THE SOCIOECONOMIC IMPACT

OF RETAIL INVESTMENT IN SOWETO:

EVALUATION AND POLICY RECOMMENDATIONS

by

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ACRONYMS

ANC	African National Congress
BBBEE	Broad-Based Black Economic Empowerment
BMR	Bureau of Market Research
BRICS	Brazil, Russia, India, China, South Africa
CPI	consumer price index
CSI	corporate social investment
DBSA	Development Bank of Southern Africa
DTI	Department of Trade and Industry
GDP	gross domestic product
GPPT	Gauteng Province Provincial Treasury
IDC	Industrial Development Corporation
IO	input-output
LED	local economic development
LSM	Living Standards Measure
PAR	participatory action research
PPP	public-private partnership
R	rand
SAM	Social Accounting Matrix
SARB	South African Reserve Bank
SAARF	South African Audience Research Foundation
SADC	Southern African Development Community

SIC   standard industrial classification

SMME small, medium, and micro enterprise

Stats SA Statistics South Africa

SWOT strengths, weaknesses, opportunities, threats

VFM   value for money

ABSTRACT

The economy of South Africa is distinctively bifurcated. While a developed modern sector continues to expand, a substantial segment of the population has been excluded from the formal economy. This exclusion, in combination with the spatial impact of apartheid, has manifested in the crippled market development of defined geographic regions of the country, namely townships.

Soweto, the conglomeration of townships southwest of Johannesburg, which represents South Africa's largest urban residential area, has a negligible economic footprint, despite constituting well over one-third of the population of Johannesburg. Furthermore, high levels of unemployment continue to plague Soweto and household incomes remain low. This phenomenon has motivated the investigation of strategies to reduce the disparity between the human capital potential and the economic output of Soweto and to economically empower the low-income population of the region.

Over the course of the past decade, increased investment in the retail trade sector has been made by national retailers in Soweto accompanying the proliferation of shopping mall developments in the community. This study applied a quantitative approach to estimate the socioeconomic impact of retail investment in Soweto between the years of 2005 and 2015. The surge in retail investment has caused economic growth in the region, but due to market and policy failures the benefits of growth are not proportionately accruing to the low-income population.

Chapter 1

INTRODUCTION

South Africa is recognized as a major emerging economy. Despite this, the disenfranchisement of large segments of the population present significant barriers to economic growth and contribute to severe challenges of entrenched poverty and inequality. Historically marginalized communities bear the brunt of these challenges. This study investigates the effectiveness of retail-oriented investment as an inclusive growth strategy to empower South Africa's townships.

This chapter will serve as an introduction to the topic. First, pertinent background information is offered to shed light on the social and economic challenges facing South Africa and its townships. Retail expansion in Soweto will then be discussed in this context. Next, the nature and scope of the problem in Soweto is discussed, focusing on depressed levels of economic output, high levels of unemployment, and low household incomes. Finally, the significance of this study and the void it fills in the literature on this topic is considered.

1.1   Background

As a BRICS nation, South Africa– among Brazil, Russia, India, and China – is recognized as a major emerging economy, yet it is one of the most unequal countries globally (World Bank, 2016a; World Economic Forum, 2014). This paradox is manifest in the bifurcation of South Africa's economy. While a developed modern sector continues to expand, a substantial segment of the population remains excluded

from the economic mainstream (Gauteng Province Provincial Treasury [GPPT], 2009).

South Africa's history of state-sanctioned oppression of the black majority population under apartheid has played a large role in the economic challenges currently facing the nation. Policy restrictions under apartheid resulted in the disenfranchisement of black South Africans from the formal economy and the institution of racial segregation gave the resulting disparities geographic context. These policies have led to crippled market development and impeded growth potential in South Africa's townships, defined geographic areas of the country where black South Africans were forced to live during apartheid that were spatially disconnected from centers of economic activity.

The marginalization of townships inhibited all but an undiversified, mostly informal economy to develop in these communities (Ligthelm, 2008). Twenty-two years after liberation, very little socioeconomic transformation has taken place, resulting in exacerbated inequality and sustained racial stratification.

Soweto, the conglomeration of townships southwest of Johannesburg, which represents South Africa's largest urban residential area, demonstrates these characteristics. According to the City of Johannesburg (2008), Soweto accounts for only 4 percent of the economic output of the Johannesburg metropolitan area despite constituting an estimated 43 percent of its population. Furthermore, high levels of unemployment continue to plague Soweto and household incomes remain low. This set of circumstances has motivated the analysis of inclusive strategies to reduce the disparity between Soweto's human capital potential and its economic output and to economically empower the low-income population of the region.

Over the course of the past decade, Soweto has experienced a surge of investment in the retail sector by large national retailers accompanying the proliferation of shopping mall developments in the community. This parallels a nation-wide movement by retailers to capitalize on previously untapped middle- and low-income markets in emerging areas.

Until the late 1990s, retail markets in township areas were dominated by small informal enterprises serving a relatively low-income consumer market (Ligthelm, 2007). Since 2005, eight major shopping centers have been developed across Soweto, where only one existed previously. The engine of retail transformation over the past decade in township markets has been increased demand and purchasing power caused by rising household incomes, growing numbers of township residents, and indications that most middle-income township residents do not intend to move out (Ligthelm, 2007).

There are divergent perspectives on the implications of the expansion of large national retail chains in Soweto and contention regarding whether the overall impacts are beneficial or disadvantageous to the local community, particularly low-income groups.

According to the World Bank's study on the economics of townships in South Africa, township economies have the potential to be an important driver of short-term growth (Mahajan, 2014). Soweto is an integral part of the Johannesburg metropolitan area and, therefore, South Africa as a whole, which makes research around strategies for inclusive growth in this region of the utmost importance moving forward.

1.2   Problem Statement

Three distinct, but interrelated concepts can define the problem in Soweto that this study seeks to address. They are depressed levels of economic output, high levels of unemployment, and low household incomes.

1.2.1   Depressed Levels of Economic Output

As previously stated, the disproportionality between the economic output and the population of Soweto is exemplified by the finding that the region represents 4 percent of economic output of the Johannesburg metropolitan area despite representing an estimated 43 percent of the city's population (City of Johannesburg, 2008). This incongruence demonstrates the underdeveloped market infrastructure in Soweto, which has resulted in high levels of market leakage.

Market leakage refers to when consumers spend money outside of the local market, which according to the theory of the circular flow of income and expenditure, reduces the income circulating within the community. The circular flow of income and expenditure and its significance to this study is discussed in detail in Chapter 3.

There are several underlying causes of the market leakage taking place in Soweto, but the root of the problem can be attributed to apartheid-era policies that purposefully designed townships to be dormitory spaces for black labor and prevented the formation of sustainable market infrastructure.

The process of building markets is slow. Despite the end of apartheid in 1994, a decade later, the Soweto Retail Strategy reported that the total demand for retail goods in Soweto was estimated at R4.2 billion per annum, yet only R1.05 billion, or 25 percent, was spent in the community (City of Johannesburg, 2005).

1.2.2 High Levels of Unemployment

Going hand in hand with the underdevelopment of local markets are the undersupply of local jobs. This notion, in combination with generational poverty, inadequate educational infrastructure, and social exclusion, has made it difficult for Soweto residents to find employment either inside or outside the township.

The Five Year Soweto Economic Development Plan reports that the population of Soweto experienced an unemployment rate of 53 percent, excluding discouraged workers, compared to a still alarmingly high, but significantly lower rate of 35 percent in Johannesburg at large (City of Johannesburg, 2008).

1.2.3 Low Household Incomes

The final problem area to be addressed is low household incomes in Soweto. While average household incomes are increasing due to the growth of the 'black diamond' echelon of emerging middle class black South Africans, according to 2015 AMPS data, 88 percent of households in Soweto earn less than R16 000 per month (about $1,100) and are considered low-income for the purposes of this study (Radebe, 2013; South African Audience Research Foundation [SAARF], 2015a; Udjo, 2008). Middle-income households, which earn between R16 000 and R 49 999 per month (between about $1,100 and $3500), account for about 12 percent of Sowetan households, and not a single household in the sample was classified as high-income, earning over R50 000 per month (about $3,500) (SAARF, 2015a).

The South African Audience Research Foundation (SAARF) Living Standards Measures (LSM) is a widely used market segmentation and wealth measurement tool in South Africa. LSM divides the population into ten groups according to their standard of living, taking into account a diverse array of variables including degree of

urbanization, consumer behavior patterns, and ownership of commodities such as cars and major appliances (SAARF, 2015b). In 2015, only 5 percent of Sowetans were classified under LSM 1-4, 78 percent fell into LSM 5-7 or the "middle class" category, and 17 percent were classified as LSM 8-10 (SAARF, 2015a). Although LSM does not consider income, LSM 1-4 is associated with household monthly income of up to R2 000 (about $150).

LSM and household income data for Soweto indicate that most Sowetans are not living in poverty, but almost 90 percent of households are classified as low-income. The large percentage of Sowetans that fall into LSM 5-7 suggests that these households, which are considered low-income, mimic consumer behavior patterns of the middle class. This could be an early indication of national retail chain success in this market.

The research methodology of the study has been designed with these challenges in mind. The variables, or target impact indicators, selected for the study correspond to these three problem areas. They are contribution to the gross domestic product (GDP), employment creation, and household income.

1.3   Research Objectives

The prime objective of this research is to determine the effectiveness of retail-oriented investment as a strategy for inclusive growth in Soweto through the amelioration of depressed levels of economic output, high levels of unemployment, and low household incomes.

The hypothesis of the study is that the surge in retail investment in Soweto has caused economic growth in the region, but due to market and policy failures, the benefits of growth are not proportionately accruing to the low-income population. A

quantitative approach is applied to estimate the socioeconomic impact of retail investment in Soweto between the years of 2005 and 2015, which is outlined in Chapter 4.

To evaluate the impact of retail investment, input-output (I-O) analysis was employed by utilizing a Social Accounting Matrix (SAM) and its accompanying economic model. Eleven major South African retail holding companies and their subsidiaries were selected for the analysis, which constitute roughly 95 percent of the market share in Soweto. They are Pick n Pay Holdings, ShopRite Holdings, Spar Group, Edcon Holdings, Truworths International, Foschini Group, Woolworths Holdings, Pepkor Holdings, Mr. Price Group, Vodacom Group, and MTN Group.

National and international investment data of these eleven retailers between the years of 2005 and 2015 was disaggregated to the Soweto level and was used as an input of the economic model used to determine socioeconomic impact. The target indicators of impact, which are outputs of the economic model, are threefold: contribution to the gross domestic product (GDP), contribution to employment opportunities, and contribution to household income.

Following this chapter, an in-depth review of the literature in this sphere of research is explored in Chapter 2. It considers research highlighting the role of the retail sector in urban renewal and economic development in historically underserved communities as well as existing studies around the growth of retail in Soweto. The literature review also touches on works of African scholars of the Black Consciousness movement and the legacy of colonial exploitation, which is important to understanding the dynamics of this issue from an Afrocentric perspective.

Following the literature review is an examination of the theoretical framework underlying the study in Chapter 3 and a detailed account of the methodology employed to collect data and to answer the research question in Chapter 4. This is followed by a presentation of the study's findings and a discussion of these findings in Chapters 5 and 6. The discussion will address whether or not retail investment has been successful at contributing to economic growth, job creation, and the economic empowerment of low-income households in Soweto and present an array of policy recommendations to make this strategy more effective at achieving these objectives.

1.4 Significance of the Study

This study offers empirical analysis of the impact of retail investment in Soweto and draws conclusions regarding its effectiveness as a strategy for making markets work for marginalized communities in South Africa. The findings of the study fill a void in the research around this topic by providing macroeconomic context to these problems, which has not previously been done. Most of the earlier research conducted in this sphere has been survey research concerned with either the consequences of shopping mall development for small township retailers or consumer behavior and spending patterns.

The SAM and its accompanying economic model will allow for the derivation of estimates for contribution to GDP, job opportunities created, and contribution to household income in Soweto and will provide the basis for evaluating the extent to which the retail sector has led to the integration of Soweto into the regional economy over the past ten years. The data will also allow for the analysis of investment trends and comparisons amongst the various retailers under study. This information is

valuable in considering which private sector entities are playing a role in township development throughout the country.

Further, this research is useful in understanding both the benefits and limitations of relying on targeted retail investment as a growth strategy in emerging township areas, particularly because retail investment is one of the few significant forms of investment occurring in townships across the country (Urban LandMark, 2010).

With South Africa's economic growth rate dipping into negative territory in the first quarter of 2016, traditional approaches to growth are no longer adequate (South African Reserve Bank [SARB], 2016). Economic growth can occur in two ways; by either making more efficient use of existing resources or by increasing the inputs of the economic system (Weissbourd, 2006). Underemployed labor and underdeveloped markets, which are characteristic of South Africa's townships, represent a multitude of squandered assets, reflective of both market and policy failures. Inclusive growth strategies will place a priority on integrating these squandered assets into the economy to achieve both increased returns at the national level and a more equitable allocation of economic benefits.

Chapter 2

LITERATURE REIVIEW

This review explores the existing body of literature around economic development in Soweto to provide context to the discussion. First, an overview of Soweto's economy in the context of the national economy is provided, followed by a discussion of the impact of apartheid on the current economic landscape. A socioeconomic analysis of racial segregation in the United States follows, as a comparison to the situation being experienced in South Africa.

The literature review continues with a discussion around retail investment as a tool for economic and community development both broadly and at the local level in Soweto. At the core of this discussion is an examination of shopping mall development in Soweto between 2005 and 2015. The literature review concludes with a discussion of local economic development (LED), and public-private partnerships (PPPs) and the role each can play in ensuring retail investment is an equitable growth strategy in Soweto.

2.1 Soweto in Context: A Post-Apartheid Township Economy

Although the end of apartheid brought about attempts at economic restructuring, South African policymakers have struggled to achieve equitable growth solutions. Political transformation occurred in 1994, but economic transformation has yet to take place and some argue it has actually gotten worse, as a tremendous share of economic and financial resources in South Africa are still held by the white minority

population. According to the World Bank (2016), South Africa is regarded as one of the most unequal countries globally with a Gini Index of 63.4 in 2011, worsening from 63.1 in 2009. Policy restrictions during apartheid – between 1948 and 1994 – played a large role in the severity of inequality in South Africa and post-apartheid policies have kept this reality alive (Mahajan, 2014).

Apartheid cities were shaped at their conception to keep black people close enough to provide cheap labor, but to keep them far enough away to ensure social exclusion and economic subjugation. Commercial and industrial activities were kept out of non-white areas, which crippled township markets. This has transcended the twenty-two-year period since the end of apartheid, as townships continue to be isolated from nodes of urban economic activity, which tend to be skills-intensive.

A human capital divide was created during apartheid that poses often insurmountable barriers for township residents to integrate into formal economic structures today (Mahajan, 2014). Consequentially, the World Bank reports that despite 38 percent of the country's working-age population living in townships and informal settlements, these communities are home to almost 60 percent of the country's unemployed population (Mahajan, 2014).

Turok (2011) stresses the relationship between the built form of cities and the resulting impact on the welfare of residents and patterns of social integration and economic development. In his research on South Africa's urban centers, he touches on the role of apartheid in creating sprawling, splintered, and racially divided cities, which has stifled accessibility to jobs, amenities, and economic resources to huge sectors of the population. The economic structure of townships today is reflective of

low levels of development, weak linkages with the formal sector, and negligible industrial production (Mahajan, 2014).

Soweto, an acronym for South Western Townships, was established in 1904 (City of Johannesburg, 2008). Soweto consists of about 153 square kilometers (59 square miles) and approximately 1.1 million households (SAARF, 2015a), making it the most populous urban residential area in South Africa (City of Johannesburg, 2008). Soweto emerged as a result of dramatically increasing housing demand for black, colored, and Indian South Africans used in large scale industrial development, particularly the mines located on the northern border of the region (City of Johannesburg, 2008).

Soweto exploded as an informal settlement as the apartheid government took hold and formal legislation was passed to separate and oppress black and brown South Africans by regulating places they could live and work, most notably the Group Areas Act of 1950 (City of Johannesburg, 2008). The Act made it compulsory for South Africans to live in areas designated exclusively to their racial group. Soweto today remains almost universally black, constituting 99.3 percent of the region's population (Brinkhoff, 2013).

When liberation was realized in South Africa in 1994, it was clear that Soweto had become an important part of Johannesburg and needed to be integrated into both the economic and social fabric of the region. Despite this, today low levels of both private and public capital investment continue to characterize Soweto and limited spatial planning has taken place to facilitate local economic development (City of Johannesburg, 2008; Mahajan, 2014).

From this abbreviated history of Soweto it is crucial to understand the historical motivation for the establishment of Soweto as dormitory space for a labor reservoir and its consequences on the development of the community's economy. Since its establishment in 1904, the economy of Soweto was unable to effectively develop or diversify. Apartheid denied blacks the opportunity to develop their own businesses, resulting in inadequate market institutions to support emerging producers as well as a widespread absence of entrepreneurial culture and experience (Republic of South Africa, 2014).

The consequence of this crippled market development in Soweto today is that despite being the largest urban residential area in South Africa, the formal economic footprint of Soweto is negligible. Further, over half of the community's population is unemployed (City of Johannesburg, 2008).

Local economic development potential hinges on key resources of labor, skills, and capital. While Soweto's population has the potential to be an immense labor resource, the majority of these people are relatively unskilled. In 2003, 75 percent of Sowetans held unskilled or manual jobs while a mere 10 percent held professional jobs (City of Johannesburg, 2008). This, among other factors, may be attributed to the average education level of Sowetan adults hovering between standard grades six and seven (City of Johannesburg, 2008).

As the preceding twenty-two years of South African growth since liberation have demonstrated, the Sowetan economy will not benefit equally from growth of the nation's economy at large. A vibrant Johannesburg economy will also be an insufficient solution to address the issue of economic growth in Soweto. While many people will benefit from the growth of either the city or the nation generally, most

South Africans living in townships will not reap the benefits of growth at this scale without the adoption of a targeted approach.

2.2   Residential Segregation in the United States

In pursuit of economic liberation in Soweto, lessons can be learned from the plight of marginalized and segregated black communities in the United States. Scholars have cited various economic implications of residential segregation on the basis of race as experienced both in the U.S. and in South Africa under apartheid.

Renowned sociologist William Julius Wilson (1987) pushes an intricate economic argument to convey segregation as the cause of systemic disadvantage. The argument maps a self-sustaining cycle of how factors such as low property values, bank disinvestment, a low tax base, poor public services, capital and business flight, poor job opportunities, low business ownership rates, isolation from social networks, and concentrated poverty are both caused by and contribute to one another, deepening segregation and inequality. This cycle, unfettered, accounts for the grossly elevated levels of segregation that persists today and along with it the urban poverty, blight, and stagnation experienced by hyper segregated, inner-city African American communities.

While all of these factors are important in assessing the economic consequences of segregation, at the core of economic disadvantage of such communities is underdeveloped markets. Well-functioning markets are key to making strides toward inclusive economic growth, which has been stifled by laws enforcing residential segregation. Raising levels of economic output and building well-functioning markets in marginalized communities is the only way to achieve

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sustainable poverty reduction to combat the effects of segregation (Taylor, 2003). Economic output and productivity are also correlated with standard of living.

Marginalized hyper-segregated black enclaves in the United States, returning to the Wilsonian (1987) argument, have lower levels of formal economic activity and productivity than that of their white counterparts due to the lack of sustainable market infrastructure. This is a direct consequence of historical legal institutions establishing racially divided communities, which have channeled investment away from black neighborhoods. The consequence has been the transformation of these communities into dormitory spaces, devoid of quality goods and services upon which to build market infrastructure. The lack of formalized and sustainable markets translates to minimal levels of economic output, a lack of job opportunities, and a poor standard of living. Residents of these communities are forced to travel far and expensive distances to shop and work, creating substantial market leakage. In essence, when no market structures are in place to both provide a place for citizens to spend and invest their money, or to employ them, any money which exists within the community is funneled out.

Experiences in the United States and South Africa demonstrate the impact of residential segregation, economic stratification, and sustained racism. Moving forward, the key to chipping away at the economic stratification that has been created, and eventually the segregation that caused it, is reducing the disparity between the human capital potential and economic output of such communities by introducing interventions that elevate levels of formal economic activity.

The success of retail investment as an effective growth strategy is contingent upon its ability to build sustainable market infrastructure and increase levels of economic output in Soweto.

2.3   Retail Investment as a Tool for Economic and Community Development

In narratives of urban revitalization globally, retail innovation has long been viewed as a catalyst for local economic development in emerging countries and marginalized communities (Dickens, 1999; Jacobus & Chappel, 2009; Jacobus & Chappel, 2010; Kurilla & Joshi 2010; Reinartz, Dellaert, Krafft, Kumar & Varadarajan, 2011; Strydom, 2014). The expansion of retail developments from high-income to middle-income and finally to low-income segments of the market currently being experienced in South Africa is similar to that observed in Argentina and Costa Rica during the mid- to late 1990s (Tustin & Strydom, 2006). Proponents of retail development cite a wide range of benefits in the pursuit of such strategies including job creation, increased capital investment, increased local income, and the creation of a stronger tax base for better public services.

Jacobus and Chappel (2009) have examined the connection between retail development and neighborhood revitalization as an effective solution in expanding economic opportunity, diversifying housing options, and strengthening connection to place. Due to the employment of underutilized infrastructure, the development of retail hubs has the potential to raise tax revenues for the city and state, often with relatively minimal expenditure (Jacobus & Chappel, 2009). New retail projects, often leading to revitalized corridors, act as catalysts for further public and private investment in addition to providing entrepreneurship opportunities and creating jobs for local residents.

In addition to motivations related to economic development, successful commercial development also lends itself to community development through its potential to make low-income neighborhoods more attractive places for residents to live. While policymakers conventionally conceptualize commercial retail development in terms of its impact on place, Jacobus and Chappel (2010) also posit that these programs build connections to new social networks and promote integration into the regional economy. Supporting this claim in his work on rebuilding urban labor markets, Dickens (1999) contends that neighborhood-based development efforts are necessary to overcome employment and investment obstacles in low-income urban communities so that residents can benefit from regional economic growth.

Further, Michigan State University's Urban Collaborators (2006) posit that although individual household incomes may be lower in inner cities in the United States, the density of demand, due to the high population density, creates enormous retail purchasing power.

In line with the idea that retail innovation is a strategy to empower economically and socially disadvantaged communities, South African policymakers and private investors have used the development of shopping malls as a vehicle to effect this economic and social advancement in conjunction with policies aiming to improve job opportunities (Strydom, 2014). For example, approximately 75 percent of the South African Treasury's Neighbourhood Development Programme Grant is directed towards retail-orientated intervention (Urban LandMark, 2010).

The increased willingness of private sector retailers to invest in emerging markets is driven by growing purchasing power from an expanding middle class in these areas, low interest rates, and the reality that traditional retail areas have become

saturated (Tustin & Strydom, 2006). To these retailers, townships represent untapped markets as residents traditionally have had very few shopping alternatives (Ligthelm, 2007; Tustin & Strydom, 2006). The massive informal market in townships further provides an indication of potential success for large retail chains. The informal food market alone was valued at between R20 and R30 million per year in 2006 prices (between about $1.4 and $2 million) (Tustin & Strydom, 2006).

2.4   Retail Investment in Soweto Between 2005 and 2015

The retail sector in Soweto grew substantially over the past decade. This is represented by the eight major shopping center developments built across Soweto since 2005, where only one existed previously. Each of these retail developments are listed in Table 2.1 along with the date of their construction and their size.

Table 2.1:   Shopping centers in Soweto

Name of Shopping Center	Construction Date	Size
Dobsonville Shopping Centre	1994	17 317 m^2
Protea Gardens Mall	2005	22 000 m^2
Trade Route Mall	2006	45 000 m^2
Bara Mall	2006	10 000 m^2
Jabulani Mall	2006	44 355 m^2
Maponya Mall	2007	65 000 m^2
Protea Glen Mall	2012	30 000 m^2
Diepkloof Square Mall	2012	18 515 m^2
Ndofoya Mall	2013	Unknown

Note. Sourced from City of Johannesburg (2005) and Ligthelm (2007)

Several key studies have been conducted that assess the impact of retail development in Soweto over this period, which offer mixed responses to whether or not it has been beneficial or harmful to the local community.

Tustin (2008), attributes reduction in market leakage in Soweto to shopping mall developments, reporting that almost half of local residents' purchases are from retail centers in Soweto and 20 percent of household goods and services are purchased from businesses located outside Soweto. This 20 percent market leakage for 2008 is improved from a figure of 25 percent in 2005 (City of Johannesburg, 2005).

Urban LandMark (2010) conducted a study on the impact of township shopping centers, which provides a case study of the impact of Jabulani Mall in Soweto. The study finds that the development of the mall reduced market leakage from the local community, improved travel time and travel costs to retail centers, provided more affordable goods and services locally, and improved the convenience of local shopping (Urban LandMark, 2010). The findings of the study are summarized below.

- Consumer behavior:

    o Before the development of Jabulani Mall, approximately 60.5 percent (weighted average) of shopping was conducted outside of the local area, defined by a ten kilometer radius around the mall.

    o After the development of Jabulani Mall, the percentage of shopping conducted outside of the local area declined to 35.5 percent (weighted average).

    o After the development of Jabulani Mall, 34.4 percent of respondents indicate that they never have to shop elsewhere, 34.4 percent indicate that they now shop less frequently outside the area, 16.7 percent indicate that they shop less frequently at their previously preferred retail centers, 12.2

percent visit the local area more for shopping purposes, and only 2.2 percent of respondents indicate that their shopping patterns have not changed.

- Travel time and travel costs to retail centers:

  - Before Jabulani Mall was developed, the average weighted distance to formal retail centers amounted to 17.7 kilometers.

  - Before the development of Jabulani Mall, the average weighted transport fare to formal retail centers amounted to R15.60.

  - The average weighted travel fare for a round trip to Jabulani Mall amounts to R10.40.

  - Before the development of Jabulani Mall, 36.4 percent of respondents paid more than R15 for taxi or bus fares to reach a formal retail center.

  - After the development of Jabulani Mall, this percentage declined to 6.9 percent.

- Satisfaction levels

  - The majority of respondents indicate that they are satisfied (38.2 percent) to very satisfied (28.1 percent) with Jabulani Mall, 30.3 percent of respondents indicate that the center is acceptable, and a mere 3.3 percent of respondents indicate negative levels of satisfaction.

Contrastingly, most of the studies conducted around this topic express concerns around the negative impact of shopping mall developments on small township retailers, including the informal economy. Tustin and Strydom (2006) argue that due to the proximity of informal retail shops to residences, they still attract a portion of consumer demand in townships despite the development of shopping centers, but that local entrepreneurs are bound to lose a portion of their market share if retail supermarket chains are successful.

Ligthelm (2008), highlights that the enterprises experiencing the largest challenges in the new retail environment in Soweto are informal businesses, those offering daily household necessities, and those that are situated in close proximity to the new shopping mall developments. According to Ligthelm (2008) 75 percent of businesses located less than one kilometer from a new shopping center report a decline in their profits due to the development of the shopping center. In addition, nearly 40 percent of small businesses in the township closed within one year of the establishment of Maponya Mall and Jabulani Mall (Ligthelm, 2008).

The Urban LandMark (2010) study also concedes that the development of Jabulani Mall has resulted in a decline in support for local traders with the average weighted percentage of shopping conducted at local traders declining from 25.3 percent to 14.2 percent. With regards to changes in the local trader environment due to the development of Jabulani Mall, 76.4 percent of respondents indicate that everything remains the same, 25 percent indicate a decline in informal traders, 38.5 percent indicate a closure of local businesses, 22 percent indicate a movement of local businesses to the mall, 16.5 percent indicate a movement of informal traders to locations closer to the mall, and 19.3 percent indicate a movement of local businesses to locations closer to the mall (Urban LandMark, 2010, pp. 118).

In response to these findings, it is critical to differentiate between opportunity-driven entrepreneurship and necessity-driven entrepreneurship. Opportunity-driven entrepreneurship is an active decision to launch a new enterprise based on the perception that a business opportunity exists, while necessity-driven entrepreneurship describes a situation where one is pushed into entrepreneurship as a survival mechanism due to a lack of employment opportunities. Opportunity-driven

entrepreneurs intend their entrepreneurial ventures to eventually result in high-growth firms that will manifest in the creation of new employment opportunities (Turton & Herrington, 2012). Necessity-entrepreneurship has no effect on economic growth, while opportunity-entrepreneurship has a positive and significant effect (Acs, 2006; Turton & Herrington, 2012).

The bulk of retailers in townships can be classified as necessity-driven entrepreneurs who trade as a result of the widespread unemployment in the townships (De Vynck, 2005; Mahajan, 2014; Tustin & Strydom, 2006). So while local traders in Soweto will undoubtedly lose business as a result of the development of shopping malls, it is important to ask whether or not these individuals would be better off with jobs created by retail investment, and also whether or not these enterprises are stimulating economic growth in the community.

Business activities of informal enterprises are not diminished in all cases though, in regards to shopping mall development in Soweto. Certain street vendors are capitalizing on the pull effect of these developments in some instances where they have been able to intercept the increased shopping traffic generated through the re-positioning of their operations (Kohler, 2011; Urban LandMark, 2010).

Opportunity-driven entrepreneurs are far more likely to survive the new competitive retail environment in Soweto (Business Day, 2010; Letsie, 2010; Ligthelm, 2007; Mahajan, 2014). According to the World Bank, these growth-oriented types of enterprises exhibit relatively high rates of return to fixed capital and attract more highly skilled entrepreneurs relative to retail trade and household services (Mahajan, 2014). This indicates that the opportunity-driven local trading sector that

offers economic growth potential to the community are not nearly as vulnerable to threats of shopping mall development as their survivalist counterparts.

In further critique of retail investment in Soweto, Kohler (2011) argues that while shopping malls may lead to a higher proportion of household expenditure taking place within Soweto, the benefits of such expenditure are unlikely to directly accrue to the local community because profits are funneled out of Soweto and back to the shareholders of large national retailers. Letsie (2010) supports this argument, contending that very few tenants of the new township shopping malls are stores owned by Soweto residents, citing that only an estimated 10 percent of tenants in Maponya Mall are locals.

Further, small local enterprises are at a disadvantage due to rental practices in retail developments that favor large national retailers (Kohler, 2011). National retail chains, particularly supermarket companies, often pay reduced rental costs for the space they occupy, due to efforts by developers to secure well-known established brands as anchor tenants prior to construction in order to support financing efforts (Kohler, 2011). As a result, to compensate for these diminished profits, shopping centers then often charge inflated rental costs to smaller tenants, which usually also involves escalation clauses upon lease renewal (Kohler, 2011). These practices represent both market and policy failures, which threaten the viability of local traders attempting to operate within shopping malls (First National Bank, 2009; Kohler, 2011). Solutions to these failures will need to come from the public sector to ensure local residents of Soweto have a stake in the growth of the local economy.

2.5   Divergent Perspectives on the Implications of Retail Investment in Soweto

The trend of increased investment by large national retailers in emerging economy areas of South Africa has become quite a debated issue with mixed responses to questions of whether or not the impact has been beneficial or harmful to the local community.

Proponents of retail growth assert that the proliferation of retail centers in townships supply a larger and more diverse array of goods and services to for locals to choose from at a lower cost due to higher competition (Urban LandMark, 2010). Tustin and Strydom (2006) support this claim that retail transformation in townships improve choices and prices for local consumers and lead to a revitalization of ailing township economies.

In an analysis conducted by Tustin and Strydom (2006), which evaluates strengths, weaknesses, opportunities, and threats (SWOT) of township shopping centers, strengths and opportunities include job creation, increased tax revenue, increased corporate social investment (CSI), the introduction of high value-added retailers, the development of sustainable township economies, and the overall empowerment of poor and unemployed communities.

Tustin and Strydom (2006) also highlight the economic growth potential in harnessing untapped township consumer markets. They posit that the focus of retail development in townships is instrumental in stimulating future economic growth and empowering these communities by linking the first, second, and third economies and contributing to skills development and social responsibility (Tustin & Strydom, 2006).

According to Urban LandMark (2010), the 160 retail centers that were developed in emerging economy areas between 1962 and 2009 across South Africa

generated an estimated R2.5 billion in business tax, R166 million worth of rates and taxes, and added just under 55,000 permanent jobs since the 1980s.

Critics of retail development in township areas mostly express concerns about the fate of small township retailers. The threats of retail township developments noted in Tustin and Strydom's (2006) SWOT analysis include the closing down and displacement of small township retailers, increased rental costs and demand for space creating barriers to entry of the retail market, and retail chains' procurement policies limiting opportunities for small retailers to acquire part of the market share.

Others argue that retail developments represent a significant threat in an era in which small, medium, and micro enterprises (SMMEs) are viewed as central to economic growth, employment, and goals of Broad-Based Black Economic Empowerment (BBBEE), in accordance with South Africa's National Development Plan (Kohler, 2011; Republic of South Africa, 2011).

2.6 Additional Studies

In addition to the studies highlighted in the previous section, the University of South Africa Bureau of Market Research (BMR) led a follow-up study in close conjunction with this research. To complement the quantitative nature of this study, qualitative methods were used in the BMR study to gauge community perceptions of retail growth in Soweto and narrative to the data presented in this study.

Participatory action research (PAR) methods were used to collect survey data for the BMR study (Bureau of Market Research [BMR], Forthcoming). According to Payne (2013), PAR is a community-centered and research-activist methodological framework, which is characterized by including members of the community under study on the research team as a way to more fairly guide analysis and to empower

community members. PAR was developed as an alternative to dominant top-down analytical methods of understanding community issues and was utilized to complement the limitations of SAM analysis. (Baum, MacDougall, & Smith, 2006; Fine et al., 2004; Payne 2013).

Youth PAR specifically was applied for the BMR study. Youth PAR is used as a tool for increasing youth involvement in social movement organizing and to encourage young people to take ownership of the challenges facing their community (Powers & Allaman, 2012). Four young women from Soweto were hired to be a part of the PAR team. These individuals were students recruited by way of the United States Consulate in Johannesburg through a youth club, which runs weekly at Rosa Parks Library in Ipelegeng Community Centre in White City, Soweto. Rosa Parks Library is funded through the United States Department of State American Spaces initiative. PAR team members underwent survey research training and assisted in survey implementation in the community. PAR team members received monetary compensation for their participation.

Data was collected for the BMR (Forthcoming) study by way of survey instruments distributed to three populations: residents of Soweto, owners of local SMMEs, and management of the eleven large national retailers in Soweto identified for this study.

The findings of the BMR (Forthcoming) study reveal that Soweto residents, in general, believe that retail growth in Soweto has benefited the community and has led to the economic empowerment of residents. Due to the design of the BMR study as a follow-up to the findings of this research, a more detailed analysis of the study and its findings are offered in Chapter 6.

2.7 Local Economic Development

Local Economic Development (LED) is a process of generating wealth and economic growth in a given locality and is seen as a method to achieve sustainable development. LED interventions are a response to local needs and focus on the mobilization of local human, physical, natural, and financial capital to stimulate growth (Abrahams, 2003). The creation of employment opportunities through LED is rooted in building upon the comparative advantages of a given locality.

LED strategies evolved as a policy approach in the 1950s in response to realizations by local governments that businesses and capital were relocating due to competitive advantage. It also became evident that certain sub-regions, particularly those that are historically disadvantaged, could not expect to benefit from growth at the national level due to uneven spatial distribution of economic activity, which contributed to growth disparities (Barberia & Biderman, 2010). Therefore, municipal governments began to adopt policies and strategies for LED to harness existing resources and enter into partnerships with the private and non-governmental sectors to create employment opportunities and stimulate economic activity within their defined boundaries (Abrahams, 2003).

Two camps of LED have emerged, with differing strategies and outcome goals. They are pro-growth or non-developmental LED, which takes a market-led approach and contrastingly, pro-poor or developmental LED, which aims specifically to integrate marginalized and disadvantaged communities into the formal regional economy (Abrahams, 2003). Literature regarding pro-growth LED, the traditional approach, encourages local governments to actively protect and create new jobs, assist with the restructuring of industries, reduce red tape and bureaucracy, and offer incentives to industries to attract investment (Abrahams, 2003; Pierterse, 1998;

Shamim, 2014). This approach focuses on urban efficiency and place marketing, pushing economic growth without placing specific intentions on social outcomes. Pro-growth LED aims to stimulate growth through market mechanisms, but there is risk of contributing to market distortions by way of this approach, which can result in the privatization of gains and the socialization of costs (Korten, 1995; Shamim, 2014). To demonstrate this point, Shamim (2014) offers an example of local government utilizing public funds to stimulate economic activity by subsidizing local firms in the name of LED, but benefits accrue only to firm stockholders. Advocates of pro-growth approaches argue these strategies enable local economies to integrate more successfully to broader macro-economic reforms and shifts (Scott & Pawson, 1999).

Pro-poor LED is a more people-centered approach, which evolved in the Global South and is geared towards investment in human capital development and targeted inward investment (Abrahams, 2003; World Bank, 2001). There is a strong focus on public-private partnerships, retention and expansion of existing local firms, support for SMMEs, workforce development, community empowerment, redistribution of resources, and poverty alleviation (Abrahams, 2003; World Bank, 2001). Critics of pro-growth LED argue that investment attraction and place marketing alone have not created and sustained jobs in the local economy in the long term and that the returns on investment are rarely experienced by the poor (Bond, 2001).

According to Abrahams (2003) there is now an effort to consolidate both approaches to encompass a wide array of organized local responses to external factors that impact a local economy. At the foundation of both camps of LED are self-reliance, local participation and cooperation, and environmental sustainability with goals of higher standards of living, job creation, improving investment climate, and

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building economic capacity (Folser, 1991; Scott & Pawson, 1999; Swinburn, Goga & Murphy, 2006). It is critical that any LED strategy, whether at the district, city, or neighborhood level, places the given locality in the context of the larger economic environment and places a priority on developing economic linkages from district and national, through to the global level (Abrahams, 2003).

The challenge of LED is to find ways to maximize local resources and local knowledge to benefit all inhabitants within a specific geographical area. Trousdale (2005) defines LED as a participating process where local people, from all sectors within a specific area, work together to activate and stimulate local economic activities, with the aim to ensure a resilient and sustainable local economy. According to Bartik (2003) LED is defined as the local economy's capacity to create wealth for local residents. Meyer-Stamer (2008) defined LED as the ability of a locality or even region to generate increasing income and improve local quality of life for its residents. LED attempts to remedy market failures such as the removal of barriers to enter markets for small business and availability of information. LED is also about creating positive conditions for business development (Meyer-Stamer, 2003). According to Swinburn et al (2006), LED is a process whereby public, business, and non-governmental sectors work collectively as partners to create a better quality of life for local residents through economic development.

LED practices will need to be integrated into retail growth strategies in order to achieve desirable social outcomes. This will necessitate a collaborative outlook on township development by the public sector and involve using PPPs. At this point in time, the retail development occurring in Soweto is being undertaken solely by private sector forces. These forces notably do not produce equitable outcomes due to market

failure. A balance must be struck by involving public sector in crafting LED policy in the context of retail development.

2.8   Public-Private Partnerships

To combat failures of the market for low-income township residents and to achieve equitable social and economic outcomes of retail development in township areas, public-private partnerships (PPPs) are critical moving forward. Across the world, governments have turned to PPPs to engage the private sector in a wide range of public projects and services. These mechanisms are recognized as cost-efficient and effective for the implementation of public policy particularly in terms of developing socially inclusive communities (Osborne, 2000).

A PPP is a medium to long-term arrangement between a public sector entity and one or more private sector entities, in which the private entity supplies infrastructure, assets, and services traditionally procured and delivered by the public sector (Burger, Bergwall, Jacobzone, & An, 2008). The core objective of PPPs is to leverage private sector expertise and funding and to mitigate public sector risk (Republic of South Africa Department of National Treasury, 2007).

Motivation for the introduction of PPPs by governments included improving the value for money (VFM) in public service delivery projects and leveraging private finance (Burger et al., 2008). Optimal PPP contract structuring ensures profitability for the private sector and effective sustained performance of public projects and services. Contracts should yield attractive cash flows for investors while also delivering better VFM for taxpayers than traditional procurement (Republic of South Africa Department of National Treasury, 2007).

Both municipal and national government have a large stake in ensuring that growth-oriented, opportunity-driven enterprises are included in the retail development taking place in Soweto. If these enterprises can expand, supported by targeted policy initiatives, particularly those that strengthen their linkages with the formal urban sector, there are great prospects for elevating potential for economic growth and employment creation in the township (Mahajan, 2014). Achieving these objectives will involve a cooperative approach involving public and private sector players.

There are also incentives for the private sector to engage with government to achieve these objectives. Retail outlets are more likely to be successful and be accepted in township markets if they have a black empowerment component that empowers the local community (Tustin & Strydom, 2006).

According to Weissbourd (2006), research suggests that integrating depressed urban communities of concentrated poverty into the economy is good for the business environment overall, as regional economies seem to function more effectively when less inequality exists between communities (Pastor, 2000). This suggests that policies that integrate depressed urban communities into the regional mainstream economy reflect a convergence of social development and overall growth objectives (Pastor, 2000; Weissbourd, 2006).

Small farmers in Chile and Mexico were squeezed out of the market because of their inability to meet the demands imposed by new supermarkets (Reardon, Berdegue & Farrington, 2002; Tustin & Strydom, 2006). Tustin and Strydom (2006) suggest that this outcome could be avoided in South Africa by implementing group production and marketing strategies to take advantage of the procurement systems of national retail chains. PPPs can be utilized to make strides toward these goals, by allowing the public

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and private sectors to provide support to local enterprises through arrangements that complement each of their areas of expertise.

Chapter 3

THEORETICAL FRAMEWORK

This chapter will discuss the use of appropriate theories in unpacking the concept of targeted retail investment in townships as a strategy for growth. The theoretical framework for this research incorporates general equilibrium theory, social dualism, social choice theory, and the circular flow of income and expenditure model. Each theory or set of theories is explained in detail and discussed in the scope of the topic. Following this, one theory is identified as the conceptual framework that guides the organization of ideas and methodological design of the study.

3.1 General Equilibrium Theory

General equilibrium theory, originating from the work of Léon Walras, describes the behavior of the general economy and the allocation of resources as a result of the interaction of supply and demand (Borges, 1986). Models of general equilibrium consider the economy as a closed and interdependent system of markets where equilibrium prices and quantities are the result of all economic interactions (Cardenete, Guerra, & Sancho, 2012).

Unlike the partial equilibrium model, which is used to analyze a single market in isolation, general equilibrium is based on the notion that the price and production of all goods are interrelated across all markets or sectors. All prices enter the supply and demand functions, which demonstrate the decentralized nature of a competitive market

(Levin, 2006; Starr, 2011). The distinguishing characteristic of general equilibrium models is the endogenous determination of prices (Borges, 1986).

The construction of a general equilibrium model is based on a series of equations representing the microeconomic behavior of all economic agents who demand and supply goods as a function of their prices (Borges, 1986).

To explain general equilibrium at its most basic level, Cardenete et al. (2012) categorize economic agents into households and firms. Households and firms are both demanders and suppliers in the economy. In the market for primary inputs, firms demand labor and capital supplied by households. In the market for non-primary inputs, representing intermediate demand, firms demand goods and services for production that are supplied by other firms. Finally, households demand commodities supplied by firms in the market for goods and services for final consumption (Cardenete et al., 2012).

General market equilibrium is reached when a price is identified for which the addition of net demand equals zero (Andre, Cardente, & Romero, 2010). General equilibrium models compute the prices that clear all markets and determine the distribution of income and resources that result from this equilibrium (Borges, 1986; Starr, 2011).

The Arrow-Debreau (1954) model was the first complete general equilibrium model. According to this model, under certain economic assumptions, which include optimization, convex preferences, demand independence, and perfect competition, there must be a set of prices such that aggregate supply equals aggregate demand for all markets in the economy. The model presents an integrated system of production and consumption that takes into account the circular flow of income and expenditure.

General equilibrium theory forms the basis of input-output (IO) modelling. IO models provide a platform for the analysis of how external shocks to an economic system impact general equilibrium and the economic agents that determine it.

The research methodology applied in this study is based on general equilibrium theory and IO modelling. The application of this technique will allow for an estimation of the impact of investment injected into the retail trade sector of the economy on the targeted indicators of interest, which are outcomes derived from changes in the general equilibrium.

3.2   Social Dualism

Social dualism is a sociological and economic theory developed by Julius Herman Boeke (1953) to describe a society with two distinct and clashing segments with opposing social spirit, organizational form, and techniques dominating them. Dualistic societies usually are characterized by a pre-capitalistic, pre-colonial, indigenous, and often agricultural segment and its opposing capitalistic, colonial, Western-imposed segment. Social dualism theory purports that the creation of dualistic societies by Western imperialism is at the root of underdevelopment in so-called 'third world countries'.

In development economics, dualism is often used to understand the divergence between the rich and the poor, or the economic core and its periphery, as in W. Arthur Lewis's dual-sector model (Lewis, 1954).

There are three key characteristics of dual economies outlined in the literature. First, is that the conditions that characterize the two distinct segments of a plural society allow notions of inferiority and superiority to coexist (Touray, 2014). Second, this state of bifurcation is chronic rather than transitional, and will not be remedied in

time without intervention (Touray, 2014). Finally, the nature of the linkages between the two segments of society do not create a situation where the 'developed' segment economically empowers its 'underdeveloped' counterpart (Touray, 2014).

Notions of social and economic dualism offer connections to Marxism that are relevant to the current political discourse in the South African context. Marxism is a political theory and method of socioeconomic analysis developed by Karl Marx and Friedrich Engels in the nineteenth century that deals with class relations and social transformation. According to Marx's conflict theory, modern capitalist society is a continuous struggle between two classes, the bourgeoisie, who own capital and means of production, and the proletariat, who must sell their labor power to survive because they lack productive means (Marx, Engels, Moore, & McLellan, 1992).

According to Marx et al. (1992), in this dual societal model the bourgeoisie are exploitive of the proletariat causing insurmountable inequality due to the oppression built into the structure of the system. This inequality is perpetually reproduced socially because the education system is grounded in the ideology and values of the dominant segment of society (Marx et al., 1992).

Mahmood Mamdani (1996) has examined the consequences of colonialism in the political development of post-colonial states. He highlights that underlying institutional and political circumstances cause dualism to be reproduced, by both state and society throughout all social movements and reform efforts (Branch, 2015; Mamdani, 1996). Mamdani's analysis lends itself to an understanding of how the liberation struggle in South Africa has helped to carry on the legacy of apartheid beyond 1994. Although political transformation has taken place, the pre-apartheid economic structure remains in place and perpetuates the oppression and economic

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exploitation of black people in South Africa. Student movements in South Africa of late such as #FeesMustFall and #OpenStellenbosch represent the ongoing struggle to decolonize South African society (Branch, 2015).

In dissecting the legacies of colonialism, it is important to highlight that colonization penetrates beyond the external experience. As the father of the Black Consciousness movement, Steve Biko (1978) argues that Western psychology poses 'individual-social dualism' and, therefore, psychological and cultural liberation is a prerequisite to political liberation. He argues that emancipation requires alternative social values and ideals than the dominant stream for an improved economic and social order (Duncan et al., 2004).

Ali Mazrui (1986; 1974) has contributed a great deal to dualism theory in the African context. He is a notable critic of the current system of global capitalism, which he believed is exploitive of Africa. Mazrui (1986; 1974) moves beyond simply pinning the blame on capitalism, though, arguing that communism was also an incompatible Western import. He promoted a unique ideology described as African liberalism, which is grounded in a toleration of diversity and pluralism in society. It serves as a variation to the either-or dichotomy that prevails in current discourse around political and economic ideology (Kokole, 2001; Mazrui 1974; Mazrui, 1986).

According to Mazrui's argument, sustainable development will only be achieved in Africa through experimentation with the integration of indigenous values rather than enslavement to a closed and monopolistic system (Kokole, 2001; Mazrui 1974; Mazrui, 1986).

He calls for the re-orientation of cultural values away from a Western-centric orientation that has resulted in both external and internal conflict. Mazrui (1990) uses

Japan as a case study to demonstrate that it is not necessary to Westernize culturally in order to modernize industrially. In conceptualizing the way forward Mazrui (1990) offers four key tasks. They are (Edigin, 2010; Mazrui, 1990):

- How to indigenize what was foreign
- How to nationalize what was indigenous
- How to nationalize what was sectional
- How to emphasize what was African

Although political apartheid has ended in South Africa, economic apartheid remains. Mazrui would argue that this may be caused by the dualism that has manifested in all facets of society in South Africa, and the mismatch between the capitalist system and indigenous cultural values, which has stifled sustainable development and pro-African growth.

Social dualism is visible driving through Soweto as livestock roam about the urban landscape. The retail development that has taken place in Soweto since 2005 is almost entirely driven by the private sector and is capitalistic in nature. Perhaps a cultural lens for retail development must be adopted in Soweto to achieve inclusive growth.

3.3 Social Choice Theory

Social choice theory is a theoretical framework for analysis which takes into account individual interests, preferences, and welfares to achieve a collective decision or social welfare (Arrow, 1951; Sen, 1998). Social choice theory is particularly relevant in this context because it can guide partnership and collective decision

making between private and public sector players to create effective PPPs for economic development.

Game theory becomes particularly relevant to social choice theory and how it relates to partnerships and coalitions in fostering mutually beneficial outcomes. An approach to PPPs with social choice theory in mind involves identifying the players, specifying the choices they have, and analyzing the consequences of these choices in terms of the payoffs to the players.

Axelrod (2001) uses the Prisoners Dilemma to illustrate that for individuals pursuing their own interests, the incentives for cooperation are greater than for selfish behavior (Osborne, 2000; Axelrod, 2001). Game theory demonstrates that most interactions are not zero sum games. Social choice theory provides that not only can partnership be mutually beneficial to the players involved, but it can also produce favorable social outcomes. This is indicative of the potential for PPP collaboration.

According to Dahl and Lindblom (1953),

"In economic organization and reform, the 'great issues' are no longer the great issues, if ever they were. It has become increasingly difficult for thoughtful men to find meaningful alternatives posed in the traditional choices between socialism and capitalism, planning and the free market, regulation and laissez faire for they find their actual choices neither so simple nor so grand. Not so simple, because economic organization poses knotty problems that can only be solved by painstaking attention to technical details…". (pp. 3).

The line between public and private is becoming increasingly blurred. Therefore, our approaches toward economic development should mirror that. Social choice theory dictates that an increased role of the public sector in the retail development in Soweto could produce more desirable social results.

3.4   Circular Flow of Income and Expenditure

The circular flow of income and expenditure model, which has long been used to depict economies, is a simplified representation of the interrelationships between income, output, and expenditure between market participants within a key macroeconomic market (Daraban, 2010; Mahajan, 2014; Murphy, 2009). This model presents a conception of the economy as a reproductive system.
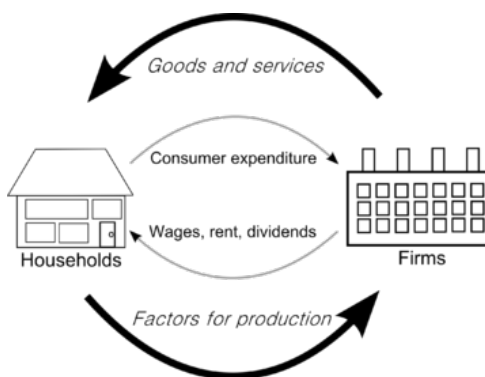
Figure 3.1:   Circular flow of income and expenditure model

Note. Sourced from Boundless (2016)

Figure 3.1 is a visual representation of the most basic circular flow model. According to this model two core sectors exist within the economy, which are households and firms. Additionally, two core markets exist within the economy, which are the product market for goods and services and the factors of production market. In the factors market, households provide firms with factors of production, or inputs, in the form of land, labor, and capital, in exchange for income in the form of wages, rent, and dividends. Income then becomes expenditure in the product market, where all output by firms, in the form of goods and services, are consumed by households.

Household expenditure becomes revenue for firms, which is then used to invest back into factors of production, completing the cycle. Households ultimately own firms so any profits made by firms become household income. There are also exchanges within the household and firm sectors as well as between them. When income circulates between firms and households it creates jobs, spending, and output.

If the circular flow model is expanded, other economic sectors in addition to households and firms are integrated into the system, including the government sector, the financial sector, and the foreign sector. Additional markets are the loanable funds market and the foreign exchange market (Daraban, 2010).

There are several causes of leakage from the circular flow of income and expenditure, which include savings, taxation, and imports. When households do not convert all of their income to expenditure, they lend their savings in return for interest in the loanable funds market. When capital needs to be replaced, firms may borrow from the financial sector to invest in factors of production, which represents an injection back into the circular flow. Although taxes represent a withdrawal from the circular flow, when taxation is spent on public goods and welfare programs by the government sector, it is injected back into the flow. Spending on imports also reduces the amount of income circulating. Exports are an injection back into the circular flow (Daraban, 2010). Imports in this context of this study represent spending on goods and services produced and sold outside of Soweto.

For an economy to be in equilibrium, the sum of injections and withdrawals must equate. Further, the monetary value of income, expenditure, and output should equate. For this reason, a decline in GDP, for example, implies a corresponding

decline in income, production, and spending. The circular flow model allows you to interpret how interventions to the circular flow affect income, output, and expenditure.

The circular flow theory was derived from François Quesnay's *tableau économique*. The foundation of Quesnay's argument for economic growth was to create conditions that were conducive to income generation in economic sectors that had the potential to generate a large surplus (Steenge & Van Den Berg, 2007). It is the basis of the multiplier theory, which says that when there is a stimulus, or an injection of additional demand into the circular flow, a multiplier effect occurs because additional income leads to additional spending, and eventually leads to higher incomes.

The circular flow model is important to this research because economic growth in Soweto is dependent on finding methods of increasing the income circulating within the community and limiting leakage from the market. This study seeks to determine whether or not external injections into the retail sector of Soweto's economy achieves these outcomes.

3.5 Conceptual Framework

While all of the above theories are employed to conceptualize the impact of retail investment in Soweto, the circular flow of income and expenditure underpins the framework of this research. In theory, based on the model, increasing the number of firms in Soweto, in this case retail outlets, should create a platform for local households to provide labor to firms in exchange for income in the factors of production market. This increase in employment opportunities would then integrate unemployed individuals into the formal economy.

Beyond the creation of individual jobs, the expansion of firms in the retail sector lead to the growth of other sectors that supply retail activities directly or indirectly. Human capital is built throughout this process as jobs are created and as local enterprises are either created or grow in response to the needs of the growing retail sector.

The expansion of national retailers has also greatly expanded the product market in Soweto, where households can channel their income into expenditure on goods and services of the firms for consumption. According to the circular flow, this will lead to increased returns for both households and firms. For firms, this expansion represents exploiting an untapped consumer market and for households this means a more diversified retail market and with higher competition, lower prices.

Thami Mazwai (2013) puts the circular flow of income and expenditure in perspective of the Soweto case. Mazwai (2013) argues that instead of the billions of Rand of wealth in the townships being used to develop the people in these communities, the current model, inherited from the apartheid era, channels the wealth and resources of the township to the minority population in the suburbs. His solution to rectifying such market leakage in the township is to stimulate entrepreneurship to make township enterprises more competitive leading to more retained spending power within the community.

The success of retail development as a strategy for economic growth is measured by the extent to which it limits the market leakage taking place in Soweto and elevates the level of income circulating within the community to economically empower its residents.

Conceptualization of the circular flow diagram also guided the process of designing the quantitative research methodology, particularly in regards to what is included in the operational definition of 'investment' for the analysis. Those elements which represent leakages from the circular flow of income and expenditure in Soweto, such as taxes, imports, and payments to shareholders and providers of capital, were stripped out of the calculation. This allows for the isolation of injections to the economic system that are contributing to the circular flow of income and expenditure in the Soweto for the analysis.

Chapter 4

METHODOLOGY

This chapter of the report outlines the methodology employed to answer the research question. The methodological foundations of this study are in Social Accounting Matrix (SAM) analysis.

4.1 Research Approach

This study utilizes quantitative methods due to the emphasis of the research question on data-driven impact measures, namely contribution to GDP, employment, and household income.

Quantitative approaches to research involve the collection and analysis of numerical data to explain a given phenomenon (Babbie, 2008). Research design in the scope of quantitative research is either descriptive, in which a measurement is taken at one point in time, or experimental, in which a pre- and post-test are administered to acquire measurements before and after the introduction of a stimulus (Babbie, 2008). A descriptive study can only go as far as establishing associations between variables, while an experimental study can attempt to establish causality (Babbie, 2008). This study is descriptive in nature due to the structure of the SAM as a static snapshot of the economy in a given year. Socioeconomic phenomenon experienced in real life by real people often cannot be contrived in an experimental setting. Therefore, natural studies of this kind cannot establish direct causality.

4.2 Research Design

The design of this study involves estimating the numerical impact of retail investment in Soweto between the years of 2005 and 2015 in regards to the three target indicators of impact, which are contribution to GDP, employment, and household income.

'Retail investment' in the context of this study is limited to the eleven major South African retail chains that were selected for the analysis, which make up an estimated 95 percent of the market share in Soweto. They are Pick n Pay Holdings, ShopRite Holdings, Spar Group, Edcon Holdings, Truworths International, Foschini Group, Woolworths Holdings, Pepkor Holdings, Mr. Price Group, Vodacom Group, and MTN Group. National and international data collected of these retailers' investments between the years of 2005 and 2015 was scientifically disaggregated to the Soweto level and was used to determine socioeconomic impact.

Impact estimates were computed through the application of input-output (IO) modelling using a SAM specifically, which is explained in detail in the next section. The investment impact model used by the Development Bank of Southern Africa (DBSA) and developed by Conningarth Economists was adopted and customized for use of this research as a user-friendly interface for the SAM. The DBSA model is henceforth referred to as 'the economic model' or 'the model'.

The DBSA is a development finance institution owned in its entirety by the South African government and seeks to catalyze sustainable socioeconomic development in the Southern African Development Community (SADC) through social and economic infrastructure investments. The DBSA's investment impact model is the tool used by the institution to measure the quantitative impacts of its projects such as the Highland Water Project in Lesotho and the Mazol Aluminum

Smelter in Mozambique. Permission to use this model for the analysis was granted by officials of the DBSA as well as officials from Conningarth Economists who developed the model for official use by the DBSA. The use of this model as a key analytical tool for a leading development finance institution in the region provides a great deal of confidence in the validity and reliability of the model's outputs.

The economic model allows for the input of investment values, which are filtered through the SAM, and provide a series of outputs. The only outputs of the model that are included in the findings are those for the three target indicators of impact: contribution to GDP, employment, and household income. These indicators of impact correspond to the three problem areas discussed in Chapter 1 that this research seeks to address.

The economic model offers the capability to estimate economic impacts in two phases: the construction phase and the operational phase. Therefore, to create the time series, construction and operational investment data was collected year on year over the ten-year period between 2005 and 2015. After this data was collected for each of the eleven national retailers, the total construction and operational investment figures were input into the economic model to estimate the target indicators of impact. Investment values were plugged into the model on an economic sector-specific basis. These sectors are defined by the standard industrial classification (SIC) system of economic activities determined by Statistics South Africa (Stats SA). Construction investment is input into the building and construction sector and operational investment is input into the trade sector.

The building and construction sector is classified as SIC sector numbers 501 through 505 and is defined as site preparation, building of complete

constructions or parts thereof, civil engineering, building installation, building completion, and renting of construction or demolition equipment with operators (GPPT, 2009; Statistics South Africa [Stats SA], 2012). The trade sector is classified as SIC sector numbers 61 and 62 and is defined as wholesale and commission trade and retail trade, except of motor vehicles and motor cycles, in addition to the repair of personal household goods (GPPT, 2009; Stats SA, 2012).

4.3   Social Accounting Matrix

A SAM is a method of organizing input-output (IO) data that captures the flow of all economic transactions between sectors of a given economy by identifying receipts and expenditure between them (Pyatt & Round, 1985; Stats SA, 2008a). A SAM is a general equilibrium model that links production activities, factors of production, and institutions in an economy (Courtney, Mayfield, Tranter, Jones, & Errington, 2007). Herein lies the classification of a SAM as an IO model.

IO models, an established technique in quantitative economic research, were first developed by Leontif in 1951 to analyze production linkages within an economy (Leontif, 1951; van Leeuwen & Nijkamp, 2009; van Leeuwen, Nijkamp, & Rietveld, 2005). IO models are based on the notion that any output requires a corresponding input (van Leeuwen & Nijkamp, 2009).

The IO framework illustrates the circular flow of income and expenditure through the process of demand leading to production, then income, and eventually leading back to demand (Pyatt & Round, 1985). This involves direct, indirect, and induced impacts, often described as multiplier effects. Direct impact refers to the result of the activities stimulated by an exogenous shock on the economy. Indirect impact refers to the ripple effect through linkages with other sectors that supply the

activities defined in the direct impacts. Induced impact captures the expenditure of the labor force involved in production activities based on direct and indirect impacts.

These concepts are demonstrated by an example of an unemployed woman being hired as a cashier at Edgars in Jabulani Mall. She is paid R6 000 each month and spends part of her income each month at the grocery store. This represents the direct impact. As a result of her expenditure, the grocery store, or the retail sector generally, will obtain more inventory from the food production sector, which in turn increases demand for agricultural products (van Leeuwen & Nijkamp, 2009). This represents the indirect impact. Due to the increasing demand in these sectors, more labor inputs are employed, which will then increase income of certain households, who will spend this income and repeat the cycle (van Leeuwen & Nijkamp, 2009). This represents the induced impact.

Multiplier analysis measures impact by estimating the ratio of the overall rise in income to the initial rise due to the exogenous shock or injection. An economy has strong backward and forward linkages if there is a high level of interdependency between sectors, which creates a larger multiplier effect. Low multipliers reflect weak economic linkages that result in sizable leaks outside the economic system (Mahajan, 2014). Such is the case in Soweto due to the underdevelopment of sectors of the local economy.

A SAM takes the form of a square spreadsheet of equal columns and rows, representative of all economic sectors or agents acting as both buyers and sellers. A SAM is read column to row. Columns represent buyers and expenditures, while rows represent sellers and receipts. Each cell of the matrix thus indicates payments or transfers from the column account to the row account.

By nature as an accounting framework, a SAM must balance. The monetary value of each column must equate to the value of each corresponding row because any particular account cannot utilize resources it does not have and must use all resources at its disposal (Mahajan, 2014). In a SAM framework, borrowing is considered negative saving, and nonuse is considered saving (Mahajan, 2014).

SAMs consist of endogenous accounts and exogenous accounts. Endogenous accounts can be divided into two broad categories, production accounts and institutional accounts. Production accounts include activity, commodity, and factor accounts (Mahajan, 2014; Round, 2003; van Leeuwen & Nijkamp, 2009).

Activity accounts include all sectors of the economy and illustrate transactions related to production and the supply of goods, using supply and use tables. Production accounts map out how sectors purchase raw materials and intermediate goods from other sectors in order to produce output. Commodity accounts record aggregated production activities and imported goods by distinguishing between activities and the output they produce. Factor accounts are important for income distribution analyses as they detail the receipt of incomes from the production process and their distribution to various institutional accounts and rest of the world (ROW) accounts (Mahajan, 2014; van Leeuwen & Nijkamp, 2009).

Institutional accounts, which are the second component of endogenous accounts, include households, government, and firms. They record incomes received from production as well as the transfers and uses of that income.

Exogenous accounts include ROW accounts, which record all transactions outside of the economy of study. ROW accounts include imports and exports as well as various other transfers and income flows between endogenous accounts and the

ROW. In addition to ROW accounts, exogenous accounts include accumulation accounts, which record all savings and investments from institution accounts and ensure that the SAM is exhaustive of all economic transactions (Mahajan, 2014).

Each of these broad account types – activities, commodities, factors, institutions, accumulations, and the ROW – are disaggregated into more specific sub-groups according to the intended use of the SAM and the availability of data (Mahajan, 2014).

Households are the heart of the SAM framework and thus are often divided into meaningful economic sub-groups, highlighting characteristics such as race, gender, skill level, income strata, and education level, for example, which may reveal distortions in the distribution of income in a given economy (Round, 2003; Stats SA, 2008). This allows analyses to key in on segmentation in the labor market that may have structural consequences, specifically in determining the disparate impacts on different household groups (Round, 2003).

While a SAM itself is only a representation of data, SAM-based multiplier models derive column coefficients to analyze the impact of the multiplier effect of an income injection in one economic sector on the distribution of income in general and on household sub-groups (Round, 2003). SAMs provide a bridge between macroeconomic indicators of national accounts to microeconomic indicators of households and the labor market (Round, 2003; Stats SA, 2008).

National SAMs have been widely used, both in South Africa and internationally, over the past four decades to determine impacts of policy at the countrywide level, particularly in the spheres of trade and poverty alleviation (Mahajan, 2014). SAMs were initially developed due to the growing dissatisfaction

with the unequitable distributional effects of conventional growth policies (van Leeuwen & Nijkamp, 2009). SAMs at the regional and local level have also been an important tool for developed countries to examine the impact of how policy and other exogenous shocks spread through the economy at the subnational level in communities that range from world-class cities to small agricultural villages (Mahajan, 2014; van Leeuwen & Nijkamp, 2009).

Beyond the matrix itself, the SAM can also be used in conjunction with other data, theory, and assumptions to create a model of the economy that can compute the impact of exogenous shocks, which are useful in understanding the economy-wide impacts of policies and other factors (World Bank, 2016b).

This study uses a 2006 SAM for the Gauteng Province as a representative example of the economic structure for Soweto, which is used by the DBSA. This poses several limitations for the study. Ideally, a SAM for Soweto would be used, but the process of building a SAM is no small feat. Due to time constraints and limited data availability, the construction of a Soweto SAM was not possible at this time.

In an effort to adjust for this to isolate the impact on the economy of Soweto specifically, only investment injected directly into the community was considered for input investment figures, as previously discussed. This will provide valid estimates for direct impact figures. The largest limitation in the use of a Gauteng SAM is that the economic linkages in Soweto are not nearly as strong as that of the Province due to the undeveloped and undiversified market infrastructure of the community. This is reflected in inflated values for induced and indirect impacts.

Further, the use of a SAM for the year 2006 will not reflect the changes in the economic structure of the Gauteng Province after 2006. Fortunately, over this

period of time, the economy of Soweto has built stronger linkages and has come to closer resemble the economy of the Gauteng Province.

To reflect constant as opposed to nominal figures with regard to outputs, the economic model is equipped with a module that adjusts for inflation. The inflation adjustments are based on the total consumer price index (CPI) published in the South African Reserve Bank's (SARB) Quarterly Bulletin (series 7170N).

Professors Carel van Aardt and Paul Kibuuka at the Bureau of Market Research (BMR) are currently in the process of constructing a SAM for Soweto, which, unfortunately, will not be completed at the conclusion of this research project. The Soweto SAM will provide a platform for a follow-up study to compare the results of this research with a SAM more specific to the local economy.

4.4 Data Collection

Quantitative data consists of construction investment data and operational investment data. A specific methodology was developed that dealt specifically with the operational definitions of construction and operational investment for the purposes of this research.

'Construction investment' is operationalized as the sum total of investment injected for the construction of shopping malls in Soweto during the time period in question, as well as capital expenditure to expand operations, and capital expenditure to maintain operations.

The investment injected for shopping malls construction is typically made by commercial developers. An example would be the R650 million invested to build Maponya Mall in the Orlando area of Soweto in 2007 (SA Commercial Prop News, 2011). Shopping mall construction data was collected from various secondary data

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sources, which include published reports, news articles, and information provided by the malls themselves.

The capital expenditure to expand and maintain operations, making up the remainder of construction investment, is invested by the retail chains themselves. All data regarding investment by the retail outlets, construction and operational, was collected from the published annual reports and financial statements of their respective holding company.

'Operational investment' is operationalized as value-added less cost of goods and services, investment income, payments to providers of capital, taxation, and depreciation. Value-added is an economic term that refers to the wealth or net value that has been created for the economy by an enterprise during a certain period on its total transactions, which is distributed amongst contributors of value or factors of production. The concept of value-added is particularly useful in the context of large national companies that have a sizeable impact on society and have an economic and social importance beyond the shareholder interests (Kaur, 2015). An example of a value-added statement is provided below.

Table 4.1:   Example value-added statement

	R millions	% of turnover	%
Turnover	R51 945.8		
Cost of goods and services	(R45 410.7)		
Investment income	R39.5		
Value-added	**R6 574.6**	**12.6**	**100.0**
Employee salaries, wages, and other benefits	R4 319.8		65.7
Payments to providers of capital	R919.0		14.0
CSI spend	R54.4		0.8
Tax	R447.8		6.8
Retained for depreciation	R733.3		11.1
Retained for growth	R100.3		1.6
Utilized	**R6 574.6**		**100.0**

Note. Adapted from Pick 'n Pay Holdings (2011)

The cost of goods and services, investment income, payments to providers of capital, taxation, and depreciation were stripped out of the operational investment calculation based on a set of assumptions guided by the circular flow of income and expenditure in an effort to specifically isolate the investment going into Soweto.

Firstly, costs of goods and services were removed from the calculation based on the assumption that the vast majority of inventory for the retail outlets in Soweto are sourced from outside of the community. Investment income and payments to providers of capital was removed based on the assumption that the beneficiaries of interests and dividends paid and received do not live in Soweto. Taxation was removed from the calculation based on the assumption that very little of that value is

reinvested in Soweto, and would also be highly difficult to determine. Finally, depreciation is removed from the calculation based on the assumption that depreciation accounts for earnings retained for the replacement of assets, which are not sourced from Soweto.

After the extraction of these elements from the value-added figure, operational investment was calculated by taking the sum total of employee salaries, wages, and benefits, corporate social investment (CSI), and net earnings retained for reinvestment. As mentioned previously, this information was acquired from the retailers' published annual reports and financial statements.

Due to the fact that annual reports and financial statements are aggregated and published at the national or even international level, a scientific method of disaggregating these totals to the local level, in Soweto, was employed. Soweto investment figures were determined by taking a ratio of the number of retail outlets of a given retailer in Soweto for a specific year by the total number of retail outlets reported on in that year. These figures were then reality checked by comparing the output ratio of Soweto to the Gauteng province to the ratio of total retail outlets in Soweto. Data acquired from Conningarth Economists (2014) estimated that Soweto represented 3.3 percent of GDP of the Gauteng Province in 2014. This percentage was compared to the 2014 ratio of Gauteng retail outlets in Soweto to verify consistency. The case of Pick n Pay in 2011, for example, its Soweto outlets represented 4.8 percent of its retail outlets regionally.

4.5 Sampling

With regard to sampling method, national retail outlets were selected for analysis based on several factors. Shoprite Holdings, Pick n Pay Holdings, SPAR

Group, Woolworths Holdings, and Edcon Holdings were selected because they are among South Africa's largest retailers nation-wide that have a presence in Soweto to varying degrees (GPPT, 2012). In 2006 Pick n Pay Holdings, SPAR Group, and Shoprite Holdings were driving retail expansion in poor township areas of South Africa (Tustin & Strydom, 2006).

The remaining retailers, Truworths International, Foschini Group, Pepkor Holdings, Vodacom Group, Mr. Price Group, and MTN Group were selected by examining the store composition for the shopping malls and retail hubs in Soweto and identifying those with the largest footprint.

4.6   Data Analysis

Data analysis in the context of this study required evaluating the trends in investment data between the years of 2005 and 2015 as well as trends in the target impact indicators derived from the SAM and the economic model, detailed in Chapter 5.

4.7   Defining Socioeconomic Impact Indicators

The three target indicators of socioeconomic impact, or variables, are GDP, employment, and household income. GDP refers to the value added amount to the national economy. It is a good measure of welfare, economic growth, and size of an economy, as it can be measured by the value of income generated in terms of profits and wages, the level of expenditure by households and the government, or the total value of all goods and services produced over the period of a year.

The second indicator, employment creation, is process of introducing new opportunities for paid employment for skilled, semi-skilled and unskilled workers in

the economy. The process of employment creation integrates unemployed people into the formal economy.

Finally, household income is a measure of changes related to spending and saving patterns of households. This indicator includes the combined incomes of all people sharing a particular household or place of residence and includes forms of income such as salaries and wages, benefits, investment gains, and government transfers.

4.8   Defining Low-Income Households

The study of poverty alleviation occupies a prominent place in social policy research and, therefore, a myriad of methodological approaches exists for defining and quantifying the world's poor. Identifying valid and reliable poverty measures is critical to evidence-based policy making. To evaluate the impact of poverty reduction policies it is necessary to effectively measure changes in the circumstances of this target population.

The challenge in constructing measures of poverty and low-income begin with how to effectively assess economic well-being by exogenously determining the point at which an individual or household is no longer poor (Ravallion, 1994). The various dimensions of poverty emerge in the polarizing debate regarding the basis for poverty measures, which may include monetary or non-monetary characteristics (Stats SA, 2008). The varied spectrum of poverty measures is well-established in international literature and will not be deconstructed in detail here.

For the function of statistical reporting, three core approaches are traditionally applied in identifying poverty or low-income cut-off lines. They are the absolute approach, the relative approach, and the subjective approach. The absolute approach is

linked to a specific welfare level (United Nations Expert Group on Poverty Statistics, 2006). Absolute measures define an absolute subsistence minimum, usually according to an arbitrary decision regarding the cost of basic needs. This method identifies a detailed basket of goods deemed necessary, such as food, clothing, and housing, and aggregates the cost of these essentials to constitute the cut-off line (Förster, 1994). This approach can be measured in terms of income or expenditure. Most countries with an "official" poverty line employ an absolute approach and recognize poverty lines as a fixed standard of living (Lanjouw, 2001). A limitation of employing the absolute approach is that increases and reductions in the poverty rate are closely correlated with economic booms and recessions which may make impact analysis difficult to measure over time, accompanying fluctuations in the business cycle.

The relative approach defines poverty or low-income relative to the income of the entire population and is determined by a cut-off point in the welfare distribution (United Nations Expert Group on Poverty Statistics, 2006). This approach removes the need to arbitrarily define a country's set of basic needs. The simplest application of the relative approach is to set the low-income cut-off at a bottom percentile of the income distribution. The limitation with this method is the inability to track changes in poverty rates, because the low-income population will always equate to the percentile selected. Another method of applying the relative approach is the economic distance approach, which defines low-income as a fraction of median income (Förster, 1994). Either method to this approach involves an arbitrary decision about where to draw the cut-off line.

The final of the core approaches is the subjective approach, in which the poverty line is constructed based on public opinion of the population in question. The

decisions regarding low-income cut-off lines are derived from household surveys, a strategy used to avoid arbitrary decisions by 'experts".

In practice, the absolute approach is the most commonly applied technique in the context of poverty reduction policy, particularly in developing countries and countries where inequality is high, like South Africa (Greeley, 1994; Stats SA, 2008b). Further, absolute measures are applicable for long-term statistical use because they are easy to maintain in the absence of annual consumption expenditure data as opposed to relative and subjective measures which depend on up-to-date survey data (Stats SA, 2008b).

In defining the parameters of low-income households in the context of this study, an absolute approach is used. There was not much flexibility in defining the low-income category of households, because the income group stratification was predetermined by the design of the SAM and the economic model by The Gauteng Province Provincial Treasury (GPPT) and Conningarth Economists. Despite this rigidity, the income stratifications were compared with and validated by the BMR's income group segmentation methodology.

Income groups in the SAM were segmented based on national household expenditure and national population data, in 2006 prices (GPPT, 2009). This data was derived from 2006 South African Reserve Bank (SARB) data on total household expenditure data for the national economy as well as Stats SA Income and Expenditure Survey data (GPPT, 2009). It is important to note that expenditure rather than income, was used to determine the stratification of percentiles, and stratification was based on households as a unit of analysis for expenditure rather than per capita expenditure (GPPT, 2009). This is the consequence of a decision to maintain

consistency between the 2002 national SAM and the 2006 national and provincial

SAMs. The percentile ranges in the 2006 SAM align with that of the 2002 SAM,

adjusted to 2006 prices (GPPT, 2009).

Households are segmented into twelve percentile groups, represented by P1

through P12, defined in Table 4.2.

Table 4.2: Expenditure stratification used to determine Social Accounting Matrix income group segmentation

Percentile	Percentage per Percentile (National)	Percentage of the Population (National)	Percentage per Percentile (Provincial)	Percentage of the Population (Provincial)	Expenditure Strata (2006 prices)
P1	1.04%	1.04%	0.01%	0.01%	R1-R1 004
P2	2.88%	3.93%	1.13%	1.13%	R1 005-R10 062
P3	3.66%	7.59%	2.53%	3.66%	R10 063-R15 802
P4	2.28%	9.87%	2.53%	6.19%	R15 803-R19 932
P5	1.96%	11.83%	2.65%	8.84%	R19 933-R24 172
P6	2.23%	14.06%	3.07%	11.91%	R24 173-R29 440
P7	3.85%	17.91%	5.02%	16.94%	R29 441-R37 185
P8	5.01%	22.92%	6.74%	23.68%	R37 186-R49 394
P9	7.71%	30.63%	8.69%	32.27%	R49 395-R70 464
P10	11.20%	41.83%	9.71%	42.08%	R70 465-R107 537
P11	11.23%	53.06%	7.45%	49.52%	R107 538-R141 062
P12	46.94%	100.00%	50.48%	100.00%	R141 063+

Note. Sourced from GPPT (2009, pp. 34)

Due to the fact that these household groups are determined based on a unique

spending pattern and various behavioral characteristics, percentages of the population

in each percentile group may differ slightly between the national SAM and the Gauteng SAM, but the range of expenditure in each percentile is consistent allowing for comparisons between SAMs (GPPT, 2009).

Low-income households were defined by percentile groups P1 through P8. This aggregated category reflects a household expenditure stratum of R1 to R49 394 (about $3, 400) per annum. This category is representative of 22.92 percent of the national population and 23.68 percent of the population of the Gauteng Province.

This income group segmentation was compared with the BMR's Household Finances in South Africa data for 2012 and 2013 (BMR, 2013). Rather than experts at the BMR performing the income segmentation on an arbitrary basis, the data drove the process. The methodology applied to determine the income groups involved deconstructing patterns in the data which reveal homogenous features within income clusters (BMR, 2013).

Two key variables were used to isolate and identify these clusters: source of income and educational status (BMR, 2013). The categories of income sources used for analysis were net profit, salaries, investment income, pension and annuities, and grants and social security. These variables are highly indicative of total income received and encapsulate a wide array of features among the homogenous income groups including employment and social class status (BMR, 2013).

The educational status variable effectively complements and supports the natural segmentation offered by income source data as economic theory posits that the acquisition of higher educational status increases chances of being employed and, therefore, increases chances of earning a higher income (BMR, 2013). The increased

demand for high-skilled workers in the economy further strengthens the link between education and income level (BMR, 2013).

Eight household income groups were derived by this methodology and are detailed in Table 4.3.

Table 4.3:   Bureau of Market Research income group segmentation

Income Groups (2013 prices)	Households		Total Income		Cash Flow Income	
	#	%	#	%	#	%
R0 - R17 000	3 192 942	21.6	29 107	1.0	19 689	0.8
R17 001 - R47 000	4 099 800	27.7	122 326	4.4	90 772	3.8
R47 001 - R100 000	2 864 021	19.4	197 998	7.1	154 794	6.4
R100 001 - R210 000	2 003 499	13.6	291 994	10.5	237 155	9.8
R210 001 - R520 000	1 461 053	9.9	478 407	17.2	396 396	16.4
R520 001 - R1 000 000	636 110	4.3	452 900	16.3	397 389	16.4
R1 000 0001 - R2 500 000	390 102	2.6	616 267	22.2	555 105	23
R2 500 000+	127 107	0.9	588 475	21.2	565 119	23.4
Total	**14 774 633**	**100.0**	**2 777 474**	**100.0**	**2 416 419**	**100.0**

Note. Sourced from BMR (2013, pp. 35)

The income strata of R0-R17 000 (about $1,200) per month in this case defines low-income households. This group represents about 21.6 percent of households nationally, which corresponds with the SAM low-income group, which represents 22.92 percent of the population nationally. It is important to note the differences between the data used in the SAM by GPPT and Conningarth Economists as opposed

to the BMR when comparing strata ranges. The data used in the SAM strata is expenditure, while data used by the BMR is income. Further, while annual figures are presented in the SAM strata, the BMR income figures are monthly. Finally, the SAM data is using 2006 prices, while the BMR data is using 2013 prices. That being said, the similarity in the percentages of the national population across both methodologies for the definition of low-income households provided confidence in adopting this definition for this research.

4.9   Reliability and Validity

A sound methodology can be attributed to the quality of the reliability and the validity of a research study. Reliability is defined as the degree to which a methodological approach produces consistent results (Babbie, 2008). Validity refers to the extent to which a measurement tool actually reflects the concept it is intended to measure (Babbie, 2008). The tools used for quantitative analysis are both reliable and valid. This is demonstrated by the use of the SAM and the economic model by the DBSA, which provides a great deal of credibility of its use as a methodological approach.

4.10 Limitations

There are several limitations to the methodology undertaken for this research. Some limitations have been fleshed out in the discussion of the research methodology. These include the use of a SAM for the Gauteng Province as a representative example of the economic structure for Soweto and the use of a SAM constructed in 2006. These factors reduce the accuracy of the results because they do not account for the specific economic structure of Soweto nor the changes in that structure between 2007

to 2015, which is the majority of the time series. Several measures have been taken to adjust for these limitations, which are addressed in the research methodology.

The BMR's Professors Carel van Aardt and Paul Kibuuka are in the process of constructing a SAM for Soweto, which will not be completed upon the termination of this project, but will provide both an updated and more specific economic structure for analysis.

There are also important limitations of IO analysis that must be noted. Most limitations arise because IO models are static and, therefore, do not treat the inter-industry analysis dynamically. The framework of IO modelling rests on the assumption of constant input coefficients of production. This premise is out of touch with reality because it does not allow for coefficients to change with changing conditions and ignores the possibility of factor substitution (Chant, 2015). Further, the rigidity of IO models does not allow for the reflection of phenomenon such as bottleneck limits and increasing costs, for example. Additionally, restrictions in the use of IO models lay in its emphasis on the production side of the economy so it cannot determine patterns of input and output in the economy (Chant, 2015).

Finally, it must be noted that the use of economic measurement tools of this nature, which involve measures that reflect the performance of the formal economy, such as GDP, do not capture the extent of the informal sector, which plays an important role in the economic fabric of Soweto.

Chapter 5

ESTIMATING THE SOCIOECONOMIC IMPACT OF RETAIL INVESTMENT IN SOWETO

This chapter details the findings of this study. Before the time series data is presented, macroeconomic trends at the national level between 2005 and 2015 are offered as a lens through which to understand retail investment trends in Soweto. Following this, the data is presented in the form of line graphs to depict the ebb and flow of retail investment during the period under study and the resulting impacts.

Throughout the presentation of the findings, the data is consistently broken up into two phases: the construction phase and the operational phase. Construction phase investment figures include the capital investments made by commercial developers to build shopping malls as well as capital expenditure by retailers to maintain and expand operations. Construction investment represents an injection into the building and construction sector in the economic model. Operational phase investment figures include investment by retailers for employee salaries, corporate social investment, and reinvestment, which represents an injection into the Trade sector of the model.

First, the raw time series data of retail construction and operational investment in Soweto is introduced. Next, the impacts of this investment in regards to gross domestic product (GDP), employment, and household income are presented and analyzed.

All of the data presented are estimations. The impact data is representative of the outputs of the economic model arrived at through the application of Social Accounting Matrix (SAM) analysis, which is not an exact science.

In summary, the findings support the hypothesis that the retail investment that has taken place in Soweto between 2005 and 2015 has generated economic growth, indicated by an increasing contribution to both GDP and employment, but the benefits of this growth fail to effectively reach unskilled and low-income populations in Soweto.

5.1   Macroeconomic Trends

Prior to the analysis of the local market, it is helpful to understand the macroeconomic context at the national level during the time period under examination. Retail investment bubbles in Soweto, or periods of increased investment in shopping mall developments, correspond with periods of high GDP growth at the national level. Economic contractions at the national level also manifested locally. This can be explained by the fact that high levels of disposable income, which correspond with periods of high GDP growth, are key to retail growth. Commercial developers are also more likely to make large capital investments in favorable economic conditions.

Table 5.1 provides a summary of the periods of growth and contraction that took place in South Africa between 2005 and 2015.

Table 5.1:   Macroeconomic trends in South Africa 2005-2015

Years	Trend
2005-2007	Average GDP growth of 5%
2007-2009	Global financial and economic crisis, GDP growth reaching -6.1%
2010	GDP growth of 2.8%
2012-2014	Slowdown in GDP growth
2014	GDP growth of 1.5%
2015	GDP growth of 1.3%
2016	GDP growth of -1.2%

Note. Sourced from Stats SA (2016), Trading Economics (2016), and van Aardt (2016)

At the start of the time series between 2005 and 2007, South Africa's economy was growing at an average rate of 5 percent (Trading Economics, 2016). In 2006, South Africa grew at a rate of 5.6 percent, which is the highest rate of growth experienced since the establishment of democracy in 1994 (GPPT, 2012).

After 2006, national retail sales growth slowed for several reasons, including an interest rate hike and the implementation of the National Credit Act (Act No. 34 of 2005) in 2007, the complexities of which effectively reduced household access to credit and made for more difficult economic conditions (GPPT, 2012). In 2007, South Africa was hit by the global financial and economic crisis causing a severe contraction in the economy, with GDP growth rates reaching a record low of -6.1 percent in the first quarter of 2009 (Trading Economics, 2016). Interest rates peaked at 15 percent in 2008, and in 2009 approximately 490,000 jobs were shed nationally, which severely

undermined consumer spending (GPPT, 2012). During this period, household consumption fell by 5.8 percent (Republic of South Africa, 2009). The retail industry also contracted nationally as the additional shopping center space developed in 2009 plummeted to 330,000m^2 from 690,000m^2 in 2008 (GPPT, 2012).

Growth picked up again in 2010 as South Africa recovered from the global recession due to the expansion of large retail chains as well as high retail activity during the FIFA World Cup (GPPT, 2012). South Africa's economy grew by 2.8 percent in 2010. The economic climate also improved due to above inflation wage increases and lower interest rates (GPPT, 2012).

In 2012, the growth of the national economy began to slow down again. This slow growth is still being experienced today. GDP growth dropped from 1.5 percent in 2014, to 1.3 percent in 2015, and has dipped into negative territory at a rate of -1.2 percent for the first quarter of 2016 (SARB, 2016; Stats SA, 2016). This economic contraction, bordering on recession, can be attributed primarily to depressed commodity prices, weakening demand from China, energy supply challenges, and a skills shortage that proved unable to sustain previous levels of growth (Kibuuka, 2016; Vollgraaff, 2016). Economic contractions translate into lower incomes for South Africans and in turn, lower levels of consumption. Due to the fact that consumption drives the retail sector, which has propped up the economy in many ways over the past decade in Soweto, contractions in retail result in sizeable losses in job opportunities and household incomes.

5.2   Retail Investment Trends in Soweto

This section will present the raw time series data collected for construction and operational investment. Figure 5.1 shows construction investment in Soweto between

2005 to 2015. This data includes investment by developers to build shopping malls in the community and capital expenditure by retailers to expand and maintain operations. Retailer investment data is the sum of investment by each of the eleven national retail chains under study. Each of the eight major shopping malls in Soweto are plotted on Figure 5.1 to refer to the dates construction was completed.
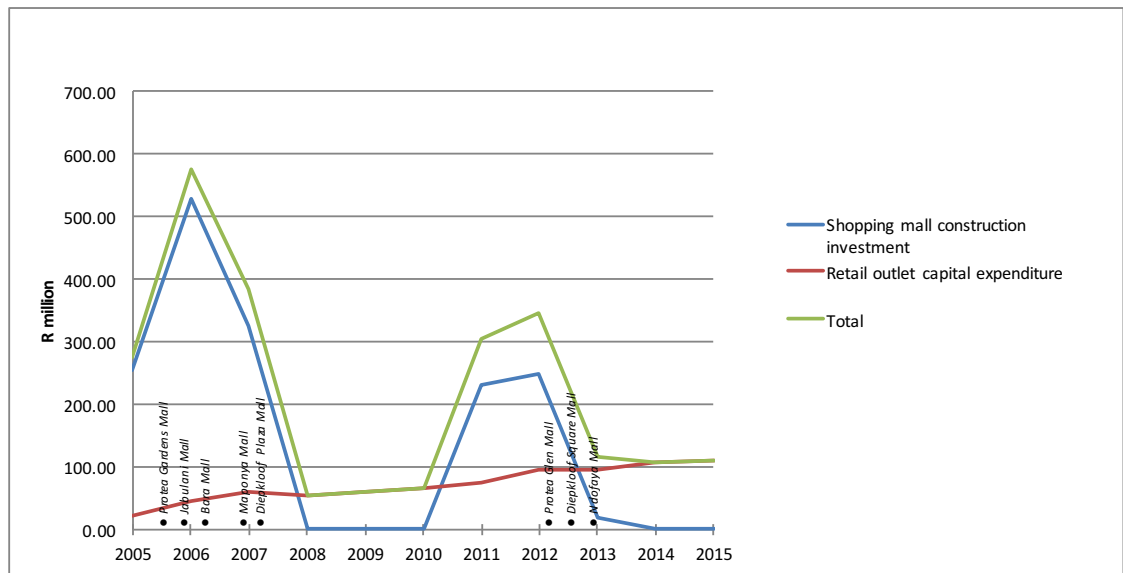

Figure 5.1:   Construction investment in Soweto

The patterns in the data presented in Figure 5.1 can be understood by examining macroeconomic trends nationally in parallel with the Soweto investment data. Two distinct retail investment bubbles emerge from the time series data. The first, between 2005 and 2007, was driven by the construction of five major shopping malls. They are Protea Gardens Mall, Jabulani Mall, Bara Mall, Maponya Mall, and Diepkloof Plaza Mall. During this period, retail construction investment peaked at

nearly R600 million. The second bubble, between 2010 and 2013 included the construction of Protea Glen Mall, Diepkloof Square Mall, and Ndofaya Mall. Construction investment during this period peaked at just over R300 million.

Construction investment had a negative growth rate of -59.8 percent between 2005 and 2015. Current levels of construction investment in the retail sector are hovering around R100 million and is driven almost entirely by retail outlet capital expenditure because shopping mall construction came to a halt after 2013. This is in part due to the economic contraction being experienced at the national level, but can also be attributed to the saturation of the retail sector in Soweto and the decreasing availability of sizeable tracts of land for large-scale commercial development.

It is also revealing to dissect the conglomerate investment values depicted in Figure 5.1. Figure 5.2 and Figure 5.3 provide a breakdown of the construction and operational investment, respectively, for each of the eleven retailers included in the study.
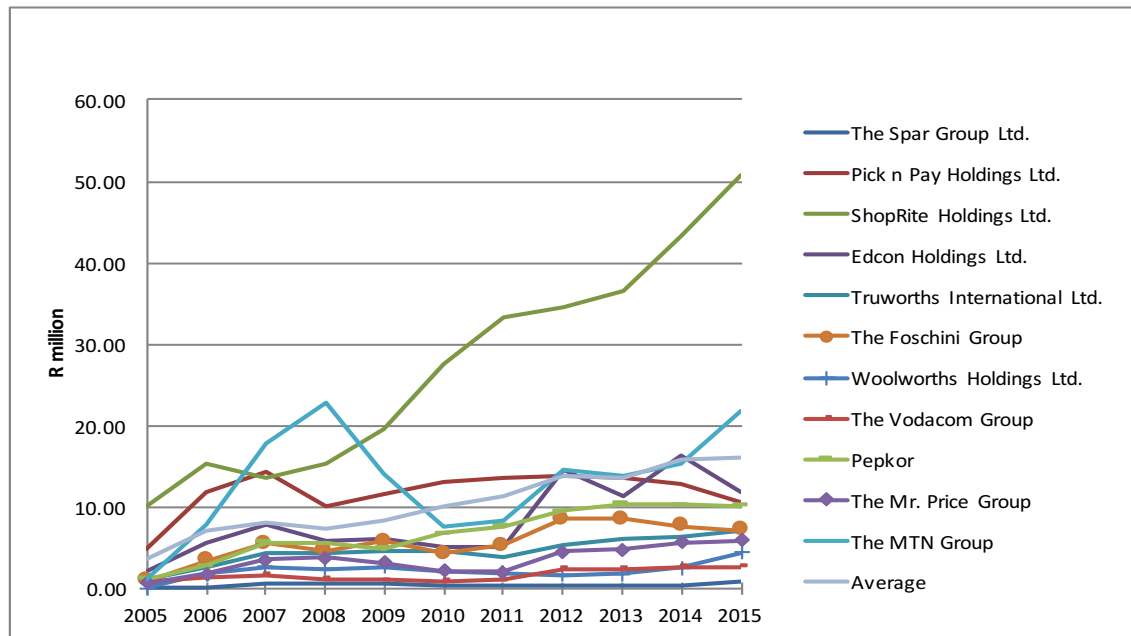
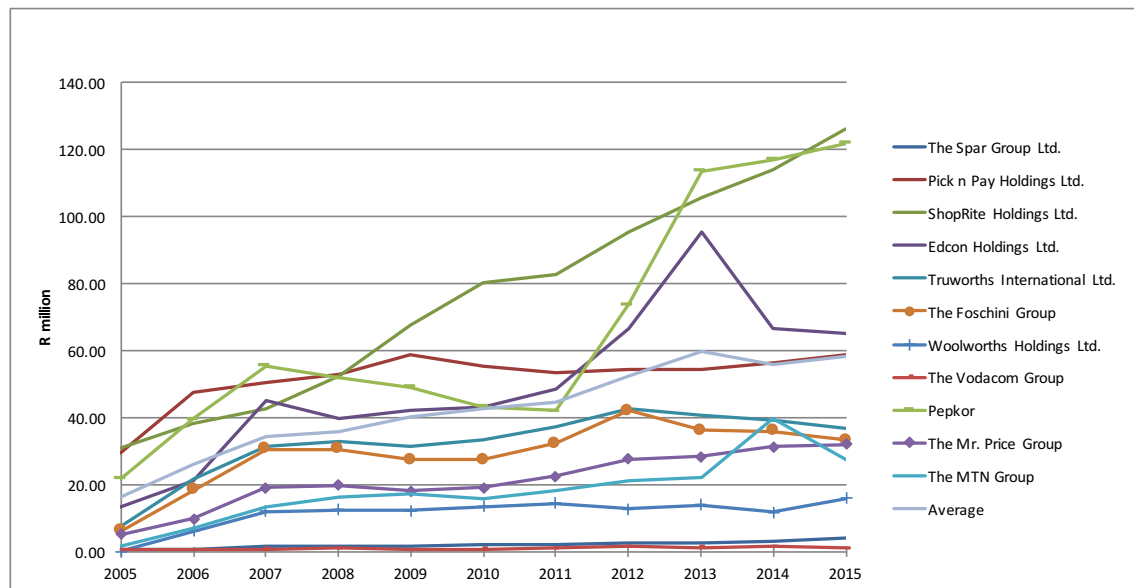Figure 5.2:   Construction investment in Soweto by retailer

Figure 5.3:   Operational investment in Soweto by retailer

Both Figures 5.2 and 5.3 demonstrate that construction and operational investment by the eleven retailers has increased gradually between 2005 and 2015 as their collective footprint grew in Soweto. Total investment by the selected retailers increased by 77.3 percent. Based on the definition of operational and construction investment outlined in Chapter 4, increased investment in these areas equates to more income distributed in the form of salaries and other benefits, higher levels of corporate social investment in the community, more earnings retained for reinvestment in the future, and more capital expenditure projects.

Over the ten-year period under study, Shoprite Holdings had the largest combined construction and operational investment at R1.1 billion, followed by Pepkor Holdings at R805 million, Pick n Pay Holdings at R703 million, and Edcon Holdings at R640 million. These are the private sector players with the largest impact in Soweto's retail sector. These companies could be key partners for the public sector in regards to retail-oriented policy interventions.

5.3   Estimating Impact on Gross Domestic Product

The proceeding data reflects outputs of the economic model based on the retail investment figures discussed in Section 5.2. In regards to economic growth, the contribution of retail investment to GDP doubled from R416 million in 2005 to R881 million in 2015, adjusting for inflation. Figure 5.4 depicts the upward sloping linear trend line in GDP contribution of both construction and operational investment.
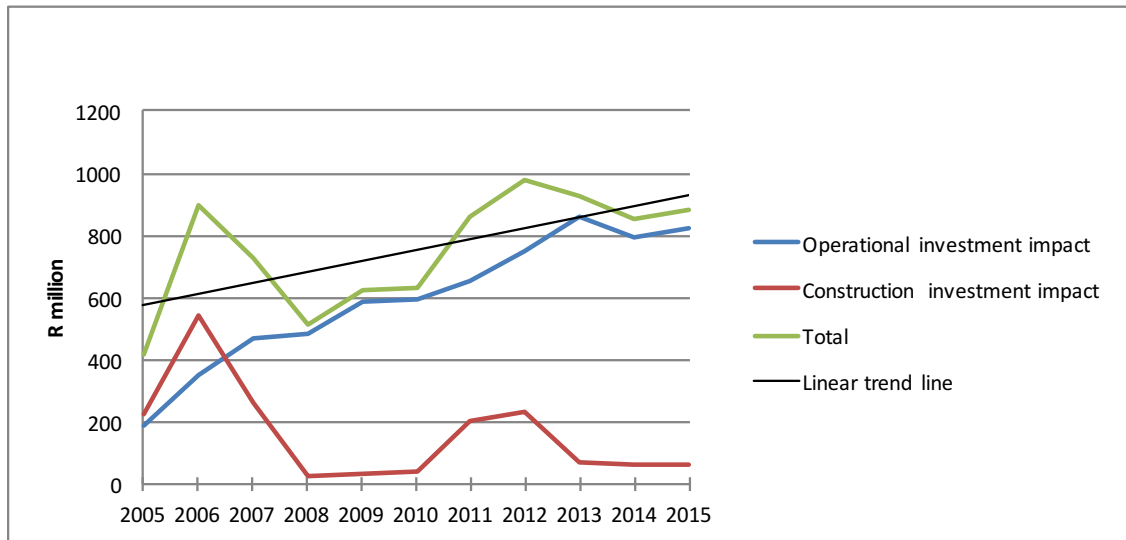
Figure 5.4:   Combined operational and construction investment impact on GDP

While extreme fluctuations are visible in construction investment contribution to GDP, operational investment contribution has grown steadily since 2005 and carries the upward trend.
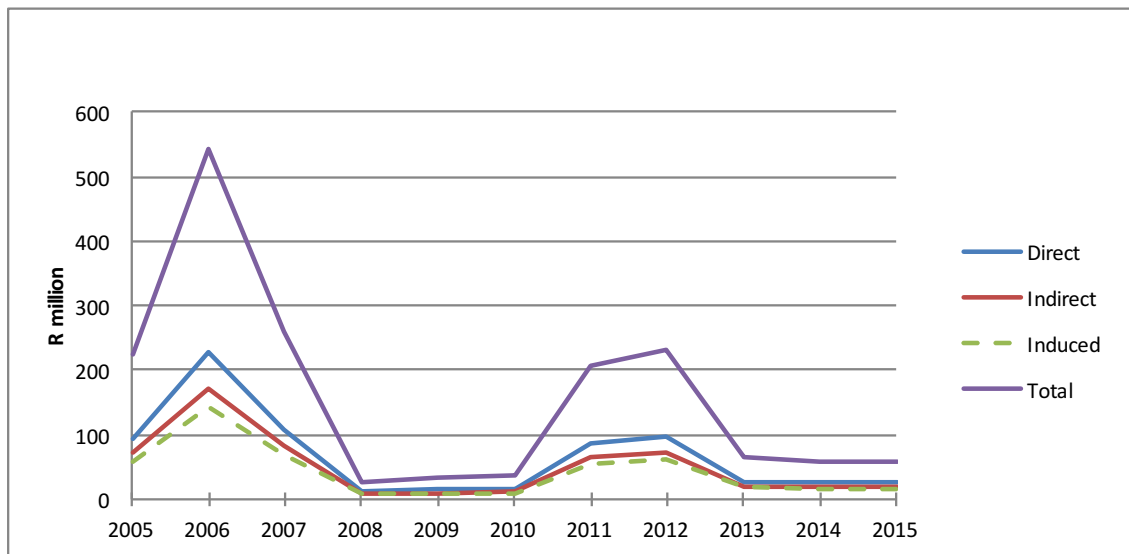
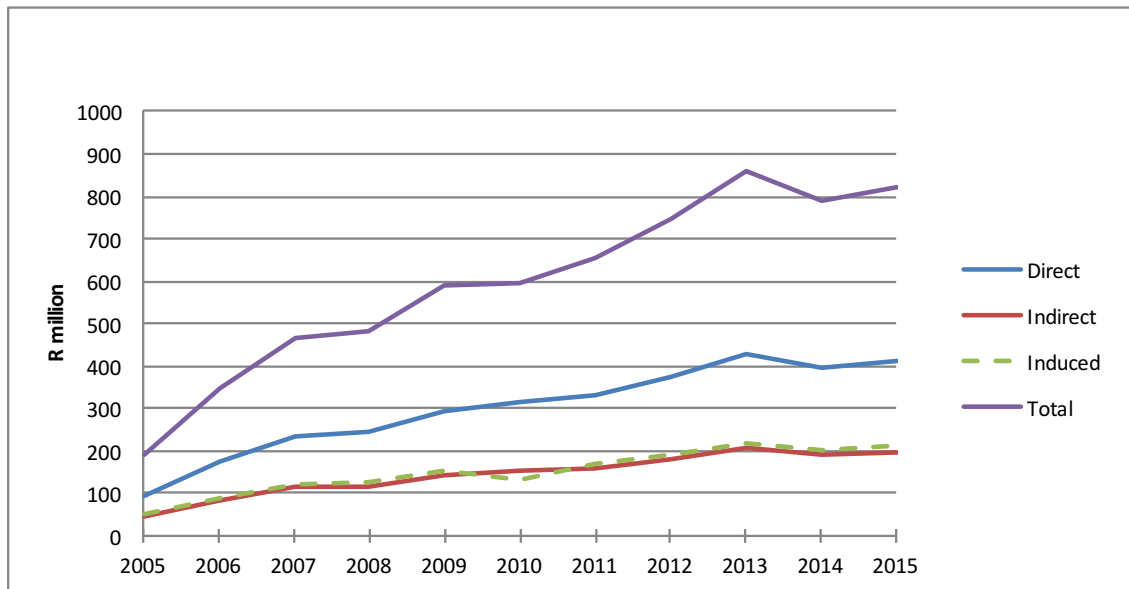Figure 5.5:   Construction investment impact on GDP

Figure 5.6:   Operational investment impact on GDP

Figure 5.5 and Figure 5.6 break down the direct, indirect, and induced impacts of retail construction and operational investment on GDP. As discussed in Chapter 5, direct impact refers to the result of the activities stimulated by the initial retail investment into the economy. Indirect impact refers to the ripple effect through linkages with other sectors that supply retail activities such as the textiles, clothing, leather products, and footwear sector, the electricity sector, and the finance & insurance sector, for example. Induced impact captures the expenditure of the labor force involved in production activities based on direct and indirect impacts. This could include the income earned from jobs like cashiers to truck drivers.

The direct impact of retail investment in Soweto has contributed to increased economic output in the retail trade sector specifically, but due to the multiplier effect, has also contributed growth in various other sectors through indirect and induced impacts. These findings should send a message to the public sector to incubate producers and gear work force training toward sectors of the economy with strong linkages to the trade sector.

5.4   Estimating Impact on Employment

Employment gains were also realized in periods of increased retail investment in Soweto, as reflected by Figure 5.7 and Figure 5.8. Construction and operational investment impacts on employment could not be combined because each are measured in different units. Construction investment impact on employment is measured in the unit of 'person-years' as opposed to 'job opportunities', because unlike operational investment, which creates permanent jobs, construction jobs are temporary, as workers are hired on a contract basis.

Figure 5.7 shows the construction investment impact on employment in Soweto between 2005 and 2015. There is a negative sloping trend with regard to person-years supported between 2005 and 2015.
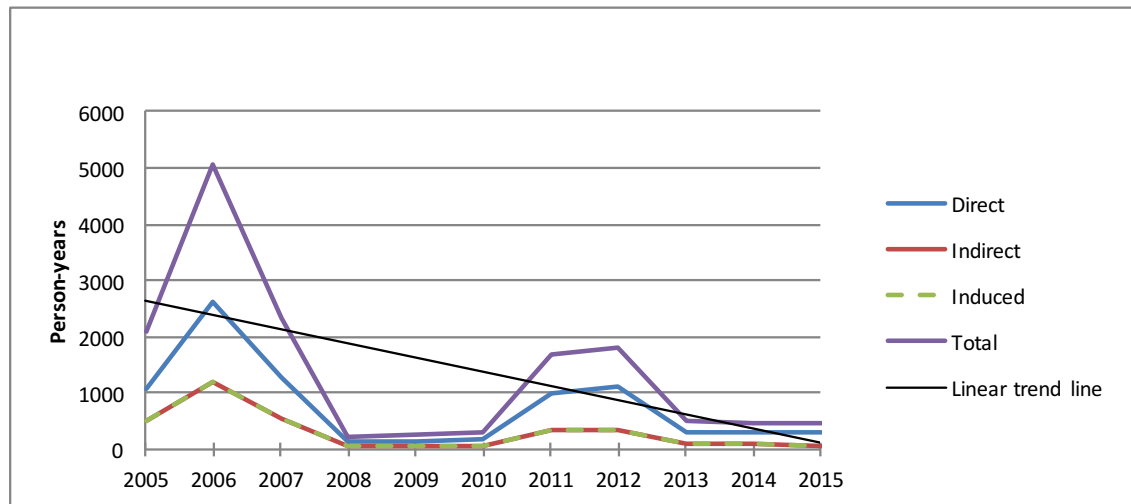
Figure 5.7:   Construction investment impact on employment

Employment gains due to construction investment peaked in 2006 at 5,048 total person-years of employment supported during the first retail investment bubble. During the second bubble in 2012, 1,818 total person-years were supported. In 2015 only 450 person-years of employment were supported through construction investment. The negative slope of the linear trend line in Figure 5 demonstrates the decreasing availability of construction jobs as commercial shopping mall development slowed.

Figure 5.8:   Operational investment impact on employment

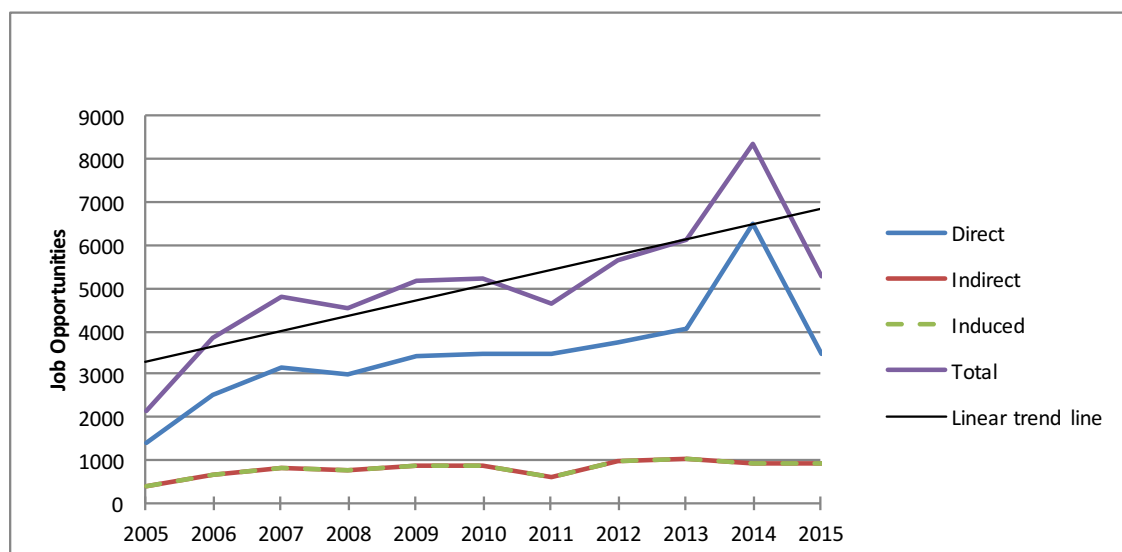Job opportunities supported by operational investment, represented by Figure 5.8, mitigate the negative trend in employment opportunities supported by construction investment, as demonstrated by the upward sloping trend line. In regards to operational investment, the number of job opportunities supported grew by 145.4% between 2005 and 2015. Employment gains due to operational investment peaked in 2014, at over 8,300 total job opportunities supported. Of these 8,300, about 6,500 job opportunities were a direct impact of operational retail investment. This trend reversed and sharply contracted in 2015 with job opportunities nearly cut in half from 6,515 job opportunities in 2014 to 3,486 job opportunities in 2015.

The investment impact data in regards to GDP and contribution to employment paint a generally positive picture about the socioeconomic impact of retail investment in Soweto, but a closer look at the nature of employment gains begin to reveal the

disparate impact of retail growth on various economic sub-groups. Figure 5.9 and 5.10 dissect the impact of construction and operational investment on employment by skill level, including direct, indirect, and induced impacts.
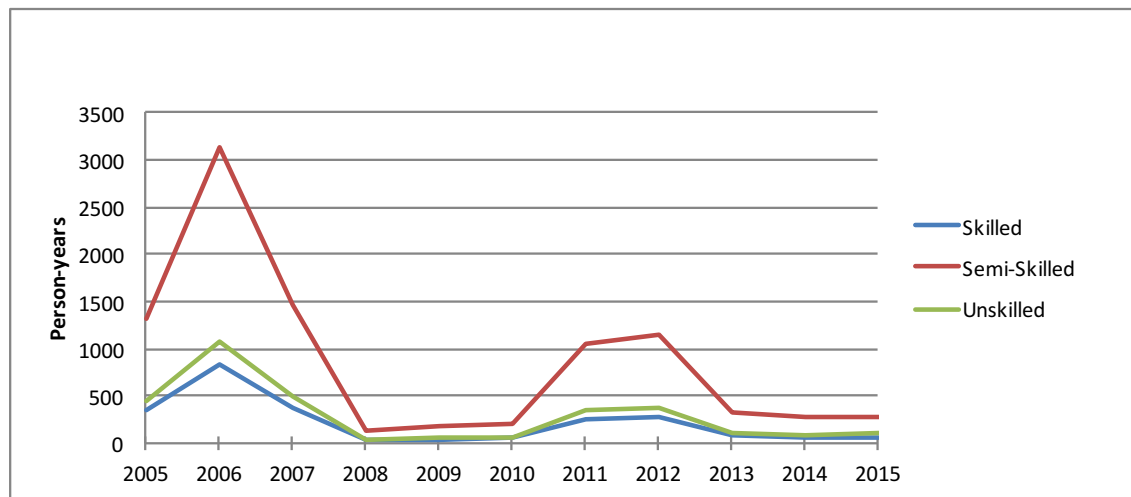

Figure 5.9:   Construction investment impact on employment by skill level
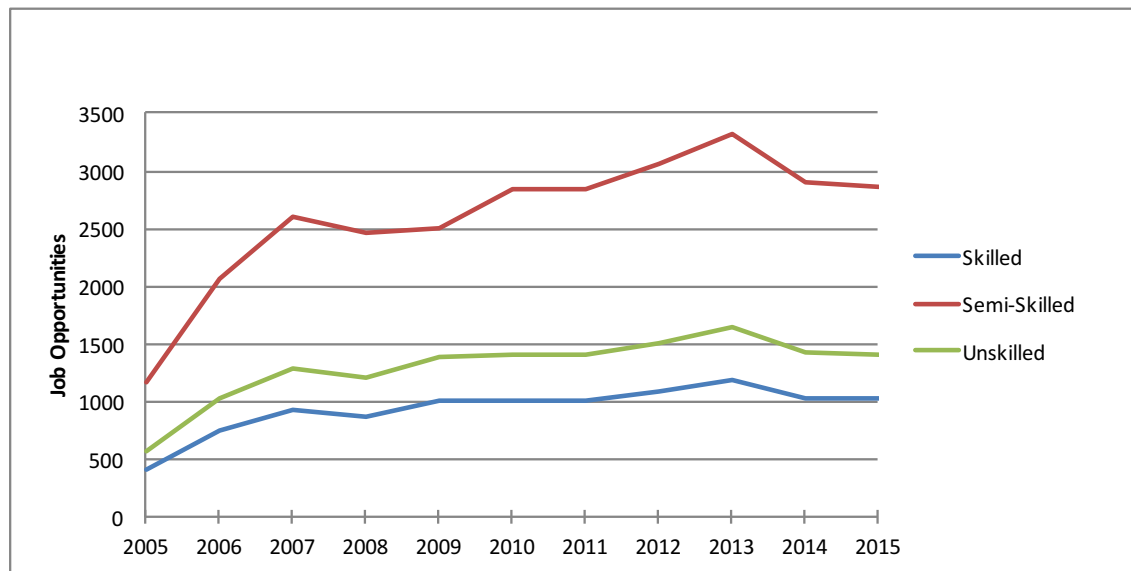
Figure 5.10: Operational investment impact on employment by skill level

Semi-skilled workers benefit most from employment opportunities supported through both construction investment and operational investment, followed by unskilled and skilled workers respectively. This can be attributed to qualifications required for labor in the retail and construction sectors. According to Stats SA labor classifications, skilled labor includes manager, professional and technical occupations; semi-skilled labor includes clerk, sales and services, skilled agriculture, craft, and related plant and machine operator occupations; and unskilled or low skilled labor includes elementary and domestic worker occupations.

Unskilled workers in Soweto are the most vulnerable and bear the brunt of the exorbitant unemployment rate in the community. In regards to construction investment impact, for every three person-year opportunities supported for semi-skilled workers, there is one opportunity for an unskilled worker. In 2006 during the most significant

retail construction bubble, for example, 3,136 person-year opportunities for semi-skilled workers were supported, while only 1,080 were supported for unskilled workers.

The gap between the impact on semi-skilled and unskilled workers due to operational investment is less severe. For every two job opportunities supported requiring semi-skilled labor, one opportunity is supported for an unskilled worker. At the peak of operational investment in Soweto in 2013, job opportunities supported for semi-skilled workers reached 3,325, while opportunities for unskilled workers only reached 1,639.

This indicates that on a general level, retail operations are less skills-intensive than construction activities and, therefore, do a slightly better job of integrating unskilled workers into the labor force.

5.5   Estimating Impact on Household Income

The last indicator of interest in examining the socioeconomic impact of retail construction and operational investment is contribution to household income. Retail operations contribute four times as much household income as construction activities. In total, over the ten-year period from 2005 to 2015, R5 billion was contributed to households. Construction investment contributed R1 billion to households and operational investment led to a R4 billion contribution.

When income gains are broken down and examined by household income group as they were for skill level groups, a similar pattern is revealed. According to Figure 5.11 and Figure 5.12, which includes direct, indirect, and induced impacts, high-income households have benefited most from retail investment in Soweto,

followed by low- and middle-income households, which have experienced nearly equivalent impacts.
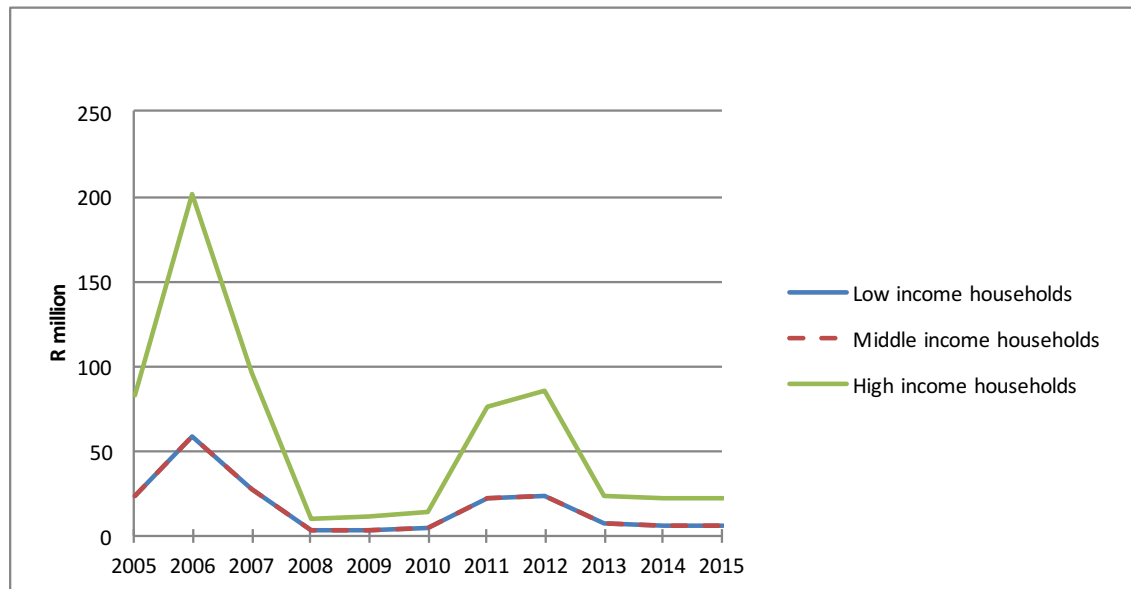
Figure 5.11: Construction investment impact on household income by income group
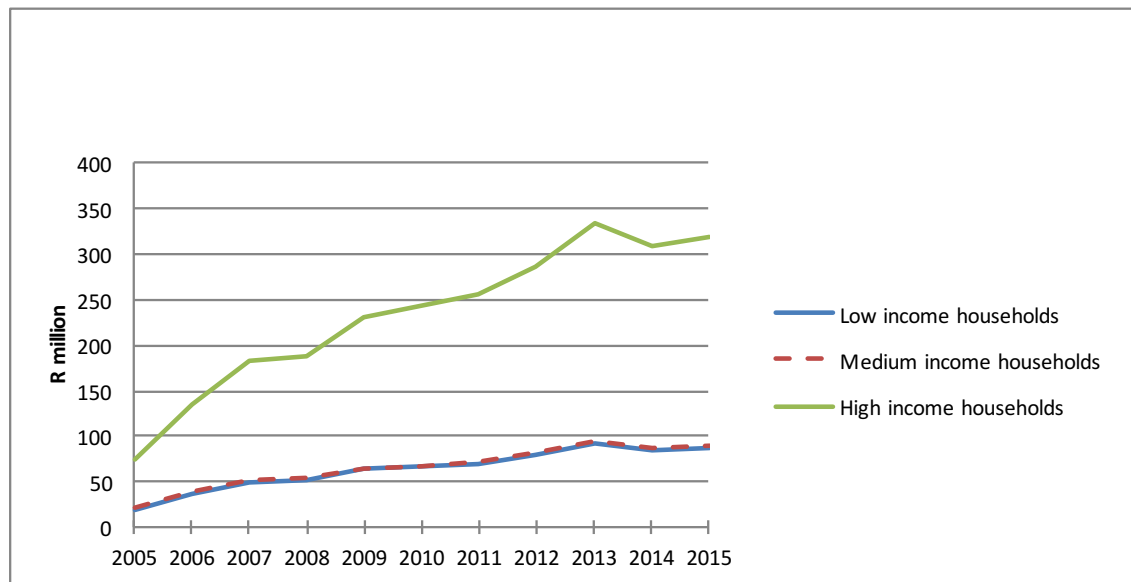
Figure 5.12: Operational investment impact on household income by income group

The gap between high-income households and low- and medium-income households has actually increased slightly since 2005. This finding is key and has been representative of the nature of growth in South Africa since the end of apartheid in 1994. Although growth in the retail sector has resulted in overall gains in household income, it is distributed in such a way that inequality deepens because income is accruing to high-income households at a much faster rate than other household income groups.

5.6 Summary of Findings

In summary, retail investment in Soweto between 2005 and 2015 has led to an increase in economic output, job opportunities, and household income, but these

socioeconomic gains have not proportionately accrued to unskilled workers and low-income households. This is contributing income inequality in the region.

The ebb and flow of retail investment in Soweto is reflective of macroeconomic trends at the national level. Two distinct retail investment bubbles emerged from the data during the time series under examination. The first, between 2005 and 2007, included the construction of five major shopping malls. The second bubble, between 2010 and 2013 included the construction of three major shopping malls. Both of these periods correspond with periods of high GDP growth at the national level.

Retail-oriented construction investment –including investment to build shopping malls and capital expenditure by retailers to maintain and expand operations – had a negative growth rate of -59.8 percent between 2005 and 2015 due to a slowdown in mall construction.

In total, investment by retailers in the form of operational investment and construction investment has grown by 77.3 percent over the past decade as the collective footprint of national retail chains grew in Soweto. This investment growth is representative of more income distributed in the form of salaries and other benefits, higher levels of corporate social investment in the community, more earnings retained for reinvestment in the future, and more capital expenditure projects.

In terms of employment gains, operational investment resulted in significant increases in permanent job opportunities. The number of job opportunities supported by operational investment grew by 145.4% between 2005 and 2015, peaking in 2014 at over 8,000 job opportunities supported.

Upon a closer examination of employment gains, the data reveals the disproportionate impact of retail growth on various economic sub-groups. Semi-skilled workers benefit most from employment opportunities supported through both construction investment and operational investment followed by unskilled and skilled workers respectively.

In regards to household income, R5 billion was contributed to households over the ten-year period under study due to retail-oriented investment. Retail operations contribute four times as much income to households as construction activities and have provided consistent income flows, unlike the sharp fluctuations of income generated by construction investment.

Unskilled workers in Soweto are the most vulnerable group of workers who bear the brunt of the exorbitant unemployment rate in the community and are the most difficult to integrate through top-down growth. According to the data, retail operations are less skills-intensive than construction activities and, therefore, do a slightly better job of integrating unskilled workers into the labor force.

These findings suggest that an expansion of operational capacity and investment on the part of retailers will generate the most household income and provide more opportunities for the integration of unskilled workers. Although retail investment has resulted in gains across all economic sub-groups, if the skewed distribution of benefits is not rectified by public sector intervention, retail growth will continue to deepen income inequality in Soweto.

Chapter 6

IMPLICATIONS OF RETAIL INVESTMENT IN SOWETO

The findings of the SAM analysis support the hypothesis that the retail investment that has taken place in Soweto between 2005 and 2015 has led to economic growth, job creation, and increased household income, but these benefits are not accruing equally amongst all economic sub-groups.

The findings suggest that top-down retail sector growth in Soweto is making strides toward building sustainable market infrastructure and increasing levels of economic output, but due to market and policy failures the investment taking place is not sufficiently inclusive of low-income households and unskilled workers. In fact, the retail investment taking place is contributing to income inequality. The underlying reason for this is that the retail market in Soweto is not diversified and is controlled by less than a dozen holding companies.

The integration of marginalized and vulnerable economic sub-groups into the formal economy is critical to the convergence of South Africa's dual parts. The bifurcated nature of the regional economy in the Johannesburg metropolitan area persists as the modern sector of the economy continues to expand and the majority of unskilled and poor South Africans remain excluded.

In this chapter, the study's findings are discussed in the context of the literature around this topic. This begins with an in-depth examination of the follow-up study led by the Bureau of Market Research (BMR) in conjunction with this research. Next, a brief reflection on the literature presented in Chapter 2 is offered. Finally, a series of

broad policy recommendations are presented to more effectively harness retail investment to achieve equitable and inclusive growth in light of the findings.

6.1 Bureau of Market Research Follow-Up Study

The BMR conducted a qualitative follow-up study that was designed to add narrative to trends in the data revealed by this study. Three populations were surveyed to measure public opinion on retail expansion in Soweto: community members, owners of local small, medium, and micro enterprises (SMMEs), and management for the eleven national retailers selected for this study.

There are severable notable findings of the BMR study that support the findings of this research and inform policy that will increase shared prosperity and more equitably distribute jobs and income with regard to retail growth.

First, community members and large retailers concur that retail expansion in Soweto has benefitted the community. Of community members surveyed for the study, 89 percent report that in their opinion, shopping mall development has led to the economic empowerment of Soweto residents and 81 percent report that shopping malls in Soweto generally have a positive impact on the community (BMR, Forthcoming). 85 percent of community members felt that low-income households are also benefitting from retail sector growth (BMR, Forthcoming).

In regard to the nature of jobs being supported through retail investment, the survey data reveals that 46 percent of large retailers report that 50-75 percent of their employees live in Soweto. An additional 46 percent report that over 75 percent of their employees live in Soweto (BMR, Forthcoming). This indicates that Soweto residents constitute over half the staff of 92 percent of large retailers interviewed. This finding

supports the conclusion that retail growth has created jobs for members of the community that did not exist previously.

When asked about the skill level of their employees, 55 percent of large retailers surveyed by the BMR (Forthcoming) report that most of their employees are semi-skilled workers, 37 percent report most of their employees are skilled, and 9 percent report most of their employees are unskilled. This supports the data presented in Figures 5.9 and 5.10 that shows that semi-skilled workers benefit most from retail investment. The BMR's findings support the assertion that unskilled workers continue to be one of the most difficult groups to integrate into the formal economy.

Further, in congruence with the research findings, retail development has also succeeded at increasing wealth in the community by reducing market leakage, according to the BMR (Forthcoming) study. Fifty-eight percent of community members interviewed said that the presence of shopping malls have caused them to spend a larger percentage of their income within Soweto than before they were constructed.

Unfortunately, because national retailers have predominated the retail expansion that has taken place since 2005, many local SMMEs are struggling to compete. Half of the SMMEs interviewed for the BMR (Forthcoming) study report that shopping malls had a negative impact on their business in regards to revenue.

The BMR (Forthcoming) study also finds that even though the quantitative data reveals growth in retail the retail sector between the years of 2010 and 2012, 73 percent of SMMEs report that they did not perceive an increase in business during this period. This indicates that SMMEs in Soweto are not sharing in the retail sector growth being experienced by national chains that have expanded into the community.

Despite the identification of SMME development as a large priority to achieve economic growth and transformation for South Africa in the National Development Plan, and despite criticism of national retail chains for exploiting township communities, these retailers have ignored calls to substantively engage with local enterprises.

Of the eleven national retailers selected for this study, only one could give an example of a product in their inventory that is sourced locally: a supermarket that sourced its spinach from a local farmer (BMR, Forthcoming). This is because many national retailers are required to source from a few main national or regional distribution centers, which severely limits their ability to source from within the community. This finding represents a huge opportunity for improved retail inclusivity.

Despite public opinion revealing that retail investment in Soweto is harming some local enterprises, 66 percent of community members surveyed by the BMR (Forthcoming) report that in their opinion, Soweto-based businesses and service providers have already benefited from the outsourcing of services by shopping malls in Soweto.

Finally, community members and large retailers report that the benefits of the shopping malls in Soweto extend to increased market accessibility to high quality products locally, reduced transportation costs, which are manifested in shopping patterns, and positive impacts related to skills development, employee training, and upward mobility (BMR, Forthcoming).

6.2   Contribution to the Literature

Reflection back on the literature presented in Chapter 2 offers important indications of the implications of retail investment in Soweto over the past decade.

Returning to the argument of Wilson (1987), retail investment in Soweto is beginning to chip away at the economic repercussions of the policies of racial segregation and institutional racism during the apartheid era.

As retail sector investment grows in Soweto, property values increase, future investment becomes more attractive, the tax base grows, better public services are offered, and job prospects improve. In concord with the arguments of Jacobus and Chappel (2009), retail projects in Soweto have led to the revitalization of pockets and corridors within Soweto and have catalyzed public and private sector investment in various spheres.

Critics of retail expansion in Soweto, Letsie (2010) and Kohler (2011) assert that while shopping malls may lead to a higher proportion of household expenditure taking place within Soweto, the benefits of such expenditure would not directly accrue to the local community and are syphoned back to the shareholders of national chains. These assertions proved correct. While retail development in Soweto has built sustainable market infrastructure and reduced market leakage, economic growth generated by retail investment is not shared by the low-income population.

This research is an important contribution to the narrative of retail investment in Soweto as it offers macroeconomic context to the issue and uncovers the benefits and limitations of relying on targeted retail investment as a growth strategy in emerging township areas.

The nature of retail sector expansion in Soweto between 2005 and 2015 can be characterized as pro-growth local economic development (LED). Pro-growth LED, in contrast with pro-poor LED, is a market-led approach that pushes economic growth without placing specific intentions on social outcomes. This method of LED attempts

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to stimulate growth through market mechanisms, but as Shamim (2014) and Korten (1995) purport, this approach risks contributing to market distortions.

Literature on LED in the United States indicates that the benefits of this approach are not shared by low income populations. The findings of this study demonstrate that this pattern is the same in Soweto. To mitigate the negative externalities of the pro-growth approach to retail development in Soweto, policymakers should borrow strategies from pro-poor or developmental LED to integrate marginalized populations into the formal regional economy.

Davis (2015) suggests the use of pro-growth LED strategies such as urban enterprise zones to attract exogenous investment in Soweto to empower local enterprises, build market infrastructure, and create jobs. The increased investment of major national companies has been a great first step in achieving these goals and integrating Soweto into the regional economy, but LED must emphasize targeted inward investment in human capital and coordinated efforts to decentralize control of the retail market and its supply chain so that more local residents have a stake in growth.

6.3   Policy Recommendations

The package of policy recommendations offered in the wake of the findings of this research is three-pronged. The focal points for policy makers in this sphere are increasing engagement of local SMMEs in retail construction and operations, a new paradigm for corporate social investment (CSI) toward sustainability and capacity building, and increased usage of public private partnerships (PPP) as a vehicle for equitable growth outcomes. An implementation strategy to support these policy recommendations is presented in Chapter 7.

6.3.1 Increasing Engagement of Local Enterprises in Retail Construction and Operations

One top-down method of improving local SMME engagement nationally is to reform Broad-Based-Black Economic Empowerment (BBBEE) codes to require large corporations to include an increased percentage of local black-owned enterprises in their supply chain. This would mitigate the negative consequences of retail expansion being experienced by local SMMEs. In order to ensure quality is up to par, the national retailers should also be encouraged to execute quality management and other training and business support services for the local businesses active in their supply chain.

The engagement of local enterprises goes beyond supply chain access, but should also include an emphasis on outsourcing services to the community as well. This could mean using local construction companies for capital expenditure projects, or engaging local pavers, welders, electricians, and cleaning companies, for instance. These strategies allow for the empowerment of SMMEs alongside the expansion of national chains resulting in shared gains.

Another role that BBBEE regulations can play to increase wealth in the community is to require more ownership and shareholding opportunities for local employees, specifically in historically marginalized areas such as Soweto.

6.3.2 New Paradigm for Corporate Social Investment

The second facet of policy recommendations calls for a paradigm shift around CSI by large national retail chains. Data collected for this study reveals that CSI by the eleven national retailers under study more than doubled from R 161 million in 2005 to R 387 million in 2015, adjusting for inflation. Upon further inquiry about the types of CSI taking place, it was determined by the BMR (Forthcoming) that although 62

percent of retailers report their company sponsored corporate social investment initiatives in Soweto, when asked to elaborate, most of these initiatives were in the form of donations and charity drives rather than sustainable investments to improve the community. A paradigm shift in the sphere of CSI to forward-thinking initiatives that take strides toward building the skills and capacity of the local community can go a long way in incubating local producers and improving the human capital divide in South Africa.

6.3.3 Utilizing Public-Private Partnerships as a Vehicle for Equitable Growth

Finally, to counter market failures of retail development uncovered in this study, public-private partnerships (PPPs) are critical moving forward.

PPPs that require public sector investment to some degree to finance a retail project would allow the public sector to have a stake in the project's priorities. While this investment may be monetary, another way for the public sector to have a say in project priorities are if, for example, the municipality owns a tract of land and sells it to a private sector partner for a significantly reduced cost. A PPP with a commercial developer in a situation like this could include conditions to require a certain percentage of tenants to be local businesses or require anchor tenants to source a certain percentage of their inventory from local businesses. It could also include conditions that local enterprises must be offered preferential opportunities to become tenants when the malls are being constructed.

PPPs can also be utilized for training programs and capacity building by allowing the public and private sectors to provide support to local enterprises through arrangements that complement each of their areas of expertise. The public sector could, for example, offer technical and financial support while the private sector could

provide training in accounting and other business practices to elevate the skills of small local businesses (Tustin & Strydom, 2006).

At the end of the day, the fate of South Africa's townships is inextricably linked to the cities to whose governance structure they belong (Mahajan, 2014). Townships have long been ignored and divorced from municipal decision-making processes, reflecting the lack of a comprehensive strategy to address the rapid urbanization occurring in South Africa (Mahajan, 2014). A township-focused approach to regional growth and cooperative efforts with the private sector are key.

Chapter 7

CONCLUSION

This study thoroughly explored the socioeconomic impacts of retail investment in Soweto between 2005 and 2015. While retail growth in Soweto has begun to chip away at the challenges of continued economic disenfranchisement, widespread unemployment, and generational lack of wealth, the market-driven nature of the retail development taking place fails to proportionately allow the benefits of growth to accrue to historically marginalized populations of the community. The public sector has an opportunity to redirect the retail-oriented capital flows coming into township economies to achieve more inclusive growth.

This chapter begins by encouraging future research to build upon the foundation of this study's findings and concludes with an implementation strategy to address the current inequities of retail growth in Soweto.

7.1 Suggestions for Future Research

Future research on socioeconomic development strategies for townships should focus on the examination of Afrocentric, alternative, and collaborative strategies to promote grassroots economic growth. Cooperative business models are a democratic alternative to capitalism that provide opportunities for local ownership so that profits are shared by workers or members of the cooperative who reside in the local community. Cooperatives tap into local knowledge, resources, and strengths to find solutions to local challenges.

The South African Department of Trade and Industry (DTI) has implemented policies in support of sustainable cooperatives, recognizing the meaningful role these business models can play in economic and social development. According to the chief director of cooperatives development at the DTI, not only are cooperatives a successful model to create employment and eliminate poverty, they are one of the best means of mobilizing the marginalized segments of society and integrating them into the mainstream economy (Republic of South Africa, 2012).

Future research should explore the structure of successful cooperatives in South Africa and determine the feasibility of a targeted policy focus around facilitating the development of cooperative business models in Soweto. It should ask, what comparative advantages in Soweto could be built upon for endogenous growth and what role the public and private sectors can play in supporting the efforts of local cooperatives. Soweto's existing cooperatives should be surveyed to understand the nature of local challenges and to suggest opportunities for external partnership.

7.2   Implementation Strategy

Turning to policy, municipal and provincial leaders considering retail investment as a mechanism for socioeconomic development should focus efforts on increasing the engagement of local township enterprises in retail construction and operation activities, introducing a new paradigm for corporate social investment (CSI) toward sustainability and capacity building, and increasing the use of meaningful public-private partnerships (PPP) as a vehicle for equitable growth outcomes.

PPP initiatives should operate with strategies of people-centered, pro-poor local economic development (LED) in mind. Initiatives should be geared toward investment in human capital and targeted inward investment with goals to retain and

expand existing local firms, increase support for SMMEs, develop the work force, and economically empower the local community.

In the spirit of Mazrui's African Liberalism, a policy solution that represents the integration of indigenous values is recommended. The main vehicle for implementation is inspired by the traditional South African concept of a stokvel.

The word 'stokvel' comes from the Afrikaans word for 'stock fairs', the rotating cattle auctions among white settlers that provided black farm workers the opportunity to socialize (Tladi, 2011). Stokvels are cooperative community-based rotating savings and credit association groups, whereby people contribute at defined intervals to a group fund that distributes the contributions to members on a rotating basis (Matuku & Kaseke, 2014).

The inability of black South African's to own land during apartheid hindered them from building capital and accessing credit. Stokvels became important savings and credit mechanisms that allowed black people to pool their capital (Jones, 2015). The National Stokvel Association of South Africa estimates that about R45 billion is currently held in about 800,000 stokvels across the country (Jones, 2015). Stokvels, designed in response to poverty and income insecurity, are common in townships. These institutions are guided by the black South African tradition of 'ubuntu', the concept that more can be achieved as a group than as an individual.

The implementation strategy begins with the establishment of a CSI stokvel. The public sector can use its technical and organizational expertise to establish the CSI stokvel and convene the major retail entities with a presence in the community. In the case of Soweto, Shoprite Holdings, Pepkor Holdings, Pick n Pay Holdings, and Edcon

Holdings were identified as having the largest investment contribution in the retail sector in Soweto. Policymakers should look to these companies as potential partners.

Based on the time series data, if the four top performing retailers in Soweto invested 50 percent of their current CSI into the stokvel, about R375 million would be invested each year. The conditions regarding the amount and the frequency of contribution to the stokvel as well as the nature of CSI projects can be decided collectively amongst participants, which will include various private sector entities and municipal government.

An example of a sustainable and forward-thinking CSI project could be a large-scale youth capacity building program to develop emerging producers in Soweto in partnership with an entity like the Industrial Development Corporation (IDC). This could serve as the foundation for a twenty-first century apprenticeship model, in which producers are incubated in various sectors based on the changing supply needs of the retailers and the needs of the community.

The public sector could shape this program to serve as a parallel to the defective educational system in townships by providing vocational training to young people and offering incentives to the private sector to assist in implementation. The United States government could also support these efforts through vehicles such as the Young African Leadership Initiative, President Barack Obama's signature effort to invest in the next generation of African leaders.

Although national retail chains compete in most aspects, cooperation and collaboration in the sphere of CSI can be mutually beneficial for all entities involved and can produce more equitable outcomes of retail growth in Soweto as SMMEs are developed to participate in the expanding local market structure.

In conclusion, the importance of Soweto within the Johannesburg regional economy is undoubtable. Retail investment has begun to bridge the gap between the dual parts of the formal and informal sectors of the economy by building market infrastructure, creating jobs, and generating income in Soweto. If the returns of retail growth are reinvested into the development of sustainable capital, more equitable growth can be achieved.

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