

Executive summary

Impact of Crime on Small Businesses in South Africa

Date completed: 2008

1 Key words

Crime; Burglaries; Robberies; Small Businesses; Insurance; Security; Perceptions

2 Commissioned and supported by

The evaluation was commissioned by the Policy Co-ordination and Advisory Services (PCAS) unit in the Presidency and funded by USAID under the SEGA II programme and the Friedrich-Naumann-Stiftung.

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3 Conducted by

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4 Background to evaluation

Promotion of entrepreneurship and small business is an important priority of the government of SA. The Small Business White Paper (1995), the Small Business Act (1996), and the Integrated Strategy on the Promotion of Entrepreneurship and Small Business provide a framework for role-players that seek to assist the entry of new players into the formal economy. This is done by strengthening the growth and sustainability of existing enterprises and creating linkages so that some start-ups may graduate from local micro to globally competitive businesses. An international panel of economists identified crime as a factor that disadvantaged small businesses. Over 2 million crimes were reported to the police in the financial year of 2007/08. There was an increase in crime victimisation of businesses – burglary of business premises increased by 8%, commercial crimes by 6%, and shoplifting by 2%.

5 Overall purpose of the evaluation

The purpose of the evaluation is *to provide a better understanding of the extent to which crime impacts on small enterprises, and more particularly on emerging black-owned businesses.*

6 Scope of the evaluation

The scope of the evaluation was small businesses operating in the cities of Johannesburg, Cape Town and Durban.

7 Evaluation questions

The evaluation considered the following questions:

- How likely are small and emerging businesses to be victims of crime?
- What are the types of crime they experience most frequently?
- How does crime constrain small business growth and development?
- How much does crime cost small businesses, both in money and in resources?

8 Evaluation methodology

8.1 Type of evaluation

This was a diagnostic evaluation.

8.2 Methodology

The survey covered 446 small, micro and informal emerging businesses in the retail, personal or professional services, small manufacturing and construction sectors, mostly owned by black Africans, in Cape Town, Durban and Johannesburg. The focus was on businesses operating in industrial sectors with the potential to contribute to economic growth and job creation. It covered businesses located in inner city areas, large townships and informal settlements, and densely developed suburban areas such as shopping centres and business parks. Small businesses were defined as enterprises with between 5 and 50 employees; micro-business as enterprises with fewer than 5 employees; and informal businesses not registered as companies or for VAT. The survey was specifically interested in businesses with the potential to contribute to economic growth and support job creation, and therefore, largely excluded subsistence-level activities.

8.3 Data collection

SBP contracted MarkData (Pty) Ltd to undertake the survey. Interviews took place from 20th June to 20th August 2007, with 446 enterprises in over 100 separate locations. Sampling involved the selection of random starting points from street maps in areas of business concentration in the three location categories.

Location category	Total	Johannesburg	Cape Town	Durban
Inner city areas of high business density	110	37	35	38
Large urban townships/ informal settlements	133	50	40	43
High density business areas	203	71	66	66
TOTAL	446	158	141	147

9 Findings

The small business perception of crime

More than half (54%) of business owners cited crime in general as a key problem. Other crime-related issues, such as shoplifting, credit card fraud, use of counterfeit money, and disruption to business owing to crime, were also specifically mentioned. The perception of crime as a key challenge facing business was prominent among business owners in densely developed shopping centres and malls (70%); amongst high level retailers (72%); and bigger enterprises (turnover above R1-m pa) (>90%). A massive 77% agreed with the statement: "I and/or my staff are at serious risk of crime while at work" and 75% agreed that "I and/or my staff are at serious risk of crime while travelling to and from work." Similarly 75% disagreed with the statement: "generally the dangers of crime are exaggerated." Just over one-third (35%) said they were located in high crime areas, and 43% in moderately high crime areas. Lower level retail vendors were most likely to describe their locations as high crime areas (48%), as were those operating in townships and informal settlements. The majority of respondents believed that incidents of crime against small businesses in their local areas had increased in the past year and more than a third (35%) predicted an increase in crime. Low level and informal sector retail vendors, although reporting the highest perception of increased crime levels, were the most optimistic that crime levels would decline. Burglary and robbery were perceived to be the most problematic crimes, especially in townships and informal settlements. Inner city and suburban businesses reported higher levels of petty theft (bag snatching; cell phone theft; shoplifting) and those in suburban locations were more likely than others to cite hijacking as a concern.

Small business experience of crime

Crime was a direct experience of 54% of the respondents in the past year. This is comparable to the experience of small businesses in Australia, the UK and the USA, but in South Africa it was likely to have been more serious and more violent. The SA businesses surveyed had experienced an average of 1.36 incidents of crime during the previous year, highest for those with a turnover of R1m to R3m (3.6 incidents). Businesses with more than R800K turnover are more likely than others to have been affected by crime. Burglary accounted for just over 40% of incidents, followed by shoplifting and robbery. Other crimes (fraud, petty theft, vandalism, car theft and street violence) accounted for about 20% of incidents. Retail businesses - from high level businesses selling items such as cars, fridges and clothing, to low level retail vendors selling food and convenience items - were most likely to have suffered one or more incidents of crime in the previous year. Burglaries accounted for 57% of incidents in townships and informal settlements; and robberies made up 28% of crimes against businesses in these areas. Among inner city businesses, burglaries accounted for 32% of incidents and robberies 13%, while shoplifting accounted for just below 40%. In areas of high density such as malls, burglaries comprised 43% of incidents, robberies 20% and shoplifting 19%. Almost all incidents experienced by the smallest enterprises in the sample (turnover below R15000) were burglaries and robberies. These businesses were mainly informal traders, with limited access to secure storage facilities for stock or equipment, and limited personal security. Businesses in the highest turnover band are likely to present an attractive target, with sophisticated equipment on site, including computers and laptops, in addition to stock. Shoplifting accounted for a significant proportion of crime incidents among firms in the R25000 to R3 million turnover bands. Almost a third had been victimised more than once.

Repeated exposure to crime

International studies indicate that once a business has suffered an incident of crime, the risk of repeat attacks increases. In SA's high crime areas, two thirds of respondents had experienced one or more incidents of crime in the past year. Eighteen percent of businesses experienced 61% of all crimes. Victims of crime operating in townships and informal settlements were more likely than others to be exposed to violence, guns, and damage or destruction of their property. In 12% of all incidents, and in 60% of robbery incidents, the perpetrators had been armed. The perpetrators had been known to the victims in 18% of cases. There was thus considerable overlap between businesses' actual experience of crime and their perceptions about crime levels.

Impact on business viability

The smallest businesses may be particularly vulnerable to crime; but the actual costs for larger firms can be disturbingly high. The mean cost (direct plus indirect) of crime incidents experienced by businesses surveyed was R15556, ranging from R1650 for those with an annual turnover of less than R5000 to R49203 for firms with a turnover in excess of R1m. For smaller firms thus, the average cost of a crime incident can constitute a large proportion of their turnover. While the average probability of experiencing a crime is 1.36, the probability of being exposed to crime is U-shaped - very small firms and larger firms have higher probabilities of being crime victims. For firms with a turnover of less than R10000 the expected cost of crime, measured using the median cost, is at least 20% of turnover. This expected cost falls with an increase in firm size.

Costs of security

The costs of precautions against crime include external security measures such as electric fencing, alarm systems, secure parking and armed guards, and systems to prevent employee theft and fraud. Once-off security costs for businesses averaged R10110, while the mean recurring annual costs were R10870. Security spending increases substantially if a firm experiences a crime. Four percent of businesses were aware of other small businesses paying protection so that criminals would not target their businesses, mostly in the retail sector and just over 50% in townships or informal settlements. The average annual estimated cost of such protection payments was R15300 per small business.

Opportunity costs

Crime causes businesses to limit their operations. One third of the SA businesses said crime had impacted on their operations. Over half of these had increased their personal vigilance. A quarter had increased their spending on security. A quarter expressed reluctance to expand or invest in their business, especially if operating in townships and informal settlements. Forty seven percent felt that fear of crime among clients or customers had resulted in a negative impact on their businesses. Twenty-eight percent felt they had experienced a loss in passing trade. For businesses in informal settlements and townships, 60% felt that suppliers' concerns about crime *had* impacted negatively on their businesses. Thirteen percent had made changes to their operating hours and 13% had encountered reluctance from insurers to cover their businesses. Twenty two percent said their businesses had suffered through competition from sales of stolen goods and 14% knew of local businesses that had closed down or relocated as a result of crime.

Business closures

Through a referral process, 42 individuals who had closed down their businesses owing to crime were identified. These businesses represented turnover bands from R10000 to R15000 p.a. to as high as R5 million p.a. Two-thirds of them had not

insured their businesses against crime. Since closing their businesses, 43% had opened new businesses, 17% had taken other jobs, and 30% were unemployed.

Insurance

The sample was split between businesses that had insurance (51%) and those that did not (49%). Businesses located in low crime areas were more likely to be insured (59%) than those in high crime areas (51%). Just over a third had successfully claimed against insurance following incidents of crime. Respondents who were not insured generally resorted to reserve funds if required.

Psychological impact

Negative psychological impacts of exposure to crime were evident. Crime had very seriously affected the ability of 17% of business owners and 22% of employees to return to work; 16% of business owners were very depressed or lacked motivation; 14% were very much less productive; 11% experienced great difficulty in interacting with customers or clients; 9% had experienced very high staff turnover.

Reporting of crime

Only 64% had reported crimes to the police. The rates of non-reporting were 38% for burglary and 14% for robbery. A third said the incident was too minor to report; and 22% said the police would not be interested. Among those who had reported crimes to the police, 46% stated that they were satisfied with the service received from the police, and only 25% indicated that arrests had been made. Fifteen percent had reported incidents to community structures (including private security).

10 Conclusions and recommendations

Reporting crime incidents, improving data collection and public relations

More effective policing, better police visibility and area coverage, faster response times, and better communication between police and crime victims, is essential. Business owners must be persuaded to report *all* crimes, regardless of whether they are regarded as serious or worthy of an insurance claim. Victims of crime should be received positively at the police station, and leave confident that their case has been taken seriously. Official crime data collection should be enhanced. There should be better follow-up from the police following reporting.

A working relationship between the police and the community

Business people indicated that they should work proactively with police to address crime and community safety issues. Community Policing Forums (CPFs) appear to be a promising mechanism to achieve this. However, it is difficult for small business owners to find time to participate. They should be persuaded to move beyond an immediate problem-centred approach, toward building relationships of trust based on ongoing involvement to help reduce crime in their areas of operation.

Environmental design and urban infrastructure

Town planning and environmental design is a key factor in making urban areas easier to police. This includes adequate, reliable street lighting; spacious taxi ranks; and demarcation of secure trading areas for informal traders, with less scope for overcrowding and criminal activity.

Sharing responsibility for the neighbourhood

Incentives can be used to induce businesses to take responsibility for the vicinity in which they operate. They can be encouraged to examine the factors that contribute to crime in their area (e.g. illegal shebeens, derelict buildings), or circumstances

that could impact on the safety of their employees when travelling to and from work and consider ways to mitigate risk. A municipal rates rebate for businesses that commit to cleaning up the surrounding area could be introduced.

Security arrangements

Many small businesses minimal or ineffective security, and are reluctant to invest in even basic burglar proofing because of the expense involved. The DTI should subsidise once-off security costs and business plans should include mandatory crime risk analysis and relevant security measures.

Insurance

A minimum level of mandatory insurance for small businesses above a certain threshold should be considered. Government could work with insurance companies to develop an appropriate product, probably requiring some subsidisation.

Minimising cash transactions

The banking sector and small business representatives should work together to enable even very small businesses to reduce the levels of cash they hold on the premises. Efforts may include wider use of credit card facilities (charges may have to be waived for small businesses), drop safes, and more frequent banking.

Collaborative multi-agency approaches

The departments of Justice and Correctional Services should formulate joint solutions around conviction rates. Public education campaigns to improve moral attitudes and ethics should be undertaken by the police and schools.

Specific focus on businesses in townships and informal settlements

Effective and accessible victim support is essential. Business owners operating in townships and informal settlements are the most disheartened and discouraged by crime and most likely *not* to invest in or grow their businesses owing to the threat of crime. Clean, well-signposted streets, well maintained public spaces and secure parking, and visible policing would encourage patrons and suppliers back to such areas. Insurance would provide protection against the risk of closure.

11 Evidence of use

Recommendations are still being implemented by Business Against Crime and the South African Police Services.

12 Note on quality of report

The overall quality of this report has been rated a 3.66 out of 5 on the scale applied to assess the quality of government evaluations [EQAT]. The TOR were executed and the surveys in three metropolitan areas yielded a rich dataset upon which future policy planning can be based. The study was comprehensive and will serve as a baseline for further tracking of crime in the small business sector and for comparative purposes in relation to crime in other sectors of South African society.