

INFORMALISATION,  
LOCAL ECONOMIC DEVELOPMENT  
& PUBLIC POLICY

A DISCUSSION PAPER

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## 1. INTRODUCTION<sup>1</sup>

The informal economy stands sandwiched between, on the one side, organised business' calls for the unequivocal embracing of the narrow economic maxims that accompany the current phase of globalisation and, on the other side, organised labour's agitation for a more pragmatic and socially responsible economic growth strategy. Whereas business romanticises the informal sector as a vehicle to generate employment and effect competitive economic restructuring, organised labour (and the traditional left in general) disputes the sector's alleged beneficence, emphasising its 'survivalist' character and sometimes even vilifying it as the gatekeeper of a necropolis of the urban poor.

Not surprisingly, at the 1998 Jobs Summit business and labour submitted diametrically opposed proposals. While the former called for higher degrees of flexibility and exemptions from regulation, the latter proposed that the informal economy be regulated and formalised. Writ large was the central question shadowing the sector: should it be made to bend and conform to a systemic, state-administered regulatory framework, or should the latter be relaxed to assume the rhythms of the sector?

The new democratic government has identified the upgrading and development of the small business economy, particularly black-owned enterprises, as a priority of post-apartheid reconstruction. It views the informal economy as a key instrument for realising several objectives, among them employment creation, economic redistribution and enhanced competitiveness. This stance is not new. Indeed, the *Reconstruction and Development Programme* (1994) stated that 'all levels of democratic government – central, regional and local – must, where possible, foster new, dynamic relationships between large, small and micro enterprises in ways that do not harm the interests of labour'.<sup>1</sup> The *RDP White Paper* (1994) expresses the belief that 'growth in employment can be enhanced through government support to small and medium-sized enterprises'.<sup>2</sup> Later, the White Paper on developing an integrated policy and support programme for small business (1995) highlighted the importance of the small-scale enterprise sector for job creation, industrial rejuvenation, improving income-generating opportunities and redressing historical imbalances in economic power.<sup>3</sup>

More recently, the informal sector has come to feature prominently in government's defence of its economic policies. Addressing the central committee of Cosatu in June 1998, then Deputy President Thabo Mbeki stated that nothing was being reported of the so-called "grey economy" of informal trading and other small-scale enterprises which, he claimed, had resulted in both job creation and growth.<sup>4</sup> According to Finance Minister Trevor Manuel, "much of the employment growth that is occurring" is not being captured in conventional statistical measurements. Government's efforts to stimulate the development of small, medium and micro enterprises is linked (though not reducible) to such thinking.<sup>5</sup>

Some other government ministers, however, seem to adopt a more circumspect stance on the issue. According to Trade and Industry Minister Alec Erwin, some job losses in the formal sector might involve casualisation of workers and subcontracting. In other words, the number of *de facto* jobless workers might be lower. At the same time, he appears concerned that this also involves the "serious ... danger of creating further divisions of rights and income inequality in the labour market".<sup>6</sup>

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<sup>1</sup> This paper is based on a longer paper by Firoz Khan and has been revised and shortened by Hein Marais and Mirjam van Donk.

Largely impervious to these perceptions and debates, the informal economy continues to grow and thrive. In its wake, policy makers, state administrators and other social actors grapple with its implications and struggle to find ways to harness its potential. Few dispute the sector's centrality to the urban future. But many disagree about whether – and how – the sector should define the organisation and administration of tomorrow's cities or even inform the reshaping of the labour regime.

International and national experience indicates that the activities of local government, rather than national programmes, may be the most critical interventions for local level poverty reduction, for addressing inequality and, more specifically, for providing an environment that maximises the potential and short-circuits the negative tendencies of the informal sector.<sup>7</sup> The aim of this document, therefore, is to inform debate amongst Councillors, local government officials and civil society organisations on the informal economy. For this purpose, it provides a conceptual framework and identifies lessons from both national and international experiences. The paper highlights and analyses the dynamics of the 'informal economy' (nationally and internationally), and proposes different policy options to enable municipalities to creatively engage with processes of informalisation.

The next section presents a profile of the informal sector in South Africa and highlights key informalisation trends and processes. In presenting this overview, it becomes clear that the informal sector harbours highly ambivalent and even contradictory potentials. In part, and in the interest of formulating appropriate policy interventions, this calls for a much clearer conceptualisation of the informal economy. Section 3 therefore focuses explicitly on defining the 'informal economy' and comments on the processes that are driving informalisation. This is followed by an overview of theoretical and policy perspectives on informalisation trends, processes and dynamics in South Africa in Section 4. A series of key problems that constrain the ability of the informal economy to grow in dynamic, positive ways is identified, accompanied by case studies on how other countries have negotiated and addressed the constraints. Policy recommendations are furnished at the end of each section for consideration by the Department of Constitutional Development. The final section of the paper summarises key policy recommendations for how municipalities can configure their development planning tools and frame local economic development strategies in ways that build on the potentially positive developmental energies of informalisation.

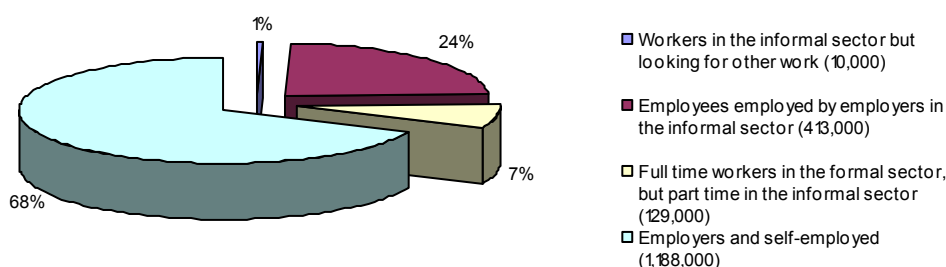
## **2. PROFILE OF THE INFORMAL SECTOR & INFORMALISATION TRENDS IN SOUTH AFRICA**

The 1995 October Household Survey calculated that 1.1 million people were either employers or self-employed in the informal sector, 413,000 worked as employees in that sector, while 129,000 people held full-time formal sector jobs while also moonlighting in the informal sector. About 86% of them were African and 7% Coloured. Other statistics suggest that there are approximately 1.74m workers active in the informal sector, which amounts to 17% of the economically active population (See Graph 1 for a more detailed profile). Together they are estimated to contribute R32.4bn per annum<sup>8</sup> to South Africa's gross domestic product – about 7% of the total value added in the economy.<sup>9</sup>

According to Simone and Santi (1998), most informal jobs are in personal services (59%), while about 22% are in trade, catering and accommodation. Fifty five percent of informal workers

earn less than R999 per month and 22% earn more than R4,000. The latter group consists of many self-employed people in higher level professions (computer consultants, etc.).

**Graph 1. Profile of 1,740,000 workers in the informal sector**



Source: Sidiropoulis, et al (1998)

The informal sector is dominated by African women who comprise almost half of the economically active citizens. Most African women are employed either in trading and retailing sectors including domestic services and rural crafts. The 1998 *Poverty and Inequality in South Africa* report found that the most disadvantaged among the self-employed are African women aged 15-24 in rural areas; of them, 80% earn less than the supplemental living level. Other research has found that more than two-thirds of African women (69%) active in the informal sector earn less than R600 a month, compared to 23% of African men.<sup>10</sup> These figures illustrate that gender discrimination is acute and pervasive in the informal sector.<sup>11</sup> These figures also serve to refute a romantic portrayal of the informal sector, which fails to acknowledge that much of the activities remain survivalist. Statistics SA figures suggest that as much as 80% of the sector is merely 'scraping' through. Average wages in this sector are below R500 a month. Citing SALDRU studies, the *Poverty and Inequality in South Africa* report (UNDP, 1998) noted that

“average monthly net return to the self-employed was R826, while the median monthly income was much lower at R200 ... A minimum of 45% of the self-employed are earning an income lower than the Supplemental Living Level (SLL) poverty line, set at R220.10 per month ... the sector contains a high proportion of the working poor who would readily take up employment in the formal sector.”

Statistics such as these cast profound doubt on the notion that the informal sector could be a vital catalyst for eradicating poverty and generating sustainable jobs. Without sweeping reforms in the broader economy, critics argue that the hopes vested in the sector are unlikely to be realised. As one commentator has observed:

“The informal economy should not be naively perceived as a solution. Indeed, some very unpopular yet necessary [macro-economic] policy options in the fight against poverty have to be affected ...The South African informal economy in its present state cannot and will not lead to economic growth culminating in the reduction of poverty.”<sup>12</sup>

It is argued by some that the high profile accorded to the informal economy in fact highlights the desultory performance of the formal economy. Since 1994, more than half a million formal jobs have been shed, according to Statistics SA. The precipitous decline in the labour absorptive capacity of the formal economy has meant that the formal economy has been unable to accommodate new labour market entrants since 1995.<sup>13</sup>

In short, the current economic growth path shows scant signs of creating the jobs needed to stave off poverty, reduce inequalities and mend a social fabric destroyed by apartheid. South Africa's rate of poverty (a measurement of the extent of absolute poverty) is 45%. In other words, 3,126,000 households or more than 18-million citizens are living below the poverty line (pegged at a monthly income of R353). In mainly rural provinces, the figure rises above 50%.

At 0.584, South Africa's Gini coefficient<sup>14</sup> is the third worst in the world. Indeed, the final 15 years of the apartheid era saw a massive redistribution of wealth from the poor to the rich: between 1975 and 1991, the income of the poorest 60% of the population dropped by about 35%. By 1996, the gulf between rich and poor had grown even more vast: the poorest quintile received 1.5% of total income, compared to the 65% pocketed by the richest quintile and the 48% garnered by the richest 10%. Also startling was the extent of poverty: in 1995, the poorest half of households earned a mere 11% of household income.<sup>15</sup>

A quarter million new jobs must be generated annually simply to ensure that unemployment rates do not rise. If new entrants into the labour market are to be absorbed, the economy has to create more than 350,000 net new jobs each year.<sup>16</sup> Meanwhile, the jobless queue is likely to grow in the near future when government steps up plans to rationalise and restructure employment in the public sector.

Although Government recognises that unemployment has become a national crisis, the authorities deny that South Africa has entered a period of 'jobless growth' – notwithstanding the fact that some business economists describe the current situation as one of 'job-shedding' growth. Officials regularly claim that jobs are being created in a host of sectors, exports are on the increase, building construction is rising, tourism is booming, and so on. For many commentators, when the government denies the phenomenon of 'jobless growth', it is touching upon a growing divergence between formal statistics on joblessness and statistics on growth. If it is true that jobs are being created, but not in the formal sector, the "only conclusion that one can reach", one journalist has remarked, "is that there must be a new, booming informal job market":<sup>17</sup>

"The presence of a second economy, running parallel to the formal economy, but outside of the tax net, unregulated by labour laws and beyond statistical measurement, could explain the discrepancy in the government's figures .... Faced with a choice between hiring someone full-time under the government's labour relations regime or taking someone on informally, business seems to be opting for the latter .... The information, communication and computer industries are already awash with those who have laptops but no tax numbers. Add to this the untaxed and unregulated informal sector and you have a thriving underground economy which may be the way in which one in five South Africans – officially the unemployed – are making ends meet .... The underground economy thrives while formal job creation dies a lingering death."<sup>18</sup>

Employment figures from the construction industry suggest that, while there was a decline in formal employment in the industry since 1994, the total number of people working in the sector did not drop. The reason is the growing use of contract labour and sub-contractors in the sector. Similar informalisation is occurring in other industries. Indeed, sub-contracting relations between formal and informal enterprises is a rapidly growing trend in the printing, silk-screening, jewellery and number-plate-industries in the PWV region. In KwaZulu-Natal, many established footwear manufacturers run parallel operations in the formal and informal sector; approximately 20% of the total production of footwear (10-million pairs of shoes a year) are

manufactured at workers' homes, outside bus ranks and in rooms rented by agents and by welfare organisations.<sup>19</sup>

In part, the growth of the informal sector therefore is also tied to the unilateral restructuring of the labour market by business, creating what could be termed a *de facto* two-tier system. Indeed, these realities have prompted the ILO to caution against conceptually stratifying the labour market into formal and informal sectors. These dualisms:

“... tend to lead to debates about the merit of removing or exempting the “informal” from regulations and of providing credit or subsidies to small-scale (informal) units on a preferential basis, paradoxically introducing arbitrary distortions into the market structure ... in reality, nothing is quite so simple. Increasingly, even large-scale firms resort to “informal” forms of employment, through sub-contracting, out-sourcing, use of casual labour and so on.”<sup>20</sup>

Globally, there is ample historical evidence reflecting well-resourced formal enterprises' use of non-unionised, low-cost labour working in invisible enterprises located in settlements of the poor. Far from being a pre-modern, pre-capitalist feature of modern civilisation existing alongside modernised capitalism, it is an integral component of modern economic systems.

A large-scale informal economy is a prominent characteristic of the majority of developing countries. In Africa, for example, about 75% of basic needs production and services of the urban population are provided by the sector. Although historically a feature of capitalist production, the informal economy has grown massively in the past two decades. This development follows on the heels of several international dynamics, including the restructuring of transnational production and the imposition of structural adjustment policies, which are associated with the steady evisceration of the formal economy, external shocks to urban formal economies, cutbacks in subsidies and often severe declines in real wages.

As a result, the informal economy is a growing and increasingly complex phenomenon in many cities in the developing world. In Latin America, the informal economy accounted for 83% of 10.1-million jobs created between 1990 and 1993. In Africa, two of every three city-dwellers earn their living in this “survival sector”, which is expected to generate 93% of additional urban jobs in the 1990s.<sup>21</sup> In almost all cities of sub-Saharan Africa (with the exception of South Africa) the majority of the urban workforce is currently engaged in a range of small-scale, informal activities such as hawking, scavenging, informal construction, small-scale production or the provision of low-cost municipal services (water distribution, transport, refuse removal, etc.). *Informal economic enterprises* – defined as small-scale, mostly family-operated or individual activities that are not legally registered and usually do not provide their workers with social security or legal protection – absorb at least half of the workforce in many large African cities.<sup>22</sup> Approximately 90% of employment opportunities in sub-Saharan Africa are said to be generated outside the modern formal sector. The International Labour Organisation estimate for the region indicates that the urban informal sector accounts for slightly more than 60% of total urban employment and about 25% of total employment.

It is important to note, however, that while employment in Africa's urban informal economy has been growing rapidly, labour productivity in the sector has been declining. Wages, meanwhile, are severely depressed and are earned in conditions bereft of regulatory protection, leading to a growing incidence of poverty and ill-health in urban areas.<sup>23</sup>



In light of global economic trends, the structural momentum toward informalisation is considerable. Yet, despite the prevalence of the informal economy in cities of the developing world, planners and policy makers are still poorly equipped to deal with the questions and challenges it poses. As one researcher has commented:

“The prevailing lack of focus on appropriate policy, planning, and management strategies concerning the IS [informal sector] is a direct result of the fact that there is no historical precedent for managing cities which are typified by the presence of vast ISs which provide the principal source of income for the majority of urban dwellers who live in large slum and squatter settlements in substandard environments. Thus, innovative solutions have to be found for the provision of basic urban services... required by the IS working poor.”<sup>24</sup>

Comparative research suggests that informalisation of work can either result in enhanced dependency, exploitation and sweatshop conditions or – contingent upon effective policy interventions – generate promising prospects for the growth of dynamic micro-enterprises. The challenge facing South African policy makers lies in designing programmes that balance the objective of maximising the job-creating and poverty-alleviating potential of informal enterprises with the necessary social protection and regulation.

It is a Herculean challenge. Sadly, the world is littered with examples of failed bids to achieve this. But even success has to be gauged modestly and realistically - for the informal sector is no universal solution to the problems of poverty, unemployment and material deprivation. Neither is it a potential generator of sustained, robust economic development. Indeed, the ILO has concluded from its cross-country surveys that “no economy has successfully industrialized or boosted its productive employment primarily or largely through a massive expansion of informal own-account or petty activities”.<sup>25</sup>

This is because the informal economy simultaneously encompasses “flexibility and exploitation, productivity and abuse, aggressive entrepreneurs and defenceless workers, libertarianism and greediness”.<sup>26</sup> It is, and will continue to be, both a potential source of opportunity and upward mobility for some households and individuals, and a ‘sinkhole’ of exploitation for many others.<sup>27</sup>

The fact that the informal sector harbours highly ambivalent and even contradictory potentials alerts us to the following, critical conundrums:

- ♦ What conceptual lessons and policy tools should decision-makers employ to respond to a sector of work, life and basic survival that encompasses both negative and positive developmental energies?
- ♦ How are development workers to engage effectively with what has come to be called in the literature and in popular discourse the ‘street economy’, ‘unenumerated sector’, ‘unstructured sector’, ‘unorganised sector’, ‘unprotected sector’, ‘subsistence sector’, ‘non-Westernised sector’, ‘shadow economy’, ‘marginal economy’, etc.? <sup>28</sup>

These critical questions inform the remainder of this paper.

### **3. CONCEPTUALISING AND CONTEXTUALISING THE INFORMAL ECONOMY**

### 3.1 Defining the informal economy

A substantial body of writing on the informal sector exists. From these one can glean several, different understandings of the sector, which are summarised in Table 1.<sup>29</sup> Whilst particular interpretations are associated with certain moments in time, these days the various interpretations tend to coexist.

**Table 1. Approaches to understanding the informal economy**

| THREE APPROACHES TO THE INFORMAL ECONOMY |  |   |  |
|--|--|---|--|
|  | <i>Social Marginality</i>  | <i>State Regulation</i>   | <i>Small Firms</i>   |
| <b>Chronology</b>                        | 1970s  | 1980s   | Late 1980s & 1990s   |
| <b>Disciplinary approach</b>             | Economic demography  | Political Economy   | Social Economy   |
| <b>Analytical focus</b>                  | Urban Poverty  | Legality of economic activities   | Social embeddedness of economic activities   |
| <b>Levels of analysis</b>                | Demographic shifts, uneven industrialisation, and their consequences for social marginality  | Legal regulation of production with reference to class politics and economic restructuring  | Interaction between local social networks and the resource environment of small firms                                |
| <b>Key concepts</b>                      | Social reproduction imperative; job creation; demographic mobility; income opportunities; overurbanisation; collective consumption | Bureaucratisation; class politics; labour control; industrial structure; sectional linkages; capital movement; economic restructuring | Entrepreneurship; domestic subcontracting; social reciprocity; resource mobilisation; associational life; networking |
| <b>Terminological preference</b>         | Informal Sector  | Informal Economy  | Informalisation  |

There is considerable debate in academic and policy-making circles with respect to the precise definition of the informal economy. Definitions have varied depending on the research question, the ideological inclination of the researcher and the target audience. Many sceptics have questioned whether the concept is at all ‘useful’ in light of the heterogeneity of the sector, the reality that households typically straddle formal and informal sectors, the often small differences between income levels in the two sectors, the lack of empirical data enabling accurate delineation and descriptions of the sector, and often incorrect assumptions of ease of entry.<sup>30</sup>

A chief cause of conceptual confusion is the fact that the term ‘*informal*’ is a negative definition, a ‘catch-all’ category for anything not considered ‘formal’. As such, the term is used to describe a plethora of diverse activities, including occupations ranging from sidewalk vending, evasion of taxes and insurance premiums, social security fraud, theft, prostitution, the sale of drugs, and computer software pirating. In the US and Europe, it is used to cover the illegal, undocumented and underground ‘shadow’ economy. In the People’s Republic of China, it is used to describe the burgeoning small-scale private sector. There is little, if any, consistency in the use of the term.<sup>31</sup>

The negative definition does not, however, mean that the informal economy is a ‘residual sector’. In fact, it is the opposite: a rapidly growing “composite economy”, constantly recreated and reorganised by changes in the wider economy and society. It is not marginal to, but an integral component of the national economy, as the statistics presented above highlight.<sup>32</sup>

Yet, the relationship between the formal and informal sector is not well theorised. Much of the ‘informal economy’ literature tries to divorce it from the formal sector and, by implication, portrays it as lacking connections with the national and international economy. This implies that

poverty results from being trapped in a subsistence economy isolated from the globally linked formal sector. This is certainly not the case:

“Many of the worst abuses of labour and sources of immiseration in Asia are found in activities directly linked to production for the world market: carpet-making that steals the childhood of youth; gem-cutting that employs child labour; and clothing and stuffed-toy making in factories ... that occasionally burn down – with all the employees locked inside.”<sup>33</sup>

Another important cause of the conceptual confusion is the diverse range of content to which the concept of the informal economy is applied. As noted above, while domestic and criminal activities are considered to be part of the informal economy, they are generally excluded from rigorous examination. This is because the term ‘informal economy’ is customarily reserved for such activities that are not intrinsically illegal, but which fall outside of legal regulation:

“Definitions of the informal, hidden or shadow economy vary according to the purpose of the research being undertaken. Thus some include quite diverse components such as housework, voluntary work, drug trafficking and ‘moonlighting’ in their definitions...”<sup>34</sup>

There is no logical reason to exclude criminal and domestic activities from the broad concept of the informal economy. In fact, with respect to these activities the boundaries between ‘formal’ and ‘informal’ are quite fluid and may change in due course. Over time, some economic activities have been ‘domesticised’ while others have been transferred from the private to the public sphere (e.g. child care or care for the elderly). Likewise, certain activities have been criminalised, or conversely, decriminalised or legalised at the ‘stroke of a pen’ (e.g. prostitution).<sup>35</sup> In reality, criminal, domestic and other kinds of ‘informal’ economic activity display a considerable degree of interdependence and overlap - both between themselves and with the formal economy. These links have intensified in the globalising environment as evidenced in the various forms of organised crime, much of it transnational.

A third key cause of the confusion surrounding the informal economy is the relative lack of attention paid to history. European and American politicians, social scientists and journalists writing in the 1970s and 1980s grew up in a period of dependence on regular wage labour, state-driven service delivery and a highly regulated welfare state, which definitively shaped their personal experiences. The 1950s to early 1970s were characterised by unprecedented formalisation of economic activities in the industrialised world, while other activities were largely excluded from economic thinking and enumeration (e.g. household-based productive activities). This context heavily influenced planners and administrators in the developing world, many of whom were trained in the ‘First World’:

“[These] policy-makers and planners are generally not themselves major purchasers of goods and services from informal enterprises. They are drawn from the *elite*, who buy from supermarkets, travel by private cars and live in officially provided and formally constructed houses. To them, urban micro-enterprises are a nuisance rather than a source of services ... It is significant that *customers* are not mentioned in the newspaper articles, except insofar as they are alleged to be exploited by the vendors from whom they voluntarily buy; councillors and senior party members make their purchases elsewhere.”<sup>36</sup>

A recent article in a Cape Town newspaper illustrates how the 'elite' typically responds to the informal economy that has mushroomed in the streets of the Cape Town Central Business District:

“There is growing fear that crime and filth could turn the Cape Town city centre into a no-go area like Johannesburg’s central business district. Mark Wiley, the Western Cape’s community safety minister, said the Cape Town City Council should take special responsibility for the situation ... and stop the illegal sale of contraband “grey goods” on the streets of Cape Town. He said illegal traders eroded the viability of legitimate tenants in the city and ultimately forced them to move out of the city centre ... Charls Adams, speaking for the Cape Town Chamber of Business, [said]: “We must clearly guard against decay and a lowering of standards. We must all adapt to a new changing South Africa as long as we maintain standards ... Managing a city centre is like dealing with body odour [referring to vagrants, street children, informal traders]. You will never do away with it, but you have to control it.”<sup>37</sup>

In the Western context, there has been a tendency to portray informal activities as a more or less exclusive response to the regulatory frameworks developed by the state. But the informal economy transcends activities that ‘react’ to ‘formalisation’. The reality is more complex, depending on conditions in the labour market, the pattern and nature of economic growth, the balance of societal forces, the position of the national economy in the international division of labour, and more. Table 2 shows the characteristics typically utilised by theorists and decision-makers in the developing world to contrast and define the formal and informal sectors.<sup>38</sup>

**Table 2. Traditional characterisation of the informal and formal sector**

| HYPOTHESIZED DEFINING CHARACTERISTICS OF THE INFORMAL SECTOR AND FORMAL SECTOR |  |
|--|--|
| INFORMAL SECTOR  | FORMAL SECTOR  |
| I. Ease of entry   | I. Restricted entry                                  |
| II. Indigenous resources   | II. Reliance on national and foreign finance capital |
| III. Family ownership  | III. Corporate ownership                             |
| IV. Small-scale operation  | IV. Large-scale operation                            |
| V. Labour-intensive and adapted technology                                     | V. Capital-intensive and imported technology         |
| VI. Skills acquired outside the formal system                                  | VI. Formally acquired skills                         |
| VII. Unregulated and competitive markets                                       | VII. Protected markets                               |

There are numerous problems with the categorisation above. For one, the features ascribed to the two sectors tend to be assertions that are poorly buttressed by empirical research. Thus, hawking and vending (activities generally viewed as being characterised by ease of entry) are lumped together with waste picking, prostitution and drug dealing. But entry into prostitution and drug dealing is not a straightforward matter and has to be negotiated with a host of gatekeepers, middlemen and pimps. Even hawking is not usually characterised by significant ease of entry. Similarly, the largest corporations in the Republic of Korea, the chaebols, are family-owned, as are many of Thailand’s export-oriented enterprises. Even small-scale operators group together to create niches and protected segments of markets. Furthermore, it is impossible to argue that the millions of women sewing parts of clothing together in their homes for export through transnational subcontracting networks (e.g. Benneton clothing) are somehow dependent on indigenous rather than overseas resources.

To conclude, the concept of the informal economy is confused due to the heterogeneous nature of informal activities and the present state-centric way of viewing the informal economy – i.e. as something outside of, and unrelated to, the formal economy. However, as Table 3 illustrates,

both the 'formal' and the 'informal' span a range of activities. The table demonstrates that informal activities need to be viewed against a backdrop of multiple dimensions (rules and regulations, monetisation, public and private) and that both formal and informal processes may take place within a single enterprise at the same time. It shows that the informal economy is an integral component of the total national economy, and that it is a *process of income generation characterised by contravention of formal rules, or for which rules do not exist*. The borderline between formal and informal is a constantly shifting one, with many activities in the process of being formalised or informalised.

**Table 3. The heterogeneity of formal and informal sectors**

| FORMAL  |  | INFORMAL   |                                |   |   |   |                                       |
|---|--|--|--------------------------------|---|---|---|---------------------------------------|
| Legal   |  | Illegal  |                                |   | Not provided for by law   |   |                                       |
| Monetary  |  |  |                                | Non-monetary  |   |   |                                       |
| Public  |  |  |                                | Private   |   |   |                                       |
| I   | II   | III  | IV                             | V   | VI  | VII   | VIII                                  |
| Pure Formal Activities  | Mixed formal/informal activities                 | Activities that elude fiscal, social security or labour legislation        | Criminal activities            | Paid activities or transactions not provided for by law | Reciprocal voluntary unpaid activities  | Self-provision (within the household)                             | 'Normal' domestic work                |
| <b>Examples</b><br>Every productive activity that is performed according to existing regulation | Formal activities that contain informal elements | Second (black) jobs; employment without contract; informal self-employment | Theft; drug trafficking; fraud | Barter; car washing                                     | Reciprocal work; helping neighbours; various kinds of voluntary & social work | Vegetable gardens for self-consumption; do-it-yourself activities | Cleaning; child care; preparing meals |

This definition goes beyond the unhelpful and rigid divisions of 'formal' and 'informal'. As such, it facilitates a better appreciation of urban development and local economies. It allows for greater understanding of the potentials and constraints which influence the initiatives of communities in their attempts to maintain social cohesion in depressed living and working conditions. Moreover, it furnishes policy makers and planners with the necessary analytical tools to identify appropriate arenas (household, enterprise, etc.) for targeting public resources to maximise social and economic development.

### 3.2 Processes driving informalisation

To better understand and support the informal sector, it is important to gain insight into the forces that drive the informalisation process. Various forces or dynamics can be identified. The two most significant sets of forces discussed here relate, firstly, to the process of globalisation and structural adjustment and, secondly, to survival strategies of the urban poor. These processes are clearly interrelated.

#### **External shocks: globalisation, structural adjustment and the associated demise of urban formal economies**

The progressive integration of various parts of the world into the globalising economy and financial system has given rise to a new structure of competition, which exerts a profound impact on production systems. Globalisation is characterised by the growth of transnational or global production and the increasing openness and interdependencies between national

economies. It has had significant impacts on national and urban economies, as well as on individual enterprises. Increasingly, rates of GDP growth and employment hinge upon an economy's ability to compete successfully within the new system of globalised production. At the level of enterprise, the effects have been to stress the importance of adopting new technologies, of new flexible systems of work organisation and of shifting towards flexible mass production systems.

Many developing countries have tried to align themselves and actively engage with these changes. But much of Africa has been 'left out' of the globalisation processes. While foreign direct investment (FDI) globally has soared (to US\$640-billion in 1998), Africa's share has dropped (by US\$1,1-billion to only US\$8,3-billion, according to UNCTAD). Since the 1980s, real incomes in Africa have fallen at an annual rate of 1%, while minimum wages have fallen by 50-70%. Where it has occurred, FDI has been primarily in mining and cash crop production. The impact on overall socio-economic development and technological innovation of investments in Africa has been negligible. Increasing capital outflows, poor economic growth, very high debt-to-export ratios and the continent's paltry share of world trade has resulted in institutional and socio-economic disintegration.<sup>39</sup>

Africa's increasing peripheralisation and enduring economic crises are partly due the fact that the continent has been largely unable to move beyond its traditional functions in the world economy: as a supplier of raw material and a captive market for imported manufactured goods. Globalisation has been 'stalled' in Africa and this underpins the eviscerated employment-creation capacity of the formal economy in most of the continent's cities.

The implementation of structural adjustment programmes has badly hampered urban-based manufacturing. It has created crippling shortages in imported materials, reduced investment and depressing effective market demand. Although large-scale manufacturing enterprises have generated an impressive volume of jobs in the newly industrialised countries of Asia and Latin America, they have created a miniscule number of employment opportunities in urban Africa.

Structural adjustment programmes have also led to reductions in the size of the civil service, subsidy cuts, privatisation and deregulation. This has swelled the ranks of the unemployed and eroded the state's capacity to intervene effectively in the economy and in social policy.<sup>40</sup> With a weakened state often unable to implement the policies of the international financial agencies, uncertainty in the investment climate has been exacerbated, causing investor confidence to plummet. A vicious cycle of weak institutions-poor investment-weaker institutions-poorer investment has ensued.

Over and above the impact of globalisation and structural adjustment, the enfeebled state of developing economies is also the product of other external shocks, including wars and famines. A case in point is Iraq. United Nations sanctions, proudly hailed by Sandy Berger, the American National Security Adviser, as "unprecedented for its severity in the whole of world" have caused the death of 567,000 Iraqi civilians, mostly as a result of disease, malnutrition and poor medical care. Agriculture and industry are at a total standstill and the level of poverty has increased dramatically.<sup>41</sup>

These external shocks have unleashed devastating consequences on the formal economies of cities in the developing world. One outcome is the explosive growth of informal activities.<sup>42</sup> The fact that more than 75% of citizens' basic needs (i.e. shelter, water and energy, neighbourhood

security, wastewater removal and transportation, subsistence incomes and land provision) in most African cities are provided by the informal sector suggests that most residents are accommodated in squatter housing, derive their incomes from petty commodity production activities, and lack direct access to basic services. So pervasive is informalism that it has reduced the scope of formal management to a very small sphere of urban life.<sup>43</sup> The next section will explore the nature of these informal activities.

### ***Survival strategies and informalisation***

Sharp declines in real wages and social benefits compel households of the urban poor to adopt multiple survival strategies to increase resources and counteract declining consumptive capacities. One strategy centres around the diversification of employment and income sources, including the tendency to build up a portfolio of income-generating activities. Scavenging, producing and selling food, petty trading, repair work and renting out additional rooms are common strategies. Efforts are also made to reduce or even eliminate some forms of consumption - by buying cheaper food, withdrawing children from school, postponing medical treatment, not replacing (or repairing) household equipment and postponing house repairs. Strategies also include changes in household composition by postponing or stopping having children, increasing the household size (i.e. to incorporate additional wage earners) and migration.<sup>44</sup>

The large influx of people into the informal sector increases competition and forces existing entrepreneurs to diversify operations. This means expanding not only the existing activities of the entrepreneur, but also those of other members of his or her household (including spouses, children and dependants). Studies of home enterprises in informal settlements point to a process of 'urban involution' - whereby people living in poor settlements divide work between themselves and eke out some sort of existence in the trading and retail sectors.<sup>45</sup>

Evidence suggests that this process of urban involution and the shift of income-generating activities towards retail and trade (usually an arena of the socially marginalised) is an outcome of structural adjustment policies. It tends to result in increased poverty and a steady subdivision of work. When dependants and family members are deployed in trading, retail and limited manufacturing activities, competition is heightened. The result is a decline in income and a deterioration of working conditions. However, this is not an *inevitable* outcome of the changing character of the informal sector. Case studies of the effects of Nigerian parallel trade and market liberalisation on informal sector incomes indicate that low-income informal households have raised their incomes by an average of 55% since the adjustment programme began.

The fact that the majority of poor households, mainly out of the need to survive, are confined to the 'over-subscribed' retail and trading sector means that policy measures have to commence from - and proceed beyond - the narrow 'commercial-economic' perspective:

"The [informal business] should be seen as an element in the survival strategy of a household. Many small-scale activities are by themselves not capable of guaranteeing the livelihood of an entire household. Nevertheless, they keep operating, on the one hand because the overheads are minimal, especially for the (semi) mobile category of entrepreneurs and those who work at home, and on the other hand because they make an indispensable contribution to the entire household income."<sup>46</sup>

### ***The 'formal' and 'informal' rearranged***

Structural adjustment and the processes of globalisation have not only contributed to the demise of urban formal economies and the informalisation of economic activities, these global economic processes have also reconfigured the relationship between formal and informal sectors. In some instances, the drive to achieve international competitiveness and greater integration into the global economy has resulted in stronger linkages between formal and informal economic activities. Thus, it is not unusual for the formal business sector to contract work out to informal producers in order to sidestep labour regulations and reduce their labour costs. The effects of the changing relationship between formal and informal sectors are mixed. In some respects, developmental objectives are undermined; in others, such objectives are enhanced. To a large extent, the outcome depends on the policy arena. Policy makers at local, provincial and national levels have to take account of the rich variety of coping mechanisms devised by the poor in order to deal with these shocks and changes.

## **4. THEORETICAL AND POLICY CONTEXT OF THE INFORMAL ECONOMY IN SOUTH AFRICA**

### **4.1 Framing theoretical and policy debates on the informal sector in South Africa<sup>47</sup>**

The question of improving access of South Africa's poor to productive income opportunities has been an important area of research for the local academic and policy community. Such research has documented the origins, growth and workings of South Africa's informal economy, as well as its potential to address national problems of unemployment and poverty.

Initial research concentrated on sketching the sector's size, the characteristics of various informal occupations and the type of informal sector enterprises in different areas. In the 1980s, more probing work began to emerge. Researchers analysed the inner workings of the informal economy and identified the linkages that bind it to the formal economy. The debates received added impetus from the apartheid state's deregulation drive and its – somewhat limited – efforts to promote the informal sector.

In the 1990s, South African research on the informal sector was, not surprisingly, influenced strongly by reconstruction and development imperatives. It was also being shaped by shifts in development thinking internationally. Affecting it were new understandings of the state and its role in development, calls for redesign of regulatory systems and for civic empowerment, the spreading of globalised production techniques and the internationalisation of finance. This led many South African analysts and researchers to propose new understandings of the informal economy. Their analyses emphasised the fact that economic activities are embedded in social relations and recognised the positive developmental thrust of associational life. They also focused on devising new ways of governing in complex and rapidly changing conditions. Taken up by them was the challenge to foster civil society-state-economy relations that could achieve a 'better balance between the demands of the city as an engine of economic growth and as a convivial habitat for daily living'.<sup>48</sup>

Historical research reveals that the micro-enterprise economy in South Africa is not a new phenomenon, nor is it static in character or composition. In fact, it has long featured in the urban-regional milieu and the mix of the micro-enterprise economy has changed in dynamic ways – new informal activities have emerged, some existing activities have grown, while others have declined or disappeared. An example of these patterns of change is the recent growth of



largely white-dominated flea markets, the dramatic emergence of women-dominated retail and trading activities, and the rise of urban agriculture among the poorest of the poor.

## 4.2 The current policy context

The post-apartheid government views Small, Medium and Micro Enterprises (SMMEs) as key instruments for realising several different objectives. The key national objectives for the SMME sector in South Africa are set forth in the White Paper on a National Strategy for the Development and Promotion of Small Business in South Africa, which has been produced by the Department of Trade and Industry (DTI) (South Africa, 1995a):

- ♦ 'to create an enabling environment' in terms of national, regional and local policy frameworks for SMME development;
- ♦ to facilitate more equitable income, wealth and economic opportunities;
- ♦ to stimulate economic growth;
- ♦ to strengthen the capacity of micro-enterprises and survivalist segments of the SMME economy to absorb labour;
- ♦ to overcome the discrimination encountered by blacks (and especially black women) with respect to economic opportunities;
- ♦ to upgrade human resource skills and promote the use of appropriate modern technologies;
- ♦ to enhance the capacity of small business to meet the challenges of an internationally competitive economy.

In reality, national SMME policy and programmes straddle diverse objectives and contain several internal contradictions. SMMEs are seen as key instruments for realising **employment generation, income redistribution** and the **greater competitiveness**. These hopes are vested especially in small-scale manufacturing operations. The objectives are certainly 'legitimate'. But they are also divergent, as are the policy instruments required to achieve these objectives. These instruments include technology support, research and development assistance, literacy and numeracy training, and access to basic information.<sup>49</sup>

### **Objective 1: employment creation**

The first basis for government intervention in the SMME economy is the desire to promote and create employment. Much of the writing and research on the SMME economy tends to follow the ILO's approach. This 'confers' on SMMEs – sometimes uncritically – the potential to create employment and boost labour absorption. Widespread support exists for this position. Yet, many analysts regard the assumption as 'exaggerated' and 'misleading'. Indeed, evidence for the portrayal of SMMEs as key sources of employment is in rather short supply:

“Hard evidence shows that the importance of small businesses as job generators and as engines of technological dynamism has been greatly exaggerated. In the United States and Germany, after we factor out the ups and downs of the business cycle, the share of all jobs accounted for either by small companies or by individual workplaces with fewer than 100 employees .... has hardly changed since the 1960s...The increasing number of small firms turns out to be in part a function of the core-ring, lean production strategies of the big companies.”<sup>50</sup>

Such sobering findings are especially pertinent in South Africa, where the job-creating potential of SMMEs is severely limited. The World Bank (1993) considers small-scale, light manufacturing SMMEs to be the dynamic segment of the sector.<sup>51</sup> But studies reveal that its share of

employment is relatively low in South Africa, where activities concerned with services and distribution are more common. Manufacturing comprises only 17% of total informal economic activity in South Africa. This compares poorly with many other developing countries where its share is much larger: 47% in Freetown (Sierra Leone), 23.5% in Mexico in 1987 and 65% in Zimbabwe. In general, informal work in South Africa is not as diverse as in Latin America or even in other parts of Africa.

As important as the issue of the number of jobs generated in the SMME economy is the quality of such jobs. Increasingly, research is documenting bad news on this front: the quality of employment in South African micro-enterprises is extremely poor. Recent studies in Cape Town and Durban have found very poor wage and work conditions among groups of mainly women home-based workers.<sup>52</sup> Other studies have confirmed the vulnerable plight of both entrepreneurs and employees in manufacturing micro-enterprises, showing that wage and working conditions of owners and their employees are uniformly poor.<sup>53</sup> The kombi-taxi industry is characterised by widespread exploitative labour practices – including the use of children, exceptionally long working hours, extreme pressure to meet daily quotas targets and the recruitment of drivers from rural areas in order to lower labour costs.<sup>54</sup>

Wages and working conditions are worst in the sphere of survivalist SMMEs, confirming that most survival activities “cannot be idealised or romanticised as opportunities for employment promotion since they are essentially a poverty trap”.<sup>55</sup> Widespread evidence of exploitative practices casts a sombre shadow on strategies that idealise SMMEs as viable alternatives to other, more sustainable and rewarding, forms of employment.

### ***Objective 2: economic redistribution***

The second key function ascribed to SMMEs is the stimulation of economic redistribution. The White Paper on SMME development argues that a strengthened sector (with an emphasis on black-owned and -controlled activities) will help redress severe racial inequalities in asset ownership. But, while SMMEs do represent one vehicle for redressing racial income inequalities, it would be dangerous to rely on the sector to catalyse economic redistribution. SMMEs will not reconfigure relations of economic power in South Africa – a majority of economic wealth and power will still remain in the hands of the large white-owned corporations.

It is also doubtful whether banks (whose major shareholders are wealthy whites) will voluntarily adopt enlightened lending policies to small-scale black, mostly African, informal entrepreneurs. Studies conducted in 1993 revealed that African informal entrepreneurs received less than 2% of total bank credit.<sup>56</sup> More recent research suggests that banks are still reluctant to enter this market – even if the banks are underwritten by a sophisticated credit guarantee scheme. Moreover, oligopolistic control over certain markets is rife, as is collusion, predatory pricing and the large corporations’ tendency to absorb dynamic independent smaller enterprises.<sup>57</sup> Thus, in formulating policies for the informal sector, serious attention must be directed at the macro-policy environment. A narrow focus on projects that target individual or groups of enterprises will almost certainly be inadequate.

In addition, the majority of African-owned businesses are very small and yield only limited incomes for their owners. SMME support and development in the present macro-economic climate cannot meaningfully alter patterns of income distribution. Even if SMME development can channel wealth to African entrepreneurs, this will not necessarily translate into reduced

income inequality. A more likely outcome may be the enrichment of a limited number of black South Africans at the expense of the majority black population.<sup>58</sup>

### ***Objective 3: enhancing economic competitiveness***

The third anticipated contribution of SMMEs to the South African economy is a more competitive local industry. This issue has attracted considerable controversy. In the debates around flexible specialisation and the development of industrial districts, it is argued that flexible production in South African manufacturing can help renew the small-scale industrial sector. More specifically, it is argued that subcontracting arrangements could see groups of small-scale producers grow and achieve higher levels of competitiveness as they become more 'integrated' into the mainstream of industrial activity.

However, what this perspective fails to recognise is the class and gender stratification of the SMME economy, which is likely to be enhanced and entrenched. Some participants may grow towards micro-enterprise and formal SMMEs, but others are left behind and remain poor. Indeed, many become trapped in casual work relationships within the structures of the dominant, formal capitalist economy.

Most people working in the SMME economy are unable or unlikely ever to make a transition from the struggles for meagre survival, since they are "constrained by a number of factors which constantly reinforce their position at the bottom of the pile".<sup>59</sup> Worst affected are women, who are battered by patriarchy, burdened with the responsibilities of child and family care, and disempowered by their lack of skills and training. The inevitable consequence is the feminisation of the lowest echelons and least remunerated areas of SMME work.

Due to the divergence of the three objectives outlined above and in the face of budgetary constraints, policy makers will be forced to prioritise the objectives and associated policy instruments. Some will receive privileged attention, others will be downgraded. There is an urgent need for choices to be clearly elaborated and justified in order to tighten the focus, direction and linking of the various support initiatives.<sup>60</sup>

### **4.3 Constraints on SMME development – Outlining the challenges**

South Africa's informal economy is being nurtured by different sets of forces. Supportive measures and programmes have to contend with these pressures and the constraints they bring to bear.

Firstly, the surge of survivalist enterprises is a consequence of a decline in the labour absorptive capacity of the formal economy. Micro-studies consistently reveal that in situations marked by low education and literacy levels, a lack of formal business skills or training, and little or no access to credit, new business formation tends to be in the survivalist enterprises characterised by relatively 'low barriers to entry'. In other words, a dynamic informal economy cannot be achieved in isolation: its fate depends on whether the formal economy can be revived in a developmental manner.

A second, defining trend is the disintegration of formal enterprises and the displacement of formal factory jobs by the growth of unregistered plants and home-based work. South Africa is experiencing a growing trend towards the so-called 'informalisation of formal enterprise'. Driving that process is the desire to increase profits by evading labour regulations and other perceived

labour market rigidities.<sup>61</sup> This is hardly a unique development. In fact, it propels the expansion of informal enterprise in many parts of Latin America and Asia, especially in labour-intensive manufacturing.

Here – and elsewhere in the world – the informalisation of formal enterprise often attracts hostile reactions from the trade union movement. The reasons for this are clear. Exemplifying the process is the push by formal enterprises to ‘sub-contract’ work into ‘splinter’ operations in deregulated industrial zones. Printing, silk-screening, jewellery-making, clothing assembly, footwear and number-plate making have become informalised in this way, particularly in the PWV region and KwaZulu-Natal. A similar trend has been recorded in the construction sector, where it is driven by the search for greater flexibility in the formal building industry and a quest to reduce costs. However, research in the Western Cape reveals little evidence of dynamic growth among the informal subcontractors. The reasons include volatile interest rates, problems in securing access to credit, weak management skills, high costs of building materials and the monopoly power of large housing developers.

International experience suggests that informalisation processes can take one of two routes: the ‘low road’ (sweatshops, unprotected labour, low incomes, etc.) or the ‘high road’ (industrial districts, high wage, high productivity). Research by economic geographers suggests that a broad, ‘post-Fordist’ transformation of industry in South Africa will encounter a host of hitches:

- ♦ the lack of managerial expertise;
- ♦ a legacy of racist managerial practices;
- ♦ opposition from trade unions and workers;
- ♦ high levels of illiteracy among industrial employees;
- ♦ the poorly developed nature of small-scale industrial enterprise for subcontracting; and
- ♦ the historical absence of collaborative relationships between large and small firms in local manufacturing.<sup>62</sup>

As mentioned above, high road/low road informalisation processes are associated with the enhanced class and gender stratification of the SMME economy.

The key constraints confronting different segments of the South African SMME economy have been extensively investigated in both urban and rural areas. Initial emphasis was on a restrictive regulatory regime, which was deemed the main problem hindering SMME growth. This suggested that government’s role in promoting SMMEs should be kept to a minimum and mainly concentrate on putting in place measures that would deregulate the economy. However, it is clear from a body of recent studies that legal restrictions are no longer the major impediments to SMME development in South Africa.<sup>63</sup> Instead, the main constraints on SMMEs are traced back into the broader historical, political and economic circumstances of South Africa. These researchers argue that apartheid legislation and the racially skewed pattern of economic growth still limits the development of a dynamic SMME sector. Deregulation, therefore, is an insufficient antidote. What is needed is a mix of policies that can address the various constraints highlighted in Table 4.

**Table 4. Constraints to the SMME sector in South Africa**

|                          |
|--------------------------|
| Key constraints include: |
|--------------------------|

- limited access to finance and credit;
- inadequate business infrastructure and service provision;
- inadequacies in the content and delivery of training;
- distortions produced by urban land markets and the fragmentation of apartheid cities;
- the strict separation of land use and racial groups;
- competition from existing formal enterprise;
- restricted market access;
- the historical underdevelopment of business procurement and subcontracting linkages between large enterprises and the SMME sector.

An aggressive SMME policy must include an effective competition policy which can counter market collusion and oligopolistic control. The successful upgrading of SMMEs requires the implementation of policy at a range of levels, as outlined below:

- i) Micro-level policies aimed at enhancing small-firm capacity;
- ii) Sector-wide policies that can improve the performance of all enterprises in a particular sector;
- iii) Competition-type policies that improve levels of competition in the South African economy generally; and
- iv) Macro-economic policies that improve credit and financial flows to the disadvantaged SMME sectors.<sup>64</sup>

Finally, in dealing with constraints, analysts stress that policies and programmes should transcend the particular 'environmental' constraints that force women into the poorest niches of the SMME economy. Currently, few of these constraints are being seriously addressed in the roster of programmes aimed at upgrading the South African SMME economy.<sup>65</sup> What is required is an integrated policy framework which takes into account the specific factors that ghettoise women's participation into survivalist activities. Such a policy framework would include interventions that assist the organisation and regulation of informal workers, the redesign of social security systems and extended workplace child care provision, amongst others.

## **5. ADDRESSING KEY CONSTRAINTS ON INFORMAL SECTOR ACTIVITIES – POLICY RECOMMENDATIONS**

The support framework underpinning the SMME development strategy is extremely complex. It encompasses the creation of an enabling legal framework, streamlining regulatory conditions, improving access to information, advice, marketing, procurement and finance. The institutional framework is also multi-layered. Provision has been made for the creation of a National Small Business Council, a Small Business Development Agency (SBDA), a wholesale financing apex organisation to mobilise finance for SMMEs, Provincial Government SMME desks to co-ordinate support programmes regionally, and a nation-wide network of local service centres.

This section focuses on key constraints affecting informal economy activities. The discussion focuses specifically on five key issues:

- ♦ Finance and credit;
- ♦ Infrastructure and service provision;
- ♦ Markets and trading spaces;
- ♦ Urban planning and management;
- ♦ Linkages with other enterprises

In relation to each issue, national government initiatives and their shortcomings<sup>66</sup> are surveyed and relevant lessons are drawn from international case studies. Special attention is paid to the role of local government in building the informal economy, as evidence suggests that local-level SMME programmes appear to be more effective remedies against poverty and inequality than national-level ones. At the end of each section, policy recommendations are proposed to overcome particular constraints.

## **5.1 Finance and Credit**

Lack of finance is one of the major hindrances blocking the establishment and successful operation of informal businesses. Most of these enterprises struggle with shortages of working capital and difficulties in accessing loans to purchase equipment and finance inventories. As a result, start-up funds for informal enterprises in South Africa are often sources from retrenchment packages, Unemployment Insurance Fund (UIF) payouts, personal savings or loans from family members. In the Western Cape, for example, 80% of start-up funding is drawn from those sources.

Serious gaps have been identified between the demand for and the supply of financial services to the informal economy. Thus, institutional support for the financing of micro-enterprises is biased in favour of distributive rather than productive enterprise. Virtually no supplier credits or buyer advances are available for small manufacturers and builders. This limits their capacity to employ workers, produce, add value or otherwise expand output. In the broader sense, it restricts their ability to contribute to economic growth in the country.

Another financing gap exists between the type of mini-loans that manufacturers might secure from stokvels and other informal credit schemes and the need for larger loans that can fund capital equipment purchases.

The slow processing of loan applications is another problem. A recent study in the Western Cape showed that the average processing time was one month – an unrealistically long time for a survivalist entrepreneur.

### ***Khula finance and credit schemes***

In the forefront of efforts to improve access to finance in South Africa are the Khula Enterprise Finance and the Khula Credit Guarantee schemes. Established in 1995, these initiatives resulted from the DTI White Paper on Small Business. Khula Enterprise Finance offers two types of financing schemes: to Retail Financial Intermediaries (RFIs, which could include provincial development corporations and commercial banks) or to NGOs. In practice, most financing occurs through Khula's network of NGOs. Finance takes the form of loan schemes and grant schemes, depending on the lending capacity and experience of RFIs. Khula supplies seed capital until the lending NGOs achieve a level of sustainability. If certain conditions are fulfilled and targets met, the seed capital is converted into a grant. In addition, Khula extends a loan capital facility that operates at a subsidised interest rate. In order to extend and deepen its lending operations, Khula is considering developing a framework and facility for lending to private sector institutions.

One of the Khula programme's limitations is the lack of 'suitable' NGOs or other RFIs operating as intermediary lenders. As a result, the numbers of loans made are too small to meet the needs of the SMME community in South Africa. The geographical distribution of financing NGOs

is also uneven, which means that the programme fails to reach many SMMEs in rural areas and small towns. The programme also exhibits a bias towards the funding of established SMMEs rather than survivalist enterprises. This may change in the near future, following campaigns by NEDLAC and the DTI to increase the availability of credit and training to members of the survivalist sector (a majority of whom are African women), particularly in the rural areas.

The Khula Credit Guarantee facility was introduced to broaden access to finance throughout the country. By reducing the risks to commercial banks it encourages these banks to function in the area of SMME financing. Again, survivalist enterprises tend not to benefit from this initiative. Moreover, the success of the programme depends on the commitment of individual banks and a change in the attitudes of commercial banks towards what is considered a high-risk lending area. Despite a large marketing campaign, commercial banks still seem reluctant to participate in this scheme.

### ***Group-based lending schemes***

However, there are other ways to improve survivalist enterprises' access to finance. One route would require that more NGOs adopt group-based lending schemes, patterned on the Grameen Bank of Bangladesh. Internationally, the Grameen Bank exerts great influence in policy circles. Even in the United States, more than 50 programmes use the same 'peer lending approach'.<sup>67</sup> The Grameen Bank proves that peer monitoring, the enforcement of local sanctions and a common set of norms can provide the basis for a social insurance scheme and group borrowing where access to credit is organised along lines of joint liability.<sup>68</sup> A defining and inspiring feature of Grameen Bank schemes is that women have full or significant control over the loans. Lending institutions insist that productive investments be registered as women's property and that women have managerial control over enterprises.

South Africa already boasts one example following the Grameen Bank approach: the Small Enterprise Foundation (SEF), which operates in the Tzaneen area of Northern Province. Impressively, the SEF's client base is 96% female. SEF encourages its clients to form themselves into groups of five. These are then combined into centres that contain between six and eight groups each. First loans are limited to R300 per person, while subsequent loans may not exceed R1,200. The SEF has developed a very healthy, group-based credit scheme that reaches a sector of the population - rural poor women - which is largely ignored by other lending organisations. By concentrating its efforts on the poorest in its operating area, it is contributing to poverty eradication. Since its inception in 1992, the SEF has never had a bad debt.

### ***Community reinvestment***

A Community Reinvestment Act, modelled along the lines of US legislation, deserves serious consideration in South Africa. Community reinvestment in the US has developed into a social philosophy that underpins a powerful movement. The aim is to replace capital that flows out of disadvantaged communities by pressuring banks and other lending institutions to develop new lending practices for housing, businesses and social institutions in low-income areas. Key to such reinvestment is the Community Reinvestment Act (1977). It states that financial institutions have an ongoing, affirmative obligation to help meet the credit needs of the local communities in which they are chartered.

Community reinvestment stimulates a process of seeking out good loans in impoverished neighbourhoods. Coalitions across the US identify neighbourhood goods (such as housing) and match these with qualified minority or community-based institutional borrowers. The movement

has had some impact in reducing redlining and other adverse lending practices of major financial institutions. Nevertheless, it is not easy to identify good investment opportunities that meet the test of the law. Widespread racism, gender discrimination and class prejudice still characterises the lending practices of the financial community.<sup>69</sup> However, the Community Reinvestment Act offers a way for policy makers to help plug income leaks, mobilise local incomes and support local investment.

Thanks to initiatives in integrated local economic development in the United States (so-called HUD Empowerment Zones), the Community Reinvestment Act's reach has been extended to cover small business, as well as mortgage lending and the eligibility of community development activities. In this way, banks can (in theory at least) offer financial assistance without running foul of the legal obligations stipulated by federal regulators.

### ***Local Exchange Trading Systems***

Local Exchange Trading Systems (LETS) attempt to deal with the increasingly permanent but alienating nature of the informal economy. LETS allow members to trade goods or services (including labour) by using conventional money and/or a local credit scheme or currency. Participants create their own directory of tradeable goods and services. Then they agree on a suitable currency that will serve as a medium for exchanging the services or goods. Sometimes trade occurs using a combination of LETS currency and the national currency to cover the costs of raw materials, transport, etc. Participation in the scheme is limited only by the time and energy of individuals and households involved. The scheme has performed successfully in British Columbia (Canada), Switzerland, England and Ithaca (USA).

The big innovation of LETS is that they offer a route around the problem of low local liquidity and enable people with relatively little money to expand their economic activities. The community currency and exchange systems have the distinct advantage of being created in the community at the time when needed. Moreover, it is non-inflationary. LETS-type experiments hold great promise for addressing unemployment and poverty in South Africa.

### ***The state as a lending institution***

While the role of the state is important, experiences elsewhere in the world suggest that incentives to invest wisely and repay loans promptly could suffer when government or semi-government agencies administer credit.<sup>70</sup> Under-pricing of credit generally leads to inefficient use of capital and can limit the reach of a programme. While many policy makers and parastatal employees are averse to charging market interest rates in such programmes, there is no empirical evidence that the poor cannot afford moderately high interest rates.<sup>71</sup> Charging market-related interest rates limits the loss of value of capital and improves the sustainability of a credit programme.<sup>72</sup> Interestingly, Grameen Bank-type programmes often charge market-related interest rates, while the lending institutions see themselves as 'for profit' organisations (although some start out as non-profit bodies).

The World Bank (1996) argues that municipalities' roles in credit extension to the informal economy should be limited to an enabling one, since municipalities do not have comparative advantage in direct credit provision. There are, however, some notable exceptions. For example, in Bangkok the Metropolitan Administration's (BMA) development programme provides capital and credit for vocational development in communities, helps mobilise local resources and encourages people to develop occupations and communities through self-help ventures. Twenty communities are targeted annually. Each has to raise funds to match those provided from the



BMA. Revolving funds provide individuals with finances to enable them to start their own business after they have completed their vocational training. In addition, the BMA engages in both welfare and employment promotion. It provides technical support and assists in the creation of co-operatives for employment improvement. It also helps strengthen marketing systems and sets up co-ordinating centres for vocational training. Programmes are carried out through vocational training centres and schools, mobile training units, central and weekend markets.

The BMA offers a comprehensive range of services, of which the provision of finance and credit is one element. Despite the sophistication of the Bangkok scheme, government rules, regulations and procedures still hinder access to services. Suggested reforms include simpler operations and service-rendering processes, setting up local service co-ordinating centres, providing complaint/suggestion systems to improve accountability, and publicising the available services more widely.<sup>73</sup>

### ***Policy recommendations for finance and credit***

There is a range of policy measures that municipalities can engage in to improve credit access for informal operators. Municipalities can effectively facilitate enhanced access of the poor to finance and credit in the following ways:<sup>74</sup>

1. **Encourage and support commercial banks to create special purpose facilities for poor groups**, such as hawkers and petty traders (e.g. market banks, lending to women and Grameen Bank style group saving schemes).
2. **Encourage the establishment of community-based credit unions/banks and facilitate links among such groups and with the formal banking system**. The municipality may provide a savings bank with a guarantee fund on the strength of which it may borrow elsewhere and coordinate with NGOs activities in credit support.
3. **Provide incentive guarantee funds** on the strength of which the formal sector may borrow for joint activities with micro-enterprises. Affordable credit could be provided by wholesalers to hawkers selling fruits and vegetables.
4. Through organised local government (SALGA and the provincial associations), **campaign for the introduction of legislation compelling banks to invest in depressed localities**. The Community Reinvestment Act in the US could provide valuable guidelines.
5. **Create and support local exchange trading and barter systems**, similar to LETS.

Undeniably, the developmental impact of municipal resources is boosted hugely by working with community institutions and NGOs. This, in turn, supports the development of associational life (since municipalities then engage with the complex interweaving and overlapping coping strategies of the poor). Overall, the key challenge for local authorities is to design local economic development strategies that build governance capabilities across and between a broad range of institutional fields. This might include networks that straddle both 'formal' and 'informal' sectors, decentralising responsibility to an active and capable civic sector and cultivating economic values rooted in cultures of trust, co-operation and solidarity between economic agents.<sup>75</sup>

It is, however, important to note that better access to loans or credit facilities alone does not lead to upgraded micro-enterprises. That innovation must occur in concert with infrastructure provision, information, training, access to markets, and so on. The more successful SMME support programmes integrate credit extension with the provision of a range of other services, as highlighted in the BMA development programme.<sup>76</sup>

## **5.2 Infrastructure and service provision**

It is clear that in most instances, access to finance and credit alone is not sufficient to support informal entrepreneurs and the SMME economy. A range of other services is needed. Developmental interventions aimed at supporting micro-enterprises have shifted recently to embrace both hard (infrastructure, credit and services) and soft measures (building social networks and mobilising associational life). The Comprehensive Community Initiatives (CCI's) in the United States are a good example. CCI's emphasise citizen participation at all levels of the development process and try to broaden corporate sector involvement from sheer financing to capacity-building for local organisations and other voluntary actions. This strengthens working relationships between the community and the private sector, and fosters a heightened sense of responsiveness on the part of public institutions.

In squatter settlements of Latin America, initiatives have been proposed to draw together community-based groups, the private sector and local government in partnerships for endogenous development (that is, development which originates from within a specific area). These initiatives concentrate on upgrading neighbourhood-based economic activities, particularly home-based enterprises. The aim is to address impediments such as the lack of training, services and credit, as well as an inhibiting regulatory environment. Priority is given to the nourishing of micro-enterprises run by women, especially those that contribute to maintaining and improving the urban environment.

A related initiative is the Municipal Fund for Street Vendors (FOMA). It is administered by a municipality and is financed with 50% of all taxes collected from street sellers. FOMA funds are earmarked for the improvement of the working conditions of street sellers (health, childcare and training) and the provision of small credits.<sup>77</sup>

### ***An asset-based approach to poverty reduction***

Many such initiatives are premised on the need for effective partnerships and coalitions between the state, the market and communities, which centre on the "social construction of a range of assets"<sup>78</sup> in ways that reduce the vulnerability of the poor in areas such as housing, basic services and safety from violence. These assets (human capital, social capital, social and productive infrastructure) can then be called upon to reduce the economic, social or environmental threats faced by poor households. The more assets individuals, households and communities have – and the better these assets are managed – the less vulnerable people become. Conversely, the greater the erosion of assets is, the greater the insecurity and associated poverty.

Globally, poverty alleviation policies are designed along two conventional directions: macro-economic growth (macro-level) and community-level programmes that target the poor (micro-level). Research reveals that when countries have followed standard macro-economic policies (trade liberalisation, privatisation, deregulation, etc.), reductions in poverty have been very small. Increased equality and rapid decreases in poverty have been achieved only in those few

countries where earlier, redistributive policies had been applied in relation to land and human capital formation.

A recent study of 67 countries has confirmed that when growth paths and investment patterns are biased towards human development (education, health, social services), a country tends to enter a *virtuous cycle* in which growth and human development reinforce each other. Countries whose paths are mainly growth-oriented and which lack investments in human development revert to *vicious cycles*: poor human development investments lead to poor growth performances. The lesson is that economic growth can be sustained only if it is preceded or accompanied by improvements in human development.<sup>79</sup> In light of this finding, the GEAR logic of increased growth leading to more jobs leading to redistribution is questionable. Indeed, analyses of anti-poverty strategies in Africa confirm that employment may provide less compensation than required to sustain livelihoods.<sup>80</sup>

### ***The significance of municipal services and infrastructure***

Micro-level policies that focus on specific community-level programmes see government agencies working directly with community groups in order to support activities like credit provision, basic infrastructure upgrading, slum upgrading, micro-enterprise development and strengthening of community participation. The approaches are usually promoted by NGOs and community-based organisations (CBOs) with the support of international donor agencies.

Between the macro and micro-level is the local government – or meso – level of intervention which strengthens and complements micro and macro strategies. Research shows that local economic development and anti-poverty strategies are integrally connected. Local government's role in infrastructure provision and service delivery can, therefore, have dramatic impacts on reducing the vulnerability of the poor by building the necessary assets to support informal economies of growth. A study of 74 metropolitan regions in the US reveals that municipal investments in human development led to an increase in regional income.

These new findings call into question the entrepreneurial approach to local economic development. There are now calls for greater investment in human capital, and increased interest in the managerial and organisational dimensions of development processes, particularly those that have the potential to deepen popular control.

New strategies emphasise the need for programmes that simultaneously extend and improve the distribution of financial, physical, human and social capital, and that recognise the interdependence of neighbourhood, city and region.<sup>81</sup> The most powerful policy recommendation emerging from this thinking is that local initiatives are not a substitute for shared provincial, national and local responsibility when it comes to urban revitalisation and social welfare.<sup>82</sup> State and provincial assistance should be delivered in a direct and politically accountable manner, contributing to increased spatial and social integration, and building the assets of the poor.

Apart from the basic provision of municipal services and infrastructure, there are several other ways in which local government support can strengthen the asset base of poor households. These include the provision of hives and incubators to SMME entrepreneurs and support for home-based enterprises.

### **Premises: hives and incubators<sup>83</sup>**

Many informal and SMME enterprises face a common difficulty of finding and being able to use suitable premises. This is much more than just a headache: it limits their growth potential and makes their business financially unstable. Manufacturers are particularly hard-hit, since they need premises with access to relatively developed infrastructure – like telephones, electricity and storage facilities. Yet, these types of infrastructure are not abundant in African townships.

In proposing that “growth in employment can be enhanced through government support to small and medium-sized enterprises”, the RDP White Paper<sup>84</sup> emphasises access to infrastructure and premises as a vital area for support. While the support framework for SMMEs notes the need to develop premises along with municipal and infrastructure support services, the White Paper (1995a) stresses that national government is not in a position to fund a country-wide network of so-called ‘incubators’ and ‘hives’. Instead, the responsibility is handed to provincial, metropolitan and local governments, along with the Small Business Development Corporation (SABC), NGOs and the private sector. Such an approach seems to be inadequate, especially for poorly resourced rural areas.<sup>85</sup>

Case studies of incubators in industrialised countries suggest these can dramatically improve the survival chances of start-up companies, especially in depressed areas.<sup>86</sup> Businesses get to share resources (like machinery, supplies or support staff), advice and expertise. The incubators also facilitate other forms of support – such as access to training, product development services, marketing and credit – and offer important psychological support and encouragement to tenants. However, incubators are not recipes for certain success. Many facilities function poorly, new firms still fail, job creation tends to be modest, and it could be argued that those companies that do succeed would have done so without the assistance of incubators. Common causes of failure include a lack of sustained funding, too few tenants, inexperience and poor management. Experience also suggests that incubators alone cannot revive entire regions: “entrepreneurship is a solution to job creation, not *the* solution. There is no easy answer”.<sup>87</sup>

Nevertheless, experiments with incubators in industrialised countries have generated important lessons:

- ♦ Incubators take time to mature;
- ♦ Managers of incubators must have experience in business administration and sound financial planning;
- ♦ Incubators must be strategically located;
- ♦ Services provided have to be tailored to specific (and varied) needs of the tenant firms; and,
- ♦ Incubators usually require a large initial investment, contributions of buildings and equipment, and a continuing subsidy.<sup>88</sup>

Underlying a small-industry incubator/hive programme is the recognition that emergent small-scale manufacturers need to be provided with a range of support services, such as entrepreneurial training, equipment facilities, technology advice and access to finance. Case studies of hives in South Africa (and incubators in the USA) suggest that where these support services are absent, the failure rate of start-up businesses is high.

Experiences in South Africa suggest that when hives and incubators are well-located and properly managed, such initiatives can provide space and market access that is unavailable in large industrial premises or private homes. Moreover, hives and incubators promote networks

and links between different firms. Such initiatives can, however, be expensive. There are also doubts whether tenant firms actually grow and eventually mature into formal enterprises. This raises question marks over the extent to which incubators and hives should be subsidised.<sup>89</sup>

The effectiveness of hives depends also on whether similar types of firms are clustered together. This 'sector-clustering' enables operations to exchange experiences and share learning processes. In this way, entrepreneurs can learn from helping one another, share big contracts, take turns to purchase raw materials and negotiate discounts for bulk buying.

### ***Policy recommendations for hives and incubators***

Most experts argue for a multi-pronged approach to hive projects:

1. **A clear, diverse support strategy should be developed with stakeholders and should be widely publicised:** A first step would be to publicise the municipality's commitment to small industry promotion. The support and understanding of (potential) partners in the community, the formal business sector, NGOs, and research and educational institutions have to be mobilised. Other local SMME support initiatives and stakeholders must be identified and brought on board. Proposals from private developers, existing entrepreneurs and community groups should be solicited. There must be critical and open debate about the options, feasibility, financial or other support that is required. The outcome of this consultative process would be a clearly formulated strategy focusing on diverse support policies.
2. **An appropriate project structure has to be established:** An appropriate legal entity (such as a Section 21 Company) has to be created and its representatives appointed. This requires a clear and transparent process. Furthermore, an interim management committee, representative of all stakeholders, must be appointed. It will have to authorise expenditure and manage the hive fund in accordance with the project plan.
3. **Site selection and refurbishment plans are crucial:** Site selection is critical and there are no simple rules. Questions to ask include: Where will the products be sold? What sectors are manufacturers operating in? How close is the site to transport routes, suppliers and service facilities? Is there an active or latent demand for small industrial/repair sites in the area?

Deciding on the suitability of a site requires working in conjunction with private property development companies and established/emerging informal (traders/manufacturers) associations. Small-scale manufacturers located in informal settlements may not want to relocate for fear of losing their customer base.

4. **Locally appropriate ownership models must be explored and adopted:** Various ownership models are available. These include:
  - ♦ ownership/development by a private developer, which is then transferred to the local authority;
  - ♦ ownership/development by the financier, while a private sector company or local authority manages the project;
  - ♦ the project can be owned and developed by the occupants in the form of a co-operative, but managed by the private sector;

- ♦ ownership and/or management by a Section 21 Company – this model allows for the participation of donors and stakeholders while providing the necessary financial and managerial controls.

Experience shows that private owners who are also managers can have good relations with tenants, but tend to be poor landlords. In the case of local authority management, rental discipline tends to become a thorny political issue. Co-ops, on the other hand, could find it difficult to ensure cost and rental recovery.

5. **Careful consideration must be given to the management and operationalisation of hives and incubators:** The property must be run in accordance with strict commercial principles. This demands that the ‘incubator’ function (business development, support services, etc) should be separated from the management of the property. Responsibility for the latter should be vested in the private sector. Managing and running an incubator is a specialist function, but management capacity can be created and transferred through training, guidance and support. Local government can play a key role on this front.

Numerous studies suggest that rents can turn out to be prohibitively high and end up excluding the very same tenants a project was meant to assist. One way to reduce rents is cross-subsidisation. This would entail attracting one or two large firms to serve as anchor tenants, which would pay higher rents. This could also help the facility to achieve financial independence. These anchor firms could also serve as sources of contracts and contacts for start-up firms. Municipalities can also help reduce rents – by providing grants in the form of (un)serviced land and building, arranging corporate ‘hand-holding’, encouraging large corporations to ‘adopt’ an emerging enterprise, or by tapping into corporate social responsibility programmes.

#### ***Home-based enterprises (HBEs)***<sup>90</sup>

Internationally, the linkage between housing and income-generating activities features prominently in informal enterprise development. A majority of micro-enterprises are based in the home or on adjoining land, or are attached to the home plot. The link between housing and informal sector employment, therefore, is symbiotic. Economic activities enable housing improvements to be made. These, in turn, improve employment prospects and productivity. Home-based enterprises contribute significantly to the household economy. Because settlements evolve and develop in response to residents’ income-earning capacity, the existence and/or upgrading of home-based enterprise can improve the quality of life and housing in low-income settlements. Thus, it is often argued that the success of shelter programmes should be judged partly in terms of the resulting employment creation.

On the other hand, HBEs exhibit many disadvantages. HBEs have a tendency to create housing problems and worsen worker exploitation, particularly in cases where there are dense subcontracting networks with formal enterprises. The lace making industry in the state of Narsapur (India) is a case in point. Research suggests that 100,000 ‘housewives’ engaged in lace making contributed 90% of that state’s export revenue. But the earnings of the outworkers were found to be as low as \$0.05 per day and the intricate work carried out in poor light badly harmed workers’ health.

The challenge for policy makers, then, is to maximise the employment-creating potential of the home-based enterprise (as part of the informal sector) whilst devising appropriate measures to protect the poor and vulnerable.

### ***Policy recommendations for assisting and supporting HBEs***

1. **Spatial planning should take account of the needs of home-based enterprises, especially those run by women.** Amongst others, this could include ensuring available space for storage or repair of goods, or constructing additional rooms and spaces for rental.
2. **Mixed residential and economic uses of shelter should be promoted.** Informal businesses should be integrated into residential areas through flexible zoning so that slow moving traffic can be encouraged to mingle with informal hawkers. Local authorities should also make provision for narrow frontages on streets suitable for commercial uses.
3. **Control over neighbourhood planning issues should be shifted from urban authorities to neighbourhood groups.** Neighbourhood councils should be established as development control agents and arbitrators in disputes. In this way, locally sensitive judgments can be arrived at with respect to the acceptable level and types of economic activities for low-income residential areas.
4. **Infrastructure in poor settlements must be improved.** This is essential for enhancing the viability and profitability of HBEs. It can also substantially improve the living standards of SMME workers. Eskom estimates that for every 100 households that are connected to the electricity grid, 10-20 new economic activities are started.<sup>91</sup> Infrastructure provision can also boost job creation.
5. **Small grants that reinforce the productive capacity of groups of existing small-scale HBEs should be considered.** These can be provided by national government and channelled through municipalities. These loans could also be used for housing extensions or other improvements that increase the viability of HBEs.
6. **A community development fund should be established.** It would fund neighbourhood improvements, as well as initiate or strengthen income-generating activities. Funds would have to be recovered by the community in order to create a revolving fund.

Another way in which local government support can strengthen the asset base of poor households is through market and trading spaces. This is discussed below.

### **5.3 Markets and trading spaces**

Access to markets is crucial for the survival and financial sustainability of many informal entrepreneurs. Local government can play a decisive role in enhancing the income opportunities of informal operators through the provision of suitable trading spaces. Public investment in conveniently situated market facilities addresses the problem of spatial marginality for small traders and offers them access to potential customers in viable locations. Potentially, it can nurture commercial development in townships and help create agglomeration economies which contribute to urban productivity. This sort of intervention not only would assist

retailers, but also manufacturing micro-enterprises that often operate in crowded markets at little more than survival level.

Because markets can benefit large numbers of informal vendors, many planners regard them as powerful instruments for economic stimulation. Whether periodic (every weekend, for instance) or permanent, markets often constitute the only opportunity for spatially trapped entrepreneurs to gain secure access to central, viable locations in the city. In Durban, for example, periodic markets have been initiated to deal with the problem of the poor spatial organisation of townships. The markets provide a space for local entrepreneurs to sell their products while simultaneously offering a venue for public and NGO services (e.g. libraries, SMME support and clinics). These markets offer better access to selling spaces for relatively immobile, home-based producers (mostly women) and provide local residents with access to services and facilities.

### ***Creative use of public space***

In Malaysia, there are instances where the authorities restrict the rights of the property owners and vehicles in the interests of informal entrepreneurs. Roads and car parks are closed off and reserved for hawkers and informal restaurants in the evenings, license regulations are eased, and loan programmes and training are laid on for SMME operations. It is worth noting that the Malaysian programme was initiated and supported by national government, and has been designed and implemented on a nation-wide scale. City planning authorities implement the programme along with hawkers' associations.

### ***Accommodated markets***

Case studies in Sri Lanka and Malaysia suggest that enterprises operating at markets benefit considerably from the provision of physical accommodation.<sup>92</sup> In Colombo (Sri Lanka), the municipality has implemented several accommodation schemes for enterprises involved in retail, production and related services, light engineering and manufacturing. Tenants pay a monthly user fee depending on the location and the space occupied. The fee is based on land values.

The Colombo scheme offers several pointers:

- ♦ Accommodated enterprises earn around 40% more than unaccommodated ones;
- ♦ Most tenants claim to have increased revenue from sales;
- ♦ The accommodation helped most enterprises accumulate fixed assets;
- ♦ Affordability (of the accommodation fee) is not a problem for tenants;
- ♦ If efficiently organised, accommodation for informal traders can also strengthen the fiscal base of local government.

### ***Policy recommendations for markets and trading spaces***

1. **The establishment of wholesale markets can reduce the costs of local trading** by strengthening linkages between formal wholesalers and informal traders. The removal of 'middlemen' and retailers reduces the cost of inputs. In KwaZulu-Natal, plans are afoot for the creation of a distribution center where informal traders and small manufacturers can source inputs. Financial support will be provided by the local authority.



2. **Specific attention should be given to the establishment of retail markets**, since the majority of survivalist activities and informal businesses are concentrated in the retail sector.
3. **Market spaces must be equipped with appropriate services**, including running water, toilets, electricity and storage facilities for informal traders.
4. **Local government should negotiate requirements for trading space and necessary facilities in a sector-by-sector manner.** Informal businesses have different space, infrastructure and support requirements.
5. **There should be a 'regulatory redesign' of the rights and obligations of property owners.** This would benefit informal traders and improve the conviviality of cities and urban spaces. The reservation of portions of pavements and other public spaces for informal businesses should be encouraged and financially (and legally) supported by municipalities.
6. Policies for informal businesses must be implemented at the level of each street and district, yet form part of an integral city-wide approach.

#### **5.4 Urban planning and management**

Urban management, planning and development are key problem areas that affect the growth of informal enterprises.

##### ***Revisiting the urban form***

The current form of the South African city in several respects is anti-developmental and prevents the kind of market concentration that is needed to generate vibrant local economies. The combination of low-density sprawl, fragmented development and strict separation of land use and of racial (and class) groups limits poor urban dwellers' access to (natural and other) resources they need in order to survive. It also severely restricts the potential of small-scale informal enterprises. Instead, there are a limited number of highly accessible zones, which are dominated by large economic units.

If the needs of the informal economy are to be addressed, the urban landscape has to be redesigned. This should be done to achieve a more compact urban form and to promote the 'inward development' (imploding growth) of cities. Among other things, urban planning would encourage the development of agglomeration economies, provide thresholds for efficient service delivery and infrastructure provision, speed up the rotation time of capital, facilitate improved access to basic services, reduce transportation costs and aid the introduction of efficient public transport systems. Public transport systems can be designed to help reduce the contraction costs of informal sector entrepreneurs by improving access to markets in residential and commercial zones of the city. Such planning interventions require a radical change in current land use control.

##### ***Linking production and consumption across the city***

Effective urban planning can contribute to economic development by strengthening and/or creating linkages between production, consumption and spatial interventions. The overall aim would be to enhance income- and employment-creation for the urban poor. Initiatives could include waste recycling by the informal sector or the procurement of municipal supplies from

the informal sector. Consumption activities of wealthy and poor areas could be linked by establishing retail outlets for informal producers in middle and high-income areas.

Another approach might be to set up economic intelligence units within municipalities, which would design appropriate enterprise support programmes that can strengthen linkages between the formal and informal sectors. These units could also monitor the impact of municipal regulations on the informal (and formal) business sector and provide legal safeguards that protect informal businesses in their dealings with formal sector enterprises.<sup>93</sup>

### ***Support for social capital***

Apart from spatial planning interventions – and underpinning such interventions – it is important to support social relations and social capital in urban areas. There are many examples of how municipalities can use the social norms and networks of trust and co-operation to achieve positive developmental outcomes<sup>94</sup> and stimulate economic growth.<sup>95</sup> Social capital can be reinforced and sustained through a targeted approach that enhances the assets of the poor and builds on their capabilities. The measures should fit with the broader set of municipal interventions around infrastructure provision, micro-enterprise development, shelter, local economic development strategies, the provision of social security support, and so on.<sup>96</sup>

This implies that the traditional role of local government has to be extended beyond the provision of services. Instead, local government has to act as a catalyst, facilitator and coach. It has to help set development goals, empower disadvantaged groups, arbitrate in conflicts, organise public meetings, and so on. In doing this, local government has to work with a variety of people and organisations in the private, non-profit or public sector. It has to assume a leading role in building interactive networks and partnerships that can serve as important channels or zones for making decisions, resolving disputes, reaching consensus or ‘flushing out’ innovative options. Building networks of association is a necessary step in the broader project that nudges the state and market towards democracy-enhancing roles. Against this background, urban management is not merely the job of governments. Rather, it is the outcome of the way people in households, firms and agencies seek out links and establish common cause with other entities that share certain interests and agendas.<sup>97</sup>

### ***Policy recommendations for urban planning and urban management interventions***

Drawing on a range of international case studies, the following types of interventions are recommended:

1. **Encourage and promote a greater mix of land uses and combine living space with income-generating activities.** The integration of spatial and infrastructure planning is critical, because informal sector enterprises often depend directly on formal sector enterprises. Physical proximity will improve the productivity of informal sector enterprises.
2. **Use spatial interventions to integrate urban areas,** rather than to fragment and compartmentalise these areas. The design of residential areas as self-contained suburbs limits the ability of urban systems to create employment opportunities.
3. **Decentralise wholesaling systems.** The spatial relationship between vendors and their main suppliers affects their productivity, profitability and growth. If wholesalers can be encouraged to decentralise, this could help stimulate small-scale economic activity.

4. **Coordinate and integrate interventions that target the urban poor and informal operators.** Institutions and mechanisms that improve coordination horizontally (across sectoral units in local government) and vertically (between different spheres of government) have been key factors in cities that have engaged successfully with globalisation and economic restructuring.
5. **Invest in institution building.** The process of formulating and negotiating a development agenda is a vital part of any institution-building process. What is required is an organisational structure that can lead, adapt, learn and remain relevant within the larger project of improving service delivery and enhancing the quality of life of all citizens.
6. **Promote interactive governance.** Democratic governance is based on opening up channels of communication, promoting interactive reasoning and ensuring that planning is the outcome of collaboration between the various stakeholders. The role of local government is to set the stage for these processes. In such an approach, strategy and planning are no longer technical tasks; rather, these become highly interactive, political activities.
7. **Review the regulatory framework** to ensure that all levels of government (professional departments, politicians and officials) interact, coordinate and build effective alliances with communities and community-based organisations. It is worth considering the creation of a “dedicated bureau”<sup>98</sup> that would deal specifically with facilitating interaction with community-based organisations.
8. **Actively promote civic empowerment.** Local government must assist community organisations to assume greater levels of responsibility for their own well-being, while simultaneously building linkages between local communities and formal institutions.<sup>99</sup> The importance of this civic empowerment duty cannot be over-emphasised – numerous studies show that strong communities create sustainable development, rather than being caused by it.<sup>100</sup> By the same logic, strong municipalities are usually a function of strong communities.<sup>101</sup>

## 5.5 Linkages and sub-contracting

Several studies on African small-scale enterprises point to the possibility that closer linkages between large and small enterprises can be an effective way of supporting informal enterprise development.<sup>102</sup> Recently, sub-contracting has become a prominent feature of the South African economy. Examples can be found in the construction sector, in services like cleaning and gardening, and in the clothing, leather, silk-screening, jewellery and number-plate making sectors. Linkages are also occurring in relation to franchises that access township markets – for example Speed Queen (laundromats), Kippies Chicken, Macro and Alcatel (phone shops).

Historically, however, co-operation between large and small-scale enterprises is not a well-developed feature of the economy. Big business lacks a culture of cooperating with small firms and few corporate responsibility programmes for African informal development transcend the realm of rhetoric. Currently, only a small volume of production subcontracting benefits African informal enterprise. In fact, the general pattern sees the highly concentrated structure of the South African economy encourage large enterprises to deal mainly with one another. This is quite different from the situation in countries like Japan, Germany and Italy, where extensive sub-contracting is the norm.

Likely explanations for the South African case would include:

- ♦ The legacy of the apartheid education system, which denied sufficient technical training to black people and reduced the reliability and quality of subcontract work;
- ♦ The limited application of new technological and organisational innovations;
- ♦ The poor quality and delivery standards of many black micro-enterprises; and,
- ♦ Concentrated distribution networks, which encourage large distributors to buy from larger producers in order to secure 'economies of buying'.

### ***State interventions: legislation, financial support and other incentives***

For many South African observers, the experiences the Pacific Rim nations offer a model for nurturing close cooperation between large and small enterprises through a system of subcontracting.<sup>103</sup> In Korea, the government extended its authority over the contractual process, granting the state sweeping powers to intervene in contracts between large and small firms. New legislation enhanced the position of small and medium enterprises. Along with other financial support measures, the state also stipulated the percentage of loans that banks should make available to SMMEs.

In Singapore, government set up the local industries programme (LIUP) as an instrument to nurture linkages between small and large firms. It did this mainly by providing assistance to SMMEs, which acted as suppliers to big firms. Large companies would 'adopt' a small or medium enterprise as a supplier of inputs and then be funded with special government grants to develop these SMMEs. Managers from the parent firm were seconded to the agency responsible for SMME development.

The Korean and Singaporean experiences highlight a range of institutional and legal interventions that can alter the terms of trade between large and informal operators:

- ♦ Policy makers could consider the idea of introducing flexible legislation and support programmes to address barriers to the advancement of small enterprises;
- ♦ Guidelines for developing a subcontracting policy or programme intervention should aim to increase the linkages between small and large firms so that subcontracting becomes a more common phenomenon. One option would be firm and targeted institutional mediation by the state, which would revolve around the creation of networks between small and large businesses;
- ♦ It is also important that small producers begin innovating and anticipating the needs of established firms. This, too, could be boosted by institutional support from local government.

The World Bank (1993) has called for a system of incentives that encourage linkages. It has also urged that larger enterprises assume a 'mentoring' role by furnishing SMMEs with technical advice and training. This could help improve quality standards. Procurement arrangements would be voluntary and mutually beneficial. A further set of interventions is needed to strengthen linkages to the public sector, including possible changes in tendering systems to expand government procurement (especially at the local level) from black micro-enterprise.

Experiences of subcontracting in the developing world (especially Latin America and Asia) reveal both positive and negative features.<sup>104</sup> It can promote local industrial flexibility, constructive competition and efficiency. It can also help rejuvenate the industrial base. But it can also spawn

unhealthy dependencies and increase the exploitation of small firms. On top of that, sub-contracting does not address other constraints those firms experience (for example, access to credit or training). In many instances, as highlighted previously, informalisation of production creates precarious working conditions that lead to high levels of work instability. The invisibility of HBEs, and more especially of female workers in HBEs, makes these enterprises and their employees prone to abuse and exploitation.

### ***Industrial districts***

'Industrial districts' are often cited as one way to promote the positive, developmental impact of sub-contracting. An industrial district essentially comprises the following characteristics:

- ♦ Clusters of mainly small and medium sized enterprises that are spatially concentrated and sectorally specialised;
- ♦ A set of linkages that is based both on market and non-market exchanges of goods, information and people;
- ♦ A common cultural and social background; and,
- ♦ A network of public and private local institutions that support the economic agents grouped in the cluster.<sup>105</sup>

Planners in the developing world have experimented with a range of municipal-level strategies to grow the local industrial base by manipulating hard (land, infrastructure, incentive provision) and soft (vocational training, stimulating trade associations, management assistance and credit) infrastructure. Attempts to 'manufacture' industrial districts offer many lessons for South Africa. Case studies in Brazil, Italy, India and Korea highlight these lessons:

- ♦ There is no single, ideal model because patterns of interaction between parties take different forms in different societies. However, a central feature of all experiments is the direct participation of all the individuals, institutions and firms involved;
- ♦ Clustering alone does not ensure success. Equally important is the wider macroeconomic context, the quality of supply factors, the institutional environment and support in the form of other services like finance, infrastructure and urban management;
- ♦ Business reorganisation is critical to improve competitiveness, as is the creation of an industrial atmosphere through public sector encouragement and support;
- ♦ The role of local government (and/or local associations) is critical to create specialised centres, strengthen infrastructure and launch initiatives to support the industrial sector;
- ♦ Effective urban development is essential to ensure a facilitating environment.

### ***Policy recommendations for linkages and sub-contracting***

1. **Develop a system of local incentives to encourage linkages between formal and informal businesses in conjunction with all stakeholders.** Urge and help larger enterprises to play a mentoring role. The planned National Mentorship Scheme provides impetus for local municipalities and other stakeholders to think creatively about a local programme.
2. **Local government procurement should sub-contract to emerging contractors.** It must be complemented by initiatives to source goods and services from groups of small and medium enterprises, thereby stimulating collective efficiencies and inter-firm cooperation.
3. **Local authorities should consider assuming the role of supplier/deliverer of 'real services' to the local micro-enterprise economy.** Alternatively, local authorities could play a connecting or linking role in the building of informal economies of growth.

4. **Public investment should be deployed in a manner that mobilises and focuses private sector investment in order to cultivate an industrial atmosphere conducive to networking and clustering.** Linkage policies could be combined usefully to harness the incubating potential of central business districts and to redirect investment towards depressed areas.

## 6. CONCLUSION

This paper is based on the premise that local government has an important – albeit not exclusive – role to play in supporting the local informal economy, particularly in urban areas. To effectively fulfil this role, local government has to gain a better understanding of the size and nature of the informal economy. It also has to come to grips with the processes of informalisation and formalisation that shape not only the nature of the informal economy, but also the nature of the relationship between the formal and informal sector.

In formulating policy frameworks it is necessary to bear in mind that the informal economy is complex, diverse, heterogeneous and in constant flux. In the views of many progressive thinkers and scholars, the traditional demand- and supply-oriented policies adopted by governments in support of the informal economy are inadequate. Such policies should be accompanied by a range of sectoral and macroeconomic policies that fully utilise the potential role of the informal sector in urban development processes.

The challenge confronting local municipalities is to devise local economic development strategies that build governance capability across and between a broad range of institutional fields of economic life. This includes networks of organisation and representation across the economy (straddling both the ‘formal’ and ‘informal’ sectors), decentralising responsibility to an empowered civic sector and building social capital.

The process of socio-institutional reform has to go well beyond the decentralisation and democratisation of local institutions. It also has to encompass participatory politics, active citizenship, civic pride and the institutionalisation of collective interests in order to draw society into governance processes. Examples of successful local economic development are underpinned by active associational life, vigorous political contestation, detailed scrutiny of the conduct and behaviour of political leaders and public authorities, public spaces that are shared and commonly owned, with a strong culture of autonomy and self-governance pervading society. In short, such programmes succeeded because the social economy was mobilised.

Adopting a culture of social inclusion and social empowerment is likely to encourage economic creativity by allowing diverse social groups and individuals to realise their potential. This reinforces the view that policies to stimulate entrepreneurship should recognise the centrality of policies that combat social exclusion. This is especially important in regions where structural unemployment and ‘under-developed’ entrepreneurship is common. Direct action to stimulate job generation is required at the micro, sectoral and macro-economic levels. It is important, however, that such direct action be orchestrated in ways that build a social economy (capable of nurturing skills, expertise and capabilities) and that effectively wage war against poverty.

This paper has reviewed five key issues that need to be addressed as part of sustained efforts to monitor and strengthen the informal economy. These include:

- ♦ Financing and credit,

- ♦ Infrastructure and service provision;
- ♦ Markets and trading spaces;
- ♦ Urban planning and urban management; and,
- ♦ Expanding business linkages through sub-contracting arrangements.

Drawing on national and international experience, policy recommendations have been proposed in relation to each of these issues. Throughout, specific attention needs to be given to programmes that target vulnerable groups, most particularly women.

Any course of action chosen by local government requires thorough scrutiny to ensure that poverty is being directly attacked and not exacerbated. Policy makers should consistently bear in mind whether a particular intervention or course of action is likely to worsen or reduce poverty.

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<sup>1</sup> African National Congress (1994). *The Reconstruction and Development Programme*, Johannesburg: ANC, p. 94.

<sup>2</sup> Republic of South Africa (1994). *White Paper on Reconstruction and Development*, Pretoria: SA Government, p. 33.

<sup>3</sup> Republic of South Africa (1995a). *National Strategy for the Development of and Promotion of Small Business in South Africa*, Cape Town: Department of Trade and Industry, p. 06.

<sup>4</sup> "Virtues of 'grey economy' questioned", *SouthScan* Vol 13 No 14, 10 July 1998.

<sup>5</sup> These include the activities of Khula Finance (which approved R57-million in loans to small businesses in 1997/98) and the 1998 launch of the KhulaStart programme, aimed at providing small amounts of credit to rural communities, with an emphasis on women. Information and counseling services for new, small businesses have also been established.

<sup>6</sup> Erwin, A. (1999). *Address by Minister Alec Erwin: Trade and Industry Budget Vote*, 9 March, Cape Town, p. 4-5.

<sup>7</sup> It is clear, though, that local interventions need to be located within broader, conducive macro frameworks and policies.

<sup>8</sup> Kobokoane, T. (1998). "Mbeki's grey economy a smokescreen", *Business Times*, 5 July 1998.

<sup>9</sup> Statistics drawn from Sidiropoulos, et al. (1998). *South Africa Survey 1997/98*, Johannesburg: South African Institute of Race Relations.

<sup>10</sup> Simone, A. and Santi, K. (1998). *Civil Society & Poverty – An Overview of South African Trends*. Background Report Prepared for CODESRIA by Isandla Institute.

<sup>11</sup> This view was confirmed by Jabu Ntuli of the Self-Employed Women's Union.

<sup>12</sup> Noyoo, N. (1998). "The informal sector is not SA's poverty pill", *Sunday Independent: Reconstruct*, 1 November 1998.

<sup>13</sup> Kobokoane, T. (1998). "Little hope for jobless in shrinking labour market", *Business Times*, 21 June 1998.

<sup>14</sup> The Gini coefficient is a number between 0 and 1 which indicates the level of income inequality within a population. A value of 0 indicates perfect equality (everyone has the same income), whereas a value of 1 indicates perfect inequality (one person or household has all the income). As the Gini coefficient becomes larger and closer to 1, the extent of inequality increases.

<sup>15</sup> "South Africa is still suffering inequalities from racial capitalism", *Parliamentary Bulletin*, 14 April 1998. The *Bulletin* was based on a paper by Professor Sampie Terreblanche of the University of Stellenbosch.

<sup>16</sup> South African Government (1998). *Creating Jobs, Fighting Poverty: An Employment Strategy Framework – Government's proposals to the Job Summit*, 1-5 (1).

<sup>17</sup> Hartley, R. (1998). "Underground, the outlaw economy is thriving", *Sunday Times*, 15 March 1998.

<sup>18</sup> *Ibid.*

<sup>19</sup> Cf Altman, M. (1989). *Limits to the Growth of Small Firms in South Africa: Concentration in the Clothing and Textile Industries*, unpublished M.Phil Dissertation, University of Cambridge; Ismail, F. (1993). *An industrial strategy for the South African footwear subsector – Report submitted to the Industrial Strategy Project*, University of Cape Town; Khan, F. (1993). *Product-based technology learning: SMMEs and industrial districts – CCLS (unpublished report)*; Manning, C. (1993). *Informal Manufacturing in the South African Economy*, CSDS:

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UND; Manning, C. and Mashigo, P. (1994). "Manufacturing in South African microenterprises", *IDS Bulletin*, 25:1, p. 30-36.

<sup>20</sup> ILO (1996:11).

<sup>21</sup> Maldonado, C. (1995). "The informal sector: Legalisation or laissez-faire?", *International Labour Review*, 134:6, p. 705-728 (705).

<sup>22</sup> Rogerson, C. (1994). *Globalisation or Informalisation: African Urban Economies in the 1990s*. Paper presented to the United Nation's University Project Meeting "The Challenge of Urban Growth in Africa", 15-16 December, p. 7.

<sup>23</sup> International Labour Organisation (1997). *Jobs for Africa: A Policy Framework for an Employment-Intensive Growth Strategy*, Geneva: ILO, p. 57-58.

<sup>24</sup> Nurul Amin, A.T.M. (1996). "The Asian Setting of the Informal Sector's Growth Dynamics", *Regional Development Dialogue*, 17:1, p. 70-93 (90).

<sup>25</sup> See ILO (1996). *Restructuring the Labour Market: The South African Challenge*, Geneva: ILO.

<sup>26</sup> Castells, M. and Portes, A. (1989). "World Underneath: The Origins, Dynamics, and Effects of the Informal Economy", in M.Castells, A.Portes and L.A.Benton (eds), *The Informal Economy: Studies in Advanced and Less Advanced Countries*, Baltimore: John Hopkins University, p. 11-37 (11).

<sup>27</sup> Rogerson, C. (1991). "South Africa's informal economy: past, present and future", in E.Preston-Whyte and C.Rogerson (eds), *South Africa's Informal Economy*, Cape Town: Oxford University Press, p. 1-7 (1).

<sup>28</sup> Amin, A.T.M. (1996). "The Informal Sector Paradigm: Analytical Contributions and Developmental Role", *Regional Development Dialogue*, 17:1, Spring, p. vi-xxvii.

<sup>29</sup> From Short, J.R. (1996). *The Urban Order: An Introduction to Cities, Culture, and Power*, Oxford: Blackwell, p. 245.

<sup>30</sup> Stewart, F. (1989). "Summary of Discussions and Suggestions for Future Research", in B.Salome (ed), *Fighting Urban Unemployment in Developing Countries*, Paris: OECD, p. 11-30.

<sup>31</sup> Douglass, M. (1998). "Beyond Dualism: Rethinking Theories of Development in a Global-Local Framework", *Regional Development Dialogue*, 19:1, p. 1-18.

<sup>32</sup> Castells and Portes, *op cit*.

<sup>33</sup> *Ibid*.

<sup>34</sup> Thomas, R. and Thomas, H. (1994). "The Informal Economy and Local Economic Development Policy", *Local Government Studies*, 20:3, p. 486-501 (487).

<sup>35</sup> Harper, M. (1996). "Urban Planning and the Informal Sector", *Regional Development Dialogue*, 17:1, p. 97-112 (97).

<sup>36</sup> Harper, M. (1992). "The City as a Home for Enterprise: Has Anything Changed for the Informal Sector", *Habitat Intl*, 16:2, p. 143-148 (145).

<sup>37</sup> Steenkamp, W. (1998). "CBD: a wasteland of crime and grime", *Saturday Argus*, November 14/15 1998.

<sup>38</sup> Adapted from Douglass, *op cit*: 5.

<sup>39</sup> Swilling, M., Simone, A. and Khan, F. (forthcoming): *'My Soul I can See': The Limits of Governing African Cities in a Context of Globalisation and Complexity*; Getu, M. (1996). "Micro Enterprise Development and Poverty Alleviation in Africa", in P.F. Alexander et al (eds), *Africa Today: A Multi-Disciplinary Snapshot of the Continent in 1995*, Canberra: Australian National University, p. 517-524 (519).

<sup>40</sup> Chossudovsky, M. (1998). "Global Poverty in the Late 20<sup>th</sup> Century", *Journal of International Affairs*, 52:1, p. 294-311.

<sup>41</sup> Said E. (1998). "Apocalypse Now" [<http://www.salam.org/iraq/apocalypse.html>]

<sup>42</sup> Getu, *op cit*; van Arkadie, *op cit*.

<sup>43</sup> Halfani, M. (1996). "Marginality and Dynamism: Prospects for the sub-Saharan African City" in M.Cohen et al (eds), *Preparing for the Urban Future: Global Pressures and Local Forces*, Washington: Woodrow Wilson Center Press, p. 83-107.

<sup>44</sup> Labour migration is a central element in the livelihoods of many households in developing and advanced countries, yet it has not been given the attention it deserves. International migration is at an all-time high. In the mid-1990s, about 125 million people lived outside their country of birth or citizenship. They account for 2% of the world's population and are expanding by two to four million annually. Migration, research suggests, does alleviate poverty (depending on the form and conditions under which it takes place), but can also increase inequality (depending on the type of migration – internal and/or international). The crucial question is not about migration itself, but what kind of opportunities are available for what groups of people, and whether the type of migratory work allows migrants and their families to improve their assets and human capital. Given the central importance of migration in poverty alleviation and agricultural development (through remittances for example),



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policies should aim at enhancing its contribution to people's livelihoods. This includes minimising discrimination against migrants, reducing red tape, supporting the settlement of immigrants and enabling them to develop their resources. Policies should include providing information and communication channels, facilitating the integration of migrant populations in areas of destination, minimising tensions and environmental damages, and enhancing welfare for both migrants and the host population. With respect to internal migration, a key coping strategy of the poor, support policies could include efficient and effective ways of facilitating the movement of remittances, and channels to invest these in productive and sustainable production. Local government is uniquely positioned to play a meaningful role in all policy intervention areas mentioned above.

<sup>45</sup> Gilbert, A. (1988): "Home enterprises in Poor Urban Settlements: Constraints, Potentials, and Policy Options", *Regional Development Dialogue*, 9:4, p. 21-35 (30).

<sup>46</sup> Post, J. (1992). "Small-Scale Economic Activity and Town Planning in Kassala, Sudan", *Third World Planning Review*, 14:1, p. 53-74 (64-65).

<sup>47</sup> This section is informed by the authoritative works of Chris Rogerson including Rogerson, C.M. (1993). "South Africa's Micro-Enterprise Economy: A Policy-Focussed Review" – Draft position paper prepared for the EC 'Micro Enterprise Development and Regional Studies Project', December; Rogerson, C.M. (1996a). *Rethinking the informal economy of South Africa*, Pretoria: DBSA; Rogerson, C.M. (1997). "SMMEs and Poverty in South Africa – Input Report for the National Project on Poverty and Inequality", May. The discussion of the changing research foci in South Africa draws on Rogerson (1991), *op cit*.

<sup>48</sup> Douglass, *op cit*, p. 17.

<sup>49</sup> Thomas, *op cit*. p.15; Manning, C. (1996). "Market access for small and medium-sized producers in South Africa: the case of the furniture industry", cited in Rogerson (1997).

<sup>50</sup> Harrison, B. (1994). *Lean and Mean: The Changing Landscape of Corporate Power in the Age of Flexibility*, New York: Basic Books (13, 18-19).

<sup>51</sup> Riley, T. (1993). *Characteristics of and constraints facing black businesses in South Africa: survey results*, Washington: World Bank (unpublished paper).

<sup>52</sup> Cited in Rogerson (1997).

<sup>53</sup> Manning and Mashigo, *op cit*; Manning (1993), *op cit*; Rogerson, C.M. et al, (1997a). "The changing post-apartheid city: emergent black-owned small enterprises in Johannesburg", *Urban Studies*, 34, p. 85-103.

<sup>54</sup> Rogerson (1997).

<sup>55</sup> Pityana, 1997 cited in Rogerson (1997).

<sup>56</sup> van der Berg, 1993 cited in Moore, B.J. & Schoombe, G.A. (1995). "Bank Credit to the Informal Sector: Challenge and Reward", *Development Southern Africa*, 12:3, p. 347-360 (348).

<sup>57</sup> Manning and Mashigo, *op cit*.

<sup>58</sup> Manning, 1996 cited in Rogerson (1997).

<sup>59</sup> Horn, 1995 cited in Rogerson (1997).

<sup>60</sup> Robin Bloch cited in Rogerson (1997).

<sup>61</sup> The established business community contends that flexibility in the labour market will generate employment and incomes and hence be an important weapon for combating poverty. The background to the emphasis on flexibility is to be found in the fact that recent economic growth has not resulted in employment creation to a corresponding extent, and that without increased labour absorption it will not be possible to provide the projected 400,000 new jobs per year in 2000. Flexibility could assume various forms, but presumably the most important one relates to wages. Different sectors, regions and firms, it is argued, need different wage levels to be competitive. As expected, unions are not in favour of flexibility, which they blame for layoffs and declining wages. However, there is considerable uncertainty about the employment and income-creating effects of increased wage flexibility. The Labour Market Commission, set up by former labour minister Tito Mboweni, suggested that a 10% wage reduction would lead to a 7% employment increase. The finding has been challenged by other studies, which argue that growth in the recent past has been more employment-creating than conventional wisdom would lead us to believe. Meanwhile, actual wage flexibility could be higher than current estimates indicate. It is also uncertain to what extent increased employment will alleviate poverty, since income inequalities in South Africa are largely wage-driven. Mere access to employment does not ensure poverty alleviation (drawn from Lundahl, M. (1998). "The post-apartheid economy, and after", in L.Petersson (ed), *Post-Apartheid Southern Africa: Economic Challenges and Policies for the Future* – Proceedings of the 16th Arne Ryde Symposium – 23-24 August, 1996, Lund Sweden. London: Routledge, p. 21-43 (37, 38).

<sup>62</sup> Rogerson, C. (1992). "Business organisations, industrial restructuring, and flexible production: agendas for a new industrial geography", in C.Rogerson and J.McCarthy (eds), *Geography in a Changing South Africa: Progress and Prospects*, Cape Town: Oxford University Press, p. 246-264 (256).

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<sup>63</sup> see Riley, *op cit*.

<sup>64</sup> Manning, 1996 cited in Rogerson (1997).

<sup>65</sup> *Ibid*.

<sup>66</sup> The discussion of current government initiatives in the field of credit and finance to the SMME sector and the elaboration of the Small Enterprise Foundation is drawn from Rogerson (1997).

<sup>67</sup> *Ibid*.

<sup>68</sup> Bardhan, *op cit*.

<sup>69</sup> Blakely, E.J. (1994). *Planning Local Economic Development: Theory and Practice*, London: Sage; Servon, L.J. (1996). "The economic development potential of microcredit: myths and misconceptions", in C.Demaziere and P.A.Wilson (eds), *Local Economic Development in Europe and the Americas*, England: Mansell, p. 284-310.

<sup>70</sup> Bardhan, P. (1996). "Research on Poverty and Development Twenty Years after *Redistribution with Growth*" in *Annual World Bank Conference on Development Economic 1995*, Washington: World Bank, p. 59-72.

<sup>71</sup> International Labour Organisation, *op cit*.

<sup>72</sup> Getu, *op cit*.

<sup>73</sup> Sungoonshorn, S. and Nurul Amin, A.T.M. (1995). "The Informal Sector's Access to Local Government Services: Focus on Bangkok's Slums", *Regional Development Dialogue*, 16:2, p. 146-163.

<sup>74</sup> Vanderschueren, F. et al. (1996). *Policy Programme Options for Urban Poverty Reduction: A Framework for Action at the Municipal Level*, Washington: World Bank.

<sup>75</sup> Amin, A. (forthcoming), *op cit*: 1.

<sup>76</sup> ILO: 78.

<sup>77</sup> Zaaijer, M. and Sara, L.M. (1993). "Local Economic Development as an Instrument for Urban Poverty Alleviation: A Case from Lima, Peru", *Third World Planning Review*, 15:2, p. 127-142.

<sup>78</sup> Amsden, A. et al. (1996). "China's Macroeconomy, Environment, and Alternative Transition Model", *World Development*, 24:2, p. 273-286; Douglass, M. (1992). "Global Opportunities and Local Challenges for Regional Economies", *Regional Development Dialogue*, 13: 2, p. 3-21.

<sup>79</sup> Ramirez, A. et al. (1998). *Economic Growth and Human Development*. Working Paper No: 18, Oxford: International Development Centre.

<sup>80</sup> Borhat, H. et al. (1998). *Poverty in the Labour Market*. Report prepared for the Poverty and Inequality Project.

<sup>81</sup> Leitner, H. (1993). "The Limits of Local Initiatives: A Reassessment of Urban Entrepreneurialism for Urban Development", *Urban Geography*, 14:1, p. 57-77; Clarke, S.E. (1993). "The Profound and the Mundane: Analysing Local Economic Development Activities", *Urban Geography*, 14:1, p. 78-94.

<sup>82</sup> Eisenschitz, A. and Gough, J. (1996). "The contradictions of neo-Keynesian local economic strategy", *Review of International Political Economy*, 3:3, p. 434-458.

<sup>83</sup> Hives are defined as "clusters of small, cheap factory units of sizes not generally available through the private market" (Harrison et al, *op cit*: 54). Hives provide support services which tenants identify. Incubators are similar, except that the services provided to SMMEs are usually limited to a few months. Those services are scaled down or eventually withdrawn, depending on the circumstances.

<sup>84</sup> RDP White Paper, *op cit*: 33.

<sup>85</sup> Thomas, W. (1995). *Hives, Small-Industry Parks and Entrepreneurship Development in Southern Africa – Lessons for the Small-Industry Development Centre Project in Namibia*. Consultancy input for the GOPA study on Industrial Estates, August (15).

<sup>86</sup> Cf Steffens, R. (1992). "What the Incubators have hatched: an assessment of a much-used economic development tool", *Planning*, 58:5, p. 28-30; McKee, B. (1992). "A Boost for Start-Ups", *Nation's Business*, 80:8, p. 40-42; Bianchi, A. (1993). "New Businesses", *INC*, 15:1; Brown, C.M. (1995). "Small Business Development: Park your company here", *Black Enterprise*, 26:2, p. 84-90; Forst, M. (1996). "Helping Small Business in Eastern Europe", *The OECD Observer*, 198, p. 51-54; Autio, E. and Klofsten, M. (1998). "A Comparative Study of Two European Business Incubators", *Journal of Small Business Management*, 36:1, p. 30-43; Chong-Tae (1997). "Nurturing new businesses", *Business Korea*, December; Buss, D. (1997). "Bringing new firms out of their shells", *Nation's Business*, 85:3, p. 48-50.

<sup>87</sup> Walt Plosila, founder of the Benjamin Franklin Partnership which offers loans and grants to the 45 incubators in Pennsylvania, USA. Cited in McKee, *op cit*.

<sup>88</sup> US incubator consultant Diane Palminteri cited in Buss (1997).

<sup>89</sup> Harrison et al, 1997: 54.

<sup>90</sup> Discussion and policy recommendations drawn from Tipple, A.G. (1993). "Shelter as workplace: A review of home-based enterprise in developing countries", *International Labour Review*, 132:4, p. 521-539; Gilbert, A.

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(1988). "Home enterprises in poor urban settlements: constraints, potentials, and policy options", *Regional Development Dialogue*, 9:4, p. 21-37; Rogerson (1996).

<sup>91</sup> Eskom (1996). *Annual Report 1995*, Sandton: Eskom.

<sup>92</sup> Case studies drawn from Perera, L.A.S.R. and Nurul Amin, T.M. (1995). "Feasibility of Accommodating Informal Sector Enterprises in Local Government Areas: A case study of Colombo, Sri Lanka", *Regional Development Dialogue*, 16:2, p. 198-209; Harper (1996), *op cit*.

<sup>93</sup> Karunanayake, M. and Wanasinghe, Y.A.D.S. (1988). "Generating urban livelihoods: A Study of the Poor in Colombo", *Regional Development Dialogue*, 9:4.

<sup>94</sup> Woolcock, M. (forthcoming). "Social Capital and Economic Development: Towards a Theoretical Synthesis and Policy Framework", *Theory and Society*; For a useful discussion of a South African application, see Pieterse, E. (1997). *Input Paper on Social Capital and Community Initiatives*. Prepared for the Poverty and Inequality Report.

<sup>95</sup> There is also evidence that social capital has a downside. Strong, long-standing civic groups can stifle growth and development by monopolising a disproportionate share of resources. They can also inhibit individual enhancement of members by saddling them with heavy personal obligations that prevent them from taking part in other, broader social networks.

<sup>96</sup> Rakodi, C. (1995). "Poverty Lines or Household Strategies: A review of Conceptual Issues in the Study of Urban Poverty", *Habitat International*, 19:4, p. 407-426.

<sup>97</sup> Healey, P., Cameron, S., Davoudi, S. and Mandani, A. (1995). "Introduction: The City - Crisis, Change and Invention", in Healey, P., Cameron, S., et al. (eds.), *The New Urban Context: Managing Cities*, London: John Wiley and Sons, p. 19 (author's emphasis).

<sup>98</sup> See The Transitional National Development Trust (1998). *Structuring Effective Development-Oriented Interactions Between the State and Civil Society in South Africa: A Comparative Analysis of Mechanisms in Place*. Report compiled by The Transitional National Development Trust at the request of Gill Marcus, Deputy Minister of Finance.

<sup>99</sup> Woolcock, *op cit*.

<sup>100</sup> Stoecker, R. (1996). *The Community Development Corporation Model of Urban Development: A Political Economy Critique and an Alternative*, Toledo: University of Toledo Department of Sociology, p. 19.

<sup>101</sup> Vanderschueren et al, *op cit*: 13.

<sup>102</sup> Harrison et al, *op cit* : 56.

<sup>103</sup> Rogerson, C. (1995). "Looking to the Pacific Rim: Production Subcontracting in Small-scale Industry in South Africa", *International Small Business Journal*, 13:3, p. 65-79; Khan, F. (1993). *Product Based Technology Learning: Small- to Medium-sized Manufacturers and Industrial Districts*. Report prepared for the Centre for Community and Labour Studies, University of Durban-Westville.

<sup>104</sup> Rogerson, C. (1993). "Industrial Subcontracting and home-work in South Africa: Policy Issues from the international experience", *Africa Insight*, 23:1, p. 47-54.

<sup>105</sup> See Pyke, F. (1994). *Small firms, technical services and inter-firm co-operation*, Geneva: International Institute for Labour Studies; Sengenberger, W. and Pyke, F. (1990). *Small Firm industrial districts and local economic regeneration: research and policy issues*. Paper presented at the International Conference on Industrial Districts and Local Economic Regeneration, Geneva: International Institute for Labour Studies, 18-19 Oct; Best, M. (1993). *The New Competition: Institutions of Industrial Restructuring*, Cambridge: Polity Press.