

# South Africa's informal sector in the time of Covid-19



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Series Editor: Ann Bernstein

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## Introduction

The Covid-19 pandemic has caused severe disruption to South Africa's economy. What will happen to informal sector firms? Will the sector expand rapidly as formality becomes unaffordable for many more firms in the much more difficult post-Covid-19 world? Or, will informal firms, often the most vulnerable, be the ones to collapse first, causing the sector to shrink further?

As we gradually emerge from the nationwide lockdown and seek to revive and rebuild the economy, it is vital to have a clear picture of how firms are coping, especially the vulnerable and small firms that have almost certainly been hardest hit.

To start building a clearer picture of how this complex sector is faring during this pandemic, CDE held a virtual workshop in June with some of the country's leading experts, prominent organisers, and service providers in the sector.

The following people presented at the workshop:

- Andrew Charman (Director, Sustainable Livelihoods Foundation)
- Jane Barrett (Director, Women in Informal Employment: Globalizing and Organizing)
- GG Alcock (Marketer and Author of *KasiNomics*)
- Brian Phaahlo (General Secretary, South African Informal Traders' Forum)
- Tina Mason (Chief Operating Officer, A2Pay)

Other speakers who contributed to the discussion were:

- Frederick Fourie (Research Fellow, University of the Free State)
- Tanya Zack (Urban Planner, Tanya Zack Consulting)
- Seara Mkhabela (Executive: Corporate Affairs, Anglo American Platinum)

## The numbers: What do we think we know?

This year's Stats SA Quarter 1 *Quarterly Labour Force Survey (QLFS)*, which covers the period up to the end of March 2020, and so does not provide an indication of how Covid-19 may have impacted informal enterprises, shows that there were 2,921,000 people employed in the informal sector (excluding agriculture). That amounts to approximately one-fifth of employed South Africans. The more detailed but less recent Stats SA *Survey of Employers and the Self-employed (SESE)*, which was last published in 2019 (based on data from 2017), found that:

**“The number of persons who ran informal businesses declined from 2.3 million in 2001 to 1.1 million in 2009, before increasing to 1.8 million in 2017.”**

- The number of persons who ran informal businesses declined from 2.3 million in 2001 to 1.1 million in 2009, before increasing to 1.8 million in 2017.
- Approximately 95 per cent of informal business owners had only one business, and the majority of them have been operating the business for five years or longer.
- More than nine in every 10 businesses had no business debt, credit facility, mortgage loan, or asset finance.

Official, quarterly data at this point comes exclusively from Stats SA's QLFS, which counts the informally employed, but not the enterprises in which they work.<sup>1</sup> Some experts who work with informal enterprises (e.g., GG Alcock and Tina Mason, who both contributed to our workshop) believe that the informal sector is much larger and more dynamic than the official numbers suggest, but their figures are derived from their own business interactions and extrapolations. This provides them with an 'on-the-ground' perspective; however, it is important to note that their guesstimates are not endorsed by Stats SA, and there are experts who are not convinced by their claims.<sup>2</sup>

In his contribution to a recent book on the informal sector, Frederick Fourie uses data from 2013 to show that around four-fifths of informal enterprises in South Africa last more than 12 months.<sup>3</sup> Thus, he argues, the idea that the majority of informal firms are 'survivalist' is not backed up by evidence. At the same time, however, new informal sector firms are "fragile and vulnerable, and many owners soon exit or fail".<sup>4</sup> Entrant firms may be especially vulnerable to external shocks, such as the threat posed by Covid-19, for example.

**"The informal sector may be particularly vulnerable in times of severe cyclical downturns."**

## **The nature of the informal sector**

According to Alcock, it is a mistake to think the South African informal sector is made up only of street traders and spaza shops. As he points out, our informal sector consists of a multitude of industries and trades, including but not limited to spaza shops, fast food outlets, bakeries, shebeens and taverns, backroom rentals, hawkers, taxis, mechanics and panelbeaters, hair salons, stylists, barbers, and many more. It is also not physically restricted to townships and rural areas; "it is all around us, all the time".

Fourie claims that the sector is even more diverse. Street traders, he points out, remain very visible, but the share of the retail sector as a proportion of the informal sector has declined markedly since 2001. There is now a broad spectrum of non-retail firms and they have been growing in importance. Many of them are not one-person enterprises, and in fact hire a large number of paid workers. In Fourie's words: "These firms should be thought of as emerging enterprises, but they tend to be ignored in the public debate because there's so much focus on the visible parts of the informal sector, like street traders."

According to Jane Barrett, it is important to note that own-account workers (i.e., owners of one-person enterprises – a subset of self-employed individuals) make up a large portion of the informal sector – approximately 50 per cent of informal sector workers and 80 per cent of informal firm owners in South Africa.<sup>5</sup> This distinction is important because own-account workers require different strategies of support than better-resourced informal firms, says Barrett.

Contrary to the way the informal sector is often discussed, it does not exist in isolation from the formal economy. Studying the informal micro-enterprise sector in Delft in the Western Cape over the past decade, Andrew Charman found that it is cyclically aligned to the formal economy. "When our formal economy goes into recession, this has a dramatic impact on our informal businesses," explains Charman. This is backed up by national evidence, which shows that "the informal sector may be particularly vulnerable in times of severe cyclical downturns".<sup>6</sup> The impact is particularly felt by newer, more vulnerable businesses, most of which experience a huge knock.

This could be because these businesses provide only supplementary incomes to their owners and because they have no dedicated business infrastructure. In a nutshell, they are the fragile ones.

From his research in Delft, Charman says, "We're finding a very high turnover in businesses, and I was extremely surprised that so few of the businesses from 2010 were still operating 10 years later. So, businesses are constantly falling out of the market and they're being replaced by new businesses." It is important to note, however, that this research is not nationally representative. As of 2013, the average age of an informal firm was 5.6 years, and 20 per cent of firms in the sector were older than 10 years.<sup>7</sup> This is twice as high as the figure for the formal sector, where only 10 per cent of firms survive for longer than a decade.<sup>8</sup>

**"The informal sector could be seen as more agile and adaptable than the formal sector, because the former is not as encumbered by regulations as the latter."**

The major growth area over the past decade, according to both Charman and Alcock, has been in the provision of rental accommodation, particularly for people who own property or have the capacity to provide rental opportunities. In a trend that may be related, sectoral analysis of the informal sector between 2001 and 2013 reveals that the largest growth has been in construction, which grew its relative size by a factor of more than three, from 3.1 per cent of the informal sector in 2001 to 10 per cent in 2013.<sup>9</sup> This is an extremely important trend, which CDE intends to investigate in more depth.

Immigrant businesses have recently become quite dominant in many retail categories, certainly in spaza shops, hardware and furniture, and also in some of the service sectors, such as hair care. Alcock estimates that more than 80 per cent of spaza shops in major urban metros are run by immigrant businesses with strong network supply chains and capital. The nature of these businesses has implications for the type of support that is required in the midst of the pandemic, he notes. Relatedly, Tanya Zack points out that the majority of immigrant firms are informal, not by choice but by necessity. As foreigners – often undocumented – they find it extremely difficult to register, access support, or get formal loans.

According to Alcock, the informal sector could be seen as more agile and adaptable than the formal sector, because the former is not as encumbered by regulations as the latter. One example of how adaptable informal firms became during the lockdown is his story of how a bakery in White City, Soweto shifted to a WhatsApp-based platform. Local residents place orders via WhatsApp and the bakery delivers to people's homes by walking around with a trolley and using pin locations. Many fruit and vegetable shops also quickly moved to this pioneering style of trolley delivery.

While a lot of important work on this topic is emerging, it remains important to gain a clearer understanding of the extent and potential of the informal sector, and particularly the challenges it faces. It is only then that we will be able to assess the extent to which the current regulatory environment presents a barrier in the way of faster business growth, and the degree to which better policies could lead to a faster growing, more inclusive economy. This should become a major topic of research and advocacy in the time of Covid-19 and beyond.

## The impact of Covid-19 on the informal sector

It is difficult to predict what the impact of the pandemic will be on the informal sector. The National Development Plan expresses the view that the informal economy will fare relatively well during a crisis, as it "provides a cushion for those who lose formal sector jobs or need to supplement their formal incomes during crises."<sup>10</sup> That view has, however, lost some traction as, according to Michael Rogan and Caroline Skinner, during the 2008-9 financial crisis, employment in the informal sector not only declined but declined by more than in the formal sector.<sup>11</sup> The parallels between that crisis and the current one are, however, hard to ascertain.

Charman argues that "informal firms tend to have little capacity for resilience—when there is a shock to the household, such as the death of a member, this can really deplete a business of its capacity or resources". The upshot is that "the greatest impact might yet happen, depending on how the pandemic plays out". The evidence that Charman collected in Delft prior to Covid-19 shows that "When the economy goes into recession, informal businesses feel a dramatic impact. The hardest hit are survivalist businesses, especially women operating in the food and beverage category."

**"During the 2008-9 financial crisis, employment in the informal sector not only declined but declined by more than in the formal sector."**

Seara Mkhabela agrees that a serious issue facing the informal sector is that of resilience and a lack of knowledge as to which firms are resilient and which are not. Mkhabela observes that we cannot know if businesses will survive even if they were to be given an injection from the fiscus. This is crucial, she says, because we must avoid a situation where we have to keep injecting money into unproductive areas.

Charman explains that the initial effect of the pandemic was particularly severe given the time of the year it arrived in South Africa: "For the township economy, the months of January, February, and March are very poor months from a business point of view – most of the money gets spent in December and businesses only recover around Easter and beyond. In effect, then, Covid-19 and the concomitant lockdown extended this already difficult period into a six-month period of hardship. How much longer this period will stretch, and how variegated the impact will be, is hard to predict."

WIEGO has been analysing the impact of Covid-19 on waste pickers, street vendors, and home-based textile and craft workers. Barrett observes that: "The coronavirus crisis has exposed many of South Africa's fault lines, especially in terms of inequality and the structure of society. This has led, for the first time ever on a regular basis, to senior officials, including the President, Ministers, and others making references to informal labourers and especially waste pickers, who over the last couple of months have achieved a kind of visibility that just simply did not exist before."

Unfortunately, in Barrett's view, this new attention has yet to bear significant fruit. She says the President put together a working group to look at the needs of informal workers affected by Covid-19. In a process that took nearly three weeks, the working group finally recommended a temporary R350 grant for Covid-19 relief and a six-month top-up of the child support grant. While the recommendations were being drawn up, Barrett explains, "many statements were made to the effect that informal workers would be eligible for special support from government, and so huge expectations were created".

It also took a long time for the Department of Environment, Forestry and Fisheries (DEFF) to provide food parcels and vouchers for waste pickers. By then the hunger situation amongst waste pickers had become desperate. Since the relief being proffered did not go nearly far enough to meet the need, says Barrett, organisations representing waste pickers began their own fundraising and supplied food relief to affected communities.

Brian Phaaloh was party to the experiences of informal street traders attempting to operate in Johannesburg while simultaneously adhering to lockdown regulations. This is his account: "We approached the Economic Development Department. We came up with ways for us to operate in a specific street in Johannesburg, where our members are dealing with second-hand clothing: De Villiers Street. We have about two hundred and ten members. We told the Department that we would alternate shifts: half would work one week, the other half would trade the following week. We went to De Villiers Street; we practised social distancing. We did our best. The Department came and they inspected us. Then they just said, 'there is no social distancing, there is too much crowding' – that was the reason they gave. We instructed our lawyers to write a letter to them."

This story of obstruction was further underlined by Zack's telling of how "sellers of fast fashion in the Johannesburg CBD Ethiopian Quarter have been quite heavily harassed by police during lockdown, some of it under the guise that there is no social distancing". The reality, according to Phaaloh, is, "They [government authorities] want to close the entire city. They believe informal traders should not conduct their business in the CBD of Johannesburg."

One sector that has been able to function more effectively within the new regulatory realities, according to Alcock, is the spaza shop sector. Spazas could adapt "very quickly to getting licences because many of them are registered firms". They also implemented health protocols and even "started giving out food parcels in the local community as a kind of way of branding themselves". Fast food operators have also had plenty of business serving the police and the army, says Alcock.

In contrast, rural incomes have been "very dramatically impacted", Alcock states. For example, goat sales in 11 districts in KwaZulu-Natal were, in his estimation, down by R250 million between the start of the lockdown (27 March 2020) and the date of the workshop (12 June 2020). Sellers have been affected "by buyers not being able to come into these rural areas to purchase produce". In addition, "a major factor has been that kids are eating at home and not at feeding schemes". Coupled with the "5-10 per cent price increase on food items", it has meant that "people are focusing very much on buying essentials: maize meal, sugar, rice, flour, oil, spices, bread, milk", etc.

**"They [government authorities] want to close the entire city. They believe informal traders should not conduct their business in the CBD of Johannesburg."**

Mason points to similar trends based on data pulled from KwaZulu-Natal "from a selection of spaza shops". She says in the wake of the lockdown there was an immediate drop-off in sales of 30 per cent on groceries and an immediate uptick in sales of 20 per cent on airtime, electricity, DSTV, and the Lotto. The upshot is that there is less cash in the spaza shop, because they have less money coming from groceries where they have the highest profit margins.

The overall effect for households is that there is almost certainly a massive growth in the importance of pensions and social grants. Many people who were breadwinners have lost their incomes in both the formal and

informal sectors. As a result, in Alcock's view, between 2 and 5 million people will qualify for the government's R350 temporary social relief of distress grant.

The big winners, for Alcock, will be local neighbourhood retailers, whether formal or informal, as well as township fast food outlets and local fruit and vegetable traders, because of the costs and risks of transport. In light of rising transport costs and inconveniences, local malls are seeing growth, whereas megamalls (i.e., the bigger malls in the formal sector) are experiencing a decline in footfall and purchases, according to Alcock.

Small businesses are currently finding it extremely difficult to access microloans. The R200 billion Covid-19 loan scheme is not geared for microloans, so small businesses are not benefiting from this.<sup>12</sup> In Alcock's interactions with "many of the large banks, they say they are not geared to give R5,000, R10,000, R25,000, or R35,000 – it will cost them more to extend that loan than the actual loan amount". This challenge means that there is space to explore how to supply loans and credit into the sector.

**"Strengthening firms to become more capable will lead to formalisation, rather than the other way around."**

Finally, the "elephant in the room", in Alcock's words, is that we are ignoring the immigrant sector by not giving them food parcels and not allowing them to get any benefits. This is a tragedy and risks becoming a major issue down the line. The reality is that the immigrant community gets no social grants and has been heavily restricted, says Alcock. It is likely, therefore, that these business owners are suffering greatly.

## **Policy considerations**

A number of participants pointed to 'formalisation' as a critical way to strengthen informal enterprises. The idea behind this policy consideration is that a firm that becomes part of the formal sector can operate within the broader legal framework of the country, which is supposed to protect firms and put them in line to access legal credit providers.

This is, however, a controversial issue. Fourie argues that rather than focusing explicitly on formalisation, in the sense of making firms compliant with certain regulations, the focus of policy should be to make what he calls 'emerging firms' more robust and less vulnerable. The aims of policies towards firms that are defined as informal should be to give them access to formal facilities, like housing and business facilities, and other infrastructure, as well as helping them acquire accounting and bookkeeping skills.

According to Fourie's research, enterprises that have secure facilities, access to water, electricity, and the internet, and those that have the skills to undertake proper stock control, are much more resilient and prone to growth than those that do not have these things.<sup>13</sup> Such firms also employ more people. For these reasons, Fourie believes that "policy must focus on enablement and not on compliance". From this perspective, strengthening firms to become more capable will lead to formalisation, rather than the other way around.

Many weaker businesses likely prefer to operate informally because it is much easier to run a business without adhering to the various regulatory structures. Any attempt to promote formalisation must therefore consider how to lower the costs of running a formal business, and how to ensure that there are obvious benefits accruing to those who choose to formalise.



It is unlikely, furthermore, that there can be a one-size-fits-all solution towards such a heterogeneous sector, one that spans the range from firms that provide a marginal living to a single owner-operator to businesses doing millions of rands of annual turnover; from bustling townships and city centres to deep, isolated rural areas. How to identify the informal sector firms that are capable of generating substantial growth is something that needs to be explored in depth. Doing this will allow for better targeting of support and incentives.

A2Pay has reported significant success in growing spaza shops by providing them with new technologies, finance options, and training. This fintech company provides specially designed in-store cash terminals as part of a bigger package that includes training and financing options. The terminals record all transactions electronically and ensure that business owners create automatic records of their stock and cash flows, as well as an easily accessible credit history. To allow firms to purchase the new technology and get their business on a sound footing, A2Pay offers loans of up to R50,000. A2Pay reached more than 3,000 entrepreneurs in their initial implementation phase.<sup>14</sup> According to Mason, COO of A2Pay, this support has made a huge difference in the potential for growth and employment amongst supported spazas. As she put it, "When we get two or three or four really important variables right, we see an incredible stability and sustainability in this market."

It is worth noting, though, that the cost of doing business has been rising in South Africa. Our ranking in the World Bank's *Ease of Doing Business Index* has fallen by 50 places in a decade, from 34<sup>th</sup> in the world in 2010 to 84<sup>th</sup> in 2020. It is likely that the growing regulatory burdens reflected in this index have acted as a constraint on both small business growth and increased formalisation.

In addition, the attitude of the authorities could add significantly to the challenge. In Phaaloh's view, street traders are trying hard to work with municipalities, yet they suffer extensive harassment at the hands of the authorities. Not only does this cause manifold indignities, such a strong-arm approach cannot be good for the growth of self-employers, entrepreneurs, survivalist firms, and other people living on the margins of society, trying to eke out a living. In Phaaloh's words, informal sector firms "do not need to be policed". Rather, he says, "We need to be managed. We are enterprise owners and we want to be treated as such." (Unfortunately, we were unable to get senior officials from the metros to attend the workshop to hear their perspective on how best to make cities provide opportunities for many more people.)

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Barrett supports this perspective on enabling rather than policing street traders and others, and urges municipalities to play a leading role in providing water points, ablution facilities, electricity points, sorting sites for waste pickers, and other kinds of enabling infrastructure.

As she and Fourie note, there is now a national-level recognition of these issues emerging in the wake of the pandemic, as President Cyril Ramaphosa explicitly referred to assisting the informal sector. Hopefully, this is a sign of things to come, where this vital part of the economy is no longer ignored or threatened, but included in every part of South Africa's strategic economic thinking and policymaking.

## Concluding thoughts

This CDE workshop and discussion raised many issues and provided insights from people with considerable knowledge about informal businesses in South Africa. This is a vital part of the economy and it deserves much greater and more rigorous assessment.

In the months to come, further data will emerge on the economic impacts of Covid-19. It is crucial that we gain as clear as possible a picture of how the informal sector has been affected by the pandemic. Policy responses will be required that start to give informal businesses the best possible opportunities to grow and become part of a more inclusive economic system. At the same time, however, we must be aware that, in the long term, access to formal employment may be the best way to improve the livelihoods of very many informal firm owners and employees, while any attempt to help small businesses will fail unless the economy as a whole gets onto a stronger footing and starts growing at an acceptable pace.

There is much to learn before we can move towards developing a comprehensive approach that will allow as many small firms as possible to grow across both the formal and informal sectors, to provide additional employment opportunities, and to contribute significantly to building a more inclusive South African economy. Among others, the issue of housing entrepreneurs operating informally requires attention, and we need to hear the voices of city managers and others on how they understand the challenges of managing cities in a way that benefits everyone.

**“In the long term, access to formal employment may be the best way to improve the livelihoods of very many informal firm owners and employees.”**

Before the outbreak of Covid-19, South Africa had an economy that was shrinking and providing very few job opportunities for poor South Africans with limited skills. That situation has been severely exacerbated by the pandemic. Even if the country embraces a comprehensive reform programme, it will take a long time to get anywhere close to the kind of economy we need to thrive as a country. In that context, using our extremely limited state capacity to shut down and erect barriers in the way of any kind of entrepreneur, formal or informal, seems perverse.

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## Notes

<sup>1</sup>The International Labour Organisation defines informal enterprises as those that are unincorporated, meaning "it is not constituted as a legal entity separate from its owners; it is owned and controlled by one or more members of one or more households; and it is not a quasi-corporation (it does not have a complete set of accounts)". In addition, informal sector enterprises are market enterprises, which "means that it sells at least some of the goods or services it produces". Lastly, an informal sector enterprise must meet at least one of the following criteria: "The enterprise is not registered; the employees of the enterprise are not registered; or the number of persons engaged/employees employed on a continuous basis is below a threshold determined by the country." International Labour Organisation, *Informal economy*, no date, p. 1.

<sup>2</sup>Tamara Oberholster, 'Tracking the Unseen Economy', *Acumen* (20 July 2020), <https://www.acumenmagazine.co.za/articles/tracking-the-unseeneconomy-11065.html>

<sup>3</sup>Frederick Fourie, 'Informal-sector employment in South Africa: An enterprise analysis using the SESE survey', in *The South African Informal Economy: Creating Jobs, Reducing Poverty* (2018), edited by Frederick Fourie, HSRC Press, p. 130.

<sup>4</sup>Frederick Fourie, 'Informal-sector employment', p. 142.

<sup>5</sup>Frederick Fourie, 'Analysing the informal sector in South Africa: Knowledge and policy gaps, conceptual and data challenges', in *The South African Informal Economy: Creating Jobs, Reducing Poverty* (2018), edited by Frederick Fourie, HSRC Press, p. 14.

<sup>6</sup>Michael Rogan and Caroline Skinner, 'The size and structure of the South African informal sector 2008-2014: A labour-force analysis', *The South African Informal Sector: Creating Jobs, Reducing Poverty* (2018), edited by Frederick Fourie, HSRC Press, p. 99.

<sup>7</sup>Frederick Fourie, 'Informal-sector employment', p. 115.

<sup>8</sup>Mpho Tsebe, Veron Vukeya, Christine Lewis, Flavio Calvino, and Chiara Criscuolo, *Firm Dynamics in South Africa*, Working Paper No. 1528 Organisation for Economic Co-operation and Development (2018), p. 36.

<sup>9</sup>Tsebe et al., *Firm Dynamics*, p. 36.

<sup>10</sup>National Planning Commission. (2011). National Development Plan 2030. Retrieved from: <https://www.gov.za/issues/national-development-plan-2030>

<sup>11</sup>Rogan and Skinner, 'Size and structure', p.77-102.

<sup>12</sup>As of 1 August, more than three months after launching the scheme, only R13.2 billion was paid out to 9,125 firms – 1.3 per cent of the 700,000 firms the President promised it would assist. Katharine Child, 'Fewer than 10,000 businesses helped by scheme intended to assist 700,000', *Business Day* (10 August 2020), <https://www.businesslive.co.za/bd/national/2020-08-10-fewer-than-10000-businesses-helped-by-scheme-intended-to-assist-700000/>

<sup>13</sup>Frederick Fourie, 'Enabling the forgotten sector: Informal-sector realities, policy approaches and formalisation in South Africa', in *The South African Informal Sector: Creating Jobs, Reducing Poverty* (2018), edited by Frederick Fourie, HSRC Press, p. 469.

<sup>14</sup>Mudiwa Gavaza, 'SA SME Fund invests in A2Pay to finance spaza shops', *Business Day*, (11 February 2020), URL: <https://www.businesslive.co.za/bd/companies/financial-services/2020-02-11-sa-sme-fund-invests-in-a2pay-to-finance-spaza-shops/>; The Learning Team, 'A2Pay Project: Using Technology to Create Jobs in Peri-Urban Areas of South Africa.' *The Jobs Fund*, ` (April 2019), URL: <http://www.jobsfund.org.za/docs/JF%20Learning%20Series%20No.5%20APR%202019%20A2Pay%20FINAL.pdf>



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Published in August 2020 by The Centre for Development and Enterprise  
5 Eton Road, Parktown, Johannesburg 2193, South Africa | PO Box 72445, Parkview, 2122  
Tel +27 11 482 5140 | [info@cde.org.za](mailto:info@cde.org.za) | [www.cde.org.za](http://www.cde.org.za)