



**STUDIES IN POVERTY AND
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POLICY BRIEF 6

**The beginning of a better
understanding:
The Informal Economy
conundrum in South Africa**

AUGUST 2014 • BRIAN MATHEBULA AND MATSHIDISO MOTSOENENG



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Case studies from SPII's Social Protection and Local Economic Development (LED): Graduation Pilot

1 INTRODUCTION

In his 2014 State of the Province Address (SOPA), the Premier of Gauteng, David Makhura, stressed the need to 'revitalise and mainstream the township economy by supporting the development of township enterprises, cooperatives and small, medium and micro enterprises (SMMEs) that produce goods and services that meet the needs of townships residents¹. The Ministry of Small Business sees the growth of the informal economy as the 'new form of toy-toyi². Minister of Small Businesses, Lindiwe Zulu, argues that the 'toy-toyi³ aspect is seen as energies directed towards the positive contribution to the overall economy.

For those who operate in the informal economy, it is hoped that these statements from both national and provincial officials will herald a change in policy towards those who operate in the informal economy, especially in public spaces. These public addresses signify a better understanding of, and support for, people who operate in the informal economy which we hope will have an impact at national, provincial and local levels.

This policy brief seeks to interrogate the approach that local government has taken towards those who operate in the informal economy and challenge the general approach towards the informal economy. If indeed the township economy, which is mainly informal, is to drive employment creation and poverty alleviation, there is a need for a better understanding by decision makers on the challenges and opportunities to harness a bottom-up transformation of our social and economic environments. This study will highlight these dynamics through the use of case studies of project participants from the 24-month project currently being undertaken by the Studies in Poverty and Inequality Institute (SPII).⁴

2 INFORMAL AND SECOND ECONOMY DEBATE

The promotion and development of the 'second' or 'informal' economy are not new to the South African public service as methods to address joblessness and economic development. The debate first emerged in 2003 when then President Thabo Mbeki (2003), identified two distinct and inherited economies in South Africa as first and second economies⁵. The United Nations-Habitat (2006) report has since supported this notion that South Africa has two distinct economies, and an analysis of the contemporary informal economy must take into consideration the legacy of more than a century of restrictive and repressive legislation.

According to Statistics South Africa (2013), in 2013 there were around 2.1 million people who were active in the informal economy.⁶ However, the Adcorp Employment Index (2014) showed that informal employment grew in 2013/14, with around 6.5 million people employed in the informal economy. To put it into perspective, formal unemployment (38% of the labour market including discouraged work seekers) remains an endemic problem in South Africa (Stats SA, 2013). It has been estimated that without the informal economy, the unemployment rate would rise to 47.5% (SALGA, 2012), or just under half of the labour market.

¹ See Gauteng Legislature, 2014. State of Province Address.

² Minister of the Department of Small Business, Lindiwe Zulu, speaking about the informal economy and the need for people to be agents of their desired change.

³ Chanting during protests that could include political slogans and songs.

⁴ The project aims to test the efficacy of tailor-made interventions for people who operate micro and survivalist enterprises in the informal economy. Please visit www.spii.org.za for a full description of the project.

⁵ In his 2003 State of the Nation Address, Former President, Thabo Mbeki drew a distinction between the two inherited economies in South Africa by arguing that 'first economy' comprises modern, urban economic activities while the 'second economy' includes the majority of less advantaged rural and urban population, constrained by poverty and marginalisation.

⁶ See www.statssa.gov.za/publications2/statsabout.asp?PPN=P0211&SCH for a detailed report on unemployment in the informal economy.

What is the 'informal economy'? A range of definitions exist. It is, however, difficult to have a comprehensive and internationally accepted definition of the concept, but it generally includes businesses that are regarded as being 'small', medium' or 'micro-enterprises'.

Valodia and Davy (2012) define the informal economy as (a) non-registration of the enterprise in terms of national legislation, such as taxation and or other commercial legislation; (b) non-registration of employees of the enterprise in terms of labour legislation; (c) and small size of the enterprise in terms of the people involved. SATUCC (2011) argues that it is inherently characterised by 'easy entry and exit and are driven by self-employment activities' (SATUCC, 2011: 4). The International Labour Organisation (ILO) (2002: 5) defines the informal economy as 'all economic activities by workers and economic units that are in law or in practice not covered or insufficiently covered by formal arrangements.

Chen (2012) argues that a formalisation-oriented definition of general informal economy activities is problematic in the sense that it does not take into account the different dimensions of formalisation. One of the main reasons cited for the difficulty in the formalisation debate in the informal economy is due to the ambiguity of reasons behind wanting formalisation of informal economy activities. Chen (Ibid.) questions the punitive reasons behind formalisation and whether this is for tax reasons or regulation in terms of licence fees and certificates. If we are to try to address the challenges of the informal economy, there is a great need to understand the nature of this economy and its challenges and to propose progressive solutions that express the demands of those whose bread and butter depends on their activities in this sector of the economy.

In that sense, in order to understand what formalisation would entail, Horn (2014) proposes that formalisation of the informal economy should be undertaken in the following manner:

- ▶ recognition in law of workers in the informal economy
- ▶ integration of indirect taxes and other revenues already paid by informal workers into official tax systems
- ▶ negotiation as opposed to consultation
- ▶ creating inclusive bargaining forums, including at local government level
- ▶ legal identity and standing (formalisation in labour market policy and legislation): legal protection, legal recognition and appropriate legal frameworks
- ▶ Social rights: extension of social protection, protection against risk and uncertainty.

3 LESSONS FROM THE PILOT PROJECT BY SPII

During the first eight months of the 24-month pilot project, there were a number of important lessons learned regarding the 'township economy'. The issue of spatial allocation in terms of land and landlessness emerged as one of the key challenges faced by those who operate in the informal economy. In 2006, a third of all South Africans lived in rented accommodation (Gordon et al., 2006: 8). From our pilot project, it is clear that the relationship of power and provisioning between tenants and landlords, commonly referred as 'Mmastand'⁷ in Evaton,⁷ has a direct bearing on the potential for the success and sustainability of a participating enterprise.

A significant number of the entrepreneurs in the pilot project operate their micro and survivalist enterprises in a Mmastand's yard, and this comes with its own challenges. Below are two case studies collected by fieldworkers (enterprise coaches) of the pilot project during the weekly visits. These highlight some of the challenges experienced by micro and survivalist enterprises in a Mmastand's yard.

⁷ Evaton is a peri-urban township based north of Sebokeng in the Emfuleni region of Gauteng located south of Johannesburg, South Africa.



3.1 Case study Number 1

The first case highlights the experiences of a middle-aged lady who owns a Spaza Shop in her Mmastand's yard. In one weekly visit, the project participant stated that she had to move her business operations to a different location because of a failed relationship with her landlord. Without prior notice or communication from the landlord, her rent increased by more than 50%. She believes that the rent was increased because her landlord was jealous of her business after she received a brand-new fridge from the Coca-Cola Company.

There was never a discussion around the rent increase. She was unable to pay the rent, and she was forced to move out and look for another location from which to operate her business, and she is now operating from the two roomed house in which she lives with her family. The problems with a Mmastand have not really diminished, as her domestic landlord has complained that her spaza shop generates too much foot-traffic in the yard as people come and go as they please. Below she expresses her disappointment with the Mmastand.

'Mmastand waka o na le mona hobane Coca-Cola emphile dintho, jwale sena se entse hore a nyollose rente. Jwale ose a tletleba hore batho ba kenang ba tswa jareteng ya hae ka lebaka la spaza shopo saka ka tlung.'

Translation: 'My Mmastand (landlady) is very jealous of me, because after the Coca-Cola Company gave me the cold-drink fridge, she increased the rent. Now she claims that there are a lot of people going in and out of her yard because of my spaza shop that I now run from the house' (Participant No. 57).



¹⁰ A 2003 Unilever Institute study estimated the value of Stockvels at R5.1 billion and Old Mutual and African Response studies estimated the value of stockvels to be at R44 billion in 2011.





3.2 Case Study Number 2

In another case, a female project participant said that the prospects of her business increasing its turnover were slim because of the 'difficult' relationship with her Mmastand. Their initial agreement was that the tenant would be allowed to erect a tin-roof structure in the yard for R200 a month and that she would operate her business from there. An additional R100 would also be charged for storing her equipment at night at the Mmastand's house. Despite this agreement, she reported to the field worker that there were clear signs of sabotage by the landlord. She complained that on arriving at work in the morning she found her equipment damaged or broken. When she confronted her Mmastand about her equipment, she was told to leave and to operate her business somewhere else. Things went from bad to worse for her when she decided to look for a different location to operate from: a customer alerted the Mmastand of her plans to move out. When she arrived at work on the following day she found her corrugated iron structure destroyed, and had to move out immediately.

It does appear as if national policy is being changed to address this vulnerability.

Examples include increased use of public spaces such as street pavements, taxi ranks, and areas outside shopping malls. During the 'Operation Clean Sweep' carried out by the City of Johannesburg, thousands of street traders were unconstitutionally removed from their trading spaces. The South African Informal Traders Forum (SATIF) took the City of Johannesburg to the Constitutional Court over the forced removals, and a ruling from the Constitutional Court slammed the removal as an 'act of humiliation and degradation' (SATIF v City of Johannesburg, 2014). Unfortunately, the policy stance by the City of Johannesburg Municipality was shared by the Emfuleni Local Municipality, where our pilot project is being carried out. The statement from the city was that the 'sheer volume of informal trading, therefore, brings with it unique challenges such as increased congestion, illegal dumping, public urination, infrastructure maintenance, the enforcing of bylaws and potential urban decay' (Nicolson & Lekgowa, 2013).



4 CONCLUSION AND RECOMMENDATIONS

The experiences with forced removals within the Cities of Tshwane, Johannesburg and the Emfuleni Local Municipality show that city planning and spatial development have to take into account the rapid growth of the informal economy, mainly that which is operated on public spaces. Forced removals of street traders on public spaces are not sustainable or developmental and are reactionary in nature. Critically, they are not in tune with the demands of the economy and people's needs. This is captured by the Constitutional Court ruling in the City of Johannesburg.

A project participant who was forcefully removed reflects that 'Masepala wa Emfuleni ore barekisi ba tlohe kante ho Evaton Mall ba kene ka hare moo batlo ba etsatsang di tent hore ba patale rente. Batho ha bana tjelete eo ya rente, hape ba keke ba fumana bareki ba bangata jwalo ka ha ba le kante ho Mall.'

Translation: 'The Emfuleni Municipality ordered traders to move inside the mall from the borders of the mall's fence. This means that they will move into stalls inside where they will pay rent. People (traders) cannot afford to pay rent and they also won't be able to reach as many customers as when they are trading outside the mall' (Participant No. 144).

Lund (2009: 18) argues that 'there is a need for more vibrant land use, orderly towns and spatial transport planning'. International experience shows that with better organisation those who operate in the informal sector can benefit from strength in numbers and this increases their capacity to protect their livelihood strategies. For example, India's Self-Employed Women's Association (SEWA)⁸, an organisation that represents the interests of over 100 cooperatives, provides a good example of the power of organisation for those who operate in the informal economy.⁹ The Street vendors (Protection of Livelihood and Regulation of Street Traders) Act in India ensures that 'no existing street vendor can be displaced until the local authorities can conduct a census of street vendors in the concerned urban area' (Bhomik, 2014: 15).

In South Africa, the City of Durban, which was also the first city in South Africa to develop an Informal Economy Policy, shows what can be achieved when city officials and organisations that represent the interest of those who operate in the informal economy collectively embark on a developmental approach for the informal economy. Positive results have been achieved through Warwick Junction in Durban. Durban's Informal Economy Policy¹⁰, provided moratoria on developing plans for built markets and an allocations policy. As a result, the Warwick Junction Urban Renewal Project (WJURP) has so far proven to be a success (Dobson & Skinner, 2009).

The Emfuleni Municipality (under which Evaton resorts) does not have a policy which deals with local development of the informal economy. Thus, obtaining licences, as required for street traders and other operators in the informal economy, is very difficult. A participant in the pilot project operating an Early Childhood Development (ECD) programme claimed that an organisation, of which she is a member, had on numerous occasions attempted to communicate with municipal officials without any success. Below she expresses how this has impacted their operations.

'Re ne re batla ho kopana le batho ba municipality hobane re na le bothata ka ho fumana ditokomane tsa tsa bophelo bakeng sa di Early Childhood Development tsa rona. Mokgatlo wa rona o lekile ka makgetlo ho etsa di kopano le bona empa le kajeno rentse re so thole karabo hotswa ho bona.'

Translation: 'We wanted to have meetings with the municipality regarding the challenges we have when we apply for health certificates for our Early Childhood Developments and our organisation has tried numerous times to organise meetings with the municipality and have gotten no response from them since' (Participant No. 021).

⁸ SEWA is a membership-based organisation created in 1972 from a combination of the labour, women's, and cooperative movements, to organise self-employed women in the informal economy and assist their collective efforts.

⁹ In 2004 SEWA advocated the National Policy for Urban Street and the Unorganised Workers Social Security Act which was adopted in 2008, and in 2014 a new law titled Street Vendors (Protection of Livelihood and Regulation of Street Traders) was enacted with the aim of better protection for those who operate in the informal economy.

¹⁰ The policy was developed in 2001 and it outlined the key problematic areas with regard to the informal economy. Working together with street traders, the city was able to come up with a comprehensive strategy to deal with challenges faced by street traders in Durban.

FINDINGS AND RECOMMENDATIONS:

- ▶ The future transformation of the country has been identified with its ability to connect the relatively faster economic growth in the formal (first) economy with the development of the informal (second) economy.
- ▶ South Africa provides an interesting context to explore issues around knowledge diffusion related to innovations that intersect the formal and informal dimensions.
- ▶ There is a need to unpack the challenges of the informal economy, in terms of employment conditions, social protection risks as well as health and safety.
- ▶ Adequate control and licensing that takes into account the needs of those who operate in the informal economy could lead to the smooth operation of the informal economy (especially for street traders in public spaces), as well as to long-term planning for spatial development.
- ▶ Secure locations from which to trade must be taken into consideration. Local business hubs should be developed with the needs of informal economy actors and beneficiaries with adequate facilities (including toilets, lighting, security, and storage facilities).
- ▶ Transparent, accessible and regular standing councils at local government level for consultation between local government, SMME owners and local trade and business chambers are essential.
- ▶ Scoping of challenges across the country by the Department of Small and Medium-sized Enterprises (SMEs) must result in solutions.
- ▶ An audit of the existence and contents of local government LED policies must be undertaken..
- ▶ Investigation into the adequacy of state funding for LED support must be conducted.
- ▶ Investigation of international best practices for supporting LED in developing countries must be researched.

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If we are to try to address the challenges of the informal economy, there is a great need to understand the nature of this economy and its challenges and to propose progressive solutions that express the demands of those whose bread and butter depends on their activities in this sector of the economy



One of the main reasons cited for the difficulty in the formalisation debate in the informal economy is due to the ambiguity of reasons behind wanting formalisation of informal economy activities



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