

# The home as informal business location: Home-based business (HBB) dynamics in the medium-sized city of George

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## Abstract

Home-based businesses (HBBs) are often considered the most 'formal' of the informal business sector types, where a formal structure such as a house or shack provides some form of security for these businesses. Notwithstanding this structural 'security', HBBs are merely a reflection of broader urban economic and spatial processes taking place in South African cities, resulting in a dual-natured business space. The role, impact and contribution of home-based businesses to urban economies, urban growth and spatial relations with the formal economy have not received much attention from policymakers in South Africa. The study investigates the complexity of HBB dynamics in the medium-sized city of George, and focuses on three aspects: first, a conceptual link between house and business is provided; second is an overview of the spatial transformation of business space in the city between 1995 and 2005, and third is an analysis of a survey conducted among 98 HBBs in George, in which aspects related to the business start-up, location, history, problems experienced and policy context are examined. The article concludes with several policy and planning recommendations.

## DIE HUIS AS INFORMELE BESIGHEIDSLIGGING: HUIS- GEBASEERDEBESIGHEID (HGBe) DINAMIKA IN DIE MEDIUM-GROOTTE STAD VAN GEORGE

Huisgebaseerdebesighede (HGBe) word dikwels beskou as die mees formele van die informele ekonomie se subsektore waar 'n formele struktuur soos 'n huis of plakkerskuiling 'n vorm van sekuriteit verskaf. Nieteenstaande hierdie strukturele 'sekuriteit' is HGBe bloot 'n refleksie van die breër stedelike ekonomiese en ruimtelike prosesse wat in Suid-Afrikaanse stede plaasvind wat resulteer in 'n tweekledige besigheidsruimte. Die rol, impak en bydra van TGBe tot stedelike ekonomie, stedelike groei en ruimtelike verhoudings met die formele ekonomie het tot op hede nie veel aandag van die beleidmakers in Suid-Afrika ontvang nie. Die studie ondersoek die kompleksiteit van die HGBe dinamika in die medium-grootte stad van George en fokus op drie aspekte: eerste is 'n konseptuele skakel tussen huis en besigheid; tweede is 'n oorsig van die ruimtelike transformasie van besigheidsruimte in die stad tussen 1995 en 2005; derde is 'n analise van 'n vraelysopname wat onder 98 HGBe gedoen is wat aspekte rondom die redes vir die begin van 'n besigheid insluit: tuis, ligging, probleme ervaar en beleidskonteks, onder andere. Die artikel sluit af met enkele beleid- en beplanningsvoorstelle.

## LAPENG JWALO KA SEBAKA SA KGWEBONG E SENG MOLAONG: DIPHETOHO TSA KGWEBO E ETSETSWANG LAPENG TOROTSWANENG EO E SENG KGOLO HAKAALO YA GEORGE

Dikgwebo e etsetswang malapeng hangata di nkuwa e le yona mefuta ya dikgwebo tse molaong ho tse seng molaong, moo sebaka se molaong se jwalo ka ntlo kapa mokhukhu e fanang ka tshireletso ya mofuta o itseng ho dikgwebo tsena. Le ha ho le jwalo, tshireletso ena ya malapeng, ba dikgwebo tsa malapeng ke setshwantsho feela sa mesebetsi ya moruo le sebaka e etsahalang metsemoholo ya Afrika Borwa, eo e aqetellang e le sebaka sa kgwedo sal tlhaho. Mosebetsi, le matla le phehiso ya dikgwebo tsa etsetswang malapeng ho dibaka tsa moaruo tsa metsemoholo, kgolo ya metsemoholo le dikamano tse batsi le ba moruo o moholo ha di eso fumane tshadimo e kgolo ho tswa ho baradi ba maano ho la Afrika Borwa. Thuto ena e batlisa bothata ba diphetoho tsa kgwebo ya malapeng motsemoholo o monyenane wa George, lel ho tsepamisa maikutlo dintlheng tse tharo tsena: tabeng ya pele, ho fanwe ka

o tshwanang pakeng tsa ntlo (lepala) le sebaka sa kgwebo; tabeng ya bobedi ke kakaretso e batsi ya phetoho e kgolo ya sebaka sa kgwebo motsemoholo dipakeng tsa selemo sa 1995 le 2005, mme tabeng ya boraro ke manollo ya patliso e entsweng hara Dikgwebo tsa Malapeng ho la George, moo dintlha tse amanang le tshimoloho ya kgwebo, sebaka, nalane, mathata a fumanwang le leano di hlahlobilwe. Ditaba tsena di qetella ka dikgothaleto tse mmalwa tsa leano le moralo.

## 1. INTRODUCTION

A review of the historic evolution of urban home-based businesses (HBBs) internationally reveals that this informal economic type has been subjected to regulation and control for centuries. The growth of HBBs was once recognised as a symbolic decoupling of the traditional role of men as breadwinners and women as mothers and caretakers of household affairs (Phizacklea & Wolkowitz, 1995). For others, considering the home as a commercial entity has contributed to the decay and degradation of the family unit (Boris, 1988: 16). Since the end of World War II, HBBs were regarded as a way in which families could augment their income, most predominantly so in light industrial-type informal work, such as knitting and sewing (Ofosuhene, 2005: 41). However, the post-war period of global mass production and economic growth resulted in an actual decline of HBBs, which then had to compete against more cheaply manufactured mass-produced goods (Soldressen & Fiorito, 1998: 35). In the post-industrial era, especially since the 1970s, HBBs have again become a predominant feature of the urban landscape, but in the context of an era of postmodern urbanism and globalisation, the role of HBBs has still not been fully grasped. The impact of modern technology and communications has been considered to be a major contributing factor to successful HBB operations. Traditionally, the notion has been that HBBs require low overheads and, therefore, it is relatively cheap to set up one's own business with little reliance on external capital sources. Such businesses were once considered inconsequential; however, recent changes in demographics (age and gender), lifestyle (a shift in the motto from 'live to work' to 'work to live')

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as well as an advancement in information technology have contributed to a transformation of HBBs in developed cities around the world (Pratt, 2008: 215).

There has been little dedicated empirical research conducted into HBBs internationally. This component of urban economic space has either been ignored as a discrete group or subsumed into the generic grouping of small business, or the informal economy, not conforming to mainstream business (Walker, 2003: 35). However, estimates reflect a major contribution to employment and economic growth. In the US, for example, it is estimated that currently HBBs contribute 500 billion US Dollars to the country's economy (Pratt, 2008). Similarly, it is estimated that home-based businesses make up the largest cohort/sector of Australian businesses, numbering an estimated 850,000 (Walker, 2003: 37). Arguably, the best case success story of an HBB is that of billionaire Mark Shuttleworth who started his IT business empire from his garage. However, despite the rise and greater prominence of the informal economy in the developed cities of the world, the survivalist stigma attached to HBBs in the developing world has remained firmly in place.

A significant number of studies have been done in South Africa on the informal economy during the 1990s. In turn, reviews on the structural challenges facing the South African city after apartheid also abound (see, for example, Donaldson & Van der Merwe, 2000; Turok, 2001; Geyer, Coetzee, Du Plessis, Donaldson & Nijkamp, 2011). In these studies a focus on home-based businesses has, however, been limited to a few case studies (some of these include Rogerson, 1991; Isandla Institute, 1999; Napier & Mothwa, 2001; Gough, Tipple & Napier, 2003; Lighthelm, 2005; Von Broembsen, 2007). The role, impact and contribution of home-based businesses to urban economies, urban growth and spatial relations with the formal economy have not received much attention from policymakers in South Africa.

The focus of the article is on the experiences and dynamics of HBBs in the medium-sized city of George in the Western Cape. The article is structured into three sections. First, a conceptual link between house and business is drawn. Second, there is an overview of the spatial transformation of business

space in the city between 1995 and 2005. Third, an analysis of a survey conducted among 98 HBBs in George is provided, in which aspects related to the business start-up, location, history, problems experienced and the policy context are examined. The sample of HBBs participating in the study's survey was drawn from the official list of HBBs from the George municipality records of 2009. Convenience sampling was used to select 98 respondents (29% of all HBBs). Personal interviews were conducted with HBB owners, but in some cases the questionnaires were dropped off and collected. The survey was dependent on the willingness of respondents to participate, and this was not always forthcoming. In the township area the fieldworker was accompanied by the SAPS (this was done for safety reasons because the survey was conducted after a period of xenophobic attacks in townships) which is possibly the reason why the willingness to participate was lower in this area than elsewhere.

## 2. THE HOME AS WORKPLACE

A home-based business (HBB) refers to paid work conducted from a residential dwelling on a full- or part-time basis. The George municipality defines HBB as a type of business operating from a house that also serves as residence. Houses primarily used by doctors, dentists, and attorneys are thus excluded from the definition. The dual nature of HBBs is evident in cases where a home is used to create products (food preparation, clothing, etc.) which are then sold by street traders (Tipple, 1993). Generally, HBBs do not employ more than five people (Prugl & Tinker, 1997; Gurstein, 1996; Good & Levy, 1992) and, therefore, remain small enterprises. Although it is difficult to determine the extent of the HBB, micro-scale studies show that a growing number of the labour force is engaged in this sector (Chen, Sebstad & O'Connell, 1999). In South Africa, approximately 60% of all informal businesses are home-based (Statistics South Africa, 2005). Rust (2007: n.p.n) estimated that there is a total of 355,000 HBBs in townships and inner cities (representing approximately 13% of the population in these areas), generating up to R476 million per month. In addition, a study in Mamelodi determined that 40% of households have an HBB (Rust, 2007). The range of HBB types is extremely broad and includes retail-oriented HBBs such as spaza

shops, frozen food retailers, clothing and foodstuff retailers, as well as service industry providers. Examples of the latter include shebeens, B&Bs, hair salons, traditional healers, and restaurants.

In the early 1990s, Tipple (1993: 522) recognised that the desirability of designing dwellings suitable for economic activities is "rarely considered in official housing projects" in the developing world. The much-anticipated release of the Breaking New Ground (BNG) policy in South Africa in 2004 has taken the notion that poverty manifests itself in three critical dimensions – income, human capital, and assets – furthering the debate on the potential role of housing in alleviating poverty. Housing primarily contributes towards the alleviation of asset poverty which is defined as "inadequate access to assets by individuals, households and communities, including shelter, the inadequate provision of appropriate infrastructure and the inadequate provision of basic services such as health, safety, emergency services, educational and day-care services" (Department of Housing, 2004: 11). Studies show that improved housing, access to consumer credit, and even social security in the form of cash transfers, impact on the income-generating ability of the poor (Von Broembsen, 2007: 16). Furthermore, the link between housing and informal sector employment, therefore, is symbiotic. Economic activities enable housing improvements to be made. These, in turn, improve employment prospects and productivity. Home-based enterprises contribute significantly to the household economy. Because settlements evolve and develop in response to residents' income-earning capacity, the existence and/or upgrading of home-based enterprise can improve the quality of life and housing in low-income settlements. Thus, it is often argued that the "success of shelter programmes should be judged partly in terms of the resulting employment creation" (Isandla Institute, 1999: 28).

Asset value, according to Rust (2007: 10), is related to three individual assets, namely financial, economic, and social, and three public assets that include contributing to job creation, economic growth, and sustainable human settlements (Figure 1). Relevant to the context of this article is the economic asset aspect, where the house serves to support home-based businesses and other income-earning activities. It is

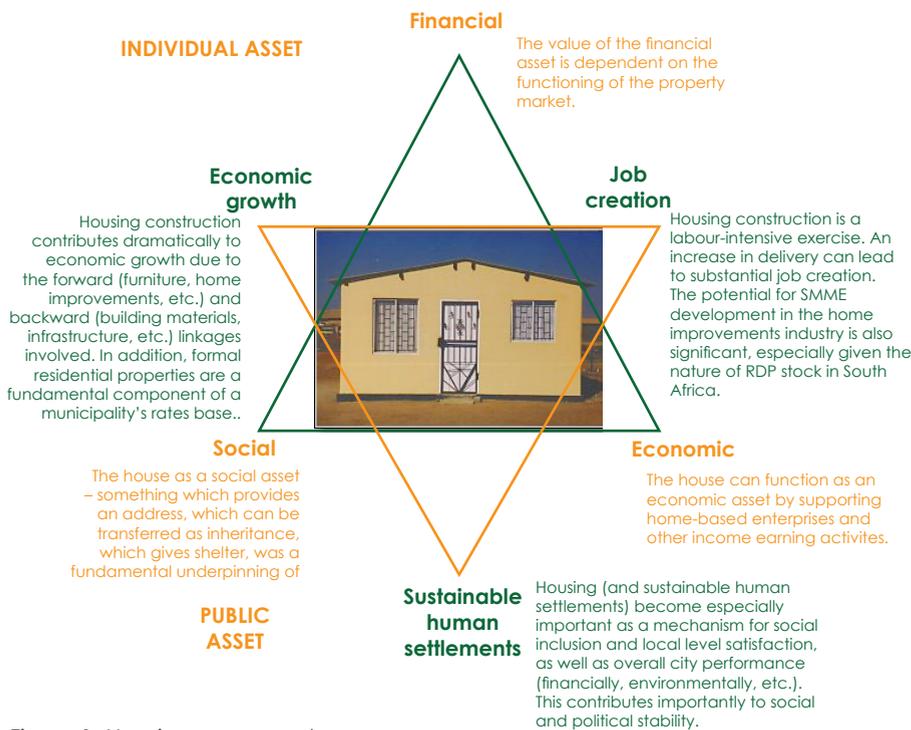


Figure 1: Housing as an asset  
Source: Rust, 2007: 10

argued that the value of HBBs at neighbourhood and citywide level should be "treated as productive infrastructure and be eligible for loans on the same terms as factories" (Tipple, 1993: 537). HBBs have come a long way in terms of acceptance by public authorities. From being fiercely regulated to tolerated, HBBs are now in an opportune stage of planning that would actively promote such enterprises through a variety of channels which include land-use regulations, SMME and LED strategies, housing policy, and the development of entrepreneurship through training programmes.

The structuring of the urban economy in the developing cities of the world, according to Santos (1979), presents an urban duality: an upper circuit and a lower circuit. In the upper circuit, technology is capital-intensive, organisations are bureaucratic, and capital is abundant. Prices are generally fixed and regular wages prevalent. Overhead capital is essential and credit is institutionally organised. On the other hand, in the lower circuit, technology is labour-intensive and poorly organised, but with an abundance of labour. Regular wages are exceptional, overhead capital is essential but generally not available; credit is non-institutional and government aid is limited. Former President Mbeki generated much debate on his pronouncement of a similar duality when he described the country as having a 1<sup>st</sup> and 2<sup>nd</sup>

economy. The former represents the rich who are reaping the benefits of a democratic country, whereas the latter describes the "reality of a mainly informal, marginalised, unskilled economy, populated by the unemployed and those unemployable in the formal sector" (Rogerson, 2007: 1053). Mbeki's conceptualisation has added impetus to the growing international rethinking

Table 1: Growth according to business type in George: 1995 to 2009

Year	Number of businesses	Commercial	Private	Financial	Industrial	Public	Heavy industry
1995	1829	1328 (73%)	319 (17%)	37 (2%)	87 (5%)	16 (1%)	31 (2%)
2000	2280	Not determined					
2005	2792	1991 (71%)	480 (17%)	52 (2%)	109 (4%)	17 (1%)	39 (0.3%)
2009	3614	Not determined					

Source: Smit, 2010: 45

that emerged in the early 2000s on the informal economy, and has subsequently been taken up in numerous policy documents. The urban duality is indeed also reflected in residential spaces. Township areas rarely show signs of a growing secondary residential market, whereas in other areas of the city property investments are driven by the first economy and upper circuits. How HBB manifests itself in this duality is worthy of exploration, especially within the context of broader urban spatial developmental processes.

### 3. STRUCTURE OF FORMAL BUSINESS SPACE IN GEORGE

The secondary city of George, located halfway between Port Elizabeth and Cape Town, with just over 200,000 residents, emerged from the 1970s and 1980s as the commercial and administrative hub of the Garden Route region. The diversification of its industrial base has played a major role in stimulating growth. The number of SMMEs are estimated at 9,000, providing employment to approximately 50,000 residents (George Municipality, 2005). The idea that this important regional economic driver (Greater George area inclusive of Mossel Bay and Knysna) be elevated to metropolitan status in the next decade has been mooted by many in policy-making circles.

In order to get a broad overview of business space in George, businesses were categorised into six cohorts. Table 1 shows the data obtained from a variety of sources. Data for all the separate-category businesses were collected only for 1995 and 2005, whereas the business totals were also determined for 2000 and 2009. Commercial businesses represent the majority of formal economic opportunities in George in 1995 and showed a growth of 11.5% over the following ten-year period. Businesses overall during the same period experienced a 34.49% growth. Between 2005 and 2009 growth was 22.7%.

In a study conducted in Cape Town, Turok (2001: 2350) identified four post-apartheid urban spatial trends: decentralisation (a net shift in economic activity away from the CBD towards suburban centres); deconcentration (a net shift in economic activity away from established centres towards a more dispersed pattern of development); drift (a steady shift in the centre of economic gravity of the city northwards), and differentiation (a growing tendency for economic centres to specialise in different market segments). To some extent, and given the limitation of data availability, the spatial transformation picture in George resembles some of the four processes of Cape Town. Figure 2

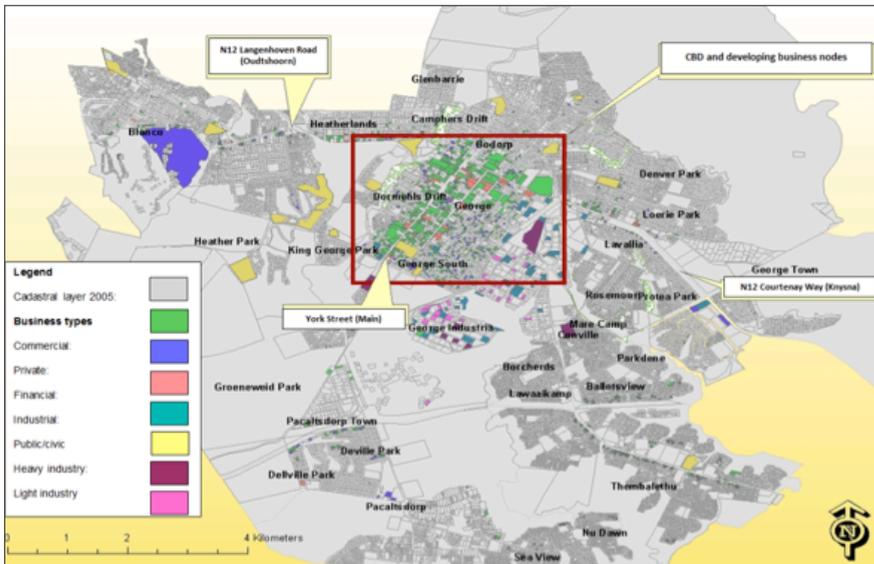


Figure 2: Business space in George, 1995  
Source: Smit, 2010: 50

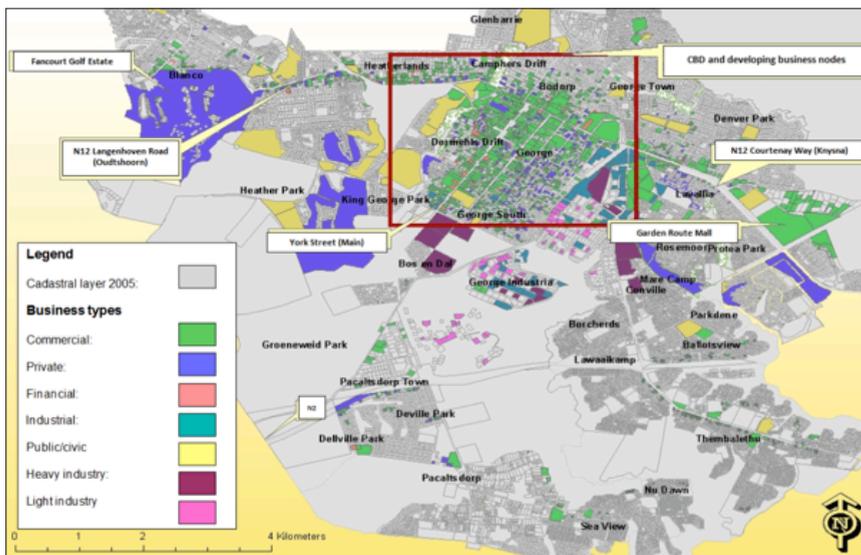


Figure 3: Business space in George, 2005  
Source: Smit, 2010: 53

shows the nature of the urban spatial economy of George in 1995. The spatial morphology of the city has changed dramatically since 1995 (Figure 3). Three core areas of formal business locations/developments are evident. First, the CBD node, around York Street, is still the main business node as was the case in 1995. Second, a decentralised regional shopping centre and business node, located adjacent to the national N2 to the east of the CBD, began to develop from 2005, which resulted in the increase of vacancies in the CBD; in addition, smaller shopping centres are deconcentrated (scattered) throughout the town. Third, a linear-shaped corridor development has taken shape along the main road leading from the CBD to Oudtshoorn.

The interrelation between formal economic business space and HBBs has been acknowledged recently by

Table 2: HBB categories

Retail	Manufacturing	Service production
Clothing	Clothing	Agency of some kind
Processed food, cooked food, fast food like take-away meals, and/or bakeries	Cosmetic products	Catering
Trinkets	Food and/or beverages	Childcare
Fresh produce	Technological equipment	Construction
Technological equipment	Jewellery	Florists
Newspapers/magazines	Leather products	Hairdresser
Toys (wooden)	Metal products (art/consumer objects)	Maintenance and/or repair
Traditional medicine	Pottery (art/consumer objects)	Publishing
Beverages/ alcoholic drinks	Other art work of any kind	Shebeen
	Toys (wooden)	Recreation/interest facility
	Woodwork/carpentry	Spaza (house shop)
Other		Superette (shop/market)
	Other	Training/ teaching
		Transport
		Upholstery
		Other

regional and local authorities in the Western Cape as a policy challenge. The potential of HBB economic development to stimulate entrepreneurship is a key argument for the current review of the zoning schemes, the George IDP and the proposed George Spatial Development Framework (GSDF). This revision is done within the context of the revision of the Land Use Planning Ordinance (1985) and the Western Cape Spatial Development Framework. The aim of reviving policy is to mine the potential of HBBs and to rejuvenate the formal sector business in the town's centre. In addition, the George municipality's town planning policy on house-shops and home-based businesses of 2009 vividly emphasises and acknowledges the importance of networking, cooperation and the exchange of ideas and expertise between formal and informal HBB enterprises. In terms of spatiality, the planning philosophy applicable to formal businesses also applies to informal HBBs, namely that policy determines that preference must be given to HBBs located next to existing main roads and proposed activity areas, and nodes as stipulated in the GSDF. These are highly accessible areas to the public. The permanency of HBBs is, however, still strictly regulated. An application for an HBB in a residential area is handled in an *ad hoc* application manner where a deviation from current land-use is allowed for a five-year period.

Through personal observation in the study area, it has been noted that there is an evident duality in the nature of HBBs where tertiary sector business types are prevalent, as in the Bo-dorp and Loerie Park areas, and shebeens and spazas in Pacaltsdorp en Thembalethu. The highest concentration of HBBs per suburb is found in Thembalethu, an

informal settlement which includes state-subsidised housing with an estimated 80,000 residents. The municipality at present regulates HBBs through their town planning policy on home shops and home-based businesses of 2009. The different HBB types were grouped into three main categories (Table 2): retail, manufacturing, and service production.

#### 4. HOME-BASED BUSINESS SURVEY FINDINGS

This section provides an overview of key findings from the questionnaire survey conducted among a sample of HBBs in George. Aspects investigated include the following: a profile of the HBBs, locational aspects of the business, opinions on the regulation of their businesses, problems experienced in running a business, and spatial linkages. Homes used as guest houses and B&Bs were excluded from the survey because these were viewed as highly regulated through the tourism industry and municipality and thus considered to be part of the formal economy.

##### 4.1 HBB profile and business history

The survey sample reflected, to a certain extent, an equal number of respondents from former whites-only group areas (49%) and those from the racially segregated black and coloured areas combined (51%). Secondary categories were also listed due to the specialised and diversified nature of HBBs: services and retail; production and services, and production and retail. Table 3 shows the distribution of the sampled HBBs according to type. As expected, retail and services, followed by a combination of the two, are the most prominent HBB types in the city. The relatively scant distribution of production, production and services, as well as production and retail categories

Table 3: HBB types

Location	Home-based business category						Total
	Retail	Services	Production	Services and retail	Production and services	Production and retail	
Former white-group areas	5%	23%	1%	11%	2%	7%	49%
Township	17%	0%	0%	0%	6%	0%	23%
Former coloured-group area	16%	11%	0%	0%	1%	0%	28%
Total	38%	34%	1%	11%	9%	7%	100%

n = 98 HBB respondents

is significant, given the traditionally historic importance of production as an HBB activity.

Nearly all HBBs operate a business from only the specific house where the interview was conducted (i.e., they do not have another branch/outlet). The majority of businesses were relatively new (established within the last five years – 54%), just over a quarter have been in business between six and eleven years, and the remainder for longer than 11 years – of which 9% had been in business for over 20 years.

Table 4: HBB person-per-house density

Residential area	Number of persons living in the house expressed as percentage							
	1	2	3	4	5	6	7	Total %
Former white-group areas	5	17	12	10	1	1	0	46
Township	0	5	7	7	3	2	1	25
Former coloured-group areas	0	3	7	5	3	9	2	29
Total %	5	25	26	22	7	12	3	100

Note: these percentages are only for houses in which people actually reside

HBBs are not necessarily family-business oriented: 36% do employ family members in the business, of which the majority (23% of that 36%) employ two family members. Other than family members employed, most HBBs have one (34%) and two (23%) full-time paid workers. The vast majority (85%) employ up to five people; 11% employ between six and ten, and 4% employ more than eleven. The relatively low employment numbers, therefore, generally do not have an impact on mono-functional residential areas. Because “home-based businesses are often non-employing and service-based, these characteristics allow them to operate from home without any major impact on neighbourhood amenity, and in relative obscurity” (Walker, Weigall & Horgan, 2002: 6). Businesses are also not expected to expand soon because 71%

stated that they will not employ more people.

Space utilisation is an important factor in operating an HBB. The overcrowding of people and business space is generally depicted as the negative factor when considering permission for HBB operations. It is typically to be expected that in the disadvantaged areas of George the resident dwelling density of HBBs will be higher than elsewhere, but from the sample as a whole, the majority of person-per-house density is, however, surprisingly low – three and less people per house (Table 4).

According to Von Broembsen (2007: 18), “the more educated a person is, the more likely they are to start a sustainable, opportunity-motivated business. The less educated a person, the more likely they are to start a business that is motivated by necessity.” Just over a quarter of HBB respondents have a post high-school qualification, with the majority having only matric (48%) and a quarter lower than matric. Studies on HBB emphasise the importance of IT in operating small businesses successfully (Phillips, 2002; Rogerson, 2004). One way of engaging with the formal sector, irrespective of the physical location of the HBB, is through IT, yet only a third of the respondents use any form of IT (mostly emails and web).

The notion that HBBs are not mobile has been refuted in the survey, where 36% indicated that they had an HBB prior to moving to George. The majority of those who moved to the city with the intention to operate an HBB again were Somalians (17%), followed by 10% who were previously residing in Gauteng. Less than half of the HBB respondents actually own the property (44%) from which they run their businesses, and 25% have not operated their businesses from their homes in the past. The move from a formal business site to an HBB was acknowledged by 31% of the respondents. Besides those owners from

outside South Africa, those HBBs which moved business sites within George did so from locations within the CBD, and the primary reasons for their decision were high-cost rents and crime.

Three-quarters of the respondents indicated that being located near main transport routes is a major advantage to their businesses. Population density and economies of scale are regarded by 45% as contributing to the success of their businesses. More than a quarter of respondents (29%) have relocated their businesses in George from the CBD and industrial areas to their homes. The reasons behind this relocation were grouped into four categories: spatial (28%), economic (47%), environmental (11%), and administrative and logistical reasons (14%). Economic aspects included costs incurred in running a business from a rental site (high rates per square metre), and spatial aspects included a lack of space (especially in the CBD) and poor infrastructure.

## 4.2 Policing and licensing of HBBs

Schedule 4B of the Constitution stipulates that local governments are accountable for trading and building regulations. With most municipalities in the country stretched in capacity and human resources to deliver basic services, the policing and regulation of HBBs in most places is done in an *ad hoc* manner, and/or simply by turning a blind eye, especially in the townships. Authorities would at most follow up complaints received only from neighbours. According to the *Business Act of 1991*, a trading licence is only required for an HBB if they trade in perishable food (meat, but also included in the list is milk and bread), medicines or liquor (or adult entertainment). In addition, therefore, "health regulations require the business to apply for a 'certificate of acceptability' in order to trade legally. This licence is obtained from a local authority, which sends five different departments (Environmental Health; Noise and Air Pollution Control; Metropolitan Public Safety and Emergency Services, Fire Safety; Urban Planning; and Building Control) to assess compliance, before granting the licence. Should the business trade without a licence, the trader may be taken to court and fined or imprisoned for three months. The regulation thus relies on criminal rather than administrative law sanctions" (Von Broembsen, 2007: 16). According to the responses from the survey, 68% are firm;

they do have permission to operate the business. However, the 32% which are not 'legal' do not want to pay the registration fees, declare their business to SARS and pay higher property rates and taxes. A mere 23% of HBBs indicated that they experience problems with the policing of rules and regulations and that this directly impacts on the growing potential of their businesses. However, the issue of the policing of illegal HBB activities seems to be welcomed by the majority of respondents. By implication, therefore, rules and regulations are regarded as a structural aspect taken into consideration by many when wanting to start up an HBB. Illegal HBBs are proliferating in the township area where interviews with SAPS officials revealed that all are managed and owned illegally. HBB by-law regulations that restrict HBBs near schools, crèches, and places of religion are evidently not enforced, despite the response from the municipality that they do not follow a blind-eye approach to regulation in the townships.

## 4.3 Challenges and problems experienced by HBBs

A range of issues was raised by the respondents when questioned on the problems they experience as business owners: a lack of space (13%), cash-flow problems (13%), interruptions, mostly by beggars in the area of the CBD (13%), and strong competition (15%). A further 3% indicated labour problems, and 5% a lack of access to the area for clients. In the South African context, high crime rates influence the type of HBB operated, the importance of strong structures and security hardware, hours of operation, distribution of target clientele, profitability from turnover, overhead expenses for security, and losses arising from direct criminal incidents (Gough, Tipple, Napier, 2003: 272). 12% stated that crime is a problem. Indeed, some of the respondents indicated that they moved from the CBD because of crime. Other problem issues of minor significance are poor access to materials, noise, and lack of parking – with another 13% who are not experiencing any problems. Surprisingly, given the state of xenophobic uneasiness in the town, respondents were not antagonistic against foreigners. Instead they were actually identifying lessons that they can learn from non-South Africans. Respondents mentioned the presence of many Pakistani immigrants who operate house shops by renting the

shop area from the owner of the house for about R5000,00 per month and many HBB operators are now considering doing the same.

Table 5 summarises motives for starting an HBB, general concerns and problems experienced, and their locational decisions in four category types: financial, spatial, administrative, and environmental. The table reveals a duality relating to opportunities and experiences between the advantaged and disadvantaged parts of the city. Most notable is the ability of certain HBBs to establish forward linkages with other businesses and experience a greater spatial extent of business exposure in advantaged residential areas. However, for the disadvantaged areas, forward linkages are impossible "predominantly because the lack of investment in human capital is such that people do not have the education, skills (technical, language or business management) or exposure that would qualify them to know how to start a business that could meet the demands of the formal sector" (Von Broembsen, 2007: 17). The ability of informal HBBs to form forward linkages, i.e., the ability to sell their goods or services to formal businesses, impacts on their scale and diversity. In the absence of forward linkages, businesses remain very small and there is very little diversity. The end result is that HBBs mostly serve their neighbourhood market only. Therefore, formalisation is irrelevant to the vast majority of informal businesses. Unless businesses operate in the formal sector, there is no real or perceived need to formalise and no sanction against remaining informal (Von Broembsen, 2007: 6). Von Broembsen's study (2007: 17-18) refers to the Triple Trust Organisation (TTO)'s highly successful focus on HBB in the retail sector in townships:

Analysis of the market (or specific value chain) showed that these businesses are not able to sell into 'external markets' i.e., do not have forward linkages to big business. But they do have backward linkages, in that they buy their supplies from wholesalers. The businesses' margins of profit were very small for a number of reasons, of which two were (a) the fact that they were not getting discounts from wholesalers and (b) as they had used public transport and therefore had to accommodate all their purchases on their laps, they could not buy in bulk. TTO's major strategy was twofold: i) Horizontal: to move away from interventions with

Table 5: Selected opinions from respondents on HBB experiences

Area	HBB dynamics			
	Financial	Spatial	Administrative/decision-making process	Environmental
Township: Thembalethu	<p>Respondents commented on the fact that they own the houses and therefore use them as a resource. The ability to take your business with you to a new house/shack. They mostly rent the room in which their house shop is located from a formal house owner.</p>	<p>Respondents indicated major lack of space available for their businesses. They live and sleep in their shops as well; they store their mattresses under the shop counter.</p> <p>A perception exists that operating a shop from your own home benefits the community, i.e. the spatial impact is communal.</p>	<p>Clustering of Somalians as a result of the owner and immediate family who moved to George previously. I.e., a typical foothold decision. Somalians only employ their family members to work in their HBBs.</p>	<p>Streets and street lighting are being badly maintained. People "want" houses of a high quality.</p> <p>Respondents claim that the foundations of their houses are too shallow and that it causes early damage to the structure of their subsidised houses. Furthermore, respondents claimed that some houses are built under the 100-year flood line and hence flood regularly with the annual rains.</p>
Former white-group areas	<p>Some respondents indicated that they left their previous employment in the formal sector to become self-employed. They believe it to be more financially viable to own a house rather than to rent a property for residence and as a site for an HBB. They find self-employment in an HBB more "affordable" than their previous employment. They find that not only is a shop in a residential house cheaper than renting a formal business site, but that it is also more well-known to customers.</p> <p>Some HBB owners feel that when the economy picks up, they will be able to appoint more personnel. Some mentioned the fact that shop rent within the CBD was too high for them to manage, hence the reason why they moved their businesses from the CBD.</p> <p>One respondent indicated that his business was brought over by another person; his business was well established for ten years and thus resembles a great success story.</p> <p>Among the hairdressers within these areas, many felt that there were too many other similar businesses within the CBD; therefore, they moved to their residence.</p> <p>Another owner found a buyer for his business in town and then started a similar business from his home.</p> <p>Rent in residential areas seems to be cheaper for respondents who rent their houses; they find it cheaper than any other formal or industrial site in George.</p> <p>They agreed that business expenses are cheaper for an HBB. The Garden Route Mall does add necessary quality to the area but issues concerning competition for certain HBB owners (especially manufacturing HBBs like arts and crafts) are very prominent throughout the comments.</p> <p>An HBB like a superette indicated that there are no similar businesses in the area and that it is very good for their business.</p>	<p>Comfortable location, central and close to schools.</p> <p>Some respondents indicated that the nature of their HBB does not rely on people walking by or through their businesses; hence concerns regarding location are not relevant.</p> <p>Spatial scale of business is an advantage due to the role and location of George within the Southern Cape.</p> <p>One respondent indicated that her business is so busy on a daily basis that she believes it will not be able to operate in any other place in George besides a residential area.</p> <p>One HBB is a security firm and feels that their location within a residential area is crucial in order to be in close proximity to their clients.</p> <p>A superette HBB converted a large portion of their property into more residences and some of their tenants also work for the business.</p> <p>One respondent converted his property into an HBB and a family residence, as well as more long-term accommodation, flats/cottages.</p> <p>Some respondents wanted to move their businesses out of the industrial area, indicating that they wanted a more central location.</p>	<p>HBBs are inherited.</p> <p>One respondent wanted to break away from his partners and hence started an HBB.</p> <p>One respondent wanted his business to be located in a good area, thus he started an HBB.</p> <p>Various respondents acknowledged the fact that due to the establishment of the Garden Route Mall, their previous formal sector businesses in the CBD ran their course due to clients preferring to do their shopping in the new mall.</p> <p>Some indicated that their businesses grew rapidly and that they needed larger premises and their house provided this space.</p> <p>Some bought their HBB from someone else.</p> <p>Various respondents made it clear that their businesses represent not only a means to an end to provide for their families but also include their life's passion in some way, or a hobby that escalated into a mainstream HBB.</p> <p>Some feel that they are now closer to their clients ever since they moved their business to their residences.</p> <p>Labour laws in the clothing manufacturing industry are a further concern for HBB owners of this type; payment of employees on public holidays as well as mandated bonuses are some examples aired by respondents.</p>	<p>Refuse removal is an issue. Some respondents place emphasis on the lovely area where the HBB is located and praise it by acknowledging that it contributes to a positive image of the HBB.</p> <p>Crime-related issues such as house break-ins.</p> <p>On the contrary, safety in neighbourhood adds prestige to an HBB like an architecture firm or doctor's place of work.</p> <p>Roads need maintenance work.</p>

Area	HBB dynamics			
	Financial	Spatial	Administrative/decision-making process	Environmental
Coloured-group area: Pacaltsdorp	HBB owners prefer to pay off a house bond rather than extra rent for an additional shop outside the neighbourhood. Ease of finding business space – one respondent indicated that he moved from Gauteng and quickly found a suitable site for a house and a shop. One respondent was certified medically unfit to work and thus could not get another job; therefore, he started a house shop. Competition is very concentrated under all the existing house shops in this area.	One car repair respondent emphasised that his clients know where his workshop is and that his business has always been located on a residential property. A new road was constructed and this helps with easier access for clients and customers to the area.	Wanted to move out of the "busy" CBD to a calmer area: businesses complained that it was too noisy in town. Respondents complained about bad service delivery in this area. Respondents mentioned that George Municipality are not doing enough for small business awareness/support for entrepreneurs.	Safer for clients to come to a neighbourhood but, on the contrary, theft of house shop stock is a concern for some. Crime is escalating in the area and the appearance of more 'loan sharks' attracts unwanted and suspect people. Crime does exist but it is not out of control. Break-ins in the area are a problem and people have complained that the prices of products are higher than in town (CBD). Too few parking areas on and off the street. Customers complain about house shop products being too close to their expiry dates. Noise made by neighbours is also a problem for some respondents.

individual businesses and build social capital amongst owners of spazas and 'home shops'. This was achieved by organising the owners into a network, called SHOPNET. Business owners (approximately 800) were mobilised around a common cause – their supply chain.

ii) Vertical i.e., an intervention in the supply chain. At present TIO manages SHOPNET, which places bulk orders with wholesalers. As a result, wholesalers now provide discounts and distributors deliver goods to shops.

## 5. CONCLUSION: TOWARDS PLANNING AND POLICY RECOMMENDATIONS

Local government is more often than not the first contact point for HBBs as the operator endeavours to determine whether they can operate the business from home. However, in most cases, this is where the local authority's role ends. The structural and spatial transformation of business space in George over the past 15 years resembled most cities in the country: formal businesses decentralising, declining CBDs, deconcentration and drift of business in specific directions (more so along corridors of growth), and a continued reluctance of formal business investment in townships. The informal business type that can be considered to be the most 'formal', namely HBBs, has accordingly adapted spatially to the above. There is a stark difference between the experiences of HBBs located in advantaged as opposed to those located in disadvantaged areas of George. The potential and success of those in the former mirror formal business successes, whereas the

latter resemble a survivalist mode of operation. Local authorities, therefore, have to be more proactive and creative in formalising the linkages between informal and formal business spaces. According to Walker *et al.* (2002: 15):

it is vital to have a legislative and policy framework at all tiers of government that will support rather than inhibit HBBs. To date, few studies appear to have tackled the impact of government legislation and policy on the success and growth of the HBB sector. While there has been sporadic interest in home-based businesses from government, there needs to be structured programmes developed which deal with the wider issues that small businesses face, not just from a training needs perspective. Local government in particular has the ability to ensure that its regulatory processes consider and reflect the needs of HBB, for it is at the local level that HBBs have an impact on social capital and the micro economy.

Given the magnitude of HBBs in the George urban economy, eight recommendations and HBB strategy recommendations (after Walker *et al.*, 2002) can be applied to George. The first is a review and modification of planning schemes, so that most businesses do not need to apply or register 'as of right' business uses – this modification can be implemented as a facilitation mechanism. It does, however, place the onus on the HBB to determine whether their business is an 'as of right' use, or whether they need to lodge a development application to undertake their specific business at home. The second

recommendation is to develop a guide booklet to assist residents to determine whether their prospective business is an 'as of right' use, and to give some broad guidelines for some of the 'how to's' of setting up an HBB. Third, a comprehensive database of HBBs must be developed; this can be used to cross-reference with residential zones to analyse the locations of HBBs and their types of business operations, and how these locations fit in with the SDF of the city. Fourth, spatial mapping will greatly assist in understanding the potential formal-informal linkages and relations which, in turn, can be useful in formulating spatial-economic strategies of LED. Fifth, annual HBB workshops should be conducted, with business facilitation partners. Sixth, HBB strategies should be incorporated into the LED strategy of George. Seven, funding should be provided for local business intermediaries to run specialised micro and HBB workshops and training. Eight, research should be conducted among HBBs by partnering with the nearby NMMUs Saasveld campus, to understand the motivations, characteristics and aspirations of HBBs more fully, with the objective of incorporating this understanding into the somewhat bureaucratic HBB policy, aiming to remove some of the current growth barriers over which local government exerts influence.

The challenge for policymakers, then, is to maximise the employment-creating potential of the home-based enterprise (as part of the informal sector) while devising appropriate measures to protect the poor and vulnerable (Isandla Institute, 1999), as well as

protect the rights and lifestyles of other citizens. Three spatial planning and urban development strategies that can go a long way in transforming the HBB spaces are suggested (after Isandla Institute, 1999). First, the idea of decentralising planning ownership to neighbourhood level (away from urban authorities to neighbourhood groups) has been suggested over the years. Potentially, neighbourhood councils can be "established as development control agents and arbitrators in disputes. In this way, locally sensitive judgements can be arrived at with respect to the acceptable level and types of economic activities for low income residential areas" (Isandla Institute, 1999: 28). The potential for such a control system can be investigated within the current legislated ward committee system.

Second, it is a given that infrastructure in poor settlements must be improved. HBBs may be survivalist or more sophisticated micro-enterprises. Officially, a micro home-based enterprise is defined as a business that operates informally, is unregistered, employs fewer than five people, and has a turnover of less than R200.000 (see *Schedule to National Small Business Act* – Office of the Presidency, 1996). Von Broembsen (2007: 14), however, argues that "in reality, micro-enterprises differ little from survivalists. Most operate in the retail sector, a sector that is limited to local markets; earnings are minimal and employment conditions are poor." In low-income areas, HBBs are predominantly viewed as survivalist where they are often the primary source of income for the household. Von Broembsen's (2007) study has indicated that businesses in townships that have more formal housing and access to electricity and running water (as opposed to a communal tap) are more sophisticated and sustainable than those where homes are shacks and have access to few amenities. This is essential for enhancing the viability and profitability of HBBs. Eskom estimated that for every 100 households connected to an electricity grid, 10-20 new economic activities are started. Infrastructure as an asset therefore contributes directly to boosting job creation.

Third, in addition to existing SMME funding sources and models, small grants that reinforce the productive capacity of existing small-scale HBBs, i.e., specifically, loans that could be used for housing extensions or other

infrastructural improvements, must be considered. The housing unit as an asset can thus be reinforced.

The home is indeed a primary driving force in making a contribution to income generation and the role of government and should ideally be integrated more appropriately and at different tiers of governance.

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