

FORMALISING THE INFORMAL SECTOR: A CASE STUDY ON THE CITY OF JOHANNESBURG

E.J. van Rooyen

School of Public Administration and Management
University of Pretoria

A.J. Antonites

Chair for Entrepreneurship
University of Pretoria

ABSTRACT

Informal trading is a phenomenon prevalent throughout the world, but nowhere more visible and contributively to local economies than in the developing world. South Africa faces similar challenges as any other emerging economy, which demonstrates a duality insofar as its formal and informal arrangements are concerned. In addition, poverty and unemployment, HIV/AIDS and concomitant social problems all form part of the Country's current socio-economic landscape.

The *Constitution of the Republic of South Africa*, 1996 provides local government with a mandate to govern, provide service and to promote development within their areas of jurisdiction. The *Constitution of the Republic of South Africa*, 1996 stipulates in Section 153 that local government must structure and manage its administration, budgeting and planning processes to give priority to the needs of the community and promote the social and economic development of the community. The concept of developmental local government is extensively elaborated upon in policy documents and legislation, which impress the obligation of local government to apply technologies to further its developmental objectives.

The Metropolitan Trading Company (MTC) in the City of Johannesburg is mandated to manage trading within the area of its jurisdiction by acting as a conduit and facilitator to economic activities associated with *bottom end* trading. This function poses significant challenges, especially if taken into account the extent of poverty and different forms of disenfranchisement, which traders currently experience. Location in terms of finding appropriate trading venues, abiding with the regulatory framework imposed by the authorities (especially the municipal

authorities) and access to support mechanisms to enhance their prospects of success (including finance, skills development and product/market options etc.) are all contributive factors to limiting the success and growth that is needed by such traders. On the one hand, a proper system within which orderly trading is assured (such as a regulatory framework that limits trading in particular areas and registration) is necessary and highly desirable. Yet, on the other hand it should be noted that the trading community would remain and possibly even grow. It should be noted furthermore that the trading community would continue to expand even if general local economic growth is significantly improved. Global trends in countries, which demonstrate similar socio-economic characteristics as South Africa, testify to this. Urgent support mechanisms are needed to improve this state of affairs. The fundamental role of these mechanisms is to transform the informal sector and trade into a contributing channel of entrepreneurial performance and job creation. This article endeavours to assess the issues faced by local government in this process and offer some solutions within the frame of a case study.

INTRODUCTION

The notion of developmental local government led to a totally new approach to what was traditionally viewed as the essential role and function of local government. Historically, local government was seen as an instrument to ensure the delivery of basic services (e.g. water and sanitation) to communities in an orderly fashion and to implement regulations. However, in the new dispensation, the Reconstruction and Development Programme and other governmental policy documents identify local government as a primary facilitator to redress the lacking infrastructure and limited economic activity associated with most of the segregated residential areas within South Africa. In other words, municipalities should take responsibility for reconstruction and development activities. In fact, the *Constitution of the Republic of South Africa, 1996* provides local government with a new mandate to govern, provide services and to promote development within their areas of jurisdiction.

The *Constitution of the Republic of South Africa, 1996* stipulates in Section 153 that local government must structure and manage its administration, budgeting and planning processes to lend priority to community needs and to promote the social and economic development of such communities. The concept of developmental local government is extensively elaborated upon in policy documents and legislation, which impress the obligation of municipalities to apply technologies to further their developmental objectives. Examples of such documents are the *White Paper on Local Government, 1998*, the *White Paper on Spatial Planning and Land Use Management, 2001* and the *Municipal Systems Act, 2000 (Act 32 of 2000)*.

Local economic development refers to the ability of local areas to achieve both economic growth and economic redistribution, sometimes referred to as pro-poor economic growth. Local economic development focuses on creating an enabling environment for pro-poor investment and encouraging the development of the market to facilitate linkages between the established and the emerging sectors. (Delegation of the European Commission in South Africa, 2003)

Current theory on local economic development dictates that power should be decentralised to the municipal sphere as a direct response to the ineffective macro-level planning approaches of previous dispensations. The difference is that macro- and intermediate policy should guide the strategic way only, and inform local government on developing their own integrated development plans, programmes and projects. In addition, the unique dynamism and specific needs in municipalities necessitate local innovations and local leadership to plan for development.

The developmental role of local government can be summarized as having four inter-related characteristics, viz.:

- the maximization of social development and economic growth;
- integration and co-ordination of a range of services and regulations, and the activities of other spheres of government and services providers;
- democratising development, empowerment and redistribution, particularly in respect of marginalized groups; and
- leading and learning in the building of social conditions favourable to development.

The above-mentioned characteristics could also be regarded as key guiding principles as far as strategic decision-making is concerned.

According to The Department of Trade and Industry (2006) the following statistics, which relate to South Africa in general, illustrate the point that municipalities should consider urban socio-economic development strategies that facilitate the development of small, medium and micro enterprises (SMMEs) within their boundaries:

- 70% of enterprises fall within the commerce and trade sector, with street vendors forming more than half of such ventures;
- most ventures have originated in response to unemployment (economic survival);
- light manufacturing enterprises have above average incomes, employment and growth (with a net monthly income of above R2000);
- women operate approximately 62% of micro-enterprises (although these businesses fall within the lowest ranked categories as far as profitability and employment growth is concerned);
- these enterprises operate within a highly competitive environment;
- capital and support is limited; and
- the majority of these ventures are home-based.

Sustainable urban socio-economic development requires that all South African municipalities should introduce a business-like approach towards development by setting in place integrated development plans. This implies that local government should follow

a strategic approach to the planning and implementation of development projects. The end objective should be to achieve sustainable social and economic development of communities, and the associated access to affordable essential services and supportive infrastructure. In addition, the requirement exists that such socio-economic development should occur within an ecologically responsible manner.

The informal trade sector in the City of Johannesburg (unit of analysis) is expanding at an alarming rate and currently constitutes a population of approximately 4000 traders. The contribution of this sector to the local economy is limiting and non-quantifiable. This paper analyse this environment and propose specific solutions in formalising the informal.

LITERATURE REVIEW

A body of knowledge supported the formulation of a research framework and contributed to the background of this study, the following serves in that sense.

Accelerated and Shared Growth Initiative for South Africa (AsgiSA)

The South African Government was mandated in 2004 to halve poverty and unemployment by 2014 (the Department of Trade and Industry 2006). Growth averaged about 3% during the first decade since 1994. From 1994 – 2004, a considerable improvement on the decade before 1994 when growth averaged 1% per year. Since 2004, growth has exceeded 4% per year, reaching about 5% in 2005. Expectations for the current strong performance to continue are high – forecasts by banks and ratings agencies generally indicate expectations of growth continuing at around 4.5% in the medium term. Business confidence is very high. The Rand Merchant Bank/Bureau for Economic Research business confidence index, with 86% of firms expecting the continuation of improving business conditions, has remained at high levels for an extended period.

According to the Department of Trade and Industry (2006) inflows of foreign capital have been exceptionally high since 2003, with an inflow of R80 billion (about US\$13 billion) into the JSE share market between the beginning of 2005 and the first quarter of 2006. In the same period South Africa has also had several very large inward foreign direct investment transactions.

Good economic policies, positive domestic sentiment, and a favourable international environment have created the opportunity to consolidate these gains, and to take our performance to a yet higher level.

With the faster growth rate has come rapidly improving employment creation. In the last year measured (to September 2005) around 540 000 net new jobs were created. Though unemployment remains high at over 26%, this is considerably better than the 32% unemployment rate reached a few years ago (SSA, 2005). Recent research indicates that the real incomes of the poorest 20% of South Africans rose by 30% in real terms between 1994 and 2004.

Yet, the goal of reducing unemployment to below 15% and halving the poverty rate to less than one-sixth of households will not be achieved without sustained and strategic economic leadership from all spheres of government, and effective partnerships between government and stakeholders such as business.

Targets of accelerated and shared growth

With regard to the Department of Trade and Industry (2006) government's investigations, supported by some independent research, indicate that the growth rate needed for South Africa to achieve our social objectives is around 5% on average between 2004 and 2014. Realistically assessing the capabilities of the economy and the international environment, a two-phase target was set. In the **first phase**, between 2005 and 2009, South Africa will seek an annual growth rate that averages 4, 5% or higher. In the **second phase**, between 2010 and 2014, we seek an average growth rate of at least 6% of gross domestic product (GDP).

In addition to these growth rates, Government's social objectives require an improvement of the environment and opportunities for more labour-absorbing economic activities. More broadly, the need exists to ensure that the fruits of growth are shared in such a way that poverty comes as close as possible to being eliminated, and that the severe inequalities that still plague our country are further reduced. The vision of South Africa's development path is a vigorous and inclusive economy where products and services are diverse, more value is added to our products and services, costs of production and distribution are reduced, labour is readily absorbed into sustainable employment, and new businesses proliferate and expand.

Balanced growth

The recent growth has been based on a combination of strong commodity prices, strong capital inflows and strong domestic consumer demand, given impetus by anti-poverty measures, growing employment and rising asset prices. The effect, however, of this combination has been to strengthen the currency which makes it difficult for exporters outside the commodity sector or those who compete with imports to remain competitive. That led to a trade deficit of 4,3% of GDP in 2005, well financed by capital inflows, but demonstrating South Africa's challenge to compete effectively outside of the commodity sector, which constitutes an imbalance.

Binding constraints

The list of binding constraints emerging from analysis and consultation are as follows:

- **Volatility and level of the currency.** In spite of major improvements in the administration of fiscal and monetary policy, currency volatility deters investors in tradable goods and services outside of the commodity sector. The Rand remains somewhat volatile, though the degree of volatility has been reduced.
- **The cost, efficiency and capacity of the national logistics system.** Backlogs in infrastructure and investment, and in some cases market structures that do not encourage competition, make the price of moving goods and conveying services over

distance higher than it should be. Deficiencies in logistics are keenly felt in a country of South Africa's size, with considerable concentration of production inland, and which is some distance from the major industrial markets.

- **Shortage of suitably skilled labour amplified by the impact of apartheid spatial patterns on the cost of labour.** The most difficult aspects of the legacy of apartheid to unwind arise from its deliberately inferior system of education and irrational patterns of population settlement. In a period of growth it is evident that we lack sufficient skilled professionals, managers and artisans, and that the uneven quality of education remains a contributory factor. In addition, the price of labour of the poor is pushed up by the fact that many live a great distance from their places of work.
- **Barriers to entry, limits to competition and limited new investment opportunities.** The South African economy remains relatively concentrated, especially in upstream production sectors such as iron and steel, paper and chemicals and inputs such as telecommunications and energy.
- **Regulatory environment and the burden on small and medium businesses.** The mediocre performance of the small, medium and micro business sector in terms of contribution to GDP and employment partly arises from the sub-optimal regulatory environment. In the administration of tax, the planning system (including Environmental Impact Assessment), municipal regulation, the administration of labour law and, in specific sectoral regulatory environments, regulation unnecessarily hampers the development of businesses.
- **Deficiencies in state organisation, capacity and leadership.** Certain weaknesses in the way government is organised, in the capacity of key institutions, including some of those providing economic services, and insufficiently decisive leadership in policy development and implementation all constrain the country's growth potential.

Countering these constraints requires a series of decisive interventions. These interventions do not amount to a shift in economic policy so much as a set of initiatives to achieve our objectives more effectively. Government's responses to the binding constraints fall into six categories:

- infrastructure programmes
- sector investment (or industrial) strategies
- skills and education initiatives
- Second Economy interventions
- macro-economic issues
- public administration issues.

Infrastructure investment

Government has already begun to increase up public-sector investment. In recent years, it rose above 6% of GDP (the Department of Trade and Industry 2006). In order to roll back the backlog that has emerged in public infrastructure, public-sector

investment is planned to rise to around 8% of GDP. As indicated in the Medium Term Budget Policy 6 Statement in October 2005, Government and public enterprise investment expenditure for the period April 2005 and March 2008 is planned to be about R370 billion.

Sector strategies

In order to promote private-sector investment, sector strategies are being prepared, and some are in the implementation stage. A broader National Industrial Policy Framework will be submitted to Cabinet during this year. Part of the purpose of AsgiSA is to focus the energy of government and its partners. In this context, two sectors have been identified for special priority attention: business process outsourcing (BPO) and tourism. A third sector, biofuels, is being finalised. What these industries have in common is that they are labour-intensive, rapidly growing sectors worldwide, suited to South African circumstances, and open to opportunities for Broad-Based Black Economic Empowerment (BBBEE) and small business development.

Education and skills development

For both the public infrastructure and the private investment programmes, the single greatest impediment is shortage of skills – including professional skills such as engineers and scientists; managers such as financial, personnel and project managers; and skilled technical employees such as artisans and IT technicians. The shortfall is due to the policies of the apartheid era and the slowness of our education and skills development institutions to catch up with the current acceleration of economic growth.

Eliminating the Second Economy

Without interventions directly addressed at reducing South Africa's historical inequalities, growth is unsustainable. Conversely, successful measures to reduce the inequalities will add impetus to growth. Government has already initiated interventions to address deep-seated inequalities and target the marginalised poor, to bridge the gap with the Second Economy, and ultimately to eliminate the Second Economy. AsgiSA includes some specific measures of response to the challenges of exclusion and the Second Economy.

Leveraging the First Economy

One key mechanism is to use the leverage of the First Economy to address the Second Economy. There are two key examples in AsgiSA. The first is to leverage the increased levels of public expenditure, especially investment expenditure, to promote small businesses and broad-based empowerment addressing such issues as access to finance, preferential procurement and a review of the impact of regulations on labour-intensive sectors. The State-Owned Enterprise Procurement Forum is codifying and spreading best practices for affirmative procurement. For the Government, the Department of Trade and Industry (DTI) is developing a procedure through which 10 products will be set aside for procurement through smaller black-owned business. Linking small businesses

to opportunities deriving from the 2010 FIFA World Cup is another task for government. Private companies will also be persuaded to engage in affirmative procurement and the implementation of the relevant provisions of the BBBEE Codes of Good Practice and the relevant sector empowerment charters will be closely monitored. Timely payment by government for procured goods and services will also be monitored. Infrastructure projects will be labour-intensive where feasible. To achieve AsgiSA's goal of halving unemployment and poverty by 2014, Government will have to pay particular attention to the concerns of women and youth. With regard to women, the focus will be on expanding and accelerating access to economic opportunities including skills development and finance. The second form of leverage will be that all of the sector strategies, such as the strategies for tourism or BPO, will have elements addressing development goals in the Second Economy.

The Gauteng Growth and Development Strategy (GDS)

The Gauteng Growth and Development Strategy forms and informs the basic development trajectory in the Province. The Johannesburg Metropolitan Municipality should ensure alignment of its development strategies thereto. The GDS is a high profile document which addresses the following:

- the Socio-economic profile of the Province;
- the principles, focus, vision, and objectives with development in the Province;
- the GDS mechanisms;
- strategic levers;
- implementation of the GDS;
- measuring the GDS performance; and
- the GDS Forum.

The Gauteng Province is the economic hub of the Country. In fact, its economy forms the springboard of much of the economic activity in Africa, especially in the SADC region (with specific mentioning of NEPAD).

Trade & Industry Strategy 2003 (TIS)

Gauteng's TIS 5 key areas that can contribute to provincial growth, namely:

- re-alignment of the manufacturing sector away from traditional heavy industry/low value-added production towards high value-added production while creating new jobs;
- transforming Gauteng into SA's smart center (focus on IT, telecoms, R&D and biomedical industries);
- promoting financial and business services including technology, corporate head office location and business tourism;
- ensuring that employment generation is an over-riding objective of all programmes; and
- broadening business activity by supporting BBBEE, entrepreneurship and local economic development.

Gauteng Integrated Development Plan (GIDP)

Gauteng GIDP provides a Smart Spatial Planning approach and framework to deal with the legacy of inequality and under-development that has a distinct spatial dimension. Smart Spatial Planning balances two critical planning elements of spatial equity and efficiency.

The approach and principles related to Smart Spatial Planning is informed primarily by the country's National Spatial Development Perspectives (NSDP); namely that planning must:

- identify various categories of development potential;
- target economic infrastructure in places demonstrating growth potential;
- crowd-in investment around growth nodal areas; and
- meet people's needs in areas with low potential.

Local Economic Development strategy

Over the past decade, Local Economic Development (LED) has assumed major importance as a policy issue in many developed countries of Europe, North America and Australasia (Harvey, 1989:3-17; Clarke and Gaile, 1998:47).

The draft LED Strategy provides the following as key actions towards the development of various targeted localities:

- new business creation;
- improving infrastructure;
- improving local business competitiveness;
- attracting inward investment;
- encouraging local procurement; and
- improving skills and knowledge.

The international experience suggests that LED is a slippery concept and one which is sometimes difficult to precisely define (D'Arcy and Guissani, 1991:59). Nevertheless, there is an emerging consensus that some of its core elements would include initiatives designed both to promote growing local economies and address poverty alleviation. The White Paper makes it clear that although local government in South Africa is not directly responsible for job creation, it can still play an important role in promoting job creation, boosting the local economy and alleviating poverty (Ministry for Provincial Affairs and Constitutional Development, 1998).

The informal sector

An array of definitions is documented to explain, categorise and designate the exact meaning of the informal sector encompassing informal trade activities. This sector in essence represents a spectrum of economic activities in commerce, agriculture, construction, manufacturing, transportation and services, and epitomise approximately 60% of the labour force in urban areas of developing countries and subsequently

supports the critical importance of defining the focus. The following section identifies the various definitions contributing to the meaning of this focus area. The *International Labour Organisation* (1997-1998). describes the informal sector as:

A sector that covers a wide range of labor market activities that combine two groups of different nature. On the one hand, the informal sector is formed by the coping behavior of individuals and families in economic environment where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behavior of entrepreneurs that desire to escape state regulations (World Bank – ECA, “Informal Sector in Transition Economies).

The two types of informal sector activities can be described as follows:

- coping strategies (survival activities): casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, multiple job holding;
- unofficial earning strategies (illegality in business): (1) Unofficial business activities: tax evasion, avoidance of labor regulation and other government or institutional regulations, no registration of the company; and (2) Underground activities: crime, corruption – activities not registered by statistical offices.

The size of the informal labour market varies from the estimated 4-6% in the high-income countries to over 50% in the low-income countries. Its size and role in the economy increases during economic downturns and periods of economic adjustment and transition. (International Labour Organization, 1997) The ILO furthermore includes the following variables in its broad definition framework:

- **A way of doing things characterized by:**
 - ease of entry;
 - reliance on indigenous resources;
 - family ownership;
 - small scale operations;
 - labor intensive and adaptive technology;
 - skills acquired outside of the formal sector; and
 - unregulated and competitive markets.
- **This framework integrates three broad groups within the informal sector:**
 - owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices;
 - own-account workers, who own and operate one-person business, who work alone or with the help of unpaid workers, generally family members and apprentices; and
 - dependent workers, paid or unpaid, including wage workers in micro enterprises, unpaid family workers, apprentices, contract labor, home workers and paid domestic workers.
- **Another approach in defining the informal sector is to describe in terms of “what it is not”:**
 - it is not the formal sector (non-formal),

- it is not controlled by the government (non-plan, hidden, unofficial, unrecorded),
- it is not legal (illegal, black, shadow) and
- it is not taxable (unrecorded, parallel).

The latter approach in addition to the negative mention the terms “characteristics of the sector itself (casual, family enterprise); a poverty focus (subsistence, petty commodity, one-person enterprise) as well as its ‘temporary’ nature (transient, intermediate). This sector embraces the following linked terminology:

- Black Market
- Casual Work
- Clandestine Activities
- Community of the Poor
- Family-enterprise Sector
- Hidden Sector
- Informal Economy
- Informal Opportunities
- Informal Sector
- Intermediate Sector
- Invisible Sector
- Irregular Sector
- Lower-circuit of the Urban Economy
- Non-Plan Activities
- Non-Westernized Sector
- One-Person Enterprise
- Parallel economy
- People’s Economy
- Petty Commodity Production
- Shadow Economy
- Trade-Service Sector
- Transient sector
- Underground Economy
- Unobserved Economy
- Unofficial Economy
- Unorganized Sector
- Unrecorded Economic Activities
- Unremunerated Sector
- Unstructured Sector
- Urban Subsistence Sector

Positioning of Informal Trade in the urban economy

From the outset this paper clearly defines the role of Informal Trading within the context of the urban economy. Furthermore, from the outset it defines the Authorities’ approach that “Informal Trading is a positive development in the micro business sector as it contributes

to the creation of jobs and has the potential to expand further the City's economic base and to contribute to the creation of a globally competitive world class African city." In the above regard, the following significant implications are inferred:

- informal Trading is accepted as a reality;
- informal Trading is clearly defined in terms of the particular Municipality's approach;
- informal Trading does form an integral part of the urban economy;
- informal Trading contributes to job creation;
- informal trading may therefore counter the scourges of poverty, crime and other social dilemmas associated with depresses socio-economic status;
- informal Trading forms the basis of economic activity, but is not confined thereto in the sense that it may be followed by business growth, and very importantly formalization of such entrepreneurial activities; and
- informal Trading forms an integral part of the African urban landscape and lends to its identity. In fact, as much as such activities contribute to a tourism experience further a field such as in Thailand, Turkey and India, it does the same for the average tourist on visit in a South African city.

The informal sector is predominantly seen as a **dynamic process** which comprises many aspects of economic and social theory including exchange, regulation, and enforcement. By its nature, it is necessarily difficult to observe, study, define, and measure. "No single source readily or authoritatively defines informal economy as a unit of study. Given the complexity of the phenomenon, the simplest definition of informal economic activity might be: any exchange of goods or services involving economic value in which the act escapes regulation of similar such acts".

The Size and Nature of the Informal Sector

Informal employment broadly defined (as in the previous section) comprises one-half to three-quarters of non-agricultural employment in developing countries: The following figures pertain:

- 47 % in the Middle East and North Africa;
- 51 % in Latin America;
- 71 % in Asia;
- 72 % in sub-Saharan Africa;
- 30% in 15 European countries; and
- 25% in the United States of America.

If South Africa is excluded, the share of informal employment in non-agricultural employment rises to 78 % in sub-Saharan Africa; and if comparable data were available for other countries in South Asia in addition to India, the regional average for Asia would likely be much higher. If informal employment in the agricultural sector is included in the equation a significant higher figure will be conveyed:

- from 83 % to 93 % in India (of total employment);
- from 55 % to 62 % in Mexico; and

- from 28 % to 34 % in South Africa.

Self-employment comprises a greater share of informal employment outside of agriculture than wage employment. More specifically, self-employment represents:

- 70 % of informal employment in sub-Saharan Africa (81%, excluding RSA);
- 63 % in the Middle East and North Africa; and
- 60 % in Latin America and 57 per cent in Asia.

The study conducted by the Bureau of Market Research conveyed that the informal sector of South Africa represents a significant portion of the total workforce. This figure increased from 7, 7% in 1980 to 20, and 6% in 2004/5. The labour absorption rate of the formal economy decreased from 45, 7% (1980) to 27, 7% (2004/5). The informal sector furthermore contributes a portion 4, 6% of the GDP (2004). This figure amounts to a total expenditure of R51, 7 billion (2004). The two main expenditure drivers were R16, 7 billion on food and R15, 9 billion on transport (primarily taxis).

The household expenditure items allocated to “survivalist businesses” are:

- alcoholic beverages (26, 5 %),
- household fuel and light such as paraffin, wood and coal (25, 7 %),
- reading matter (23, 8 %),
- cigarettes and tobacco (21,0 %) and
- transport (19,1 %).

The average total turnover of these businesses was R68 930 in 2004, with an average employment of 2, 3 persons per business. The total number of informal outlets was estimated at 749 500 and consists of the following:

- Hawkers 261 000
- Spaza shops 127 600
- Shebeens 40 100
- Other 320 800

Johannesburg Inner City

The following section reveals a documented picture of the overall conditions and variables applicable to the inner city of Johannesburg. The inner city has 217 000 residents in 37 000 dwelling units. Some 800 000 commuters enter the city every day, and 300 000 – 400 000 migrant shoppers visit the city each year. The city has 7-million m² (needs that square’ symbol) of floor space and 3-million m² of office space. The office buildings represent a R19-billion investment, and the housing a R1.2-billion capital investment. An October 2003 survey by Trafalgar Property & Financial Services provided these statistics about inner-city residents:

- Not all are poor: 12% earn more than R15 000 per month, and 79% earn more than R1 500 per month
- Many are well educated: 19% have University educations, and 35% have Technikon diplomas

- 90% have cell phones, and 44% use e-mail
- 31% own their own cars, 74% use minibus taxis as their chief form of transport, and 32% use municipal buses
- Reasons given for choosing the inner city included affordability (22%), proximity to work (11%) and proximity to schools (11%)

Challenges and advantages:

The CBD has distinctive competitive advantages:

- pivotal location in the city's centre;
- major public transportation hub: all major arterials, all rail, and all bus services run into the city centre;
- low rentals and property prices for high-quality offices;
- access to a large workforce due to easy access from Soweto;
- under-served markets;
- significant infrastructure;
- however, the CBD has also posed certain major challenges to city government;
- curbing the high crime rate;
- lack of sufficient capacity to enforce by-laws, particularly relating to informal trading;
- poor condition of certain buildings;
- properties that are in arrears with rates or monthly bills; and
- management of taxis.

Informal traders

There are an estimated 5 000 street traders in the City. The plan is to put them into a formal trading environment. Special markets have been constructed in Yeoville, Hillbrow, Berea and at Metro Market. Additional markets are in the process of development at Jack Mincer Square/Park Central Taxi Rank, Faraday, Westgate Station and the city centre.

Secondary information on the exact demographical make-up of informal traders operating in the inner city is lacking, but the following applies:

The number of traders currently is 4584. To take a sample of this, the street trading is broken down as follows: There are 1645 street traders in the inner city with an extra 396 being made up of Lenasia traders. From the 1645 inner city traders, approximately 60% are male traders and the rest female. The average age is around 25. The streets are ethnically mixed with +- 30% Nigerian, +-30% Ethiopian/Somalian, 20% South African and the rest of the 20% a mixture of Rwandan, Congolese, Zimbabwean

SMME perspective

The fundamental role of this paper is to contribute to the formalisation and modernisation of the informal sector. It thus implies a process of entrepreneurial development with all the benefits attached. An accurate understanding should henceforth be established in order to create a framework of entrepreneurial thinking. The following section endeavors to establish that. South Africa's Total Early-stage Activity (TEA) rate in 2005 is 5.1%. This

means that it is estimated for every 100 adults in South Africa between the ages of 18 and 64, approximately five own and manage a start-up business (a business that has not paid salaries for three months or more) or a new business (a business that has paid salaries for between three and 42 months), either with others or by themselves (GEM 2006). While a slightly higher figure of 5.4% was recorded for South Africa in 2004, the difference is not significant. However, South Africa's position in the Global Entrepreneurship Monitor (GEM 2006) rankings has dropped from 20th position out of 34 in 2004 to 26th position out of 35 2006.

Comparisons with other developing countries show that:

- South Africa has the lowest entrepreneurial activity rate of all the developing countries.
- South Africa's low TEA rate is attributed not only to our low rate of necessity entrepreneurship (2.05%), but, more importantly, also to our low opportunity entrepreneurship activity rate (2.95%), which is the lowest of all the developing countries.
- The established firm rate (i.e. the percentage of adults who are owner-managers of businesses that have paid wages for more than 3.5 years) is 1.3%. This figure is the lowest of all the developing countries, and one of the four lowest of the GEM countries sampled in 2005.
- With the exception of Mexico, South Africa's start-up businesses are least likely of all the eight developing countries sampled to mature to the new firm stage.

This indicates a lower success rate of new ventures in South Africa by comparison with most other developing countries.

OPPORTUNITY FRAMEWORK

The critical issues and framework discussed in the previous section served as a facilitator in identifying feasible opportunities for the formalisation process. The following suggested opportunities could suffice in that regard (graphically illustrated in Figure 1):

Research Program

An in depth micro environmental research intervention needs to be conducted. The status quo of the informal trade environment has to be determined with specific reference to the inner city. The information obtained will facilitate insight into further opportunities, development and implementation.

Redeployment & Training Needs Analysis

The research results will enable the MTC to perform two primary processes. The first is to identify traders that need to be redeployed (e.g. illegal immigrants and illegal hawking). This process endeavours to remove illegal immigrants and traders without licenses. The

redeployment process should be considered within the context of relevant legislation and policing. Redeployment could also integrate with social housing retail initiatives as part of government's Top 20 Township Program. This program entails the redevelopment and upgrade of social housing dwellings and sometimes incorporate the inclusion of a retail section within the formal housing setup. One could also consider the solution to the housing needs of these traders.

The second and probably one of the most important opportunities in empowering traders is the process of addressing specific and general training needs. This will also assist in categorizing the different traders in terms of their specific needs and formalization potential.

Establishing a Management Information System (MIS)

A system should be designed and implemented that will govern the current and new traders in terms of their business processes, management ability and growth potential. The system should assist the MTC in controlling the process of formalization via databases management.

Stakeholder Linkages

A significant benefit is perceived in formal and informal linkages with selected stakeholders. The nature and feasibility of opportunities within this framework still have to be established. The primary purpose of these linkages should be to the advantage of the individual operating in the informal sector.

Redeployment

The redeployment of individuals into the world of work is seen as a major solution to the present issues at hand. Many of the current traders are merely in an informal situation due to "no other alternatives" and consequently part of the push economy as survivalists. The latter does not spell entrepreneurship.

As indicated a specific focus should be placed on "training for employment". This option serves as a form of job creation whereas basic skills transfer take place with the premise to formalise employment into different branches of industry or sectors. A stakeholder approach could be followed endeavouring to link and channel skilled potential employees to suitable labour need opportunities. The opportunity stretches over public and private sector need spheres. Skills transfer is firstly linked with the Sector Education and Training Authorities (SETAS) as well as tertiary training institutions.

Incubation

An incubator is a shared infrastructure facility where entrepreneurs are guided through the entrepreneurial process, with fundamental growth as a primary objective. The Management Information System and Training Needs Analysis will feed information in

terms of informal traders with potential to fit into place with a MTC incubator. The focus of such an incubator should be production and value adding processes. A business incubator is a comprehensive business support and infrastructure option especially for entrepreneurs in the start-up phase of development. The incubator assists the entrepreneur in:

- Shared facilities and infrastructure
- Management support and resources
- Direct linkages with suppliers and customers or customer groups
- Skills transfer
- Establishment of growth potential

Mentorship

A comprehensive mentorship process should be designed and developed. All the categories of trade as identified should be linked to a mentor/s. The mentoring will also be an integrated process in the MTC incubator. Mentoring forms an important instrument with which skills that are imparted through training could be practically implemented with proper supervision and guidance. This should greatly enhance the success of SMMEs

Mentorship has been a part of the learning process for many years, even as far as back as ancient Greece. In recent years the use of mentoring has formed part of people's development and learning processes. Mentoring can be found at work, in educational institutions, community development projects and in the advancement of professional and personal developmental strategies. Both the mentor in his growth, pride and experience and the mentee in the skills acquired and confidences gained feel the benefits.

Taxi-utilisation

The utilization of taxis during idle time is an opportunity to be investigated. Value adding activities should be identified and integrated in the entire process of formalization. The restructured and formalized taxi industry can play an enormous supporting role in the tourism sector (see 2.10), e.g. city tours; links with Soweto tours; Gautrain links and the delivery of goods during waiting periods.

Incentive Scheme

A positively related system should be designed in accordance with the performance of informal traders. This scheme should focus on fundamentals of business management (e.g. sales turnover and profit variables). The main purpose of this incentive scheme is to catalyse formalisation. The top informal entrepreneurs (based on pre-determined performance criteria, e.g. turnover) could receive incentives that contribute to formalization (e.g. bridging capital or free training course).

SMME Mega-City / Trade Park

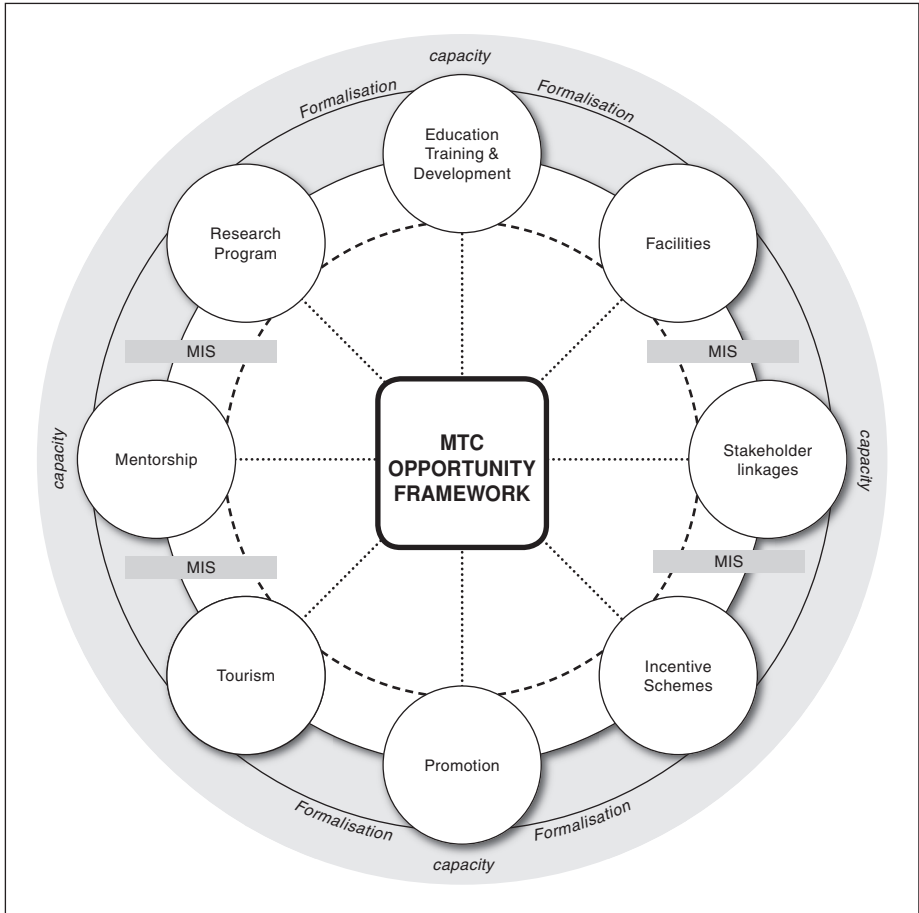
A mega informal sector trade environment should be designed and developed in the light of the Soccer WC 2010 opportunity framework as well the post WC 2010 era. The business sustainability principle must be applied with the WC 2010 as potential catalyst in formalizing informal traders (e.g. increased income as a result of the WC). A trade park or SMME retail centre may establish a centralized market with access on the inbound and outbound channels (see Linkages). This should not only be a tourism attraction but a hub in informal trade with formalised characteristics (e.g. retail layout with semi-shop structure and unconditional safety measures). This will be a capital intensive project, but provides with the potential to link the informal trader with a tourism and formal clientele base. The success of such a development is dependent on the following principles:

- differentiation in placement (allowing a broad product range with a healthy competitive environment, without an over-emphasis on “selling-the-same”), therefore a well distributed tenant mix;
- safety and security. This park/centre should ensure a crime free shopping experience for all. This principle also encompasses the compliance to selling legal and non-grey products. Rent discount should be offered to “Proudly South African” products;
- strict tenant requirements (e.g. preventing rent defaults; code of conduct and business ethics);
- training prior to occupancy is compulsory. A very high emphasis should be placed on outstanding customer service; basic quality assurance; hygienic aspects; financial bookkeeping and basic management principles;
- centralised marketing efforts. The SMME park as an entity should be promoted on a provincial and national level;
- South African citizens only. Tenant selection criteria should be strict with the primary filter of empowering and formalising the South African entrepreneur; and
- linkages. The park must link with the total service offering of the MTC (e.g. incubation; mentorship; public and private sector linkages; training interventions and incessant research interventions;

Tourism

With a population of approximately 41 million and a land area of 1.27 million sq. km (nearly five times the size of the UK), South Africa’s resource base for tourism is phenomenal. The country’s tourism attractiveness lies in its diversity. Some of the features which make South Africa an incredibly attractive tourism proposition include: accessible wildlife, varied and impressive scenery, unspoiled wilderness areas, diverse cultures (in particular traditional and township African cultures), generally sunny and hot climate, no ‘jet lag’ from Europe, a well-developed infrastructure and virtually unlimited opportunities for special interest activities such as whale-watching, wild water rafting, hiking, bird-watching, bush survival, deep-sea fishing, hunting and diving. In addition, unique archaeological sites and battlefields, the availability of excellent conference and

Figure 1: Opportunity framework



exhibition facilities, a wide range of sporting facilities, good communication and medical services, internationally known attractions (Table Mountain, Cape of Good Hope, Sun City, Kruger National Park, Garden Route, Maputaland) and unrivaled opportunities to visit other regional internationally known attractions

CONCLUSION

This case is not secluded from the rest of South Africa’s informal sector, but endeavours to proceed from the platform of understanding the informal sector. The paper identified and discussed potential opportunities that could induce formalisation in respect of the informal trader. Not all of these opportunities are feasible in terms of market realism or viability pertaining to a utility like the Metropolitan Trading

Company's internal capacity. These two variables have to be evaluated and tested per every single opportunity within the strategic framework portrayed in the final section. The case also serves as a catalyst for policy formulation.

At the end a primary objective should be to enhance the overall business conditions of the informal trader coupled with the potential for formalisation, a proven mechanism in sustainable job creation.

BIBLIOGRAPHY

- Advani, A. 1997. *Industrial clusters: a support system for small and medium sized enterprises*. Occasional Paper No. 32. Washington DC: Private Sector Development Department, The World Bank.
- Belev, B. 2003. World Bank – ECA. Informal Sector in Transition Economies. Available from: <http://scholar.google.com/scholar?hl=en&lr=&q=World+Bank+-+ECA%2C+%22Informal+Sector+in+Transition+Economies%22&btnG=Search> [Accessed: 2007-05-04].
- Bennet, R. 1988. *Local economic development: Identifying the research priorities*. Economic and Social Research Council, London: Oxford Press.
- Bird, R., Litvack, J. & Rao, M. 1995. Intergovernmental Fiscal Relations and Poverty Alleviation in Vietnam. Policy Research Working Paper 1430. Washington, DC. World Bank
- Bond, P. 2003. Debates in local economic development: Policy and practice. *Urban Forum* 14.
- Boviar, T. 1988. Establishing the basic groundwork in local economic development research. In Bennet, R. *Local economic development: Identifying the research priorities*. Economic and Social Research Council London: Oxford Press.
- Carpenter, G. 1999. *Cooperative Government, Devolution of Powers and Subsidiary: The South African Perspective*. Paper presented at the Sub national Constitutional Governance, Pretoria, 16–18 March.
- Clarke, S. and Gaile, G.L. 1998. *The work of cities*. Minneapolis: Minneapolis University Press.
- Constitution of the Republic of South Africa*, 1996 (Act 108 of 1996).
- Dawson, J. and Jeans, A. 1997. *Looking beyond credit: business development services and the promotion of innovation among small producers*. London: Intermediate Technology Publications.
- D'Arcy, E. and Guissani, B. 1996. Local economic development: changing the parameters? *Entrepreneurship and Regional Development*, 8.
- European Union. 2003. *Delegation of the European Commission in South Africa*. Annual Report, 2003.
- Freeman, D. 1991. *A city of framers: informal urban agriculture in the open spaces of Nairobi, Kenya*. Montreal: McGill University Press.
- Furedy, C. 1992. Garbage: exploring non-conventional options in Asian cities. *Environment and Urbanization*, 4(2).
- Grierson, J. and Mead, D. 1994. Business linkages in Africa: enterprise led approaches to small enterprise development. *Development and Cooperation*, 4.
- Grierson, J. and Mead, D. 1995. *Business linkages in Zimbabwe: concept, practice and Strategies*. GEMINI Working Paper No. 49. Bethesda, Maryland.

- Guerrero, R. 1996. Innovative programs for the urban poor in Cali, Colombia. *The Urban Age*, 4(1).
- Hardoy, J., Mitlin, D. and Satterthwaite, D. 1992. *Environmental problems of Third World cities*. London: Earthscan.
- Harvey, D. 1989. From managerialism to entrepreneurialism: the transformation in urban governance in late capitalism. *Geografiska Annaler*, 71B.
- Isanda Institute, 1999 Informalisation, local economic development & public policy – a discussion paper. [Online] Available from: [http://www.isandla.org.za/papers/Informal%20sector%20paper%20\(1999\).pdf](http://www.isandla.org.za/papers/Informal%20sector%20paper%20(1999).pdf) [Downloaded: 2006-09-04].
- International Labour Organization (ILO), 1997-1998. *World Labour Report*. Geneva.
- Ligthelm. 2004/5. *Measuring the size of the informal economy in South Africa*, 2004/05. Bureau of Market Research, Unisa.
- May, J. 1998. *Poverty and Inequality in South Africa*. Report prepared for the Office of the Executive Deputy President and the Inter-Ministerial Committee for Poverty and Inequality. Durban: Praxis.
- McAuslan, P. and Farvacque, C. 1991. *Reforming urban land policies and institutions in developing countries*. Policy paper No. 5. Washington DC: Urban Management Programme, World Bank.
- Mokate, R. 1999. Local economic development and the national anti-poverty strategy: Meeting the basic needs of people. *Journal of Public Administration*, 34(3).
- Mombeshora, S. 2004. *Philanthropy of Community in Zimbabwe: Past, Present and Future*. Paper prepared for the Building Community Philanthropy Project at the centre for leadership and public values, Graduate School of Business, University of Cape Town, South Africa. 11 November.
- Moser, C. 1996. *Confronting crisis: a comparative study of household responses to poverty and vulnerability in four poor urban communities*. Washington DC: The World Bank.
- Moser, C. 1998. The asset vulnerability framework: reassessing urban poverty reduction strategies. *World Development*, 26.
- Nyong, A., Adepetu, A., Ihemegbulem, V. and Dabi, D. 2003. Vulnerability of Rural Households to Drought in Northern Nigeria. *AIACC Notes*, 2(2).
- Nadvi, K. and Schmitz, H. 1997. *Industrial clusters in less developed countries: a review of experiences and research agenda*. Discussion Paper No. 339. Brighton: Institute of Development Studies, University of Sussex.
- Pacheco, M. 1992. Recycling in Bogota: developing a culture of urban sustainability. *Environment and Urbanization*, 4(2).
- Poerbo, H. 1991. Urban solid waste management in Bandung: towards an integrated resource recovery system. *Environment and Urbanization*, 3(1).
- Rabinovitch, J. 1992. Curitiba: towards sustainable urban development. *Environment and Urbanization*, 4 (2).
- Rogerson, C. 1997. Local Economic Development and Post-Apartheid Reconstruction in South Africa. *Singapore Journal of Tropical Geography*, 18 (2).
- Rogerson, C. 1995. *Local economic development planning in the developing world*. Regional Development Dialogue, 16(2).

- Rogerson, C. 2004. Towards a world class African city: Planning local economic development in Johannesburg. *African Insight*, 34.
- Schmitz, H. 1995. Small shoemakers and Fordist giants: tale of a supercluster. *World Development*.
- Schmitz, H. 1997. *Collective efficiency and increasing returns*. Working Paper No. 50. Brighton: Institute of Development Studies, University of Sussex.
- Smit, J. and Nasr, J. 1992. Urban agriculture for sustainable cities: using wastes and idle land and water bodies as resources. *Environment and Urbanization*, 4(2).
- South Africa. 1997. Department of Housing. *Housing Act* [No. 107 of 1997] Pretoria: Government Printer [Online] Available from: www.info.gov.za/gazette/acts/1997/a107-97 [Downloaded: 2007-05-04].
- South Africa. 2003. Province of the Eastern Cape. *Strategy Framework for Growth and Development 2004-2014*: Available from: <http://www.info.gov.za/otherdocs/2003/ecgrowth.pdf> [Accessed: 2007-05-04].
- South Africa. 1997. Department of Constitutional Development. *Linking local economic development to Poverty alleviation*. Pretoria, Government Printer.
- South Africa. Statistics South Africa, 2005. *Unemployment and employment in South Africa*. Pretoria: Available from: http://www.statssa.gov.za/PublicationsHTML/P0210September2005/html/P0210September2005_20.html [Downloaded: 2007-05-04].
- South Africa. Statistics South Africa. 1998. *Unemployment and employment in South Africa*. Pretoria: Government Printer [Online] Available from: <http://www.statssa.gov.za/publications/statsdownload.asp?PPN=EmployUnemploy&SCH=2296> [Downloaded: 2007-05-04].
- South Africa. 1998. Ministry for Provincial Affairs and Constitutional Development. *The White Paper on local government*. Pretoria: Ministry for Provincial Affairs and Constitutional Development Government [Online] Available from: http://www.polity.org.za/html/govdocs/white_papers/localgov/ [Accessed: 2007-05-24].
- South Africa. Report to the Presidency. 2003. *Intergovernmental relations*. Pretoria: Government Printer [Online] Available from: <http://www.sarprn.org.za/documents/d0000875/docs/Layman,%20Tim.pdf#search=%22South%20Africa%E2%80%99s%20system%20of%20intergovernmental%20relations%22> [Downloaded: 2007-05-04].
- South Africa. 1996. *The Constitution*: Government Printer [Online] Available from: <http://www.info.gov.za/documents/constitution/1996/96cons7.htm> [Accessed: 2007-05-04].
- South Africa. 1999. Government Information: *State of the Nation Address*. Pretoria: Government Printer [Online] Available from: <http://www.info.gov.za/speeches/son/index.html>. [Accessed: 2007-05-20].
- South Africa, Republic. *Constitution*, 1996 (Act 108 of 1996)
- Stren, R., and Gombay. C. 1994. *The Alleviation of Urban Poverty at the Municipal Level: A Review of the Literature*. Toronto: UMP.
- Thale, T. 2007. The rise and rise of hawking in the city. Available from: <http://www.joburgnews.co.za/content/view/134/9/> [Accessed: 2007-05-04].
- The Department of Trade and Industry, 2006. South Africa, Geared for Growth. Available from: <http://www.thedti.gov.za/publications/SAgeared4growth2006.pdf> [Downloaded: 2007-05-04].

- Tendler, J. and Amorim, M. 1996. Small firms and their helpers: lessons on demand. *World Development*, 24, 407-426
- United Nations Development Programme. 1996. *Urban agriculture: food, jobs and sustainable cities*. New York: United Nations Development Programme.
- Vanderschueren, F., Wegelin, E. and Wekwete, K. 1996. *Policy programme options for urban poverty reduction*. Policy Paper No. 20. Washington DC: Urban Management Programme, World Bank.
- Von Broembsen, Wood & Herrington. 2005. Global Entrepreneurship Monitor, South African Report 2005. UCT Graduate School of Business.
- Wegelin, E. and Borgman, K. 1995. Options for municipal interventions in urban poverty alleviation. *Environment and Urbanization*, 7(2). www.gdrc.org/informal
- [www.wiego.org/publications/women and men in the informal economy](http://www.wiego.org/publications/women%20and%20men%20in%20the%20informal%20economy)
- Yemek, E. 2005. *Understanding fiscal decentralisation in South Africa, IDASA – Budget information Service: Africa Budget Project* [Online] Available from: www.idasa.org.za/gbOutputFiles.asp?WriteContent [Accessed: 2006-05-24].
- Zaaijer, M. and Sara, L.M. 1993. Local economic development as an instrument for urban poverty alleviation. *Third World Planning Planning Review*, 15(2).