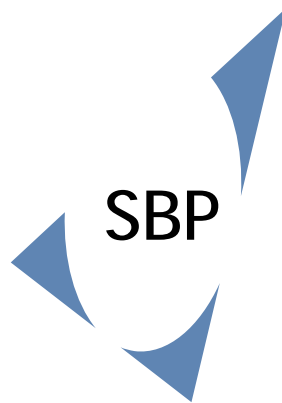


THE IMPACT OF CRIME ON SMALL BUSINESSES IN SOUTH AFRICA

A study commissioned by the
South African Presidency

EXECUTIVE SUMMARY



July 2008

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Friedrich Naumann
STIFTUNG **FÜR DIE FREIHEIT**

SBP's research team managed the project, undertook the data analysis and compiled the report. Kerri McDonald, research manager at SBP, is the principal author. Additional expert input was provided by Professor Lawrence Schlemmer and Dr Neil Rankin. MarkData (Pty) Ltd undertook the survey fieldwork.

SBP is an independent not-for-profit private sector development and research company, promoting strategic partnerships and a better policy, regulatory and operational environment for business growth in Africa. Our work combines research, advocacy, and practical business development programmes. Our projects are supported by the private sector and a variety of development agencies. SBP (originally the Small Business Project) is registered in South Africa as a Section 21 company.

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SMALL BUSINESSES & CRIME IMPACTS, COSTS, & CONSTRAINTS ON GROWTH

The survey results are highly relevant to current debates around the recently released crime statistics, and appropriate public policy responses.

Small businesses are important drivers of economic growth, job creation and black economic empowerment. The negative impact of crime on business is a major issue in South Africa. Various surveys have found that South African enterprises of all sizes rate crime as one of the top four constraints to doing business. However, SAPS data do not break down crime by the size of the business affected. While there is broad agreement that the high level of crime – and violent crime in particular - significantly constrains businesses, very little has been known about:

- how likely small and emerging business are to be victims of crime
- the types of crime they experience most frequently
- the ways in which crime constrains small business growth and development.
- and, above all, how much crime actually costs small businesses both in money and in resources.

SBP's report provides the first evidence-based answers to these questions.

The survey provides robust evidence about the experiences and perceptions of small business owners in a variety of settings in and around the three major metropolitan areas, with their different local economies and urban cultures.

The survey covered 446 small and emerging businesses, almost all owned by historically disadvantaged black Africans. The sample excluded subsistence-level activities. It provides a snapshot of the experience of firms in three urban locations – Cape Town, Durban and Johannesburg/Gauteng. The survey focused on businesses operating in five industrial sectors (retail, personal services, professional services, small manufacturing and construction) with the potential to contribute to economic growth and to support 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.

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The findings show that:

- Seventy percent of respondents said that they felt vulnerable to crime while at work
- Over half (54 percent) of the businesses in the survey had experienced at least one incident of crime in the past year
- Thirty one percent of businesses had been victimised twice or more, and almost 20 percent of businesses had been victimised three or more times
- Burglary and robbery accounted for over 60 percent of these crimes
- Crime hits both the smallest and the most successful entrepreneurs hardest. The risk of experiencing a crime incident is highest for the most vulnerable small entrepreneurs and for companies that are just on the verge of entering the 'first economy.' This is a particularly negative pattern from a developmental point of view
- A quarter of all respondents expressed reluctance or unwillingness to expand or invest in their business because of the threat of crime. In townships and informal settlements, just under a third of respondents were unwilling to invest or expand because of crime
- Observably, businesses directly affected by crime in the past year were around 20 percent less likely to have increased employment – and were 10 percent more likely to have decreased employment
- The smallest businesses in the sample can statistically expect to lose at least 20% of turnover to crime. Entrepreneurs with sales of between R15 000 and R25 000 can expect crime costs of around 8.3 percent of turnover next year. Crime losses on this scale could easily shut a business down – especially given that only 50% of businesses are insured.
- Although the largest businesses in the sample were not at risk of being shut down by the cost of crime, they nevertheless faced average annual crime costs of over R100 000 per year.

The survey provided a great deal of useful new information about the types of crimes experienced by businesses and how patterns of victimisation differ by business location and type.

It also showed very clearly the cost of crime must not be expressed only as a monetary calculation. Perceptions of crime, together with businesses' actual experiences, create considerable opportunity costs for individual enterprises and the broader economy. Furthermore, the negative psychological impacts of exposure to crime, at work or at home, were evident among a significant proportion of the sample.

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The survey

In 2007 the South African Presidency, with funding from USAID's SEGA II programme, commissioned SBP to undertake research to provide a better understanding of the extent to which crime impacts on small enterprises, and more particularly on emerging black-owned businesses. The survey covered 446 small and emerging businesses,¹ almost all of which were owned by historically disadvantaged black Africans.² The survey focused on businesses operating in five industrial sectors (retail, personal services, professional services, small manufacturing and construction) with the potential to contribute to economic growth and to support job creation. The sample largely excluded subsistence-level activities.

The survey provided a snapshot of the experience of firms in three urban locations – Cape Town, Durban and Johannesburg. 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.

While this is not a nationally representative sample, it provides robust evidence about the experiences and perceptions of small business owners in a variety of settings in and around these three major metropolitan areas, with their different local economies and urban cultures.

Business owners were asked to rate the areas in which they conducted their business, against a simple scale with three categories: 'high crime,' 'moderately high crime' or 'low crime' areas. Just over a third of businesses in the sample described their locations as high crime areas, some 40 percent said that they operated in moderately high crime areas, and 22 percent said that they operated in areas characterised by low levels of crime. Business owners operating in townships and informal settlements were most likely to describe their locations as being characterised by high levels of crime.

Perceptions of crime

Small business owners are very worried about crime. They worry about its effects on their businesses, and they feel unsafe. They are also pessimistic about any prospect of relief: two thirds do not foresee any decrease in crime levels – and indeed, over a third expect crime levels to rise even further. Burglary and robbery are particular concerns, but the business owners also worry about other kinds of crime ranging from petty theft and shoplifting to hijacking.

¹ For the purposes of the study, 'small businesses' were defined on the basis of employee numbers. Only businesses with fewer than 50 employees were included.

² In Cape Town, businesses owned by 'Coloured' people were included in the sample

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The large majority of respondents believe that popular perceptions of the dangers of crime are accurate. Over half the sample described crime as a key challenge facing their businesses. Among businesses operating in suburban areas and in townships and informal settlements as many as two thirds of respondents rated crime as a key challenge.

The perception of crime as a key challenge was higher than average among the smallest firms, with turnover below R15 000 per annum, but also at the other end of the spectrum, among larger firms with turnover above R1 million per annum.

Levels of concern were highest in the retail and construction sectors. Seventy percent of retailers – from informal traders to formal fixed premises operators – rated crime as a major problem for business, while among construction firms the figure was 67 percent.

Seventy percent of respondents said that they felt vulnerable to crime while at work. Feelings of vulnerability were particularly pronounced among owners of retail businesses of all sizes, and owners of businesses operating in townships and informal settlements. Seventy-five percent of respondents also felt that they or their employees were at risk of crime travelling to and from work.

Burglary and robbery feature prominently in people's concerns. Respondents across the sample described burglary and robbery as crimes prevalent amongst small businesses in their areas of operation. Concern about burglary and robbery were particularly high among business owners in townships and informal settlements. Inner city businesses also reported a high prevalence of burglary and robbery, but they also expressed higher than average concerns about petty theft and shoplifting. Businesses in suburban areas tended to be slightly less worried about robbery, but more worried than average about petty theft, shoplifting, hijacking and car theft.

Most respondents thought that incidents of crime against small businesses had increased in their area of operation. This response was particularly frequent among businesses operating in townships and informal settlements, and businesses operating in areas characterised as high crime. Retailers were more likely than average to report an increase in crime trends.

Asked about their expectations regarding crime trends in the coming year, 35 percent of respondents felt that it was likely that levels of crime against small businesses were likely to increase, 35 percent expected a decline, and the remainder felt that levels were likely to remain stable.

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Experience of crime

Just over half of the respondents said that they had experienced an incident of crime in the past year. This overall figure is comparable to the experience of small businesses in developed countries such as Australia, the UK and the USA. But although South African small businesses face the same overall rate of crime, the pattern is different - South African small businesses experience more serious and more violent crime.

The risks of crime appear to be highest for the most vulnerable small entrepreneurs, and for companies on the verge of entering the 'first economy' – a particularly unfortunate pattern for growth and development.

On average businesses in the sample had experienced 1.4 incidents of crime – but an average of this kind does not tell us much about the vulnerability of businesses in relation to their size, sectors or locality, or about the level of repeat victimisation. Just fewer than 20 percent of businesses had been victimised three or more times, accounting for 61 percent of all crimes experienced by businesses in the sample.

Businesses based in Cape Town were more likely to have experienced crime than firms operating in Johannesburg or Durban. Rates were higher among businesses located in 'high crime' areas – as might be expected – and also for inner city locations. The average number of incidents experienced by higher level retailers and construction firms was higher than for the sample as a whole. Larger businesses were considerably more prone to incidents of crime – experiencing an average of 2 to 3 incidents per year.

Drawing on the findings, the probabilities of particular types of business experiencing an incident of crime were calculated. The probability was found to be relatively high for the smallest firms, then declined for enterprises with turnover between R5 000 and R99 000, but increased significantly for firms with turnover above R100 000. For firms in the R800 000 to R1 million turnover band, the average probability of experiencing a crime was 3.02 – meaning that on average these firms would experience three crimes a year.

Robbery accounted for 19 percent of incidents experienced by businesses in our sample – and in the majority of cases the perpetrators had been armed. Ten percent of incidents had been accompanied by physical violence against the victims. Burglary accounted for 40 percent of incidents. Incidents of shoplifting made up just over 20 percent of the crimes experienced, while

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fraud, petty theft, vandalism, car theft and street violence together accounted for about one fifth of incidents.

The location of businesses – inner city, township/informal settlement, or suburban area – appeared to make little difference to whether a firm had experienced an incident of crime as such. However, the incidence of violent and serious crime, together with serious damage to or destruction of property, was higher among businesses in townships and informal settlements, where burglary accounted for 57 percent of incidents and robbery 28 percent. In high density suburban areas, burglaries accounted for 43 percent of incidents, and robbery for 20 percent. In inner city areas the levels of burglary (32 percent) and robbery (13 percent) were considerably lower, but crimes such as shoplifting, petty theft, bag-snatching and so on were more prevalent.

The smallest businesses appeared to be more vulnerable to robbery than the sample on average. Many of these businesses are informal traders and lack secure premises or alternatives to cash based transactions.

Burglary made up the largest proportion of incidents for the smallest and the largest businesses. Businesses in the smallest turnover category are largely informal and probably have limited access to secure storage facilities for stock or equipment and less money available for security measures. On the other hand, businesses in the highest turnover band, with sophisticated equipment on site in addition to stock, are likely to present an attractive target for criminals. They also generate more activities and thus present a broader target.

While only just over half of businesses in the sample had been victims of crime in the past year, the level of repeat victimisation among these was high. The 243 businesses that had been affected by crime had experienced a total of 578 incidents – an average of 2.4 incidents per effected business. Almost a third of businesses in the sample had been victimised more than once. Of these, 18 percent had been victimised three or more times: they had experienced an average of 4.8 crimes over the past year and – perhaps more telling – accounted for 61 percent of all crimes experienced by businesses in the sample, including 57 percent of burglaries and one third of robberies. They also accounted for 81 percent of fraud and 87 percent of shoplifting incidents. In areas characterised by high crime levels, two thirds of businesses had experienced multiple incidents of crime; and businesses operating from city centre locations were most likely to be victims of repeat crime. While location is important, the size of the business appeared to have little relation to the number of times victimisation occurred.

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This pattern of repeat victimisation has been demonstrated in comparable studies in other countries. Research in the UK has concluded that 'victimisation is the single best predictor of victimisation' and that a major reason for repeat victimisation is that 'offenders take later advantage of opportunities which the first offence throws up.' Factors which have been found to encourage repeat victimisation include the general level of crime in the area, site of the premises, operational practices and interior and exterior design.

Direct and indirect costs of crime

The survey findings show that crime can have a devastating effect on the profitability and viability of many small enterprises. The smallest businesses may be particularly vulnerable; but the actual costs for larger firms can be disturbingly high.

Crime has both direct and indirect costs. The direct costs are made up of the value of money or goods stolen and/or the cost of damage to property and goods. Indirect costs include the cost of the disruption to business/lost work hours owing to staff time off work, loss of necessary equipment or temporary closure of the business, medical expenses, loss of staff, and increased insurance premiums. Businesses also incur security costs, which can comprise a significant proportion of turnover for small firms. They must also contend with the opportunity costs of crime – which may see businesses limiting growth or staff numbers, or shortening operating hours, to try to reduce their risk of crime.

Our survey asked businesses to estimate both their direct and indirect losses to incidents of crime over the past 12 months. The mean total for firms in the sample was R15 556 *per incident*. The median was R2 250. Given that one third of the sample experienced multiple incidents of crime, the total cost of crime per year could be considerably higher for these businesses.

The likely impact of crime on a business is the probability of its experiencing an incident of crime multiplied by the costs of crime to the business if it is affected. This is often called the 'expected cost.' Given the relatively high probability of the smallest businesses being affected by crime (as noted above), it is not surprising to find that the 'expected cost' of crime, as a proportion of turnover, is disproportionately high for the smallest firms. For enterprises with a turnover of less than R10 000, the expected cost of crime, using the median cost, is at least 20 percent of turnover. For smaller firms, with turnover below R5 000, it is as much as 36 percent of turnover. The average cost of crime by turnover is greater than five percent of sales for all firms with turnover below R75 000 per annum – suggesting that crime can have a devastating effect on many small enterprises.

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While the expected cost as a proportion of turnover falls significantly for larger firms, the actual costs for large firms are disturbingly high. Firms in the R800 000 to R999 999 turnover band show mean expected costs of as much as R114 000.

In addition to these substantial direct and indirect costs, businesses must dip into their profits to make provision for security measures against crime. Security costs are an unproductive investment, driving up costs for businesses of all sizes and potentially diverting money away from expansion or investment in the business. For small businesses, these costs can comprise a significant proportion of overall spend. Businesses in the sample were asked to estimate their costs for security such as surveillance cameras, burglar guards and armed response. Based on the responses of the sample as a whole, the average once-off security costs for businesses – covering alarm installation, purchase of tracking devices for vehicles, installation of security mechanisms and so on – are approximately R10 000 per firm. In addition, businesses incur average annual recurring security costs of about R10 800 in payments to service providers. A quarter of businesses had increased their spending on security in the past year owing to fears about crime.

Opportunity costs of crime

The study found clear evidence that the impact of crime on small businesses goes beyond monetary costs. Perceptions of high levels of violent crime, together with businesses' actual experience of serious crimes such as robbery and burglary, create considerable opportunity costs for individual enterprises and the broader economy. Because of crime, many businesses limit their operations, and are reluctant to expand. Statistical analysis of the survey data shows that businesses that have been directly affected by crime are less likely to increase their employment.

In addition, businesses have to contend with the effects of fear of crime among customers/clients and suppliers, which can result in loss of passing trade and in difficulties accessing stock. A third of respondents said that crime had impacted on how they do business. Businesses reported efforts to reduce the levels of expensive equipment and stock they keep on their premises and the avoidance of cash transactions where possible. While only 13 percent of firms across the sample had made changes to their operating hours to reduce risk of crime, the figure among firms who had experienced an incident of crime in the past year was 20 percent.

A quarter of respondents said that they were unwilling or reluctant to invest in or expand their businesses owing to concerns about crime. Individuals expressed concern about buying

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equipment only for it to be stolen, and several suggested that the money was better spent on increasing security instead. Businesses in townships and informal settlements and those located in 'high crime' areas expressed the greatest reluctance to invest in their businesses owing to concerns about crimes.

This reluctance to grow was reflected in employment figures for firms in the sample. Businesses that had been affected by crime were found to be 17 to 22 percent less likely to increase employment.

Almost half the businesses said that fear of crime among their clients or customers had had a negative impact on their businesses. This figure was particularly high in townships and inner city locations. Nearly 30 percent of respondents said that their businesses had experienced a loss in passing trade as a result of crime in the area. The figure among retail firms was significantly higher. Forty percent of respondents overall felt that their access to supplies and deliveries had been negatively affected as a result of concerns about crime, while among respondents in townships and informal settlements the figure was 60 percent.

Just under a quarter of respondents – mainly retailers – felt that their businesses had suffered as a result of competition from the sale of stolen goods. This issue was of greater concern to respondents in townships and informal settlements and in areas perceived as being characterised by high levels of crime.

Crime and business sustainability

Given the significant cost of crime for businesses in our sample, there is a distinct possibility that a single severe crime incident, or repeated victimisation over a short period of time, could result in a business closing down. Through contact with the survey respondents, the researchers identified 42 former business owners who said that they had closed their businesses primarily because of crime. About half of these were formerly located in townships or informal settlements, and most were in the retail sector, representing a wide range of turnover bands, from R10 000 to R5 million per annum. Most of these entrepreneurs had closed their businesses following incidents of burglary or robbery, and one third had experienced armed robbery accompanied by violence. Eighty percent had experienced several incidents before closing down.

Among firms in the main sample, half did not have any insurance cover in the event of a crime incident. These respondents generally reported that the costs of insurance were too high and/or that they could not afford to insure their businesses. Firms in inner city and high crime areas

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were least likely to be insured. Asked how a serious crime incident would impact on their business, most of those who were uninsured said that they would rely on loans or credit or money from family or networks. Twenty percent of uninsured respondents felt that in the event of a serious crime they might have no option but to close their businesses.

Psychological impacts of crime

In a crime-ridden society, the impact of crime on individuals is cumulative. Business owners are vulnerable to crime both at work and in their personal capacity. Almost a quarter of respondents – some 100 individuals – had experienced an incident of crime in their personal capacity during the past twelve months, while several had experienced multiple incidents. A third of these respondents' homes had been broken into, and a quarter had been victims of an armed robbery at home. Eleven percent had experienced street violence and sixteen percent had been subject to petty theft or muggings. Just over half of these respondents said that their personal experience of crime had impacted on their ability or motivation to run their business; while just under half reported that crime experienced in their personal capacity had impacted on the financial viability of their business.

The negative psychological impacts of exposure to crime, at work or at home, were evident among a significant proportion of the sample, particularly those who had experienced more serious incidents such as robbery and burglary.

Over a quarter of respondents said that their experience of crime had manifested in depression and/or a lack of motivation at work. Similar numbers reported a reduction in their productivity at work as a result of their exposure to crime, and a quarter said that they had experienced difficulty returning to work following an incident. Respondents in townships reported higher than average levels of psychological trauma – in line with the higher levels of robbery and burglary, and higher levels of violence associated with crimes experienced by businesses operating in these areas.

Psychological trauma was particularly evident among business owners operating in high crime areas – where forty percent of respondents reported severe or very severe difficulty returning to work, together with depression and/or a lack of motivation following a serious crime incident. Lower level retailers – the group least likely to have protection against crime while at work – also reported higher than average psychological trauma in the aftermath of crime incidents.

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These psychological effects were of course not limited to business owners themselves. Just under a quarter of respondents reported that their staff had experienced difficulty returning to work, as well as reduced productivity and effectiveness following exposure to crime.

Reporting crime

International studies in developed countries show a tendency for small businesses to under-report crimes against their businesses, often in the belief that the police will not take crimes against small businesses seriously. There is also a tendency for reporting levels to be low among businesses that are not insured. Interestingly, our survey showed relatively high rates of reporting. Two thirds of respondents said that they had reported at least some crimes against their businesses to the police.

Reporting rates were lowest in 'low crime' areas. This may reflect the prevalence of less dramatic crimes such as shoplifting, petty theft and staff theft in these areas. Across the sample, forty percent of respondents did not report incidents of shoplifting, while petty theft, staff theft, fraud and use of counterfeit money went largely unreported.

Surprisingly, rates of under-reporting for burglary and robbery were relatively high. Thirty-eight percent of respondents had failed to report one or more incidents of burglary against their businesses, and 14 percent had not reported incidents of robbery. The main reasons given for non-reporting were that the incident was too minor (38%), together with an expectation of poor service from police (22%). Respondents in high crime areas were most likely to criticise the police.

Among those who had reported crimes to the police, only 46 percent were satisfied with the response from the police at time of reporting. This figure dropped to one third among businesses in high crime areas. Reasons cited by respondents for lack of satisfaction included police incompetence and inefficiency, and that police did not appear to gather the sort of information required to produce results. Over a third of the respondents who had reported a crime were very dissatisfied with police follow-up of their case. Reasons included lack of results, police inefficiency, lack of feedback, and delays in police response. A quarter of respondents were aware of arrests arising from the cases brought by them to the police. Only 12 percent of respondents were aware of arrests having resulted in convictions.

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Recommendations

Various recommendations emerged from respondent's comments elicited by the survey, as well as the more focused discussion in three regional workshops at which the survey findings were presented to a range of stakeholders. These recommendations are specifically concerned with the situation of small businesses.

Stakeholders across the board stressed the importance of a multi-agency partnership-based approach to tackle crime at the community level.

➤ *Improve policing, and police interactions with victims of crime*

- More effective policing is needed, including better police visibility and area coverage, faster response times, as well as concentrated efforts to build public trust in the police service.
- Ensure that victims of crime experience a positive reception at the police station
- Improve communication and follow-up from the police following reporting

➤ *Improve reporting rates and data gathering*

- Develop a sustained public education campaign to persuade business owners to report all crimes
- Educate businesses on the important connection between local crime statistics and the ways in which police are deployed
- Strengthen official crime data collection, complemented by specialised victimisation surveys, to improve trend detection and identify groups most at risk
- Record data on repeat crimes more effectively
- Develop a real-time information management service, including a system for businesses to report crime incidents electronically

➤ *Involve business and the wider community more effectively*

- Encourage businesses to work proactively with the police to address crime and community safety issues
- Establish Community Policing Forums (CPFs) as extensively as possible, and consider growing these into integrated community safety forums

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- Encourage business participation in CPFs through an incentive-based approach (e.g. a government /insurance industry /private security sponsored scheme, which provides participating businesses with discounted rates for insurance and/or private security)

- *Integrate town planning and environmental design with policing objectives*
 - Reduce or eliminate environmental factors that make it difficult to police urban areas (e.g. sidewalks crowded by hawkers, congested taxi ranks).
 - Use incentives used to induce businesses to take responsibility for improving the vicinity in which they operate so as to reduce opportunities for criminal activity (e.g. a municipal rates rebate for businesses that commit to cleaning up the surrounding area)
 - Set up a single contact point (such as a call centre) to enable businesses to report matters that might foster criminal activity (e.g. overgrown vegetation, street lights out of order, shack developments)
 - Improve communication between service providers such as Eskom, the police, and private security providers, to enable law enforcement bodies to mobilise resources more effectively (e.g. currently police do not receive notification of planned load-shedding from Eskom)

- *Develop mechanisms for small business to access affordable security and insurance cover, and reduce cash transactions*
 - DTI should consider developing mechanisms to assist emerging businesses to access security (e.g. subsidisation of once-off security costs such as burglar proofing, and/or a requirement that business plans include mandatory crime risk analysis and relevant security measures)
 - Government should work with insurance companies to develop an appropriate insurance product for small businesses, possibly with a requirement for a minimum level of mandatory insurance for small businesses above a certain threshold.
 - The banking sector and small business representatives should explore ways to enable even very small businesses to reduce the levels of cash they hold on the premises

- *Implement a specific focus on businesses in townships and informal settlements*

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- The survey clearly demonstrated that victims of crime in townships and informal settlements were *more likely* to be exposed to violence and guns compared to the sample as a whole. This would suggest the importance of effective and accessible victim support, accompanied by concerted efforts to encourage business owners to improve their security arrangements, and to get involved in community policing initiatives such as CPFs and Neighbourhood Watch.
- Among business owners, those operating in townships and informal settlements are the most disheartened and discouraged by crime, and least likely to invest in or grow their businesses owing to the threat of crime. They were also considerably more likely than the sample average to feel that fear of crime among clients or customers had resulted in a negative impact on their businesses, and were also *much* more likely to say that concerns about crime among their suppliers had impacted negatively on their businesses. This underlines the importance of addressing environmental factors - such as clean, well-signposted streets, well maintained public spaces and secure parking, together with a visible policing presence - to try to encourage patrons and suppliers back to the area.
- Despite expressing considerably higher levels of concern about crime than businesses in other locations, respondents operating in townships and informal settlements were considerably less likely than the sample average to have insurance coverage. The proportion of businesses who had been turned down for insurance was also considerably higher than average in townships and informal settlements. For these businesses, the probability of closure following one or more incidents of serious crime appears considerable. It is of crucial importance to develop affordable insurance solutions for businesses in these areas, and persuading and incentivising them to take up insurance as a non-negotiable investment in the long-term viability of their businesses.