

Booklet 3

Assessment of income generating activities in Region E, Eastern Cape

BAMBISANANI



“ Our project struggles due to poor infrastructure, we must share premises, have got no electricity or water, no fences, look at the road we must travel...”

Respondent from Bizana

2001

BAMBISANANI

Assessment of income generating activities in Region E, Eastern Cape

Conducted by

*The Small Business Unit,
University of Port Elizabeth*

For the

Bambisanani Project

And funded by

Gold Fields Community Trust

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The printing of this booklet was made possible through support provided by the United States Agency for International Development (USAID)/South Africa under the terms of contract number 674-0320-C-00-7010-00. The opinions expressed herein are those of the author and do not necessarily reflect the views of the United States Agency for International Development or Management Sciences for Health.

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Foreword

The HIV/AIDS epidemic is progressively decimating community resources and support structures in the former Transkei. The Bambisanani Project was initiated in 2000 as an integrated response to assist three communities (Umzimkulu, Bizana and Lusikisiki) to respond to the emerging HIV/AIDS related needs for care and support.

In order to inform the elements of the Project, three studies were commissioned:

- ▣ An assessment of mechanisms for identifying children in distress (or CINDI)
- ▣ An assessment of community orientations to HIV/AIDS prevention, care and support
- ▣ An assessment of income generating activities

This booklet summarises the research report of **an assessment of income generating activities** conducted by the Small Business Unit (SBU) at the University of Port Elizabeth. The study was conducted in February 2001 and funded by Gold Fields Community Trust.

Abbreviations

IGA	Income generating activity
LBSC	Local Business Service Centre
LED	Local economic development
PLWHA	People living with HIV and AIDS
SBU	Small Business Unit, University of Port Elizabeth
SMME	Small, medium and micro enterprises
TOR	Terms of reference

Background

The context within which the Bambisanani Project operates recognises that:

- ▣ There is extensive poverty throughout Region E, an area in the north-eastern part of the Eastern Cape Province.
- ▣ It is not only inappropriate, but also impossible, to provide home based care in a vacuum and services must take the socio-economic status of affected families into consideration.
- ▣ The progression of and treatments for HIV disease are affected by poverty. Factors such as inadequate and overcrowded housing, unsafe drinking water, poor sanitation, under-nutrition and infectious diseases can decrease the survival time of people living with HIV/AIDS (PLWHAs).
- ▣ Household resources are drained by treatment and transport costs. Funerals also represent significant financial burdens.

The above factors informed the decision to include an income generation component as one of the Bambisanani Project elements. The intention is for appropriate IGAs (income generating activities) to be offered from Drop-in Centres established in each of the three Project areas (Lusikisiki, Bizana and Umzimkulu).

A study was commissioned to inform this element of the Project. It was conducted by the Small Business Unit, University of Port Elizabeth, and funded by the Gold Fields Community Trust.

Terms of reference

The Small Business Unit (SBU) at the University of Port Elizabeth has, as its mandate, to provide a comprehensive supportive service to the SMME community in the Province of the Eastern Cape.

They were thus ideally placed to conduct the IGA assessment, the terms of reference of which were:

- ▣ To identify appropriate and sustainable IGAs.
- ▣ To identify and locate the equipment needed to offer the IGAs at the Drop-in Centres.
- ▣ To establish the capacity building and/or training needs of the Drop-in Centre Co-ordinators specifically in the area of business management.
- ▣ To recommend monitoring systems to supply the information needed for on-going mentoring and training.

Methodologies

The following two methodologies were employed:

1. A study of relevant documents on national policy and legislation and on SMMEs and rural development.
2. Field work in all three Project areas during which discussions were held with community groups, development agencies and stakeholders involved in the development environment.

Findings

1. Legislative and policy framework

The National Strategy for the Development and Promotion of Small Business in South Africa (1995) and the National Small Business Act (1996), called the Enabling Act, aim to:

- ▣ Create an enabling environment for the SMME sector by making small businesses equal partners in all economic sectors and maximising the contribution of the sector to the Reconstruction and Development Programme; and
- ▣ Provide for the establishment of a supportive institutional framework namely the Ntsika Enterprise Promotion Agency (for non-financial support) and Khula Enterprises (for financial support).

The national priorities stipulated in the Enabling Act are:

- ▣ Target groups: women, youth, people with disabilities
- ▣ Areas: rural areas
- ▣ Sectors: small manufacturers

2. The context for IGAs in Region E

Of the 3.5 million people (1996 Census) living in the former Transkei, 95% of them live in rural areas. The per capita income of R150 per month is estimated to be about 25% of the Provincial average.

The local private sector is small (agriculture, forestry, manufacturing, commerce/financial, transport, construction and tourism).

Formal sector employment in the distant gold mining industry is declining, resulting in reduced remittances as a source of household income. Unemployment is a significant problem.

Primary economic activities in Region E

During the fieldwork, 22 IGAs were assessed, some of which had been in existence since as early as 1995. Of the respondents interviewed, 69% were men and 31% were women.

The following table summarises their primary IGAs.

Sewing	6
Chicken production (poultry)	4
Vegetable and crop production	3
Bread baking	2
Block making	2
Barbed wire making	1
Other (prospective IGAs)	4
Total	22

Some of the respondents were also involved in secondary economic activities such as grass mat making, egg production, pig farming and food gardens.

On average, between 8 and 10 people were involved in each of the IGAs assessed. In turn each of these people supports an average of 7 other people.

Indigenous resources occurring in Region E offer opportunities for IGAs related primarily to agriculture and forestry. About 20% of the land is suitable for arable farming, however, more than 70% of the fields had not been cultivated for 5 years and, where cultivated, yields were very low (half a ton of mealies per hectare).

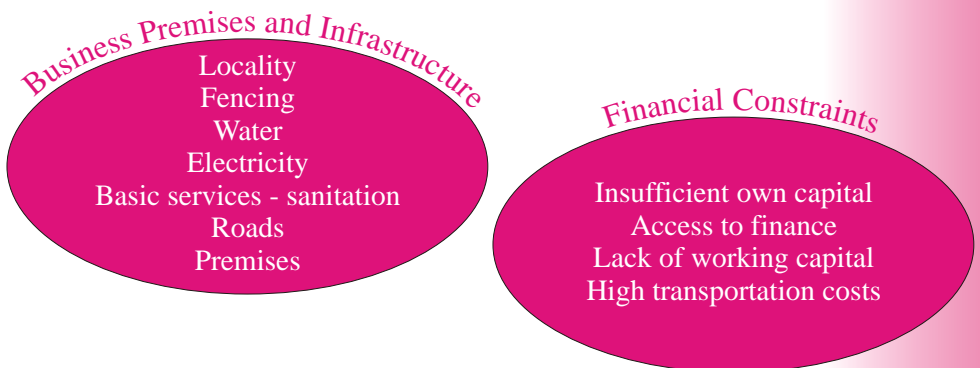
On the other hand, 80% of land is suitable for grazing, however, most areas are stocked to levels close to the biological maximum and far above the economic optimum. The result is that income derived from livestock is very low - only 10% to 25% of what is possible.

About 175 000 hectares of the former Transkei are forest and a further 100 000 hectares are indigenous forest. A further 1.5 million hectares of land are suitable for forest development.

4. Key observations

- 4.1 Existing IGAs have the potential to deliver more. Under-performance is due, not to a lack of sales, but rather to the inability to produce the required quantity or quality.

The problems/barriers/constraints identified are summarised as follows :



Market Constraints

Limited markets
Increasing competition
Wholesale trade

Operational Constraints

Lack of effective equipment
Lack of access to suppliers
(sales and maintenance)
No access to certain raw materials

Information

Limited access to sources
of information

Laws and Legislation

Labour codes for the workplace
Taxation

Business Management and Training

Insufficient education and business
management experience
Lack of training services -
technical and/or business
management
Lack of support services

- 4.2** The respondents know the needs of their existing and potential customers. Improved co-ordination and communication between IGAs, Government Departments, Local Authorities and other development agencies could result in additional markets for IGA products.

- 4.3** The majority of respondents indicated that few of their members, less than 10%, had received technical or skills training at some stage. For many this had happened long ago. Most IGAs had an "in-house" development programme for members to upgrade their skills. Even fewer had received any form of business management training and none could provide information on the financial position of their IGA. However, almost all had had training in record keeping.

After-care/skills upgrading is not provided by training providers (both in the areas of business management as well as technical training.)

- 4.4** Rural SMMEs tend to be survivalist micro enterprises in which women entrepreneurs engage in the least remunerative areas of the local economic environment.

Typically rural SMMEs face problems such as:

- ▣ A limited demand for goods and services
- ▣ The depressed state of rural economies
- ▣ Limited access to finance and credit
- ▣ Lack of business and technical skills
- ▣ Ineffective Local Government and community structures to facilitate local economic development programmes

Recommendations

1. Choice of IGAs

Many IGAs fail, often as a result of incorrect choices of IGAs. Those selected for offer from the Drop-in Centres must:

- ▣ Be identified by members of the community, in accordance with their specific needs.
- ▣ Be accompanied by deliberate actions to counter or eliminate the barriers/constraints to success.

Ideally the above should be supported by a SMME Practitioner.

2. Management training

The basic fundamentals/principles of business development should be strictly adhered to. For this to happen, management training should be offered from the Drop-in Centres to:

- ▣ Create an awareness and understanding of business principles.
- ▣ Introduce IGA participants to small business management practices.

This training will need to take account of the literacy levels of participants.

After-care should be part of the training process as it assists participants with implementation of newly acquired skills and with any problems that arise.

3. **Networking and co-ordination**

A priority activity will be to establish a functional network and linkages and then to service these.

A functional network will consist of the following institutions/organisations and the functions of the Drop-in Centres will be defined within these relationships:

1. **Practising Entrepreneurs**

By enhancing the contribution of the entrepreneurs in implementing entrepreneurial activities, the Drop-in Centre will:

- Facilitate the use of practising entrepreneurs as role models for trainees in the training institution
- Promote the placement of trainees in internships
- Facilitate the supply of resource personnel for entrepreneurial consultancy/counselling services
- Organise training in managerial/technical skills based on needs assessment of sectors to entrepreneurs in the surrounding community
- Offer extension consultancy and counselling services to entrepreneurs
- Facilitate network/linkages that could lead to sub-contracting between practising entrepreneurs

2. Financial Institutions

To enable financial institutions to assist potential and existing entrepreneurs in the business/industrial community, the Drop-in Centre will provide information on the availability of credit and technical/extension services. The Drop-in Centre will also create an awareness of the needs and problems of the IGAs and/or individual entrepreneurs to the financial institutions.

3. Development Agencies (LBSCs)

To undertake entrepreneurship activities in the broadest terms, the Drop-in Centre will:

- Liaise with all development agencies to best utilise facilities and staff.
- Establish co-existence mechanisms with other development agencies.
- Facilitate implementation of innovative ideas emanating from the various development agencies.

4. Organisation: Trade and Industry

To enable trade associations to further their involvement in entrepreneurial development activities, the Drop-in Centre will exchange information and facilitate networking mechanisms.

5. NGOs/ CBOs/ Donors

To facilitate participation in joint programmes with NGOs and donor agencies, where such collaboration is in line with the activities, the Drop-in Centre will:

- Disseminate information on specific assistance packages.
- Accept assistance from NGO and donor sources to supplement their own resources.
- Facilitate operation of NGO and donor activities.

6. Government, Parastatals and Tribal Authorities

To assist the Government Departments, parastatals and tribal authorities in promoting entrepreneurial development, the Drop-in Centre will:

- Promote co-operation between itself and Government Departments, parastatals and tribal authorities.
- Involve the personnel of Government, parastatals and tribal authorities as resource persons for small enterprise development activities.
- Create an awareness of the needs and problems of Drop-in Centres to relevant Government Departments, parastatals and tribal authorities.

7. LED Structures

The Local Economic Development initiatives in the community can only be successful if they are properly co-ordinated, utilising all the resources available within the communities. The Drop-in Centres can play a dominant role within the LED structures to the benefit of all the IGAs.

Drop-in Centre

A Drop-in Centre can render the following services:

- ▣ Information
- ▣ Advisory
- ▣ Counselling/consultation
- ▣ Training

To the community at large by organising, facilitating and utilising all available, appropriate resources, locally and elsewhere, in the functional network of the Drop-in Centre to the benefit of the IGAs and the community.

TOR for the Drop-in Centre Co-ordinator

In selecting a suitable Drop-in Centre Co-ordinator, the following were recommended as the terms of reference:

- ▣ Good communication skills.
- ▣ Understanding of the influence and dynamics of the tribal authorities and Chiefs.
- ▣ The ability to identify available resources for use in IGAs.
- ▣ The ability to develop synergy within the community.
- ▣ Knowledge of resources that could form part of the support system to the IGAs.
- ▣ The ability to develop, maintain and manage a credible, mutual trust relationship with "clients".
- ▣ Exceptional organisational abilities.
- ▣ The ability to assess quality.
- ▣ The ability to distinguish between suitable, practical interventions that can be implemented and others.
- ▣ Sound small business development experience.
- ▣ Strong community involvement background.

Indicators

Indicators that could be used in measuring the effectiveness, success, achievements of an IGA project and a Drop-in Centre were recommended:

- ▣ Rate of survival of IGAs and/or businesses assisted by the Drop-in Centre.
- ▣ The number of network/linkages established with NGOs and financial institutions that have tangible benefits for the Drop-in Centre.
- ▣ Amount of useful research information readily available for use by the Drop-in Centre clients.
- ▣ Improvement in product quality by Drop-in Centre clients.
- ▣ Number of IGAs and/or businesses rehabilitated through Drop-in Centre support.
- ▣ Increase in revenue generated by Drop-in Centre activities.
- ▣ Number of jobs created by IGAs and enterprises assisted by Drop-in Centre initiatives.
- ▣ Increased community participation in using the services of the Drop-in Centre.
- ▣ Number of subcontracting network/linkages facilitated by the Drop-in Centre.
- ▣ Improvement in loan repayment of IGAs and/or entrepreneurs assisted by the Drop-in Centre.

- ▣ Number of essential products developed through Drop-in Centre assistance.
- ▣ Number of IGAs and/or businesses expanded using indicators such as size, employment, diversification of products and market developments.
- ▣ Number of trainees funded through Drop-in Centre.
- ▣ Number of members trained in IGAs.

Conclusion

1. The existing IGAs assessed in the Bizana, Lusikisiki and Umzimkulu areas have a very limited chance to survive in their present format for the next two years.
2. Only an absolute minority of the IGAs can survive if certain adjustments are not made to their existing business practices.
3. The overall constraints experienced by these IGAs can be categorised as follows:
 - Infra-structural and environmental constraints.
 - Constraints in the functional areas of their business practices.
 - Information constraints - laws and regulations.
 - Lack of capacity - need for training (business management skills and technical skills).
4. A completely new business orientated culture or business approach will have to be introduced and a complete paradigm shift away from a “welfare”-driven culture will have to be propagated.
5. With this new approach, new IGAs will have to be identified by the members of the community within their communities in accordance with their specific needs. To do this, the communities will have to be supported by a SMME Development Practitioner.
6. All development interventions to establish IGAs should have deliberate actions to counter or eliminate the barriers/constraints as identified.

7. A prerequisite for dealing with the constraints effectively is to understand or to have insight into the dynamics of the specific environment in which the IGAs operate, for example, the tribal authorities' laws and customs.
8. The basic fundamentals/principles of business development should not just be condoned but should be strictly adhered to.
9. The Co-ordinator of the Drop-in Centre will have to be capacitated and trained to identify and relate to those factors which are a prerequisite of sound business development.
10. The role and purpose of the Drop-in Centres in this context cannot be over-emphasised and is of paramount importance in the process of establishing sustainable IGAs.
11. The establishment of sustainable, quality IGAs to address the financial and other needs in the communities will depend entirely on the successful implementation of the Drop-in Centres in that area.



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