers

Funding of inclusive businesses and other eco-system players is provided in South Africa through several models including:

- **Challenge funds**, which are based on a competitive, open access process whereby applicants apply according to set criteria and the most innovative, competitive and high impact bids are rewarded. An excellent example of this is the Jobs Fund¹⁸⁵, which uses challenge fund principles to achieve the major national objective of job creation.
- **Debt/equity finance**, which involves loan or equity-based investments to provide the capital for inclusive business operations (for example, Anglo Zimele¹⁸⁶).
- **The Vumelana Advisory Fund**, which provides free transactions advisory support to all parties involved in prospective land-based CPPPs or equity sharing schemes, as a means of overcoming the high transactions costs and uncertainty associated with effective deal-making between communities and private investors¹⁸⁷.
- **Service providers/intermediaries**, the function of which is often to assist in developing the inclusive business market as a whole. Areas of operation would include networking

and match-making organisations (ANDE¹⁸⁸, GIZ¹⁸⁹), knowledge sharing (Reciprocity¹⁹⁰) and platforms and tools for the development of the inclusive business market (B4D pathfinder¹⁹¹, DFID¹⁹², SDC¹⁹³).

NPOs

Given their non-profit obligation, NPOs are not directly considered as inclusive businesses but they form a natural and imperative part of the eco-system. Particularly relevant are cases where NPOs are up-skilling low-income individuals so that they are better placed to enter into inclusive business supply chains as employees, suppliers or distributors (Hand-in-Hand Southern Africa¹⁹⁴). A good example in agriculture is Solidaridad¹⁹⁵ which helps to create sustainable supply chains from producer to consumer. In tourism, the Tourism Enterprise Partnership (TEP)¹⁹⁶ works with small tourism businesses in the country to make them more sustainable.

Donors/foundations

Due to the sustainability potential of inclusive business models, there is growing interest for donors and foundations in South Africa where the regulatory and consumer base is highly conducive to inclusive business market development. GIZ, Bill & Melinda Gates Foundation¹⁹⁷, Rockefeller¹⁹⁸, the SABMiller Foundation¹⁹⁹ and USAID²⁰⁰ are just a few of the donors/foundations currently operating in the space.

¹⁸³ Cf. Chamber of Mines: <http://chamberofmines.org.za/>, accessed 16 July 2015

¹⁸⁴ Cf. SASA: <http://www.sasa.org.za/HomePage1.aspx>, accessed 16 July 2015

¹⁸⁵ Cf. The Jobs Fund: <http://www.jobsfund.org.za/>, accessed 16 July 2015

¹⁸⁶ Cf. AngloAmerican: Enterprise Development, <http://southafrica.angloamerican.com/our-difference/zimele-enterprise-development.aspx>, accessed 16 July 2015

¹⁸⁷ Cf. Vumelana: <http://www.vumelana.org.za/>, accessed 14 May 2015

¹⁸⁸ Cf. Aspen Network of Development Entrepreneurs, <http://www.andeglobal.org/>, accessed 16 July 2015

¹⁸⁹ Cf. GIZ: South Africa, <http://www.giz.de/en/worldwide/312.html>, accessed 16 July 2015

¹⁹⁰ Cf. Reciprocity: The BoP Lab (Southern Africa). http://www.bop.org.za/BoP_Lab/Home.html, accessed 16 July 2015

¹⁹¹ Cf. B4D: <http://www.b4dpathfinder.org/>, accessed 16 July 2015

¹⁹² Cf. DFID: South Africa, <https://www.gov.uk/government/world/organisations/dfid-south-africa>, accessed 16 July 2015

¹⁹³ Cf. SDC: Swiss Cooperation Office in South Africa: <https://www.eda.admin.ch/countries/south-africa/en/home/representations/cooperation-office.html>, accessed 16 July 2015

¹⁹⁴ Cf. Hand-in-Hand Southern Africa Foundation: <http://www.handinhandinternational.org/results/southern-africa/>, accessed 14 May 2015

¹⁹⁵ Cf. Solidaridad: Solidaridad Southern Africa, <http://www.solidaridadnetwork.org/regions/southern-africa>, accessed 14 May 2015

¹⁹⁶ Cf. TEP: <http://www.tep.co.za/>, accessed 14 May 2015

¹⁹⁷ Cf. Bill & Melinda Gates Foundation: <http://www.gatesfoundation.org/>, accessed 14 May 2015

¹⁹⁸ Cf. Rockefeller Foundation: <https://www.rockefellerfoundation.org/>, accessed 14 May 2015

¹⁹⁹ Cf. SAB Foundation: <http://www.sab.co.za/sablimited/content/en/sabfoundation-home>, accessed 14 May 2015

²⁰⁰ Cf. USAid: South Africa, <http://www.usaid.gov/south-africa>, accessed 14 May 2015

Academic/research institutions

Theoretical analysis and empirical examination of inclusive business models, their growth potential, and current success factors are just some of the issues researched by institutions such as Endeava²⁰¹, GIBS²⁰², SALDRU's REDI 3X3²⁰³ and Stellenbosch Business School's BoP Learning Lab²⁰⁴. This research informs business decision making, policy development, and the implementation of inclusive business models within the different sectors.

Ratings agencies

Several rating agencies help to define the inclusive business landscape by creating indices describing business potential, transformation achievements, business ease, social responsibility and entrepreneurial ability, among others. Examples include the Bertelsmann Foundation Transformation Index²⁰⁵, the JSEs Social Responsible Investment

Index²⁰⁶, and the World Bank's Doing Business Index²⁰⁷.

Consultants and others

Finally, the growing interest in inclusive businesses has generated a new stream of work for development consultants. Those currently advising donors, business and governments include Genesis Analytics²⁰⁸, Dalberg²⁰⁹, McKinsey²¹⁰ and KPMG²¹¹. There are also specialist service providers with deep expertise in low-income segments. For example, Minanawe²¹² helps corporates understand low-income consumers and assist with product development and marketing. For more information about support available around the world for inclusive businesses, visit the database of technical and financial support on the Practitioner Hub for Inclusive Business.²¹³

²⁰¹ Cf. Endeava: <http://www.endeva.org/>, accessed 14 May 2015

²⁰² Cf. Gordon Institute of Business Science: <http://www.gibs.co.za/>, accessed 14 May 2015

²⁰³ Cf. Redi3x3: <http://www.redi3x3.org/>, accessed 14 May 2015

²⁰⁴ Reciprocity: The BoP Lab (Southern Africa), http://www.bop.org.za/BoP_Lab/Home.html, accessed 16 July 2015

²⁰⁵ Cf. Bertelsmann Stiftung: Transformation Index BTI 2016 <http://www.bti-project.org/index/>, accessed 14 April 2016

²⁰⁶ Cf. JSE: <https://www.jse.co.za/services/market-data/indices/socially-responsible-investment-index>, accessed 16 July 2015

²⁰⁷ Cf. The World Bank: Ease of doing business index (1=most business-friendly regulations. <http://data.worldbank.org/indicator/IC.BUS.EASE.XQ>, accessed 16 July 2015

²⁰⁸ Cf. Genesis: <http://www.genesis-analytics.com/>, accessed 16 July 2015

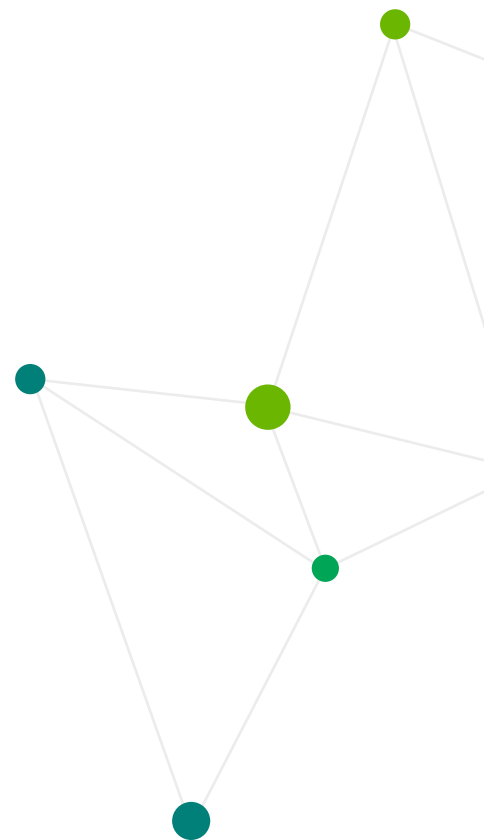
²⁰⁹ Cf. Dalberg: <http://www.dalberg.com/>, accessed 16 July 2015

²¹⁰ Cf. McKinsey & Company: <http://www.mckinsey.com/>, accessed 16 July 2015

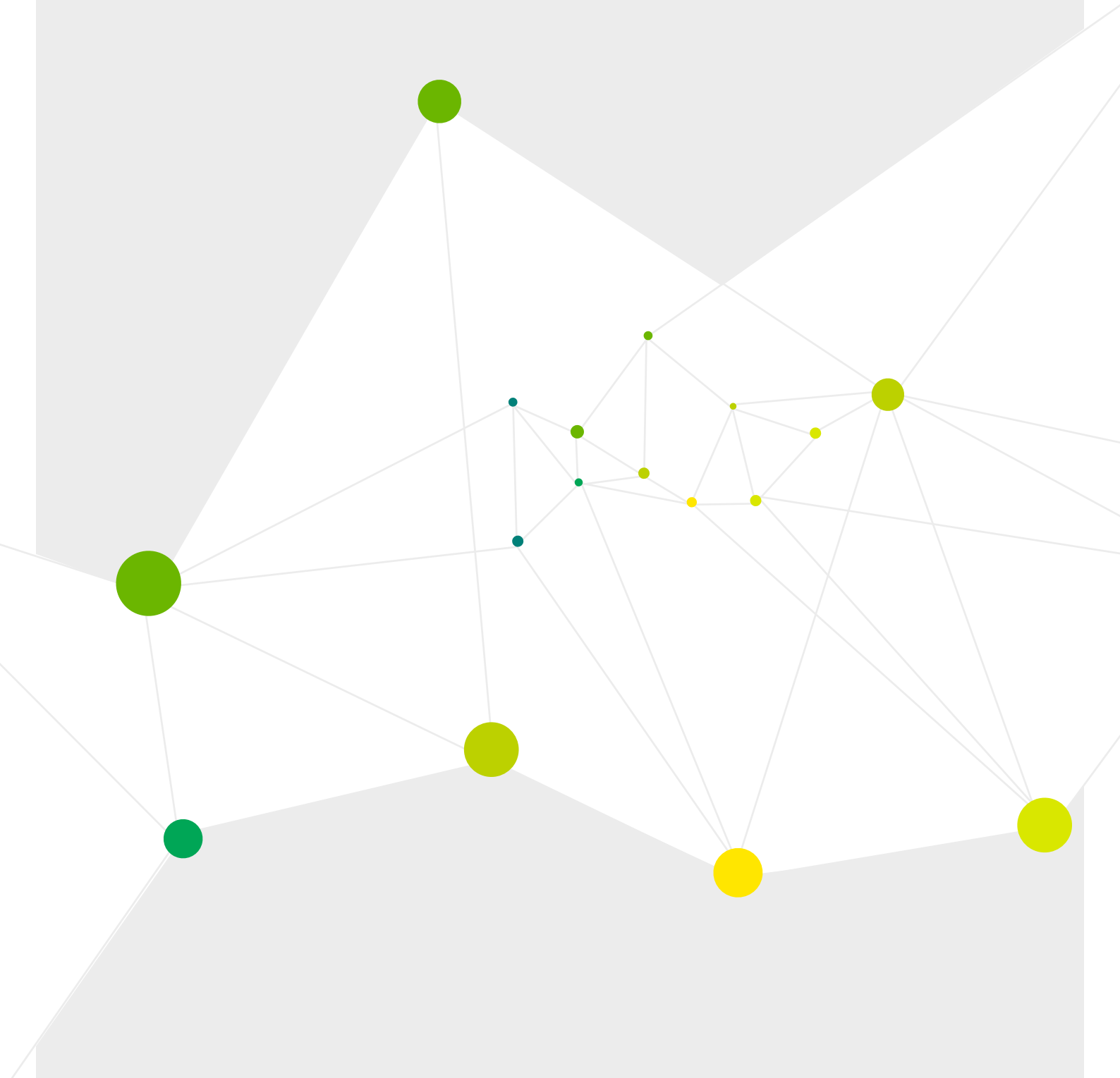
²¹¹ Cf. KPMG: <http://www.kpmg.com/za/en/pages/default.aspx>, accessed 16 July 2015

²¹² Cf. Minanawe: <http://www.minanawe.co.za/>, accessed 16 July 2015

²¹³ Cf. The Practitioner Hub for Inclusive Business: Database of financial and technical support for inclusive businesses, <http://www.inclusivebusinesshub.org/page/data-of-financial-and-technical-support-for-inclusive-businesses>, accessed 16 July 2015



Conclusion



6. Conclusion

South Africa has an innovative and exciting inclusive business environment across the economy. This has been driven by a combination of legislative and economic incentives, with a wide range of public, private, and non-profit players active in the inclusive business ecosystem. There is particular potential for growth, in some cases in very specific niche areas, in the seven priority sectors outlined in this report.

While all of the sectors discussed in this document have been identified as having potential, the following four sectors have significant pro-poor growth potential and high capacity to have impact at scale:

Retail/consumer goods

Retail/consumer goods and smallholder supplier integration²¹⁴ is driven by strong national (and international) retail brands already innovating throughout the value chain (particularly in serving and sourcing from low-income individuals); it is subject to strong legislative and business incentives to involve low-income individuals in the value chain; it is linked to an agricultural sector which has seen some innovative approaches and successes, but still has a lot of room for improvement; it has high potential for growth and high potential to include the poor – often including the tough-to-reach rural poor.

Skills and education

Skills and education is one of the most pervasive challenges in the South African environment in general, and in inclusive businesses in particular. Despite education being a national priority, the public sector has come under much scrutiny for South Africa's education performance, and the social need – particularly in poor communities – is great. Additionally, the prevention of negative

impacts and the potential for job creation make it extremely important to South Africa's future. Inclusive business models in skills and education reach across sectors and are an enabler for improved employment and economic performance (including among inclusive businesses). Additionally, funding for education from donors, corporate social investment, and international bodies appears to be increasing and the sector has the potential for significant scale.

Financial services and insurance

Financial services and insurance are driven by some of the biggest and most trusted brands in the country and they help to address the massive social need for banking and financial services. All of the big players in this sector are already active in the low-income consumer markets and they have some of the most interesting inclusive distribution models, often based on partnerships with other large players from various sectors. Additionally, the South African banking sector is well regulated, accessible, and sophisticated, with a strong market infrastructure. Because of all of this, there is significant scope for scale of impact and systemic change.

ICT

South Africa has a high cellular penetration and strong private sector brands who are already engaging low-income consumers at scale, though there appears to be room for increased pro-poor engagement. ICT enables inclusive businesses in other sectors, most notably financial services, and therefore has good potential for partnerships. The sector is innovative and based on the quick adoption of new technology which makes it an interesting potential generator of new inclusive business models.

²¹⁴ Although we refer to this as a single sector, it is – in reality – a combination of what we see as the most interesting elements for inclusivity in the retail/consumer goods and the agriculture and agro-food sectors.

Agriculture

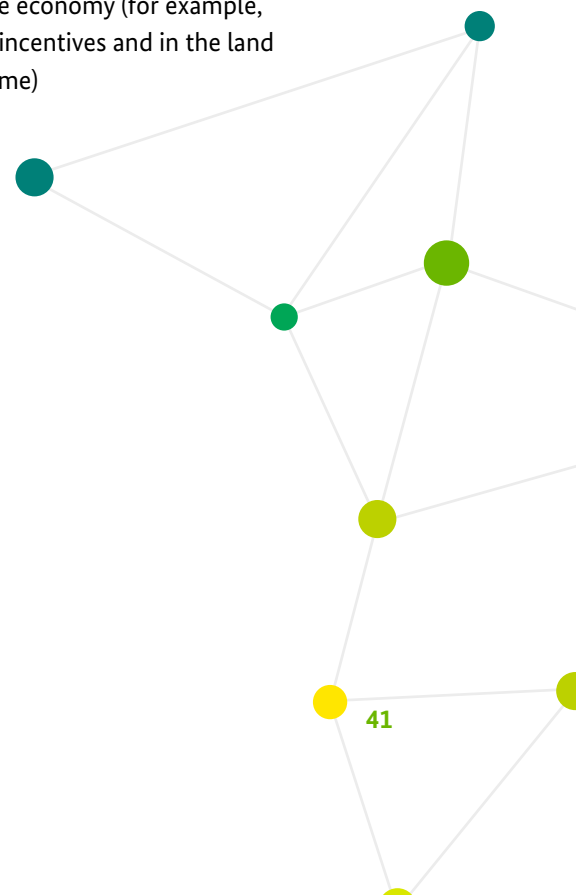
Agriculture and agro-food's most interesting elements for inclusivity have been included above because of the natural affinity and similarities between agricultural suppliers and retailers. While the energy sector is of great interest to South Africa (especially in the current climate of 'load shedding') and is the subject of much global innovation, Eskom, the public utility company, has a monopoly on the market which could influence interest in investing in the space and stifle private sector-led innovation. In addition, the massive up-front costs and skills requirements for low-income participation as suppliers are prohibitive. Examples in other countries, therefore, seem to suggest that this is more commonly suited to donor interventions than to pure inclusive business. Finally, inclusivity tends to be in pockets or communities rather than at a systemic level, making scale of impact more difficult to achieve than in other sectors (such as ICT).

Tourism

For the tourism sector, too, a number of challenges exist that make it less attractive for inclusive businesses. Skills and education requirements make it challenging to involve low-skilled individuals as employees above a certain level and pay grade. Successful models tend to be small scale, meaning that systemic change is more challenging. Finally, entrepreneurs and new businesses can find it challenging to fund initial operations because of the inherent seasonality of tourism. It is critical that those organisations active in the inclusive business ecosystem in South Africa work

towards addressing some of these sector specific challenges. Additionally, there are seven key challenges that are pervasive across the South African landscape that need to be addressed by public and private players working together with external facilitators to come up with sustainable solutions.

- The need for **increased skills and improved education** at all levels, including continued investment in SMME and entrepreneur development as well as community-centred development;
- Persistent **infrastructure challenges**, particularly in more rural and remote parts of the country;
- The need for continued innovation in ways to improve **access to credit and financial services**;
- A still **insufficient understanding of low-income individuals** and their potential roles along the value chain, including as consumers;
- **Difficulties in aggregating suppliers** of various categories of products;
- The need to address the **untapped potential in ICT** for inclusivity; and
- The need for further **understanding of South Africa's legislative and regulatory environment**, including opportunities that it creates to enhance the participation of low-income consumers in the economy (for example, through BBBEE incentives and in the land reform programme)



Appendices

Appendix 1: Research methodology

An in-depth mapping study of the South African inclusive business context, the businesses themselves, and organisations and intermediaries active in the space was conducted to achieve the objectives of this report.

There are three primary channels through which inclusive business (IB) stakeholders were identified in the mapping study:

- **The Genesis client network.** We have leveraged our previous project work and existing client relationships to garner current and potential IBs in the South African market.
- **IB sector experts.** We have used our deep development economics networks and professional contacts for their contact details if they are IBs themselves or for the names and contact details for any IBs they know of.
- **Secondary research.** There are numerous documents and websites relevant to the IB sector in South Africa (our final list is captured in Annexure A, below). We used these to further identify IBs relevant to South Africa and to source contact details.

In addition, IB stakeholders were identified through referrals obtained from the interviews with key stakeholders as per the Fieldwork Research component of the work. This approach ensures that a comprehensive list of IB stakeholders is generated. Although any such list will not be exhaustive, we have endeavoured to capture all of the key players relevant to the study. We have also tried to obtain as diverse a list as possible. Specifically, we included representatives from inclusive businesses across sectors, supporting organisations and intermediaries, funders, industry associations, and relevant government entities, among others.

Appendix 2: Programmes and policies relevant to inclusive business

- **National Development Plan, 2012²¹⁵:** Economic and development policy across a diverse range of sectors so as to provide a path to achieve socio-economic objectives by 2030.
- **Incubation Support Programme, 2014²¹⁶:** An incentive scheme to promote the sustainable development and integration of small, micro and medium enterprises (SMMEs) into the economy.
- **Promoting an Integrated Co-operative Sector in South Africa 2012–2022²¹⁷:** A policy aimed at promoting co-operative, it encourages a “strong, viable, self-reliant, autonomous and self-sustaining” co-operative movement.
- **Green Economy Accord, 2011²¹⁸:** An agreement between government, private business, labour unions and civil society to pursue a target of 300,000 jobs that will contribute to greening the economy by 2020. It was an outcome of the NGP.
- **Local Procurement Accord, 2011²¹⁹:** An agreement between government, private business, labour unions and civil society for all parties to assist in increasing the local sourcing of goods and services and reducing imports so as to stimulate local job creation.
- **New Growth Path (NGP), 2010²²⁰:** Economic policy to stimulate job creation, and reach a targeted 5 million jobs by 2020, the NGP describes a developmental state whereby policy should aim to stimulate an “inclusive, labour-absorbing and efficient economy”.

²¹⁵ Cf. South African Government: National Development Plan 2030, <http://www.gov.za/issues/national-development-plan-2030>, accessed 14 April 2016

²¹⁶ Cf. Republic of South Africa Department of Trade and Industry (2014): Incubation Support Program (ISP), https://www.thedti.gov.za/ISP/ISP_Guidelines_Ver2.pdf, accessed 14 April 2016

²¹⁷ Cf. SALGA: Promoting an Integrated Co-operative Sector in South Africa 2012 – 2022, <http://led.co.za/documents/promoting-an-integrated-co-operative-sector-in-south-africa-2012-2022>, accessed 14 April 2016

²¹⁸ Cf. Republic of South Africa Department of Economic Development (2011): Green Economy Accord, http://www.gov.za/sites/www.gov.za/files/accord_GREEN.pdf, accessed 14 April 2016

²¹⁹ Cf. Republic of South Africa Department of Economic Development (2011): Local Procurement Accord, http://www.gov.za/sites/www.gov.za/files/accord_Procure_3.pdf, accessed 14 April 2016

- **Financial Sector Code, 2004²²¹**: In reference to the B-BBEE Act (Act 53 of 2003), the generic codes, and the Financial Sector Charter, the financial sector created this charter to reflect their agreement to a transformed, globally competitive, equitable and demographically reflective financial sector.
- **Infrastructure Grant to Provinces and Municipal Infrastructure Grant (MIG), 2000²²²**: Grants to improve infrastructure and allow for market access for poor and historically disadvantaged communities, at both the municipal and provincial levels.
- **National Housing Subsidy Programme, 1994²²³**: Assists the poor to invest in housing and allow for increased numbers of home-ownership, this subsidy allows for six different types of funding mechanisms so as to incorporate the diverse poor.

Appendix 3: A public focus on education

A sizeable Technical and Vocational Education and Training (TVET – previously called Further Education and Training or FET) industry exists. TVET colleges provide a range of programmes in 50 colleges across South Africa comprising almost 300 campuses.²²⁴ Enrolments in TVET programmes are expected to reach one million enrolled students by 2015, and the goal is to expand to 2.5 million by 2030.²²⁵ These colleges sit under the Department of Higher Education and Training (DHET) and receive significant government and policy attention. The National Skills Development Strategy III (NSDS III) states that “the public FET college system is central to the government’s programme of skilling and re-skilling the youth and adults. Its transformation is critical for the integration of education and training and responding to the skills needs in our country”.²²⁶ Furthermore, in a recent address, DHET Minister, Dr. Blade Nzimande stated “Our top priority is to expand the TVET colleges while improving their quality”.²²⁷

The goal in all of this is to increase the skill level – and therefore improve the employment opportunities – of (particularly previously disadvantaged) South Africans. This will help South Africa address some critical issues, notably youth unemployment. This is clearly a national level priority being addressed by the public sector. However, the results are poor and are not improving.

²²⁰ Cf. South African Government (2010): The New Growth Path, <http://www.gov.za/about-government/government-programmes/new-growth-path>, accessed 18 April 2016

²²¹ Cf. Government Gazette (2012): Financial Sector Code for Black Economic Empowerment, https://www.thedti.gov.za/economic_empowerment/docs/beecharacters/Financial_sector_code.pdf, accessed 18 April 2016

²²² Cf. Republic of South Africa Department of Provincial and Local Government (2004): The Municipal Infrastructure Grant Programme - An Introductory Guide, <http://mig.dplg.gov.za/Content/documents/Guidelines/Annex%20B%20-%20MIG%20Introductory%20Guideline.pdf>, accessed 18 April 2016

²²³ Cf. Republic of South Africa Department of Human Settlements (2010): National Housing Policy and Subsidy Programmes, <http://policyresearch.limpopo.gov.za/bitstream/handle/123456789/1084/National%2520Housing%2520Policy%2520and%2520Subsidy%2520Programmes.pdf?sequence=1>, accessed 18 April 2016

²²⁴ Cf. TVET Colleges South Africa: <http://www.tvetcolleges.co.za/>, accessed 14 May 2015

²²⁵ Cf. Republic of South Africa Department of Higher Education and Training (2013): White Paper for Post-School Education and Training, p.xii, <http://www.che.ac.za/sites/default/files/publications/White%20Paper%20-%20final%20for%20web.pdf>, accessed 8 July 2015

²²⁶ Cf. Republic of South Africa Department of Higher Education and Training: National Skills Development Strategy III, p.15, http://led.co.za/sites/default/files/cabinet/orgname-raw/document/2012/nsds_3.pdf, accessed 8 July 2015

²²⁷ Cf. Nzimande, B. (2014): Address by the Minister of Higher Education and Training, Dr Blade Nzimande, at the Conference of the South African Heads of Mission, 28 August 2014, <http://www.dhet.gov.za/SiteAssets/Minister%20Speeches2014/Keynote%20address%20by%20the%20Minister%20of%20Higher%20Education%20and%20Training%20.pdf>, accessed 14 May 2015

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- B4D: <http://www.b4dpathfinder.org/>, accessed 16 July 2015
- Backsberg: <http://backsberg.co.za/wine-range/>, accessed 14 May 2015
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