

# EXPLORING THE POTENTIAL MARKET FOR INFORMAL SMALL, MEDIUM AND MICRO ENTERPRISE (SMME) TRANSPORT OPERATORS IN RURAL AREAS - A CASE STUDY OF THE KWAMHLANGA COMMUNITY

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## ABSTRACT

In South Africa, small businesses are an important ingredient for income generation in the rural economy. However, the ability of small businesses to grow and reach new markets is hampered by ageing infrastructures, low- and unskilled labour, lack of business knowledge and insufficient capital. Furthermore, transportation of goods in rural areas is a complex and costly business. This paper is a brief introduction to the rural economy in which small informal rural transport operates in the KwaMhlanga community. The paper focuses on informal operators who are classified as survivalist entrepreneurs, whose turnover falls well below the levels required for Value Added Tax (VAT) registration in South Africa. The characteristics of the survivalist market are low barriers to entry, highly competitive market, unskilled labour and limited capital requirements. Increasing emphasis has been placed on the development and promotion of the rural accessibility and small businesses in South Africa. Although the South African Government's Department of Trade and Industry (the dti) has initiatives to support and promote the development of Small, Medium and Micro Enterprises (SMMEs), the dti finds it difficult to gather and process information for planning purposes, such as the number of small informal business and the kind of services provided by these operators from rural areas. This could be attributed to the unwillingness of informal business operators to participate in surveys resulting in limited information being published in the public domain about the existence and operations of informal businesses in rural areas. The aim of this paper is to summarise the challenges SMMEs operating in informal sector based on field work done in and around KwaMhlanga and reasons for their existence.

## INTRODUCTION

### Background

Rural transport is one of the most significant means of ensuring that those who live in rural areas have access to markets for their products and social services (Barwell *et al*, 1985). The well known problems of all rural dwellers are limited modes of transport and accessibility. Rural accessibility may be defined as the accessibility of basic social and economic services to persons in dispersed rural homesteads and settlements (Starkey *et al*, 2002). Inaccessibility or poor accessibility is the key factor that results in the limitations of transport modes which could improve service provision for rural communities. Whenever service systems exist, they are usually haphazard, unsustainable, driven by the needs of the source rather than the needs of the recipient, and are inaccessible to poorer entrepreneurs (Muniafu, 2007).

According to the former South African President Thabo Mbeki, the second economy<sup>1</sup> into which rural businesses are often classified, constitutes the structural manifestation of poverty, underdevelopment and marginalisation in the country (Department of trade and industry, 2006). However, government recognises the contribution of Small, Medium and Micro Enterprises (SMMEs) as a potentially substantial source of employment since they impact on the daily lives of millions of people living in the rural areas of South Africa (Department of trade and industry, 2006). There is not enough support for SMMEs in the informal sector, which exists because of unsatisfied demands for services and products. Poor access to goods and services in the rural areas of South

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<sup>1</sup> For this study second economy and informal sector will be used interchangeably.

Africa has led many individuals to venture into the 'bakkie'<sup>2</sup> sector which is already over subscribed. This has then created the imbalance between transport demand and supply in the rural bakkie sector.

The bakkie sector is classified as a survivalist enterprise. According to the government's National Small Business Act, 1996 (Act No. 102 of 1996), survivalist enterprises have the following descriptions:

- The operators operate in the informal sector of the economy
- They operate in unregulated and competitive markets
- The vehicles are used for multi-purposes
- Adapted technology
- Mainly undertaken by unemployed persons
- Ease of access or entry into business
- Income generated below the poverty line, providing minimum means to keep the unemployed and their families alive
- Little capital invested, not much assets (family ownership of resources)
- High costs (such as fuel and vehicle maintenance caused by poor infrastructure)
- Not much training, skills usually acquired outside the formal education system
- Labour intensive activities
- Opportunities for growing the business very small
- Utilisation of locally available resources

The exploratory case study was mainly carried out in KwaMhlanga, Mpumalanga<sup>3</sup> (in the former KwaNdebele homelands), which is situated about 300km from Nelspruit, the provincial capital. The focus area, KwaMhlanga, is located about 100km north-east of Pretoria and has been identified as a potential administrative and industrial development zone in the north-west region of Mpumalanga, as a result of the heavy traffic on the Moloto road. This road is known for being the most dangerous road in Mpumalanga where hundreds of lives have been lost in road accidents (Hlahla, 2006). The Mpumalanga provincial government, in collaboration with a South African bus company Putco, has invested a large amount of resources due to the notorious character of this road, in terms deployment of law enforcement officers and speed monitoring devices. The objective of this re-deployment of officers is to monitor and control traffic on the Moloto road to promote road safety and reduce fatalities.

In order to gather more information on the transportation modes utilised in the rural parts of Mpumalanga, a study was also conducted in Vezubuhle village, where interviewees were mainly shebeen<sup>4</sup> owners, spaza shop owners and small retail stores operators. This research focused on the level of bakkie service in contrast to the low demand for the service, and challenges on the methods of supplying transportation by roads in the rural community of KwaMhlanga. The rationale for selecting KwaMhlanga as a case study area is based on the fact that it has been identified as having a potential of developing into an industrialised area and because it was readily accessible to the research team.

### Aim

The study focuses on the small informal transport operators providing services within the rural area which mainly render services for short distances. The main aim of the paper is to explore the challenges faced by these small informal businesses and the business models used by these business owners to transport goods. The study attempts to give exposure to the rural informal

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<sup>2</sup> The term Bakkie is an Afrikaans (one of the South African official language) word for pick up or light deliver vehicles (LDVs). The concepts small informal transport operators and bakkie operators will be used interchangeably in the study report.

<sup>3</sup> Mpumalanga is a Nguni word for the land of the rising sun

<sup>4</sup> Shebeen is an unlicensed drinking establishment whose main business is selling liquor and sells less than 10 cases of 12x750ml beer bottles per week.

transport businesses, which are established mostly as a means of survival rather than for profit earning purposes. The purpose of this study is to highlight the existing business activities and how people are currently operating in the informal sector in KwaMhlanga.

## **METHODOLOGY**

The field work was conducted in November 2008 to January 2009. Research tools which were used are semi-structured<sup>5</sup> interviews with small informal groups of bakkie operators. The open-ended interviews were conducted with informal focus groups of small transport operators in KwaMhlanga and Vezubuhle in Mpumalanga province. These focus groups were not informed in advance about the interviews.

There were two types of small transport operators, the first group operate on a full-time basis and the second group operate on a part-time basis. Seven groups of bakkie operators who operated in small groups on a full-time basis, of between five and eight individuals per group were interviewed. Each group was dominated by individuals of about fifty years or older and in terms of gender this sector is mainly dominated by men. However, there were three women who were bakkie operators as well as spaza shop owners.

The part time operators interviewed were five bakkie operators. Part-time operators are those who are employed in the formal sector, such as teachers, professional officials and police officers, who operate after-hours and on weekends. The duration of the interviews was 45 minutes to one hour. In contrast, with the stores and “spaza”<sup>6</sup> shop owners the interviews took not more than 30 minutes.

## **DISCUSSION**

Figure 1 below illustrates a typical rural transport system. The system may differ from one rural area to another depending on the location of the rural area. The locations of the rural areas reflect the standard of living which will be maintained by the communities, such as having traditional agriculture as the sole source of living requirements.

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<sup>5</sup> A semi-structured [interview](#) is flexible, allowing new questions to be brought up during the interview as a result of what the interviewee says.

<sup>6</sup> A spaza shop is essentially a small neighbourhood convenience shop serving the community in its immediate vicinity.

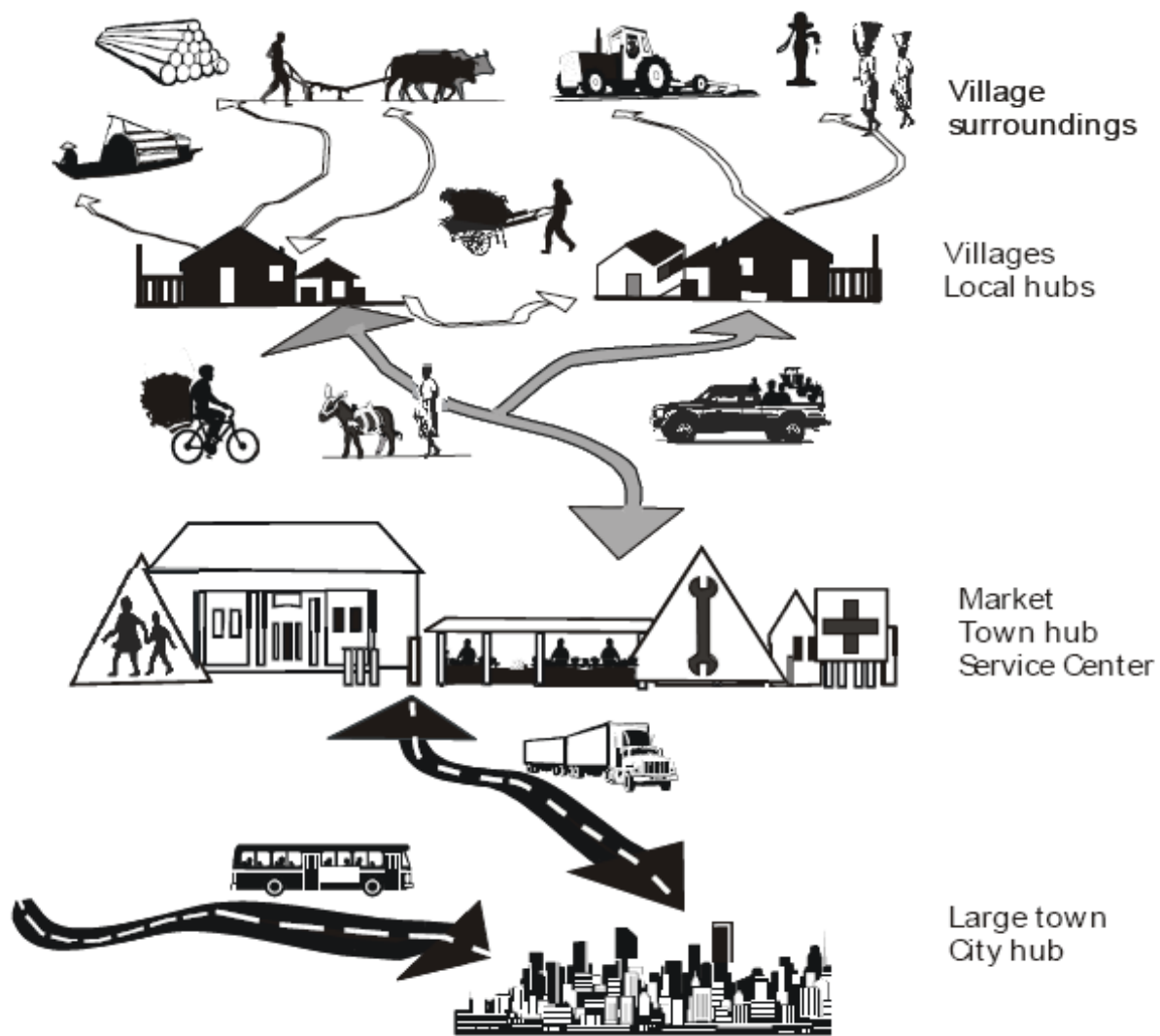


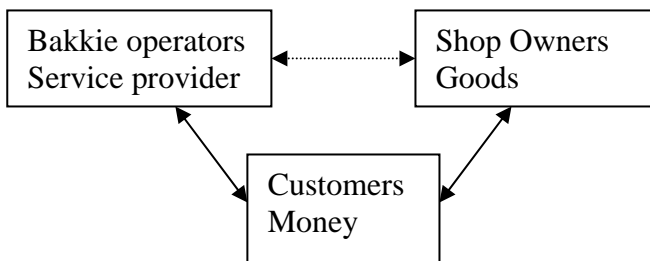
Figure 1: A rural transport system (Adapted from the World Bank Technical report no 525)

This paper's limitations are that it focused on a small geographical area, addressing only spaza shop and shebeen owners, black owned retail stores, and bakkie operators in a rural community, while excluding animal traction (Starkey, 1995), hawkers and registered SMMs. Furthermore, the findings of this paper are limited to a semi-developed rural area and thus the methods of stocking supplies by store owners cannot be expanded to give generalities. Semi-developed rural area refers to partially developed rural areas that do not depend only on the traditional way of living though agriculture. Therefore, a large portion of this paper gives perspectives on informal small transport operators and rural freight transport usage. It is not intended to be a quantitative study representative of all such operators in all such communities.

These small operators are regarded as informal operators because they are not registered and operate without the required operating licences, apart from driver's licences. However, they are providing rural transport as a survival strategy and addressing transport needs of the community under difficult conditions. Bakkie operators do not participate in government surveys or register with government agencies which are designed for their benefit. Since rural people associate the registration of businesses with paying tax, therefore they would rather operate in informal sectors.

## ANALYSIS

Figure 2 below illustrates the transactions and the links between the three rural stakeholders.



**Figure 2: Rural stakeholder linkages**

The customer is the most important link between the bakkie operator who is the service provider and the store owner who is the merchandiser. Customers requiring transportation include shebeen, spaza shop and store owners; hawkers; housewives; schools and crèches; pensioners and patients. According to Figure 2 above, it would seem as if the customers have the bargaining power over the other two stakeholders, but in reality that is not true; because they have no choice of service providers and no means of pressuring operators to change their practices or lower their prices. In fact, customers have limited choice over the transportation of their purchases. The customer is the source of finance in both links of the exchange of goods and services.

There is rivalry between the bakkie operators and the shop owners over who provides delivery services. Furthermore, those shop owners who also own trucks treat the deliveries to their customers as a separate business, as their vehicle was obtained for the purpose of stocking their shops with goods from the markets and not for delivery. Most shop owners do not have their own delivery vehicles and they cannot afford to invest in the vehicles and therefore, rely on the bakkie operators to do delivery for their customers. The service provided by the bakkie operators is regarded as the cheapest form of transportation in rural areas. The diversity of this mode of transportation is the most preferred, although the service level is often of poor quality.

## FINDINGS

The improvements in rural transport recently have been in passenger transport, while the providers of freight transport services are the ones in most need of training and financial assistance. Rural areas are characterised by relatively low levels of service delivery. Job creation and growth are limited mostly to the low-wage and unskilled jobs categories, such as brick layers, informal transport operations and small businesses, etc. Informal transport operation is seen by many as a means to surviving poverty and improving living standards (Roebuck and Burton, 2003).

The interview results revealed that there are two operating systems currently followed by informal small rural transport operators, which differ depending on the area and the demand. The first business operating system is when bakkie operators park outside the stores (such as hardware and bottle stores) without asking for permission from the store owners, with the purpose of doing deliveries for the store's customers. Since they work together in groups, they draw up a schedule depending on who arrived first and share the delivery loads equally.

The second method of getting a market share in this business sector is for bakkie drivers to park their vehicles at busy areas (usually closer to taxi ranks and shopping centres) to transport people's goods from those places to various destinations. In this system the bakkie operators work independently of other operators.

Prices charged by the operators are subject to negotiation with the customer and cannot be fixed per distance as desired by the operators, however this allows for the formation of business relationships. The operators are forced into a price negotiation system due to the fact that their main customers are lower-income people. The vehicles transport mainly building materials, furniture, firewood, maize, agricultural produce, water and other small loads. Some operators make

more income from transporting construction workers to building sites, children to crèches, patients to medical facilities and pensioners to the pay point areas, than doing store deliveries per week, because of the flexibility of their services.

One of disadvantages faced by these operators is the inconsistency of the main customers (spaza shop and shebeen owners), who purchase their supplies in smaller quantities and often locally. The owners of medium-sized stores mainly purchase merchandise in bulk from the big cities, such as Pretoria and even Johannesburg. However, this does not work in their favour because most of the vehicles are not roadworthy to be driven to the big cities, where they risk being fined by the traffic authorities.

The observation and interview results also revealed that people are not aware of the government's initiatives to develop and improve social conditions in the rural areas. Furthermore, they require education in terms of the importance of participating in the surveys that could assist the government in identifying their needs and address the challenges faced by the rural small businesses.

Bakkie operators started operating their vehicles as delivery bakkies, because they are unemployed and identified the niche market. Most used their pension funds as capital to purchase their vehicles, whereas others turned their family vehicles into business vehicles. The reason for utilising their pension funds is because they were unable to source other types of finance.

The common reasons given by those who were interviewed are:

- Retrenchment and closing down of companies,
- Lacked skills to find other source of employment,
- The desire to earn extra income, and
- Wanted to be self-employed.

While each small business has its own unique problems, there are certain difficulties which are shared by all small businesses, although these can be outweighed by their advantages of flexibility and resilience. These problems generally arise from the environment, nature and size of the business and sustainability of this business. The bakkie operators find it is difficult to strike a balance between their family and business life. They are spending a lot of time away from families however, they are better off than long distance truck drivers.

There are support initiatives such as the Small Enterprises Development Agency (SEDA), which provides information, helps businesses with registration, promotes cooperatives and facilitates access to financial services, and Khula, which provides support to promote access to finance for SMMEs. These support programmes offered by government are not designed to reach the neediest informal rural businesses. Few of the bakkie operators are aware of these support programmes and felt that the programmes do not accommodate the needs of less educated business people, in terms of language and structure of offering. Rural informal businesses are not well informed about the strategies, developments, agencies, structures and programmes that exist to support them as small businesses.

One of the major problems experienced by these operators is mechanical damage caused by the poor road conditions, which results in them spending a lot of time and money fixing their vehicles. They are also getting into trouble with the law because of the conditions of the vehicles, which are ill-maintained and generally not roadworthy. They have a number of traffic fines which they are unable to pay on time. The empty leg return journeys are regarded by them as part of their business and they do not understand the need of seeking backloads.

The Rural Transport Strategy for South Africa states that "The need for a sustainable rural transport system relates mainly to the need to establish sustainable funding channels and procurement systems, address neglected road maintenance requirements, and develop improved

structures for the management of storm water (which is the major cause of deteriorating road conditions in most “deep” rural areas)” (Department of Transport, 2007).

Other regions of South Africa have for some time been looking at tourism as a new growth sector and possibly even overstating its potential in terms of steady employment. Mpumalanga is not exceptional to this view. Competition in the area is high, and beyond their control due to the lower barriers of entry in their market. They address competition by resorting to violence: this is due to a lack of understanding of the essence of competition and may also be to a lack of business skills. They have seen an increase in the number of new entrants since the announcement in 2006 that the 2010 FIFA Soccer World Cup will be hosted by South Africa. There is a strong belief that the event will provide lots of opportunities for everyone in business, especially those in the small business sector. This belief has led to many people using up all their life-time savings to invest in business ventures including purchasing vehicles to become bakkie operators. There is widespread misunderstanding of the FIFA 2010 Soccer World Cup event as a driver of economic growth and business development.

Almost all the bakkie operators work alone because they cannot afford to hire other people to work for them due to the following reasons:

- Business is slow.
- Daily income is not guaranteed.
- Large portion of the income is spent on fixing the vehicle.
- They breakeven during month-ends.
- Profit is only realised in the holiday seasons.

## **CONCLUSION**

This paper was intended to show the different transport demands and methods used in rural areas by store owners and transport operators. There is over supply in the rural informal “bakkie” sector which renders short distance services. Rural small informal transport operators are not registered; operate their vehicle for survival, without operator’s licences and with unroadworthy vehicles. The support programmes of government need to be looked into in order to attract the informal sector and turn them into registered businesses.

The areas likely to benefit from the 2010 FIFA Soccer World Cup event need to be communicated well to small formal, informal and emerging rural businesses. This will eliminate the misunderstanding that all will benefit automatically from the event. Informal business sectors are part of the rural lifestyle and a reality. In rural areas of South Africa access to goods and services is limited and results in over-crowded informal business sectors, mostly the transport services.

The other reasons for the establishment of informal businesses are unemployment and lack of business skills. The unsustainable small rural informal sector hampers the growth and development of bakkie operators. There is a need for continuous research, which looks at the perspectives of rural dwellers and small informal business people, and conducts follow-ups of initiatives in order to measure their effectiveness and identify possible solutions. The perspectives of the interviewees showed the negative perception about support provided to informal small businesses. The government has a role in insuring that the basic components of the infrastructure are available in rural areas.

## **RECOMMENDATIONS**

### Collaboration system

It is recommended that the vehicle drivers/owners could approach the store owners to ask for permission to operate from their business premises, offering to do the deliveries for the store’s customers. The store owner and the transport operators could have a verbal or written agreement. The terms and conditions of the agreement could be limited to the store owner having only a right to set the number of vehicles operating within his business premises and leave the rest of the

operating activities to be decided amongst the bakkie operators. This avoids a situation in which the operators become dependent on the store owner for business. There will be a sense of ownership, control and flexibility amongst the operators since they are responsible for other activities.

### Government support service

It is also recommended that Government:

- Upgrade and maintain rural access roads and infrastructure in general;
- Re-design and re-evaluate methods of offering workshops and implementation of support programmes to SMME based in rural areas;
- Provide support and undertake mentoring and training in basic business skills (e.g inventory, basic bookkeeping and marketing);
- Follow-up on implementation of project action plans and supporting NGO projects;
- Educate operators about importance of road safety and regulations such as the purpose of weighbridges;
- Provide subsidised training in mechanical skills;
- Encourage maintenance of existing rural transport infrastructure by training rural dwellers;
- Promote and support these demand-responsive transport operators;
- Establish co-operative unions or community based unions which can help attract donor funds and technical support;
- Educate small rural informal business people about the importance of registering with agencies as informal business operators to allow the government to identify and support the informal economy, in order to close the gap between the formal and informal economy. This will also assist the government in its effort to create an enabling environment for SMMEs to develop and become future job creators.

## ACKNOWLEDGEMENTS

I would like to acknowledge the rural informal business operators from Vezubuhle and KwaMhlanga communities located in the Mpumalanga province, who participated in the interviews.

I would like to thank all my colleagues who helped and inspired me during this research.

My deepest gratitude also goes to the Comfort Ndala and her family who made my visit to Mpumalanga easy and for their assistance with translating the interviews to Ndebele, the language spoken by the people interviewed.

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