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**THE INFORMAL SECTOR: MICRO-ENTERPRISE ACTIVITIES AND  
LIVELIHOODS IN MAKANA MUNICIPALITY, SOUTH AFRICA**

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## ABSTRACT

This study examines the nature and characteristics of the informal sector within the Makana municipal area in South Africa. The focus is on the socio-economic characteristics of the informal sector operatives; operational characteristics of the micro-enterprises that we studied, such as longevity, employment generation, growth potential, and linkages of the informal sector with the formal sector of the economy. Extensive studies on the informal sector have been conducted in many parts of the world relative to South Africa. The key finding in most of these researches is that the informal sector is highly heterogeneous. These studies provide us with the parameters for analysing the nature and characteristics of the informal sector in the Makana Municipality. The results of the thesis show that the majority of people in Makana Municipality join the informal sector as a result of such push factors as unemployment, retrenchment and the need to survive. While there is evidence of lucrative activities amongst the surveyed enterprises, most of the informal sector micro-enterprises are concentrated in the lower segment of the sector where earnings are very low. Results from this study reveal that employment generation (beyond owner-operator) is very limited. The co-existence of a small number of remunerative activities alongside a large proportion of relatively unproductive activities is not only a sign of restricted economic potential but, most importantly, it points to the heterogeneous nature of the informal sector. Precisely, the informal sector encompasses activities which are different in terms of asset holdings, earnings, etc. From the study, it is also evident that the informal sector micro-enterprises play a crucial role in distributing goods produced in the formal sector. Evidence indicates that these micro-enterprises are linked to the formal sector. The idea of a 'second economy' devoid of linkages with the 'first economy' is of limited heuristic value. Thus, the 'second economy' is an extension of the first.

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## CHAPTER 1 INTRODUCTION TO THE STUDY

### 1.1 Introduction

The primary aim of this research is to explore the nature, characteristics and the dynamics of the informal sector in Makana Municipality. The point of departure in this study is that, relative to other African countries and some parts of the world, research into the informal sector in South Africa is recent, which has implications for the depth of our knowledge of the sector. Extensive research on the sector has been conducted in other parts of Africa through the International Labour Organisation (ILO), for instance, yielding information on such aspects as the longevity of informal sector enterprises, their assets, earnings and linkages with the formal sector. These studies and many other researches by different scholars will provide us with the parameters for this study.

The informal sector, which is often presented as a transitory phase of economic development, has continued to exist in spite of its presupposed decay and ultimate disappearance. Thus, instead of disappearing with the rapid industrialisation which has taken place in many parts of the world, the informal sector has become more visible. This trend stands in sharp contrast to the predictions on the future of the sector by both Marxist analyses and the more orthodox theories of industrialisation (Portes & Sassen-Koob, 1987). As Beneria (2001:33) notes:

During the 1970s and 1980s the informal sector was viewed in developing circles as a transitory form of employment whose significance would be decreased as the formal sector grew with employment and absorbed the marginal working population.

According to the Marxist analyses, the 'disappearance' of the informal sector would emanate from the rapid expansion of the 'capitalist mode of production', a process which would destroy the 'pre-capitalist modes of production'. Conversely, the 'orthodox theories of industrialisation' explained the envisaged 'disappearance' of the informal sector as a process that would result from the 'accelerated process of industrialisation'. This enhances the labour absorptive capacity of the formal segment of the economy (Portes & Sassen-Koob, 1987:33-35).

However, the reality reveals different patterns and trends. Estimates by the International Labour Office (ILO) (2002:7) show that there has been an increase in informal employment as a proportion of non-agricultural employment in various regions of the world with the highest percentage being registered in Sub-Saharan Africa. This speaks to “the continued fragility of the formal sector of the economy in many African states” (King, 2001:98). Similar trends have been observed in other regions of the world (see Table 1.1). Besides the ‘limited labour absorptive capacity’, the ‘informalisation of the formal sector’ is another frequently cited factor in explaining the continued existence of the informal sector (Beneria, 2001). In this instance, large firms within the formal sector outsource part of their work to informal sector workers operating outside the regulatory framework so as to cut costs and maximise their profits.

**Table 1.1: Informal Employment as a proportion of non-agricultural Employment**

Region	Percentage
North Africa	48
Sub-Saharan Africa	72
Latin	51
Asia	65

Source: Adapted from ILO (2002). Women and Men in the Informal Sector: A Statistical Picture.

It would seem that the informal sector is an enduring part of the ‘modern economy’ that cannot be wished away. This also explains why there has been persistent interest in the sector by both scholars and policy makers. A study of the nature, characteristics and dynamics of the informal sector is vital for the formulation of robust policies particularly in African countries which frequently grapple with the problem of a formal sector that has a limited labour absorptive capacity. Thus, there is an almost common trend where the majority of people in African countries join the informal sector to survive. Indeed, South Africa is not exempt from this trend. The informal sector has been identified as strategic in generating employment and alleviating poverty. A primary concern of the Department of Trade and Industry (DTI), in this regard, is to facilitate access to sustainable economic activity and employment for South Africans, particularly those in the informal sector or the ‘second economy’ (Isandla, 1999).

## 1.2 Context of the Research

Much of the writing and research on the informal economy in South Africa tends to follow the (ILO) approach. This confers on the sector—sometimes uncritically—the potential to create employment and boost labour absorption. Yet many scholars regard this assumption as exaggerated and misleading (Isandla, 1999:4). Many scholars have argued that the informal sector in South Africa only developed at a later stage due to restrictions placed by the government on independent ‘market-oriented activities’ of Africans (Mhone, 1996; Xaba, Horn & Motala, 2002:11; Kingdon & Knight, 2004). As a result, the informal sector in South Africa is in general not as diverse and widespread as in Latin America or even in other parts of Africa (Isandla Institute, 1999). For example, the World Bank (1993) considers small-scale, light manufacturing to be the dynamic segment of the sector yet studies reveal that its share of employment is relatively low in South Africa, whereas activities concerned with services and distribution are common (Isandla, 1999). Specifically, “manufacturing comprises only 17% of total informal economic activity in South Africa which compares poorly with many other developing countries where its share is much larger; 47% Freetown (Sierra Leone), and 23.5% in Mexico in 1987...”(Isandla, 1999).

In recent years South Africa’s informal economy has grown significantly. It is also argued that estimates of informal employment in South Africa are now ‘reasonably robust’ (Devey, Skinner & Valodia, 2004:2). According to Devey *et al* (2004:8) informal sector activities in South Africa encompass different types of economic activity (trading, collecting, providing a service and manufacturing), different employment relations (the self-employed, paid and unpaid workers) and activities with different economic potential (survivalist and successful small enterprises).

While the informal sector might be difficult to define, the sub-criterion ‘size of economic activity’ will be the organising framework for this study. The focus of this study is on micro-enterprises which the (DTI) in South Africa defines as “those enterprises with a turnover of less than R 150 000 per annum and informal characteristics, that is, not registered for tax purposes and usually with less than 5 paid employees” (DTI, 2002). Most scholars working in the area are in agreement on this general definition. For instance, according to Livingstone (1991:562) “the informal sector could

be taken to refer to micro-enterprise". The very nature of being micro or very small enterprise lends itself to operating in the informal economy. These "enterprises are largely invisible and operate at low levels of visibility"<sup>1</sup> (Losby *et al*, 2002). According to Castels & Portes (cited in Losby *et al*, 2002), "they may or may not have licences, are often engaged in casual hiring, unreporting of income and other informal labour practices".

This research will explore the nature, characteristics and the dynamics of the informal sector in Makana Municipality. Of particular significance to the study is the extent to which the informal sector in this area is widespread and its characteristics. Studies in other countries reveal that the informal sector is highly differentiated in terms of its participants (Lugalla, 1997), the nature and characteristics of the enterprises, asset holdings, longevity and stability of employment within these enterprises. Studies in other parts of Africa and the world also point to the differentiated gender composition of the informal sector especially the preponderance of women in the lower levels of the sector (Olukoshi, 2001; Wilson, 1998a). According to Wilson (1998a:105), "being male or female affects one's movements, possibilities, and career trajectories in the informal sector".

Although estimates of informal employment in South Africa are now 'reasonably robust', we still know very little about its nature, dynamics and characteristics, relative to what we know about the sector in other parts of Africa and the world. This is particularly significant given the increasing policy interest in using the sector to generate employment and reduce poverty. While there is broad consensus on the public policy significance of unemployment and poverty in South Africa, policy robustness and effectiveness will depend on the quality of our knowledge of the sector. This study is concerned with contributing to this body of knowledge. This study will also contribute to the sub-discipline of Economic Sociology where research has shown that there are different forms of work in society which include the informal economy and or self-employment. These are just as important as the formal economy.

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<sup>1</sup> These enterprises are in most instances invisible to the authorities since they operate outside of the regulatory framework without licences.

### **1.3 Study Objectives**

This study seeks to answer the following questions:

- What are the socio-economic and demographic characteristics of informal sector operatives?
- What are the characteristics and nature of the informal sector?
- What are the inter-sectoral linkages between the informal and the formal sector?

### **1.4 Brief Description of Research Methods**

The study has employed the survey questionnaire as the primary data collection instrument. However, considering the nature of the phenomenon under study, we have also used the qualitative data gathering strategies namely the in-depth (semi-structured) interviews and the Focus Group Discussion to supplement the survey. The reason behind the use of more than one data gathering technique lies in the observation that finding well-rounded answers to the research problem is far more important than preference of one method to the other. Using more than one research technique in studying the informal sector is important considering the complex nature of the phenomena. This will be discussed extensively in the methodology and research design chapter (Chapter 3).

### **1.5 Structure of the Study**

This thesis consists of six chapters. The second chapter is dedicated to the review of the literature on the informal sector. This chapter starts off by addressing the definitional aspects of the informal sector. We adopt a historical approach to trace how the concept has been defined at different stages in time since its popularisation by the International Labour Office. Besides the definitional issues, empirical works on the nature and characteristics of the informal sector are discussed in some detail. Thus we discuss earlier researches with particular emphasis on the socio-economic and demographic characteristics of the informal sector participants, the nature and characteristics of the informal sector enterprises and the interrelationships of the informal sector with the formal sector as well as the nature of relations with the authorities.

The third chapter focuses on the methodology and research design of the study. The focus is not merely on the specific data gathering strategies employed in the study but also on the philosophical assumptions underlying them. Also important are the steps

and procedures we followed in executing the study. An outline of these steps is significant especially with the quantitative survey where there is emphasis on 'reconstructive logic' to allow for the ease of replicating the study (Neuman, 1997).

The fourth chapter presents the analysis of the data from the study with a focus on two main aspects, that is, the socio-economic and demographic characteristics of the informal sector participants and the characteristics of the enterprises themselves. In this chapter, we draw from the empirical works we discussed in the literature survey to make sense of the data.

In the fifth chapter, while the focus is still on the nature and characteristics of the informal sector, the emphasis shifts to the examination of the broader environment within which the informal sector participants operate. This speaks to the realisation that the informal sector does not exist in a vacuum but within a particular regulatory and policy environment. Also significant is the interrelationship between the informal sector enterprises and the formal sector firms.

Chapter six is the conclusion in which we synthesise all our arguments drawing from both the theoretical and empirical issues we addressed in the study. Of particular significance are the predominant features of the informal sector we identified in the research.

## **CHAPTER 2 REVIEW OF THE LITERATURE**

### **2.1 Introduction**

This chapter explores the existing body of literature, on the nature, characteristics and dynamics of the informal sector. Of particular significance is the genesis of the concept and how different theorists have tried to define the concept over time. This is mainly to identify the main features of informality. We will examine the nature and characteristics of the informal sector operatives and enterprises drawing from empirical research that has been conducted in other countries. This will entail an analysis of such aspects as the socio-economic and demographic characteristics of informal sector operatives (income and earnings, education and training, etc), the operational characteristics of informal sector enterprises, for example, capital accumulation, longevity and availability of markets for the services and products of informal sector enterprises as well as the nature of complementarities between the informal sector and the formal sector. We will also examine the informal sector in South Africa and this will entail looking at how apartheid policies affected the sector. Further, we will examine some of the literature on the socio-economic context of the informal sector in South Africa, particularly the major trends within this sector. The current debate on South Africa's second economy will also be highlighted. Finally, we conclude that there is need for a more nuanced use of the concept of 'informal sector' in South Africa; one that demonstrates an awareness of the rich body of literature in other parts of Africa and the world, and locates the sector within the broader social formation.

#### **2.2.0 Conceptual Framework**

Many scholars agree that the informal sector is an 'imprecise' concept and difficult to define (Maruri, 2001; Gerxhani, 2003; Peattie, 1987) mainly because of its heterogeneous nature. House (1984:277) argues that the motivations and activities of informal sector operatives are very diverse in nature which makes it difficult to write of a single sector which can be "usefully incorporated in models of the urban economy of LDCs". Similarly, the Isandla Institute (1997:7) contends that the use of the term 'informal sector' tends to be very problematic considering that the sector comprises a set of highly heterogeneous activities. This is not helped by the fact that many households straddle both sectors (formal and informal). Also, income differences between the two sectors are usually very small. In addition, there is lack of empirical data to enable the

'accurate delineation and description' of the sector. Furthermore, the often made assumptions about ease of entry have been proved to be false (Isandla, 1997).

Moser (1978:1051) notes that there is complete confusion about what is actually meant by the term 'informal sector'. Since it was popularised by the International Labour Organisation (ILO) mission in Kenya (ILO, 1972), the concept of the informal sector has been applied to "a diversity of empirical data, and in many different contexts" (Ibid). Owing to the controversial nature of the concept and the fact that it is "utterly fuzzy", Peattie (1987) argues that those interested in policy and analysis of this phenomenon should start by abandoning the concept. Thus there are many definitions that have been put forward in an attempt to understand the phenomenon since its identification by the International Labour Office in Kenya in 1972.

The divergent views on the exact nature of the informal sector notwithstanding, there have been, according to Portes & Schauffler (cited in Maruri, 2004: 4), two outstanding themes in the discussion of this phenomenon, namely its structure and its function. With regard to the former question the main focus is on the descriptive characteristics of the informal activities particularly the extent to which they correspond to a particular group of individuals or a set of economic activities. The second question deals with a 'more substantive' issue, that is, the relationship between the informal and formal sectors. The main concern according to Portes & Schauffler (cited in Maruri 2001:4) is,

[w]hether the informal economy is a set of marginal survival activities of the urban poor and as such a temporary manifestation of underdevelopment, or represents instead, a relatively permanent structural feature of modern economies, integrated with the lead sector.

The concept of the 'informal sector' is not only controversial but has also been deployed to refer to different phenomena at different points in time. It is germane to trace its genesis, emphasising the various schools of thought that developed in an attempt to make sense of this elusive concept. This will make it possible to identify the relevant theoretical paradigm or paradigms in explaining the nature of informality in this study. The theoretical paradigms propounded by various scholars from different

disciplines are the anthropological, the ILO, the PRELAC, institutionalist, the petty commodity/Marxist, and the Structuralist perspective.

### **2.2.1 The Anthropological Definition**

Although the term informal sector was popularised by the (ILO) mission to Kenya in 1972, it was first introduced in the analysis of economic activity in urban Ghana by Keith Hart (1970<sup>2</sup>) a social anthropologist. However, Keith's 1973 work on the same subject is the frequently cited. Although Hart (1973), as an Anthropologist, was initially concerned with the micro-context of informality, his study ultimately addressed the macro-context since it highlighted the question of whether or not the informal sector absorbs labour in a 'devolutionary manner without increase in productive output' (Despres, 1998). This is summed up in his statement where he asks if:

[...] the reserve army of urban 'unemployed and underemployed' really constitute a passive exploited majority in the cities like Accra, or do their informal economic activities possess some autonomous capacity for generating growth in the incomes of the urban (and rural) poor? (Hart, 1973: 61)

Central to Hart's study is his argument that the distinction between formal and informal income opportunities is based on that between "wage earning" and "self-employment" (1973: 68). As Moser (1978:1052), argues, Hart gave primacy to the distinction between "wage earning and self-employment, with the key variable being the degree of rationalisation of work" or "whether or not labour was recruited on a permanent and regular basis for fixed reward" (Moser, 1978:1052). Hart was mainly concerned with "the multitude of often temporary economic strategies adopted by migrant workers in Ghana in the face of a marginal job market which, in the aggregate, responded to social needs" (Cross, 1998:1).

According to Swaminathan (cited in Gerxhani, 2003:2) the introduction of the concept of the informal sector by Hart "made it possible to incorporate activities that were previously ignored in theoretical models of development and in national economic accounts". However, Davies (1979:88), notes that the emphasis on the distinction be-

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<sup>2</sup> Keith Hart (1970) first wrote about the presence small-scale economic activities in urban Ghana in 1970. His ideas would later be popularised by the ILO in 1972.

tween 'wage earning and self-employment' or what Moser (1978) calls the 'degree of rationalisation of work' as the basis of whether or not an activity is formal or informal "precludes the possibility of workers being employed by informal sector operatives, and therefore is not an adequate basis for analysing the sector". Davies (1979) further argues that this does not provide the criteria by which the self-employed in the formal sector can be distinguished from those in the informal sector.

### **2.2.2 The ILO Definition**

One fundamental similarity between the ILO definition and Hart's approach in explaining informality is the use of the formal/informal dichotomy. This therefore means that the ILO definition can be classified as dualist approach to informality. However, whereas Hart emphasised the characteristics of informal sector operatives by distinguishing between those in 'wage employment' and the 'self-employed', the ILO focuses on the characteristics of the enterprise as the basis of the two-sector dichotomy. The 1972 ILO report identified seven key characteristics of informal sector activity and vis-à-vis:

- i. Low entry costs, and general ease of entry.
- ii. Unregulated and competitive markets.
- iii. Reliance on indigenous resources.
- iv. Family ownership of enterprises.
- v. Small scale of operation
- vi. Labour intensive and simple technology
- vii. Skills acquired outside formal schooling system

The formal sector consists of the converse characteristics which are as follows:

- i. restricted entry
- ii. reliance on national and foreign finance capital
- iii. corporate ownership
- iv. large scale operation
- v. capital-intensive and imported technology
- vi. formally acquired skills
- vii. protected markets (ILO Report, 1972:6).

Although it is generally acknowledged that the ILO report on the informal sector positively influenced the analysis and planning of all Third World economies since it highlighted the development potential of the previously neglected sector there are many conceptual and empirical problems that were raised by different scholars. As House (1984) notes, the ILO report on Kenya and its use of the term 'informal sector' sparked off a great deal of controversy in the development literature over the meaning and usefulness of such a concept. Firstly, it is not clear whether all these criteria have to be met before an enterprise, business relationship or other is characterised as informal. Thus it is very rare for the aforesaid characteristics to "go together or demarcate a discrete group of enterprises" (Harris, 1990:2). Charmes (cited in Muller, 1998) also argues that the problem with this multi-criteria definition is that it fails to understand the heterogeneous nature of activities and actors within this sector. Thus, this definition particularly assumes that informal activities are of rather primitive nature and that this sector is merely a junkyard consisting of the poorest and most marginalised in society.

The Isandla Institute (1999) argues that the characteristics attributed to the two sectors tend to be assertions that are inadequately buttressed by empirical evidence. Firstly, such activities as hawking and vending which are normally viewed as characterised by ease of access are 'lumped' together with waste picking, prostitution and drug dealing. However, "entry into prostitution and drug dealing is not a straightforward matter and has to be negotiated with a host of gatekeepers, middlemen and pimps" (Isandla, 1999:9). Moreover, it has been noted by many scholars that the argument that it is not problematic to gain entry into the informal sector is invalid (Mitullah and Wachira, 2003; House, 1984; Kingdon & Knight, 2001).

Secondly, the largest corporations (*Chaebols*) in the Republic of Korea are family owned and this is the case with many of Thailand's export-oriented industries (Isandla, 1999:9). Lastly, the Isandla Institute (1999:9) notes that it is impossible for instance, to argue that the millions of women sewing clothes together in their homes for export through trans-national sub-contracting networks, for example Benetton, are somehow dependent on indigenous rather than overseas resources.

The ILO attempts to go beyond Hart's 'labour status' criterion in defining informality by providing a 'more comprehensive definition' which focuses on the enterprise characteristics as determinant features to be employed in ascertaining whether or not an activity falls within the informal sector. Yet, some scholars argue that the ILO conception of informality failed to transcend the limitations of the dualistic formulations of the labour market since there is a clear lack of appreciation of the fact that the so called informal sector is heterogeneous instead of homogenous and most importantly, Harris (1990:2) notes that the very fact that in defining informality, emphasis is on the characteristics of the informal enterprise, implies that "the functioning of activities referred to follows from their inherent, internal characteristics, and so leading to a neglect of their relationships with others within an economy as a whole...". This is a perennial problem of all attempts to understand informality from a dualist framework of analysis.

### **2.2.3 PRELAC Definition**

This approach is the brainchild of the ILO's Regional Employment Programme in Latin America, known by its Spanish acronym as PRELAC. The initial analysis grew out of work done by researchers for the ILO in Africa. However PRELAC researchers incorporated insights from the dependency school of thought (Wilson, 1998). These researchers argue that the informal sector is a result of the establishment of import-substitution and export-oriented industries. According to Wilson (1998:5) import-substitution industries and export oriented-industries are dependent on imported heavy machinery and the use of this advanced machinery subsequently results in notably high capital/labour ratios. This implies that firms no longer need 'an extensive labour force' to effectively carry out their operations. In this context, the implications for employment are clear. The result according to PRELAC is the creation of a surplus labour force with no chance of employment in the formal sector and for this 'structural surplus of labour power' (Sainz & Larin, 1994:443) to survive, it must create employment for itself (Wilson, 1998b).

According to Portes & Schauffler (1993:39), the PRELAC defines informality in terms of a "rationality of production" which is different from that of modern capitalist economy. According to this view, the economic goal of informal enterprise is to ensure the survival of the individual; and his or her immediate family as opposed to the

goal of capitalist enterprise, which is to generate and accumulate profits (Portes & Schauffler, 1993). According Klein & Tokman (in Portes & Schauffler, 1993:39) this distinct rationality of the informal sector was closely tied to its other characteristics, such as little capital use, intensive use of family labour, and activities at the edge of the law.

According to Tokman (cited in Portes & Schauffler, 1993: 45), viewing all informal sector operatives as a group of 'underemployed' or 'low productivity' workers reflects a very simplistic understanding of the "consequences of urban labour surplus". What is implied in this line of thinking is that when migrants are unable to find employment in formal enterprises they automatically become trapped in negligible marginal jobs. Although plausible on the surface, this straightforward interpretation is faced with a number of conceptual and empirical problems. Firstly, empirical research has uncovered considerable heterogeneity within the occupational categories defined as informal. For instance some scholars observed that micro-entrepreneurs and some of the self-employed in the informal sector are inclined to earn more than the informal sector workers/proletariats or even more than salaried workers in the formal sector (Portes & Schauffler, 1993; Portes & Blitzer, 1986).

This inevitably implies that the PRELAC researchers overlook the fact that within the informal sector, there are two distinct classes, that is, informal micro-entrepreneurs with access to finance and labour resources and the unprotected and self-employed (Portes & Schauffler, 1993). Thus, many authors have acknowledged the fact that the informal sector can no longer be viewed as wholly comprising underemployed or low productivity workers as many different individuals join this sector for different reasons (Waldorf & Waldorf, 1983; House, 1984) In other words, the PRELAC's basic conception of informality fails to appreciate the internal heterogeneity of the sector and the potential for accumulation and growth of some of the enterprises.

### **2.2.3.1 Marxist Definition**

Although Marx's initial analysis was on the national economy (McCormick, 1988), neo-Marxist theories of development emphasize the role of first world capitalism in the underdevelopment of third world countries. According to neo-Marxists, true development can not take place because of flaws in the capitalist system which stifles

the development of peripheral economies of Africa (Rodney, 1972; Amin, 1974). Thus, these scholars consider the international system as a proper domain for economic analysis (McCormick, 1988). This analytical framework allows for a proper understanding of the 'structural status' of the informal sector, or in simple terms, its relationship to the formal sector of the economy. More importantly, it helps to make sense of the 'enclave nature' of the economies of developing countries and the resultant limited labour absorptive capacity, a development which necessitates existence of the informal sector.

Mkandawire (1974) and Mhone (1996) argued that there are two interpretations of the 'structural status' of the informal sector based on the Marxist theories of underdevelopment and peripheral dependency vis-à-vis the 'marginalisation' and the 'exploitative integration' thesis. Drawing from the work of Quijano, Mkandawire (1974:68) explains the 'marginalisation' thesis in terms of a pattern of accumulation in the periphery which is not only characterised by high capital intensity, but is, most importantly, driven by transnational firms. The advanced technological nature of the production processes of the capitalist firms drastically reduces the 'labour absorptive capacity of industrialisation' (Mkandawire, 1974:68) hence most people find themselves in informal employment. The advanced capitalist industries also churn out cheaper goods which inevitably undermines the 'economic base' of the informal sector. Mhone (1996) sees marginalisation more in terms of the 'reproduction of cheap labour' as an imperative for capital accumulation. Considering the above arguments, the 'structural status' of the informal sector is such that this sector becomes an area of exploitation. This interpretation of the Marxist theory where the relationship between the formal and informal sector is seen as a highly exploitative one is echoed in many writings (Freeman & Norcliffe, 1985; Portes & Sassen-Koob, 1987).

The 'exploitative integration' thesis is based on the critique of the marginalisation sub-approach particularly Amin's observation (cited in Mkandawire, 1974:68) that while capitalism in the 'metropoles' "strove for and achieved dominance and exclusivity, in the periphery capitalism has managed to be dominant without being exclusive". This clearly points to one of the fundamental weaknesses of the marginalisation thesis which is its failure to deal with the question of how subordinated modes of production are 'dissolved' and 'conserved' for the reproduction of capitalist relations (Mkan-

dawire, 1974). The point here is that subordination is not just about marginalisation but also entails 'exploitative integration' or "involution" and "dissolution" (Mhone, 1996). Thus, there are many other roles that the informal sector plays within the capitalist context besides reproducing and maintaining the reserve army which ensures cheap labour for capitalist industries as well as weakening the bargaining capacity of formal sector workers thereby pushing down wages and allowing capitalist firms to maximise profits (Mkandawire, 1974).

Mhone (1996), drawing from findings by different authors, identifies the different and multiple roles that the informal sector may play and which in effect reflect its heterogeneity. These include subsidising the formal sector by lowering formal sector wages, by obviating the need for social security or unemployment benefits, complementing the distribution of and marketing network of the formal sector by serving niche markets that would normally be unreachable by formal sector businesses, providing employment for the migrants seeking remunerative employment in the formal sector, and also supplementing household income (Mhone, 1996:9). Mkandawire (1974) also cautions that the thesis of an informal sector that is subordinated to the formal sector should not lead to the conclusion that there is no accumulation taking place in the former hence Cardoso's (in Mkandawire, 1974:70) phrase, "associated dependent accumulation".

What can be surmised from the above is that the informal sector plays a far more complex role than is stated in the traditional Marxian model where it is simply seen as a 'reserve army of labour' which provides a steady supply of labour to the capitalist industries, an imperative for capital accumulation. In the traditional Marxian model it is postulated that the large pool of labour readily awaiting to enter wage employment provides a buffer for the capitalist industries. Not only that, the abundance of surplus labour has negative implications for the bargaining capacity of those in wage employment in the sense that employers have a cheap alternative in the form of the readily available informal sector operatives otherwise known as the reserve army of labour in Marxian terms. All these factors work to facilitate the maximisation of profits and therefore the accumulation of capital (Mkandawire, 1974). This inevitably implies that the informal sector plays an important role in the reproduction of labour power and capitalism.

### **2.2.3.2 The Institutional Definition**

The institutionalist view of the informal sector was proposed by De Soto and his team of researchers of the Institute of Liberty and Democracy. According to this perspective, informality is mainly a result of unequal access to enterprise as a result of ‘institutional rigidities’ and ‘excessive administrative obstacles’ (De Soto, 1990). This has “led small and unprivileged potential entrepreneurs to work out of the formal regulatory framework” (Maruri, 2001:9). De Soto (1990) draws similarities between Peru and mercantilist Europe.

According to De Soto (1990), in Peru, as was the case in mercantilist Europe, an authoritarian state inhibited entrepreneurship amongst the ordinary people with no ties to government bureaucrats. In the case of Peru, the rigid laws prevented the private and public sectors from creating jobs fast enough for arriving peasants (immigrants) and these people had to resort to informal activities. This inevitably implies that informality is the popular response that successfully breaks down this barrier. Thus since securing and maintaining legal status are too costly and time consuming, small scale entrepreneurs simply operate on an extra legal basis in order to get on the savings-investment-profit-growth bandwagon (Waters, 1997:52).

Cross (1998) proposes a modification of De Soto’s argument by developing a model of the dual market behaviour of the formal and informal sectors that allows us to understand the behaviour and interests of informal sector actors. According to Cross (1998),

[t]he small size of informal firms allows them to escape regulatory enforcement and thus reduce their operating costs, giving them a competitive advantage relative to larger firms that are compelled to pay regulatory costs. This can be seen as a system of ‘informal subsidies’ that counterbalance the economies of scale of large firms and the formal subsidies and political preference that such firms may enjoy.

One major weakness of the institutionalist’s definition of informality is that they argue that the origins of the phenomena lie in “extensive regulation of economy” which means that other highly regulated economies such as those of northern Europe would have, if this were the case, produced “vast informal sectors”, yet this is not evident at

all (Portes & Schauffler, 1993:47). Secondly, the institutionalist view tends to “portray formal/informal relationship as adversarial in so far as unregulated enterprise represents the popular reaction to the elitist, state protected enclave” (Portes & Schauffler, 1993: 47).

However, reality is much more complex as exhibited by the fact that “not only are many informal sector activities modern ...but they are often initiated with the support and sponsorship of formal firms”. Far from being a “Trojan Horse that will ultimately break down the fortress of ‘mercantilist’ privilege, the informal sector in fact represents part of the routine operation of capitalism as it is presently organised in Latin America” (Portes & Schauffler, 1993:47). Indeed the boundary between formal and informal sectors is observed to be much less distinct than De Soto implies. According to Perenz & Sainz (in Portes & Schauffler, 1993) households and even individuals participate in both sectors simultaneously and in what can be thought of as multi occupational enterprises.

### **2.2.3.3 The Structuralist Definition**

Structuralists concentrate on the flexibility and low cost of the informal labour arrangement and they argue that “far from disappearing, they represent a resilient and highly functional adjunct to the modern sector” (Portes & Blitzer, 1986:729). According to this approach, the “informal sector does not constitute a set of marginal activities excluded from the benefits of the informal sector, instead, it represents an integral part of the modern economy which is present even in developed countries” (Maruri, 2001:11).

Clearly, this perspective is labelled “structuralist” because at its core is precisely the analysis of the structure of formal-informal relationships as facets of the same economic system (Portes & Schauffler, 1993:48). Portes & Schauffler (cited in Maruri, 2001:11) argue that “the evolution of the informal sector is an integral element of a strategy of capital accumulation by modern firms”. These “adapt the organisation of production to and labour utilisation to the peculiarities of national economies where socially advanced but costly regulatory codes co-exist with an abundant but easily accessible labour supply”. The pre-dominant view amongst structuralists is that the informal sector is just an area of ‘excess labour absorption’ and is ‘embedded in the na-

ture of developing economies' (Pisani & Pagan, 2004). With adequate governmental assistance, the informal sector can graduate from its 'refugee status' to a state of 'economic dynamism' (Pisani & Pagan, 2004).

There are different ways in which the relationship between the formal and informal sector is manifested. The most common is that of sub-contracting which entails large firms reaching down "directly into the informal labour pool to allocate a variety of production and marketing tasks". This essentially occurs in two ways and these are the 'direct hiring of workers off-the-books and subcontracting of production, input supplies, or final sales to informal entrepreneurs' (Portes & Schauffler, 1993:49). This form of formal-informal relationship is thriving in today's competitive global environment because it allows firms to avoid legal regulations that increase labour costs and diminish managerial prerogative. The most common negative effect of sub-contracting is the 'decollectivisation' (Portes & Castells, 1989) of labour which allows employers "greater latitude in constructing the form in which labour is contracted" (Klerck, 2004: 1).

Klerck (2004), in his study of non-standard work in Namibia, notes that most firms have resorted to temporary employment agencies to recruit labour which 'absolves management from managerial responsibility'. In this arrangement, employees are often exploited as the temporary employment agencies can hire and fire them on behalf of the 'client firm' without the hassles of institutional regulation. The ILO (2002:42) notes that sub-contracting can assume a complex form whereby the sub-contracting retailer or manufacturer (lead firm) involves a "long complex chain of intermediaries". It becomes difficult for the employees to bargain for wages not only because of the distance between the 'home worker' and the lead firm but also because of "the ambiguity of who is responsible for providing higher wages" (ILO, 2002). Thus this raises a complex legal question since it is not clear which unit in the chain should be held accountable for the rights and benefits of workers down the chain? (ILO, 2002:45).

#### **2.2.3.4 Informal Sector: Beyond the Definition Impasse**

From the preceding discussion, we can note that the informal sector has always been an elusive phenomenon. This phenomenon also tends to change over time and it also

manifests itself in different forms in different places. In spite of the controversy associated with the term informal sector, there are aspects that remain “at the heart of the concept” (Mead & Morrisson, 1996:1611). Among the many definitions that have been proposed in an attempt characterise the informal sector such aspects as ‘legality’, ‘size of economic activity’ and ‘capital intensity’ have been used. With regard to legality, it is widely acknowledged that informal sector enterprises would remain hidden, operating clandestinely with high levels of invisibility so that they may not be discovered by the authorities and forced to comply with the regulations (Losby, 2002; De Soto, 1990). The definition of informal sector activities using the legal criterion is clearly stated by Castells and Portes (1989:12) who argue that:

[t]he informal economy is thus not an individual condition but a process of income-generation characterised by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated.

According to Harris (1990:4), this view of the informal sector brings into perspective the important point that “formalisation” is “an historical process in which the novelty is the existence of formality, not informality”. Thus, the “existence of a ‘formal sector’ and the stabilisation of employment that it implies is the outcome of the struggles of labour over the last century or so, and the state interventions which they brought about”. This inevitably implies that formalisation can be reversed as exhibited by the sub-contracting arrangements that have almost become a universal feature of the modern economies. Thus, even in those countries where significant strides towards industrialisation have been made the informal sector is manifest. Far from being a feature of underdeveloped economies, the informal sector is an integral part of the ‘modern economies’. This speaks to the universal nature of informality (Sainz & Perenz, 1994) and casts doubts on the teleological conception of informality, specifically the idea that with the right mix of policies, this ‘backward’ sector can undergo a “gradual metamorphosis into a national modern sector” (Nihan, Demol & Jondoh, 1979: 636).

The size of economic activity has been, in most studies, measured by the number of workers that an enterprise employs. Although this tends to vary from country to country, the general trend is that in developing countries an enterprise with less than 5 employees is considered as falling within the informal sector (Livingstone, 1991). Most

of these enterprises, however, largely rely on family labour and apprentices whilst others are essentially run by 'self employed individuals' (Zuin, 2004). Capital intensity is another index used in defining informality. Although there are many definitions of this concept, for instance, human capital, fixed capital (measured in absolute terms) the most commonly applied definition is that of 'fixed capital' per worker which is used to ascertain labour productivity (Mead & Morrisson, 1996: 1612).

#### **2.2.4. Nature and Characteristics of the Informal Sector**

##### **2.2.4.1 Informal Sector Operatives**

Trager (1987) highlights various ways in which different scholars have dealt with the problem of heterogeneity in studying the informal sector. He brings our attention to House's (1984) classification of the informal sector operatives in which a distinction is made between the 'community of the poor' and the 'intermediate sector'. On the one hand, the intermediate sector is peopled by those informal sector operatives who have a firm commitment to their enterprises. On other hand, the community of the poor is "a relatively stagnant group" involved in "menial employment with subsistence returns to their efforts". According to House (1984) the community of the poor consists of individuals with very low levels of education (most of them never received formal education) who perform such marginal and precarious jobs as charcoal selling, shoe repairing, clothes repairing and their cutting.

One major distinguishing feature between the intermediate sector and the community of the poor is that members of the latter group "are more likely to aspire to formality than their counterparts in the community of the poor group". As noted by House (1984:292), as much as 45% of the informal sector compared with 25% of the poor claim to maintain written records of transactions. Also 81% of those in the intermediate sector responded in favour of the issuing of licences to informal businesses. Most importantly, 39% of the enterprises in the intermediate sector had succeeded in securing sub-contracts as opposed to only 16% of those in the community of the poor category. In addition, it was noted that 37% of the intermediate sector businesses had registered an increase in sales volume over time whilst in the community of the poor the figure was 15%.

Thus, the intermediate sector “includes people who have consciously decided on a particular artisanal skill or line of business with the intention of making it a means of a more permanent livelihood” (House, 1984:280). Accordingly, the latter group is inclined to involve the whole family, in contrast to the migrants of the former group who merely participate in the informal sector as a means of survival and can not afford to support the whole family (House, 1984).

#### **2.2.4.2 Working Time**

There are differences amongst informal sector operatives in terms of their employment characteristics. In a study of informal retailing in Kaduna, Nigeria, Simon (1998) noted that employment in this sector was either full-time or part-time. Full-time employment was associated with enterprises where the head was totally dependent on informal retailing for earnings and livelihood. It was found that 85% of the operatives practised informal retailing on a full-time basis whilst a smaller proportion (15%) was employed in informal retailing on a part-time basis (i.e. combining it with other forms of employment) (Simon, 1998:550). Some of the part-time informal operatives were involved in a ‘complex transient economic relationship’ since they combined farming with informal retailing in a “cyclical pattern, characterised by a clearly defined seasonal regime”. Trading was thus practised during the “idle months of the dry season (on a *cin rani* basis) as part-time secondary employment”. Seasonality (the factor of) has in most instances been noted to be a defining characteristic of informal sector employment (Simon, 1998).

Part-time employment is also practised by formal wage employees e.g. civil servants, to supplement their generally low wages. Mhone (1996), Lugalla (1997) and Simon (1998) argue that this trend became prevalent in the 1980s and 1990s due to the negative effects of structural adjustment on incomes. According to Lugalla (1997), in a study of the informal sector during the era of structural adjustment in Tanzania, high ranking government officials and university professors were amongst those in formal employment joining the informal sector to supplement their income. King (2001) notes that this trend has become common in Kenya with the government formally allowing civil servants to engage in informal sector activities so as to earn additional income rather than relying solely on their public service jobs. This, according to King (2001), also represents the ‘informalisation of the formal sector’ a phrase traditionally

associated with 'sub-contracting'. This trend speaks to the "continuing fragility of the formal sector of the economy in many African states" (King, 2001:98). Although it is assumed that participation in the formal segment of the labour market guarantees reasonable working conditions this has hardly been the case in most African countries where the formal sector has for various reasons not fully realised its potential. This argument is clearly set out in Mhone's (2001) paper on Southern Africa's enclave economies.

#### **2.2.4.3 Education and Training**

Education is also a very important socio-economic variable in studying the informal sector. The most interesting observation some studies have made is that even though the informal sector has traditionally been identified with individuals with low "levels of instruction", "attainment of schooling at secondary or even university level does not preclude involvement" (Simon, 1998:551). The involvement of people with high formal qualifications in the informal sector is prevalent in countries where employment opportunities in the formal sector are scarce due to economic hardships (Lugalla, 1997; Simon, 1998). In Tanzania in the 1970s primary school graduates had the highest formal qualifications in the informal sector with secondary school and university graduates being absorbed in the formal sector where employment opportunities were abundant and wages sufficient to meet their basic needs.

However, with economic hardships associated with the Structural Adjustment Programme (SAP), many high school leavers and university graduates now work in the informal sector. The migration of highly skilled people into the informal sector is a result of an economic policy anomaly. In Nigeria, for instance, "structural adjustment instruments had the combined effect of reducing the public spending on education and forcing a sharp decline in real wages in the 1980 and 1990s" (Adesina, 2002:13) Adesina (2002:13) further notes that "the social cost of education to the individual increased while private returns on education fell drastically". At the same time, relative returns on entrepreneurial activities increased. The shift in the structure of incentives not only saw many young people joining the informal sector as traders and apprentices but there was a migration of highly skilled people into the informal sector (Adesina, 2002:13). The enterprises formed by highly skilled people from the formal sector are most likely to be medium enterprises. It is unlikely for these enterprises to

have the features normally associated with 'informality'. Characterising these enterprises as informal sector activities may be a reflection of failure to disaggregate activities of a different size and economic potential. This raises questions regarding the heuristic value of the term informal sector and the need for more coherent specification and use of the concept.

Another interesting trend with regard to the education and training of informal sector operatives is that of apprenticeship. Sethuranam (1977) noted that Ghana had one of the most organised apprenticeship systems and this provided informal sector operatives with the necessary skills at an affordable price compared with the formal system of training. Nihan, Demol & Jondoh (1979) also found that there were 3, 586 apprentices in Lome's informal sector during the time of their survey and about 80% of these apprentices were trained under satisfactory conditions. It was further noted that 96% of apprentices who went through this system managed to establish and run their own business as productively as those who had formal training. More recently, Kent & Mushi (1995:46) noted that in Tanzania new informal sector entrants "gained apprenticeship through the extended family system" or "*saida fundi* (learning from the artisan) where they begin as either unpaid or cheap labour". Thus the informal sector can be a breeding ground for entrepreneurship by equipping apprentices with the requisite vocational skills.

#### **2.2.4.4 Gender Differentiation**

Livingstone (1991) argues that in most developing countries there tends to be stiff competition coupled with very low returns to labour amongst women's cottage industries such as beer brewing or mat making. In an analysis of survey results of informal sector activities in different African countries, Mead & Liedholm (1998) make interesting observations about gender differentiation in the informal sector. The survey results indicated that female-headed micro and small enterprises grew at an average rate of only about (7%) per year whilst the corresponding value for men was approximately 11%. Mead & Liedholm (1998:68) argue that one of the main reasons why female owned enterprises show such slow growth rates is that women are often 'concentrated in more slowly growing sectors. Thus even when other variables like sector and location were held constant, women-run enterprises still exhibited slow growth rates.

As a result, Mead & Liedholm (1998:68) argue that this may be attributed to the “dual domestic and productive responsibilities for women” and “the fact that women “are risk averse than their male counterparts”. Of particular significance, however, in their study is the high ‘percentage of closings’ among female-operated enterprises. Even more revealing is the observation that a significant portion of the business closures was a result of “non-business failure reasons” (Mead & Liedholm, 1998:66). The reasons for non-business failure are best summed up by Safa (cited in Wilson, 1998a:105) who maintains that “partly because of societal, cultural, and familial patriarchal constraints, women often constitute an especially vulnerable, super-exploitative labour force”. Jiggins (1989: 958) identifies some of the “common” and “problematic” situations that female informal sector operatives encounter as they carry out their activities. These are,

interference and manipulation by men, raiding of cash to meet domestic expenditures, fragmentation of profits, lack of infrastructure along the entire production and marketing chain, competition with state enterprises, access to credit and financial services , and competition with other women (Jiggins, 1989: 958).

Wilson provides some case studies on how women are subordinated and exploited in the informal sector. Cockcroft (cited in Wilson, 1998a: 108) examined the informal sector activities of the urban poor (women street vendors, garbage pickers, and brick makers) in Mexico. Of particular significance in these studies is the observation that as part of the family labour force, women perform activities that, “apart from subsidizing capitalist firms either directly or indirectly and or the capitalist system as a whole, also subsidize the male headed family enterprise through their unwaged labour” (Wilson, 1998a) This author thus speaks of ‘double exploitation’ of women based on “ideologies of gender and generational hierarchy or, alternatively, a self-exploitation based on the internalization of these ideologies” (Wilson, 1998a:113).

#### **2.2.4.5 Earnings**

Earnings of informal sector operatives show an interesting trend. Although there are instances where informal sector operatives are involved in precarious activities with notably meagre earnings, studies in Nigeria’s informal retailing (Simon, 1998) and Bogotá’s informal sector (Portes *et al*, 1986) reveal that earnings in some informal

sector activities can be very significant. Portes *et al* (1986:729) for instance observed that in Colombia's four largest cities, informal workers were during the time of the study earning more than their counterparts in the formal sector. According to Portes *et al* (1986), the reasons for these unexpected income differences are due to the fact that the concept of informality conceals two distinct class positions.

Portes & Schauffler (1993:51) note that "this empirical anomaly is resolved once we realise that the informal economy is more than the simple translation of surplus labour into survival activities". Although a significant proportion of informal sector operatives may be casual workers, with only their 'labour power' to sell for a 'minimum remuneration', a smaller segment comprises "informal employers who own their means of production and hire informal labour" (Portes *et al*, 1986:729). In some African countries, these 'unexpected income differences' are a result of structural adjustment policy instruments which eroded wages in the formal sector (Adesina, 2002). The inclusion of a wide-range of activities within one category also brings into perspective the question of the usefulness of the term informal sector. Insofar as it lumps together a heterogeneous set of economic activities regardless of their size, the concept of the informal sector is of little heuristic value.

Simon's (1998) study of informal sector retailing in Nigeria's Kaduna is also revealing in terms of the sustainability of income and livelihoods in the sector. In this study, the relevance of informal retailing income to sustaining the livelihoods of the operatives was assessed by relating this income to the national minimum wage rate. The earnings of other employees in formal wage employment with a corresponding level of education were compared with those of participants in informal sector retailing (Simon, 1998). It was found that the earnings of informal retail operatives were as high as that of counterparts with similar education earning at, or slightly above, the national minimum wage (Simon, 1998:551) or in some cases 49% higher. In Bangkok, a group of self-employed informal sector operatives also had comparatively good earnings since many of them had significant asset holdings (Waldorf & Waldorf, 1983). According to Waldorf & Waldorf (1983:597), many of these operatives owned homes, saved money in the banks or in informal credit unions and or were supporting children in college. In this study, the vendor who was reported to be having the lowest

income was at the time of the study supporting two children in college (Waldorf & Waldorf, 1983).

Lugalla (1997) in his study of the informal sector in Tanzania notes that it is important to examine informal sector participants in terms of the social class of the informal sector operatives. Informal sector participants join the sector for different reasons. Although the informal sector is traditionally associated with people involved in marginal activities with little significance in terms of growth and capital accumulation, evidence from Lugalla's (1997) study reveals that the informal sector in Tanzania has also been 'infiltrated' by entrepreneurs whose main objective is to accumulate capital and earn profits. Thus inadequate government regulation, which means a high possibility of both evading tax and breaking labour laws, attracts capitalists who invest in this sector not only for survival purposes but to accumulate profits and capital (Lugalla, 1997: 438).

While simply highlighting the participation of different social classes (hence different motives) in the informal sector, Lugalla's (1997) findings speak to the heterogeneous nature of the sector. The use of the term informal sector regardless of asset size, earnings and nature of activity is problematic. This fails to appreciate that there is a lot of differentiation in the sector. Adesina (1992:36) notes that "the informal sector is more heterogeneous than orthodox dualist model assumes". Drawing on empirical evidence from studies conducted in different African cities in the 1970s and 1980s, he argues that "there is considerable differentiation in the informal in terms of ownership, fixed asset and labour utilisation" (Adesina, 1992:36). Also, differentiation in the informal sector does not only depend on the sub-sector of operation, but there are also intra sub-sector differentials. In their survey of the informal sector in Yaoundé, Demol & Nihan (in Adesina, 1992:36) found that there were differences in the average invested capital. For the production and services sub-sectors the average invested capital was 372,300 francs CFA, while in the clothing sub-sector it was about 97,400 francs CFA (Nihan & Demol, 1982:78). However, the term informal sector is often used as a catch-all basket for everything that does not fit the experience of researchers from the West without regard for the heterogeneity and internal differentiation of the sector. This study will analyse the informal sector in terms of its differentiation as opposed to conception of the sector as a uniform category.

#### 2.2.4.6 Nature and Dynamics of Informal Enterprises

Certain studies also reveal that the informal sector can be very dynamic in terms of capital accumulation and growth and viable as an option for employment. Nihan *et al* (1979), in their study of the modern informal sector in Lome noted that the sector provided steady employment for the majority of the operatives with “the average life of the undertakings being 5.9 years and 59.5% of them having been in operation for at least four years”. Also significant is the fact that during the time of the study, most of these informal sector economic units had a very considerable self-financing capacity. After deducting expenses for house-keeping and assistance to the extended family, 80% of the entrepreneurs still had a balance of at least 50 000 francs CFA a year for further investment (Nihan *et al*, 1979).

House’s (1984) study of informal sector in Nairobi also reveals that this sector is not only dynamic but also a viable option for employment. He noted that over 40% of the enterprises were at least 5 years old, 20% over 10 years old, whilst only 6% of these enterprises had started operating during the year preceding the study (1984:282). However, it is noteworthy that the incidence of success stories (productive and remunerative activities) in the informal sector is at times seen as unexpected simply because informal sector activities do not fit the experience of Western researchers. Sanders (1992:209) notes that “third world economies are portrayed as so dramatically different that they defy explanation in conventional terms”. As such, “the use of alternative designations such as informal supports this by suggesting that these economies fall outside the European experience” (1992:209). The state-centric way of viewing the informal sector is associated with biases of European and American scholars writing in the 1970s and 1980s (Isandla, 1999). Anything falling outside of the regulatory framework is seen as ‘informal and tends to be excluded from economic thinking and enumeration’ (Isandla, 1999:9). However, this does not mean that informal sector activities in the third world are unproductive and have no economic potential.

Simon & Birch (1992) acknowledge that the informal sector is not just marginal in terms of earnings and growth. These two authors, for instance, observed that the growth and contribution of informal manufacturing workshops (*Jua Kali*) in Kenya

was very significant in regardless of the fact that these *Jua Kali* enterprises were operating with an inadequate resource base and rudimentary facilities. This bears a clear testimony to the resilience and viability of informal manufacturers. Livingstone (1991) attributes the viability of *Jua Kali* to 'agglomeration economies' or 'clustering'. The author highlights the example of Kisumu Estates in Kenya where "over 500 metal workers are congregated along with similar numbers of carpenters and furniture workers" (Livingstone, 1991:666). Clustering, a phenomenon prevalent in Africa, Asia and Latin America is advantageous since the small firms pool together their resources and offset the problems associated with small scale operations.

In the case of Kisumu Estates, Livingstone (1991: 668) identified the following strengths, (a) loans of tools among producers, (b) renting of equipment such as sewing machines, welding equipment to other producers, (c) sub-contracting to neighbours when a large contract is secured, (d) learning new and improved designs from neighbours (e) and attraction of customers as a result of a large collection of similar workshops in close proximity. What is evident from this phenomenon is that 'economies of scale', which are normally enjoyed by big firms, can also be achieved by small enterprises within the informal sector by bringing together their resources.

The preceding discussion has mainly focused on two aspects of the informal sector namely the characteristics of informal sector operatives and the dynamics of informal sector enterprises. Although some studies point to the problematic nature of involvement in the informal sector particularly to the marginal earnings of the operatives and the unproductive nature of the enterprises, there is ample empirical evidence indicating that the informal sector can also be a viable economic alternative. Thus, some of the empirical cases highlighted above contradict the pessimistic views on the informal sector especially the idea that the informal sector provides 'transitory' employment for migrants waiting to find 'proper' jobs in the 'modern formal sector'. Waldorf & Waldorf's (1983) findings in their study of informal sector occupations in Bangkok contradict the Harberger-Todaro model of urban dualism which posits that wages in the formal sector are generally higher relative to the informal sector due to the fact that this sector is protected by minimum wage laws, trade unions and other institutional arrangements. Thus, many of the informal sector operatives they studied had

stable incomes and in some cases their earnings were well above the national minimum wage.

Pisani & Pagan's study (2004) brings useful insights into the debate on whether the informal sector is a "wasteland of surplus labour" or a "corps of dynamic entrepreneurship". Applying Borjars & Bronars' (1989) self-selection model they try to find out whether Nicaragua's informal sector "attracts the best as determined by reported income or the worst segments of society" (Pisani & Pagan, 2004). Analysing data from the 1998 and 1993 Nicaraguan Living Standards Measurement Survey, these scholars conclude that far from being a 'wasteland of surplus labour' this sector plays an important role in the economy with approximately three-quarters of Nicaragua's economically active population working in the sector. Not only is the sector an "important sphere of financial and household survival", it is a sector which most of its participants join voluntarily that inevitably increases the likelihood of skilled people being drawn into the sector (Pisani & Pagan, 2004:553). These authors conclude that the informal sector should therefore not be seen as merely "a wasteland of surplus labour" with people involved in "unproductive pursuits" (Pisani & Pagan, 2004). Instead, there are many informal sector operatives involved in remunerative activities which renders the 'market' hypothesis questionable (Pisani & Pagan, 2004: 554).

Arguing along the lines of De Soto's institutionalist perspective, Maloney (2004) notes that being in the informal sector should not be automatically taken as an indication of failure by the informal sector firm to penetrate the formal segment of the economy and therefore a failure to formalise operations. This would actually mean informal sector operatives find themselves trapped in this sector as opposed to entering it by choice. However, this is not always the case. Being small naturally makes it feasible, from an economic point of view, not to be involved in the costly procedures of formalisation. Formalising the informal firm comes naturally as the firm grows since it becomes necessary "to secure property rights or permit formal contracting mechanisms, pool risk and gain access to credit" (Maloney, 2004:1618). Being in the informal sector can therefore, in some instances, be a matter of choice rather than an indication of lack of productivity and consequently the ability to graduate into the formal sector.

According to Maloney (2004:1678), “there is nothing pathological about the informal sector firm and its existence may be largely unrelated to questions of labour market dualism or credit market distortions”. The most important issue this author raises is that of voluntary participation in the informal sector. Far from the widely held view that people would naturally shun the informal sector because of the prevalence of low incomes and poverty, there are individuals who actually choose to join the sector as a matter of choice and such individuals are highly likely to do well.

Clearly, “informality is not entirely enmeshed in poverty and marginality” (Fortuna & Prates, 1989:78) as the earnings from some informal sector activities have at times surpassed those of individuals in wage employment (Maloney, 1999). Indeed, as argued by Bromley (1978:1035) there is this mistaken perception that the ‘urban informal sector’ and poverty’ are synonymous. Bromley (1978) argues that proponents of this view seem to be “over-convinced by the labour aristocracy” view of informality which generally considers those in formal employment as having stable employment, good salaries and full protection from labour and social security laws. Yet the truth is that many formal sector workers earn meagre wages and are not necessarily always covered by social security and labour laws. Thus:

The expectation that the income of the self employed workers in urban areas will be uniformly low is based on the presumption that the non-wage sector, by virtue of its openness, is subject to downward pressures exerted by an excess supply of labour, from which the income of workers in the wage sector is protected (Sabot, 1997:397).

However, it is not a given that wage employment affords workers better living conditions relative to their informal sector counterparts. Although some authors have concluded that the informal sector enterprises are in effect “proxies of poverty” which, instead of obviating poverty represent poverty itself (Ngwira, 1996:6), there is ample evidence from other studies to the contrary. The informal sector, far from being ‘marginally productive’ is ‘efficient’ and ‘resilient’ and has and still is contributing significantly to the Gross Domestic Product (GDP) of many countries. In Sub-Saharan Africa, the informal sector contributes 55% of the GDP (including agricultural informal sector). This share rises up to 60% when Botswana and South Africa are excluded (Charmes, 2000).

The above observations notwithstanding, it remains important not to 'romanticise' the developmental potential of the informal sector. Mkandawire (1974) raises important points which speak to the need for a more rigorous approach when looking at the issue of the existence of productive activities in the informal sector. The author, whilst not disputing the supposed 'dynamism' of some informal sector activities suggests that there is need to go beyond the claims about the existence of this 'dynamic' and 'productive' segment and instead try to ascertain whether or not this group of informal sector units is large enough to bring about "qualitatively different results" from the negative situation that is usually said to obtain as a direct result of the 'involutionary' way in which the informal sector tends to expand. In addition, these "success stories" in the informal sector would naturally trigger the "further influx of migrants into the sector" which might reverse some of the gains resulting from the dynamic activities (Mkandawire, 1974) something which most of those who have written about the 'productive' activities in sector seem to have overlooked. Cichello (2005) argues that drawing policy conclusions from such instances is problematic because of the 'fallacy of composition'. For instance, "while one individual might prosper if s/he was able to overcome a barrier, this does not logically imply that a large population would similarly prosper should the barrier be removed for all" (Cichello, 2005:5).

#### **2.2.4.7 Challenges Faced in the Informal Sector**

Ndoro (1996) argues that any characterisation of the informal sector which does not highlight the nature of problems faced by this sector is inadequate. Thus in spite of the strengths of the informal sector enterprises shown above, there are many enduring problems that have become synonymous with informality. Some studies reveal that informal sector enterprises tend to be backward in terms of basic accounting and management techniques. A survey by DANE (1996) (cited in Maruri, 2001) in Bogotá found that estimates of the value of tools and equipment were very low and with regard to the self-employed this was largely undetermined. Maruri (2001) argues that this is largely because of the 'rudimentary and inefficient' accounting systems that most informal sector operatives use.

Lack of proper working space particularly land and buildings is also one of the enduring problems of informal sector enterprises. In Bogotá, the 1996 DANE's survey

(cited in Maruri, 2001:37) revealed more than 21% of Bogotá's informal sector operatives worked in non fixed sites such as vehicles and stalls, whilst 23.1% operated at the client's place. Freeman & Norcliffe (1985) in their study of the non farm sector in the Central Province of Kenya also observed that a significant number of enterprises rented both the land and the premises with only 13% owning the land whilst slightly more than 19% owned the premises. For fruit and vegetable sellers, the premises were simple structures. Although these authors further argue that the availability of premises for rental makes mobility in and out of the sector easier it still remains that the ownership of such fixed assets as land and premises is a rare occurrence amongst informal sector operatives particularly those in the lower echelons of the sector.

In Kenya, Bigsten *et al* (2000) also identified lack of proper working space as one of the problems faced by the informal manufacturers they studied. These authors noted that informal food processors, woodworking and metal fabrication enterprises 'typically' operated from makeshift shacks. These were often destroyed by the local authorities in an attempt to force these informal entrepreneurs to relocate. The temporary nature of these structures made it difficult to provide infrastructural services such as water and electricity and this in turn limited the technological choices available to the entrepreneurs (Bigsten *et al*, 2000).

Such negative incidents highlight the perennial problem of harassment by the authorities that informal sector operatives experience. This also brings into perspective the role of government in vis-à-vis the informal sector. The role of government is aptly captured in Harris' (1990) observation that "... the significance and the weight of the informal sector in an economy (can be) increased or decreased, as a result of state policies". Indeed, the literature on the informal sector shows that the 'regulatory framework' profoundly impacts on informal sector activities as it practically determines which business activities flourish and which ones do not. For instance, Machaira (1992:232) argues that "the success of any informal sector depends very much on the development strategy that is being implemented by the regime in power, not least the extent that the practitioners are not hindered but helped".

To fully appreciate this, one can consider the state of affairs during colonial rule in many African countries when most 'indigenous entrepreneurial activities' were delib-

erately and systematically stifled through repressive legislations. The impact of such restrictive practices on the informal sector is still evident in some African countries which still have a less widespread informal sector. This however does not imply that there has not been any harassment of informal sector operatives by post-colonial governments. Governments, through regulations and other forms of interventions, significantly influence the extent to which the informal sector operatives can effectively conduct business. Informal sector activities often fall outside the regulatory framework given that in most cases they are unregistered and they do not pay taxes. This naturally triggers conflicts with the authorities. In the literature it is noted that government regulations have not only affected informal business directly but also through the clearance of slums. In Kenya where the ILO first conducted its research on the sector there has been an onslaught on informal sector operatives at different periods of time and these inauspicious developments often involved the clearance of slums (Werlin, 1974; Machaira, 1992). The link between slum clearance and obstruction of income generation in the informal sector is quite obvious. Slum dwellers tend to rely on informal sector activities to generate income and to maintain their livelihoods.

While the informal sector activities carried out in the slums may reflect resilience and innovation on the part of the participants this should not blind us from the negative implications this might have for urban planning. Thus, “the health and environmental problems of cities caused by the unregulated activities of the informal sector...if allowed to continue, could make cities unliveable and unsustainable for present and future generations” (Nwaka, 2005:2). In this regard the informal sector is indeed a ‘mixed blessing’ (Nwaka, Ibid). This calls for a more pragmatic approach. There is a need to go beyond the uncritical celebration of informal sector activities even in cases where there are serious health and environmental problems. As Mhone notes, ‘the informal sector will never cease to invoke wonder and sympathy’ (Mhone, 1996). Yet there is need to be realistic when dealing with the sector. The tendency to ‘romanticise’ informal sector activities can be problematic.

The prevalence of harassment in the informal sector also has a lot to do with the ‘underground’ or ‘illegal’ activities carried out in the sector. The sector is often associated with such activities as prostitution and drug trafficking. Abdullah (1998: 211) also notes that the informal sector is “the natural abode of the lumpenproletariat”. As

Wellings & Sutcliffe (1984:518) observe, “pictured in terms of the pimp and petty thief rather than the hawker and bicycle repairer, the informal sector came to be regarded as a social evil”. While it is reasonable to discourage illegal activities in the informal sector, there is need for greater caution since people earning an honest living in the sector may be affected by the negative perceptions and harassment—unjustifiably so.

Several studies have highlighted lack of access to markets by informal sector enterprises as one of the enduring problems (Livingstone, 1991; Mead & Leidholm, 1998; Zuin, 2004). Mead & Leidholm (1998:66) in their analysis of survey data from selected African countries concluded that those enterprises located in the central business districts, in traditional markets and even along the road were most likely to survive compared to those which operated from home or were situated in rural towns and villages.

Zuin (2004) in her study of the business strategies of informal business enterprises in Lima, Peru also found out that more than half (50.2%) of the businesses surveyed experienced problems finding clients. One noticeable aspect about these enterprises is that they were located away from traditional markets with a sizeable number of them operating from home. This author also argues that there is a link between location and stability of income. Thus the general trend is that those businesses that are located far from viable markets tend to experience cash flow problems whilst those operating in traditional markets have stable earnings (Zuin, 2004:14). The location of an enterprise does not only determine the stability of earnings but it also affects the ability of an enterprise to expand. Mead & Liedholm (1998) argue that businesses located in rural towns and villages have very slim chances for survival.

The challenges that informal sector enterprises are faced with do not only weaken the enterprises in terms of productivity and profitability, but most importantly, this has an impact on the nature of linkages between the informal sector enterprises and the formal sector businesses. In the following section we discuss the inter-sectoral between the informal and formal sector.

#### 2.2 4.8 Inter-sectoral Linkages

The analysis of inter-sectoral linkages is an important way of understanding the extent to which the informal sector is integrated into the national economy. The linkages between the formal and informal sector are manifested in different ways. There are forward linkages (to markets beyond the borders of the informal sector) and backward linkages (in the form of inputs from outside the informal economy) (Xaba *et al*, 2002:19). With regard to the issue of linkages between the formal and informal sector, (Miller, 1987:34) argues that it is important to ascertain the extent and ways in which an informal economy activity is intermeshed with the mainstream economy.

Also important are ways in which an informal economy connects to social patterns. In addition, Miller (1987:34) warns that “we should not assume linkages and connections—that informal economies are instrumental or functional imperatives—but we should search to see whether they are”. Trager (1987: 244) notes that the debate on inter-sectoral linkages can be traced back to the petty commodity production approach’s criticism of dualism. Thus, “dividing the urban economy into two sectors led to a failure to see how the informal sector is dependent on and subordinate to the formal sector” (Trager, 1987:244). However, the petty commodity production approach itself fails to fully capture the nature of linkages between the formal and informal sector. Although the use of such terms as ‘means of production’, ‘production relationships’, and ‘organisation of production’ is very useful in analysing the links between petty commodity production and the capitalist sector, this is only limited to manufacturing (Teltscher, 1994). Thus this type of analysis does not provide much insight into the nature of relationships between petty trade and capitalist trade as well as the way this might differ from those between petty and capitalist production. Teltscher (1994) further notes that the Marxist/Petty Commodity approach tended to neglect links with other economic sectors or consider them as exploitative.

Matsebula (1996) identifies various forms in which the inter-sectoral linkages between the formal and informal sector assume. According to this scholar the urban informal sector is connected to the formal sector through capital, labour, intermediate product and consumption linkages (Matsebula, 1996:38). Capital linkages usually occur in two forms namely the flow of investment funds from the formal sector or other

parts of the economy to the informal sector and vice versa. Matsebula (1996), specifically focusing on Swaziland maintains that in many cases net incomes generated in the informal sector are very low which makes it difficult for informal sector operatives to invest in formal money and capital markets. This author further argues that there is little empirical evidence to show that money generated in the urban informal sector ends up in formal money and capital markets (Matsebula, 1996: 38).

However, there seem to be many channels through which earnings generated in the formal sector and other parts of the economy are invested in the informal sector. Thus this can occur through the formal banking sector, credit provided by the supplier located in the formal sector and savings by an informal sector operative, relatives and friends accumulated through previous or current employment in the formal sector (Matsebula, 1996). The most utilised sources of finance are personal savings and money from relatives and friends mainly because bank loans require collateral security which is not readily available to informal sector operatives given their inadequate resource base. Losby *et al* (2002:13) note that at the individual level or household level, success in the informal economy is often based on how well one can navigate the nexus between the formal and informal sectors. For instance, Ratner (cited in Losby *et al*, 2002:13) argues that success in the informal economy is determined by the level of “access to goods, services, markets, technologies, etc. in the formal economy and adroitly adapting them for use in the informal economy”.

The above argument is supported by Lugalla's (1997:442) findings in her study of the informal sector in Tanzania in the era of structural adjustment. Lugalla (1997) notes that it is the relatively well off groups namely the ‘entrepreneurs’ (those who join the informal sector for capital accumulation) and ‘new poor’ (most of whom are permanent employees in the formal sector with permanent jobs, stable incomes, social security, and security of tenure) who stand a better chance of accessing such resources as bank loans and credit simply because they “are well informed and more likely to be aware of the existence of such credits; they know the formalities involved in applying for a loan...”. In addition, these well connected informal sector operatives are most likely to be well versed with such procedures as the preparation of project proposals which naturally gives some confidence to financial institutions. This is particularly

important considering that the 'poor' are often viewed as 'unbankable' (Lugalla, 1997:442).

Labour flows from the informal sector to the formal sector and vice versa characterise the nature of linkages between the two sectors. The formal sector can provide 'transitory employment' for immigrants whilst awaiting 'remunerative' jobs in the formal sector (Matsebula, 1996). Conversely, labour flows from the formal sector to the informal sector occur as a result of 'retrenchments' and 'simultaneous engagements' with individuals straddling both sectors especially during times of economic hardships (Matsebula, 1996; Lugalla, 1997; Simon, 1998). The main advantage of this kind of labour flow is that it facilitates 'technology transfers' (Matsebula, 1996) from the formal sector to the informal sector.

From the above discussion, it is abundantly clear that the informal sector is internally heterogeneous and diverse. This diversity is particularly evident in the complexity of linkages between the informal and formal sectors. It is therefore important to study the nature of these linkages. The complex nature of the informal sector makes it difficult to identify and conceptualise. Cross (1998) for instance notes that "the heterogeneity of the informal sector, as well as the close linkages in some cases with formal businesses on the one hand and illegal services on the other, makes it difficult to define and measure". As a result, most researchers thus tend to define the informal sector in terms of the problem at hand. Thus, there is lack of consistency such that the terms "formal and informal are better thought of as metaphors that conjure up a mental picture of whatever the user has in mind at that particular time" (Guha-Khasnobis, Kanbur & Ostrom (2007:3). This perhaps explains why there are numerous definitions that have been put forward in trying to make sense of this concept as is highlighted in the section on the conceptual basis of the informal sector.

### **2.2.5 Apartheid and the Informal Sector**

Some scholars have explained the small size of the informal sector in Southern Africa as a function of the restrictive colonial legislations on 'indigenous entrepreneurial activities' (Mhone, 1996; Xaba *et al*, 2002). In South Africa, the spatial laws of apartheid are often cited to explaining the less widespread nature of the informal sector (Standing, Sender & Weeks, 1996:86-87; Devey, Skinner & Valodia, 2003:145).

However, it is noteworthy that in Southern Africa, compared to West Africa, there were no vibrant pre-colonial market relations based on exchange relationship of a monetised form. Amin's (1974) reference to the Africa of the cash economy (West Africa) denotes those aspects of a vibrant trading economy that preceded colonialism and were not destroyed by it. While colonialism was restrictive to the growth of informal sector activities, it is reductionist to explain the small size of the sector solely in terms of the restrictive colonial legislations. The informal sector in Southern can not be seen as merely an immanent outcome of the encounter between the pre-colonial political economy and the colonial economy.

### **2.2.5.1 The Socio-Economic Context of South Africa's Informal Sector**

From the previous section, we note that the informal sector in South Africa is less widespread and diverse compared to other countries although some scholars have argued that this country now has a 'substantial informal economy' (McKeever, 1998). Also, estimates of the informal economy are now "reasonably robust" as indicated in the national economic surveys (the Labour Force and Household surveys) (Devey *et al*, 2004). However, some scholars still argue that South Africa remains an 'international outlier' insofar as the size of its informal sector in relation to unemployment levels is concerned (Kingdon & Knight, 2001). These authors noted that although open unemployment in South Africa is high, the size of its informal sector remains small. It is against this background that these authors made an attempt to find out why the unemployed did not readily join the informal sector in spite of widespread unemployment considering that it is generally acknowledged that income from self-employment tends to exceed income while unemployed (Kingdon & Knight, 2001). It was noted that the unemployed do not necessarily shun self-employment, instead, it is most likely that they are prevented by barriers. Indeed, many activities in the informal sector of developing countries are "highly stratified with identifiable barriers to entry" (McKeever, 1999).

In spite of the above arguments estimates of South Africa's informal sector reveal interesting trends in terms of sectoral and occupational distribution, race and gender. The Stats SA September (2001) Labourforce Survey (LFS) reveals that informal employment in South Africa is concentrated in the retail and wholesale trade with about (50.1%) of all informal sector operatives working in this sector (Devey *et al*, 2003)

The Isandla Institute (1999) notes that it is the general trend in African countries for such sectors as retail and trade to be oversubscribed whilst participation in manufacturing remains limited resulting in excessive competition and ultimately lower earnings in the oversubscribed sectors.

However it is not always the case that earnings decrease as more people join the retail and trade sectors. According to the Isandla institute (1999), in Nigeria, it was noted that in spite of the effects of Nigerian parallel trade and market liberalisation, households earning their living from the informal sector raised their incomes by an average of 55% since the adjustment programme began. The September 2001 LFS shows that the figures for the other sectors are as follows; construction 13.8 %, manufacturing 10.7 % and services 8.8% (Devey *et al*, 2003). The national trend on the distribution of informal sector workers by sector of economic activity shows interesting patterns. Of particular interest is the manufacturing sector which although comprising more than 10% of informal work in South Africa, is relatively small when compared to other developing countries. Devey *et al* (2003:148) argue that there is “little value adding occurring in the South African informal economy”.

According to the ILO (2002:42) there are significant differences in employment across South Africa’s provinces reflecting, among other factors, the country’s apartheid legacy and poverty levels. In the poorest provinces which mainly comprise the previous ‘homeland’ areas, Eastern Cape and Northern Province (Limpopo Province), formal employment accounts for less than half of total employment. Conversely in the Western Cape and Gauteng, the two wealthiest provinces, the formal sector accounts for about three quarters of employment (ILO, 2002:44).

#### **2.2.5.2 Current South Africa Debate on the Informal Sector**

Defining the second economy, Hirsch (2005) notes that it “does not exist at a certain place”, nor does it “consist of an integrated economic system as such”. Rather, “it is essentially a condition lived by millions of people on the margins of the modern, industrial economy”. In attempt to “reshape the socio-economic character of the country” (DBSA Report, 2005), the South African government put in place certain policies and institutions and amongst these initiatives are attempts to create an environment conducive for the development of the SMME sector which generally forms part of the

second economy together with other areas of economic activity such as rural agricultural activities. There are many views that have been advanced with regard to the extent to which the current economic development policy measures in general and the widely-debated GEAR<sup>3</sup> policy in particular have been relevant to or effective in addressing the needs of the second economy. In South Africa, these discussions have tended to take place within the context of the 'two-economies' debate. Thus the 'two-economies thesis' has become one of the widely discussed concepts in South Africa's policy and academic circles today.

The DBSA (2005) Report on overcoming underdevelopment in the second economy provides a critical analysis of the assumptions underlying the construction of socio-economic policy in South Africa. The central argument in this report is that government policy has so far been more relevant to the needs of "first world globally integrated economy". When the government introduced the GEAR programme, the objective was to maximise economic growth with the hope that the benefits accruing from this growth would 'trickle down' to the second economy. In the case of the small business sector for instance, it was anticipated that the SMMEs would identify and seize the productive opportunities created via economic growth; this allows them to develop and consolidate their activities thereby contributing positively to the economy through job creation and poverty alleviation.

The success of South Africa's macro-economic strategy with regard to the upliftment of those working in the second economy particularly the SMME sector remains a subject of debate. Although the focus of this research is on informal sector micro-enterprises, it is worth mentioning that these represent just a part of the many avenues that the government is exploring in its quest to develop the second economy. Thus, besides the informal sector, there are other areas of the second economy where there are debates around the relevance of government policy and interventions. In these discussions there are some, particularly from the 'traditional Left' who feel that the government has not fared well in addressing the prevailing economic and developmental challenges and this underlines the fact that the government's economic and development policies need to be tweaked. The 'mainstream economists', although acknowl-

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<sup>3</sup> The Growth Employment and Redistribution (GEAR) strategy is a macro-economic policy adopted by the South African government in June 1996 mainly with the aim of increasing economic growth.

edging that the anticipated growth rates were not realised, tend to argue that this is just a temporary setback which is in itself a result of such factors as lack of robust foreign direct investment, low capital formation etcetera. It is therefore vital to highlight the government's macro-economic programme so as to ascertain the extent to which different scholars think it has served and has been relevant to the developmental needs of both the first and second economies. The "two economies" debate in South Africa will be highlighted as this naturally provides the right framework to address and to unpack the above mentioned issues. Also of particular significance are the government's specific interventions in the different areas of the second economy.

### **2.2.5.3 Views on South Africa's Macro-Economic Policy**

The GEAR macro-economic policy was introduced by government in 1996 and the central aspects of this policy are largely neo-liberal. Although GEAR is a home-grown policy, it shares the same characteristics with the Washington Consensus. Some of the key features of GEAR are that the government should maintain fiscal discipline by cutting back on its deficit (Le Roux, 2001); the government should make efforts to facilitate the integration of country's economy into the global economy through the removal of foreign exchange controls, and also that privatisation should be accelerated (Padayachee & Fine, 2001; Le Roux, 2001). The ultimate aim of all these measures is to achieve a high rate of economic growth and consequently more jobs are created which are essential to the reduction of poverty (Padayachee & Fine, 2001; Le Roux, 2001). This policy has allowed for fiscal stability and subsequently reasonable levels of economic growth yet these achievements are well below the initial estimates of growth and employment generation the policy was meant to bring about. Generally, the necessary rate of economic growth and the jobs that were expected upon adopting this policy within the first four years for instance were not attained (Le Roux, 2001:214). Makgetla (2004:263) the COSATU economist notes that,

Since 1994, the performance of the South African economy has been at best disappointing. The most obvious problem has been the increase in unemployment, which at over 30% is now higher than in any other middle- income country. In addition, the economy has grown only slightly faster than the population, at around 2% a year, and investment remains low.

Also problematic is the persistence of inequality in South Africa which is an indication that the poor continue to get little of the national cake. The continued existence of income disparities between the rich and the poor is a negative sign which reflects badly on the effectiveness of any macro-economic policy. Natrass & Seekings (2001) whilst not disputing that inequality in South Africa remains high as this is clearly shown by what they refer to as “the stubbornly high Gini Coefficient” point out that the nature of inequality has changed. They advance a number of arguments to show that inequality has now taken a different form. South Africa can no longer be said to be effectively characterised by inter-racial inequality because of several factors directly related to the demise of apartheid. Firstly, a sizeable proportion of individuals who were previously disadvantaged due to the discriminatory policies of apartheid have become upward mobile in the various spheres of life. One noticeable trend in post-apartheid South Africa is the increase in the bargaining capacity of workers as workers’ freedom of association is now a guaranteed constitutional right. This along with the “scrapping of wage and discriminatory practices” has resulted in workers from previously disadvantaged groups (Black Africans, Coloureds and Indians) achieving upward mobility in the workplace. Secondly, the adoption of a ‘conservative orthodox economic policy’ which the ‘Left’ in South Africa claims to have resulted in inequality and the general impoverishment of the populace does not automatically translate to an end of redistributive policies. The two are not entirely incompatible; they may actually go hand in hand or the conservative policies maybe from the government’s perspective an imperative that should precede redistribution (Natrass & Seekings, 2001).

Considering all these afore cited factors, it is clear that “deracialisation and democracy” in South Africa cannot be said to have had no impact on inequality (Natrass & Seekings, 2001). In spite of these arguments, Borat & Cassim (2004) observed when the Gini Coefficient is isolated by race for instance, there are higher levels of inequality “amongst African households where the Gini stands at 0, 53”. Conversely, non-African households, “the Gini is significantly lower—ranging between 0, 46 and 0, 48” (Bhorat & Cassim, 2004:9). Thus, while 38 percent of the African households are poor, only 3 and 4 percent of white and Asian households are earning below the poverty line. Borat & Cassim (2004:9) further note that Coloured households reflect figures close to those of Africans.

The debate on the impact of South Africa's macro-economic policy is quite complex. Whilst the 'Left' has traditionally identified GEAR with the neo-liberalist Washington Consensus, a policy which advocates for a reduction in Government expenditure, the situation in South Africa is not that simple and straight forward. It is generally acknowledged that South Africa's social security system is one of the most comprehensive when compared to other African countries where neo-liberal policies have seen a drastic cut in social expenditure. Not only that, South Africa's "system of taxation and public expenditures" is "unusually redistributive" and "progressive" when compared to other middle income countries (Nattrass & Seekings, 2001:477). To fully appreciate this, one can consider the example of Chile (another middle income country), where the "top quintile pays about 15 percent of its income in tax-less than half of the proportion paid by their South African counterparts" (Seekings & Nattrass, 2001:477).

Moreover, decision making on issues of the economy is no mean feat. Governments often have to tread a fine line when it comes to choosing between 'macroeconomic populism' and 'macroeconomic stability'. This is even more difficult in the South African case where the historic compromise has meant that government has to salvage capital while meeting the needs of the previously disadvantaged groups. Rapid redistributive measures would act as a 'disincentive' to enterprise and this might in turn result in capital flight (Hirsch, 2004). Macro-economic populism in Latin America, for instance, has only been successful in the short run but has not been good for longer term objectives such as macro-economic stability (Nattrass & Seekings, 2001).

Besides the above mentioned arguments which seem to directly refute the points raised by the 'Left' in South Africa concerning the ills of GEAR, there are also certain factors which have been identified by the mainstream economists, for instance, as the causes of the failure to reach the set macro economic goals. Thus the mainstream economists have cited a number of factors to explain why GEAR's initial estimates were not met. These factors can be grouped into internal and external factors (Padayachee, 2001; Le Roux, 2001). Borat & Cassim (2004) highlight most of these factors in their discussion of the determinants of growth in South Africa. Some scholars have noted that arguments of this nature are meant to divert attention from the fact that the 'conservative orthodox policy' of GEAR is inherently flawed insofar as the economic

and developmental needs of South Africa are concerned (Makgetla, 2004; Padayachee & Fine, 2001; Le Roux, 2001).

Bhorat and Cassim (2004) have tried to go beyond the macro-economic policy in making sense of South Africa's problems of stunted economic growth and inadequate employment creation. In their comprehensive analysis of the determinants of economic growth in South Africa Bhorat and Cassim (2004) seem to argue that the reasons for stunted economic growth might be located elsewhere in the sense that they can not be reducible to the inadequacy of the macro-economic policy alone. What can be surmised from their analysis is that lack of adequate economic growth might actually be a confluence of several factors, external and internal. The macro-economic policy is just but one factor within the framework for understanding the determinants of growth. Other factors, for instance, include low investment, trade reform and the labour legislative environment (Bhorat & Cassim, 2004:29).

To cite one example, lack of adequate capital formation is one of the most cited factors amongst the mainstream economists, for instance, as South Africa's nemesis limiting the country's growth prospects. This problem is mainly attributed to limited foreign direct investment (FDI) (Hirsch, 2004 & 2005). The point here is that although portfolio investment is welcome as it undoubtedly has a positive impact on the economy, it is axiomatic that this type of investment is ephemeral compared to the much more enduring and sustainable FDI. Also closely linked this problem is the low rate of capital formation. South Africa's capital formation rate (16% of GDP) is quite low relative to that of South Korea and Australia which consistently been above 25% and 20% of GDP respectively since the 1970s (Hirsch, 2004:3). However, some scholars would argue that the link between FDI and economic growth is tenuous (Haddad & Harrison, 1993). As a result, statements about FDI being the great stimulant of growth are not unproblematic and can not be made without qualification.

Whatever the causes of South Africa's economic problems, the effects are quite evident. Thus in spite of the many initiatives implemented to address poverty and unemployment in post-apartheid South Africa within the framework of the macroeconomic policy, GEAR, there is glaring evidence to show that many people remain at the margins of the mainstream economy. Bhorat & Cassim (2004) note that amongst the de-

veloping countries, South Africa has very high income disparities as indicated by its high Gini coefficient which for a long time only came second to that of Brazil. It is generally acknowledged that the GEAR macro economic strategy adopted in June 1996 did not bring about the expected levels of economic growth. Bhorat & Cassim (2004) assert that while it would be inappropriate to argue that South Africa has experienced 'jobless economic growth' as this would be overstating the case, there has certainly been "poor employment growth" (2004:15).

The skewed nature of the 'growth'–poverty and unemployment for many in the face of booming prosperity for a minority (black or white)–has become evident in South Africa. It is against this background that government introduced the 'two economies' terminology in its policy statements. Thus, it is simplistic to assume that economic growth would automatically lead to the betterment of the lives of people in the lower echelons of society. At the heart of South Africa's macroeconomic strategy is the 'trickle-down orthodoxy' which was aptly described by Todaro (1981) in reference to the West's development stance in third world countries. This scholar argued that,

[r]apid gains in overall and per capita GNP would either 'trickle down' to the masses in the form of jobs or other economic opportunities or create the necessary conditions for the wider distribution of the economic and social benefits of growth.... [In other words] this national income growth will 'trickle down' to improve levels of living for the very poor (cited in Mehmet, 1995:12).

It is generally acknowledged that the South African government has seen the need for interventions (Webster, 2004) rather than relying entirely on economic growth to benefit the poor. Mbeki (2004) noted that South Africa has a 'two-tier' economy wherein one part of the economy is well developed, modern and fully integrated into the global capitalist economy. This part of the economy is well positioned hence it produces the 'bulk of the country's wealth'. The other part, known as the second economy, is 'less productive', 'isolated from the first and global economies' and 'contains a large percentage of people including the urban and rural poor' (Mbeki, 2004).

Although this kind of analysis of the structure of the economy is a clear indication that policy makers have become aware of the limitations of a growth-driven strategy, such

an analysis is however based on the problematic view that the second economy is “a function of exclusion” since “it is a space within which those who are marginalised from the first economy operate” (DBSA Report, 2005). Many scholars have questioned this analysis on the basis that it fails to appreciate the linkages that exist between the first and second economy and therefore the idea of ‘eliminating’ the second economy or informal sector which naturally flows from the ‘exclusion thesis’ is futile. Cousins (2004:2) also notes that the successful policies pursued in the ‘modern’ economy are the same policies that “create structural disadvantage” in the second economy and as a result he makes mention of “South Africa’s integrated but unequal economy” (Cousins, 2004:5). Advancing the same argument, Du Toit (2005:20) notes that:

Shack dwellers in Khayelitsha, seasonal farmers in Ceres, and villagers in Mt Frere can not be meaningfully described as being ‘excluded’ from the South African economy; their impoverishment, on the contrary, is directly related to the dynamics of 150 or more years of forcible incorporation in the South African economy and racialised capitalism.

Particularly problematic with the “two economies” metaphor is the underlying assumption that the “first economy has intrinsic qualities that conspire to keep people in poverty” (DBSA Report, 2005). This kind of thinking is flawed if one considers that “members of the marginalised communities constitute a very important customer base for powerful first economy industries” (Du Toit, 2004). Webster (2004) argues that the ‘two economies’ analogy is misleading. He cites the symbiotic relationship between these two categories. With case studies from what he calls the “peripheral zone” (Webster, 2004), he argues that activities in the periphery are dependent on the formal economy to such an extent that it is highly unlikely for ‘peripheral activities to expand independently’ and stimulate growth in the formal economy. These activities can only expand “to the extent that the formal sector itself expands” (Webster, 2004:19). Instead of the ‘two-economies’ thesis which presumes a two tier economy or an economy with two separate and unlinked segments, Webster (2004) argues that the two segments are interdependent, though in an ‘asymmetrical’ fashion.

A more nuanced analysis of the dynamics of South Africa’s economy is one that considers the link between development and underdevelopment. Mafeje (1973) wrote

about “the fallacy of dual economies” arguing that the dualistic forms of analysis do not explain the true cause of poverty and underdevelopment in much of Africa. Citing evidence from various parts of Africa, Mafeje (1973:44) demonstrates that economic integration of the so called traditional sector into the capitalist is an accomplished fact. An appropriate analysis of the South African economy should therefore look at the social formation and the nature of the relationship between the various economic activities within it. What is important is to bring out what Mafeje (1973:35) calls the ‘dialectic unity of development and underdevelopment’. The appropriation of surplus by the dominant capitalist corporations within the social formation is clearly examined through such an analysis.

According to Althusser (in Rudqvist 1986:11) a social formation is “a determined combination or superposition of various ‘pure’ modes of production, in which one of these modes is dominant with respect to the others” (1986:11). Rudqvist (1986:1) observes that social formations are “instances of articulation of different modes or relations of production”. Wolpe (in Mafeje, 1981:133) argues that all modes of production exist only in concrete economic, political and ideological conditions of a social formation. The idea of a social formation provides ‘a unit of concrete analysis’ (Morris in Mafeje, 1981).

To understand the articulation of modes of production within a social formation, there is a need to go beyond the dualistic models. Moser (1980:367) argues for a nuanced analysis which looks at “a continuum of productive activities, with complex linkages and dependent relationships between production and distribution systems”. This analysis overcomes the problems associated with dualistic theories in that it “has greater utility in handling the complexities of internal differentiation, diverse and dependent linkages, the social as well as technical relations of production...” (Moser, 1984:367). With regard to the South African social formation, Mafeje (1973) notes that the idea of a ‘two-tier’ economy is fallacious since it overlooks the linkages between the so called traditional sector and the capitalist sector. Some of these arguments will be recaptured in the concluding chapter of the thesis.

The DBSA Report (2005) on the underdevelopment of South Africa’s second economy also highlights some factors which point to the fallacy of the two-economies the-

sis. Whilst alienating people from their means of production in order to create cheap labour for capitalist industries would have made sense during the pre-democracy days of apartheid, this is not the case under the present circumstances (DBSA, 2005). Secondly, the logic of apartheid which sought to exclude in order to create cheap labour no longer applies. Persistent inequalities provide a fertile ground for such social problems as crime, lack of access to health and education, and the resultant lack of skilled labour in the “second economy” and this would not in any way benefit the first economy (DBSA, 2005).

Another important point that makes the ‘exclusion thesis’ questionable is its failure to appreciate the fact that the relationship between the formal and informal sector tends to take variant forms. While the exclusion thesis is attractive at a conceptual level mainly because of its simplicity, it runs into serious problems when one considers evidence based on empirical observations on the ground. It has been noted that instead of being merely exploitative, ‘the relationship of economic activities in the second economy to those in the first economy can be either complementary or substitutive’ (Mhone, 1996:9).

DuToit (2004) asserts that ‘the two-economies debate’ initiated by president Mbeki’s argument that poverty in South Africa is a result of the ‘persistence of a third world economy’, existing alongside but ‘structurally disconnected’ from the first world economy is based on a “very similar presupposition of a modernising meta-narrative”. The assumption underlying this line of thinking is that the establishment of ‘more linkages between the first and second economy is a feasible way of bringing about development within the latter. Yet this misses the crucial point that one of the key obstacles to the growth of small and micro-enterprises, for instance “may not be disconnection, but the very depth of penetration of monopoly and corporate capital” (DuToit, 2004:1006). DuToit further argues that:

These assumptions produce a risk of harmful and counterproductive policymaking. The danger in the uncritical and unreflective adoption of optimistic modernising narratives is that, in passing over the complexities of the dynamics that keep poor people trapped in poverty, they make targeting of poverty much more difficult (2004:1006).

Such a conceptualisation of the nature of problems the country is experiencing results in incorrect policies being implemented. The above discussion brings out the different views on South Africa's macro-economic policy and some of the assumptions underlying its construction as well as its impact on both the first and second economy. These different perspectives notwithstanding, what remains clear is that there are many significant challenges which still need to be addressed. Recently, the South African government introduced the Accelerated and Shared Growth Initiative (AsgiSA) as part of the ongoing process to bring about economic growth and to emancipate the marginalised. The point of departure insofar as AgsiSA is concerned is that the government is on the right track and all that is required is the acceleration of growth and ensuring that the 'fruits of that growth' are shared equally.

#### **2.2.5.4 The Accelerated and Shared Growth Initiative of South Africa (AsgiSA)**

AsgiSA is an implementation strategy meant to strengthen economic management and not an economic policy (Mondi, 2005:32). This 'implementation strategy' comes against the backdrop of a healthy economy as indicated by "unprecedented confluence of consumer and business confidence, underpinned by [the] healthy fiscal position, subdued inflation and low interest rates" (Mondi, 2005:32). Given these 'auspicious' developments, what is required therefore is the 'acceleration of growth' and the equal sharing of the 'fruits of this growth' (South African Government, 2005).

The introduction of AgsiSA in South Africa's policy terrain has been met with a divergence of views amongst different stakeholders. The most prominent arguments have been proffered by labour on the one hand and business on the other hand. The Confederation of South African Trade Unions' (COSATU) main concern is for government not to lose sight of the fundamental point that "increasing equity and accelerating growth are complimentary not competing goals" (COSATU, 2005). This concern seems to emanate from the observation that in the previous years when government has pursued its growth-oriented economic initiatives as encapsulated by the GEAR policy, workers' needs have not been adequately met. Instead, in the words of COSATU, "the bulk of the benefits from growth have been captured by business" (2005:9). Thus by merely looking at trends on the 'compensation of workers' and 'net operating surplus' of firms it is justifiable to conclude that the 'growth years' did not

bring about positive outcomes for the employees. The AsgiSA implementation plan seems to have failed to shake off the neo-liberal tag associated with such economic policies as GEAR. These suspicions are aptly summed up by the General Secretary of the South African Transport and Allied Workers Union (SATAWU) who notes that: “AsgiSA is not enough, because it still about trickle down economics. What we need is a paradigm shift in economic policy, away from a trajectory that simply enhances capitalism” (The Economist, 2006). Clearly the ‘left’ does not seem to view the AsgiSA initiative as any different from the GEAR macro-economic policy and other such initiatives. The position of ‘business’ on AsgiSA is unsurprisingly quite the opposite which however does not mean that they unequivocally accept AsgiSA.

Some in the business circles acknowledge that AsgiSA is a positive sign in terms of the direction which the policy makers should take to grow the economy. However, there are misgivings on the lack of clarity in AsgiSA on how the cost of doing business can be reduced. Thus the ‘growth’ aspects of AsgiSA are favourable yet it is not clear how the envisaged economic growth targets will be reached if the cost of doing business remains high which inevitably has a negative impact on viability of businesses. Arguments of this nature are best captured in the Business Unity of South Africa’s (BUSA) (2005) presentation to the African Peer Review of Africa. BUSA (2005) argues that the cost of doing business in South Africa is high due to unfavourable regulatory framework. Of particular concern is the high corporate tax rate relative to international standards and also the corporate social responsibility tax pegged at 3% which is again high relative to other countries. This, according to BUSA (2005:3), seems to contradict one of AsgiSA’s primary objectives, which is to “reduce the cost of doing business”. In addition, it shows failure to appreciate that “71% of gross investment and 80% of net investment in the economy is from the private sector<sup>4</sup>” hence the need to make the operating environment as conducive as possible for this ‘group’ (BUSA, 2005). There is also a general concern on how the government through AsgiSA intends overcoming the perennial problems of poor service delivery at the local level and the shortage of skills (The Economist, 2006). Furthermore, the thinking that the second economy can be “eliminated” is flawed as it reflects the “traditional view” of this segment of the economy. There are linkages between the first and second

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<sup>4</sup> These figures are however not rigorous enough. BUSA does not give specifics, for instance, there is no specification of the exact aspect(s) of the economy where this investment is taking place.

economy. Moreover, the second economy (informal sector) continues to exist even in highly industrialised countries. Instead of disappearing, it ‘mutates’ and emerges in different forms. These points will be revisited in the conclusion of this section. We now focus on the role of government in promoting the informal sector.

#### **2.2.5.5 Small, Medium and Micro-enterprises (SMMEs)**

In South Africa, the government rarely mentions the term informal sector. Within the official circles, reference is made to the ‘second economy’ and SMMEs. Similarly, in Kenya, Livingstone (1991) notes that the government dropped the term informal sector from the official statistics in 1987. In its place, the term small-scale enterprises was adopted. With regard to South Africa, the informal sector is presumably included in the second economy. Livingstone (1991:652) argues that the term ‘micro-enterprise’ is often deployed to characterise informal sector activities. Thus, while there is little reference to the informal sector in South Africa, we discuss the issues which are specific to the micro-enterprises. This is in the light of the ‘overlap between the ‘micro-enterprise category’ and the informal sector (Livingstone, 1991; Losby *et al*, 2002). It does not seem that South Africa has policies that are exclusively for the informal sector. The alternative therefore is to distil how SMME policies have fared in addressing the needs of the micro-enterprises or the informal sector.

The informal sector has become an area of policy focus as governments try to deal with the problem of inadequate productive employment in the face of increasing population and urbanization. Also because most of these countries suffered from colonial oppression over the years, many developing countries have come to regard the promotion of informal work and SMMEs as an important part of the process of economic reform and institutional restructuring (Xaba *et al*, 2002). In South Africa the development context is one of high unemployment and significant inequalities and it is believed that SMMEs can contribute to employment creation and the reduction of inequalities (Rajaratnam *et al*, 2000:10).

According to Kesper (cited in Rogerson, 2004:766) the 1995 White Paper “contains South Africa’s first SMME policy framework that was informed about the peculiarities of South Africa’s SMME economy” and “ combines South African and international arguments in favor of SMME promotion”. Despite drawing upon the so-called



best international practice, the results of new policy frameworks in supporting SMME development have been somewhat disappointing (Rogerson, 2004:2). Kesper (in Rogerson, 2004) cites the “lack of domestic policy experience” and reliance on the best “international best practice with regards to policy objectives and the design of the support framework” as the reason for this failure.

The failure of these policies is particularly evident in the ‘emergent SMME economy’, which is presently dominated by members of South Africa’s historically disadvantaged communities. Qualmann (in Rogerson 2004:772) argues that “too few (black) SMMEs are reached and too many centralized top-down programmes are considered by Ntsika, Khula and DTI, and delivery is felt to fall short of initial promises, let alone expectations”. It has also been shown that national SMME support programmes since 1994 have offered scant support for survivalist enterprises, women entrepreneurs and rural SMMEs (Valodia, 2001; Rogerson, 2004). Also, although the government emphasizes the importance of local level support for the development of survivalist and micro enterprises national policies have not been localized by most local authorities (Rajaratnam *et al*, 2000).

One of the main arguments raised in the report on the ineffectiveness of South Africa’s SMMEs policy is the failure to distinguish between medium and micro-enterprise activities with the result that a blanket policy is being used. The implications of this approach for small business development are negative. South Africa’s micro-enterprise category comprises of household income earning activities and to expect people engaged in these activities to be able to identify and seize opportunities resulting from economic growth is futile. Xaba *et al* (2002:26) thus note that SMMEs and informal sector activities differ. The only overlap is between the micro-enterprises and the informal sector. Accordingly, there is need for clarity in policy initiatives. The GEM (2004) and the DBSA (2005) advance the same argument that entrepreneurial activities are meant to accumulate capital, whilst the self-employed are mostly involved in survivalist activities.

According to Rogerson (2004:782), the existing policies have been largely biased towards the group of medium and small-sized enterprises and, to a large extent, have bypassed micro-enterprises. The DBSA (2005) report on the underdevelopment of the

informal economy locates this problem in the 'perceptions and 'assumptions' that underlie the 'construction of socio-economic policy in South Africa'. Thus government policy tends to revolve around economic growth which is seen as the key to addressing the needs of the second economy. Admittedly, the South African economy has experienced positive economic growth which is "respectable in aggregate and global terms" (DBSA Report, 2005:82). Yet this has not had the expected impact on the second economy. In other words, the trickle down effect never happened.

In the light of the above arguments, some scholars have argued that it has become necessary for government to revisit the policies on SMME development so that they address the needs of all the groups that fall within this sector (Rogerson, 2004). Whilst the policies that naturally flow from such policies as GEAR inherently require SMMEs to identify and utilize the opportunities created by the 'economic growth', such an approach is not beneficial to the survivalist or what Livingstone (1991) would call the 'lower end of the micro-enterprise category'. This is linked to the lack of clarity in defining the informal sector. Only the micro-enterprises within the SMME category overlap with the informal sector. The SMME category, like 'informal sector concept', lumps together too many diverse and divergent (economic) activities. As an idea, it is of poor heuristic value. With the concept of the informal sector for instance, there is a tendency to use it as a catch-all phrase for any form of economic activity which does not fall within the formal economy. This approach creates conceptual, methodological and theoretical problems. The perennial problem in the study of informal sector activities is failure to offer a concrete definition of the phenomena. The informal sector activities are fluid and diverse (Fadahunsi, 2000). This results in lack of consistence in theoretical, empirical and policy analyses (Guha-Khasobis, Kanbur & Ostrom, 2006:3). The multiplicity of definitions and lack of clear conceptual boundaries make it difficult to view these activities as forming a sector (Sindzingre, 2006:2).

#### **2.2.5.6 Conclusion**

There have been many discussions around the definition of the term informal sector. At the centre of these discussions is the heuristic value of the term informal sector. For some, the main concern has been the imprecision of the term which is, in turn, linked to the tendency amongst researchers and policy makers to bundle together a

heterogeneous set of economic activities within one category (Peattie, 1987). Peattie (1987) argues that the concept of the 'informal sector' is of little analytical value to those who use it considering that it is very imprecise and vague. For this reason, it is argued that this concept has to be jettisoned. The concept informal sector also "harbours highly ambivalent and even contradictory potentials" (Isandla, 1999:2). Similarly, Moser (in Peattie, 1987:856) notes that,

The informal sector is still too broad to be meaningful; at the one hand is a pool of surplus labour, at the other a skilled high-income earning entrepreneur; at the one hand a proliferation of residual enterprises involuntary in nature, at the other end of the spectrum dynamic evolutionary enterprises.

However, it can also be argued that the issue of 'imprecision' or 'vagueness' of the term 'informal sector' does not justify calls for its abandonment since there can never be a neat relationship between concepts and the reality they try to explain. According to Chandavarkar (1988:1259), Peattie's "whole approach is bedevilled by a scholastic quest for an accurate definition of the concept of the informal sector for which there is no warrant either in logic or epistemology". Chandavarkar (1998: Ibid) further notes that most widely used concepts in economics for instance income, capital, output and wealth are not easy to measure.

Robinson (in Chandavarkar 1988:1259) argues that the lack of 'precision' with most of these concepts should not diminish their importance in making sense of economic problems. Most importantly, "it is of no use framing definitions more neat and precise than the subject matter to which they apply" (Robinson in Chandavarkar, 1988: 1259). Khundker (1988) also argues that vagueness and imprecision are not good enough reasons to abandon the concept of the informal sector. According to Khundker (1988:1264), "...just because a concept does not lend itself to an easy definition or because it does not allow people or groups to be clearly placed within the category it defines, does not nullify its usefulness".

While logical abstraction<sup>5</sup> and or 'trading accuracy for simplicity' are problematic given their implications for knowledge production and policy formulation, it is noteworthy that there will always be a gap between our own interpretation of reality and reality itself. Rigorous analysis is important but should not be confused with 'fetishisation' of accuracy. Considering the diverse and fluid nature of the phenomena of the informal sector, it is essential to examine its specificity or articulation; how informal sector activities manifest themselves with temporal and spatial variations in perspective. Lipton (cited in Guha-Khasobis, Kanbur & Ostrom, 2006:2), calls for "care and nuance in application of the concept". Also important, is the need to examine informal sector activities within the context of a broader social formation. This allows for an examination of the different modes of production within a social formation and to unpack instances of 'surplus appropriation'. This is essentially an appreciation of the link between development and underdevelopment.

Such an analysis is important in that it transcends the limitations of dualistic theories. Currently, there are debates in South Africa about a dual economy wherein the majority of the people are confined to the second economy, which is isolated from the developed capitalist economy. This notion of a dualistic structure of South Africa's economy was long proved to be fallacious by many scholars (Wolpe, 1972; Mafeje, 1973). Yet this idea seems to have regained currency. Activities within the so called second economy are a reality and continue to exist; albeit mostly under unfavourable conditions of poverty and deprivation. What is clear is that their continued deprivation is not a result of isolation from the modern sector and global capitalist economy as is argued by the government. Conversely, the development of the so called modern economy is inextricably wed to the underdevelopment of activities within the second economy.

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<sup>5</sup> Logical abstraction (Adesina, 1992:39) is when a theory commences with the abstract speculation of the analyst as opposed to concrete experience. Adesina (1992: Ibid) further argues that "where reality clashes with theoretical speculation, paradigms of logical abstraction define reality as the problem".

## **CHAPTER 3 RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter deals with the procedures that we followed in doing the research on the theme of this thesis. This will not merely consist of an outline of the specific research techniques or what Payne & Payne (2004) would refer to as “technical practices”, but we will also address the philosophical and methodological commitments which are associated with or underlie the methods we have used in this study. The main data gathering instrument we used is the survey questionnaire. The in-depth semi-structured interviews and Focus Group Discussions (FGDs) are the other data gathering techniques we employed.

Before examining these specific research techniques and their relevance to this study, it is pertinent to discuss the assumptions underlying these research techniques. Thus, it is crucial to highlight the extent to which the quantitative and qualitative approaches we employed are vital for the study, not just at the level of techniques but also at the level of ‘methodology’. Specifically, we try to show how the different data gathering instruments we use are best suited for this study in the light of the different philosophical assumptions which underlie them.

### **3.2 Quantitative Research Methodology**

Quantitative research is based on positivist philosophy (Neuman, 1997) and the point of departure in this approach is that social reality objective. As a result, the quantitative research methodology “is routinely depicted as an approach to the conduct of social research which applies a natural science, and, in particular a positivist approach to social phenomena” (Bryman, 1984:77). To obtain ‘truthful knowledge’ there is need for “objectivity, replicability and causality” (Ibid.).

When conducting social research, positivists or empiricists frequently employ social surveys. It is generally acknowledged that the social survey is the best method in terms of meeting such quantitative standards as objectivity, causality and replicability (Bryman, 1984; Creswell, 2003). This means that a quantitative researcher assumes that he or she can “conceptualise sociological concepts as variables” so as to “develop

objective, precise measures with numbers that capture important features of the social world” (Neuman, 1997:329).

According to Creswell (2003:153) “a survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population”. Accordingly, quantitative researchers emphasise the ‘enumerative induction’ (Brannen, 1992:5) as they try to ascertain “how many and what kinds of people in the general or parent population have a particular characteristic which has been found to exist in the sample population”. According to Struwig & Stead (2000:5) quantitative researchers aim at generalising results beyond the confines of the research sample hence the need for a representative sample.

Quantitative researchers also attempt to establish causal relationships (cause and effect relationships) between constructs. This is clearly demonstrated by their constant use of independent and dependent variables. Specifically, a causal relationship between constructs explains why things are the way they are by specifying the causes thereof (Struwig & Stead, 2000:5). Replication is another important aspect of quantitative research. This can be defined as “the extent to which findings are applicable to other contexts” (Struwig & Stead, 2000:7). A study is replicable when the study’s research process is clearly and accurately described (Struwig & Stead, 2000:6).

### **3.3 Qualitative Research Methodology**

The term qualitative research is particularly difficult to define given that it is an “overarching category” (Snape & Spencer, 2003:2) used to describe a range of “frameworks of enquiry, namely ethnography, phenomenology, action research, symbolic interactionism, and grounded theory...” (Schurink, 2005:32). Whilst the term qualitative research can refer to many different ways of conducting research, some authors have proffered useful operational definitions of the term. Denzin & Lincoln (2000:3) provide a precise definition of qualitative research. According to these authors, qualitative research refers to:

a situated activity that locates the observer in the world. It consists of a set of interpretive, material practices that make the world visible. These practices turn the world into a series of representations including field notes, interviews, conversations, photographs,

recordings and memos to the self. At this level, qualitative research involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena in terms of meanings people bring to them.

This definition addresses the main methodological commitments of the qualitative approach which are essentially the defining characteristics of the research approach. In qualitative research, the emphasis is on such aspects as the insider's perspective, naturally occurring behaviour in natural settings and 'interpretivity' (Creswell, 2003).

One important methodological criterion in qualitative research is the prioritization of the 'insider's perspective'. According to Plummer (2001) qualitative research is especially interested in how ordinary people observe and describe their lives or the "emic perspective" (Babbie & Mouton, 2003). It is thus fundamental for researchers not to over emphasize their 'grand narratives' at the expense of the participant's perspective.

According to Creswell (2003:181) qualitative research takes place in the 'natural setting'. This enables the researcher to develop a level of detail about the individual or place and to be highly involved in actual experiences of the participants (Ibid.). It follows that "qualitative research is best suited for studying attitudes and behaviours best understood within their natural setting, as opposed to the somewhat artificial settings of experiments and surveys" (Babbie & Mouton, 2003:271). It is for this reason that this method is also known as 'naturalistic inquiry' and 'field research'. This study of participants' behaviour and actions in a natural setting allows the qualitative researcher to capture "normal course of events" and indeed to "observe events and actions as they happen" (Babbie & Mouton, 2003:271). The idea is to minimise "intervention" and "interference" as much as possible which is the opposite of what happens in experimental designs and survey research where the researcher intervenes in the research process resulting in an artificial set up (Ibid.).

Qualitative research is conducted in a relatively unstructured and flexible manner (Struwig & Stead, 2001:13). This is mainly to allow for 'unanticipated events' (Bryman, 1984; Struwig & Stead, 2001). In qualitative social research, researchers are 'mistrustful' (Struwig & Stead, 2001) of theories to the extent that they do not start with a 'strictly defined theoretical hypothesis' but instead explore data they encounter

and allow ideas to emerge from them (Payne & Payne, 2004:175). In essence, qualitative research is therefore “highly emergent rather being tightly prefigured” (Creswell, 2003:181). Through the use of inductive logic, qualitative researchers “identify emergent categories and theories from the data rather than imposing their priori categories and theories” (Ritchie & Lewis, 2003:4).

What this implies is that when planning and conducting qualitative research, qualitative researchers do not follow a rigid research design. Instead, research plans can be altered midstream to allow for “serendipitous occurrences” (Bryman, 1984:78). A qualitative researcher needs to be flexible throughout the research process and this calls for a flexible research design. Thus instead of following “a linear research path” as is the case in quantitative research qualitative research design tends to be “non linear and cyclical” (Neuman, 1997:331).

Qualitative research is essentially interpretive. The researcher makes an interpretation of the data by “developing a description of an individual or setting, analysing data for themes or categories” (Creswell, 2003:182). The qualitative researcher systematically reflects on who he or she is in the inquiry and is sensitive to his or her personal biography and how it shapes the study. This also involves some introspection and acknowledgment of biases, values, interests (or reflexivity) where the personal-self becomes inseparable from the researcher-self (Plummer, 2001).

### **3.4 Quantitative and Qualitative Methods in the Study of Informal Sector**

Having considered all these factors it became necessary to ‘triangulate’ more so considering that informality is a particularly complex phenomenon. Thus, this study used both quantitative and qualitative techniques because we felt that this would enable us to adequately address the research problem and to provide well rounded answers. It was imperative to employ the survey technique which falls within the quantitative, ‘positivist’ or ‘empiricist’ approach in social research and in-depth semi-structured interviews as well as Focus Group Discussions (FGDs) both of which are qualitative methods of gathering data. Indeed, “qualitative and quantitative methods are tools, and their utility depends on their power to bear on research questions asked” (Kvale, 1996:69).

Many scholars have noted the need to “adopt a horses-for-courses” approach in conducting research where the ‘problem under investigation’ determines the ‘methods of investigation’ (Bevan, 1997; Fadahunsi, 2000). Fadahunsi (2000:2) argues that it is good for the research if it is “problem-led rather than method-led”. With regard to this issue, Trouw (in Bryman, 1984) argues that “the problem under investigation properly dictates the method of investigation”. In addition, Douglas (cited in Bryman, 1984:86) asserts that:

[s]ince all research methods have costs and benefits, and since they differ greatly in their particular costs and benefits, a researcher generally finds it best to use a combination or mixture of methods.

While neoclassical economists and development specialists have invariably relied on quantitative statistical methods to study the informal sector, some scholars believe that qualitative methods which are deeply rooted in the phenomenological paradigm can offer useful insights into the phenomenon of informality (Waldorf & Waldorf, 1983:589; Fadahunsi, 2000). Fadahunsi (2000) although not negating the usefulness of statistical methods in studying informality calls for the recognition of ethnographically orientated methods in studying entrepreneurship in the informal sector. Waldorf & Waldorf (1983:589) argue that participant observation over a long period of time can provide more reliable data on income relative to once-off cross sectional surveys. These authors, in their study of informal sector activities in Bangkok in 1983, saw it fit to “trade-off a lower response error for a higher sampling error i.e. participant observation is very intensive and there are small samples” (Ibid.).

Portes *et al* (1986:730) advocate for “a mid-range methodological perspective which combines statistical representativeness with detailed field interviews”. These scholars thus observed that there were shortcomings inherent in the numerical estimates by PRELAC and other agencies which were not necessarily a result of faulty methodology but “of the limitations of a data base lacking appropriate indicators” (Ibid.). Although the use of in-depth observational studies may help transcend some of the problems associated with numerical estimates there are also some weaknesses that come with this method. One particular problem with in-depth observational studies is their

reliance on small unrepresentative samples which inevitably means that making statements about the population becomes impossible.

In the light of the above, “combining a representative statistical sample with detailed field interviews is the solution” (Portes *et al.*, 1986:730). These scholars further argue that the “results can thus provide answers to theoretical questions which are substantively valid and generalizable” (Portes *et al.*, 1986:730). McCormick (1988), in a study of small scale enterprises in Kenya also follows up her survey with a few qualitative interviews to “give flesh and blood to the numbers”.

Clearly, it is much more meaningful to utilise techniques from both the qualitative and quantitative research approaches. We now turn to the specific data gathering instrument we employed. The main objective is to show their strengths and limitations given the nature of this study. We concurrently discuss the procedures and steps adopted in executing the study.

### **3.5 Research Design and Data Collection Strategies**

#### **3.5.1 The Survey Questionnaire**

In this study we chose a survey questionnaire as our main data gathering instrument. According to Wegner (1999:14) a survey questionnaire is the “data collection instrument which is used to structure the data collection process”. The survey questionnaire has been the most frequently used method to generate data on informal sector activities. It is not difficult to see why this technique has been predominant all along. Sethuraman (1976:77) observes that “the universe consisting of informal sector enterprises is a large one” hence the most effective way to study such activities would be to generate large representative samples. In conducting a survey, the first step is to develop an instrument to measure variables (Neuman, 1997:231) this takes the form of either an interview schedule or a questionnaire. The survey questionnaire is also very important in capturing quantitative, statistical data. For instance, rigorous data on informal sector earnings, longevity of the enterprises and capital resources can be obtained, through the use of this instrument. These measures are crucial in identifying the key features of informal sector enterprises. We used a pre-structured questionnaire to gather data. We divided the questionnaire into three sub-themes namely the socio-

economic and demographic characteristics of informal sector operatives, the nature and characteristics of the informal sector micro-enterprises and the part on the broader policy issues which impinge on informal sector activities.

Having discussed the necessity of using the survey questionnaire as the main data gathering instrument, we now highlight the procedures we followed in executing the study. This is particularly significant insofar as the survey questionnaire is concerned. Quantitative research is often described as “reconstructed logic” (Neuman, 1997: 331), a term employed to refer to the traditional practice amongst quantitative researchers of describing the ‘technical procedures and analytical steps they followed in executing a study’. Sharing this information is particularly important given that qualitative researchers emphasize replicability of a study (Neuman, 1997).

### **3.5.2 Questionnaire Design and the Pilot Study**

In designing the questionnaire we relied on the research objectives and the extensive literature on informal sector. However, it is axiomatic that a questionnaire can never “emerge fully fledged” but instead, it has to be “created, fashioned and developed to maturity after many abortive tests flights” (Oppenheim, 1992:47). One of the most crucial stages in this exercise is conducting a pilot study. Having ‘pilot studies’ or a ‘mini version of a full-scale study (Teijlingen & Hundley, 2001) helped us to pre-test our research instrument (the questionnaire). The intention was to “simulate the main study” (Gillham, 2000:42). Thus a pilot study is essentially “an effort at condensation of the main field work” (Oppenheim, 2000:42).

For the pilot study, we administered the questionnaire to 15 informal sector operatives in Grahamstown who gave their input with regard to the suitability of the questionnaire. This exercise was conducted in August, 2005. The aim was to “test the effectiveness of questions when asked by [the] interviewers, and to check translations...” (Prinsloo, 1982:14). The ‘lucidity’ of the questions and the ‘general flow’ of the whole questionnaire are some of the main things we were concerned with. The questionnaire was also given to lecturers in the Sociology department at Rhodes to ascertain if it would elicit the required information. Advice on the statistical aspects was also sought to ensure the ease of capturing data for statistical analysis.

After all these processes, satisfactory corrections were made to ensure that the research instrument generates 'valid' and reliable information. Whilst pilot studies are a crucial element of a good study design, conducting a pilot study does not guarantee success in the main study, but it does increase the likelihood (Teijlingen & Hundley, 2001).

### **3.5.3 Administering the Questionnaire**

In administering the questionnaire, we chose to use the personal interview approach in which "questionnaires are completed through face-to-face contact with the respondent" (Wegner, 1999:14). This is a widely used method of administering questionnaires in the developing world given the high levels of non-literacy (Raj, 1972). Thus, "very few records are kept of any kind, and many people can not think in numerical terms" and in such cases, "any data collected without the help of the interviewer is probably worthless" (Raj, 1972). It is in the light of these considerations that we saw it fit to administer the questionnaires using the face-to-face method.

Greater care was taken to ensure that questions were asked in a uniform manner so as to stick to the standardisation criterion which is a defining characteristic of survey questionnaires. Research assistants were trained on these issues and they were emphasised throughout the course of the field work. From the time of the pilot study up to the commencement of the main field work, we had weekly sessions with the research assistants. In these meetings potential problems were discussed. We also felt that it was imperative for us to use face to face interviews because this data gathering technique not only guarantees the highest response rate but it also permits the longest questionnaires to be administered (Neuman, 1997). It also allows the interviewers to observe the surroundings, the use of non-verbal communication and visual aids (Ibid.). Well trained interviewers can ask all types of questions and probe for clarifications (Neuman, 1997:253). However, high cost is the biggest disadvantage of face to face interviews. The training, travel and supervision and personnel costs for interviews can be high. Interview bias can also be high in face to face interviews. The appearance, tone of voice, question wording, and so forth of the interviewer may affect the respondent (Nueman, 1997:253).

### 3.5.4 Location of the Study

Plate 1: Makana Municipal Area

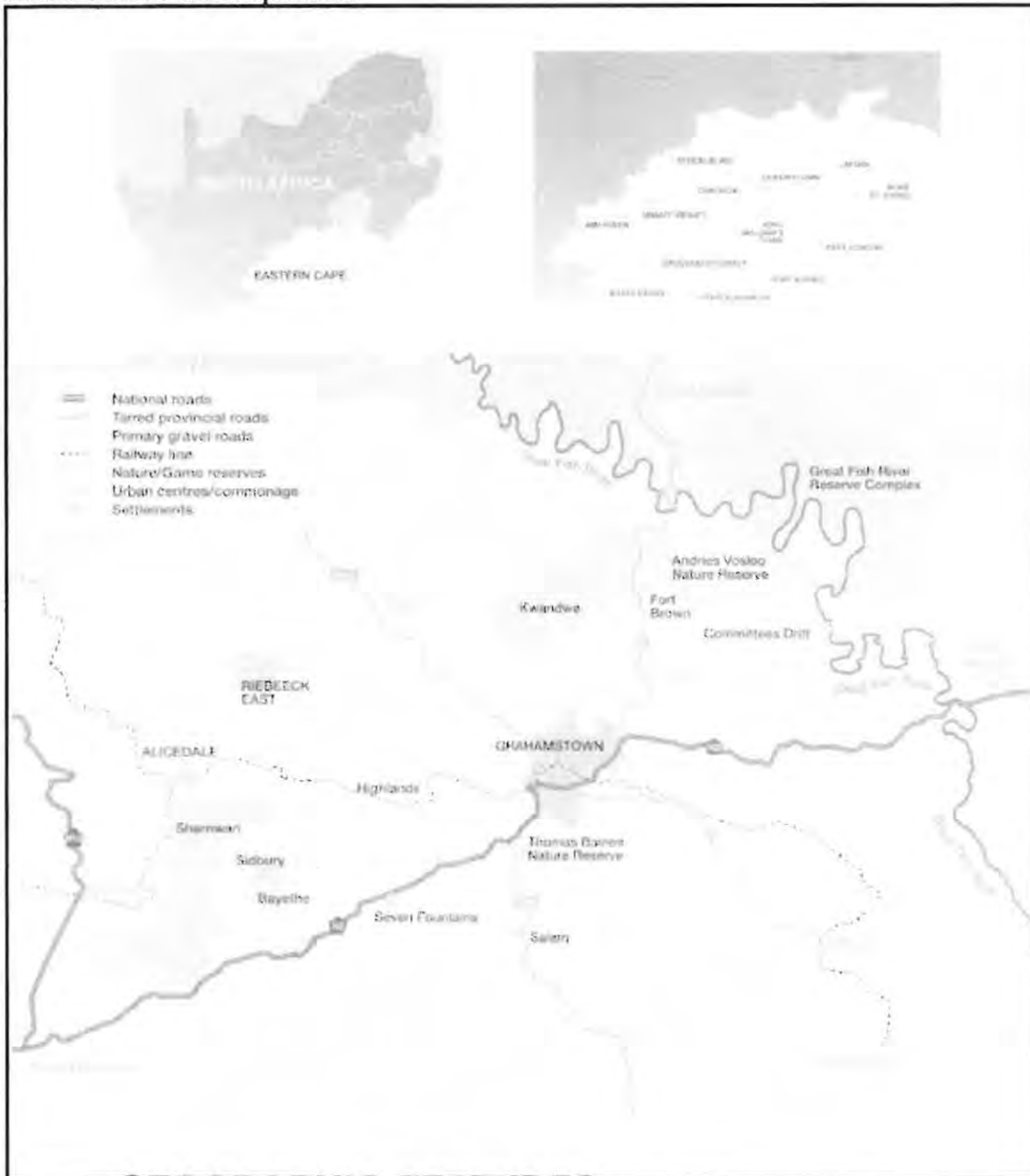


Plate 1: Map of Makana Municipality showing the three towns (Alicedale, Grahamstown and Riebeeck East). Source: Frontier Prospects. Makana Municipality. Merging Dynamics, Grahamstown, 2005.

The site of this study is Makana Municipality which is made up of Grahamstown (a historically white town) and Alicedale and Reebiek East (both former historically black towns). As part of the post-apartheid reforms these historically separate towns were integrated to form one entity. Thus, “once racially separate rural and urban areas now fall under single jurisdictions.... allowing more effective use to be made of pre-

existing administrative and technical capacity and the resources of former whites-only local authorities” (Binns, Porter, Nel & Kyei, 2005:26). In Reebiek East, the residents are largely African Blacks, while Alicedale has a mixture of both Black Africans and Coloureds.

The informal sector in Grahamstown is more visible and widespread compared to Alicedale and Reebiek East which have all the signs of ‘dying towns’. In Reebiek East for instance, there were only two informal sector enterprises in the form of spaza shops. Alicedale has a sizeable number of spaza shops. However, in both towns there are virtually no informal activities in the commercial districts. Again, this shows all the features of what Ruhiiga (2001) would classify as dying towns. There is a growing phenomenon in South Africa where Metropolitan centres show signs of growth while there is a dearth of meaningful economic activity in the small towns. Nonetheless, since the intention was to generate data on the nature and characteristics of the informal sector in the Municipal region as a whole, we chose to sample Alicedale which has a sizeable number of businesses.

### **3.5.5 The Target Population and Sampling Design**

The target population were the informal sector micro-enterprises within the Makana Municipality. In total, we surveyed 91 informal sector micro-enterprises. This was essentially an enterprise or establishment survey. With regard to Grahamstown, we employed simple random sampling. We had a list of informal sector micro-enterprises from the municipal offices. The existence of a list may seem as a discrepancy since informal sector activities are by definition unregistered and operate outside the regulatory framework. However, at the time of the study, the municipality was making deliberate efforts to compile a list of informal sector micro-enterprise activities within the municipal area. We therefore made use of this list as our sampling frame. Since the list was compiled for administrative purposes rather than for research there was need to include home based enterprises in the sample. Although some informal sector entrepreneurs on the list did not work exactly at the identified trading spots, the list was nevertheless useful as a basis for generating the final, more detailed list of 151 informal sector operatives. The availability of this list made the task of preliminary listing more manageable in terms of time and costs. In drawing up the sample, we had

to include some unregistered informal sector micro-enterprise activities onto the list<sup>6</sup>, the so called 'illegal' activities and some home-based informal sector activities mainly spaza shops which clearly are the most common form of micro-enterprise activity amongst the home-workers in the Makana municipal area. This was done to ensure greater representativeness of the sample and to allow us to confidently employ inferential statistical methods in our analysis of the data. Thus inferential statistics can only be meaningfully applied where the study sample is highly representative of the population. With the final list of micro-enterprises ready, we then chose every 2<sup>nd</sup> micro-enterprise from the list of 151 establishments. Finally, we surveyed 75 businesses in Grahamstown. Whenever we had problems securing an interview with the respondents we had previously identified, the next respondent was sampled. In Alicedale all the micro-enterprises were included in the sample simply because of the miniscule number of informal sector activities in the area. There was therefore no need to sample. As a result, 75 of the sampled micro-enterprises were from Grahamstown and the remaining 16 from Alicedale.

This study was conducted over a period of two years (2005-2006). The bulk of the fieldwork for this study was executed over a period of six and half months (from September 2005 to February 2006). The qualitative interviews continued until August, 2006. Thus, even after the major field work phase, we still conducted more interviews whenever there was need for additional information or follow-ups. This was especially necessary with the qualitative interviews. Qualitative research is thus a 'voyage of exploration' (Bryman, 1984) hence the need to continuously probe all the possible avenues on the research themes.

### **3.5.6 Quantitative Data Analysis**

We analysed the data using the Statistical Package for Social Sciences (SPSS). The SPSS software is advantageous with smaller samples and where the asymptotic assumption has been violated (data sparseness). This was made possible by the Exact Test module in the array of analytical procedures available in SPSS. We generated results of univariate, bivariate, and multivariate analyses including simple frequency

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<sup>6</sup> We used snowball sampling to identify these activities. This is a non probability sampling technique used in cases where samples are difficult to identify (Playle, 2000). Thus, we used the 'existing social networks' (Playle, Ibid) to identify the usually hidden and invisible activities like home-based work.

distribution, cross tabulation of variables and correlation matrix as well as regression analyses. We supplemented the use of SPSS with Statistica, especially in generating graphic representation of the pattern of data distribution.

### **3.5.7 Limitations of the Quantitative Survey Technique**

There are a number of limitations associated with the use of the survey technique in social research. It is generally acknowledged that the survey method is rigid to the extent that it is impossible to allow for 'unanticipated phenomena' and 'the insiders' perspective' (Babbie & Mouton, 2003 Creswell, 2003; Payne & Payne, 2004). Both of these aspects are important criteria for obtaining 'adequate scientific knowledge' from a qualitative perspective. Thus, while qualitative methods are generally criticised for their 'non-generalizability' and 'non objectivity', it is noteworthy that conventional surveys do not adequately capture the subjective experiences constructed by participants in social settings (Payne & Payne, 2004).

Payne & Payne (2004:176) point out that 'social life is so intricate and so dependent on circumstances' hence it may be problematic to reduce it to 'statistical simplifications'. The pre-structured nature of social survey questionnaires does not allow researchers to capture the "essence of social interactions" and to produce "adequate sociological accounts" (Payne & Payne, 2004:176). Conversely, qualitative methods are particularly effective in studying 'social life' owing to their "detailed, flexible, sensitive and naturalistic characteristics" (Ibid.). Preston-Whyte (1982) also argues that the survey questionnaire is inherently inadequate when it comes to the study of a very complex and elusive phenomenon like informality. This author notes that the informal sector is "simply too complex and widely ramifying for the short, unambiguous, and self-limiting questions which we are told make up a good questionnaire" (Preston-Whyte, 1982:43). Further, with the use of survey questionnaires, it is very easy to "miss whole areas of vital experience which are part and parcel of the lives of our informants but which we, coming as we do from another social milieu, simply do not anticipate" (Ibid.).

The use of a survey questionnaire may further complicate already existing problems in any research situation because of their pre-structured nature which makes them not very effective in exploratory studies. For instance, although the "class issue" has al-

ways featured in many research situations, it is particularly problematic in the study of poverty and informality “where, almost inevitably, those who formulate the questions come from a privileged and secure economic background...” (Preston-Whyte, 1982:43). However, the use of qualitative data gathering techniques in this study allowed for flexibility with the researcher spending extended periods of time in the field before and after administering the survey questionnaire.

### **3.5.8 In-depth Semi-Structured Interviews**

For this study, we employed the in-depth, semi-structured also known as the “structured life world interview” (Kvale, 1996:6) to obtain information from the individual informal sector operatives. We interviewed nine informal sector operatives. These were selected ‘purposively’, using theoretical sampling from the informal sector operatives covered in the survey. The main reason for the use of a non probability sample is that, with qualitative methods, the primary concern is to generate ‘rich’, ‘descriptive’ data. It may be difficult to obtain this kind of data through probability sampling. The other respondents besides the informal sector operatives who were interviewed through this method are the Local Economic Development Officer and the Special Programmes Unit Officer and the representative of informal sector operatives.

We sought to identify some broader universal themes from the narratives of all these respondents using the data from the in-depth semi-structured interviews. Thus, the interviews were based on some form of ‘topic guide’ or ‘interview schedule’ outlining the main themes and issues to be addressed during the interview<sup>7</sup>.

Open-ended questions, grouped into themes were, formulated to provide a flexible guideline for the interviews. Priority was given to the smooth flow of the interview process. This is different from the use of highly structured questions to be strictly adhered to throughout the interview process. We thus made use of a ‘schedule’ “sufficiently flexible to permit topics to be covered in the order most suited to the interviewee, to allow responses to be fully probed and explored...” (Legard, Keegan & Ward, 2003:141). In some instances questions were drawn from the survey questionnaire although care was taken to rid them of their rigid character so as to make sure that they yield ‘rich phenomenological’ responses. Thus, the defining characteristic

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<sup>7</sup> See interview schedule in the appendix.

of in-depth semi-structured interviews is the “small number of open ended questions which are actively and freely probed by the interviewer for elaboration” (Payne & Payne, 2004:131).

The majority of the interviews were conducted during working or business hours. Having an interview during business hours meant constant breaks while the interviewee served clients. This had to be done since locating the informal sector operatives from their homes could have been even more difficult as our experience with home-based enterprises tell. We also conducted most of our interviews the early hours of the day. At this time, business is less brisk which means less interruption of the interview process. Also, we noted that during the late hours of the day, most informal sector operatives would be tired and less responsive.

We chose the in-depth semi-structured interviews precisely because we were also interested in the personal life experiences of the respondents. The interview technique in social research is inspired by ordinary everyday conversations with the only difference being that “an interview is a conversation that has a structure and a purpose” which clearly distinguishes it from “the spontaneous exchange of views as in everyday conversation” (Kvale, 1996:6). Thus, the use of interviews also provided us with the opportunity to access the subjective experiences of our respondents through their narratives. According to Neuman (1997:371), “the field interview is a joint production of a researcher and a member”. For this reason, we allowed for flexibility as opposed to the use of rigidly structured questions. We saw the interviewees as “active participants whose insights, feelings and cooperation are essential parts of a discussion process that reveals subjective meanings” (Neuman, 1997:371).

### **3.5.9 Weaknesses of In-depth Semi-Structured Interviews**

Qualitative interviews do not constitute a proper “scientific method” because of their reliance on ‘interpersonal interaction’. With the use of qualitative interviews, it is therefore difficult to eliminate the human factor in research. It is for this reason that qualitative interviews are widely seen as ‘unscientific’, ‘lacking objectivity’ and ‘biased’ (Kvale, 1996:62). Interviews can be expensive and time-consuming especially when the respondents are spread over a wide geographical area (Kumar, 1999:115).

The researcher may add his or her bias in framing the questions and during the interpretation of data.

### **3.5.10 Focus Group Discussions and (Semi-structured) In-Depth Interviews**

We conducted focus group sessions with four groups. Each group had four informal sector operatives. We choose smaller groups because these are easy to manage relative to larger groups. Participants were chosen using theoretical sampling, a non probability sampling technique. This method of sampling is theory driven in that “it necessities the building interpretive theories from emerging data and selecting a new sample to examine and elaborate on this theory” (Marshall, 1993:523). Accordingly, we recruited “groups that are defined in relation to the particular conceptual framework of the study, a theoretical sample” (Ibid.). The focus groups were segmented in terms of gender and economic activity.

The practical organisation of FGDs can be challenging. It is not always easy to bring different people with different schedules at the same place and same time. We informed the focus group participants about the sessions at least four weeks before the meetings. We also made it a point to explain the purpose of the focus group sessions so as to ensure ‘informed consent’ and for ethical reasons. During the discussions, some degree of ‘control’ was imperative to guard against the domination of discussions by assertive and articulate participants at the expense of the shy and reserved individuals. Some respondents were less confident. The moderator constantly made sure that all the participants contributed during the discussions. We did not allow a few individuals to dominate the discussions. This was however done without rigidly controlling the discussions as this may have stifled the ‘spontaneous’ nature which the FGDs should essentially assume. It was also necessary to ensure that the discussions remained relevant to the research theme.

The use of FGDs in our study was necessitated by a number of considerations. Our main aim in deploying this data gathering instrument was to gain some insight in people’s opinions about their work in the informal sector. Most importantly we used this tool to gather information on the general feelings and attitudes of the informal sector operatives concerning their relations with the authorities and suppliers. FGDs proved to be useful in allowing for a robust exchange of views amongst the participants on

issues that affect them, directly or indirectly. Putchá & Potter (2004:47) argue that ‘a focus group is a situation of freedom’. By shifting the interview process from an interaction between the interviewer and the interviewee to an interaction amongst respondents FGDs break down the ‘power relationship’ that naturally characterises the interview method. In fact, FGDs ‘democratise the process’ with the result that “more naturally occurring language will result in what still remains a socially contrived situation” (Wilson, 1997:217). During the discussions, participants tended to agree on many issues which affect them in their work as informal sector operatives. Focus groups allow respondents to react to and build upon the responses of other group members. This ‘synergistic’ effect of the group setting may result in the production of data or ideas that might not have been uncovered in individual interviews (Stewart & Shamdasani, 1990:16).

Whereas there are many advantages of using FGDs, the above prove to be the most salient for our study.

#### **3.5.11 Limitations of FGDs**

While there is a tendency towards conformity in FGDs, they are far less controlled than in individual interviewing (Morgan, 1997:16). This freedom can be a problem for the moderator. There is not full control by the researcher as is the case with survey questionnaire. It is not unusual for respondents to “go off message” in instances where there is limited control (Putchá & Potter, 2004:47). It should not be assumed that the individuals in a focus group are expressing their own definitive individual view. They are speaking in a specific context, within a specific culture, and so sometimes it may be difficult for the researcher to clearly identify an individual message. This too is a potential limitation of focus groups (Gibbs, 1997).

#### **3.5.12 Qualitative Data Analysis**

The rich phenomenological data from the qualitative interviews and the focus group discussions was analysed differently. Qualitative data analysis involved constant interaction with the data to tease out the main themes. Thus, we chose content analysis as our technique of analysing the qualitative data from (semi-structured) in-depth interviews and focus group discussions. According to Hsieh & Shannon (2005:1278) content analysis is “a research method for the subjective interpretation of the content

of text data through the systematic classification process of coding and identifying themes or patterns”. We organised interview excerpts from transcripts into categories. This was followed by searching for connecting threads and patterns among the excerpts within those categories, also known as themes (Seidman, 1998:107). Precisely, meanings of the discussions were drawn, coded and categorised into themes using the grounded theory (Strauss & Corbin, 1990). Seidman (1998: 99-100) argues that “reducing the interview data is done inductively rather than deductively”. We adopted this approach to avoid imposing our own ‘theories’ and worldviews’.

### **3.5.13 Some Observations and Experiences in the Field**

Some observations made during the fieldwork are worth mentioning. Firstly, gender dynamics were evident throughout the research. In most instances, men tended to interject when a female informal sector operative was being interviewed. Interestingly, women rarely intruded when a male participant was being interviewed. Instead they would watch keenly from a distant.

Secondly, it was noted that most of the people in Grahamstown and the surrounding areas are now research fatigued. While not resentful of researchers, there was concern that several research endeavours on issues of poverty and unemployment, etc. had been done within the locality yet very little is being done to effect changes. The feeling was that people narrate their ‘life stories’ to the researchers in vain. We also noted that the informal sector operatives operating unregistered activities were quite hesitant to be interviewed. The main reason was fear of harassment by the authorities.

In conclusion, it is noteworthy that we made use of both the qualitative and quantitative research methods with the aim of finding well rounded answers to the research questions of the thesis. This is line with Kvale’s (1996:69) argument that “qualitative and quantitative methods are tools, and their utility depends on their power to bear upon the research questions asked”. Precisely, research should be problem-driven instead of being method-led.

## CHAPTER 4 NATURE AND CHARACTERISTICS OF THE INFORMAL SECTOR

### 4.1 Introduction

In the preceding chapter, we discussed the methodology of the study with particular emphasis on the steps and procedures followed in gathering the empirical evidence. In this chapter, we present the findings of the research. In presenting the data, we have subdivided our findings into three subsections. With the first section, the focus is on the socio-economic and demographic characteristics of the informal sector operatives. The second section specifically focuses on the enterprises. In this section we present aspects on the nature and characteristics of the informal sector micro-enterprises.

In the next chapter, we go beyond the informal sector entrepreneurs and enterprises. It is there that we present evidence which has to do with the relationship between the informal sector and the broader environment. We specifically look at the evidence on the inter-sectoral linkages and the policy as well as regulatory issues which affect the sector directly or indirectly. With regard to the data, it is suitable to begin with the descriptive statistics before applying other statistical tests. Quite clearly, the nature of statistical analysis required will depend on the variable under discussion. Thus, for all the variables presented in the three sections, the starting point is the generation of descriptive statistics. However, for a more meaningful analysis we have also gone beyond the descriptive aspects of the empirical findings by using different statistical tests to make sense of relationships which may exist between different variables. The inferential statistics is based on such analyses as the cross tabulation analysis, the analysis of variance, correlation and regression analysis.

We also draw from 'rich qualitative data' we obtained through the phenomenologically-oriented methods namely in-depth semi-structured interviews and FGDs to 'give flesh and blood' to the numbers. The qualitative data will be very significant in making sense of the emerging trends and patterns as we analyse the quantitative, statistical data.

## 4.2 The Informal Sector Operatives

In this section we examine the socio-economic and demographic characteristics of the informal sector participants. We present data on such the variables as the age, gender, race and educational attainments of the informal sector operatives. Particularly significant is the need to make sense of some of these variables, for instance, the educational attainments of the informal sector operatives against the traditional conception of the sector as peopled by the 'illiterate' and 'less educated'. Thus, the informal sector has often been characterised as a 'wasteland of surplus labour' (Pisani & Pagan, 2004) with people who have 'inferior employment enhancing characteristics' (Kingdon & Knight, 2004).

### 4.2.1 Age of the respondents

The average age for the informal sector operatives is 43 years and the modal age is 48 years whilst the median is 42<sup>8</sup>. What is important to note however is that the number of young people involved in informal activities is quite small with only about 13 percent of the informal sector operatives falling under the age 30. Of these only one is below 20 years of age. Most of the informal sector operatives surveyed were owner-operators which may explain the virtual absence of young people in our sample. However, the survey could not have failed to capture activities by young people in the sector since we had questions on employment arrangements and apprenticeship. If young individuals do not feature as proprietors, they are likely to participate in the sector as employees or apprentices. From the data, it is clear that there is no significant employment generation and apprentices are also virtually absent in our sample. The lack of meaningful participation by young people either as employees or apprentices is linked to the small proportion of manufacturing activities in our sample (2.2<sup>9</sup>%). Manufacturing, relative to retailing for instance, is associated with the hiring of labour and apprentices.

The reason for lack of participation in the sector by young informal sector operatives as owner-operators can be located in difficulties in mobilising capital resources. The majority of the surveyed informal sector operatives rely on informal sources of fi-

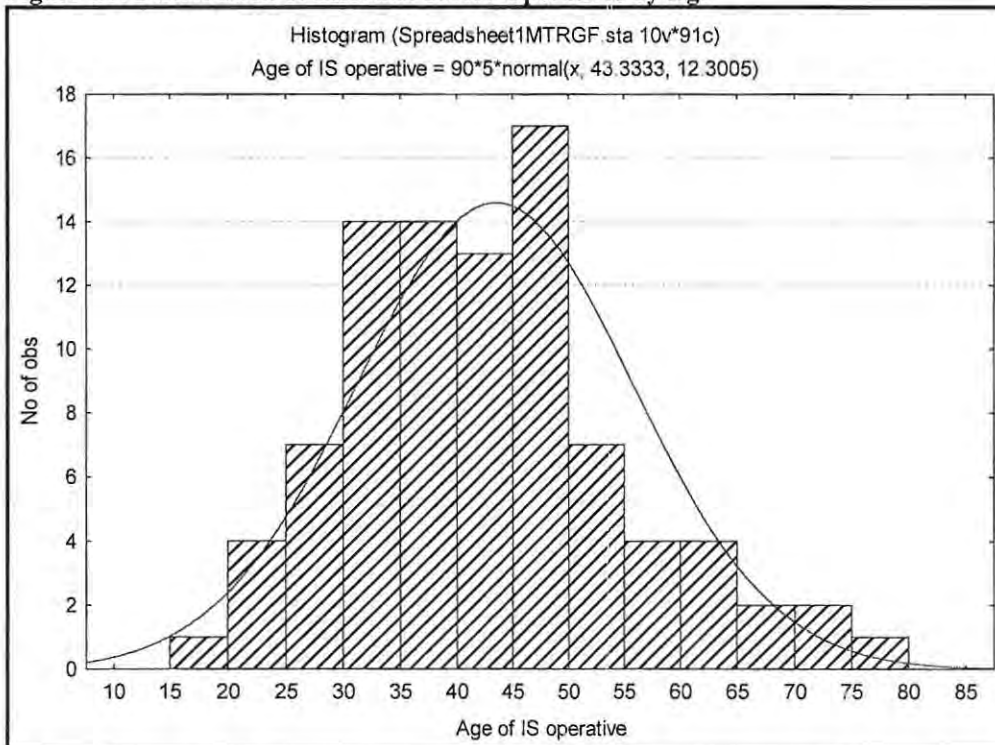
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<sup>8</sup> The value of skewness for age (.588) does not fall within the range of -0.508 to + 0.508 and this suggests a positive skew.

<sup>9</sup> All figures are rounded off to the first decimal place.

nance. Even through these social networks, the informal sector operatives seem to be mobilising only small amounts of capital resources<sup>10</sup>. Access to institutionalised credit is very limited. Kingdom & Knight (2004) have argued that lack of financial commitments by young people means they are less compelled to work in the informal sector. Also, it could be that young people still have hopes of obtaining jobs in the formal sector hence their virtual absence informal sector activities (Ibid.). We can not make a robust argument on these assertions since it is beyond the capabilities of our survey. While these arguments are to some extent valid, we note that problems in mobilising capital resources are more significant in this study. Cohen (2000:14), in a survey of Mongolia's informal sector, argues that "younger workers have not generally acquired the experience, resources and skills necessary to move into self-employment". With the relatively older informal sector operatives in our sample having problems in mobilising capital resources, it can only be worse for the young, prospective participants.

**Figure 4.1: Distribution of Informal Sector Operatives by Age**

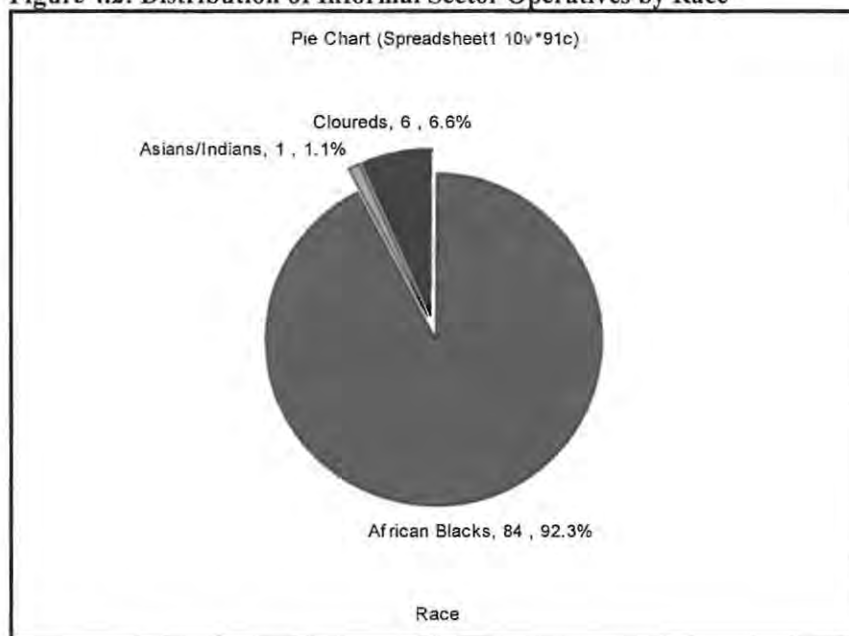


<sup>10</sup> While the average initial capital used by the sampled businesses is R1 417.0 (S.D =R3 655.1), this distribution on initial capital is much skewed. More than half of the informal sector operatives (63.73%) used less than R500 rands for start-up (initial capital).

#### 4.2.2 Race

Race is an important socio-economic variable considering South Africa's apartheid past. In Fig 4.2 the distribution of informal sector operatives by race shows that African Blacks<sup>11</sup> constitute the majority of the respondents (92.3%). The percentages for the other racial groups are very miniscule. Coloureds constitute a mere 6.6 percent and Indians/Asians make up the remaining 1.1 percent. Particularly interesting however is the absence of white informal sector operatives in our study. This is reflective of the broader trends in South Africa's labour market. In an insightful analysis of insertion of people from different racial groups into South Africa labour market, Kingdon & Knight (2004:207) argue that the predominance of Black Africans in South Africa's informal sector is a direct result of the 'inequitable distribution of unemployment'.

**Figure 4.2: Distribution of Informal Sector Operatives by Race**



While the same can be said of the other historically disadvantaged groups (Coloureds and Indians), the problem is particularly evident amongst African Blacks. Kingdon & Knight (2004:207) further note that, "owing to the historical policies restricting mobility unemployment is 'catastrophically high amongst Africans' (41 percent by broad definition in 1994) and only half that rate among the next worse-off racial group (coloureds)". This trend is attributed the "lower levels of employment-enhancing charac-

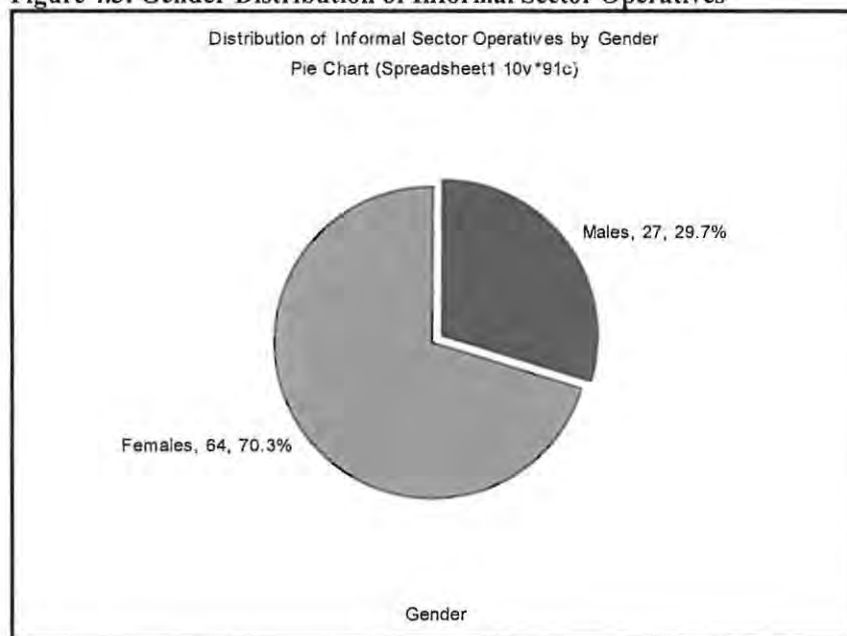
<sup>11</sup> We have used these categories in the context of official classification of the population.

teristics such as education” (Kingdon & Knight, 2004). Thus, there was discrimination in the schooling system, with Africans being subjected to poorer access to, and quality of, education. The spatial laws of apartheid also had the effect confining Black Africans to ‘areas of high unemployment’. All this has meant that Africans have limited chances to work in the formal sector hence their preponderance in the informal sector of the economy. Besides the incident of ‘pre-labour market discrimination,’ there is also the possibility of individuals being discriminated against on racial grounds although the impact of this variable may be difficult to measure (Kingdon & Knight, Ibid.).

#### 4.2.3 Gender and the Informal Sector

We have noted that a huge percentage of African Blacks work in the informal sector relative to other racial groups. However, the gender distribution of informal sector participants shows that the majority (70.3%) of the participants are women

**Figure 4.3: Gender Distribution of Informal Sector Operatives**



while men constitute a smaller proportion (29.7%). The statistical result of the cross tabulation of gender and type of economic activity in table 4.1 reveals interesting and statistically significant patterns<sup>12</sup>. It is significant to note that no male informal sector

<sup>12</sup> Testing for the relationship between the gender of the informal sector operative and they type of economic activity, a Chi-square of 13.598, df=4, Monte Carlo p-value (0.00870) is obtained. This means that there is relationship between gender and type of economic activity. We opt for the results under Monte Carlo because the data is not asymptote compliant.

participants operating fixed stalls or involved in mobile hawking were recorded in this survey. Instead, there is a huge concentration of males amongst shop owners who constitute 66.7 percent of those operating this type of business. Another 25 percent of the males are in street trade whilst the remaining 7.4 percent are involved in manufacturing activities.

Conversely, women are absent in manufacturing activities and there is a proportion of 40.6 percent females operating shops and the same figure for females in street trade.

**Table 4.1: Gender and Type of Activity**

Crosstab								
		Type of Business					Total	
		Fixed Stall	Manufacturing	Mobile Hawker	Shop	Street Trader		
Gender	Male	Count	0	2	0	18	7	27
		% within Gender	.0%	7.4%	.0%	66.7%	25.9%	100.0%
		% within Type of Business	.0%	100.0%	.0%	40.9%	21.2%	29.7%
	Female	Count	11	0	1	26	26	64
		% within Gender	17.2%	.0%	1.6%	40.6%	40.6%	100.0%
		% within Type of Business	100.0%	.0%	100.0%	59.1%	78.8%	70.3%
Total		Count	11	2	1	44	33	91
		% within Gender	12.1%	2.2%	1.1%	48.4%	36.3%	100.0%
		% within Type of Business	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Chi-square = 13.598, p = 0.004

When the different informal sector activities are further grouped into the three economic sub-sectors, that is manufacturing, services and catering and trade, interesting trends in gender distribution of the informal sector operatives emerge.

**Table 4.2: Statistics for table of gender by type of economic activity**

Chi-Square Tests									
	Value	df	Asymp. Sig. (2-sided)	Monte Carlo Sig. (2-sided)			Monte Carlo Sig. (1-sided)		
				Sig.	99% Confidence Interval		Sig.	99% Confidence Interval	
					Lower Bound	Upper Bound		Lower Bound	Upper Bound
Pearson Chi-Square	13.598 <sup>a</sup>	4	.009	.004 <sup>b</sup>	.003	.006			
Likelihood Ratio	17.024	4	.002	.001 <sup>b</sup>	.000	.002			
Fisher's Exact Test	13.076			.004 <sup>b</sup>	.002	.006			
Linear-by-Linear Association	.677 <sup>c</sup>	1	.411	.470 <sup>b</sup>	.457	.483	.241 <sup>b</sup>	.230	.252
N of Valid Cases	91								

a. 5 cells (50.0%) have expected count less than 5. The minimum expected count is .30.  
b. Based on 10000 sampled tables with starting seed 2000000.  
c. The standardized statistic is -.823.

Specifically, Black African women predominate in the informal sector particularly the trade and catering sub-sector. Thus, they constitute 92.7 percent of the informal sector

operatives working in the catering and trade sector. Coloured women make up the remaining 7.3 percent. Similar findings were obtained in Cichello's (2005) study of self-employment in Khayelitsha where the majority of the self employed workers were Black African females (59.0) percent. The figure for Black African males was 23.7 percent and for Coloured males it was 8.8 percent. While it is generally the case that many micro-enterprises in Africa and Latin America are owned and operated by women (Liedholm, 2002:230), we note that South Africa's Black African females predominate in the informal sector relative to other racial groups.

#### **4.2.4 Gender and the Informal Sector**

From the above, certain patterns and trends based on the gender are already emerging. Gender is thus an important socio-economic variable insofar as it determines the manner in which men and women are able to insert themselves into the different segments of labour market. This notwithstanding, it needs to be pointed out that 'gender distinctions' have to be empirically tested rather than assumed (Sainz & Larin, 1994). It is often assumed that women find themselves operating in the unproductive margins of both segments of the labour market, that is, the formal and informal sector (Sainz & Larin, 1994; Glick & Sahn, 1997). The descriptive statistics seems to confirm the assumption that women tend to participate in the traditional activities of the informal sector, for instance street trade. However, further analysis to examine the nature of relationships that exist between gender and different variables is necessary. This will not only allow for the use of inferential statistics but it will also give pointers in examining some of the widely held views on the disadvantaged position of women in different productive activities within the informal sector.

#### **4.2.5 Gender, Initial Capital, Longevity and Monthly net Earnings**

Using the T-test of independence, we tested for gender differences on such variables as the initial capital, longevity, and monthly net earnings of informal sector operatives. On initial capital, the assumption is that there is a difference in the size of the initial capital along gender lines. Specifically, males are more likely to have a higher initial capital outlay relative to females. There are some reasons to explain this assumption. Firstly, it is often assumed that women have limited access to capital resources (Jiggins, 1989; Buss, 1999). Secondly, women tend to participate in precarious activities which fundamentally involve very low capital requirements as opposed

to men who predominate in the productive activities of the informal sector (Liedholm, 2002:230; Wilson, 1998a). These reasons are equally valid in explaining the widely held assumption that women working in the informal sector have lower earnings relative to their male counterparts.

On longevity, it is argued that women owned and operated micro-enterprises tend to be more vulnerable relative to their male-headed counterparts (Liedholm, 2002:233). Females may also go into business to supplement household income and not necessarily with the aim of profit maximisation and long-term survival. A shorter life expectancy for women-headed micro-enterprises could also be a result of non-economic factors such as the involvement of women in the domestic sphere at the expense of spending time at the business. This may negatively affect a business' viability and therefore limit its chances for long-term survival. The Levene's test for the variables initial capital and longevity shows that the variances are homogenous. This therefore means that there are no statistically significant differences between the means of both males and females on the two variables (longevity and initial capital).<sup>13</sup>

**Table 4.3: Levene's Test of Equality of Variances**

		Independent Samples Test									
		Levene's Test for Equality of Variances		t-test for Equality of Means						95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper	
Initial Capital	Equal variances assumed	.131	.719	.928	88	.356	781.00529	841.40730	-891.115	2453.125	
	Equal variances not assumed			1.099	74.249	.275	781.00529	710.84524	-635.306	2197.316	
Monthly Net Earnings	Equal variances assumed	.025	.876	2.696	86	.008	604.65452	224.31933	158.72246	1050.587	
	Equal variances not assumed			2.761	52.794	.008	604.65452	219.02442	165.30725	1044.002	
Longevity	Equal variances assumed	.232	.631	-1.458	89	.148	-2.38281	1.63374	-5.62903	.86340	
	Equal variances not assumed			-1.409	45.451	.166	-2.38281	1.69132	-5.78837	1.02274	

Conversely, Levene's test for monthly net earnings is statistically significant ( $p < 0.01$ ) which means that the homogeneity assumption has not been met. Thus, males have higher net earnings than females, with a positive difference of R 604.6. The possible explanation for this pattern is that the majority (60.4%) of women are involved in the catering/trade sub-sector whilst only 9.9 percent of men are found in this

<sup>13</sup> For Monthly Net Earnings,  $t(86)=2.696$ ,  $p=0.008$ ; initial capital,  $t(88)=0.928$ ,  $p=0.356$ ; Longevity,  $t(89)=-1.458$ ,  $p=0.148$

sub-sector. Thus, the role of the sector of economic activity could explain the differences in the 'gender earnings gap'. In instances where "female-headed micro enterprises are overrepresented in low profit-margin sectors and underrepresented in high profit-margin sectors then part of the gender earnings gap could be attributed to male-female differences in sectoral distributions" (Pagan & Sanchez, 2001:7).

Considering the classification of informal sector activities adopted in this study, the catering/trade sub-sector includes all the traditional activities like street trading where people sell fruits and vegetables as well as cooked food. Fixed stalls also form part of this sub-sector. These trends are consistent with the findings in some studies where it has been noted that women tend to predominate not just in the informal sector in general but in those sub-sectors of the informal sector traditional activities, e.g. selling cooked food in the streets. In this study we also found that many of the women tend to sell the same type of foodstuffs. The reason for the lack of diversity in the foodstuffs they sell is that they opt for the cheapest products available. The most common type of meat for those selling cooked food is sheep heads (mutton) and also fatty beef of a lower grade.

Thus our data reveals that women form the bulk of those in street trading. It is also important to note that all the informal sector participants operating fixed stalls are female.

**Table 4.4: Type of activity and monthly net earnings**

Activity	N	Mean	Monthly Std.Dev	Net Std.Err	Earnings (Rands)	
					-95%	+95%
Manufacturing	2	965.0	190.9	135.0	-750.3	2680.3
Mobile Hawker	1	260.0				
Fixed Stall	11	359.4	229.2	69.1	205.4	513.4
Shop	44	1691.9	1061.8	160.0	1369.0	2014.7
Street Trader	30	603.6	564.72	103.1	392.8	814.5
<b>All</b>	<b>88</b>	<b>1121.5</b>	<b>1004.7</b>	<b>107.1</b>	<b>908.6</b>	<b>1334.4</b>

F = 13.01, p = 0.0005

Data in table 4.4 demonstrates that the two activities rank the lowest in terms of mean monthly earnings. More often than not these activities are extensions of the women's

domestic work. Such activities are essentially characterised by low investments and consequently ease of entry, that is, relative to the productive segments of the informal sector. It is however significant to note that women are not always trapped in the unproductive segments of the informal sector. To some extent the difference in earnings points to their preponderance in the traditional informal sector activities. However, there is no gender differentiation in terms longevity and initial capital. Lack of adequate capital resources, for instance, is a problem for all informal sector operatives. There is no evidence to suggest that this problem may be exacerbated by gender.

#### 4.2.6 Educational Attainment of Informal Sector Operatives

Some studies have found educational attainments in the informal to be very low (Pearce, Kujore & Agboh-Bankole, 1988). The results from this study are not consistent with such findings.

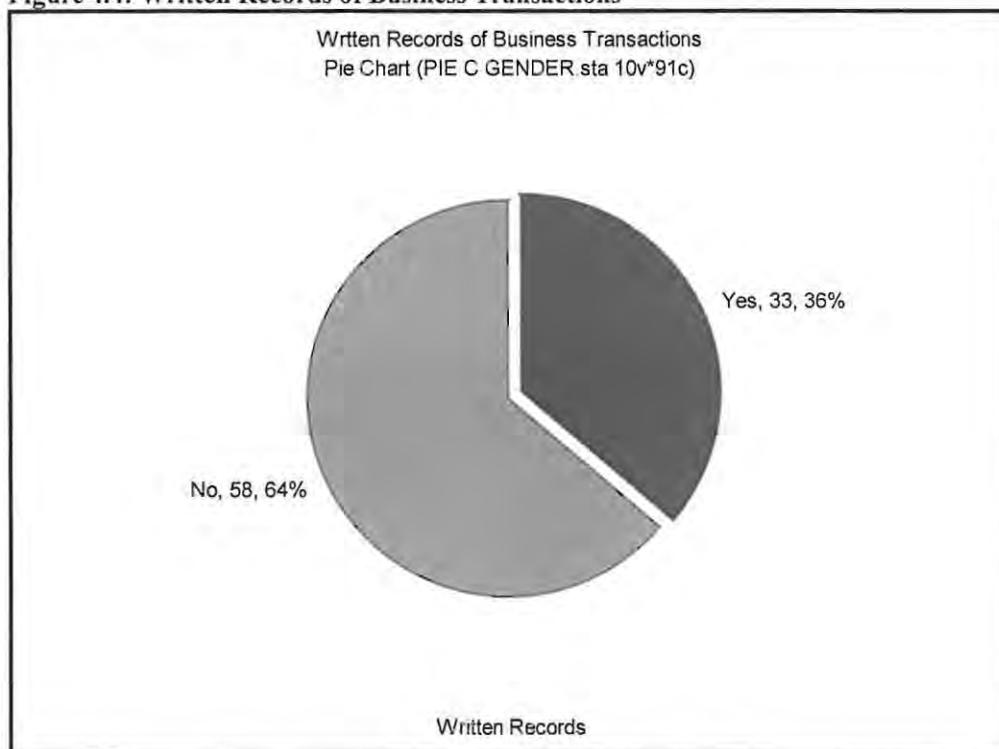
**Table 4.5: Distribution of Informal Sector Operatives by Educational Attainment**

		Sub-Sector			
Education		Trade	Manufacturing	Services	Total
Count	No School	11	0	0	11
%		15.9%	0.0%	0.0%	12.0%
Count	Primary	22	1	5	28
%		31.9%	50.0%	25.0%	30.7%
Count	Secondary	36	1	15	52
%		52.2%	50.0%	75.0%	57.1%
Count	All Groups	69	2	20	91
<b>To- tal</b>	<b>Percent</b>	75.8%	2.2%	22.0%	100%
		Chi-square =	27.69001	df = 3, p =	0.000

Evidence shows that 12.0 percent of the informal sector participants have no schooling while 30.7 percent have primary schooling and 57.1 percent informal sector participants have secondary education and of these only four individuals had tertiary education. Table 4.5 shows how educational attainments cross-tabulate with different sub-sectors of the informal sector. What is particularly interesting is the absence of informal sector operatives with no schooling in the services sub-sector. It appears that the relatively educated informal sector operatives predominate in the services sub-sector. Specifically, the majority of informal sector operatives (75%) with secondary education are in the services sub-sector. Conversely, our data shows that those informal sector operatives with no schooling rarely participate in this sub-sector.

Lower educational attainments are often cited in explaining the failure by informal sector operatives to keep written records of business transactions. Nihan, Demol & Jondoh (1979:636) in their study of the informal sector in Lome, attribute the lower standards of technical and financial management and bookkeeping amongst informal sector participants they surveyed to inadequate education and training. As indicated in Fig 4.4, the majority (64%) of the informal sector entrepreneurs did not keep written records of their business transactions. However, we can not cite lower educational attainments to explain the failure to keep written amongst the informal sector operatives in our study. Informal sector operatives with no schooling are a minority (12.9%) in our sample while over (50%) have secondary education.

**Figure 4.4: Written Records of Business Transactions**



With most of the informal sector operatives, there are markedly numerous movements of money and other resources between the business and the household. This happens in a quite unsystematic fashion which is at variance with the conventions of business management where the separation of production and reproduction is a fundamental requirement. Ntombizabo, a female informal sector operative, for instance noted that as long as one is sure that one is not making heavy losses, keeping strict records of remains a mind-numbing task. Keeping business transactions is an exception rather

than the norm (Interview<sup>14</sup>, 2006). Ntombizabo spends the whole day at her stand. Her three children are still at school. Everyday after school, their first stop is at their mother's business site where they are expected to help out. This is where they have their lunch, mostly drawing from the business. At the end of the business day, the family packs up their wares, buys a few household requirements if needed and goes home (Field notes, 2006).

In such cases, we are dealing with poor households who are trying to earn a livelihood in the informal sector. The often 'messy' flow of money and other resources between the household and the business makes the systematic booking-keeping requirements associated with conventional business methods virtually impossible and burdensome. We have many informal sector operatives predominating in the lower segments of the sector. What tends to happen is that the division between production and reproduction is blurred as opposed to the 'Western (Northern) based dichotomisation' which sees these two spheres as separate (Hay-Mitchell, 1993).

**Table 4.6: Educational Attainment and Monthly Net Earnings**

Education	N	Monthly Net Earnings				
		Mean	Std.Dev	Std.Err	-95%	+95%
No Schooling	11	547.27	685.61	206.72	86.67	1007.87
Primary	27	962.48	943.69	181.61	589.17	1335.79
Secondary	50	1333.82	1044.09	147.66	1037.09	1630.55
<b>All</b>	<b>88</b>	<b>1121.57</b>	<b>1004.79</b>	<b>107.11</b>	<b>908.67</b>	<b>1334.46</b>

F = 3.43, p = 0.04

We also applied a statistical test to ascertain if there are any differences the level of educational attainment between the male and female informal sector operatives<sup>15</sup>. On the surface, it may appear as if men have more chances of getting employed in the formal sector. The results ( $p > .05$ ) of the statistical test show that there is no difference between the two gender groups in terms of their educational attainments. Differences in educational attainments do not necessarily explain the preponderance of

<sup>14</sup> Interview with Ntombizabo, Grahamstown.

<sup>15</sup> With a Chi-square of 0.9395,  $df=2$  and an associated significance level of 0.6251 it appears that the data is consistent with null hypothesis. There is strong evidence against the alternative hypothesis in favour of the null hypothesis.

women in the informal sector in our study. It seems that this is a result of the legacy of migrant labour. Men were forced leave their homes to seek wage employment in the capitalist industries. Even today, this trend persists with men going to bigger cities or metropolitan areas to seek employment. Women are left to fend for the family and this often involves working in the informal sector.

We also tested for statistical significance between education and such variables as monthly earnings and sector of economic activity. The analysis of variance for variable net profit by level of education shows that education correlates with the level of earnings. There are statistically significant differences in monthly earnings of informal sector operatives which can be explained by the differences in educational attainments.

**Table 4.7: Mean Monthly Earnings by Sub-sector**

Sub-Sector	N	Monthly Mean	Net Std.Dev.	Earnings Std.Err	Earnings (Rands)	
					-95.00%	+95.00%
Trade	66	1015.4	972.5	119.7	776.3	1254.5
Manufacturing	2	965.0	190.9	135.0	-750.3	2680.3
Services	20	1487.4	1096.5	245.1	954.1	2000.6
88	88	1121.5	1004.7	107.1	908.6	1334.4
<b>All</b>						
F= 21.43920		p = 0.001				

From table 4.6, we note that the highest earners are informal sector operatives with secondary education whilst the lowest are the informal sector operatives with no schooling. Ranking in the middle are the informal sector operatives with primary schooling whose mean monthly earnings are R 931.6. Indeed, informal sector participants with no schooling do not own service outlets which are associated with higher returns. Table 4.7 presents data on mean monthly earnings by sub-sector and service outlets have the highest average followed by the trade and catering sub-sector. The manufacturing sub-sector has the lowest mean monthly earnings.

#### **4.2.7 Apprenticeship and Skills in the Informal Sector**

One other significant aspect with regard to skills in the informal sector is that of apprenticeship. Apprenticeship is an important means by which informal sector operatives gain skills outside of the formal training institutions. This system seems to be

convenient in terms of costs and also because it often takes place within the trainee's own cultural context. However, most significant is the fact that apprentices tend to predominate in the manufacturing activities which might be the reason why there are very few (in only 3.30 percent of the micro-enterprises) such arrangements in this study where manufacturing activities form a very small (2.20 percent) part of the sampled informal sector activities.

**Table 4.8: Average age: Gender, Education, Further Training and Sub-sector**

Gender	N	Mean	Age (Years)			
			Std.Dev	Std.Err	-95%	+95%
Male	27	36.1	9.8	1.9	32.2	40.0
Female	63	46.4	12.0	1.5	43.4	49.4
<b>All</b>	90	43.3	12.3	1.3	40.8	45.9
<b>Education</b>						
No Schooling	11	54.7	12.9	3.9	46.0	63.4
Primary	28	48.2	12.3	2.3	43.4	52.9
Secondary	51	38.2	9.24	1.3	35.6	40.8
<b>All</b>	90	43.3	12.3	1.3	40.8	45.9
<b>Further Training</b>						
Yes	27	40.9	10.6	2.0	36.7	45.0
No	63	44.4	12.9	1.6	41.1	47.6
<b>All</b>	90	43.3	12.3	1.3	40.76	45.91
<b>Sub-sector</b>						
Trade	68	45.2	12.0	1.4	42.3	48.1
Manufacturing	2	45.0	18.4	13.0	-120.1	220.1
Services	20	36.6	10.9	2.4	31.6	41.7
<b>All</b>	90	43.3	12.3	1.3	40.8	45.9

Age and gender F-statistic = 786.73, p = 0.00; Age and education F = 14.81, p = 0.00; Age and further training F = 1.53, p = 0.21; Age and sub-sector F = 4.05, p = 0.02.

We also probed if the informal sector operatives possessed any skills besides their formal education. It emerged that more than half (65.8%) of the informal sector operatives do not possess other skills besides their formal education and only 34.1 percent do possess some skills. When asked as to what skills the informal sector operatives or their employees would require in expanding their business the majority (70.3%) of the respondents indicated that they did not need any additional skills. The lack of interest in further training amongst the informal sector operatives is worth probing. Primarily, this is linked to the fewer number younger informal sector operatives surveyed. However, many other factors related to this problem need to be teased out. The virtual absence of younger informal sector operatives in the survey is in itself significant. Nevertheless, there are equally significant issues noticeable in the data on average age

and such variables as sub-sector, educational attainments and gender. Table 4.8 shows that the F-statistic for the age of informal sector operatives and a number of different variables is significant. In terms of mean age, older informal sector operatives tend to participate more in the trade sub-sector and less in the services sub-sector. Data on mean age also reveals that the relatively older informal sector operatives have lower educational attainments and the opposite is true with younger informal sector operatives.

Our data also shows that women have a high mean age compared to men. From table 4.8, the relatively young people in terms of mean age, tend to work in a lucrative sub-sector<sup>16</sup> (services), and have higher educational attainments. As we previously demonstrated in Table. 4.6, those with higher educational attainments are the highest earners. What we have in this study is a minority of young individuals operating lucrative businesses and older people more likely to be female with less attractive features like lower earnings and a tendency to participate in less lucrative sub-sectors. There are some signs that most of the informal sector participants we are dealing with fit into House's (1987) characterisation of lower-end activities, 'community of the poor'.

Considering the above, the lack of interest in further training should not necessarily be seen a lack of entrepreneurial acumen amongst the informal sector operatives we surveyed. The idea of entrepreneurship and attaining entrepreneurial skills are in vogue. Entrepreneurial skills are seen as the basis for employment generation (Global Entrepreneurship Monitor, 2004). While the 'entrepreneurial skills' are important, the issue is that it is difficult to understand the informal sector activities at the lower end of the sector through such a category. The reasons given by most of the informal sector operatives for participating in the sector attest to this. Most of the informal sector participants rarely spoke of their participation in the sector in terms of 'entrepreneurship', 'capital accumulation', e.t.c. During the field work, some of the informal sector operatives frequently mentioned things like the need to survive and earn an honest living as reasons for participating in the sector. Naituli, Wegulo & Kaimenyi (2006:11) in their study of the informal sector in Meru, Kenya found that the participants saw success in terms of "personal integrity and survival". Frequently, those who do not fit the defini-

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<sup>16</sup> This sub-sector also has the highest average initial capital used.

tion of 'dynamic entrepreneur' have come to be characterised as 'necessity entrepreneurs' (DBSA, 2005).

#### **4.2.8 Motivation to Start-Up Business**

It is not enough to examine the socio-economic and demographic characteristics of informal sector operatives. Equally important is the discussion of the socio-economic reasons for individuals joining the informal sector. The reason for joining the informal sector is very important since it almost always determines the nature of activity the informal sector operative will pursue. What is particularly significant is that those who voluntarily go into informal sector employment often form part of the productive segment of the informal sector. Conversely, informal sector operatives who involuntarily join the sector for reasons which may include the need to survive frequently find themselves in the lower echelons of the sector.

Evidence from the survey reveals that an overwhelming majority of the informal sector operatives interviewed joined the informal sector 'involuntarily'. On the reasons for joining the sector, nearly half of the informal sector operatives (42.9%) cited the need to survive as the main factor. Other reasons (in order of importance) are failure to find a job in the formal sector (31.9%), retrenchment (15.4%), to generate income (5.5%) and to accumulate capital (4.4%). It goes without saying that the kind of informal sector participants who predominate in this study are the 'necessity entrepreneurs', those individuals who find themselves in informal work due to push factors. These kinds of activities can be viewed as the 'necessity entrepreneurship' which is triggered by the need to survive as opposed to the identification of productive opportunities in the economy (GEM, 2004; Jimu, 2005). This is consistent with Morris' (1996:67) finding that the majority of the informal sector operatives in his study created their businesses out of 'economic necessity' principally because they were out of work or needed to supplement their incomes.

It is important to establish if there are any gender differences regarding the socio-economic reasons for participating in the informal sector. We have noted that women predominate in the trade and catering sub-sector specifically street trade. The incidence of women predominating in negligible activities suggests forced entry into the informal sector as opposed to joining the sector after identifying opportunities for in-

come generation and capital accumulation. We found that there is no statistically significant relationship between gender and the socio-economic reasons for joining the informal sector<sup>17</sup>. The majority of the surveyed informal sector operatives joined the sector as 'necessity entrepreneurs'. What is also true is that the majority of the participants are women.

The area where the study was conducted is part of rural South Africa where migrant labour significantly changed the structure of many households. As a result of this phenomenon, there are many female-headed households in Southern Africa. Brown (1983) notes that in much of Southern Africa, women's social and economic position was transformed to their detriment. In some of our discussions with female informal sector operatives, we noted that men still migrate to bigger cities in search of wage employment which shifts the burden of family support to women. Mary, a female informal sector operative remarked, "My husband left a few years ago to find a job in Johannesburg and he never came back. I'm told he has settled with someone else, young women. I now have to fend for the family. It's hard" (Interview<sup>18</sup>, 10/November/2005). Some narratives about husbands who had gone to far way places in search of employment only to end up settling there with other women emerged during the field work (Field notes, 2006). We did not find instances where informal sector operatives participated in the sector as a family tradition (the inter-generational dimension).

#### **4.2.9 Informal Sector Operatives and the Formal Labour Segment**

While such socio-economic and demographic variables as gender, age and education and the reasons for working in the sector may help us to ascertain the type of people who join the informal sector, it is fundamental to examine the informal sector participants' perception of their own work. The important issue is whether the informal sector operatives see their work in the sector as a 'permanent occupation' or just as 'transitory' work they undertake whilst awaiting better opportunities in the formal sector of the economy.

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<sup>17</sup> Chi-square = 4.566374, df = 4, p = (.33476.); Kendall's tau b = .0541489 c = .0550658

<sup>18</sup> Interview with Mary, Alicedale.

When asked if they have any ambitions to work for a company (Do you ever wish to work for a company?), 60.4 percent of the informal sector participants did not wish to go into wage employment as opposed to the 36.3 percent who indicated that they would go into wage employment should the opportunity arise. The reasons cited for wanting to go into wage employment are particularly interesting. The respondents in question revealed that wage employment guarantees them reliable income (19.8%); they also indicated that their businesses are not profitable (12.1%) while some felt that joining the formal sector would allow them to raise capital (2.20%) and also to gain some business skills and experience (2.20%). There are no correlations between the tendency to shun wage employment and such variables as gender and educational attainment.

Lack of interest in wage employment should not be taken to mean that the informal sector participants are engaged in remunerative activities in the sector. Further analysis will show that the issue is far more complex than that. A significant percentage (60.4) of the respondents reported that they did not wish to go into wage employment. However, some focus group participants narrated their unpleasant experiences during their time of employment as wage labourers in the formal sector. Particularly revealing is the story of one male respondent who was previously formally employed:

I was formally employed at a clothing shop in Durban. My employer would shout at me. The money was very little. One day I got very angry and assaulted him. I knew that I was prepared to lose the job. The treatment I got was very inhuman indeed. I decided to come back home and do my own thing. I will never go back there. I will never work for anyone else in my life. It's better to be self-employed than to risk exploitation (Interview<sup>19</sup>, 01/March/2006).

The above case is instructive. While informal sector jobs are the ones which have always been thought of as very precarious with the participants working under very harsh conditions besides being naturally 'time consuming and labour intensive' (Pearce *et al*, 1988), it is significant to note that working conditions in the formal sector can be equally unfavourable for the those with 'inferior employment enhancing characteristics' (Kingdon & Knight, 2004) like low educational attainments. Never-

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<sup>19</sup> Jabulani, Focus Group Participant, Grahamstown.

theless, the benefits of such a move may not be visible in monetary terms. This is evident in the revelations by some informal sector operatives that it would be far much better to suffer as a self-employed person rather than to be exploited by employers in the formal sector. Self-employment, even when profitability is low is associated with flexibility and being one's own boss.

In conclusion, making generalising statements about the nature and characteristics of informal sector activities does not shed much light. The literature shows that different conclusions have been made about the nature and potential of informal sector activities. Statements about activities in the sector being a proxy for poverty since instead of alleviating poverty, they represent poverty itself have been made (Ngwira, 1996). Some have highlighted success stories in the informal sector (Portes *et al*, 1986). Yet there is the problem of 'fallacy of composition', where it has been noted that such success stories might not be generalisable (Mkandawire, 1974; Cichello, 2005). Nonetheless, what is needed is greater care and nuance in the application of the term informal sector (Lipton in Guha-Khasnobis, Kanbur & Ostrom, 2006), taking into cognisance spatial and temporal variations. Considering the data we have discussed in this section, there are already some signs that at least most of the informal sector operatives we surveyed predominate in the lower echelons of the sector. This however needs to be substantiated with the data on the operational characteristics of the micro-enterprises which we discuss in the following section.

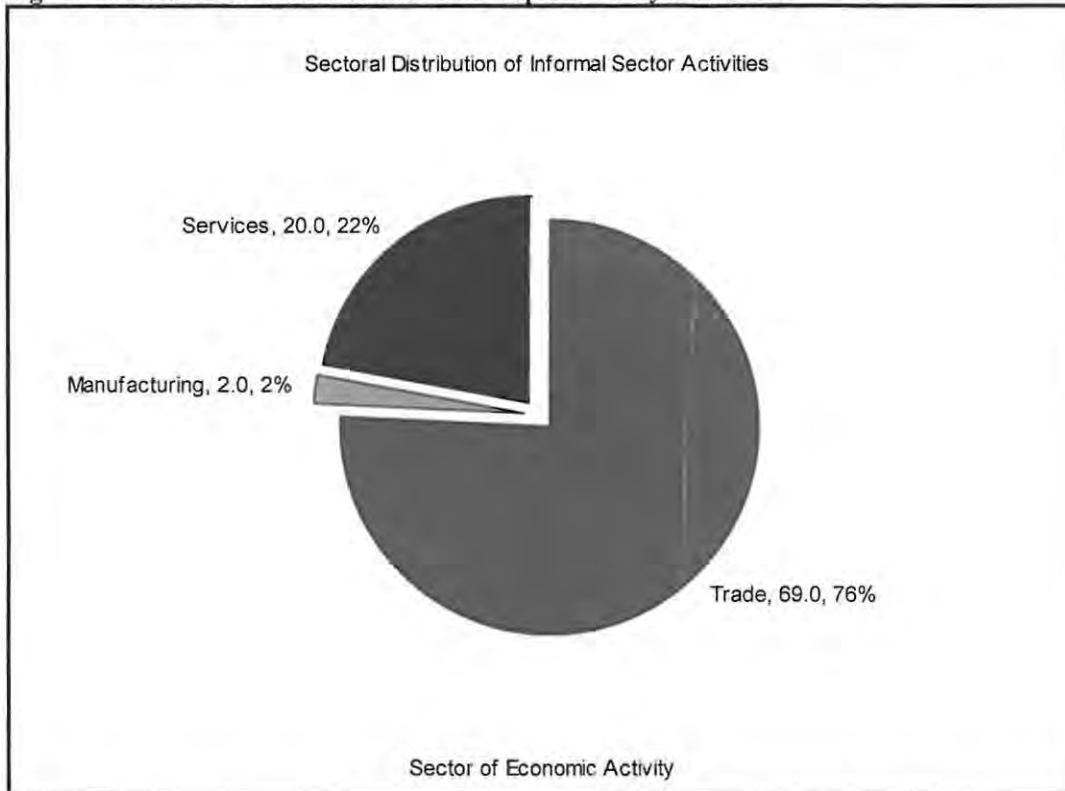
### **4.3 The Nature of the Informal Sector Micro-Enterprises**

#### **4.3.1 Distribution of Informal Sector Activities by Economic Sector**

We categorised the informal sector micro-enterprises into three sub-sectors namely manufacturing, trade and catering and services. In the manufacturing sub-sector we included all the value-adding activities while the trade sub-sector comprises of the distributive activities like retailing. In our study, the trade sub-sector consisted of street vendors, small retail shops (locally known as spaza shops) while the service sub-sector includes such micro-enterprises as hair saloons and barber shops.

From our survey findings, the overwhelming majority of informal sector activities are in the trade and catering sub-sector; 76.0 percent of the sector. This is followed by the services sub-sector with 20.0 percent of the activities taking place in this sub-sector.

**Figure 4.5: Distribution of Informal Sector Operatives by sub-sector**



The manufacturing sub-sector has an extremely small number of activities taking place, a paltry 2 percent. The paucity of manufacturing activities in terms of size warrants a detailed discussion. One way of making sense of this trend is not only by looking at the manufacturing sub-sector itself. The alternative question is: why is the retailing or redistributive sub-sector so predominant? Individuals from poor households strategise to earn a living in the informal sector. This is done through the involvement of household members in different informal sector activities so as to diversify income sources. Thus, the proliferation of distributive or retail activities within the informal sector usually occurs when poor households try to diversify their income. It was observed that some informal sector operatives had family members operating in the informal sector so as to enhance household earnings from such activities. Tariq, for instance had two trading spots in town. He runs one of these spots while the wife is re-

sponsible for the other one. The main products sold in these stands are confectionaries and cigarettes. Tariq says:

I started off operating one stand. But later on I realised that I could get some extra money if my wife works from a different spot. We need the money; we used to struggle when we had to depend entirely on proceeds from my business. But now, if I don't get good money, my wife can help. It's better now (Interview, 6/March/2006<sup>20</sup>).

Zibulo and Tandazani<sup>21</sup> are two sisters selling cooked food in Grahamstown's Raglan road. These two women are not married (single parents) and support five children. They struggle to pay their monthly bills. They rely on income from the cooked food they sell in the street to sustain themselves and the whole family. They mainly buy smileys (sheep heads) which they prepare for passers-by and revellers at a nearby tavern. The meat is sold in small portions costing five rands (Interview, 17/June/2006).

From the above narratives, we note these families are working in the informal sector to sustain themselves and their families. Their informal sector activities provide examples of how families subsist in the distributive sub-sector. These activities are synonymous with urban involution. Urban involution is often associated with individuals from poor households trying to eke out some form of existence in the informal sector (Isandla, 1999). The retailing or redistributive sub-sector is the most common in providing refuge for poor individuals without alternative sources of income. Accordingly, such informal sector activities are often seen as the 'arena of the socially marginalised' (Isandla, 1999). Thus, while making predictions about the manufacturing sub-sector in our sample may be difficult considering the small sample size, some insights can be drawn from the predominance of the retailing sector.

In Makana Municipality the insignificance of informal manufacturing activities in terms of size could also be a result of the extremely narrow industrial base. There are virtually no extractive industries<sup>22</sup>, for instance, in Makana's formal segment of the economy. While there are potential areas which have been identified by the municipal

<sup>20</sup> Interview with Tariq, Grahamstown.

<sup>21</sup> Interview Zibulo and Tandazani, Grahamstown.

<sup>22</sup> So far there are prospects of extracting Kaoline (clay) and it is hoped that this will result in the growth of industries which manufacture ceramic products like tiles (based on interview with Local Economic Development Officer, Grahamstown, 04/April/2006).

authorities for the development of extractive activities and consequently for the establishment of meaningful manufacturing activities, the strong areas in terms of contribution to the local economy remain such sectors as tourism and education (Interview<sup>23</sup>, 2006). The virtual absence of manufacturing activities in the formal sector in turn results in the low level of value adding activities in the informal sector of the local economy. There is usually a symbiotic relationship between the two sectors and in this instance the manufacturing firms in the formal segment of the economy would be expected to form ties with those in the informal sector through sub-contracting. The question of whether such relations would be mutually beneficial or exploitative is a different one altogether since the primary issue in this case is to make sense of the extremely small size of value-adding activities in Makana's informal sector.

Although the lack of access to institutional financial support has negative implications for the growth and development of all informal sector enterprises, this is particularly so in the case of manufacturing enterprises relative to the distributive activities. Without enough financial support small manufacturers for instance cannot "employ workers, produce, add value or otherwise expand output" (Isandla, 1999:19). While, we could not ascertain the prevalence of this problem because of the paucity of manufacturing within the municipal area the issue of lack of financing for informal sector activities cannot be completely ruled out in explaining the insignificance of manufacturing in the informal sector. In addition, although it is problematic to argue that there is ease of entry in the informal sector, a myth laid to rest a long time ago in several empirical studies, it could be argued that manufacturing activities are more difficult to start relative to distributive activities (e.g. street trading) because of the high capital needed in setting up a 'productive' manufacturing unit.

#### **4.3.2 Location of Informal Sector Enterprises**

Location of informal sector businesses is very important because of its effects on the viability of the business. The descriptive statistics on the location of informal sector enterprises reveal that 37.4 percent operate from the street, 31.9 percent from home while about 17.2 ply their trade at the market (designated areas) and 13.2 percent have

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<sup>23</sup> Based on interview with the LED Officer, Grahamstown (04/April/2006).

service outlets. Inferential statistical analysis shows a strong relationship between the location and type of a business<sup>24</sup>.

**Table 4.9: Location and Type of business Activity**

	Location	Business (Type)					Total
		Fixed Stall	Manufacturing	Mobile Hawker	Shop	Street Trader	
Count	Market	10	0	0	5	1	16
%		62.5%	.0%	.0%	31.3%	6.3%	100.0%
Count	Owners' Home	0	1	0	28	0	29
%		.0%	3.4%	.0%	96.6%	.0%	100.0%
Count	Service Outlet	0	1	0	11	0	12
%		.0%	8.3%	.0%	91.7%	.0%	100.0%
Count	Street/Open Space	1	0	1	0	32	34
%		2.9%	.0%	2.9%	.0%	94.1%	100.0%
Count	Total	11	2	1	44	33	91
%		12.1%	2.2%	1.1%	48.4%	36.3%	100.0%

Chi-square (132.207) with df = 12 and p-value (.000.)

From the contingency table, some interesting patterns emerge. About 96.6 percent of the businesses operating from home are shops and manufacturing constitutes the remaining 3.4 percent. Shops also predominate in the service outlet sub-group since they constitute 91.7 percent of the businesses with service outlets. Manufacturing takes up the other 8.3 percent. An overwhelming majority (94.1%) of those plying their trade in the open street without proper fixed premises are street vendors. From the contingency table, it is clear that manufacturing activities are absent from other locations except the service outlets and owners' home.

Without enough resources, informal sector operatives in the manufacturing sub-sector may improvise, through the use of scrap material for raw materials for instance (e.g. cobblers). They may also manage by using elementary and second hand tools as well as erecting some temporary structures. Yet manufacturing, especially the productive activities in the upper end of the micro-enterprise category may be difficult to carry out without proper fixed premises and capital equipment. Lack of these may discour-

<sup>24</sup> Data is not asymptote compliant (violates Pareto rule) which means that results under Monte Carlo's exact test are more appropriate. A very high value for the Chi-square (132.207) with df = 12 and an associated p -value (.000.) this indicates that there is a strong relationship between location and type of business activity.

age people from participating in manufacturing activities in the informal sector. One male informal sector operatives running a small carpentry workshop narrated his ordeal:

It was extremely difficult to get proper working space. I could not do my work in the street. The municipality will not allow that. It was by sheer luck to get this workshop. These buildings belong to the municipality. So I used to go to the municipal offices all the time. They saw my determination. I would have easily given up. Eventually I was allowed to work from here (Interview<sup>25</sup>, 14/March/2006).

Problems in obtaining proper working space explain the absence of manufacturing activities in other locations. Shops also require significantly higher investments. Opening up a shop is an aspiration for most street traders even if it means working from home. Some informal sector operatives indicated that, upon accumulating enough capital or mobilising enough resources, they would relocate to their homes. During the field work, statements like “I want to open up my own spaza shop”, “its better to work from home” were common amongst street traders. Shops also predominate in the service outlet sub-group since most service outlets are concentrated in the central business district. These have proper premises which also require some substantial amounts of capital to set up. Street traders work in the open space. In spite of this, they still shun the municipality’s designated market at the taxi terminus. The reason is that this place is not well manned which compromises hygiene. Also, potential customers are concentrated in the commercial district and the designated market is located at the margin of the town centre.

It has been noted in many instances that the location of a business often impacts on its profitability and ultimately determines its chances for survival (Mead & Liedholm, 1998). The distribution of the informal sector micro-enterprises in our sample by location reveals that the majority of micro-enterprises are operate in the open streets. We tried to ascertain if there is any kind of relationship between the location of a business and its profitability. The p-value for this test is significant<sup>26</sup>. Our data therefore sug-

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<sup>25</sup> Interview with Mbulelo, Grahamstown.

<sup>26</sup> Chi-Square 23.3820, df = 3, p <.0001

gests that location to a large extent influences the level of a business' earnings. The mean monthly earnings for each location show considerable variation with the highest average earnings found in service outlets. Also ranking high in terms of average earnings are the businesses located at home. At the bottom are businesses operating from the markets followed by those operating from the open streets. This is evident in table 4.10.

**Table 4.10 Location of micro-enterprises and earnings**

Location	N	Monthly Mean	Earnings S.D	(Rands) Std.Err.	-95%	+95%
Home	29	1626.2	1130.0	210.0	1196.0	2056.4
Market	16	764.6	788.3	197.1	344.6	1184.7
Service Outlet	12	1679.4	1064.1	307.2	1003.3	2355.5
Street	31	617.7	544.2	99.5	414.5	821.0
All	88	1121.6	1004.8	107.1	908.7	1334.5

Chi-Square 23.3820, df = 3, p <.0001

The incidence of higher earnings for home workers requires further discussion. Stories from our respondents about difficult clients were not uncommon. However, we observed that such stories were less prevalent amongst home-based operators. Home-based shop owners enjoy the support of the community as they operate from their neighbourhoods where most of their clients are friends, relatives and neighbours. Their relationship with clients runs much deeper than customer loyalty. This can not be said of the sidewalk vendors. While street vendors can also establish long-term relationships with their customers, it lacks the kind of cohesion which characterises the ties between spaza shop owners and their clients; people from their locality. Often during the field work, we would hear statements from home workers about how the community or market is supportive (Field notes, 2006). Pamela, a middle-aged woman had this to say: “the community is very supportive. They know what I have gone through to establish this shop. I don’t have problems with people around here. I could be doing immoral things to survive but I chose to work hard<sup>27</sup>”. With street vendors, most of their clients are from different parts of the town and the surrounding farms.

<sup>27</sup> Interview with Pamela, Grahamstown (03/February/ 2006).

It is also noteworthy that home-based enterprises operate for many hours per day; mostly they are open until late at night. Since they are based at home, this allows family members to assist in the running of the business. While street traders also have family members being involved in their business activities, it is not as effective as in the case of home-workers. Some street traders for instance would have their children help them pack the goods after school and at the end of the business day. Getting family members to help also means more transport costs for the street traders most of whom stay far away from town. All these factors have an impact on the smooth operation of the business. These are the reasons why home-based enterprises are more profitable relative to the businesses operating from the streets. It also explains why operating from home is an aspiration for most of the street traders. Many were unanimous that upon mobilising enough capital resources, they would happily relocate to their homes.

Also important is the relationship between gender and location of the enterprise. In other contexts it has been noted that women often work from home where they can still perform their domestic duties (Marcucci, 2001:62). In this study, there is no evidence of gender differentiation on the basis of the location of a business. The relationship between the variable gender and location of a business is not statistically significant<sup>28</sup>.

The only valid reason for this trend is that the nature of home-based work in this study does not seem to fit the typical characterisation of this activity as particularly precarious. Most HBEs are spaza shops which are by no means a mere extension of women's domestic skills. These are actually lucrative retail activities carried out in the township neighbourhoods. They fill in gaps left by large formal retail businesses which can not penetrate small locales. Most of the businesses had proper fixed premises and there was also signs of investment in capital equipment like refrigerators. In actual fact, women are concentrated in street trade which is less lucrative.

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<sup>28</sup> The statistics of the table of gender by location of business are as follows: Chi-square = 4.210, df = 3 and an associated significance level of .243. The results for this test are under Monte Carlo's exact test since the distribution of the data in the contingency table violates the Pareto rule.

There is also a statistically significant relationship between the variables location of a business and the race of the informal sector operative.<sup>29</sup> About 40.5 percent of the Black African informal sector operatives ply their trade in the open street where there are not permanent structures.

**Table 4.11: Cross tabulation of gender and location**

Crosstab

			Location of Business				Total
			Market	Owner's Home	Service Outlet	Street/Open Space	
Gender	Male	Count	4	10	6	7	27
		% within Gender	14.8%	37.0%	22.2%	25.9%	100.0%
		% within Location of Business	25.0%	34.5%	50.0%	20.6%	29.7%
	Female	Count	12	19	6	27	64
		% within Gender	18.8%	29.7%	9.4%	42.2%	100.0%
		% within Location of Business	75.0%	65.5%	50.0%	79.4%	70.3%
Total	Count	16	29	12	34	91	
	% within Gender	17.6%	31.9%	13.2%	37.4%	100.0%	
	% within Location of Business	100.0%	100.0%	100.0%	100.0%	100.0%	

Chi-square = 4.210, df = 3 and  $p > 0.5$  (.243)

Our data shows that there are no informal sector operatives working in the open street from the other racial groups, that is, the Asians and the Coloureds. The Asians and the Coloureds also do not feature in the market or the municipality's designated areas. All the Coloureds and Asians sampled operate from home. What this suggests is that Black Africans form the bulk of the informal sector operatives working in the precarious street activities. Street activities are also associated with harsh conditions since there is no proper shelter. In this study, home work is not as precarious as street trade.

#### 4.3.3 Size of Initial Capital

It is widely acknowledged that the successful accumulation of capital is also subject to the availability of capital resources (Mead & Leidholm, 1998). Before applying any statistical tests, some interesting trends on initial capital are already evident. The descriptive statistics on initial capital show that the average (mean) initial capital for the sample businesses is R 1432.9 with a standard deviation of R3 732.9. Clearly the data

<sup>29</sup> Results of the statistical test are given under both the asymptotic method and Monte Carlo's exact test. Since we are dealing with a small sample, the exact test of significance (under Monte Carlo) gives the most ideal results. P-Value = 0.013 with a lower bound of 0.004 and an upper bound of 0.008 under a 99% confidence interval.

on the distribution of initial capital is much skewed. Thus, the minimum amount of initial capital recorded is R20. 0 while the maximum is R30 000.0.<sup>30</sup>

**Table 4.12: Initial capital of businesses and location**

Location	N	Mean	Std.Dev.	Initial Std.Err	Capital -95 %	(Rands) +95%
Owner's Home	29	1200.7	1652.1	306.8	572.3	1829.1
Market Service Outlet	16	1365.0	2292.8	573.2	143.3	2586.7
Open Street	12	5 122.5	8626.6	2490.3	-358.6	10603.6
All	90	1 417.0	3 655.1	385.3	651.5	2182.5

P value = 2.0522, p- value = 0.008851

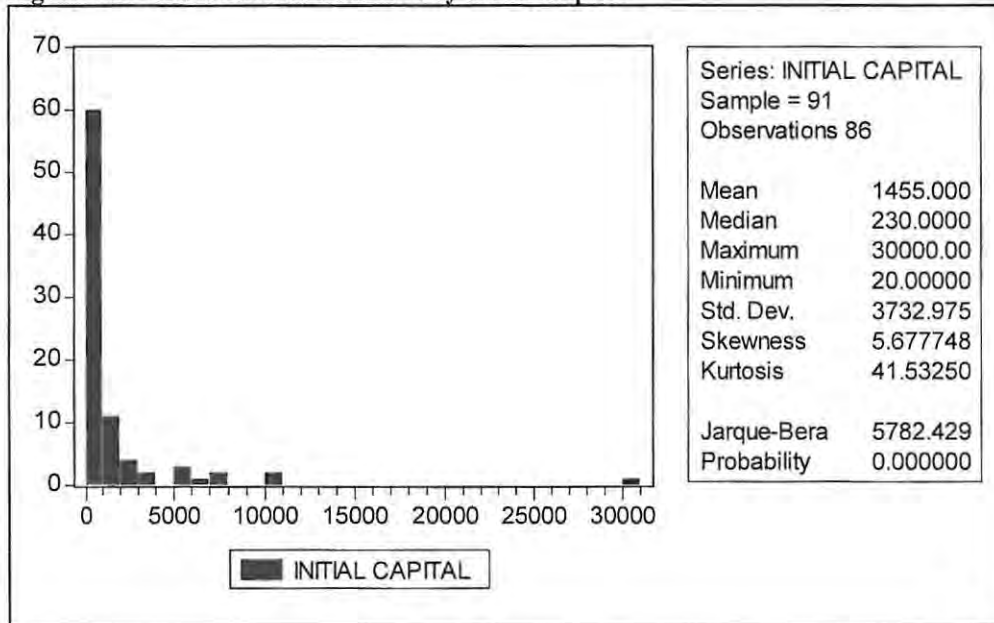
While the average initial capital for the sampled businesses is R 1 455.0, it is noteworthy that for more than half (63.7%) of these businesses the initial capital used is less than R500. A comparatively small proportion (13.2%) of the micro-entrepreneurs invested more than R2 000.0 in initial capital. The fact that the lowest amount of initial capital recorded is R20 is consistent with findings from other studies. In their study of shoe shiners in the city of Nairobi, Kenya, Elkan *et al* (1982:51) note that the capital needed to start up was very small: “a stool, a seat, a set of brushes and as box to put them in constitute the fixed capital, whilst a few tins of polish and cream are that is needed for working capital”.

The same could be said of the vendors operating in the streets of Grahamstown where the fixed capital for most fruit and vegetable sellers is just a cardboard box to put the products and a small seat. For a cooked food street vendor the fixed assets are also the same except for the paraffin stove and a few kitchen utensils for serving the food and the foodstuffs. Tipple (2005:624) found that most home-based enterprises (HBEs) are set up with limited capital, often just what can be spared from a formal sector wage, or from small profits from an earlier business. The reasons for such trends are not difficult to fathom. In the majority of cases the insignificance of the size of initial capital in informal sector establishments has to do with the lack of meaningful links between the financial institutions and the informal sector.

<sup>30</sup> The value of the does not fall within the range

In other contexts, informal sector participants have managed to mobilise significant amounts of capital from informal sources (e.g. friends and relatives) to finance their operations. It does not seem to be the case with our sample.

**Figure 4.6: Distribution of Activities by Initial Capital**



Grahamstown is populated by unemployed people<sup>31</sup>. It is expected that those in wage employment would lend money to relatives in informal employment. However, we observed that most of the respondents who started off with very small amounts of capital had one common denominator; people close enough to assist them were also struggling because they were not gainfully employed. As Losby *et al* (2000:3) note, “at the individual or household level, success in the informal economy is often predicated on how well one can navigate the nexus between the formal and informal sectors”.

#### 4.3.4 Initial Capital and profitability

From the correlation matrix, it is clear that there is a positive correlation between the initial capital of a business and monthly net earnings. This positive correlation coefficient (.316) indicates that there is a statistically significant ( $p < 0.01$ ) relationship between these two variables, such that the higher the initial capital a business invests, the higher the business’ monthly earnings. Precisely, the regression analysis indicates

<sup>31</sup> The LED officer mentioned that unemployment is about 60% in Grahamstown.

that for every one rand increase in the amount of initial capital, there is 7.9 cents increase in the profit of a business. This suggests that with more initial capital outlay, the rate of return on investment increases.<sup>32</sup> The practical implication of this is that an increase in the availability and accessibility of capital for the micro-enterprises is significant for their graduation from survivalist activities.

This is vital considering that most businesses in our study started off with very small amounts of initial capital which limits the ability of the business to accumulate more capital and expand. Most businesses remain stagnant with little chances for improvement. This is because daily earnings go into financing the daily household expenditure, which affects negatively the chances for accumulating capital. Moser (1980:371) notes that "small scale sellers, who were caught in the vicious cycle of small amounts of capital, uneconomic wholesale buying, and very low profit margins, operated below the level at which expansion was possible and operated to maintain status quo and not to become insolvent". When asked if they saved their earnings from the business, one informal sector operatives said:

It is difficult to save. How do you save when people always want to buy on credit? People have no jobs; they have no income. If I sell strictly on cash basis no one will buy my stuff. I will lose customers. The little money I get for the day goes to household expenses. I have to make sure my children have breakfast everyday before going to school. Saving is out of the question. I even struggle to replenish my stock (Interview<sup>33</sup>, 27/January/2006).

The problems highlighted by this informal sector are common amongst those operating in the lower echelons of the informal sector. In this instance, the division between the production (business) and reproduction (household) is blurred. The informal sector operative participates in the sector to survive. This is because of limited capital resources which in turn limit profitability and the ability to further accumulate capital assets in the sector. Whilst our observations are not a replica of House's (1984) own analysis in his study of the informal sector in Nairobi, Kenya, there are some similari-

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<sup>32</sup> The analysis of variance for the variable initial capital and monthly earnings also revealed that there is a statistically significant ( $p < .001$ .) relationship between these two variables. We therefore reject the null hypothesis that there is no relationship between the two variables.

<sup>33</sup> Interview with Ntombizabo, Grahamstown.

ties. House (1984:294), identifies a group of informal sector operatives, (“community of the poor”), who are characterised by the following features: stagnating incomes, or falling sales, little capitalisation and severe competition. This group of informal sector operatives serves the poorer segments of the market where the clients have little disposable income. Evidence in our study seems to point to the similar dynamic of involutionary growth.

Conversely, large scale operators were more advantageously placed in terms their capital and personal constraints consequently able to take larger risks, were regularly able to make regularly larger profits both per unit of capital and in total than small scale sellers (Moser, 1980). Those with a large initial capital outlay are better placed to maximise profits and accumulate capital than their poorer counterparts. This enables them to cushion themselves against unexpected shocks such as family crises. On the contrary, those with small initial capital outlay and the consequent miniscule profit are vulnerable during family crises and other life imperatives like payment of school fees as well other unexpected shocks on the business. These may leave the business bankrupt (Moser, 1980).

The data also reveals that the relationship between initial capital and longevity is statistically significant ( $p < 0.00$ ). However, the correlation coefficient for the two variable is negative (-.282) meaning that an increase in the value of one variable results in a decrease in the value of the other. This is an interesting result considering that the relationship between initial capital and monthly net earnings (profitability) of a business is such that profitability increases with additional capital. This may simply result from the fact that enterprises with lower capital are older and the ones with larger capital base are newer. We noted earlier on for instance that informal sector operatives participating in the services sub-sector have the lowest mean age relative to the other two sub-sectors (manufacturing and trade and catering). In Table 4.13, it is evident that the services sub-sector has the highest average initial capital relative to manufacturing and trade and catering.

#### **4.3.5 Initial Capital and Sub-Sector of Economic Activity**

There are significant differences in initial capital based on the sub-sector of economic activity. Table 4.13 shows that these differences are statistically significant. The aver-

age amount of initial capital used to set up a micro-enterprise was highest in the services sub-sector followed by trade and catering. The lowest average of initial capital required for start up is in manufacturing. The services sector consists mostly of hair saloons, barber shops and phone shops. Most of the service we surveyed had expensive capital equipment. They were also run by younger people with higher educational attainments. Most of the saloons and were located in or around the central business district.

**Table 4.13: Initial capital and Sub-sector**

Sub Sector	N	Initial Capital (Rands)				
		Mean	Std.Dev	Std.Err	-95%	+95
Trade/Catering	68	738.4	1416.7	171.8	395.5	1081.3
Manufacturing	2	110.0	56.6	40.0	-398.2	618.2
Services	20	3855.0	6886.0	1539.8	632.2	7077.8
<b>All</b>	90	1417.0	3655.1	385.3	651.5	2182.5

F = 6.45      p = 0.002

The trade sub-sector, whilst including street traders whose activities require less initial capital has a relatively high average initial capital because spaza shops also fall in this category. Although most spaza shops are home-based, the business space had to be properly demarcated and shelves as well as all the necessary capital equipment installed. It is important to note that most of them had proper fixed premises and such capital equipment as refrigerators. All this requires a micro-entrepreneur to have a sizeable amount of resources before setting up a business. It is not surprising that most street traders aspired to escape the harsh conditions in the streets by setting up a spaza shop. We mentioned that the manufacturing sub-sector has the lowest average initial capital. What explains this trend in our survey is that the manufacturing activities (2.2%) we studied are performed in the backyard. These informal sector operatives are self-employed individuals who rely on scrap material for their raw materials. Their activities involved welding and carpentry. In classifying the informal sector activities by sub-sector, it would have made sense for instance, to include shoemakers. However, we noted that these individuals just mend shoes and are not involved in manufacturing. They simply repair people's shoes instead of making shoes. It is for this

reason that some of them complained that people saw their work spots as dumping sites for old shoes. This was often accompanied by pleas for capital to set up more 'dignified shops' (Field notes, 2006).

It is also necessary to examine the sub-sectoral differences in monthly earnings as this gives some insight into which sub-sectors are profitable. Of the three sectors, the most profitable in terms of average earnings is the services sub-sector with mean monthly earnings of R 1487.4 (S.D = R 1096.6) whilst the manufacturing sector is the least profitable with mean monthly earnings of R 965.0 (S.D = 190.9). The trade sector ranks in the middle with mean monthly earnings of R 1015.5. (S.D = 972.6) These differences are statistically significant. Thus, for the analysis of variance for variable net profit classified by the variable sector, there was statistical significance ( $p < .000$ ).

#### **4.3.6 Fixed Assets of the Informal Sector Enterprises**

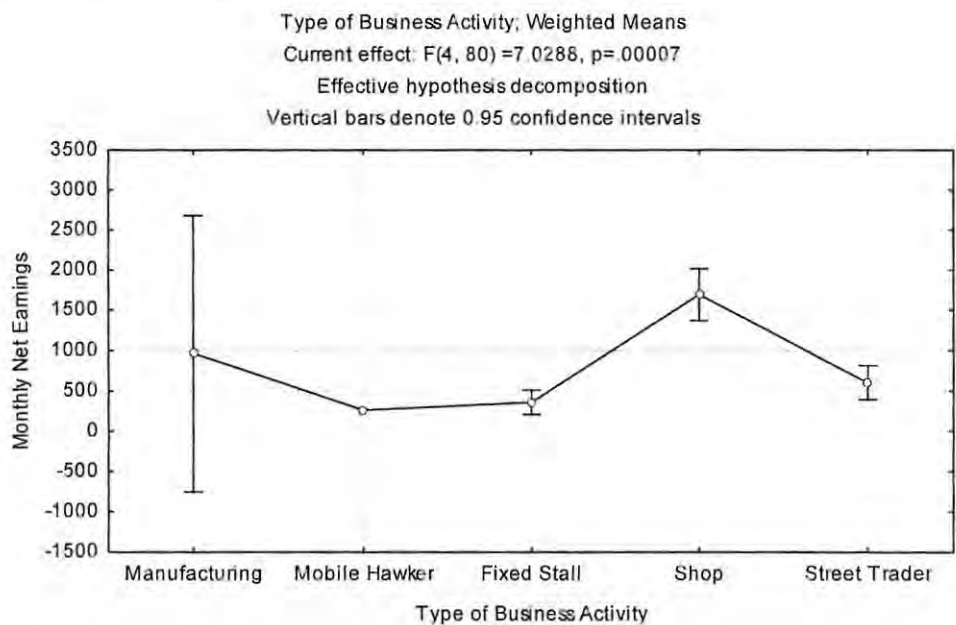
Besides the liquid capital, fixed assets are also a very important investment for the micro-enterprises. The Spearman's Rho yields a positive correlation co-efficient (.900) between the original value of assets and the current value of assets. This relationship is statistically significant at the (.000) level. This means that the relationship between the two variables is such that a higher value of original assets is associated with a higher value of current assets. This is indicative of an increase in the value of fixed assets. It means that the value of initial assets is a good predictor of the value of current assets. It would be interesting to establish if investment in fixed assets is beneficial for these businesses in terms of its impact on profitability or monthly net earnings. There is statistically significant association between the original value of assets and monthly net earnings with a spearman's correlation coefficient of (.716). For current value of assets and monthly net earnings, the association is also statistically significant at the (.000) level with a spearman's correlation co-efficient of (.676).

#### **4.3.7 Monthly Earnings and Type of Business**

With the monthly net earnings, the sampled micro-enterprises have an average of R1121.5, a median of R725.0 and a mode of R 250.0. The minimum amount of monthly earnings recorded is 110.0 with a corresponding maximum of 3800.0. A

lower quartile of 335.0 and an upper quartile of 1750.0 for net monthly earnings were also recorded. Net monthly earnings tend to differ with the type of economic activity. From Fig. 4.7, it is evident that the shop owners have the highest average monthly net earnings (R 1691.9) and a standard deviation of R1061.8. This group consists of all the spaza shops and hair saloons and or barber shops. The manufacturing sub-sector however has the highest monthly net earning—it also has the highest standard deviation. Average net earnings for street traders are R 603.7 with a standard deviation of 564.7.

**Figure 4.7: Monthly Net Earnings and Type of Activity**



For those operating fixed stalls, the average for net earnings is R 359.4 with a standard deviation of R 229.2. Street traders have higher average net earnings than fixed stall operators. The majority of informal sector participants operating fixed stalls are confined to the designated areas. These spaces are far removed from the central business district where there is brisk business. During fieldwork, we also noted that the designated areas are not well manned which compromises hygiene standards. It is for this reason that most street traders shun the municipality’s designated areas. These are not conveniently located. This explains why street traders have high average monthly income relative to fixed stall operators.

### 4.3.8 Longevity of Informal Sector Micro-enterprises

Longevity is an important measure in any study of informal sector enterprises considering that the informal sector micro-enterprises are particularly vulnerable to negative factors which characterise their business environment. The high failure rate of informal sector micro-enterprises has been widely documented with the most critical stage being the first five years (Mead & Liedholm, 1998). In this survey, the average enterprise has survived for at least 8.1 years<sup>34</sup>.

**Table 4.14: Longevity and type of business Activity**

Activity	N	Longevity (Years)				
		Mean	Std.Dev	Std.Err	-95	+95
Fixed Stall	11	11.5	10.6	3.2	4.4	18.7
Manufacturing	2	10.0	7.1	5.0	-53.5	73.5
StreetVending	33	8.6	6.6	1.1	6.2	10.9
Shop	44	7.0	6.6	1.0	5.0	9.0
MobileHawker	1	5.0				
All	91	8.2	7.2	0.8	6.7	9.7

F = 1.00 p = 0.4

However, it is vital to note that the survival of the businesses is not a simple and straightforward issue which merely requires the computation of the number of years a business has survived. Other intervening variable exist which may impact on the business so as to shorten or even prolong its life. In other words, the mere fact that a business has survived for more than five years for instance does not automatically mean that the business is resilient. Accordingly, we go beyond the computation of the age of the enterprises and test the variable longevity with such variables as profitability and type of activity. We examined the relationship between the variable net profit and the longevity of a business. There is a statistically significant ( $p < 0.05$ ) negative correlation (-.223) between the longevity of a business and its monthly net earnings<sup>35</sup>. The regression analysis indicates that net monthly earnings depend on longevity in such a way that the higher the longevity of a business the less the earnings. In fact, the net

<sup>34</sup> Standard deviation = 7.16371, minimum = 1, maximum = 38.

<sup>35</sup> The linear relationship between these two variables is one in which the values of one variable decrease as the other increases.

monthly earnings decrease by R32 for every unit increase in longevity. The tendency for profitability of the businesses to decline with the increase in number of years has a lot to do with the preponderance of older informal sector participants.

Previously, we found that there are interesting patterns related to the way age links with such variables as sub-sector, educational attainment and gender. For instance, older informal sector operatives have the lowest educational attainments, and they rarely participate in the services sub-sector. We have already noted the incidence of higher earnings for those informal sector operatives with high educational attainments. Also, the services sector has the highest average initial capital and net earnings. In terms of average age, women also tend to be older than their male counterparts. It is evident that the tendency for earnings to decrease with longevity is related to the predominance of informal sector operatives in the lower echelons of the sector. This group of informal sector operatives are found in the less lucrative activities like street trade. House (1984) characterised them as the “community of the poor”.

#### **4.3.9 Sources of Initial Capital**

In this survey, linkages with financial institutions are virtually non-existent as indicated in many other studies (Ngwira, 1996; Bagachwa & Ndulu, 1996). The statistics indicate that nearly half (49.5%) of the micro-enterprises used money from personal savings for start up. The second most common source of initial capital is gifts or loans from relatives (34.1%) followed by gift or loan from spouse (12.1%). Only 3.3 percent of the micro-enterprises obtained money from the bank and one percent from ‘other sources’. These findings are consistent with those of Bagachwa & Ndulu (1996:90) who noted that the informal sector is typically excluded from the institutionalised market for credit. As a result, entrepreneurs in the informal sector rely mainly on personal savings and other sources of funding to finance their production activities. This according to the Isandla Institute (1999:19) acts as an obstacle hindering the establishment and successful operation of informal businesses.

Verheul & Thurik (2001) in a study of micro-enterprises in Denmark note that female and male entrepreneurs tend to differ with respect to the way in which they finance their businesses. However, our data indicates that there is no statistically significant

relationship between gender and sources of initial capital<sup>36</sup>. Thus, it is widely assumed that women informal sector operatives may find it difficult to obtain capital from the formal financial institutions because of lower educational attainments and the lack of awareness about the availability of funding and how to access it (Mayoux, 1995; Cohen, 1996; Lund, 1988; Buss, 1999). The statistics from this study do not support this argument. Race also does not seem to be a factor in the determining access to formal credit<sup>37</sup>. However, the lack of statistical significance in this case may be an indication that this analysis is beyond the capabilities of this study since our sample does not have white informal sector operatives. Comparing the previously disadvantaged groups alone can not provide us with conclusive evidence. Also, only 3.3 percent of the informal sector operatives reported to have obtained their capital from commercial banks. This three percent consists of one male and two females. All of them are African Blacks with secondary education and operating in the services sub-sector.

#### **4.3.10 Sources of funds for expansion**

The pattern of the sources of capital for expansion is also interesting. Of the entrepreneurs interviewed those who indicated that they are expanding their businesses had no links with commercial banks. None of them obtained funds from the commercial banks. This finding supports Bagachwa & Ndulu (1996:90-91) in their study of the informal sector in Tanzania. Precisely, they found that over 90 percent of the funds used for investment expansion came from reinvested profits with institutional credit covering a paltry 2 percent of the required funds (Bagachwa & Ndulu, 1996). These authors attribute the 'limited size of investment projects undertaken by these artisanal entrepreneurs to the absence of institutional credit to the informal sector (Bagachwa & Ndulu, 1996). A similar inference can be made with regard the general lack of expansion amongst the micro-enterprises in this study. When asked if they were expanding their operations, a relatively small figure (22.0 percent) indicated that they were ex-

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<sup>36</sup> The results are given under Monte Carlo's exact test. Chi-square = 6.505, df = 4 with an associates p-value of (.147). The null hypothesis that there is no relationship between gender and sources of initial capital is true.

<sup>37</sup> The data in the contingency table violates the asymptotic assumptions hence it is appropriate to use the statistical test results obtained under Monte Carlo's exact test. A Chi-square of 2.530, df = 8 and p-value of (.833) were obtained. The data is consistent with the null hypothesis and we therefore fail to accept the alternative hypothesis

panding their businesses. Conversely, the majority of the enterprises (78.0 percent) were not expanding their operations.

#### **4.3.11 Employment Generation and Growth**

The simplest way to see if there is any employment generation in the informal sector is by looking at the proportion of businesses with hired labour and the average number of workers employed by the businesses surveyed. In only 19.8 percent of the businesses surveyed were there some form of employment arrangement meaning that in the other (80.2 percent) of the businesses, self-employment was the defining characteristic. The average number of employees per enterprise is 1.4<sup>38</sup>, a figure quite miniscule by any standards. In the literature, it is widely acknowledged that informal sector micro-enterprises are reliant on family labour and or the hiring of friends and relatives (Mead & Liedholm, 1998; Zuin, 2004). Similar recruitment methods were used by all (20%) the employing businesses in our sample. When asked how they recruited their employees, 12.1 percent mentioned their own children; 3.0 percent relatives; another 3.3 percent friends and a 1 percent other people.

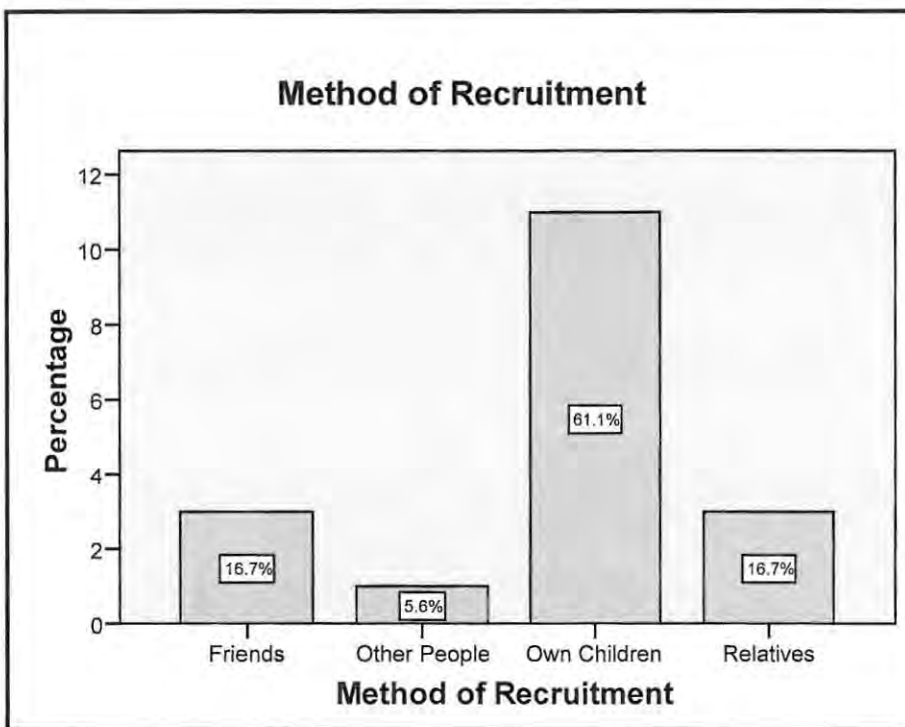
Employment as a yardstick to ascertain growth potential is quite limited and masks some complexities. Thus the employment generation capacity of informal sector enterprises has some limitations as an estimate of growth potential in the sector simply because “of the lumpy nature of employment which appears to increase with a lag after a sizeable growth in real sales” (Mead & Liedholm, 1998:67). This is a ‘conservative measure’ of growth which means that instances where there is lack of growth in the business in terms of number of employees should not be taken to mean that there is absolutely no growth taking place in the business. The same business might actually be registering good figures in terms of sales, for instance. However, this is not the case in this study because businesses with low sales volume and therefore profits seem not to employ. This means that the lack of any sort of employment arrangements reflects low profitability of the enterprises. Precisely, growth amongst the enterprises is limited not only in terms of employment generation, but also in terms sales and profitability.

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<sup>38</sup> The minimum number of employees is 1 while the maximum is 4 and the standard deviation is (.78382).

Considering the above, the limited employment generation capacity of the informal sector enterprises warrants further analysis. There are two possible explanations for the small number of informal sector micro-enterprises which employ workers. The miniscule number of people employed by the business units in our sample can be explained in terms of the employment-profit trade-off thesis (Ngwira, 1996). The argument in this theory is that informal sector employers can only hire more people at the risk of squeezing their profit margins which implies that having employees is unsustainable.

Figure 4.8: Methods of Recruitment in the Informal Sector



According to Bagachwa & Ndulu (1996:84) the expansion of employment in such activities is often achieved through the establishment of new similar enterprises rather than through internal expansion. Even with greater capital informal sector firms will prefer not to hire someone else, instead, “the person who has been working with someone else splits to form another micro-enterprise of a similar kind upon getting enough capital” (Bagachwa & Ndulu, 1996:84). However, some studies have revealed the opposite trend where the more profitable an enterprise is the greater the likelihood of employing more workers (Ngwira, 1996). Considering the above, we therefore tested for statistical significance to ascertain if there is any kind of relationship be-

tween the profitability of a business and the tendency to employ. The p-value is highly significant ( $p < .001$ .) indicating that there is a statistically significant<sup>39</sup> association between the level of profitability and the propensity for informal sector micro-enterprises to hire labour. The average monthly earnings for those micro-enterprises with employees is R 1988.9, a figure much higher than that of micro-enterprises without any employees which lies at R 865. 6. Clearly, there is strong evidence to indicate that the employment-profit trade off thesis does not hold true insofar as the data from our study is concerned. Ngwira (1996) also found that those firms with more employees tended to be profitable as well.

The above evidence inevitably means that the insignificant size of the manufacturing segment of the informal economy is the plausible reason why there is very little employment creation within the sector in Makana municipal area. It has been noted that wage relationships are more common in manufacturing because of the need for labourers whilst sectors like trade are often characterised by self-employed individuals since one person can manage the whole business (Teltscher, 1994). In our sample, the manufacturing sub-sector constitutes a mere 2.2 percent. The figures for the other sub-sectors are as follows: trade and catering (75.8%) and (22.0) percent for the services sub-sector. The lack of meaningful employment generation within the informal sector is related to the small size of the manufacturing sub-sector.

Thus, given that the employment trade-off thesis does not hold true, there is overwhelming evidence which points to the lack of robust manufacturing activities within Makana's informal sector as the main cause of the limited employment generation capacity in the sector. The relationship between the gender of the micro-entrepreneur and whether or not they have any employees was also tested for. The chi-square test of independence for the two variables shows that their relationship is statistically significant<sup>40</sup>. The incidence of men having more hired labour relative to women can be explained by the fact that informal sector operatives from the two genders tend to pre-

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<sup>39</sup> The Kruskal-Wallis test for non-parametric ANOVA yields a Chi-square of 17.0617 and a p-value (.0.0001.). This means that there is a relationship between the profitability of a business and whether or not it employs. The incidence of a higher mean for monthly profits by employing micro-enterprises provides evidence that refutes the employment-output trade-off hypothesis.

<sup>40</sup> Gender and Employ Chi-square = 14.7180, df = 1, p-value (< .0001.)

dominate in different sub-sectors. Women predominate in the trade and catering sub-sector, specifically street trade as opposed to the services sub-sector. Indeed, statistics for the table on location by employment substantiate the above observation. Of the informal sector operatives located in the street, only 8.8 percent have hired labour while a staggering 91.2 percent of this group do not employ. With service outlets, 50 percent of the informal sector operatives have employees. The other half (50%) in this group does not employ. The HBEs are the second highest in terms of employing. The chi-square test of independence for the two variables shows that their relationship is statistically significant.

#### **4.3.12 Growth potential and Expansion in the informal Sector**

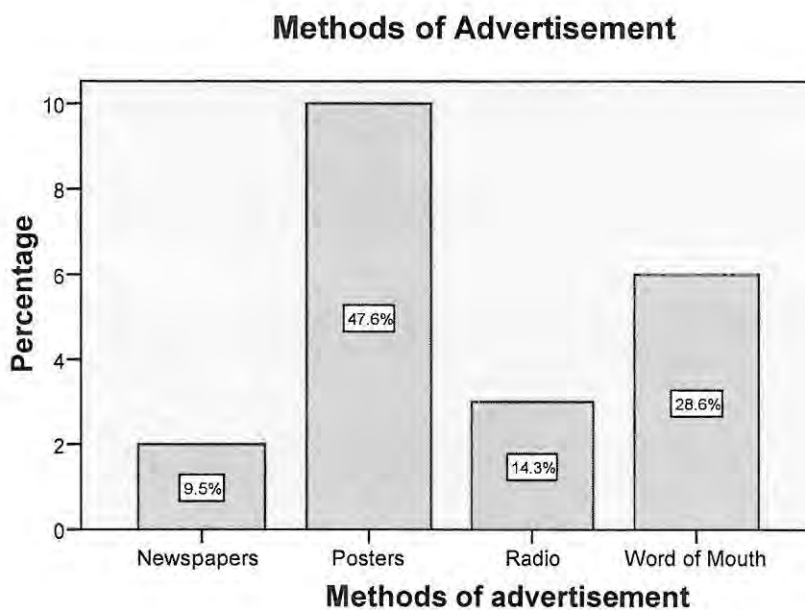
Questions to obtain information on the growth potential and future plans of the business were also included in the survey questionnaire. The objective was to learn about the operation and expansion plans for the future development of the business. A staggering 78.0 percent of the businesses were not expanding at the time of the survey and only 21.8 of the businesses were in the process of expanding. Of the businesses which were expanding, 19.8 percent were 'growing' 'current activities' whilst the other 2.2 percent were venturing into different activities. From the above and also considering the data on employment generation, there is overwhelming evidence to indicate that little 'meaningful growth' is taking place in the majority of these businesses. Some factors may be cited to explain why there are a limited number of businesses expanding their operations.

Firstly, stiff competition resulting from oversubscription meaning that there are more self-employed individuals entering the sector instead of the internal expansion of existing micro-enterprises. This is particularly evident in instances where the retail or trade activities predominate since such activities, by virtue of minimal entry requirements, have a propensity for 'involutionary' growth. Limited access to credit, not just in the sense of hard cash but also in the form of discounts and the buying of stock on credit from suppliers is also important in explaining the limited expansion of the businesses. Obtaining their goods at high cost inevitably reduces profit margins and unfortunately for these businesses, it is often impossible to pass on those costs to their customers. This inhibits profitability and consequently capital accumulation. This creates a vicious cycle and expanding under such circumstances is highly unlikely.

### 4.3.13 Informal Sector Customers

On their main strengths, 52 percent of the respondents mentioned customer loyalty as their strong point while 28.6 percent of the respondents cited affordable prices and the remaining 14.3 percent mentioned better quality. Indeed the majority of the respondents 71.3 percent revealed that they know their clients on a personal basis and only 28.6 percent did not claim to know their clients on a personal basis. Personal networks form the bulk of the customer base for informal sector businesses.

Figure 4.9: Methods of Advertisement employed by the micro-enterprises



The majority of respondents, 76.9 percent, do not advertise their business activities and only 23.1 per cent do advertise. The methods of advertising in the informal sector are very elementary. Of the 23.1 percent who advertise their activities, 6.6 percent rely on the word of mouth, 11.0 percent use posters and only a few of them advertise through the media; 3.3 per cent on radio and 2.2 per cent in the local press. What is clear from the above is that the majority of informal sector micro- enterprises rely on elementary advertising methods. Similar observations were made in Tipple's (2005: 622) study where it was noted that some activities advertise their presence, either by being at the front of the dwelling (as with shops and many services) or by a sign board.

#### 4.3.14 Problems finding clients

Although 51.7 percent (more than half) of the informal sector participants indicated that they had no problems finding clients, a considerably high (48.4%) percentage of the respondents are experiencing problems finding clients. The tendency for informal sector enterprises to experience problems in selling their goods is a perennial one. This problem emanates from a variety of factors but the intense nature of competition is the frequently cited factor. Harris (1990) notes that while there are cases where capital requirements to start up an informal sector unit are low, this is often associated with the inability to build a solid capital base because of intense competition.

Miles & Norcliffe (1984:227) make an important observation that in most cases informal sector businesses find it difficult to increase sales because the 'lateral expansion' of the sector inevitably results in the substantial penetration of local markets as numerous small micro-enterprises compete for the same customers. The only possible way to increase sales would be through the increase of disposable income. Calls by some informal sector operatives in our study for the government to create jobs were therefore not unfounded. Concerns were raised that the chances for running viable informal businesses were extremely constrained by the high levels of unemployment in the area. The scope of the market for the businesses is evidently limited as most people have no reliable source of income hence their tendency to buy on credit (Field notes, 2006; Interview, 2006). As one respondent remarked,

We have a problem in Grahamstown; this is a small town with lots of unemployed people. It's not good for business. At times we struggle just to sell our things. Many prominent people come from Grahamstown but unemployment remains high. There is no money in this town. We are suffering. Our children have no future (Interview<sup>41</sup>, 27/January/2006).

This creates liquidity problems for the informal sector businesses already operating with limited working capital. Besides expanding sales through the route of creating jobs so as to increase poor people's disposable incomes, another possible option would be for these businesses to go beyond the confines of the local markets. While the exploitation of markets beyond their immediate local communities makes business

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<sup>41</sup> Interview with Ntombizabo, Grahamstown.

sense, it might be very difficult for the informal sector operatives already finding it difficult to identify opportunities within their communities, for instance through establishing links with large formal businesses. Thus, the failure to navigate the local environment inevitably implies that it would be even more difficult to reach distant markets.

During discussions with many of the informal sector operatives it emerged that most of their customers are from the poor sections of society mainly workers from surrounding farms and those who receive social grant recipients other informal sector operatives and labourers from surrounding formal sector firms. One respondent selling fruits and vegetables and cooked food noted that,

Business tends to be good during pay days. When farm workers get paid it's a busy time for us. They are not from town so we also keep their luggage while they do their shopping. In return they buy our stuff. They are good customers. We also rely on social grant recipients, they are our customers. The casual workers from some companies also come here to buy our food (Interview<sup>42</sup>, 23/January/2006).

Indeed most of the respondents revealed that business is usually brisk on month end days when farm workers and pensioners and other social grant recipients get paid. This is consistent with the findings in other studies where it has been noted that the majority of informal sector customers are people from the poor sections of society. In their study of the informal sector in Lome, Togo, Nihan *et al* (1979:634), note that informal sector businesses “cater mainly to the needs of the low income groups, artisans and petty traders, with whom the volume of business amounts to 56.1 per cent of their turnover, while sales to the public employees and workers in the modern sector make up another 40 per cent” (Nihan *et al*, 1979:634)

What could be seen as unique about the customers for the informal sector businesses in Makana is not the fact that most of them are poor but that the majority of them are social grant recipients. This observation is consistent with Lund (2006) findings that social grants play an important role in sustaining poor households and most significantly in sustaining economies of poor communities in South Africa. This speaks to

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<sup>42</sup> Interview with Nwabisa, Grahamstown.

the importance of the social security system as a redistribution mechanism with funds flowing from the formal sector to the informal sector. In this regard, there is definitely an inter-sectoral interrelationship with positive outcomes for the informal sector albeit at a macro level. This will be expanded on in the discussion of inter-sectoral linkages.

The instances where informal sector micro-enterprises frequently serve lower income groups have led some scholars to argue that informal sector businesses are naturally better poised to serve the needs of lower income groups. This is particularly exemplified by the case of cooked food street vendors in Ile-Ife Nigeria where Pearce *et al* (1988) note that these street vendors have a competitive edge relative to formal sector restaurants since they can sell their food in small portions according to a customer's requirements. Thus the food is sold 50 kobo portions packaged in nylon bags or leaves. But most importantly the customer has "control over the size of the meal and the combination of his or her plate" as opposed to "the standardised modes of serving within the formal sector" (Pearce *et al*, 1988:395). Considering all these factors, these authors conclude that the future of food street vending is secure (Ibid.).

Thus it is widely acknowledged that big informal frequently serve higher income groups whilst the informal sector micro-enterprises naturally obtain most of their clients from the lower income groups (Moser, 1980; Teltscher, 1994). On the surface it appears that this trend naturally obtains because the smaller informal sector enterprises are better placed to serve the lower income segments of the market given their characteristics. Further analysis would however reveal that informal sector micro-enterprises often encounter a number of obstacles which limit their ability to penetrate the higher income segments of the market.

In our survey, we note that lack of capital resources is a perennial problem for the majority of the enterprises. These data also reveals that these businesses also have problems obtaining goods on credit or discount. When asked if they ever obtain supplies on credit or at a discount, 77 percent of the respondents indicated that they do not get credit or discounts from their suppliers. Only 21.98 respondents have obtained discounts or supplies on credit. When asked what they consider pricing their products, 41.76 per cent reported that their primary consideration is their competitor's prices while more than half of the respondents 56.04 pointed to the buying price as the main

determinant of their selling price. Only 2.20 per cent cited other factors. Informal sector enterprises obtain their goods from the formal sector businesses and play a crucial role in distributing these goods to smaller market niches especially in poor neighbourhoods. They can not buy their stock in bulk and attain economies of scale like the large formal businesses. Consequently, they buy their stock in smaller amounts, at times in a daily basis. Tariq for instance had this to say:

I'm trying you know. I buy my stock everyday. I wake up early in the morning and make sure I have everything for the day. If I don't buy lots of things, I just get a bit of this a bit of that so that I balance up things (Interview<sup>43</sup>, 06/March/2006).

The relationship between the informal sector enterprises we surveyed and the formal sector business (suppliers) is an unequal one. The informal sector micro-enterprises distribute goods produced in the capitalist sector mostly to the poor customers. This role is fulfilled without access to credit or obtaining discounts from their suppliers. The informal sector micro-enterprises are thus trapped in a vicious circle hence it is difficult for them to expand their operations and accumulate capital assets. What can be surmised from this observation is that the problems faced by these informal sector micro-enterprises emanate from their 'adverse incorporation' (Du Toit, 2005) into the capitalist sector. These enterprises are not isolated from the formal sector businesses. Commenting on similar observations, Du Toit (2005), notes that the persistence of poverty in South Africa's second economy is integrally linked to the very depth of corporate penetration.

#### **4.3.15 The nature of Competition in the Informal Sector**

Competition in the informal sector can be either from similar informal sector micro-enterprises where there is 'overtrading' due to the involutionary nature of growth in the sector or it may be from the well established formal sector businesses. The informal sector operatives we surveyed reported that they experienced competition from similar micro-enterprises. However the most devastating form of competition is from bigger informal sector businesses which benefit from economies of scale. While the formal business people have always pointed out that informal sector businesses pose unfair competition by operating outside of the regulatory framework which allows

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<sup>43</sup> Interview with Tariq, Grahamstown.

them to evade tax and other payments consequently lowering their prices, it is significant to note that there are many other obstacles which render this argument simplistic.

For instance, informal sector micro-enterprises, by virtue of their small size, are forced to “pass through a chain of middlemen in the marketing, transport and financial circuits” (Tokman, 1978:1192) which inevitably makes it difficult for them to reduce costs. This has the overall effect of reducing their profit margins something not particularly problematic with large formal business which benefit from economies of scale given their large scale operations. For instance, “supermarkets...possess enough bargaining power to obtain discounts for large quantities and credit facilities at better terms. In addition, they own their own means of transportation...” (Tokman, 1978). The argument that informal sector businesses thrive at the expense of formal sector businesses since they can sell their products at lower prices by evading tax and licence payments is fallacious.

The data demonstrates that the informal sector is heterogeneous since it encompasses activities which are different in terms of economic potential. The differences in economic potential are evident in the data on earnings and asset holdings. Most of the sampled micro-enterprises seem to be concentrated in the lower segment of the informal sector where earnings are negligible. It is also evident that the majority of the informal sector operatives are women. Women and relatively older informal sector operatives predominate in these lower end informal sector activities. Our data reveals that there is a small segment of lucrative activities in the sector. These remunerative activities are mostly in the services sub-sector and are run by relatively young and educated informal sector operatives. The data on market related issues points to the existence of linkages between the formal businesses and the informal sector micro-enterprises. We will explore the nature of these linkages in the following chapter.

## CHAPTER 5 THE INFORMAL SECTOR AND THE EXTERNAL ENVIRONMENT

### 5.1 Introduction

According to Trager (1987:247) much of the discussion of the informal sector has to do with the informal sector itself meaning the “enterprises and entrepreneurs within it”. Thus, we should not lose sight of the fact that the informal sector is part of the broader “economic and political environment which can actually have crucial implications for informal sector activities” (Ibid.). To bring out how informal sector activities are interconnected with the environment and how they are shaped or respond to the regulatory and policy initiatives, it is vital to examine inter-sectoral linkages (between the formal and formal sector) and also unpack the nature of relations between informal sector enterprises and the authorities.

### 5.2 Inter-Sectoral Linkages

Debates on the inter-sectoral linkages between the formal and informal sectors have usually centred on the issue of whether such linkages are exploitative or mutually beneficial. In the literature, some scholars have noted that the relationship between the two sectors can assume an exploitative form with the informal sector subsidising the formal sector by ensuring the cheap reproduction of labour (Wolpe, 1972; Mafeje, 1973) and by providing cheap raw materials to the formal sector or even through subcontracting arrangements (Beneria, 2001). Arguments about the exploitative relationship between the formal and informal sector are informed by the Marxist conception of informality (Mkandawire, 1974; Obregon, 1974). Besides the Marxist forms of analysis other strands of thought identify the links between the formal and informal sector as mutually beneficial. According to Harris (1990:2), the central argument of the ‘integration thesis’ is that the growth potential of the segment (informal sector) is reinforced when the sector is integrated into the rest of the economy, since the linkages are assumed complimentary.

Thus, the important debate is whether or not the ties between the two sectors are entirely exploitative. Marxist forms of analysis identify the unequal and exploitative nature of the relationship between the formal and informal sector (Moser, 1978; Wellings & Sutcliffe, 1984; Hays-Mitchell, 1993). Bose (in Moser, 1978:1058) concisely

captures the central argument of the Marxist forms of analysis concerning the relationship between the formal and informal sector. Thus,

The underdevelopment and backwardness of the informal sector are necessary conditions for the development and advancement of the organised, formal sector dominated by a few oligopolistic houses. That is why the basic change in the condition of the informal sector is dependent on effecting corresponding basic change in the mode of production of the formal sector (Bose in Moser, Moser, 1978:1058).

These scholars see development and underdevelopment as linked (Wolpe, 1972; Mafeje, 1973 & 1981). As a result, the meaningful transformation of the informal sector can only be achieved by confronting the structural factors underlying its subordination and exploitation. Precisely,

...the level of capital accumulation possible is constrained by structural factors in the total socio-economic system such that small scale activities in urban sectors of countries with external oriented economies can only participate in economic growth in a dependent subordinate way (Moser, 1978:1056).

In spite of the above arguments, those who have tried to characterise the informal sector have frequently noted that it is not reducible to any one particular category. Mhone (1996:9), for instance, argues that the informal sector is heterogeneous in that it "consists of a compendium of activities that play various economic roles". Thus, there are multiple ways in which informal and formal sector ties manifest themselves. What this suggests is that it would be futile for researchers to make pre-analytical statements or generalisations about the nature and characteristics of the informal sector as in doing so they frequently fail to capture its heterogeneous and diverse nature. The above conceptual ideas are thus useful for making sense of the empirical findings on the interrelationships between the two sectors. Of particular significance is the extent to which the inter-sectoral linkages are beneficial or exploitative and therefore detrimental to informal sector.

In South Africa most of the recent discussions on inter-sectoral linkages have occurred against the background of the 'two-economies' debate. The argument that the South African economy is characterised by two segments, the first and second econ-

omy, which are structurally disconnected has gained currency in the policy circles and is implicit in the government's socio-economic policies (Du Toit, 2004 & 2005). Many scholars have argued that the impoverishment of people within the second economy is a result of the deep penetration of monopoly capitalism as opposed to the isolation of the second economy (Wolpe, 1972; Mafeje, 1973 & 1981; Webster, 2004; Du Toit, 2004 & 2005). What could only be problematic therefore is the manner in which the second economy is integrated into the first economy. Most of the scholars who subscribe to this view argue that, so far, the post-apartheid government has tinkered with the question of developing the second economy since most of the initiatives which have been implemented do not go far enough in terms of challenging the structural causes of poverty and therefore problems of the second economy (Cousins, 2004; DuToit, 2004 & 2005). While poverty and informality are not synonymous as empirical evidence from various countries suggests otherwise, it is safe to say there is a significant overlap between two.

Some scholars (Devey *et al*, 2005; Lund & Skinner, 2005) have refuted the notion of a two-tier economy where there are two structurally disconnected segments, one formal and the other informal. Devey *et al* (2005) argue that instead of being structurally disconnected, there are 'close linkages between the formal economy and informal economy. Devey *et al* (2005) further note that it is problematic to look at the two sectors as two discrete categories and invoke Bromley's statement (1995) that "formality and informality are really the opposite poles of a continuum with many intermediate and mixed cases". Thus, trying to define the informal sector concretely or even assigning to it a set of specific characteristics has for many proved to be difficult if not impossible.

Considering the above arguments, we will examine a number of issues to ascertain the articulation of linkages between the formal and informal sector in the Makana area. Based on our empirical findings, it is clear that some forms of linkages are more evident than others. A number of pointers which may shed light on the debate on inter-sectoral linkages emerge from our data.

We will thus discuss the relationship between the informal sector and the institutional financial market, the instance of informal sector enterprises acting as distribution

channels for the formal sector businesses, the virtual absence of sub-contracting arrangements (the fact that we did not find any such arrangements can not be taken as conclusive evidence that they are totally no-existent. If they exist they are numerically insignificant), and finally social grants as a redistribution mechanism from the formal sector to the informal sector. We will, based on our findings discuss the issue of whether the ties between the formal and informal sector are exploitative or mutually beneficial. It would also be interesting to see if the thesis that the second economy (read informal sector) is structurally disconnected from the formal sector holds true.

### **5.3 Redistribution and the Informal Sector**

There is evidence of linkages between the formal and informal sector at a macro-level in the form of non-contributory pensions and remittances from household members engaged in wage employment. These income sources seem to cushion most informal sector operatives who would otherwise be unable to survive solely on the proceeds from their businesses. In the case of social grants, it is noteworthy that sales tend to increase during the times of payment. Most informal sector operatives revealed that business is brisk when different social grant recipients get paid.

At the moment business is a bit low. We enjoy good business when the pensioners get paid. Some of our good customers are child support grants recipients. We are very busy during on those days. We get many customers. It becomes easy to replenish stock when business is good. People have the cash (Interview<sup>44</sup>, 2/May/2006).

This is true considering that virtually all the informal sector operatives surveyed had intimate knowledge of the dates of payment for social grants. These are some of the times when they enjoy brisk business. During our fieldwork, it was extremely difficult to conduct interviews with respondents on social grant payment days. This is the time when informal sector operatives are busy so as to capitalise on this intermittent boom in business (Field notes, 2006).

### **5.4 Linkages with the Formal Financial Institutions**

In this study statistics indicate that a paltry 3.3 percent of the enterprises surveyed have obtained start up money from the commercial banks. In addition, even those en-

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<sup>44</sup> Interview with Lungelwa, Grahamstown.

terprises which were expanding their operations during the time of the survey indicated that the resources for expansion were ploughed back profits (16%), and only 2 percent were assisted by the commercial banks. Narrating the difficulties of obtaining finance from the formal financial institutions, one informal sector operative remarked:

Yes, because even if you go to the bank to apply for a loan they ask for a lot of things, things that you don't have, collateral security, clearance from the credit bureau and stuff. In the entire history of this business I have never been given financial help. I was on my own from the start; I'm still on my own (Interview<sup>45</sup>, 9/January/2005).

While in South Africa this has a lot to do with the legacy of apartheid as the divide between the rich and the poor tends to coincide with the racial divide, there are also other reasons which may be highlighted to explain this pattern. There is a general perception that poor people are not 'bankable' as a result of the high risk involved and the high costs incurred by the formal banks in servicing poorer communities. However, there are initiatives, locally and internationally which show that poor people's financial needs can be catered for economically without experiencing the frequently mentioned high rate of default and associated risks. The Grameen Bank of Bangladesh (Isandla, 1999) is an important international example while locally the Small Enterprise Foundation (SEF) project of Limpopo also gives very important pointers (DBSA, 2005).

### **5.5 Supply: Backward Linkages**

A staggering 89.9 percent of the businesses in the survey obtain their supplies from large formal businesses. This speaks to the fact that informal business play an important part in bringing goods produced in the informal to the poor neighbourhoods. Yet there is absolutely no sign of any goods moving from the informal sector to the formal sector. The relationship between wholesalers and small informal shops in the retail business is sometimes symbiotic and mutually reinforcing with the former offering discounts and providing goods on credit thereby practically saving small businesses from their perennial working capital problems. In the process, the wholesalers are guaranteed of the unabated flow of their goods to market niches which they would

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<sup>45</sup> Interview with Thandi, Grahamstown.

normally not be able to exploit directly. This inevitably means that the role of small business is far beyond that of mere distribution channels.

What the aforementioned issues suggest is that both instances of exploitation and instances of complementary ties have been observed in different cases. There is compelling evidence from this survey to suggest that the informal sector micro-enterprises rarely obtain goods from their suppliers on credit or at a discount (77%). Also, they do not seem to be any formal businesses as clients for the informal sector. What this means is that while small businesses act as distribution channels through which goods from the formal sector find their way to different market niches particularly in the poor neighbourhoods, these businesses do not seem to benefit beyond subsistence from this relationship.

Thus, in Makana Municipality the LED officer noted that there are two chambers of commerce one for whites and the other representing black business people in Grahamstown. These two organisations have not established any meaningful working relationship which hinders the growth of linkages between small and large businesses given that large business are usually white owned whilst small businesses are almost invariably black owned. At the time we conducted the field work, the LED office was making efforts to bring together these two sides (Interview<sup>46</sup> 2006). The issue of race is to some extent a barrier inhibiting the establishment of strong links between the small and big businesses in Makana.

### **5.6 Demand: Forward Linkages**

We probed if the informal sector micro-enterprises have large formal businesses as part of their clientele. This arrangement often involves the supply of raw materials or semi-finished products by the micro-enterprises to larger firms in the formal sector of the economy. All the informal sector micro-enterprises in this study indicated that their main clients are individuals. No mention was made of urban commercial enterprises or urban manufacturing enterprises. This finding is consistent with Liedholm & Mead's (in Liedholm, 2002) observation that market linkages between small busi-

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<sup>46</sup> 04 /April/2004, Interview with Local Economic Development Officer, Makana Municipality. The LED office was in the process of organising a series of business breakfasts to bring together black and white business people.

nesses and the large formal businesses in Africa and Latin are limited. Citing survey results from Malawi, Swaziland and Zimbabwe, Liedholm & Mead (in Liedholm, 2002) note that over 96 percent of the small enterprises for instance sell primarily to individuals. Similarly, in Jamaica small enterprises sell 87 percent of their products to individual customer.

Evidence from this survey indicates that most of the informal sector micro-enterprises cannot afford to buy their supplies in bulk so as to attain economies of scale yet they play an important role in distributing goods for the capitalist industries. This finding is consistent with that of Pearce *et al* (1998) in their study of street traders in Nigeria. Most of the informal sector micro-enterprises in our survey have meagre earnings (63.7% earn less than R 500 per month). Thus, while these informal sector micro-enterprises play an important role as distribution channels for goods churned out by the formal sector industries, this relationship does not seem to have a positive impact on the livelihoods of the majority of informal sector operatives. FGDs revealed that the informal sector operatives are in direct competition with large formal businesses with vast amounts of resources. The very businesses which sell to them at no discount tend to compete with them. This is particularly damaging to small informal sector operatives especially during those times when these large businesses have sales promotion campaigns. As one informal sector operative revealed during FGDs:

It's difficult to make profit. We struggle to find customers. Things are even worse when these big shops have sales promotions. When there are specials at Fruit and Veg, it's bad news for me. People will rush there and I usually have to take back my stock. These big businesses are killing us... (Interview, 23/January/2006<sup>47</sup>).

From the above, it can be surmised that there are strong backward linkages between the informal and formal sector whilst forward linkages are virtually non-existent. This is clearly evident in that all the informal sector operatives we surveyed supply individuals with no large formal sector businesses as clients. There is thus a significant movement of inputs from the formal sector in the form of raw materials, intermediate products or final goods. One of the fundamental roles which the informal sector plays, and which confers on it (the informal sector) a "less inferior status", as noted by

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<sup>47</sup> Focus Group Participant, Zintombizabo, Grahamstown,

Herschbach (cited in Ijaiya & Umar, 2004) is that of “providing informal sector industries with distribution channels”. As a result, informal sector operatives are “consciously or unconsciously involved in advertising and sale promotion for the formal sector organisations and thus creating greater awareness and consumption” (Ibid.).

Admittedly, the informal sector enterprises in this study seem to perfectly fit the role of distribution channels yet there seems to be very few positive outcomes obtaining from these arrangements. While product suppliers together with banks have been identified as favourable capital (credit) sources, because these result in the highest levels of capital accumulation’ (Teltscher, 1994:174), this study reveals that very few of the informal sector operatives obtain credit or discounts from suppliers and indeed loans from commercial banks. However, informal sector enterprises play a very crucial role in distributing goods produced in the formal sector. Ijaiya & Umar conclude that the informal sector is not just “what the poor do but those activities which supply the needs of the poor and improve their living standards” (2004:98). The role of the informal sector goes far beyond the traditional conceptualisations of the sector a backward and lacking developmental potential due to the unproductive nature of the activities and the negligible incomes.

In conclusion, the formal and informal sector are not at all ‘structurally disconnected’, if anything, they are strong linkages between the two sectors which means that the only debatable issue is whether these ties are exploitative or mutually beneficial. Again, it is not just a matter of these linkages being either exploitative or mutually beneficial. Rather than a discrete characterisation of the nature of linkages between the two sectors, it appears that different forms of linkages are operational at any particular time which means that the informal sector, in Mhone’s (1996) words, “consists of an heterogeneous compendium of activities which play various economic roles” (1996:9).

### **5.7 Relations with municipality**

The role of local government in local economic development is very fundamental because of its relatively direct contact with the people relative to central government. Thus it is widely accepted that the most effective ways of for governments to promote informal sector activities is through the local authorities who are in direct contact with

informal sector operatives relative to other levels of government. Sections 152 (c) and 153 (a) of the South Africa's 1996 Constitution confer on the local government the task of promoting local economic development (Nel, 2001; Carmel, 2000; Rajaratnam *et al*, 2000). This inevitably implies that local government has profound influence in shaping the environment within which the informal sector micro-enterprises operate. However, the relationship between the informal sector operatives and local authorities in South Africa has not been without problems, the progressive language in the policy documents notwithstanding.

While informal sector activities were heavily restricted during apartheid days there is, in some instances, a persistence of the acrimonious relationships between these two parties—the informal sector operatives and local authorities. This is frequently characterised, on the one hand, by suspicion and lack of trust on the part of the informal sector operatives. On the other hand, while it appears on the surface that local authorities have embraced the informal sector as having tremendous developmental potential to reverse problems of poverty and unemployment, the perceptions underlying the socio-economic policies of the local government indicate lack of policy clarity.

The 'conflictual' and 'turbulent' relationship between informal sector and policy makers is not unique to South Africa. Similar trends have been observed in many other countries of the world whether in the 'South' or in the 'North'. In this section, we will examine the nature of relations between the informal sector and the local municipality. Drawing from the empirical evidence in our study, we will demonstrate ways in which the different incidents are actually reflective of the policy orientation of the Municipality and indeed how this has shaped the way in which the municipality is perceived by the informal sector operatives. We will also try to relate these observations to other empirical findings. We sought to probe if there are any instances of bribery in the informal sector where informal sector operatives give money, goods or services to municipal officials whenever they make their routine inspections. The majority (97.8%) of the respondents reported that there were no such incidents and only a paltry 2.2 percent involved in trade (from Grahamstown) confirmed that there are indeed instances of bribery. Thus, the survey does not confirm the widely held view that informal sector operatives are frequently exploited by government officials since they usually operate outside the regulatory framework

## 5.8 Registration and Licensing of Informal Sector Enterprises

The registration of businesses within the informal sector is one of the major requirements by the authorities in virtually every country. However, most of the businesses within the sector operate outside of the regulatory framework as unregistered businesses. Thus, in the literature, one of the frequently mentioned features of informal sector micro-enterprises is that they are ‘typically unregistered’ (Fluitman & Momo, 2002:25). In their study of the determinants of registration, McPherson & Liedholm (1996) conceptualise factors which inhibit businesses from registering as fiscal costs and transactional costs. The latter refers to the indirect costs of registration, for example travel expenses while the former refers to the actual registration fee required by the authorities.

**Table 5.1: Cross tabulation of Location and registration of business**

		Registration		Status	
		Yes	No	Total	
	Location				
Count	Market	10	6	16	
%		62.5%	37.5%	17.6%	
Count	Home	5	24	29	
%		17.2%	82.8%	31.9%	
Count	Service	11	1	12	
%		91.7%	8.3%	13.2%	
Count	Street	18	16	34	
%		52.9%	47.1%	37.4%	
Count	All Groups	44	47	91	
%		48.4%	51.6%	100%	

Chi-square = 21.824, df = 3, p = (.000)

In Makana Municipality the licence fee is ten rands for street vendors selling fruits and vegetables. For the other groups selling non-perishables, the licence fee is thirty rands. From the data, it is evident that about 48.4 percent of the businesses are registered with the municipality while the other 51.6 percent is not registered. Registration is an important issue when studying the informal sector because it is one of the central aspects in the definition of informality. The fact that more than half of the businesses are not registered with the municipality is consistent with the view that most informal sector enterprises are unregistered. However, further analysis of registration in relation to gender, educational attainment and location of the business will provide insights into the nature and characteristics of the informal sector enterprises we sur-

veyed. We tested if the location of a business correlates with the registration. There is a statistically significant<sup>48</sup> relationship between the variables location and registration. From the contingency table, it is clear that 62.5 percent of informal sector operatives located in the market are registered whilst 37.5 percent are unregistered.

For HBEs, a significant proportion (82.8%) is unregistered while the other 17.2 are registered. With service outlets, a huge proportion (91.7%) are registered and only 8.3 percent of the micro-enterprises in this sub-group are not registered. Interestingly, more than half (52.9%) of the street traders are registered and the remaining 47.1 percent are unregistered. The HBEs predominate in the category of unregistered enterprises. The statistics indicate that they form more than half (51.1 %) of the unregistered micro-enterprises in the whole sample. A sharp contrast to this trend would be the service outlets where only one micro-enterprise is unregistered.

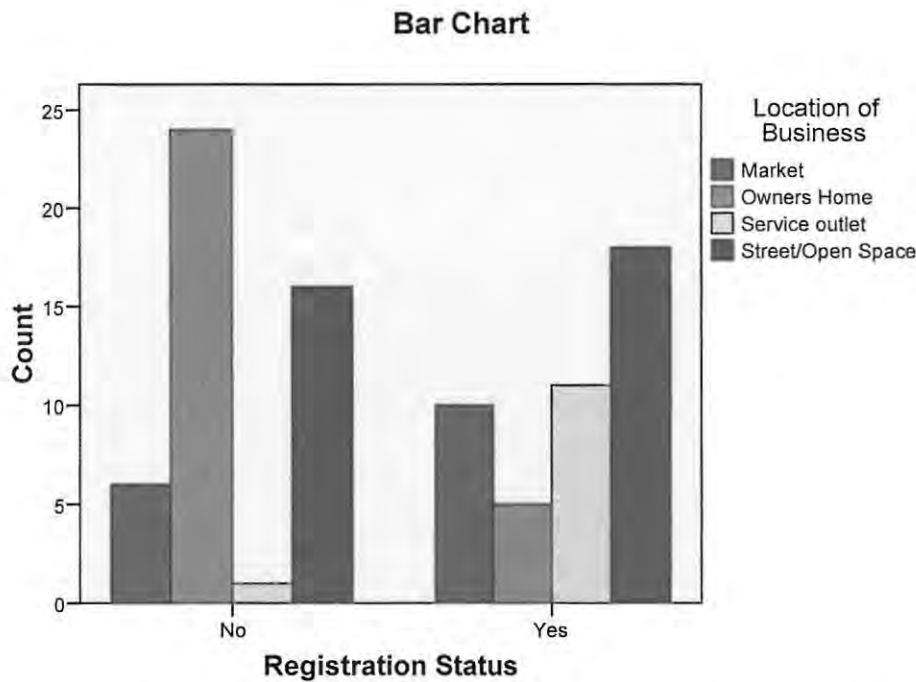
The tendency of HBEs not to register relative to businesses located outside the home is consistent with the premise that 'home workers' find it easier to evade the regulatory requirements because they are invisible to the authorities. Similar trends were observed in McPherson & Liedholm's (1996) study of the determinants of registration. With data drawn from Swaziland and Niger, they note that HBEs were 42 percent less likely to register than those operating outside the home. Conversely, micro-entrepreneurs plying their trade in municipal markets (designated areas); in the open street or operating service outlets will naturally find it difficult to escape regulatory requirements like paying rent and taxes. They are thus highly visible which makes it difficult to escape regulation.

The second assumption is on the relationship between the gender of the entrepreneur and registration status. It is widely acknowledged that female micro-entrepreneurs experience more problems in registering their businesses relative to their male counterparts. In addition to their economic activities in the informal sector, women also have domestic duties to perform.

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<sup>48</sup> The data is not asymptote compliant since it violates the Pareto rule. We therefore opt for the results under exact significance under Monte Carlo. For the relationship between location of business and registration status the Chi-square is 21.824,  $df = 3$  with an associated significance of ( $p < .000$ ). There is therefore a strong relationship between location of business and registration.

Figure 5.1: Bar Chart showing association between location and registration status



The assumption is that because of their additional traditional roles, for example, childcare, the opportunity costs of taking the time to go through with the registration process may be higher for females than for males (McPherson & Liedholm, 1996). The test of association for this assumption is not statistically significant. The data to suggest that there is no relationship between the gender of the entrepreneur and registration<sup>49</sup>.

Thus, while some studies have identified the tendency for women to operate home-based enterprises (ILO, 2002) it is significant to note that in this study most informal sector operatives working from home were not there because of their gender (being female). The nature of home-based work needs to be explored.

Mostly, the HBEs were set up by individuals who would have accumulated enough capital to escape the harsh conditions in the streets. Most of these HBEs are spaza

<sup>49</sup> A Chi-Square of .798 with  $df = 1$  and an associated p-value of .372 means that our data conforms with the null hypothesis. This is under the asymptotic method since only 0 cells (.0%) have expected count less than 5. The minimum expected count is 13.05. (Data is asymptote compliant).

shops which require some capital for such fixed assets as proper shelter, refrigerators and shelves. During the field work, we noted that most home-workers sell a wide range of products compared to street traders for instance. Their products include soft drinks, alcoholic beverages, cigarettes rice, maize meal, and sugar. Conversely, street traders (except for the few selling relatively expensive clothing items), their products are mainly fruits and vegetables as well as cooked food.

The point here is that the overlap between home-based work and being female is not very significant as is the case in other studies. Working from home is not necessarily a result of being trapped in the precarious work which is merely an extension of women's domestic chores but we find informal sector operatives who have graduated from the street. These are not necessarily female. Given these points, it is clear that women do not predominate in the home based activities which form the majority of unregistered businesses. This could be the reason why there is no statistically significant relationship between the gender of the entrepreneur and registration status.

We also tried to ascertain if the informal sector enterprises are inclined to formalise by asking if they thought it was a good idea for their businesses to be licensed. More than half of the respondents (61.5%) did not believe that licences are good for their businesses and the other 38.5 percent of the respondents thought that licences should be issued to informal sector businesses. This clearly indicates that most of the businesses would not readily formalise which confirms the popular view that informal sector enterprises naturally find it suitable to operate outside the regulatory framework. This finding is consistent with the notion that illegality is one of the defining characteristics of informality hence the term 'legal informality'<sup>50</sup>. More often than not, "...informal enterprises are not registered and do not comply with legal obligations concerning safety, taxes, labour laws..." (Bigsten *et al* 2000:3). Some scholars assert that operating illegally is essential for the micro-enterprises since the regulatory requirements may be cumbersome and costly for them (DeSoto, 1990).

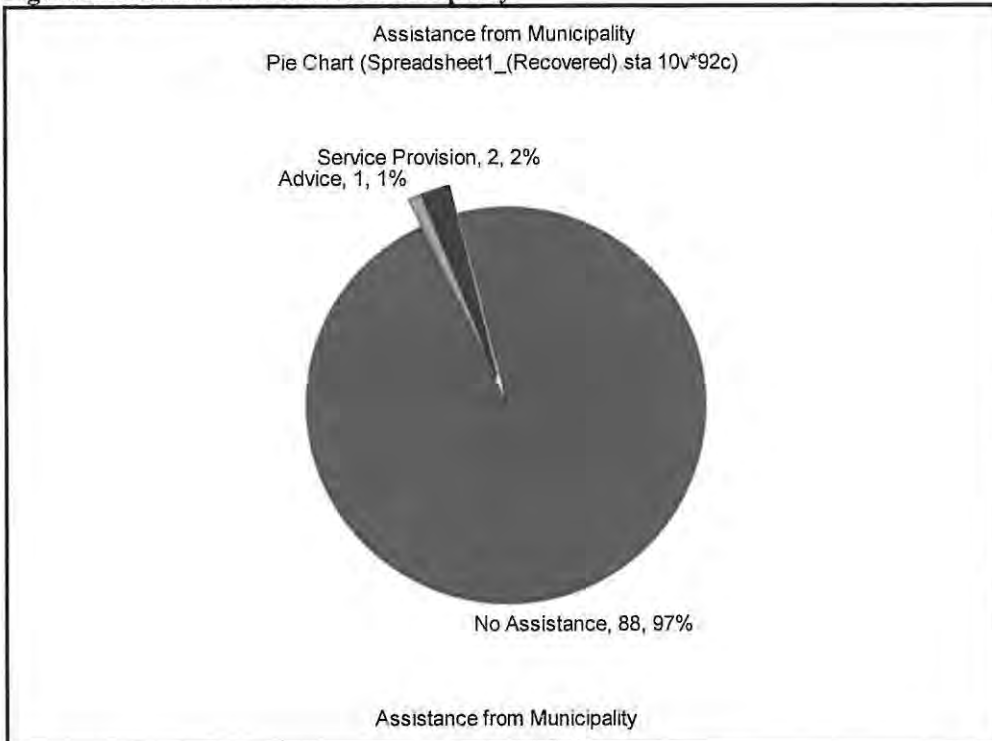
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<sup>50</sup> This does not necessarily translate into illegality. Some scholars have noted that the terms formal and informal sector are mere social constructions (Sanders, 1992; Musiolek, 2002). What constitutes the formal or informal sector tends to shift over time (Harris, 1990).

## 5.9 Assistance from the Municipality

In this study most of the respondents interviewed did not know who to approach for assistance in the municipality or the role of the different municipal officials in promoting informal sector activities. When asked about the kind of help they were getting from the municipality, the majority of the informal sector operatives (96.8%) reported that there was no assistance forthcoming from the municipality.

Figure 5.2: Assistance from the municipality



About 2.2 percent mentioned service provision while 1.1 percent reported business advice as the form of assistance the municipality provided. This question generally elicited negative responses from the informal sector operatives. Negative commentary is quite prevalent amongst informal sector operatives. The lack of faith in the authorities is also evident with many of the informal sector operatives never making efforts to approach the municipality or any relevant organs for assistance. The explanation for this disturbing trend is that people are not adequately informed about the programmes and initiatives available in the area. This, therefore, requires more concerted efforts by the municipality's relevant departments to publicise the existing services<sup>51</sup>

<sup>51</sup> The Makana Local Economic Development Office for instance also acts as a centre where informal sector operatives can access information on the various national agencies and their programmes for

so as to increase their visibility. With all these factors at play, it is not difficult to understand why there is a general feeling amongst the informal sector operatives that the authorities are not genuinely committed to the development of their businesses and upliftment of their welfare.

The negative perceptions amongst the informal sector operatives on the local municipality's interventions in developing the sector are not an unusual trend in South Africa. Interestingly, these pessimistic perceptions have frequently occurred against the background of the many initiatives at all levels of government (national, provincial and local) to promote the development of the second economy.

Goldstuck (2004:46) observes that there is generally a "consistent, negative commentary on government's initiatives" which masks the numerous government-initiated small enterprise development programmes. What this therefore means is that no matter how well thought out a programme might be, its accessibility can not be taken for granted hence the need for greater visibility, awareness raising and participation by the target beneficiaries. Indeed, Goldstuck (2004:49) further notes that in spite of the numerous government programmes targeting the small businesses, there is "overwhelming evidence that small enterprises are deeply sceptical about the effectiveness of government's small enterprise support programmes".

### **5.10 The Needs of Informal Sector Operatives**

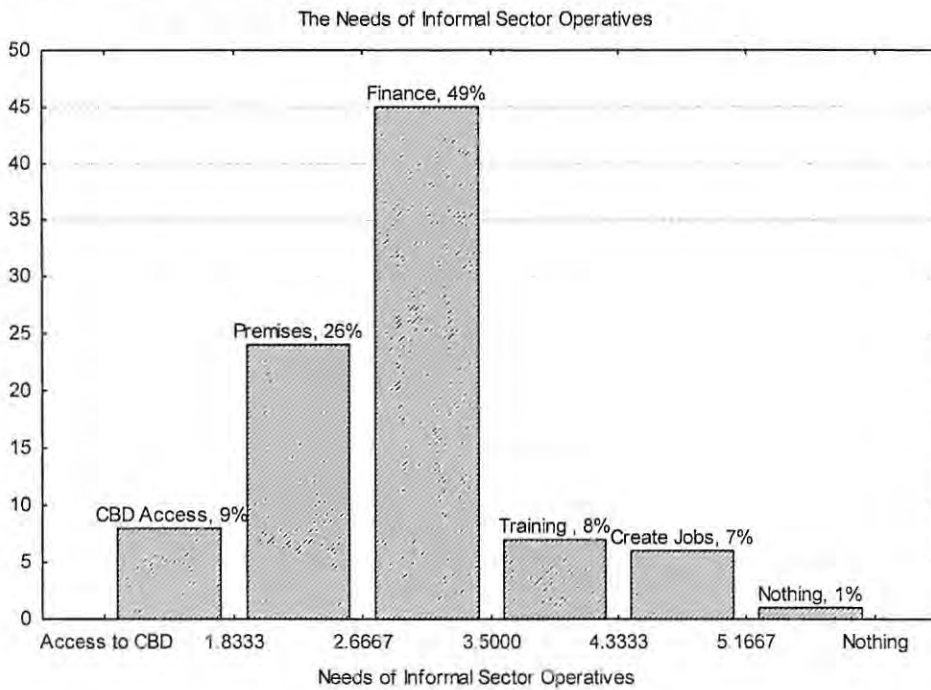
Statistics from the survey indicate that the most prominent need for informal sector operatives is access to finance followed by the need for proper working space. This is not surprising given that links between the informal sector and financial institutions are practically non-existent. Thus, only a paltry 3.3 percent reported that they obtained funding from the commercial banks. There was no evidence of funding from Development Banks or the NGO Sector. The need for proper working space is also significant. This is also because the majority of the micro-entrepreneurs ply their trade in the open street. Closely related to the lack of working space for informal sector operatives is the need for more access to the CBD. Training and advice were also cited as an

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example the Khula Enterprise Finance and the Ntsika Enterprise Promotion Agency. Yet very few informal sector operatives seem to have been to that office as data on the relations of the micro entrepreneurs and the municipality shows.

important need while the need for job creation so as to increase the customers' disposal income was also cited. Only 1.1 percent of the informal sector operatives did not express any expectations from the municipality.

**Figure 5.3: The Needs of Informal Sector Micro-entrepreneurs**



Clearly, the two most prominent problems, that is, the lack of finance and proper working space need to be discussed in detail. In South Africa's case, the lack of access to institutional financial credit by micro-entrepreneurs, other small businesses and the poor in general has its roots in the discriminatory policies of apartheid. This discriminatory policy had the effect of creating a highly fragmented financial market. Thus, during apartheid, financial institutions almost invariably provided loans to "well established firms, corporations, and a few privileged individuals" whilst those of a lower socio-economic status had to resort to the 'informal system of credit' which takes variant forms namely unregistered money lenders (*Omashonisa*), Stokvels (*Amafele*), rotating credit associations (ROSCAs) (*Umgalelo or the Gooi-Gooi*) (Siyogwana, 2004: 853).

The above gives us insights into how the informal sector operatives accumulate personal savings given that there is virtually no link with formal financial markets. The

FGDs revealed that some of the informal sector operatives participate in informal group saving schemes or *stokvels*, a popular strategy amongst South Africa's poor. However, the fact remains that the lack of linkages with the financial sector leaves a majority of the poor people vulnerable to exploitation by the loan sharks who charge exorbitant interest rates. During conversations with some informal sector operatives it was widely believed that business is going down because most people are trapped in debt as they continue to service their loans. This leaves potential informal sector customers with little disposable income.

Thus, one of the prevalent problems associated with the use of informal credit is high interest rate charged by the unregistered money lenders. This has negative implications for the viability of businesses within the micro-enterprise sector. Whilst no respondents reported to be lending money unregistered money lenders commonly known as loan sharks, there was a general feeling amongst the informal sector operatives that the activities of these informal money lenders have drastically reduced business as most informal sector clients find themselves trapped with little disposable income. One respondent for instance noted that:

Most people have no reliable source of income. They don't buy things on cash mostly because they are trapped in debt. People get cash loans from *Omashonisa* and the loan sharks charge exorbitant interest rates. Business was good before 1997 but from 1999 onwards there are now many loan sharks (Interview<sup>52</sup>, 27/January/2006).

The fact that no informal sector operatives reported having obtained loans from unregistered money lenders can not be taken as conclusive evidence that there is no use of this source of finance for business operations. This is particularly true if one considers that there is some stigma associated with the use of such financial sources which inevitably implies that people will not readily acknowledge to be using money from the loan sharks.

Siyogwana (2004) has argued that the problem of lack of access to finance, whilst frequently cited in most discussions on the problems constraining the meaningful growth and expansion of informal sector establishments, only provides a partial explanation

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<sup>52</sup> Zintombizabo, Grahamstown

of the nature of problems experienced in the sector since there are much more profound underlying problems. Indeed, in our study nearly half (49.5%) of the informal sector operatives cited access to finance as their most urgent need but this in itself could be a function of many other factors with lack of access to finance being the ultimate manifestation of these complex problems. This speaks to the fact that problems experienced by informal sector operatives are much more profound and not reducible to lack of access to credit, in spite of it being the most cited operational problem. Other problems worth examining for instance are lack of information about interventions in the sector and limited market access which may leave an informal sector operative badly positioned to access credit.

In this study it emerged that there is lack of premises for informal sector businesses within the central business district. A sizeable percentage of the informal sector operatives plied their trade in the pavements (36.3% because of lack of proper working space) whilst others work from home (31.9%). Some respondents working in the open streets had aspirations to work from home. Questions about future plans often elicited the response "I want to establish a spaza shop". Operating a HBE is seen as a way of escaping the hostile environment in the streets. Only 17.6 percent are located at the market and the other 13.2 percent have service outlets. The lack of proper working space has seen the commercial district becoming a 'contested zone' as the informal sector operatives struggle to obtain proper working space in the heart of the town. It is noteworthy that this problem is prevalent in Grahamstown. The contested areas of a commercial district which frequently cause tensions between street traders and the authorities have been characterised as conflict zones (Bromley, 2000). However, the situation in the Makana Municipality has not reached crisis proportions to warrant the use of the term 'conflict zone'. Street trading in Alicedale's commercial district is virtually non-existent. This town would qualify in the category of South Africa's dying small towns (Ruhiiga, 2000). We therefore discuss the tensions between the authorities and street traders in Grahamstown.

The presence of informal sector operatives within the Grahamstown CBD where most historical buildings are located is undesirable because they may distort the image of Grahamstown as a tourist attraction with well kept historical buildings. Street traders therefore need to be controlled because if they are allowed to ply their trade anywhere

in town this might put off tourists who are an important source of income for the municipality. As one municipal official put it:

Grahamstown...there is a lot of tourism that's coming into Grahamstown and Grahamstown is one of the few towns that can still say that the church square area looks exactly the same, except for the paint and whatever, exactly the same as in the 1820s or when they started building Grahamstown...Now you don't want somebody to come and take a picture and there is a fruit and vegetable or whatever person standing in front of it making a mess or whatever the case maybe...They (tourists) are not going to come here, and they are not going to take pictures, so we are going to lose a lot of money; income we are going to lose that (Interview<sup>53</sup>,04/August, 2006).

This kind of thinking assumes, immanently, that the informal sector is bad for tourism. With respect to Nairobi in Kenya, Elkan *et al* (1982) have observed similar trends. Alkan *et al* (1982: 255) refer to "the obsession to represent Nairobi as a modern Western city, giving it the appearance of prosperity by sweeping all signs of poverty off the streets". This is consistent with Bromley's (2000) observation that in the urban area there are certain highly contested spaces. Whilst in most instances "contested zones"<sup>54</sup> make up less than five per cent, and sometimes less than one per cent of the urban area, it is in these areas that most of the tension and conflict associated with street vending is acted out". The central business of Grahamstown particularly areas with historical buildings can therefore be seen as a 'contested zones'. The authorities are mostly protective of such spaces in the urban areas not only because of their historical value but also because it compromises the quest for modernity which has frequently been applied as a yardstick for development and prosperity.

In the case of Nairobi City for instance, Elkan *et al* (1982:249) note that the council "was imbued with the idea that development must be orderly, planned and controlled". Inevitably, "any signs of poverty had to be 'swept out of sight' so as not to offend those who so proudly proclaimed Nairobi the most modern city of tropical Af-

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<sup>53</sup> Health Inspector Grahamstown

<sup>54</sup> Bromley (2000) also characterises the contested urban spaces as conflict zones. However, the town of Grahamstown, where there is significant street trading, is quite small relative to metropolises like Johannesburg and Durban. While there are tensions between the authorities and street traders, these have not reached crisis proportions to warrant the use of the term conflict zone. We therefore opt for the term contested zone.

rica” (Ibid). This feeds off from the perception that informal sector activities are a “manifestation of poverty and underdevelopment” and their disappearance reflect “progress towards the brave new developed world prosperity” (Bromley, 2000:12).

Indeed, some of the informal sector operatives we interviewed expressed concern over the municipality’s tendency to push them away from the CBD where business is brisk to the designated areas which are not only far removed from the centre of town but which are also not well maintained and filthy. As a result, most customers shun the designated areas. As one female informal sector operative revealed in an interview:

They want us to sell our stuff from the designated places but these places are not clean. Customers shun those places because they are dirty. The taxi rank is one of the places where we are allowed to do business. It is too isolated and not many people go there when compared to the CBD which is frequented by many people. It seems they don’t want us in the CBD. They say our presence results in overcrowding and this encourages crime and this is not good for tourism. They also say we make the CBD dirty. But even if they clean the designated area (At the taxi rank) we won’t go there because there is lots of competition. We end up competing for the few customers who use the taxi rank (Interview<sup>55</sup>, 04/August/2006).

Whilst the need to have informal traders at one central place might be a good idea to purposes of portraying the town as well planned and conducive for tourists and other elite groups, for income generation within the ‘modern formal sector’, there might be need to balance this with the imperative of employment generation especially more so considering the ‘limited labour absorptive capacity’ of the formal sector. As Elkan, Ryan & Mukui in the case of Nairobi have argued that:

in a poor country, very short of capital and income earning opportunities, the desire for tidiness and the appearance of modernity, should be regarded as subservient to the paramount need not to forego any opportunity to provide poor people with what ever opportunities they may be to earn an income by satisfying a demand (1982:256).

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<sup>55</sup> Health Inspector, Grahamstown.

The general feeling amongst informal sector operatives is that the municipality accords the needs of the formal sector businesses a higher priority status. Apartheid left most people very mistrustful of the authorities with the result that even today very few people have the confidence to approach the municipality for assistance. This is not helped by the fact that informal sector activities frequently operate outside the ambit of the law which further diminishes chances for a more meaningful relationship with the authorities as the latter are naturally inclined to push for a highly regulated environment with 'legitimate', 'law-abiding businesses'.

FGDs revealed that informal sector operatives endure harsh weather conditions due to lack of shelter. During the field work phase, we noted that the streets were virtually empty on rainy days and business would come to a standstill. One of the informal sector operatives remarked that lack of proper shelter is one of the most prominent problems they experience. In his words:

Firstly, shelter is a problem. Why I say that it's because we work under terrible conditions. Like my colleagues have said, we often endure all sorts of bad weather. Shelter is definitely needed. Just a place that will protect us from bad weather (Interview<sup>56</sup>, 14/June/2006).

The lack of proper working space for informal sector operatives to ply their trade is mostly attributed to the unavailability of land and lack of capital on the part of informal sector operatives to acquire land and to build proper premises. Municipalities have also tended to adopt biased 'elitist urban planning strategies' where the needs of the less powerful groups like informal sector operatives are secondary to those of the modern informal sector for instance.

The modern formal sector is thus seen as providing the right platform for meaningful economic development hence it is naturally accorded a higher priority status in urban planning. According to Simon (1998:554) this explains "the inadequacy of physical urban policies" in terms of incorporating the "spatial needs of micro-enterprises". In the case of Kaduna, this biased approach to town planning has resulted in high "loca-

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<sup>56</sup> Amon, Focus Group Participant, Grahamstown.

tional costs” which consequently constrains informal sector operatives from acquiring proper sites for their operations (Simon, 1998:551).

In the light of such problems, it is imperative for interventions in the informal sector to go beyond the ‘soft approach’ which entails the building of associational life, for instance. Equally important is the hard approach where interventions emphasise ‘infrastructural development’ together with ‘credit’ and ‘service’ for instance (Isandla, 1999:23). The lack of infrastructure for instance might be the reason why manufacturing activities in Makana’s informal sector are virtually non-existent. There are no centralised workshops for informal sector operatives involved in manufacturing to perform their work. In other countries these centralised workshops have been useful in promoting clustering and helping the businesses to attain agglomeration economies (Livingstone, 1991). Such arrangements are frequently referred to as industrial clusters or business incubators. Without well developed infrastructure it is difficult if not impossible to carry out such activities in the streets.

### **5.11 Official Perceptions of the Informal Sector**

The way in which the informal sector is perceived by the authorities is very important. In many instances, civil authorities tend to privilege the formal sector as the primary avenue for realising development while the informal sector is accorded a lower priority status. Lund & Skinner (2005:12) refer to the ‘institutional location’ of informal sector activities as an important way of ascertaining the priority status accorded to the informal sector and indeed how the sector is perceived in general. They note that instances where the Health, Traffic or Policing departments are the main arms of local government in its relations with informal sector operatives are reflective of negative perceptions towards the sector “as health hazard, as obstacle to clear flows of traffic, and as a criminal threat” (Lund & Skinner, 2005:12). It is significant to note that in Makana municipality, the Health Inspectorate is the main municipal office which handles informal sector issues from registration, licensing, and ensuring conformity to municipal regulations by alerting the local police particularly the traffic department when necessary. In explaining how the municipality relates with informal sector operatives, the Health Inspector said.

The Environment and Health Section are only doing the administration. We identify the trading spots. The people have to pay a certain amount of money for that trading spot, so they are the owner of that trading spot, they come in and pay their rands and they get a receipt together with that receipt and the permit that we give them they can show that either to the police or traffic department and there wont be a problem, if they don't have that, then they are in trouble (Interview<sup>57</sup>, 04/August/2006).

Lund & Skinner (2005) argue that such an approach is not progressive since it fails to acknowledge the centrality of informal sector activities to the development of local economies. They contrast this restrictive policy orientation to the progressive policy approaches of the Durban and Cape Town Municipalities which have their economic development departments spearheading informal sector policies. With reference to Durban Municipality, which is often cited as having the most progressive informal sector policy amongst South Africa's municipalities, Devey *et al* (2005:11) note that "the informal sector is recognised as an integral component of the economy, and support for informal economic activity is based on a coherent and overarching policy".

Although the LED office in Makana Municipality considers the informal sector to be an important part of the economy vital for employment generation and poverty alleviation, it seems to be trapped in the 'SMME language'. Some scholars have argued that the informal sector and the SMMEs are not the same thing. The only overlap is between the micro-enterprises and the informal sector. While there is an overlap, for policy purposes greater clarity is needed. Sainz & Larin (1994) observe that there is a tendency to "explain informal rationalities in terms of formal ones", a kind of "formal ethnocentrism" which has seen such terms as 'entrepreneurship' being employed to describe the "inventiveness" of informal sector operatives as they grapple to survive.

### **5.12 Harassment of Informal Sector Operatives**

Admittedly, statistics from the survey indicate that bribery in the informal sector is a rare occurrence, yet the qualitative data from our in-depth semi-structured interviews compels us to further highlight this issue. Focus group participants voiced misgivings about the government's attitude towards small businesses. It emerged that foreign informal sector operatives are particularly vulnerable due to xenophobia.

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<sup>57</sup> Interview with the Health Inspector, Grahamstown.

These guys are a problem. They visit your businesses premises every time demanding all sorts of documents. They can ask for the same document several times. They ask for many things. If you show them that you are scared, they won't leave you alone. They don't want us here that's the problem (Interview<sup>58</sup>, 17/January/2006).

Whilst in the survey very few of the foreign informal sector operatives admitted being asked for money by municipal officials and other law enforcement agents, during the in-depth interviews some of the informal sector participants from this group revealed that there were instances where they were ended up paying officials to ensure that their concerns are addressed quickly as there was a tendency not to respond with alacrity on the part of the municipal officials. During informal conversations some of the foreign informal sector operatives revealed that there were cases where law enforcement agents would repeatedly harass them by endlessly asking for identity documents and this is a sign that one should bribe them so as to get them off one's back.

In the final instance, however, it is important to note that there were no cases where municipal officials or the police directly asked for bribes from these informal sector operatives which means that although corrupt tendencies do exist amongst some of the few government officials, it takes an implicit rather explicit form and particularly vulnerable are the foreign informal sector operatives especially those staying illegally in the country as they have no recourse to the authorities since they risk exposing their illegal status (Field notes, 2005). From the research, it was difficult however to ascertain if there was any prevalence of negative attitudes towards informal sector operatives from foreign countries within the official circles. Indeed, only one local government official openly admitted that he had suggested, in one of the meetings on formulating by-laws for street trading, that they exclude foreign nationals from the official definition of an informal sector operative to allow for developmental initiatives to be effective by targeting the 'deserving' locals. However he was out voted by his colleagues. This is an isolated case and can not be generalised as reflective of the dominant sentiment within the official circles.

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<sup>58</sup> Interview with James, Grahamstown.

### 5.13 The Associational Life of Informal Sector Operatives

The lack of a robust associational life amongst the informal sector operatives was evident throughout the research. The inability of the informal sector operatives to collectivise has many negative implications. Naturally, the problems experienced by informal sector operatives would have less negative impact if there is greater organisation within the sector. The numerous problems which may inhibit the ability of informal sector participants to effectively organise notwithstanding, organising can help informal sector operatives to overcome most of their problems. According to King (2001:106) “emerging communities of informal sector entrepreneurs can be assisted by specific indigenous trade and business associations”. This scholar further argues that in East and Southern Africa little has happened in the way of forming associations for informal sector operatives which calls for a “degree of formalisation of informal sector expertise” (King, 2006:106). Conversely, in West Africa informal sector operatives are fairly organised. The lack of meaningful organization by East and Southern Africa’s informal sector participants emanates from the dominance of “chamber of industry and commerce representing the interests of the large scale and medium non African industrialists, it is difficult for informal sector associations not to appear like some part of a minor universe” (King, 2001:106).

Pearce *et al* (1998:396) identify a number of advantages that come with having associations for informal sector operatives. A vendors’ association could help facilitate loans from formal sector agencies such as banks. The organisation would be the body to approach the agency to negotiate loans. Individual vendors could then borrow small amounts from the association at low interest rates. Alternatively, registered members could obtain loans directly from the lending agency with the organisation standing as a guarantor for the loan. If an individual member fails to repay the loan, all members would be held responsible. This method has proved successful in Manila and the Dominican Republic. Through an association, information that could help the members could be easily passed on along. Also possible is to explore the possibility of bulk buying among members and the storage of purchased items. An association undoubtedly has more bargaining capacity than individual informal sector operatives and it is better able to “develop methods of obtaining supplies and bypass the expenses incurred in the present approach to purchasing raw ingredients and equipment” (Pearce

*et al*, 1988:395). This is particularly important given that lack of liquid capital is an enduring problem that frequently inhibits informal sector micro-enterprises from attaining economies of scale and enjoying the resultant lower costs and profitability.

## **CHAPTER 6 CONCLUSION: CONCEPTUAL AND DEFINITIONAL ISSUES RECAPTURED**

### **6.1 Introduction**

In this concluding chapter, we will recapture the definitional and conceptual aspects of the term “informal sector”. To accomplish this, we will highlight some of the findings from the study. The central issues which need to be examined include the dualistic conception of the term informal sector; this is fundamental considering that the notion of a ‘two-tier’ economy’ in South Africa is in vogue several decades after it was falsified. Secondly, we will highlight the lack of conceptual clarity in the use of the term informal sector and the tendency to lump together a heterogeneous set of activities under one umbrella term, ‘informal sector’. In South Africa, this problem is further complicated by the use of the category SMMEs without direct reference to the informal sector. While there is an overlap between the micro-enterprises and the informal sector for example, there are instances where there is lack policy clarity—using the whole SMMEs category and the term informal sector interchangeably. The tendency to bundle together all activities that do not fall within the formal sector into one category irrespective of their heterogeneity is problematic. Those enterprises at the lower end or the poorest of the poor are frequently overlooked. The category ‘SMMEs’ just like the concept of the ‘informal sector’ is of little heuristic value insofar as it leads to failure to disaggregate economic activities of different sizes and economic potential.

### **6.2 Linkages with the formal sector**

The idea of a ‘two-tier’ economy remains one of the most discussed concepts in South Africa. According to Devey, Skinner & Valodia (2005:1), “arguments about dualism and the relationship between the mainstream of the economy and the periphery have characterised much of South African historiography”. Mafeje (1973:39) wrote about the fallacy of dual economies arguing that there is ample evidence to show that “economic integration in South Africa is an accomplished fact and this has been the case for the greater part of the century”. Mafeje (1973:44) makes a compelling argument that “the village is visibly different and removed from the city or the plantation but its members are not. They are agents of processes they never willed nor have come to appreciate”. It is therefore fallacious to see the impoverishment of the people in the

'second economy' as independent and divorced from the development of the 'capitalist', 'modern sector'. The abiding weakness of dualistic conception is that it "commences its analysis from spatial location-market; sectors e.t.c—rather than modes of performance of labour and surplus appropriation" (Adesina, 1992:39).

In this study, there are certain ways in which the relationship between the formal sector businesses and informal sector micro-enterprises is manifested. The most salient aspect of the relationship between the informal sector micro-enterprises and the formal sector businesses in our study is evident in the 'value chains' or the distribution of products produced by formal businesses to small market niches. According to Welings & Sutcliffe (1984:539), large formal businesses are poorly placed to directly penetrate poor and smaller markets because of "...their dependence on scale economies, up-market tastes and their relatively large capital/labour ratio...". The majority (90%) of the informal sector operatives in our sample obtained their supplies from the formal sector businesses. However, there was no evidence of forward linkages whereby the informal sector enterprises supply large formal businesses. The informal sector operatives in the survey sold their products to individual customers. It is also worth noting that the sample informal sector micro-enterprises seldom obtain goods from their suppliers on credit or at a discount (77%). From the above, it can be surmised that the relationship between these micro-enterprises and the formal sector (suppliers) is an unequal one.

Informal sector micro-enterprises also ensure that goods from the capitalist formal businesses are widely distributed. Selling goods in smaller portions is a way in which products from large businesses reach the 'poor customers' who cannot afford to buy in bulk. The case of Nomasiko is very instructive in this regard. Nomasiko runs a small spaza shop; she buys foodstuffs like sugar from the local wholesaler and re-packages them into small portions that are more affordable compared to the standard packs. This is very convenient for the poor people in her neighbourhood (Field notes, 2006). The street traders selling cooked food in our study obtain their supplies from the local formal businesses. They prepare their food and sell it in smaller and more affordable portions compared to the standard meals in the restaurants within the formal sector. In a study of informal sector micro-enterprises in Peru, Hays-Mitchell

(1993:1093), notes that these activities "...form an effective distribution network that extends the local marketing system".

The failure to obtain goods on credit and to access credit from supplier has negative implications for the viability of these micro-enterprises. The main problem is lack of adequate cash circulating in their businesses. Cash-flow problems often result in failure to replenish stock. In spite of the important role they play in the distribution of goods from capitalist enterprises in the formal sector, the majority of informal sector micro-enterprises in our sample do not seem to derive any meaningful benefits from this constellation besides subsistence.

What is clear from our findings is that the informal sector is not isolated or separated from the formal sector. There are profound links between the enterprises from both sectors although these links are largely unfavourable for the informal sector micro-enterprises. The notion of a second economy which is 'isolated' from the 'first economy' (Mbeki, 2004) suffers from serious limitations because of its dualistic basis. Du Toit (2004) maintains that continued application of this dualistic concept indicates lack of conceptual rigour and oversimplification. Adesina (1992) cites logical abstraction as the main problem while Mafeje (1973) refers to the inertia of 'received categories'. Considering the above, it is therefore a fallacy to argue that there is need for more inclusion and creation of more linkages to overcome the structural disconnection between the formal and informal sector. The adverse incorporation rather than the structural disconnection of the activities within the second economy explains the persistence of poverty in South Africa.

### **6.3 Heterogeneity in the Informal Sector and Failure to Disaggregate**

The abiding feature of the informal sector is the heterogeneous and diverse nature of the activities within it. This makes the formulation of policies for the sector particularly difficult as is evidenced by the prevalence of policy initiatives which are not "appropriately differentiated" (DBSA, 2005) to cater for the various groups within the sector. The generally accepted way of characterising different types of informal sector for the purposes of effective policy response is to distinguish between productive activities and the less remunerative activities. For instance, a distinction has often been made between 'necessity' and 'opportunity' entrepreneurship (GEM, 2004; DBSA,

2005); 'community of the poor' and dynamic entrepreneurs' (House, 1987). Nevertheless, policy makers should not lose sight of the fact that both types of informal sector activities are important (DBSA, 2005). Inevitably, policies should seek to target both types of activities and this requires a pragmatic approach as to who benefits from what initiatives.

Findings from our study demonstrate that the informal sector is not homogenous—internal differentiation is one of its enduring features. Our data reveals significant sub-sectoral differences in initial capital used and monthly net earnings. The presence of lucrative activities in our study serves to demonstrate that the informal sector is not entirely unremunerative. However, this is not simply an issue of 'economic' potential, but it also indicates that informal sector activities are different in terms of asset holdings and income. There is significant internal differentiation within the manufacturing sub-sector. This sub-sector has the highest monthly net earning. It also has the highest standard deviation (see Fig. 4.7). This signifies the existence of an activity of greater economic potential (in terms of earnings) alongside an activity which is relatively unremunerative. This also points to the need to disaggregate because lumping together activities without considering their economic potential is problematic. Despite the incidence of relatively lucrative informal sector micro-enterprises in our sample (as the data on initial capital and monthly earnings shows), it remains apparent that the majority of the informal sector operatives predominate in the lower echelons of the sector.

A lot therefore depends on the ability of policy makers "to disaggregate and quantify" the activities within the second economy (read informal sector) (DBSA, 2005). In simple terms this is an appreciation of the diverse and heterogeneous nature of informal sector activities which forms the basis of a robust policy able to respond to the different types of micro-enterprise activities within the sector. Thus small and micro-enterprises differ for instance in terms of "their tolerance of risk, their ability and willingness to bear debt, and their capacity to network their way into the first economy" (DBSA, 2005:96). A clear definition of the informal sector is therefore required particularly the distinction between the informal sector and the SMME sector (Devey *et al*, 2005). This makes the targeting of interventions less difficult. Most importantly, a clearly defined policy approach which allows various segments of the informal sector

to know what to expect from policy makers and how to access those services will go a long way in terms of building trust between the authorities and the informal sector participants. Lack of policy clarity has negative implications for the local authorities' relations with the informal sector operatives. Dewar (2005:13) notes that instances where there is no coherent and clear policy with attitudes to the "informal sector activities frequently changing" result in "confusion and conflict" and ultimately "lack of confidence" in the authorities.

In the literature, the overwhelming view is that although 'non-entrepreneurial self-employment' also characterised as 'necessity entrepreneurship', 'traditional activities' constitutes the bulk of informal sector activities, it is often sidelined by policy makers who tend to privilege the 'dynamic' or 'productive' activities. These informal sector participants lack the necessary skills and resources to navigate their immediate business environment. The DBSA (2005) for instance notes that their demand for credit is limited by the fact that they are unable to form contractual relationships with buyers in order to ensure a reasonably constant cash flow. Instead of expecting this group of informal sector operatives to identify gaps in the market and exploit the opportunities created through economic growth, it is only appropriate to adopt confidence building initiatives alongside with poverty alleviation 'welfarist' initiatives.

Greater policy clarity in terms of who in the informal sector should benefit from which government programmes is imperative particularly considering that the sector is very heterogeneous. The only logical approach in this regard would be to consider which type of informal sector activities pre-dominate in the area. Are the dynamic entrepreneurs whose core objective is to accumulate capital predominant or do we have people engaged in the 'necessity entrepreneurship' the equivalent of Lugalla's (1997) traditional activities (e.g., street vendors selling cooked food, fruits and vegetables) forming the bulk of the informal sector? From this study, it is quite clear that the local municipality's local economic LED office rarely makes mention of the informal sector. Whenever it is mentioned, there no attempt is made to distinguish it from the SMME sector. The failure to distinguish between the informal sector and the SMME sector indicates lack of 'policy clarity' which is characteristic of the national government's approach. We see the uncritical reproduction of national government's policy rhetoric at the local level with little due consideration of the unique nature and charac-

teristics of income generating activities which pre-dominate in the municipal region. The 'neglect of what is there' is an abiding problem of most developmental interventions. Instead, there is need to focus on the already existing activities and capitalise on 'people's existing skills and experience' instead of emphasising new and different activities maybe because they are 'more marketable' for instance (DBSA, 2005).

In Makana, the municipality also sees its role in the promotion of the informal sector activities in very broad terms through its strategic blueprints like the Spatial Development Programme (SPD) and the Integrated Development Plan (IDP). We also noted that National Programmes like the Expanded Public Works Programme are cited as vital for the development of the SMMEs sector. The benefits from all these various broad and strategic initiatives are expected to create an environment where SMMEs prosper. In the words of the LED officer, "the municipality does not create SMMEs or jobs, we are just here to create a favourable environment" (Interview, April, 2006). The logic of this statement is that whatever benefits emerge from the implementation of the above mentioned strategic programmes will 'trickle down' to the SMME sector. SMMEs in their various forms (manufacturing, retailing or even co-operatives) are expected to benefit from all the above mentioned programmes. During the field work, we noted that the LED office had a single list which included SMMEs (one-person businesses performing a different range of activities) and some co-operatives. Disaggregating business enterprises is important if policies are expected to be effective. Paraphrasing different scholars, Khasobis, Kanbur & Ostrom (2006:8) note that "no single institutional arrangement works across diverse policy areas or even sub-types within a broad policy area".

The tendency to lump together every type of economic activity which does not fall within the formal sector and consider it as one homogenous category is evident in the Municipality's approach to the problem of the 'informal sector'. Some scholars have linked this kind of arbitrary approach to Eurocentrism (Sanders, 1992; Musiolek, 2002). Thus, any form of economic activity which does not fit the Western experience is seen as falling within the informal sector. This approach when dealing with the informal sector is rooted in the state-centric analysis where everything outside of the regulatory framework is seen as informal. What this kind of approach fails to appreciate is that the basis of distinguishing between formal and informal economic activi-

ties is a social construction. To be sure, "...informality is the result of the deliberate erection of borders in a society—borders that cause work to be done under specific informal conditions" (Musiolek, 2002:24). In most instances, Western biases in dealing with the informal sector have resulted in 'formal ethnocentrism' or failure to see informal sector activities in their own terms. This has negative implications for the poor working in the informal sector.

#### **6.4 Community of the poor?**

From this study, there is overwhelming evidence to show that the activities which House (1984) would have classified as part of the "community of the poor" predominate in the municipal area. It is important to tease out some of the findings which point to the preponderance of informal sector operatives in the lower echelons of the sector. This group was characterised by House (1984) as 'the community of the poor'. The reasons mentioned for joining the informal sector are significant. The majority of the informal sector operatives joined the sector a result of push factors<sup>59</sup>. Only a small proportion joined the sector to generate income and to accumulate capital. Evidence from the survey reveals that an overwhelming majority of the informal sector operatives interviewed joined the informal sector as 'necessity entrepreneurs'. As a result, there is the preponderance of self-employment in our sample. Our findings reveal that employment generation amongst the sampled businesses is very limited. To be specific, only 20% of the businesses have employees. However, in recruiting their employees, these businesses tended to rely on family members, friends and relatives<sup>60</sup>. The average number of employees per enterprise is 1.4 while the minimum is 1 and the maximum is 4. In our survey, the data reveals that very few of the enterprises are expanding. At the time of the survey, 78.0% of the informal sector operatives indicated that they were not expanding their businesses. Conversely, only 21.9% reported that they were expanding their operations.

The data on earnings also shows signs of 'involutionary growth' where informal sector participants predominate in the lower end of the sector. While the average monthly

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<sup>59</sup> These are the reasons mentioned by the informal sector operatives: the need to survive (42.9%), failure to find a job in the formal sector (31.9%), retrenchment (15.4%), to generate income (5.5%) and to accumulate capital (4.4%).

<sup>60</sup> Of this 20%, 12.1% relied on their children, relatives account for 3.03%, friends 3.3% and other people only 1%.

earnings for the sampled businesses is R 1 121. 6<sup>61</sup> rands, it is noteworthy that about 63.7 percent of the businesses earn less than R 500 per month. The success stories in the study should not conceal the reality that the majority of the surveyed businesses have very low earnings. Although the existence of productive activities in the informal sector is significant, it is futile to celebrate the potential of the sector if the remunerative activities are miniscule in magnitude and if they are in co-existence with a large number of unproductive activities (Mkandawire, 1974). Thus, because of the 'fallacy of composition' it can be problematic to generalise the success stories in the informal sector (Mkandawire, 1974; Cichello, 2005).

Considering the data on employment generation and earnings, the findings on expansion of the enterprises, the reasons mentioned by the informal sector operatives for participating in the sector, it is clear that the majority of the enterprises predominate at the lower end of the micro-enterprise category. Whatever success stories we found in the survey, they can not counterbalance or outweigh the majority of instances where people merely subsist in the lower echelons of the informal sector. It is this group of people who have problems in expanding and accumulating capital assets (House, 1984). House (1984:294), refers to a relatively stagnant group of engaged in menial employment with subsistence returns their efforts" (community of the poor). Practically, this group is residual and underemployed labour (House, 1984). Our own findings seem to point to the preponderance of such activities in the Makana Municipal area.

The preponderance of such traditional types of informal sector activities renders claims about the developmental potential of informal sector activities very problematic. The notion of the informal sector as a viable option for employment creation would be 'romanticist' in a situation where the sector has a propensity for 'lateral expansion' without much growth within individual micro-enterprises. Haines & Wood (2002) warn against overstating the capacity of the informal sector to absorb surplus labour particularly when dealing with cases of "chronically high unemployment". Uncritically celebrating the developmental potential of the informal sector is problematic. In their study of unemployment, (Haines & Wood, 2002) found that only a small

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<sup>61</sup> The data on net monthly income is heavily skewed. The minimum earnings = R 110 and maximum = R 3 800. The standard deviation is R 1 004.9.

percentage of the respondents (one quarter) indicated that they would join the informal sector either as a temporary measure or permanently.

To recapitulate, the environment within which these informal sector enterprises operate is very restricted with is no room for 'evolutionary growth'. What is also clear is that these enterprises are part of the whole distribution chain of the larger formal businesses; although they are located at the very end. Whatever lack of growth is experienced is not because they are not connected to the whole formal sector system, but it is precisely because of the nature of the connections. These enterprises are thus part and parcel of the capitalist system. Arguments about the need for more 'dynamism', 'productivity' and 'sustainable activities' by the poor working in the informal sector can not be advanced without qualification. The point here is that, for these economic activities, being productive, is essentially a function of the space they are afforded as part of the whole social formation.

What the above arguments also suggest is the need to critically examine categories like 'SMMEs'. The heuristic value of the term 'informal sector' is also in question hence the need to subject it to critical analysis. What is the exact nature of this compendium of activities frequently referred to as the informal sector or SMMEs? These concepts particularly the notion of the 'informal sector' need to be untangled in the light of the Eurocentric biases where everything which does not fit the western experience is considered '[in]formal'. This is also linked to the state-centric inclination when dealing with the informal sector, that is, any form of activity not falling within the regulatory framework is 'informal'. What such approaches do not appreciate is that the very distinction between the formal and informal sector is a 'social construction'. In the light of this observation, what are the implications in much of Africa where the state did not emerge organically but was essentially imposed from outside (emerged exogenously). The debate about the configuration of South Africa's economy is inextricably wed to the issues we have teased out. Evidence shows that there is no 'two-tier' economy wherein one segment is modern, fully developed with linkages to the global economy and the other one isolated and not fully developed because of its isolation. This flawed conception has regained currency in South Africa's policy debates in spite of the fact that several scholars disproved it as far back as the 1970s.

The link between development and underdevelopment has been explored by several scholars. They have tried to situate their analyses in the Marxist conception of a social formation comprising different modes of production (Wolpe, 1972; Mafeje, 1973). Instead of debating whether South Africa has a 'two-tier economy' it would be feasible to explore the dialectic between different modes of production and surplus appropriation. This can be accomplished by looking at petty commodity production or trade. What is also essential is to note that there is danger in making generalising nomothetic statements about whether or not what we call the 'informal sector' today consists of unproductive activities; whether or not these activities occupy a very subservient position within the social formation. Instead, the important question is how do these activities manifest themselves across time and space. This will allow for more rigorous analysis so as to dismantle the often uncritical and received categories being deployed in academic and policy circles.

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## **8. CITED INTERVIEWS**

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- 9 January 2006, Interview with Thandi, Grahamstown.
- 23 January 2006, Interview with Nwabisa, Grahamstown.
- 27 January 2006, Interview with Ntombizabo, Grahamstown
- 3 February 2006, Interview with Pamela, Alicedale.
- 1 March 2006, Interview (FGD) with Jabulani, Grahamstown.
- 6 March 2006, Interview with Tariq, Grahamstown.
- 14 March 2006, Interview with Mbulelo, Grahamstown.
- 04 April 2006, Interview with the Local Economic Development Officer,  
Grahamstown.
- 2 May 2006, Interview with Lungelwa Grahamstown.
- 14 June, Interview (FGD) with Amon, Grahamstown.
- 17 June 2006, Interview with Thandazani & Zibulo, Grahamstown.
- 12 May 2006, Interview with Lungelwa, Grahamstown.
- 4 August 2006, Interview with Health Inspector, Grahamstown.

## 9. APPENDIXES

### Appendix 1 Survey Questionnaire

Hello. I'm a Masters student at Rhodes University conducting a survey on informal sector micro enterprises in Makana Municipality. The aim of this survey is to study the nature and characteristics of the informal sector in the Municipal Area. This study will provide useful information on the promotion of micro enterprises and employment creation. You are requested to answer the following questions. The information you provide is highly confidential and will be used for academic purposes only. Your identity will therefore not be revealed.

#### SECTION A

#### NATURE AND OPERATIONAL CHARACTERISTICS OF THE ENTERPRISE

##### 1. Type of business activity

Manufacturing   Mobile Hawker   Fixed Stall   Shop (barber, tailor, spaza, phone shop, etc)

##### 2. Location of business

Owners home

At the market

Service outlet

In the street/open space

No fixed location

##### 3. What motivated you to start up this business?

To survive

To generate income

To accumulate capital

Was retrenched

Could not find job in the formal sector

##### 4. How long has this business been in existence?

##### 5. What kind of problems did you experience in starting up this business?

Raising the capital

Finding suitable premises

- Finding a good location
- Obtaining a licence
- Obtaining raw materials/inputs or stock
- Finding a market (selling products and services)
- Harassment by municipal officials

**OPERATIONAL ASPECTS OF THE BUSINESS**

1. How much money did you have when you started this business?

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2. How much money is currently employed in this business?

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3. Where did you obtain the money to start up this activity?

- Own savings
- Gift or loan from relatives
- Gift or loan from a spouse
- Loan from a commercial bank
- Loan from an NGO/Development Bank
- Other (specify):

4. Are there any other resources that you invested in your current activity besides the money?

- Yes     No

5. Where applicable could you please give an estimate of the original and current value of investment in the following categories?

Asset/investment	Approximate value of original investment	Approximate value of current investment
Land		
Buildings/Premises		
Tools and equipment		
Vehicles		
Advance rent on buildings and equipment		
Other		

6. Are you involved in any other business activity?

Yes

No

7. Do you have a formal job?

Yes

No

**ENTERPRISE OPERATIONS (INCOME AND EXPENDITURE)**

1. Do you keep written records of your business transactions?

Yes

No

2. What is the value of your monthly stock?

--	--	--	--	--	--	--	--

3. How much is your monthly revenue/gross income?

--	--	--	--	--	--	--	--

4. Please indicate the costs of operating your business per month in each category (If there are no written records please just give estimates).

**EXPENDITURE/MONTH**

**VALUE IN RANDS**

Repayment of Bank Loan	
Own stock consumed	
Rent	
Water and Electricity	
Stock	
Raw materials	
Machinery Repairs	
Salaries and Wages	
Other: (Specify)	
TOTAL	
Net income/ Profit	

**PERSONAL INCOME**

1. Do you have any other sources of income besides what you get from your business?

Yes

No

2. If yes, please indicate in the following categories

- Unemployment Benefits (UIF)
  - Government Child Grant/ maintenance  
Old Age pension
  - Disability Pension
  - Remittances from household members
  - Remittances from people outside the household
  - Charity/Church/Welfare
  - Shares/Bonds and other investments
  - Other (Specify):
- 

3. Does your business have any employee(s)?

- Yes     No

4. If yes, how many employees do you have?

5. How many of your employees work on

- Part-time      Full-time basis?

6. How did you recruit your employee(s)?

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7. Are any of your employees family members?

- Yes     No

8. Do you train apprentices?

- Yes     No

9. How do you train them?

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10. Are you expanding this enterprise at the moment?

Yes  No

11. If yes, are you expanding your current activity/business or in some other activities?

Current Activity  Some other activities

12. And where did you get the money for expansion

Ploughed back profits  Personal Savings  Bank Loan

Other (specify):

13. If you are not currently expanding your enterprise do you have any plans to do so in future?

---

---

14. What are the additional skills/knowledge do you think you /or your employees would require in expanding your enterprise?

---

#### MARKET RELATED ISSUES

1. What kind of customers do you supply?

- Single consumers
- Micro or small enterprises
- Urban commercial enterprises
- Urban manufacturing enterprises
- Rural commercial enterprises
- Rural Manufacturing enterprises

2. Where do you get the supplies or inputs for your business?

Own – made  Other micro-enterprises  Formal businesses

3. How would you describe your relations with your suppliers? Are they

Bad  Fair  Good  Excellent

4. Do you ever buy goods on credit or get discounts?

Yes  No

5. Why do you think customers buy from you and not from other people providing the same product or service?

Better quality       Customer loyalty       Affordable prices

Other (explain):

---

6. How do you price your products, do you consider?

Competitors' prices       Buying Price       Other (Specify):

7. Do have problems finding clients? If yes why?

---

---

8. Do you advertise your activity and if yes how?

---

---

9. Do you know your clients on a personal basis? Are they friends of yours?

---

10. Are your sales generally the same or they change depending on the time of the month or year?

They change       generally the same

11. If they change, do they change?

Daily       Weekly       Monthly       Yearly       Seasonally

12. Have you noticed any change in sales volume since you started operating this business?

Yes       No

13. If yes, has there been an increase or decrease in the amount of goods you sale? Explain.

---

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14. How would you explain the nature of competition in your business? Is it?

Moderate       Stiff       Very Stiff       Unbearable

15. Who are your main competitors?

Similar micro enterprises       Large formal Businesses

Other (specify):

---

16. Are you optimistic about the future of your business?

Yes     No

17. Explain

---

18. Do you have any short-term or long term plans for your enterprise?

---

19. How do you think your business can survive and grow in the current business climate?

---

#### RELATIONS WITH LOCAL AUTHORITY

1. Do you ever give money or goods and services to inspectors or municipal officials when they visit the business?

Yes     No

2. Is your business registered with the municipality?

Yes     No

3. Do you think licences should be issued to such businesses?

Yes     No

4. What does the municipality do to help you in your business?

---

5. What does the municipality do that makes it difficult for you to do business?

---

6. What could the municipality do to help you in your business?

---

**SECTION B**  
**SOCIO-ECONOMIC AND DEMOGRAPHIC PROFILE**

1. Where were you born?

- Grahamstown  
 Reebiek East  
 Alicedale  
 Other (Specify):
- 

2. How old are you?

3. If you were not born in any of these places,

4. When did you come here? ----- Month----- Year.

5. Why did you come here?

---

---

6. Gender

- Male     Female

7. Population group

- African/Black  
 Coloured  
 Asian/Indian  
 White  
 Other (specify):

8. Nationality

- South African  
 Other (specify):

9. Marital Status

- Not Married/Never Married     Married     Widow/Widower

Divorced

Separated

10. If married, does your husband/wife have a job?

Yes  No

11. Does your husband or wife stay here with you?

Yes  No

12. How many children do you have?

13. Do you send your children to school?

Yes  No

14. Are there any persons who depend on you for support besides your children?

Yes  No

15. If yes, how many persons (excluding yourself) are you the major or sole source of support?

---

16. How often do you assist your dependants or help with family support?

Daily  Weekly  Monthly

17. Are there any persons who provide money to help support you and or your family?

Yes  No

18. If yes, what is the average amount per month that these persons provide?

---

19. Do you ever wish to work for a company?

Yes  No

20. If yes, why would you want to work for a company?

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21. If no, what would be the minimum monthly wage that you would require to induce you to go into wage employment?

---

**EDUCATION**

1. Level of education

- No schooling
- Standards 0-6
- Matric only
- Matric and certificate or diploma
- University degree

2. Do you possess any other skills besides formal education?

- Yes     No

3. If yes, please specify

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---

4. Do you find the education or skills you have of any use to you? Explain

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## **Appendix 2 Interview Schedule (Focus Group Discussions).**

### **1. Introduction**

- a) Personal Introductions.
- b) Discussion of the purpose of the research.
- c) Discussion of ethical issues (re-emphasise main ethical issues i.e., informed consent and confidentiality).

### **2. Working in the Informal Sector**

- a) Biographical information of participants.
- b) Reasons for joining the informal sector
- c) Operational Aspects of informal sector enterprises
- d) Survival strategies in the market (competition and competitors)

### **3. Relations with formal businesses, the public and the local authorities**

- a) Public perceptions of informal work
- b) Nature of relations with suppliers
- c) Relations with the formal business community
- d) Relations with financial institutions
- e) Nature of relations with the municipality

### **4. The future of the informal sector in Makana Municipal area**

- a) Sustainability of informal work in Makana (Earnings and Livelihoods)
- b) Problems, Challenges and Prospects

## **Appendix 3 Interview Schedule In-depth (semi-structured) interviews.**

### **1. Introduction**

- a) Personal history of interviewee
- b) Family Background
- c) Marital Status
- d) Reasons for Participating in the Informal Sector
- e) Work Experiences in the Informal Sector
- f) People's (family, neighbours and the broader community) perceptions of informal work

### **2. The Operational Aspects of the Business**

- a) Capital Resources of the businesses
- b) Sales and Earnings of the business
- c) Growth of the business (Expansion of operations and employment)
- d) Market related Issues—competitors, competition and survival strategies.

### **3. The Informal Sector Operative within the Broader Environment**

- a) Relations with Supplier
- b) Relations with Customers
- c) Relations with financial institutions
- d) Relations with the local authorities

