UNDP

Growing Inclusive Markets

Business Works for Development ● Development Works for Business

CASE STUDY

Sub-Saharan Africa • South Africa

Tedcor: Profitably creating sustainable enterprises while enhancing government service delivery

Prepared by • Michael Goldman

Sector • Waste Management

Enterprise Class • MSME

Executive Summary

Although South Africa has made significant progress over the past 15 years in redressing the political, social and economic inequalities that existed under apartheid, a number of serious developmental challenges still face the country. As one of the three layers of government, the local government municipalities play a critical role in delivering on the mandate of the government. A recognized lack of capacity in municipalities, however, has hampered service delivery, including the provision of waste removal services that are important contributors to the community's health and environmental well being.

The Tedcor business model is based on being an intermediary between local residents who want to create their own enterprises, municipalities who want to award large-scale waste management tenders to local contractors, banks who want to fund large-scale vehicle purchases for emerging black-owned enterprises, and commercial truck manufacturers who want to sell a large number of trucks to black-owned enterprises. By providing ongoing financial and business support, and certified training, to community contractors that are owner-drivers of fully-funded waste removal vehicles, Tedcor has been able to successfully compete for multi-year municipal waste management contracts.

Operating in the often difficult municipal tendering environment, Tedcor has invested heavily in gaining a deeper understanding of and access to procurement processes and decision-makers. Tedcor's for-profit status has presented an interesting challenge in attracting donor funding for the training and social responsibility of the model, while their non-traditional corporate structure has created difficulties in fully acknowledging their black economic empowerment status.

Thus far Tedcor has created waste management enterprises for 120 community contractors, some of which have gone on to use the capital accumulated through their businesses to create other enterprises. Within the R1 billion (US$133 million) private sector subcontracted municipal waste management market, Tedcor currently holds 10%. Through the monthly drawings of the community contractors and the salaries of their local workers, as well as the monthly spending on vehicle consumables in the community, approximately 80% of the revenue received from a municipality is reinvested in that municipality.

Introduction

South Africa's poor often live in under-serviced areas that in some cases have not improved dramatically since the end of apartheid in 1994. In addition to the pressing challenges of job creation, and provision of housing, water, sanitation and electricity, these communities often also face health and environmental issues from a lack of waste removal.

The adequate provision of waste management in a municipality requires significant capital investment in equipment, as well as responsible supervision and management to ensure acceptable levels of service delivery. Many of South Africa's municipalities are under-resourced in terms of funding and staffing, and are not able to rely on substantial municipal rates from residents. A new business model was thus required to provide affordable, efficient and sustainable waste management services.

The Tedcor model, developed and refined by entrepreneur John Houghton, makes use of entrepreneurs and employees from the local community, an enhanced funding arrangement, an extensive training programme, and ongoing financial and business support to ensure that municipalities achieve their service delivery goals while creating sustainable local enterprises. Tedcor sources and screens the previously disconnected stakeholders that they negotiate into a business relationship, including community contractors, municipalities, banks and truck manufacturers. They also manage, train and support the community contractors to enhance local service delivery.

Market and Location Context

Since 1994, the African National Congress (ANC)-led democratic government in South Africa has promised a 'better life for all', including adequate housing, access to water, electricity, sanitation, education, health care, decent transportation, and economic opportunities. Although significant progress has been made in redressing the inequalities of the past, including the provision of piped water to over 12 million people in the post-apartheid era[3], unemployment levels in all six metropolitan municipalities and most of the 46 district municipalities still ranged between 26% and 50% at the end of 2007.[1]

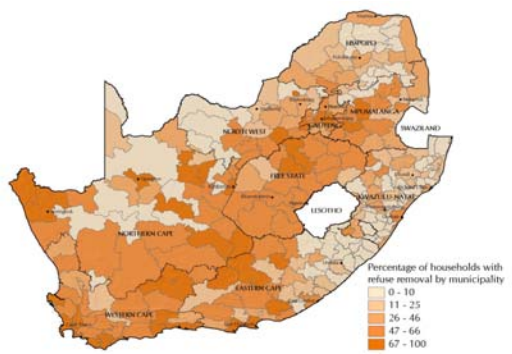
Towards the end of Thabo Mbeki's second term of office as President in 2007, the ANC advanced the view of a developmental state, in which the *"organisational and technical capacity of the state to implement its programmes therefore needs to be developed."*[2] A developmental state captured the idea of a *"dynamic state determined to advance economic*

[1] State of Local Government in South Africa: Overview Report. (2009) Cooperative Governance & Traditional Affairs

[2] Hemson, D., Carter, J. and Karuri-Sebin, G. (2008) Service delivery as a measure of change: State capacity and development. In State of the Nation. HSRC Press

growth and modernisation while addressing the issues of poverty and inequality."[3] It has been argued that the most useful measure of state capacity is improved service delivery, which along with promoting social and economic development and a safe and healthy environment, are among the key constitutional objectives for local government municipalities.[4] Core to this thinking was the value of *"investing in the basics – by providing good quality cost-effective services and by making the local area a pleasant place to live and work,"*[5] including the delivery of water and sanitation, waste removal and electricity.[6]

By 2009 however, local government was *"showing signs of distress"*[7] with only six out of 283 municipalities receiving unqualified audits opinions for 2007/2008[8], and at least 85 municipalities with debtor levels higher than 50% of their own revenue.[9] Over 40% (5 million) households still did not have access to adequate refuse removal, including the weekly removal of waste by local authorities or private companies, and there were increasing calls for *"creative responses… such as partnering with civil society, private sector and shared services options."*[10]



Municipal refuse removal - *Source: State of Local Government in South Africa: Overview Report. (2009) Cooperative Governance & Traditional Affairs*

The funds spent on solid waste removal at local government level is approximately R10 billion (US$1.3 billion) per year, of which R1 billion (US$133 million) is subcontracted to private sector companies.[11]**Error! Bookmark not defined.** Given the strength of the public sector union in South Africa, the remainder of the budget is managed by each municipality's own waste management service, employing public sector workers as managers, drivers and loaders. Most of the private sector municipal waste management market is characterized by a number of smaller single-contract operators. Across South Africa, about

---

[3] Ibid.

[4] State of Local Government in South Africa: Overview Report. (2009) Cooperative Governance & Traditional Affairs

[5] RSA (1998) The White Paper on local government. Pretoria: Department of Constitutional Development.

[6] Nel, E. and John, L. (2008) The evolution of local economic development in South Africa. In State of the Nation. HSRC Press.

[7] State of Local Government in South Africa: Overview Report. (2009) Cooperative Governance & Traditional Affairs

[8] Shiceka, S. (2009) Statement by Minister of Cooperative Governance and Traditional Affairs, Sicelo Shiceka on operation Clean Audit 2014 to Parliament of South Africa. Department of Cooperative Governance and Traditional Affairs. Available at http://www.dplg.gov.za.

[9] State of Local Government in South Africa: Overview Report. (2009) Cooperative Governance & Traditional Affairs

[10] Ibid.

[11] Victor Nemukula, 18 November 2009, Johannesburg

8.8 million tons of domestic waste required collection and disposal in 2005.[12] It was predicted that this amount would increase to at least 10 million tons by 2010.[13]

The consequences of infrequent collection of household waste include the decomposition of waste in informal dumps within residential areas, which become "*attractive feeding and breeding sites for flies, which are vectors for various pathogens, as well as rodents and rodent fleas.*"[14] These sites also pose a safety risk due to sharp objects and possible hazardous materials. Unmanaged waste dumps contribute to pollution of surface water and soil and reduced quality of life due to odour problems and aesthetic degradation.[15] After housing, water, sanitation and electricity, waste management was seen as fifth in the order of critical service priorities for the South African government.[16]

Description of the Business Model

Two years before Nelson Mandela was inaugurated as South Africa's first democratically elected President in May 1994, Mr. Billy Hattingh, a local entrepreneur, established a township waste removal community project. Hattingh's model employed local community members using tractors and trailers to fulfil municipal waste management contracts. By 1996, when he "*wanted to go farming,*"[17] Hattingh had three fulltime employees and 26 community contractors operating in Kimberley (an urban middle-income residential and commercial town), Shoshanguve (an urban township), Orange Farm (an urban township), Ivory Park (an urban township) and Port Elizabeth (an urban middle-income residential and commercial city).[18] His funding institution at the time was First National Bank (FNB), which had recently contracted Mr. John Houghton as a consultant as they were "*looking to see where they could make a difference,*"[19] in South Africa's disadvantaged townships. Hattingh had intended franchising the model and Houghton expressed an interest in owning one of the franchises. The franchise option did not take off and Houghton then purchased the business, invited Hattingh's management team to join him and founded The Entrepreneurial Development Corporation (Tedcor) in 1996.

Houghton grew up in the United Kingdom before working in a number of project and construction management roles in the chemical, mineral, and paper and petro-chemical fields in the UK, Belgium, Venezuela and South Africa, including being responsible for a number of

---

12 Department of Environment and Tourism. State of the Environment Report. Available at: http://soer.deat.gov.za/themes.aspx?m=369

13 Ibid.

14 City of Johannesburg. State of the Environment Report 2008. Available at: http://www.joburg-archive.co.za/2009/pdfs/report_evironment/enviro_waste_man.pdf

15 Ibid.

16 Houghton, J. (2008) A new model of waste management. Relief and Development, 45-49.

17 John Houghton interview, 6 October 2009, Johannesburg

18 John Houghton e-mail correspondence, 13 December 2009

19 John Houghton interview, 6 October 2009, Johannesburg

companies within the Anglo American Corporation of South Africa. After leaving industry in 1996, he consulted to a number of organisations, including Anglo American, Business Against Crime, and FNB. Houghton believes that he had *"had such a good life in South Africa and had spent quite a bit of time in the townships and [he] had seen the need… somebody has to do something and you can't get paid for everything that you do."* He admits: *"I don't know why I suddenly woke up and felt I want to make a difference, but I have always done something… it just seems to me that it doesn't take much to be generous."*

Reflecting on his motivation to build Tedcor, Houghton argues, *"If we look at the needs in the township most people are saying it is education… Yes, that is true, but we need to generate jobs because if you can get people to work, the other things will follow."*

Tedcor is currently working to be an *"innovative and enterprising partner in the management of waste as a resource."* This vision captures the two objectives of the organisation – to build a sustainable waste management business, and to *"create entrepreneurs who can compete and operate on their own."*[20] It also captures the emerging enhanced environmental objective of recycling and creating additional value from waste. *"There is a passion here, a passion for the environment, for waste and for development, and the reward you get is not always a bag full of money, it is in changing the life of somebody. I am changing this person's life from being underemployed to being an employed person who owns his own business, who develops from a shack to a proper house, a structure – something that is emotionally close to every person's heart."*[21]

BUSINESS MODEL EVOLUTION

The first development introduced by Houghton was to employ his own accountant and bookkeeper and create a separate financial file for each contractor – as opposed to Hattingh who had employed a traditional accounting firm to manage the finances, which was done through one account where according to Houghton all the contractors' money was *"mixed up"*, with a tendency for *"cross-funding of contractors."* In another departure from Hattingh's model where everything was paid over immediately to the contractor, Houghton's bookkeeper would sit down with each contractor every month to decide on relevant expenses and available contractor drawings (there are now 15 contractors allocated to each bookkeeper). This professional monthly financial and business support was introduced after Hattingh's previous experience of some community contractors using all of their first month's revenues to purchase expensive personal vehicles instead of allocating sufficient cash to the month's running expenses and future budgeted expenses. The Municipal Finance Management Act No. 56 of 2003 (MFMA) stipulates that approved invoices should be settled within 30 days of receipt. Tedcor invoices the municipalities at the end of the month in which the services were rendered, thus requiring each contractor's financial file to hold at least 60 days worth of cash flow.[22]

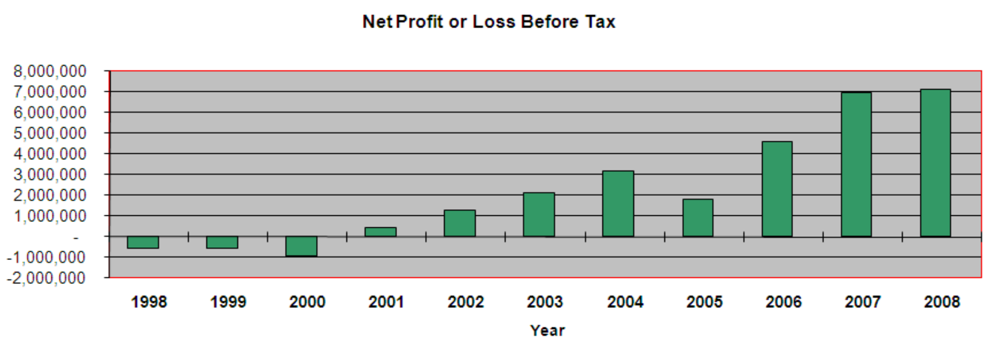
---

[20] Portia Maurice interview, 19 October 2009, Johannesburg

[21] Dolly Shosha interview, 20 October 2009, Johannesburg

[22] Jaco Botha interview, 11 December 2009, Johannesburg

Although the tractors and trailers in Hattingh's original model were more affordable to purchase, they were expensive to maintain, and had limited capacity and longer turnaround times travelling to and from, and disposing waste at one of the 760 municipal landfill sites in South Africa.[23] Houghton thus quickly shifted the business model from tractors and trailers to trucks, significantly increasing loading capacity, the number of households that could be served by each vehicle, and decreasing the turnaround time to landfill sites – which are currently visited about twice a day per truck, depending on the size of the area.



Tedcor loss/performance – *Source Tedcor*

Tedcor arranges both the finance and vehicle for the contractor, who then signs the asset finance agreement with the bank, and signs the sale and maintenance agreement with the commercial truck manufacturer. Houghton needed to finance Tedcor's overdraft of R1.6 million (US$213,000)[24] but further negotiations with First National Bank and Rand Merchant Bank saw RMB Corvest, a private equity firm within the newly created FirstRand Group, take 62% of the shares in Tedcor and the overdraft was written off. Houghton was then free to open funding discussions for the vehicle with other banks, including Standard Bank who agreed to fund the full value of the vehicles plus the 14% value added tax. After winning their first new tender for 14 trucks in the Boksburg municipality, and taking the vehicle discounts from the manufacturer, the input credit on the value added tax, and the dealer's commission from the bank into account, Tedcor was able to reach a positive cash flow and begin operating commercially. Up to this point Houghton had worked for two years without pay and had funded the buyout of Hattingh by himself. Houghton was also able to buy out RMB Corvest when ex-politician and businessman Popo Molefe purchased their shares to become Tedcor's Black Economic Empowerment partner.

---

[23] Jaco Botha interview, 11 December 2009, Johannesburg

[24] Initially FNB was considering taking a 20% stake in the business to cover Tedcor's overdraft and was looking to only lend the net cost of the vehicle, which did not leave any funds for working capital. FNB finally decided against taking a share, after a change in policy following the merger of their shareholder American Corporation of South Africa Limited's financial interests with RMB Holdings Limited in 1998 to form the FirstRand Group.

After purchasing vehicles from a few commercial truck manufacturers, Tedcor has recently negotiated more favourable commercial arrangements with MAN Truck & Bus (S.A.) and now sources all contractor waste removal vehicles from them.

The Tedcor model has evolved further from recruiting contractors that could just read and write to now requiring that the applicant has graduated from the final year of high school, which means they would have completed at least 12 years of schooling. Tedcor has realised over the past 16 years that a slightly more qualified person is required to master the extensive training programme that contractors receive once they are selected as a Tedcor community contractor, and are required to pass to remain with Tedcor. The cost of the training programme, which is delivered over the duration of the 3-5 year municipal contract, is borne by Tedcor, facilitated by Roelof van Rooyen, Tedcor's Human Resources Development manager, and accredited as a learnership by the University of South Africa (UNISA). The South African government created the learnership concept as a work-based learning programme that combines theory at a college or training centre with relevant practice on the job, and leads to a nationally recognised qualification that relates to an occupation.[25] The Tedcor Learnership in Business Management includes the following curriculum:

Tedcor Learnership in Business Management Curriculum

Fundamental courses	Core courses	Selective courses
Communication in English (24 credits)	Small Business Management (12 credits)	Meeting procedures (3 credits)
Information Management (12 credits)	HR Management (12 credits)	Driver training (3 credits)
Financial Management (12 credits)	Operational Management (12 credits)	HIV/AIDS training (3 credits)
	Basic Waste Management (12 credits)	Disciplinary hearing procedures (3 credits)
	First Aid levels 1 & 2 (6 credits)	Management of grievances (3 credits)
	OHSA (6 credits)	CCMA procedures (3 credits)
48 compulsory credits	60 compulsory credits	12 credits required for total of 120 credits for certificate

Source: Tedcor

A Quality Management System, that captures each contractor's service levels, measures on-the-job performance. The monthly service levels measured include the cleanliness and roadworthiness of the vehicle, and the state of the uniforms and safety equipment. The service levels also include the performance of the vehicle against the contract. Tedcor pays a bonus of

[25] RSA GCIS (2008) Learnership Policy. Available at www.gcis.gov.za/aboutus/hr/learn_pol.pdf

Cleanliness standards poster at Wadeville depot – (*Photo credit Michael Goldman)*

up to R3,000 (US$400) to each contractor every three months, based on the service levels achieved. Should a contractor not score 100%, and therefore only receive the relevant percentage of the bonus, the balance is given to the contractor in cash *"to take to the local school and hand it over to the headmistress… and he feels really good in front of his kid, while knowing that he is not being marked down for increase our profits."*[26]

A basic medical check-up is also now a prerequisite, after some tough lessons were learnt with a previous contractor who, after some time, was found to be virtually blind. Another shift in the business model and approach has been the move away from totally unemployed people as contractors. Although appealing from a socio-economic perspective, the business has learnt that they might be unemployed because they are *"unemployable or they are not good employees."*[27] Houghton recalls having to end the relationship with three contractors, out of 120 over the past decade, due to negative and destructive attitude problems. A track record of employment, even if it means the person is currently between jobs, is now also an important requirement.

In order to strengthen Tedcor's ability to overcome local government tender process challenges and compete more effectively for new municipal contracts or manage existing contracts that have been *"going upwards, downwards, forwards, backwards with nobody taking a final decision,"*[28] an experienced marketing and sales executive, Mr. Victor Nemukula, was hired as a dedicated Business Development Director in 2007. He has assisted Tedcor in segmenting the municipalities in South Africa into those that are 'viable' for outsourced waste management and those that are not, mainly due to lack of financial resources, capacity and trade union control. This investment in removing or reducing the market constraint has taken the form of building relationships with relevant people at multiple levels in local government and as stated by Nemukula being *"close to your prospective customers, and I mean very close,"* by making numerous presentations to many committees.

As soon as he identifies a 'viable' municipality, Nemukula begins building relationships with the senior decision makers in that municipality. His first focus is the Head of Department of Environmental Management, who he hopes will act as a champion… somebody who understands your business modus operandi, someone who believes in your business. Should that presentation go well, Tedcor may be invited to present their model to the Management Committee, including the Municipal Manager and his senior management team. The next presentation would be to the sub-committee on Environmental Management, which includes

---

[26] John Houghton interview, 6 October 2009, Johannesburg
[27] John Houghton interview, 6 October 2009, Johannesburg
[28] Jaco Botha interview, 20 October 2009, Johannesburg

political councillors. If Nemukula is able to get the support of that committee, then he may be invited to present to the Mayoral Committee, which includes the Mayor and his Cabinet. Should the Mayor not be in a strong enough position to make a recommendation to the Council, Tedcor may need to make another presentation to a full sitting of the Council. Each presentation needs to be an item in the agenda for the next scheduled meeting of that specific group, often resulting in a timeline of over 12 months. Once the Council is comfortable with the model, the Department's Specification Committee drafts the requirements for the tender and issues the tender through the Supply Chain Management Department.

Companies have 21 days from the tender notice to submit their documentation. Once the deadline has passed, municipal officers open each tender in the presence of the tendering companies and announce the price per tender, which is typically valid for a period of three months. The tenders are first evaluated by the relevant department, who presents their recommendation of five short-listed companies to the Evaluations Committee, which is then advised by the Supply Chain Management Department regarding compliance with procurement rules. The Evaluations Committee then recommend a winning bidder to the Adjudication Committee. When they are satisfied, the recommendation is forwarded to the Municipal Manager for signature. If the tender is awarded (municipalities reserve the right to cancel a tender without reason), the contract normally commences after one month.

In terms of the regulatory environment governing municipalities, the MFMA took effect in July 2004 and changed the default maximum contract term for tenders from five years to three years, in order to reduce the debt risk facing municipalities whose budgets may not be able to cover future financial obligations. This has impacted some of Tedcor's existing contracts and delayed or complicated some of their more recent ones. Houghton and his team have responded by adapting their model to allow for contract extensions, as well as shorter-term contracts using existing contractors.

A change in the focus from a strong social commitment to also include a more profitable and sustainable one in the commercial waste sector was captured in the subtle, but important change in the meaning of the Tedcor acronym from The Entrepreneur Development Corporation to 'The Enterprise Development Corporation' and the payoff line change from 'driving empowerment' to 'customized waste management'. Houghton acknowledged that the use of the term 'entrepreneur' might be a little overstated and believed that *"once they leave us, that is the point at which you can know as to whether they will become entrepreneurs or not… and I think that is the kind of philosophical shift that we wanted to make. But we are making a contribution to developing their enterprises."* He argued that *"we are able to offer people the tools to become entrepreneurs but we can't claim that when they are with us they are entrepreneurs, although they obviously manage all aspects of their own business."* Houghton stated that the objective of Tedcor is to *"create independent contractors,"* although there is an inherent conflict between investing in contractors so that you can retain them for future contracts and be more profitable, while also investing in them so that they can leave you and possibly compete directly with you. In the few occasions where this has happened, the trade-off is negotiated through the increased use of joint ventures with contractors who have 'graduated' from Tedcor.

CONSTRAINTS OVERCOME

Houghton describes himself as a 'green person', someone who always searches for the opportunity or advantage *"no matter how bad things are… it is just a question of looking."* This approach has contributed to the manner in which Tedcor has overcome some of the challenges experienced.

Understanding the market and regulatory dynamics

Tedcor's customers, the municipalities, are governed by a number of regulations, are staffed by both bureaucrats and politicians, and have been struggling to operate due in part to a lack of capacity. Research has highlighted that local government staffing structures are *"very bottom heavy,"* including 61% of staff at the lower levels of grade six or below, with an overall vacancy rate of 12% for senior managers in local government.[29] Middle and senior level municipal management positions, such as technical heads of infrastructure and chief financial officers, are not regulated. This has resulted in at least one case of a former tea lady becoming the CFO.[30] Municipalities are also showing poor ability to accurately plan and spend their budgets. Recent government analyses found that 24 municipalities overspent their operating budget to the value of R2.6 billion (US$347 million), while 166 municipalities under spent to the value of R12.3 billion (US$1.64 billion).[31] Municipal workers' strike action over the past few years has seen *"dozens of striking municipal workers trashing the streets to voice their anger and disdain for the proposed wage increase by municipal employers."*[32] Given this environment, local government tender processes have not always been transparent or widely understood.

As a company with share capital governed by the Companies Act of 1973, Tedcor (Pty) Ltd is a for-profit entity and is thus not registered in terms of Section 21 of the Companies Act of 1973 to offer any tax benefits to donors, who have expressed an interest in funding Tedcor's training programme, but then *"can't really help."*[33] Houghton's frustration is captured in his view that "*it is absurd. Would you lend money to someone who is going to lose it for you? If I don't make a profit it is not sustainable; what you should be concerned with is how much profit and the model we use… I don't understand the thinking."* To overcome this constraint, Tedcor is in the process of creating a separate not-for-profit trust for the training programme that will comply with Companies Act regulations and make it more appealing and tax efficient for local and international donors.

---

[29] State of Local Government in South Africa: Overview Report. (2009) Cooperative Governance & Traditional Affairs

[30] State of Local Government in South Africa: Overview Report. (2009) Cooperative Governance & Traditional Affairs

[31] Ibid

[32] Ibid

[33] John Houghton interview, 6 October 2009, Johannesburg

One of the prerequisites to receive commercial and municipal waste management contracts is an acceptable Black Economic Empowerment status. In order to accelerate the economic transformation of South Africa and address the racial imbalances in the private sector after apartheid, the ANC-led government proposed a Broad-Based Black Economic Empowerment (BBBEE) framework. The policy encourages companies to improve their 'score' by increasing the participation of black South Africans in the following ways:

- Direct empowerment through ownership and control of enterprises and assets
- Management at senior level
- Human resource development and employment equity
- Indirect empowerment through preferential procurement, enterprise development, and corporate social investment

Tedcor's non-traditional organisational structure, including community contractors, does not fit neatly into the existing BBBEE rating agency Empowerdex's categories. Although Tedcor achieved an 84% overall score, resulting in a favourable AA rating (level three out of eight levels), which allows organisations procuring products and services from Tedcor to use 110% of the procurement spend towards their own BBBEE rating, Tedcor lost points under the 'Skills Development' category as is was argued that they were "not training (their) own people."

Accessing sufficient quality human and financial resources

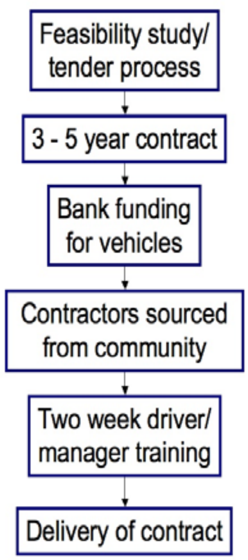
The limited knowledge and skills of the local contractors has been a constraint for Tedcor. These constraints have included basic truck driving skills, waste collection route knowledge, financial bookkeeping skills and people management skills. Tedcor's extensive training programme continues to overcome the lack of knowledge and skills. By combining resources and capabilities with others, including UNISA and MAN Truck & Bus, Tedcor is enhancing the functional and management capacity of the contractors.

The Tedcor business model relies on sufficient financial resources and services at preferential rates to fund working capital and vehicle assets. The favourable commercial arrangements with the banks, structured to finance the full value of the vehicle; and with MAN Truck & Bus, structured to receive a discount on the sale price of the vehicle, has generated enough working capital and profit margin to overcome this challenge.

A final constraint relates to the racial past and transformation of South Africa. This has led to a widespread distrust between racial groups and challenged Tedcor's approach of having a group of overwhelmingly white Tedcor directors controlling the finances of the black waste management contractors. Tedcor has overcome this constraint through ensuring totally transparent accounts, joint approval of expenses, and very accessible senior financial managers from various race groups. Tedcor's track record and the testimonials from previous and current contractors have also helped to build a strong bond of trust between the different groups involved.

THE BUSINESS PROCESS

Tedcor tenders for multi-year waste management contracts from municipalities at a fee of approximately R20 (US$2.67) per house, depending on the number of houses and layout of the area. Once the tender is awarded, Tedcor places an order for the required number of trucks from MAN Truck & Bus (including a three or five year maintenance agreement), orders the customised 30m^3 side loading, end tipping, waste storage body, and begins working with the local municipality councillors and community leaders to identify, source and select suitable community contractors: *"We had to apply, were short-listed and called for interviews"*, explains Emmanuel Lekena, one of the community contractors. Employment advertisements are included in local press and usually generate 15 times more applicants than opportunities available. Successful applicants are required to have the necessary truck and public driving permit, be a permanent resident of the relevant community, completed their final year of high school, fair communication skills in English and involvement in the local community. Previous business and supervision experience is encouraged. Most contractors are allocated a weekly route of approximately 6,500 houses and drive 3,000 to 4,000 km/month.



Business Process Diagram – *Source: Michael Goldman*

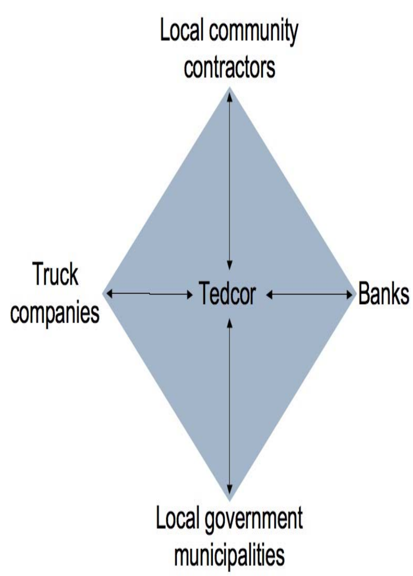
Tedcor then accesses the pre-approved vehicle finance of R750,000 (US$100,000) per vehicle from the relevant bank. The terms of the credit facility include the credit vetting and approval of each selected contractor so that finance agreements can be concluded between the bank and the individual contractors. The vehicles are therefore owned from day one, via this instalment sale, by the contractor, as part of the multi-party agreement between Tedcor, the municipality, the bank and the contractor. In the few cases where Tedcor and a contractor have ended their relationship before the end of the contract, mainly due to lack of performance, the contractor has the option to either pay off the remainder of the loan agreement with the bank and keep the vehicle, or sell it on to Tedcor – who can then allocate it to the new contractor.

The selected contractor is then enrolled in a two-week induction programme, which includes driver training in a truck simulator, maintenance training, first aid training, staff hiring and firing training, and agreement discussions with the bank and insurance provider. The contractors then work with Tedcor, as a contractual partner, for the duration of the contract, supported and supervised by Tedcor employed account managers (there are currently ten to fifteen vehicles allocated to each account manager).

Each contractor draws an agreed 'salary' of approximately R7,000 (US$933) per month. Most contractors also draw out additional funds, generated by their profits, for contributions to home improvements, holidays and personal vehicles. These additional drawings are discussed with Tedcor and take working capital and budgeted monthly expenses of team salaries, vehicle loan repayments, vehicle consumables and protective clothing into consideration. Each contractor employs 11 workers from the local community for each truck. Five of these workers are employed as litter pickers (mostly women) and six are loaders. The litter pickers move around busy commuter and commercial areas collecting and bagging litter, which is later collected by the truck as part of the scheduled household, business and school waste removal route.

It normally takes three months for Tedcor to order and take delivery of vehicles and equipment, interview and appoint contractors, plan routes, and generally *"get [their] house in order,"*[34] which means they often need to negotiate with municipalities to extend the commencement date beyond one month from awarding of tender.

The Business and its Relationships



Source: Michael Goldman

CRITICAL ACTORS THAT SHAPED THE BUSINESS

Tedcor acts as an intermediary between local residents who want to create their own enterprises, but who struggle to access required financial and management resources; municipalities who want to award large-scale waste management tenders to local contractors, but who struggle to find local residents with the track record and resources to deliver; banks who want to fund large-scale vehicle purchases for emerging black-owned enterprises, but who struggle to structure loans without sufficient collateral or guarantees; and commercial truck manufacturers who want to sell a large number of trucks to black-owned enterprises, but who struggle to do so without sufficient loan funding. Tedcor's motivation is driven by John Houghton's vision for the impact the Tedcor model can make on society. This social conscience has been the major driver of Tedcor's strategy over the past 14 years.

[34] Victor Nemukula, 18 November 2009, Johannesburg

VALUE PROPOSITION

Tedcor's value proposition to municipalities offers a proven track record of community waste collection service that is more affordable than an in-sourced solution, more effective than other providers, and that reinvests approximately 80% of its revenues into the community through the employment of 12 people per truck, the development of parks and schools, and the procurement of vehicle consumables. The cost advantage Tedcor achieves is due to the lower cost of the vehicle because of simpler specifications, and lower remuneration the contractors need to pay their team compared to municipal wages, as long as they remain owner-drivers of their trucks. Houghton believes that by paying the government stipulated minimum wage, they *"maximise the number of employed and maximise the benefit to the community, as more families are fed."* Should the contractors therefore own more than one vehicle or not spend most of their time driving their vehicle, they would have to register with the relevant Bargaining Council and follow the higher pay scales. Tedcor's model is seen as more effective than other providers due to the quality of their contractors, their integrated approach to waste collection, high service levels and performance. Their value proposition to community contractors offers residents within a given municipality a fixed income for the 3-5 year duration of the contract, while supporting them with financial and business advice, training and services to allow them to build up cash and assets.

Tedcor plays the intermediary role and contributes their commercial arrangements, financial management and training programme. The local community contractors are the main beneficiaries in the model and contribute their time and efforts meeting the requirements of the waste management contracts. The municipalities are beneficiaries of the model and also contract grantors, contributing the monthly revenue to drive the business.

Tedcor gains economic profits from the business, as well as deep satisfaction from the social benefit, which Houghton argues is part of who they are. The community contractors gain full time employment and training for the duration of the contract, as well as additional drawings or capital. The municipalities gain the profile of delivering quality waste management services, as well as the political capital from supporting local enterprises.

ACTORS' MOTIVATIONS

The motivation of the local community contractors is a combination of employment opportunities and business ownership: *"some people are managers and some people are entrepreneurs."*[35] Some contractors view the Tedcor opportunity as "*a job, they are not looking for a business because they need to make ends meet",*[36] while others don't want to work for Tedcor but "*are working with Tedcor… in a partnership"*[37] **Error! Bookmark not defined.**. The entrepreneurial contractors believe that *"if I won't go further that will make Tedcor a failure. I must go on alone, excel, and that will also show that Tedcor has done their*

[35] Dolly Shosha interview, 20 October 2009, Johannesburg
[36] Mandla Mkhize interview, 20 October 2009, Johannesburg
[37] Bella Nkosi interview, 20 October 2009, Johannesburg

job."[38] Those that are less interested in using the capital accumulated during the contract to start their own independent business are most worried about the possible non-renewal of their waste management contract by the municipality, leaving them without full time employment.

The motivation of the local government municipalities is a combination of local community enterprise development and waste management contract performance. For some municipalities, the empowerment of local contractors and creation of local employment is of significant interest, with tenders increasingly being *"based very much on our business model."*[39] Although they also require contract performance, the active participation of local contractors is a prerequisite for tendering. Others place less emphasis on local empowerment, viewing it as a nice to have.

Although MAN Truck & Bus do promote their involvement in the Tedcor model and position it as a social initiative publicly, Houghton believes that the business opportunity is appealing to them from a purely commercial basis, and that the deal is a profitable and very secure one for the banks involved, with them making a lot of money.[40] Both the commercial trucks manufacturer and financial services institutions face BBBEE pressure and it is thus likely that the enterprise development and social responsibility benefits of participating are also an interest, as their 'scores' will increase, thereby enhancing their ability to compete for new business. Adolf Moosbauer, the head of the Centurion MAN dealership that maintains most Tedcor trucks argues that *"the Tedcor concept is so simple and effective that it must be one of the purest forms of broad-based black economic empowerment (BBBEE) in South Africa today. MAN is very proud to be associated with this operation. It deserves all the backing it needs."*[41]

As with any commercial arrangement, one group of actors who attempt to hinder the success of the Tedcor model are other outsource waste removal contractors who may have lost out to Tedcor in previous tenders. Their motivation is commercial and their effect is possible negative publicity or influence within the municipality. Given the political dynamics of local government, another group of actors that could hinder the adoption of Tedcor's model are local politicians who wish to influence tender processes in favour of political supporters and *"most certainly have a lot of influence."*[42]

RELATIONSHIP AMONG ACTORS

The relationship between Tedcor and the community contractors is a collaborative one, which extends beyond a more transactional employer-employee relationship. The scope of the relationship is defined by a contract, which is used to manage any areas of disagreement or

[38] Bella Nkosi interview, 20 October 2009, Johannesburg
[39] Victor Nemukula, 18 November 2009, Johannesburg
[40] John Houghton interview, 6 October 2009, Johannesburg
[41] MAN Truck & Bus (S.A.) (Pty) Ltd. (2008) BEE waste management initiative runs on MAN reliability. Available at: http://www.man-mn.com.
[42] Jaco Botha interview, 20 October 2009, Johannesburg

poor performance. The contractor leaves the relationship with all capital accumulated within his Tedcor-managed enterprise, although many stay on to participate in possible future contracts in their municipality.

The relationship between Tedcor and the municipalities is a more transactional one between a contract grantor and supplier. Tedcor's ongoing and long-term business development activity, driven by Victor Nemukula and the team of account managers, play a significant role in gaining the support of the municipalities.

Given the high levels of unemployment and under-employment in many municipalities in South Africa, Tedcor does not struggle to attract quality prospective contractors. The open, transparent and hands-on approach of partnering with, training and supporting these contractors is a significant cost to Tedcor, but contributes greatly to the ongoing support of the contractors and the success of the model. Tedcor's main lesson in coordinating the contractors has been the importance of individual accounts and dedicated bookkeepers and project managers to assist and support the contractors, especially in financial decision-making. Tedcor's main lesson in coordinating the municipalities has been the need to invest time and people resources into building relationships within prospective municipal customers over a number of years, before a tender is even advertised.

Results Created by the Business

Tedcor has 58 trucks currently operating in South Africa, managed by community contractors in six municipalities. Over the past 13 years, Tedcor has created 120 community contractor enterprises. They are currently negotiating to operate 271 trucks in the Ivory Coast in West Africa and also have five trucks that are owned and managed by Tedcor Management, a separate division of the business that provides waste management services directly from Tedcor, without the use of community contractors. Of the approximately R1 billion (US$133 million) outsourced municipal waste management market, Tedcor has the largest market share, currently holding around 10%.[43]**Error! Bookmark not defined.** The rest of that market is characterised by many smaller single-contract operators.

ECONOMIC IMPACT

The economic results for Tedcor include a moderate profit earned from operations, a turnover of over R80 million (US$10.67 million), and full time employment for 32 employees at the Bryanston Head Office and different depots.[44]

The economic results for the community contractors include the monthly drawings of approximately R7,000 (US$933), as well as additional drawings, of an almost equal amount, or capital accumulation based on the performance of their enterprise.[45] The four litter pickers

[43] Victor Nemukula, 18 November 2009, Johannesburg
[44] John Houghton interview, 6 October 2009, Johannesburg
[45] Jaco Botha interview, 20 October 2009, Johannesburg

employed by the contractor each earn approximately R1,700 (US$227) per month. The remaining six loaders on the truck earn approximately R1,900 (US$253) per month. One of the loaders is also trained as a relief driver for when the contractors cannot drive their truck due to meetings and is then paid R2,200 (US$293) per month for those days. The comparative minimum wage for a driver in the wholesale and retail sector of South Africa would be R2,980 (US$397) per month.[46] Recent research suggests that 11million South Africans (36% of the adult population) live on an average of R1,300 (US$173) per month and are mainly located in rural areas of the country. Another 10 million people (34% of the adult population) earn an average of R2,600 (US$347) per month. These would typically be considered the urban poor. The remainder of South Africa's economic pyramid includes five million adults earning an average of R6,000 (US$800) per month and 31,000 adults living on an average of R11,000 (US$1467) per month.[47]

SOCIAL AND ENVIRONMENTAL IMPACT

Through the salaries and drawings of the community contractors and workers, as well as the monthly expenses and vehicle consumables purchased from within the municipality and a number of social projects, approximately 80% of revenues are invested back in each community. For the 58 trucks currently operating in South Africa therefore, over R1.5 million (US$200,000) is spent each month in the participating municipalities. Social projects include the creation of parks, as well as the building and funding of crèches and hospices.

Bella Nkosi and her team – (*Photo credit: Michael Goldman)*

Tedcor has only collected anecdotal evidence of its social and environmental impact and is keen to have this impact measured and tracked more rigorously in the future. The social results of the business include the empowerment of local community contractors through the creation of enterprises and in some cases the nurturing and funding of entrepreneurs. The wealth creation of the Tedcor model is often invested by the contractors in improved education for their children and upgrades to their living conditions. *"One of the contractors in Ivory Park (an urban township) used to work as a domestic assistant and today she is staying in Midrand (an urban middle-income residential and commercial area), she owns a bakkie (a pickup truck), a panel van and a house, and lives comfortably"* recalls Dolly Shosha, one of the Wadevile-based account managers. *"Another guy lives in Vosloorus in a*

[46] Department of Labour (2009) Minimum wages for employees in the wholesale and retail sector. Available at http://www.labour.gov.za/downloads/legislation/sectoral-determinations/basic-conditions-of-employment/wholesaleretail2009-2010.doc

[47] Chipp, K. and Corder, C. (2009) Where practice meets theory: defining and reviewing the bottom of the pyramid for South African marketers. International Base of the Pyramid Conference, Gordon Institute of Business Science, Johannesburg

shack. He has purchased himself a stand in Heidelberg (an urban middle-income residential and commercial area) and built himself a house, a four-bedroom house."[48]

Community contractor Bella Nkosi proudly states that now she has been able to take her two kids to school, a better school, and currently she is in the process of renovating her house. Other social results include the strong focus on women as contractors and litter pickers as they are "*more diligent than the men, they are harder working and they are more thorough."*[49] This focus contributes to the national emphasis on empowering women. The lack of women advancement in the workplace has been recognised within the BBBEE framework, is the mandate of the Business Women's Association, and is an important policy consideration of the ANC – who have attempted to maintain gender equality across levels of government. The social results also include the enhanced delivery of waste management essential services in areas that were neglected in the past.

Tedcor's current approach is to remove the waste to a local public municipal landfill, which has a significant positive impact on the neighbourhood environment. Tedcor's recent shift to viewing waste as a valuable resource for recycling further enhances this environmental impact, and contributes to the waste minimisation emphasis in the National Department of Environmental Affairs' National Waste Management Strategy.

The one trade-off Tedcor attempts to manage is the balance between social good and profitability. There is a growing sense within the business that Tedcor needs to focus more strongly on other aspects of waste management – thus the shift to a more measurable waste management commercial model. This is being attempted without losing the unique contribution to enterprise development and social good, but focusing on the structure and organisation of the business.

Growth Strategy and Future Outlook

Tedcor is well positioned to grow from this initial foundation. Nemukula has identified 40 municipalities as 'viable' prospects for the Tedcor model, out of the total of 283 municipalities in South Africa (6 metropolitan, 46 district, and 231 local municipalities).[50] Extensive work is currently underway to tender for new contracts as well as lay the groundwork for upcoming tenders. Each tender proposal takes the relevant costs of providing and supporting the service into account, thus allowing rapid scaling and limited capital implications.

With the shift from 'The Entrepreneur Development Corporation' to 'The Enterprise Development Corporation', Tedcor has focused its expected growth strategy on residential,

---

[48] Dolly Shosha interview, 20 October 2009, Johannesburg

[49] John Houghton interview, 6 October 2009, Johannesburg

[50] State of Local Government in South Africa: Overview Report. (2009) Cooperative Governance & Traditional Affairs

commercial and industrial waste management, especially in South Africa. The business is thus actively pursuing additional avenues for waste management contracts, outside their traditional municipal customer base, driven partly by the need to create a more sustainable business and partly by the challenges being experienced at local government level.

The opportunities being explored in other African countries point to the ability to replicate the model for waste removal in other emerging markets. The intermediary model that Tedcor has developed for waste management in South Africa can, with little adaptation, also be applied to other sectors that exhibit similar constraints and opportunities. One area identified by Houghton for the application of the model is farming. "*Imagine getting a whole team of people who were interested in farming and you had a farmer project manager who would look after 15 farms… and we could gear up a tractor between them and give them lectures on proper seeding, fertilizing, composting. In Rwanda, for example, 40% of the GNP comes from farming, but the bank lending to local farmers is only 5%... I mean what nonsense. And why? Because the guy hasn't got collateral. He has 15 years experience of growing food for himself and selling the excess into the market, but no collateral.*"

Growing Inclusive Markets
Business Works for Development • Development Works for Business

References

INTERVIEWS

- Bella Nkosi, Tedcor Community Contractor, 20 October 2009, Johannesburg.
- Dolly Shosha, Tedcor Account Manager, 20 October 2009, Johannesburg.
- Emmanuel Lekena, Tedcor Community Contractor, 20 October 2009, Johannesburg.
- Jaco Botha, Tedcor Regional Manager Gauteng, 11 December 2009, Johannesburg.
- Jaco Botha, Tedcor Regional Manager Gauteng, 20 October 2009, Johannesburg.
- Jappie Lekgwathi, Tedcor Community Contractor, 20 October 2009, Johannesburg.
- John Houghton, Tedcor Chairman, 6 October 2009, Johannesburg.
- John Houghton, Tedcor Chairman, e-mail correspondence, 13 December 2009.
- Mandla Mkhize, Tedcor Account Manager, 20 October 2009, Johannesburg.
- Roelof van Rooyen, Tedcor Senior HR Development Manager e-mail correspondence, 12 December 2009
- Victor Nemukula, Tedcor Business Development Director, 18 November 2009, Johannesburg

PUBLICATIONS

- Chipp, K. and Corder, C. (2009) Where practice meets theory: defining and reviewing the bottom of the pyramid for South African marketers. International Base of the Pyramid Conference, Gordon Institute of Business Science, Johannesburg.
- Hemson, D., Carter, J. and Karuri-Sebin, G. (2008) Service delivery as a measure of change: State capacity and development. In State of the Nation. HSRC Press.
- Houghton, J. (2008) A new model of waste management. Relief and Development, 45-49.
- Nel, E. and John, L. (2008) The evolution of local economic development in South Africa. In State of the Nation. HSRC Press.
- RSA (1998) The White Paper on local government. Pretoria: Department of Constitutional Development.
- State of Local Government in South Africa: Overview Report. (2009) Cooperative Governance & Traditional Affairs.

WEBSITES

- City of Johannesburg. State of the Environment Report 2008. Available at: http://www.joburg-archive.co.za/2009/pdfs/report_evironment/enviro_waste_man.pdf.
- Department of Environment and Tourism. State of the Environment Report. Available at: http://soer.deat.gov.za/themes.aspx?m=369.
- Department of Labour (2009) Minimum wages for employees in the wholesale and retail sector. Available at http://www.labour.gov.za/downloads/legislation/sectoral-determinations/basic-conditions-of-employment/wholesaleretail2009-2010.doc.
- MAN Truck & Bus (S.A.) (Pty) Ltd. (2008) BEE waste management initiative runs on MAN reliability. Available at http://www.man-mn.com.

- Pillay, T. (2004) National Treasury MFMA Circular, number 1 of 2004. Available at http://www.treasury.gov.za.
- RSA GCIS (2008) Learnership Policy. Available at www.gcis.gov.za/aboutus/hr/learn_pol.pdf.
- Shiceka, S. (2009) Statement by Minister of Cooperative Governance and Traditional Affairs, Sicelo Shiceka on operation Clean Audit 2014 to Parliament of South Africa. Department of Cooperative Governance and Traditional Affairs. Available at http://www.dplg.gov.za.

January 2010

Design: Suazion, Inc. (NJ, USA)

For more information on Growing Inclusive Markets:
www.growinginclusivemarkets.org or gim@undp.org

United Nations Development Programme
Private Sector Division, Partnerships Bureau
One United Nations Plaza, 23rd floor
New York, NY 10017, USA