

Background Paper for the 2005 World Development Report

**The Investment Climate for the Informal Economy:
A Case of Durban, South Africa**

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Abstract

This paper considers the investment climate for the informal economy by investigating the South African case. We review recent theoretical developments in understanding the informal economy, pointing to the increasing consensus that the economy needs to be viewed in its entirety with a formal and informal end. We then give a brief statistical overview of the informal economy in South Africa. Durban, South Africa's third largest city, has been proactive in seeking out ways of creatively supporting informal enterprises, as an economic function, not merely as a welfare alleviation function. Durban's approach over time is briefly reviewed.

The views expressed are those of the authors and do not necessarily reflect official views of the World Bank

1. Introduction

This paper considers the investment climate for the informal economy by investigating the South African case. We review recent theoretical developments in understanding the informal economy, pointing to the increasing consensus that the economy needs to be viewed in its entirety with a formal and informal end. We then give a brief statistical overview of the informal economy in South Africa. Durban, South Africa's third largest city, has been proactive in seeking out ways of creatively supporting informal enterprises, as an economic function, not merely as a welfare alleviation function. Durban's approach over time is briefly reviewed.

The main part of the report concentrates on different aspects of the investment climate – the regulatory environment (taxes and laws), institutions, services (training, financial services and insurance, access to markets), and access to infrastructure and protection from crime. Each component of the investment climate will address the following:

- *Current context*: Relevant aspects of the current context and policy environment in South Africa and Durban are considered.
- *Needs / constraints to growth*: The specific needs of, and constraints to growth for, informal enterprises and how these are similar to or different from formal enterprises are explored. Attention is paid to the barriers to access to factors that could promote growth, from the perspective of those working in informal enterprises.
- *Innovations and suggestions*: Drawing on the South African and Durban experience, we sketch some of the innovations aimed at addressing the problems. If there are no innovations, we make suggestions.

2. Conceptual Position

Debates continue about what exactly 'informal' economic activities are, but there is agreement that they are relatively small scale, and operate beyond the scope of registration, tax and social security obligations, and health and safety rules for workers. Internationally there is a move away from a more enterprise based definition of informal employment to an employment based definition of informal work¹; whatever the case, the defining characteristic of the informal economy is the precarious nature of work (WIEGO, 2001:1). Workers in the informal enterprises and informal jobs are generally not covered by social security or protected by labour legislation.

The informal economic sphere is heterogeneous, with different types of economic activity, different employment relations, and activities with different economic potential. Furthermore, there is no clear line separating the formal from the informal. With the exception of those engaged in subsistence production, and with the partial exception of those pursuing illegal activities, there are few informal operators who are not linked (either through supply of inputs or demand for goods or services) into the formal economy. As Peattie (1987:858) points out, 'if we think about the world in terms of a formal and informal sector we will be glossing over the linkages which are critical for a

¹ See for example the resolutions from the June 2002 International Labour Conference on Decent Work in the Informal Economy.

working policy and which constitute the most difficult elements politically in policy development’.

Since the late 1980s there has been a trend to approach the informal economy sectorally or on an industry-by-industry basis, with each industry or sub-sector having a more formal and a more informal end (Chen 1996; McCormick and Schmitz 2001).

3. The Informal Economy in South Africa

Apartheid policy was central in the formation and the distortion of the South African informal economy. Flexible and informal forms of labour are historically characteristic of the South African labour market. A key component of apartheid was a system of contract and migrant labour. Apartheid restrictions not only limited opportunities in the formal economy for black South Africans, but also placed a series of restrictions on the right of non-white entrepreneurs to establish and operate businesses². The Black Urban Areas Consolidation Act (Act 25 of 1945) and the Group Areas Act (Act 36 of 1966) restricted the right of these black entrepreneurs to establish and operate businesses. Apartheid legalisation limited the range of goods that could be sold, blocked the formation of companies by black people, and set up an array of bureaucratic processes that discouraged the registration of small-scale economic activity. The impact of more than a century of repressive legislation on the development of informal economy activities by black people should not be underestimated.

The informal economy is increasingly the dominant form of work in developing country contexts³. Due to apartheid and the existence of a relatively strong formal economy, the informal economy in South Africa is less prominent. However recent analyses suggest that between 25% and 30% of South Africans who are presently working, operate in the informal economy⁴, and that the informal economy is growing⁵.

Tables 1 and 2 draw on the September 2001 Labour Force Survey (LFS)⁶. Table 1 shows employment by sex, within the formal and informal economy. Although there are more men than women in both the formal and informal economy, the gender difference is not as large in the formal as in the informal economy.

Table 1: Proportion of South African workers in the formal and informal economy by sex, 2001

| Gender | Formal | Informal |
|--------|--------|----------|
|--------|--------|----------|

² Standing et al (1996: 86-87) provide a list of the restrictive legislation.

³ Statistics calculated by Charnes (quoted in Chen, 2001:72) indicate that informal work composes 25%, 61% and 40-60% of urban employment in Latin America, Africa and Asia respectively. Further between 80% and 90% of new jobs created in Latin America and Africa were in the informal economy.

⁴ These South African Labour Force statistics include unregistered own account workers, employers and employees in enterprises that are not registered to pay VAT, subsistence agriculture and domestic work.

⁵ Devey et al (2003a) provide a comprehensive analysis of national level statistics on the informal economy.

⁶ Note that these figures exclude subsistence agriculture, domestic work and employees working under informal work arrangements in formal firms. For an analysis of South African statistics employing a worker based rather than an enterprise based definition of the informal economy see Budlender et al (2001).

| | economy % | economy % |
|--------|-----------|-----------|
| Male | 61.10 | 54.50 |
| Female | 38.90 | 45.50 |
| Total | 100.00 | 100.00 |

Source: StatsSA (2001b)

Table 2 shows the distribution of informal workers by economic sector. Informal employment is concentrated in the retail and wholesale trade, with just over half of all informal workers located in this sector. Further, there are significant numbers of people working in construction, manufacturing and services. Over ten percent of those working in the informal economy are involved in manufacturing, and this is a low proportion in comparison with other developing countries.

Table 2: Number and percentage of South African informal workers by economic sector, 2001

| Economic sector | Number | % |
|--------------------------------------|-----------|--------|
| Wholesale/retail | 936 997 | 50.10 |
| Construction | 258 442 | 13.80 |
| Manufacturing | 199 108 | 10.60 |
| Community, social, personal services | 163 340 | 8.70 |
| Private households | 127 277 | 6.80 |
| Transport, storage, communication | 103 541 | 5.50 |
| Financial | 76 851 | 4.10 |
| Mining and quarrying | 2 695 | 0.10 |
| Electricity, gas, water | 1 796 | 0.10 |
| Total | 1 870 047 | 100.00 |

Source: StatsSA (2001b)

4. The Durban Context

The 1994 transition to democracy was accompanied by a re-entry to the global economy and a rise in the status and importance of small business development (under which the informal economy is incorporated) in national economic policy thinking. However, new policies have been inappropriate in terms of not being inclusive of the needs and interests of poorer workers or of very small enterprises. In line with international trends of decentralisation of powers to the local level, South Africa's 1996 Constitution gave local government a range of new tasks, one of which is the promotion of local economic development. Local government is thus emerging as a key player in being able to influence the investment climate, and can play a role in filling the gaps in national government's approach.

According to the Durban Unicity's⁷ Economic Development Department and Monitor (2000:7) only 1 in 3 economically active people in Durban are employed in the formal sector. Furthermore, half of manufacturing jobs are in declining industries like footwear, clothing and textiles, printing and publishing and chemical products. In line with international trends, there is evidence of a process of informalisation of the formal economy (see Skinner and Valodia, 2002 for example on the informalisation of the Durban clothing industry).

Durban is ahead of other cities in responding to the growth of informal work and enterprises. In a 1999 five-city comparison, Durban was the only city to have set up a separate department to oversee street trader management, and it had allocated more resources for the provision of street trader infrastructure than the others (Skinner, 2000a). The Warwick Junction Project in Durban inner city has been widely acknowledged as successfully integrating informal traders into city plans. In 2000 the City Council initiated an informal economy policy development process, which lasted a year, and which resulted in a policy, which was accepted in November 2001. The policy has been acknowledged as an example of good practice, though its implementation has thus far been slow.

5. Aspects of the Investment Climate

5.1 The Regulatory Environment

5.1.1 Law: Labour Legislation

Context: In the last decade South Africa's labour legislation has been fundamentally changed. The Basic Conditions of Employment Act (BCEA) of 1997 outlines minimum standards of employment and is meant to cover all workers; as such, this Act has the most potential relevance to those working in informal employment. It covers part-time and contract workers including workers of sub-contractors, except workers working for less than 8 hours per week for a given employer. The BCEA particularly recognises groups of vulnerable workers such as farm and domestic workers and in 2002 made provision, for the first time in South Africa, for minimum wages for domestic workers (most of whom are women) and farm workers. The Minister of Labour recently maintained that 533 000 of the approximately 800 000 employers of domestic workers have registered their employees for the Unemployment Insurance Fund (Cape Argus 09/07/2003).

Needs and constraints: The changes in the labour legislation are likely to be positive for those who can secure compliance. However most of those working in the informal economy will not be covered by this new legislation. A significant number of those working informally are self-employed. Concern has been raised about the capacity of the Department of Labour to enforce the regulations for those who are employees. The

⁷ A note on terminology: Since 1996, Durban (and all local authorities in South Africa) has undergone a two-phased boundary adjustment accompanied by internal restructuring processes. The first phase created the Durban Metropolitan Area, which amalgamated what had been 48 racially based local authorities. The second phase came into effect in 2000 and entailed a substantial increase in the physical area. From then Durban was referred to as a Unicity; it is also more frequently being referred to by its Zulu name – eThekweni.

independent National Labour and Economic Development Institute, for example, estimated that to ensure employer compliance with the minimum wages as stipulated in the sectoral determinations for domestic and for agricultural workers, the Department of Labour would need 10 000 labour inspectors, 3000 and 7000 for the domestic and agricultural sectors respectively. A year after the new legislation came into effect; the populous Eastern Cape Province had only 60 labour inspectors for all sectors in the province (The Daily Dispatch, 19/08/2003).

Innovations and suggestions:

Worldwide, organisations of informal workers, and individual workers, are facing the difficulty of seeking to secure decent working conditions, while trying to protect against job loss. Worldwide, there are distances between the work of the law, and the implementation of the law. It is unlikely that a single-focus strategy of pursuing a route of litigation, trying to enforce implementation of basic working conditions, will be very effective on its own, and particularly in a context of high unemployment, as in South Africa. It is likely that the new South African legislation will lead to a continued increase in contractualisation and use of labour brokers.

The most effective strategies are likely to be those which combine some of the following elements:

- Elaborate on the inter-dependence of the health of the formal and informal ends of the economy, with both needing to benefit from a better investment climate;
- Emphasise the link between good working conditions, productivity, and political stability;
- Work towards a ‘carrots and sticks’ approach, offering incentives to employers who promote decent working conditions, while punishing those who do not;
- Actively use the media to raise awareness of the economic contribution of the informal economy;
- Explore further the use of ethical trade campaigns, and ethical codes of conduct, as instruments to promote decent work conditions.

5.1.2 Law: Municipal By-laws

Context: A significant aspect of law that shapes the environment within which informal workers operate is municipal by-laws. By-laws for example regulate street trading in different parts of urban areas; zoning regulations can impact on home-based workers. We concentrate here on street vending as this illustrates important aspects of constraints to growth, and encouragement of a positive investment climate for those working informally.

Under apartheid, street trading was disallowed, and ‘move-on laws’ dictated that hawkers had to move their site of trading every half hour. The 1991 Businesses Act was a key measure for de-regulation of business activities, removing barriers to the operation of informal activities, and making it an offence to enforce the move-on laws. The Amended

Businesses Act (RSA, 1993) allowed local authorities to formulate street trading by-laws. These regulations typically contained clauses which prevent traders from, for example, obstructing the movement of traffic or pedestrians, prevent unsafe stacking of goods, limit the attaching of equipment to buildings, road signs etc. and ensure that traders keep their sites clean. The amendment to the Businesses Act allows for an area to be declared a prohibited or restricted trade zone. Before this can be enforced, however, the local authority has to demonstrate to provincial government that by this action a large number of street traders will not be put out of business. This restrained local authorities from declaring large areas prohibited trade zones or restricted trade zones with only a few sites allocated to trading.

In March 1995, the Businesses Act was devolved to a provincial level, and provinces can amend the Businesses Act. Cities' approaches now vary. The Johannesburg City Council has declared the whole inner city a no-trading zone. Markets have been built to accommodate some of the 10 000 traders who were previously operating, and the total number of traders has been substantially reduced. Durban in contrast has a much less restrictive approach, and street trading sites have been demarcated throughout the inner city.

Needs / constraints to growth: Although by-laws are an important tool to enable city officials to manage public space, informal operators need a set of regulations that deals with them as working people, as economically active, rather than as public nuisances. Street trading by-laws can be punitive, harshly dealing with any transgression and in the process destroying livelihoods. Clauses such as indefinite confiscation of goods with no warning, or the imposition of high fines for trading in non-demarcated areas can be detrimental to traders' businesses. Traders need to be warned if their goods are going to be confiscated. Alternatively street trading by-laws can create an enabling environment for traders to operate, one in which the roles and responsibilities of each party are outlined.

Traders have to be aware of the legislation that governs their operating in public space if they are to make informed business decisions, and operate within the legal framework. Currently, the by-laws of many cities are still in English or Afrikaans only, and these are not the first languages of the vast majority of traders. Furthermore, they are typically written in legalistic and unintelligible language.

In general it is assumed that if a street trader feels local government has acted unfairly she or he has to take local government to court. Few traders have the time, capacity or resources to do this.

Innovations and suggestions:

- Durban is in the process of changing the legal framework that governs street trading, away from criminal law, to administrative law. This is a key to the conceptual shift from seeing street traders as public nuisances to seeing them as economic actors.

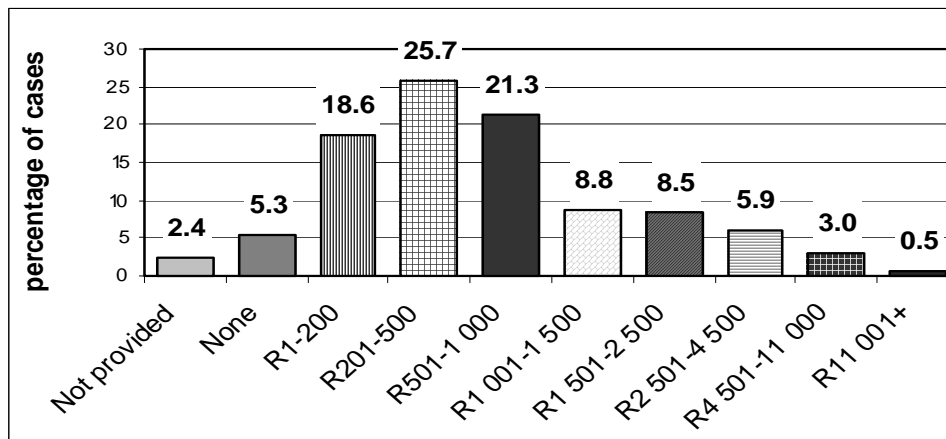
- A number of towns in the Eastern Cape province have established an appeal mechanism. A trader who feels wronged by any municipal decision is able to go to an appeal committee, which consists of a maximum of five members, at least one of whom has to be from the street trading sector. There is thus a user-friendly system for resolving conflict.
- To enable street traders to understand the regulatory framework:
 - o The language of by laws should be simple and clear.
 - o All written information should be in a language, which is understood by the majority of street traders.
 - o The information should be widely distributed in a format that is accessible even to those who are not literate.
 - o There should be public meetings where the legislation is explained.

5.1.3 Taxes

Context: Many definitions of the informal economy refer to the fact that informal operators and their enterprises are not subject to taxation, and many believe that the ‘choice’ to operate informally is motivated the desire to avoid or evade taxes.

Many South African informal workers earn less than the total taxable income threshold. Figure 1 shows monthly income figures, drawn from the September 2001 Labour Force Survey.

Figure 1: Percentage of South African workers in the informal economy by monthly income categories, 2001



Source: StatsSA (2001b)

The personal income tax threshold in South Africa is R30 000⁸ a year or R2 500 a month; the figure shows that 90.6% of those working in the informal economy reported monthly earnings of R2500 or below. Of those reporting an income, fully two thirds reported earning R1000 rand or less, much less than half of the tax threshold.

⁸ The rand / dollar exchange rate fluctuates daily. On the day this report was submitted it was R7.50 to the dollar.

Street traders working in inner cities are expected to pay monthly fees for trading space (different local authorities have different levels of success in collecting payments). Table 3 shows the fees charged in four major South African cities in August 2003.

Table 3: Fees charged to street traders in selected South African inner cities, 2003

| City | Fees charged (monthly amount unless otherwise specified) |
|--------------------|--|
| Ethekwini (Durban) | R35 – site with shelter provided R10 – site without shelter |
| Cape Town | R125 – flat rate for any trader operating in the inner city |
| Johannesburg | R75 – R600 depending on the level of services being provided |
| Tshwane (Pretoria) | R75 – R100 depending on the area R50 every six months - Mobile vendors selling perishable goods |

The site fee can be seen as a form of taxation. If these amounts are calculated as a proportion of traders’ reported monthly income this is a fairly high rate of taxation. In many cases the introduction of permits has not been accompanied by an improvement in the infrastructure provided for traders - shelter, tables, storage or toilet facilities. Further, where a flat rate is charged, this is a regressive rating system – R75 for a trader earning R500 a month is 15% of her income but 5% for someone earning R1 500 a month.

Needs / constraints to growth: Research has shown that many of those working in public space like street traders want to pay for their sites. In selected cities in South Africa, for example:

In all the focus group interviews women street traders said that they were happy for sites to be demarcated and were willing to pay permit charges because this gave them security over their sites. Having a place to sell that they knew was theirs was prioritised. This is a prerequisite to traders investing in and growing their businesses. (Skinner, 2000a: 57)

The tendency in South Africa and internationally is that informal workers pay blanket levies which are too high for the very poor, and too low for the better off. The co-ordinator of Streetnet, the international alliance of street vendor organisations points out that in South Africa and internationally where traders do not pay rents to the local authorities they often pay much more in the form of bribes to ‘informal’ authorities who take over the management of trading spaces. She argued that it was therefore preferable for local authorities to manage public space (Interview 28/08/03).

Innovations and suggestions:

Durban charges substantially less than other cities for the use of inner city space. While Durban still charges flat rate for sites, the new policy recommends a system of differentiated rentals, so that formal and informal businesses alike are charged different rents and rates for different levels of service. Rentals will be linked to site size,

desirability of location, and the level of services provided. For street traders, a basic site rental will be set. Then, differentiated rentals for different levels of service provision will be introduced. Components of a package of services are basic shelter, solid waste removal, water, toilets, lighting, and storage facilities (Durban Unicity, 2001:11).

5.1.4 Registration and Licensing

Context: The procedures to secure a licence to trade with the local authority are complex and costly. Street traders have to go to numerous different local government departments to register their business. People wishing to trade in foodstuffs in Durban, for example, have to apply to the Licensing Department for a license to trade, and to the Informal Trade and Small Business Branch for a site permit. The new Health Act now requires that the City Health Department issue a certificate of acceptability to a person trading in foodstuffs, so a triplicate system operates.

The process of registering a company or sole proprietorship with the Department of Trade and Industry is also a lengthy and complex procedure particularly for those who do not have easy access to the internet or a telephone. A variety of forms have to be filled in at different stages in the process, and these need to be copied and accompanied by revenue stamps, as well as by letters from accounting officers. There are a number of business support organisations that, for a price, will assist people with this process.

The economic situation of foreigners is especially difficult. Many, particularly from other African countries, work in the informal economy. The new government's response to migration has been conservative; the Refugees Act of 2000 for example does not allow asylum seekers to support themselves through employment or self-employment while awaiting approval of their applications. Moreover, no provision is made for state support, despite the fact that this process can take a number of years (Rogerson and Peberdy, 2000). In many cases asylum seekers have no choice but to work where barriers to entry are lower, often as informal street traders.

Peberdy and Crush (1998) point out that cross-border traders contribute to important aspects of the South African economy (e.g. crafters servicing the tourism industry); they also invest the majority of their profits in South African goods to take home. This international flow of goods is exactly what is being encouraged in the national government's economic policy stance for the formal economy. Unfortunately the policy logic at this point in time does not extend to those working in the informal economy. As foreign traders frequently do not have the correct documentation, local authorities often do not give foreign traders licences to trade. In the inner city of Durban for example, not one inner city site license has been granted to a foreigner (Interview, Area Manager, Informal Trade and Small Business Opportunities 08/09/03).

Needs and constraints to growth: Those working in the informal economy need transparent and simple systems that encourage them to take small steps on the path to regulation. Transaction costs should be low enough that they do not act as a disincentive to register. Particularly for the self-employed, time away from their businesses is money

lost. With respect to foreigners, given that migration is a national government competence, they will continue to be vulnerable until changes are made to the national legislation. The legislation stating that asylum seekers are not allowed to be self-employed while they await the outcome of their application violates United Nations Conventions on the treatment of asylum seekers and migrants.

Innovations and suggestions:

- Durban has introduced a system of decentralised registration and pay points, both of which serve to reduce transaction costs for poorer traders who wish to register and pay.
- Durban is also in the process of establishing an integrated information system which will be able to link incentives (for example access to subsidised training) to registration.
- Ideally there should be an accessible ‘one-stop shop’ staffed by officials who understand business, and who value the economic contribution of the informal economy to the city. Front-line officials dealing with informal workers should speak the first language of the people they are working for.
- With respect to foreigners the application process for asylum seekers needs to be streamlined, and brought in line with United Nations conventions on the treatment of asylum seekers and migrants.

5.2 Institutions

Informal workers and their enterprises should be able to have the same expectation of participating in governance mechanisms as formal businesses do; this applies to governance within the sector or firms, and to the actions of local government. Here we focus on the role that could be played by local government in promoting a positive investment climate.

Needs, constraints and disadvantages:

The economic contribution of informal workers is still not well understood, and stereotypes about their causing crime, invading city space, and being public nuisances abound. The institutional location of street trading in many cities, in Health, in Traffic Control, and in Policing, signifies how the informal economy is seen.

It is inherent to informality that it is more difficult to structure interaction between associations of workers and governance institutions. Most cities have few, if any, structured institutional spaces for continual interaction over decisions about, for example, the sites of new markets, priorities for development, participation in trade fairs. One hears of occasional, one-off initiatives, led by a charismatic official, to negotiate over a sensitive issue. Mostly, however, officials are unskilled in conflict resolution; there are no appeal mechanisms to settle disputes; and there is a high potential for violence to be used to address conflicts around property, assets, and trading spaces.

If there is to be consistency in local government's approach a politically mandated policy laying out the city's visions for the way in which these activities are to be approached, is necessary. Policies about the informal economy are key to securing a shift from 'policing' to a developmental approach. In such an approach, informal operators need to be dealt with as economic actors, as formal businesspeople are. Their associations need to be consulted over policy issues, and there need to be structured mechanisms of appeal.

Innovations and suggestions:

- Institutional location is an important signifier of how an activity is perceived. In Durban and in Cape Town, informal trade is situated in the Economic Development Department.
- Durban engaged in a year-long consultative policy development process, eliciting the views of formal and informal business associations, politicians, civil society and community organisations, about priority issues. The consultation was an integral (and budgeted) part of the process.
- In Durban, informal traders are represented as stakeholders in pilot initiatives in Area Based Management (ABM), and in ongoing ABM Committees.
- A commissioned study on how and where support for the informal economy features in Durban's annual local government budget was helpful in enabling officials and others to understand informal workers as economic actors. (Budlender, 2000).
- The new policy recommends the establishment of an appeal mechanism so that disputes which can easily lead to an escalation of hostility and violence among traders, or between traders and officials, can be quickly settled.

5.3 Services

5.3.1 Training⁹

Context: Under apartheid informal work for black South Africans was illegal, and so there has been little inter-generational transmission of knowledge about informal work.

⁹ This paper draws from a joint publication – see Devey et al, 2003b. This chapter has a much more detailed analysis of on human resource development and the informal economy.

Formal education levels among the older generation of black South Africans are low. All formal education in South Africa, and especially that for black people, emphasised obedience and uncritical rote learning. No business training was included in the school system.

The National Department of Labour is the primary source of government funding for training business service providers. The Skills Development Act of 1998 established a system of Sector Education and Training Authorities (SETAs), which are funded through a skills levy which all employers have to pay¹⁰. SETAs must design and implement sectoral skills development strategies and disburse levies in their sector. During the initial stages of designing the skills development system there was some debate about whether a separate SETA should be established to cater for the needs of the informal economy or whether informal economy interests should be incorporated into the existing SETAs. The Department of Labour opted for the latter given that informalisation characterises many different sectors.¹¹

This system is not yet performing adequately. For example, while the February 2000 Labour Force Survey estimated that over 50 per cent of those working in the clothing industry were in the informal economy, the clothing industry SETA had not trained any informal enterprises, nor did they intend to. The head of the Clothing and Textile Sectoral Education and Training Authority (quoted in Devey et al, 2003), argued that they had to prioritise the needs of formal economy enterprises since they are the ones paying skills levies.

Twenty per cent of the skills levy goes to the National Skills Fund, which is source of potential support to those working in the informal economy. The Department of Labour's approach is to rely on incentives to attract training service providers to offer training in the informal economy. However, in the Durban area, trainers, even not-for-profit trainers, are very reluctant to service those working in the informal economy. The following reasons were given:

- It is not profitable to train informal economy workers because government funding is difficult to secure and trainees are not in a position to cover their own costs.
- Informal economy workers are often regarded as 'untrainable' due to low levels of education.
- Trainers cannot use traditional training methods.
- Trainees are very mobile and therefore difficult to access.
- Because of perceived high crime rates, trainers and fieldworkers are frightened to go to the areas where people need to be trained (Skinner, 2000b).

The study concluded that reliance on the private sector would lead to the continued neglect of those groups who do not have a history of being serviced, are difficult to service and/or are not lucrative to service (Skinner, 2000b:7).

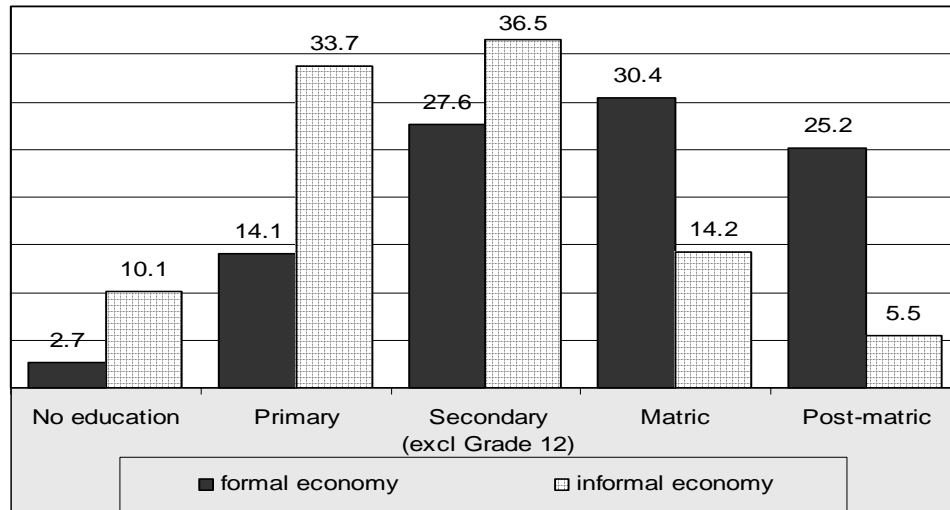
¹⁰ This is except public service employers or employers whose annual wage bill is less than R250 000.

¹¹ Emphasis is thus placed on including small business representatives in all SETA structures – a welcome sentiment, but one which assumes a degree of organisation among small businesses. This may be true for small and medium businesses, but micro- and survivalist businesses may find it difficult to engage in a continuous way with such institutions.

Needs / constraints to growth:

There are stark disparities in education levels between people operating in the formal and the informal economy. Figure 2 shows the level of education (last completed year of education) reported by workers in formal and informal work.

Figure 2: Proportion of formal and informal workers by education level, 2001



Source: StatsSA (2001b)

Ten per cent of those working in the informal economy compared to 3% of those in the formal economy have no education at all. Furthermore, one third of informal workers have completed only primary schooling and an additional one third have completed secondary (excluding Grade 12 or Matric). More than half of formal workers have completed 12 years of school (matric) or have a tertiary qualification, compared to only one fifth of informal workers.¹²

Liimatainen (2002:4) reviewed the literature on training and skills acquisition in the informal economy, and points out ‘the development of relevant skills and knowledge is a major instrument for improved productivity, better working conditions and the promotion of decent work in the informal economy’. Training is identified as an important need in a series of Durban studies (Skinner, forthcoming, on informal firms in Durban; Cross et al, 2000 on home-based work in Durban), but Figure 2 demonstrates the diversity of education levels within the informal economy.

The founder and former general secretary of the Self Employed Women’s Union emphasised the need to engineer a fit between the needs of informal workers, and training offered to them:

¹² Devey et al (2003b), using regression analysis of September 2001 LFS data, assess the relationship between educational levels and incomes in the informal economy. They (2003b:16) find that although returns to education were not significant for primary education, they were significant for secondary and higher education.

In our experience our members are often education hungry. In many cases however they have not been in a classroom context for sometime. They may be quickly alienated if training does not draw on their experience, build their confidence levels and is not correctly pitched or relevant... If training service providers find those working in the informal economy are not attending their courses then they must not blame the participants but must look seriously at the design of their training intervention. (quoted in Skinner 2000b: 22)

The challenge is clearly to provide training interventions that are relevant and delivered in an appropriate way.

- In terms of the content of training interventions there is a group of informal workers who need basic literacy and numeracy training.
- In a street trading context there is a need for training in business English since interviewees recognise that the world of business generally uses the medium of English (Skinner, 2000b).
- With respect to business skills, informal economy workers require an adapted and expanded set of business skills as well as other skills. Informal firm owners frequently do not separate personal from business expenditure and therefore cannot calculate profit (Cross et al, 2001; Skinner, 2000b). Those working in the informal economy need traditional business skills - financial management skills and skills market analysis, buying, costing and customer care – but adapted to an informal economy context.
- Life skills such as assertiveness training, negotiation skills, and conflict resolution skills would assist informal workers.
- Training interventions need to take industry specific dynamics into account.
- Training interventions should provide information about the institutional environment within which informal enterprises operate since this is often a stumbling block to business growth (Skinner, 2000b).
- Collective action on a small scale (such as buying collectively and therefore being able to secure discounts or cut out a middle person) or on a large scale (through organisational interventions) made a positive difference to those working in the informal economy (Skinner, 2000b).

Innovations and suggestions:

- For the self-employed, time away from the business is money lost; few informal operators would be in a position to take a number of consecutive days off to attend training. Training should be part time. Currently the Department of Labour does not fund part time training, thus excluding a significant group of those who are currently economically active in South Africa. This criterion needs to be reconsidered.
- Ideally trainers/advisors should also be available to visit informal operators at their site of work.
- Courses should be conducted in the learners' mother tongue and, in view of the low levels of literacy discussed earlier, should not only be text-based.
- As far as possible training should take place close to where informal operators work. Consideration has to be given to the provision of child-care facilities for women.

- The Department of Labour subsidises training providers. It could easily design incentives to favour providers who take the gendered needs and educational levels of informal operators into account in their curricula.
- Associations of informal workers in partnership with government could draw up a charter of good practice in training.
- In Durban, City Health has provided accredited simple training in environmental health for food-vendors, and this certificate brings recognition and a degree of security (and material prizes).
- In Durban, the Economic Development Department has issued invitations to informal traders to attend an annual Small Business Trade Fair, so they can be exposed to entrepreneurial practices and displays.

5.2.3 Access to Markets

Context: South African industry grew behind high and complex tariff barriers. Since 1994 the new government has embarked on a process of rapid integration of the South African economy into the global economy. In terms of trade policy there has been a comprehensive attempt to quickly reduce tariff barriers, and also to simplify the tariff structure. In some cases, for example the clothing industry, tariff levels have come down quicker than World Trade Organisation requirements. This rapid exposure to international competition has been both positive, in that some industries have managed to specialise and access new markets, as well as negative, in that in certain industries there have been significant job losses.

Needs / constraints to growth: Those working in both the formal and informal economy need access to markets to grow their businesses. Formal businesses are better placed than informal businesses to capture the opportunities that global markets present. South Africa's informal economy is dominated by service activities. Informal operators tend to service oversaturated markets, keeping profit margins low. There is no evidence to indicate that any of those working in the informal economy in South Africa are successfully accessing international markets (in contrast to for example India).

Innovations and suggestions:

Some initiatives have assisted those working in the informal economy to access new markets.

Johannesburg Garment District: In 1999 the City Fashion Garment Project¹³ was initiated to support the nearly 2000 informal clothing manufacturers operating in the Johannesburg inner city. A major thrust of the project is skills upgrading with a view to operators being able to access new markets. A range of sewing courses is being offered and a local businessman has established a sewing training and display centre. A system of business mentorship has been established in which second and third year business science students from the CIDA city campus assist individual entrepreneurs in business strategy. The project focuses on establishing business linkages, particularly between

¹³ This project is a collaboration between the Johannesburg Development Agency; a sewing skills development centre, SewAfrica; Bees Consulting Group (BCG); CIDA Business School and Wits Technikon.

garment operators and designers. It actively seeks orders from institutions such as schools as well as establishes linkages between local designers and the manufacturers. A number of fashion shows have been held, giving exposure to the initiative.

Over three hundred garment operators have been trained. A recent tracer study concluded that those who had completed the training:

- improved the quality of their garments and their production process
- were able to manufacture a much greater variety of products
- kept business records
- were able to market their products
- were able to secure more orders because of the variety of the products
- were able to generally increase their customer base.

(Personal correspondence, BCG, 13/03/03)

KwaZulu-Natal traditional medicine support programme: A significant component of the informal economy in South Africa is the traditional medicine (or ‘muthi’ as it is more commonly known) sector. The Institute for Natural Resources (2003:7) estimates that R61 million of medicinal plant material is traded in the province of KwaZulu-Natal annually (approximately one third of the value of the staple food –maize - harvest in the province). It is estimated that over 30 000 people work in the traditional medicine sector; most are rural gatherers who are very poor. Collecting and dispensing of traditional medicine, with very few exceptions, occurs entirely in the informal economy.

Since 1996 the Institute for Natural Resources has been working, alongside the local and provincial government, medicinal plant traders and traditional healers to quantify medicinal trade and understand its dynamics in order to identify interventions that would promote sustainability, efficiency and economic potential for the industry. The work that has been done constitutes one of the most comprehensive value chain analyses that have thus far been applied to a sector in the South African informal economy. This information has informed a series of interventions by a range of role players.

During the late 1990s, Durban local government upgraded the facilities provided to traditional medicine traders. There is now a dedicated built market with shelter, storage, water and toilet facilities. The provincial government with INR’s assistance has trained gatherers on sustainable harvesting techniques and cultivation of muthi products. In the next phase of the support programme, provincial and local government again assisted by the INR is to establish a black empowerment company. The company will procure plant material from existing industry role players and contract growers, process it in partnership with an existing pharmaceutical operation, and market the products. The objective is not only to service existing clients better, but also to access more middle class South African consumers of all races as well as an international market.

5.3.2 Access to Financial Services and Insurance

Context: Access to financial services and insurance for poorer people has been undeveloped in South Africa; despite the fact that compared to other African countries it

has a well-established and resource-rich private financial and insurance industry. In most rural areas financial services simply do not exist while in urban areas the poor are excluded by eligibility criteria. For example to open a bank account potential clients are often required to have a track record of a formal job. Further there were, and in many cases still are, high minimum deposits and high charges or transactions. The AIDS epidemic is fundamentally affecting the ability of the poor to insure against risk, and to save.

To address the financing needs of poorer South Africans, the new government established Khula Enterprise Finance Limited in 1996. Khula is a wholesale finance institution, and entrepreneurs thus access assistance through Khula-supported intermediaries. Once Khula was established many new, very small retail finance intermediaries were established countrywide. These institutions have had very little success in achieving sustainable growth and a significant proportion have closed. Given that very few South Africans have had access to retail credit with the mainstream retail financial services industry, there has been a burgeoning of the small-scale private micro-lending industry, where exorbitant interest rates are typically charged. In the 1999 the Department of Trade and Industry established the Micro Finance Regulatory Council to regulate the activities of the micro-lending sector and to protect consumers. Bauman (2002:3) argues that the focus on entrepreneurs in South African micro finance policy overlooks important features of the structure of the South African economy and the nature of poverty.

As far as insurance is concerned, there is a clear relationship between income levels and access to insurance, with poorer people (including most informal workers) having little access for themselves or for their enterprises. The exception is in the field of death and burial insurance policies, which are paid for by even very poor people, as such high value is placed on a dignified funeral. Many formal workers have access to insurance for industrial accidents and disease, maternity, old age and unemployment. Informal workers, however, have to make private provision, which few can afford (Lund, 2002).

Needs / constraints to growth: Financial services and insurance are critical to business growth and security in both the formal and informal economies. Access to credit is important to start businesses, to assist with cash flow problems, to diversify and to invest in business assets. Formal and informal businesses need facilities to save their money. They also need to be in a position to insure their business assets. The difference between formal and informal business is that those working in the informal economy are not serviced by the private sector who generally consider them to be too risky.

Drawing on the experiences of institutions like the Grameen Bank in Bangladesh and the Self Employed Women's Association's (SEWA) Bank in India, there is increasing focus on (even the poorest) micro-entrepreneurs' ability to save. Rutherford (1998:1), for example, highlights the irony of exploiting the entrepreneurs' ability to save through encouraging them to go into debt. International experience demonstrates that what is needed are institutions that are accessible, friendly and will accept small deposits, in an environment in which clients also have access to other kinds of services.

All surveys of those working in the informal economy identify lack of funds / access to credit as a significant constraint to growth. Lack of funds / credit was the most frequently cited business problem in the Durban LED study, with 57% of the 507 informal business owners identifying this as a major problem and a further 27% identifying this as a moderate problem (Skinner, forthcoming:47). But what does 'access to credit' really mean? In an interview the general secretary of the Self Employed Women's Union commented on the tendency for those working in the informal economy to identify lack of funds and therefore access to credit as a their primary problem. She said:

Those working in the informal economy often look at their situation and see that profits are low. They therefore conclude that access to money would solve their problems. When their businesses are carefully analysed you often find that access to credit would not necessarily help. In essence needing money is often an expression of another problem.

Those in the informal economy are often not aware of existing service providers.

Innovations and suggestions:

- Ithala Development Corporation¹⁴ is a parastatal that operates in KwaZulu Natal province, and it has been particularly successful in providing savings facilities to poorer clients. At February 2003, the 486 000 active savings accounts had an average account balance of R1 717 (Ithala, 2003:19). Ithala has developed a range of savings products that are appropriate to poorer clients:
 - o Ithala's 43 branches are located in areas where other commercial banks are not well represented – rural areas, small towns and township areas in the bigger cities.
 - o There are very low or no minimum opening deposits.
 - o Clients can save both as individuals and/ or in groups, so formalising existing rotating credit societies (or stokvels as they are commonly known).
 - o Once an amount of R550 has been deposited into an individual savings account, the client qualifies for Ithala loans.
- Government has a role to play in monitoring existing service providers and on this basis providing an informed referral service. Further the state needs to address the issue of there being few financial services especially savings facilities that are accessible to poorer clients.
- Streetnet, the international alliance of street trader organisations has suggested a role for the state in regulating the commercial banking sector in a pro-informal worker direction. First, banks could be required to have a proportion of poor clients; second, alternatively, incentives could be put in place for those banks that meet certain pro-poor criteria.
- Experienced international micro-finance experts believe that South Africa's new e-technology holds enormous positive potential in terms of enabling sustainable micro-finance, as it will reduce transaction costs dramatically.

¹⁴ For more information on Ithala, see www.ithala.co.za.

- Ironically, the extent of the AIDS epidemic has been a wake-up call to the formal insurance industry, which has suddenly become more aware of the potential market for insurance among the poor. The industry is competing for clients, and it is possible that the unfolding ADIS tragedy will lead to innovative new ways of reaching clients without a track record of formal work.

5.4 Access to infrastructure

Context: Historically there was lack of provision of even the most basic infrastructure to black areas where poorer South Africans live. Although the new government has made progress in addressing apartheid created infrastructural disparities, progress has not been as fast as was expected. Questions have been raised about the quality of some of the new infrastructure, particularly the housing. South African cities were not designed to accommodate informal work.

Needs / constraints to growth: Essentially the infrastructural needs of both formal and informal enterprises are the similar. They both need secure space, with transparent contracts for access to it, and which comes with a known and reliably delivered set of services (lighting, water, toilets, garbage removal, security, storage). A key difference between formal and informal operators is that the latter often cannot afford to pay market-related prices.

The infrastructural needs of informal workers vary according to the place and sector they operate in. A proportion of those working from home would like to work elsewhere (Skinner, forthcoming: 29). Those involved in small-scale manufacturing would often prefer small units where they could be close to others doing similar activities. Those working in the streets particularly call for shelter from the elements, access to water and toilet facilities and places to store their goods. Even among street traders there are however sectoral differences. Consider for example storage: craft sellers need storage facilities that will safe guard fragile goods, while for those selling fresh food, refrigeration facilities would be a greater priority.

Innovations / suggestions:

- From 1997-2000 Durban's Central Councils spent R45 million on infrastructure for informal traders. In the central city new markets have been built, existing market facilities upgraded and shelters provided for street traders. Markets have also been built in the outlying areas. This is substantial expenditure that has made a qualitative difference to the quality of traders work environments. Although there are exceptions, a lot of the infrastructure that has been provided for street traders in Durban has factored in storage needs. Craft traders at the Durban Beachfront have become an important tourist attraction. Space has been allocated to between 350 and 700 such traders (the number fluctuates seasonally), and the City Council has provided spacious storage facilities next to traders' sites. Traders are charged between R5 and R10 a month, a very reasonable amount.
- Durban's infrastructure policies such as the rates lifeline tariff (those whose houses are valued at less than R20000 pay no rates; those valued at between R20000 and

R50000 pay R20 per month) are of direct help to poorer, home based workers. Durban's decision not to privatise water gives it more leeway to do pro-poor water tariff scales.

5.5 Protection against crime

Context: The high crime rate in South Africa is generally considered to be one of the primary constraints to economic growth and to direct foreign investment. It affects the growth potential of both formal and informal businesses.

Needs and constraints to growth: Both formal and informal businesses need to work in a safe environment. The high crime rate makes for an insecure environment – the goods of enterprises are robbed, and business people and their workers are assaulted. In a recent survey of over 600 large firms operating in Durban, crime and theft was the most frequently cited constraint to growth by chief executive officers (Devey et al, forthcoming: 24); concerns about crime were mirrored in the small firm survey as well (Kesper, forthcoming), with nearly half of the 801 small business owners who were interviewed saying that their business had been a victim of crime in 2001. In both surveys expenditure on security was substantial.

Those working in the informal economy are equally concerned about crime but obviously have different experiences and coping strategies. Those working informally in public spaces are vulnerable because they are visible. Lund (1998:31) notes that in a survey of over 500 traders operating in Durban 41% of women traders and 33% of men traders reported that theft and criminal violence was the biggest obstacle faced by their business. Lund, Nicholson and Skinner (2000:38) drawing on focus group interviews with women traders note that traders see safety as an economic necessity, not simply a matter of personal safety. They state 'crime loses customers, frightens tourists, cripples businesses, reduces income and generally interferes with successful trading'. Those working as own account workers from home or deserted inner city buildings are vulnerable because they are invisible. A study of home-based work in three residential areas in Durban found that 'crime is a real risk noted by respondents themselves' (Cross et al, 2000: xiii). Finally foreigners working in the informal economy are particularly vulnerable to crime; foreign street traders in Durban felt that criminals targeted them, as it was known that foreigners do not have proper documentation, and thus would not be protected by the police (Skinner and Hunter, 2003).

Those working in both the formal and informal economies need protection for themselves, their workers, their goods and assets. This requires a responsive police force. The police force is over-worked and there are poor conditions of service. At city level, there has been a marked lack of co-ordination between city police and state police with regard to regulation of the informal economy, as well as between city police, and other city departments.

Innovations and suggestions:

- Traders Against Crime (TAC) is an innovative initiative in Durban. It was formed by traders in conjunction with the South African Police Service and Durban Metropolitan Police in 1997. TAC aims to reduce crime through traders voluntarily working together to identify and take appropriate action against criminals. TAC members have been trained by the City Police and they patrol trading areas alerting the authorities when action is needed. The 300 committee members operate in all the densely traded areas of the unicity. Since its inception the initiative has seen positive results, having substantially reduced both petty and more serious crime in the inner city. The Warwick Junction area is the primary commuter point in the inner city; it accommodates between 5 000 and 8 000 street traders and has over 400 000 pedestrians passing through every day. During the first 18 months of TAC's operation, there was only one murder in the Warwick Junction Area. This was compared to the 50 murders in the previous year.
- The municipality has introduced the Safer Cities Programme, which has *inter alia* focused on the provision of street lighting in areas where there are many informal traders.

6. Conclusions

This paper has presented a number of ways in which Durban and other South African cities have attempted to respond positively to creating a climate in which informal workers are supported to grow their businesses. Good practices may or may not be replicable in other settings. The great heterogeneity and diversity of workers and enterprises in the informal economy mean that creating a 'one size fits all' blue print of good practice is not desirable. However, it has been clear through our work with local government in Durban that sustainable good practices depend crucially on the following:

- An appreciation that the needs of formal and informal businesses are very similar. This appreciation becomes possible when informal workers, and their enterprises, are assessed in terms of their being economic actors undertaking economic activities.
- Local government can play a significant role in improving the investment climate for formal and informal businesses; it needs to create continuing institutional structures and spaces in which to enable development priorities to be set, rules for operating to be negotiated, and dispute resolution to take place.
- The ability of informal workers' interests to be sustainably represented depends, in turn, on their building strong organisations, with accountable leadership.

Appendix 1: Further Information about Durban's City Health Departments Training Programme for Food Vendors

In 1994 Durban's City Health Department initiated a health training programme for food traders, which the Food and Agricultural Organisation Technical Co-operation programme has identified to be an interesting intervention. The initiative stemmed from a concern about the health risks for consumers of street foods, and the acceptance that informal food trading was a reality that was not going to go away. As the environmental health officer currently responsible for street trading (Interview, 26/07/03) noted:

‘In the early 1990’s we used to confiscate food traders goods at six in the morning, and by nine they would be back trading in the same place again’.

The City Health Department, drawing on minimum health standards for formal food businesses, devised a set of minimum health standards for informal traders selling perishable and non-perishable food items. A code of good trading practice was also developed. Health officials then provided interactive training sessions where issues of personal, food and environmental health are discussed and the code of good trading practice disseminated. Once traders have been through the training, environmental health officers visit them at their site to assist them in applying the principles that they have learned. If traders have applied the minimum standards they are awarded a certificate endorsed by the Chief Health Inspector. There is an award ceremony every few months in which the mayor hands out the certificates.

Training sessions are held every Wednesday morning at a venue in the inner city close to trading sites. Wednesday was identified by traders as the best time of the trading week to take time away from their sites. The training is conducted in Zulu and is not dependent on participants being literate or numerate. The training focuses on business as well as health issues. For example, Unifruco, a major fruit supplier, regularly sends one of their managers from Cape Town to address fruit and vegetable traders, not only about the range of their products but also methods of how best to store fruit.

The City Health Department estimates that well over one thousand traders have been trained. The initiative was given further impetus by legislation promulgated by the National Department of Health in July 1999 regulating hygiene requirements for food premises and the transport of food (what has become known as the R918 regulation). All those handling food in the formal and informal economies now have to have a certificate of acceptability, and in Durban, attending health education has become a prerequisite for receiving this certificate.

This health education initiative has also been an opportunity to forge links between the formal and informal economies. For example at the award ceremony there is a lucky draw in which traders stand to win items for their businesses like cooler boxes, plastic food containers, umbrellas and food stuffs. City Health gets these goods donated from local formal business. Environmental health officers regularly visit traders to monitor that the minimum standards continue to be applied.

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- Paul Williamson, Manager, Informal Trade Unit, City of Cape Town, Durban
- Abraham Monageng, Sergeant, Traffic Department, City of Tswane (Pretoria)
- Nhlahlalando Vele, Information Officer, Metro Trading Company, Johannesburg
- Tobias Mkhize, Environmental Health Officer, City Health, Durban City Council
- Irma Ogle, Business Consultant, Thekwini Business Development Centre, Durban
- Themba Dube, Chairperson, Traders Against Crime, Durban