



**Department of Economic  
Development and Tourism**  
Umnyango Wezokuthuthukiswa  
Komnotho Nezokuvakasha

**KWAZULU-NATAL PROVINCIAL GOVERNMENT**

**POLICY**

**FOR THE INFORMAL ECONOMY**

**OF**

**KWAZULU-NATAL**

**“creating an enabling environment for the informal economy”**

## TABLE OF CONTENTS

<b>Section</b>	<b>Topic</b>	<b>Page No</b>
(i)	Acronyms	4
(ii)	Terminology used in the document	5
<b>Part 1 Process and Vision 6</b>		
1.1.	Policy Outline	8
1.2.	The Process of policy formulation	9
1.3.	After the draft policy	11
1.4.	A broader vision	11
1.5.	Basic Principles underlying this policy	13
1.6.	Rationale, Goal and Objectives of this policy	16
<b>Part 2 Introduction and Definitions 19</b>		
2.1.	Introduction	20
2.2.	Definition of Informal Economy	21
2.3.	Informal Economy Contribution of the economy	22
2.4.	Activities in the informal economy	23
2.5.	Scope of this policy	24
<b>Part 3 Case Studies on Informal Economy 25</b>		
3.1.	International case studies	26
3.2.	Local case studies	34
3.3.	Implications of the case studies for KwaZulu-Natal	41
<b>Part 4 Legal and Strategic Framework 42</b>		

<b>Section</b>	<b>Topic</b>	<b>Page No</b>
4.1.	The Constitution	43
4.2.	The National Small Business Act	45
4.3.	The Business Act and KwaZulu-Natal Licensing and Business Hours Act	45
4.4.	Accelerated Shared Growth Initiative for South Africa	46
4.5.	The National Economic Development Medium Term Strategic Plan 2010/11-2012/13	48
4.6.	Generic Informal/ Street Trading Policy Framework for Metropolitan and Local Municipalities	50
4.7.	The Provincial Growth and Development Strategy	52
4.8.	The Draft Provincial SMME Development Strategy	53
<b>Part 5 Challenges facing the informal economy 55</b>		
5.1.	Institutional Challenges	56
5.2.	Infrastructural Challenges	56
5.3.	Economic Challenges	56
<b>Part 6 Policy Recommendations 58</b>		
6.1.	Introduction	59
6.2.	Addressing challenges facing the informal economy	59
6.3.	Regulation, Enforcement and Monitoring	65
6.4.	Support and Development	71
6.5.	Funding for the Informal Economy	72
6.6.	Incentive Scheme	74
<b>7.</b>	<b>Conclusion and Implications of this policy</b>	<b>75</b>

**(i) Acronyms**

ASGISA	Accelerated and Share Growth Initiative for South Africa
BBBEE	Broad-Based Black Economic Empowerment
DEDT	Department of Economic Development and Tourism
DoL	Department of Labour
DTI	Department of Trade and Industry
GDP	Gross Domestic Product
GGP	Gross Geographical Product
IDP	Integrated Development Plan
ILO	International Labour Organisation
KZN	KwaZulu-Natal
LFS	Labour Force Survey
LED	Local Economic Development
SETA	Sector Education and Training Authority
SMMES	Small, Medium and Micro Enterprises

**(ii) Terminology used in the document**

**Informal economy** refers only to legal informal economy activities.

**Informal economy actor or player** refers to anyone who is actively involved in business operations falling within the informal economy.

**Institutional** includes governments and their agencies as well as the private sector and Non Governmental Organisations.

**Licence** means the authority, regardless of its specific title or form, issued for the purpose of granting authority to conduct business.

**Local Economic Development** refers to the ability of local areas to achieve both economic growth and economic redistribution, sometimes referred to as pro-poor economic growth.

**Municipality** refers to all categories (A, B and C) as per the Municipal Structures Act.

**Necessity entrepreneur** refers to any informal economy actor who got into business because he or she was pushed by pressure of having to ensure that there is food for household survival.

**Nuisance** means any conduct which brings about or may bring about a state of affairs or condition which constitutes a source of danger to a person or property of others or which materially interferes with their ordinary comfort, convenience, peace or quiet.

**Opportunity entrepreneur** refers to any informal economy actor who got into business because he or she identified business opportunity and capitalised on that opportunity. The main motive for commencing business in this case is economic opportunity rather than social pressure.

**Permit** refers to a legal document giving official permission to do something. Along with business licenses, informal economy actors may need to obtain permits.

**Province** refers to KwaZulu Natal Province.

**Provincial Government** refers to the second sphere of government, that is, KwaZulu Natal.

**Rental** usually refers to payment for a place; in this document rental refers also to payment for the right to operate, whether at a fixed site, or as an itinerant or mobile worker.

**Small business** has the meaning as set out in the National Small Business Act, 1996 (Act No. 102 of 1996).

# *Part 1*

Process and Vision

## **1.1. Policy Outline**

- 1.1.1.** It has been observed that various pieces of legislation dealing with national government and provincial government's areas of jurisdiction are silent on the informal economy. Consequently ad-hoc responses to the informal economy, through unstructured and uncoordinated legislative and policy intervention, exist.
- 1.1.2.** South African government only addressed proper institutionalisation of economic development at the national sphere after general elections held in April 2009. The Economic Development Department was established to focus on economic policy making. One of the sub-programmes of the National Economic Policy Development Programme focuses on the second economy. At this stage the national direction is still not vivid on both strategic and tactical aspects.
- 1.1.3.** The intention of this document therefore is to set policy framework with two-fold purpose. Firstly, it creates an environment that supports sustainable economic growth in the informal economy. Secondly, it aims at repealing or amending certain laws that inhibit government's developmental role in regulating the informal economy. The KwaZulu-Natal Province through this policy framework aims at bringing informal economy into the mainstream, thereby reducing vulnerability and exclusion of those working in this sector.
- 1.1.4.** According to the International Labour Organisation (ILO), governments must provide the conducive macroeconomic, social, legal and political frameworks for the large-scale creation of sustainable, decent jobs and business opportunities. Governments should adopt a dynamic approach to place decent employment at the centre of economic and social development policies and also to promote well functioning labour markets and labour market institutions, including labour market information systems and credit institutions. To increase job quantity and quality, emphasis should be placed on investing in people, especially the most vulnerable – in their



education, skills training, lifelong learning, health and safety – and encouraging their entrepreneurial initiative.<sup>1</sup>

## **1.2. The Process of Policy Formulation**

**1.2.1.** Putting this policy together has been an evolving process. About eight years back the Department of Economic Development and Tourism (DEDT) commissioned a research to look at the state of informal economy in the Province. The Provincial Informal Economy Steering Committee was established to oversee the research project. The output for this process was the formulation of the Green Paper on Policy for the Informal Economy of KwaZulu Natal. The Green Paper was published in July 2003.

**1.2.2.** As part of the research process towards the Green Paper, ten District Municipalities and their surroundings provided the sampling frame for the study. A convenience sample was selected from this sample frame. The sample selection comprised two phases. The first phase involved the selection of the areas. Phase Two defined the selection process for respondents.

**1.2.3.** Three variables were considered important in the selection of the sample to ensure adequate representation: urban and rural representation; representation in a sample of Municipalities that were innovative and made progress in their approach to the informal economy, as well as those Municipalities that were conservative in their approach and for practical purposes, Municipal areas were also selected on the basis of whether there was significant informal activity taking place there.

**1.2.4.** The second phase of the sample selection focused on the selection of respondents. Interested and affected parties were defined as stakeholder groups that had an interest in or were affected by any involvement in or with the informal economy. The stakeholder groups were defined as: informal economy administrators; informal economy operators and provincial role players

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<sup>1</sup> ILO's Resolution on Decent Work and the Informal Economy adopted by the 90<sup>th</sup> session of the International Labour Congress in June 2002 in Geneva

- 1.2.5.** In November 2005 to May 2006, the Department of Economic Development (DED) commissioned consultants to facilitate public participation workshops on the Green Paper. Areas visited during this period were Stanger, Pietermaritzburg, Manguzi and Port Shepstone.
- 1.2.6.** In February 2009, the Department of Economic Development commissioned consultants to compile the draft policy. The service provider in this phase had to collect some empirical data to establish whether 2002/3 findings are still valid or not.
- 1.2.7.** Also as part of the consultative process, a symposium on the informal economy was held in March 2009. The purpose of this symposium was to gather more relevant data and present the draft conceptual policy framework to test whether it was acceptable or not. It appeared that the draft conceptual policy framework was intact with few additions to be made.
- 1.2.8.** The draft policy dated 09 March 2009 was further taken to communities through the public participation process that commenced in February 2010. In this instance, the municipal districts were clustered into five. Presentations on the content of the policy were made to participants for the purpose of receiving comments and get the feelings of the audiences on the policy recommendations.
- 1.2.9.** All stakeholders have welcomed the initiative taken by the Department of Economic Development and Tourism to address issues facing the informal economy. Where stakeholders felt that the draft policy does not cover certain issues, necessary proposals were made to close whatever gaps that might have been identified. The KwaZulu-Natal Economic Cluster received the presentation on the final draft policy in May 2010. The Cluster suggested some additions which have been accommodated in this version.
- 1.2.10.** The information gathered during the research phase, the sessions of the symposium, input sessions of the Think Tank and public participation process played

a significant role in shaping policy recommendations to be presented in section 6 of this policy document.

### **1.3. After the draft policy**

**1.3.1.** Once it is approved by cabinet and legislature, this draft policy will become the White Paper which will have to be carried across to the full spectrum of stakeholders who are expected to play a pivotal role on the implementation of this policy.

**1.3.2.** The White Paper will then be incorporated into Integrated Development Plans of the Municipalities to ensure that all policy intentions are implemented.

**1.3.3.** It will be the responsibility of the Department of Economic Development and Tourism to monitor and evaluate the implementation of the White Paper.

### **1.4. A Broader Vision**

**1.4.1.** The national vision of the economic transformation takes as its starting point the Freedom Charter's clarion call that the People Shall Share in the Country's Wealth! This vision aims to realise a sustainable economy, where all South Africans, present and future, realise their right to an environment that is not harmful to their health or well-being.

**1.4.2.** The political mandate and the National Economic Development Strategic framework agreement together constitute a bold economic vision. It aims to put our economy on a new growth path and to inspire and mobilise society. This vision is being translated into a concrete programme that combines short term, defensive measures with longer term structural interventions to transform our economy. These link immediate measures aimed to protect the economy and society in the face of the economic crisis and transformative measures to deal with structural economic problems.

- 1.4.3. This vision necessitates a new approach of integration instead of “silo” based departmental programmes. Government seeks to avoid ad-hoc policy development in many different sites within the state. Policy coherence is the new focus, including in respect of macro and micro economic policies and economic and social policies.
- 1.4.4. The national sub-programme called ‘second economy’ has been initiated at the national sphere. The purpose of this sub-programme is to develop policies that will transform second economy activities into dynamic, competitive activities that are part of the economic mainstream and included in the country’s tax and other arrangements. The goal is to ensure decent incomes for entrepreneurs and workers. It will involve a mapping exercise that shows the links between the first and second economies and that develops policy proposals to transform the second economy. Close cooperation with other government departments will be necessary.
- 1.4.5. The vision of KwaZulu-Natal Department of Economic Development and Tourism is about realising competitive economy that improves the lives of KwaZulu-Natal people. This vision together with the national one creates an ambiance of driving the economic growth while promoting the developmental objectives of the government. Also, the vision is very inclusive, hence informal economy actors who are survivalists and micro entrepreneurs are regarded as contributors in improving people’s lives through poverty reduction, job creation and economic growth.
- 1.4.6. Moving from the premise that the informal economy makes an important contribution to the economic and social life of KwaZulu-Natal Province and due to the decline in formal employment and consequent increase in unemployment, many people seek alternative means of earning an income.
- 1.4.7. It is generally accepted that the informal economy plays a significant role in the provincial economy, especially in the previously disadvantaged areas. One of the main reasons for this is the inability of national economy’s formal sector to create sufficient employment for the relatively fast-growing labour force. This inability leads to new entrants into the labour market being increasingly forced to turn to the

informal economy to earn a living. In our approach we therefore view informal economy actors not just as people congesting public spaces, but people who are generating economic growth.

**1.4.8.** Our approach therefore does not view the informal economy as a structural problem that is unlikely to generate growth. This view suggests considerate controls over those who wish to engage in informal activities, particularly street traders. The underlying philosophy in this regard, is the creation of an enabling environment that allows informal economy actors to do their work without any challenges posed by legislation and or unfavourable control majors.

**1.4.9.** The pillars of the Provincial Economic Development Strategy have informed the shape taken by this policy framework. These pillars are: increasing investments in the province; improving skills and capacity building; broadening participation in the economy and increasing competitiveness.

## **1.5. Basic Principles Underlying this Policy**

The KwaZulu Natal Province believes that a rapid economic growth that is sustained and inclusive is a prerequisite for the achievement of poverty alleviation<sup>2</sup>. The underlying principles that govern the provincial approach to this policy are economic, social and spatial. Government institutions, both provincially and locally are therefore expected to use these guiding principles in dealing matters regarding the informal economy:

### **1.5.1. Economic Principles**

Any intervention in the informal economy has to be based on considerations of equity, welfare, efficiency and effectiveness. Economic growth in the informal economy sector will therefore be facilitated through:

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<sup>2</sup> One of the principle for the National Spatial Economic Development Strategy

- a. Linking the development and growth of operating areas to commercial zones in order to create viable hubs of business activity that mutually benefit informal and formal businesses. This policy allows for the management of co-operation and conflict between informal and formal economies given that these economies are interlinked and mutually interdependent.
- b. Redressing imbalances of the past caused by migration of people from the rural areas to the cities in search for better trading opportunities. This policy deliberately aligns itself with government priority of rural development. The programmatic interventions coming out of this policy shall not only focus on urban areas. The policy advocates for the balance through redress to be ensured by all policy implementing agents.
- c. Government providing a range of facilities, capacity building and business support services that cater for the different levels of informal economy actors.
- d. Ensuring that the buildings and property including public space owned by the Government are used for the maximum social and economic development of the community within which they are located.
- e. Targeting highly accessible and visible locations for the promotion of business-related operations in order to derive benefits for informal economy players from business potential.

### *1.5.2. Social Principles*

The promotion of equity within the Province to create a dignified Province can be achieved through:

- a. Spreading public spending in an equitable manner throughout the Province with an emphasis on the poorest parts of the Province that have not historically benefited from public sector investment.
- b. Viewing the location of public sector investment as an opportunity to integrate communities that have historically been spatially separated.
- c. Using the development of the informal economy infrastructure as an opportunity to improve the general environmental condition of the Historically Disadvantaged Areas of the Province. The principle of natural markets will guide such development, to ensure appropriate developments and reduce the risk of continuously creating more costly white elephants.
- d. Providing basic services such as water and refuse facilities to all areas where public health and/or public safety is at risk.

### *1.5.3. Spatial and Environmental Principles*

Informal economy contributes to the value of public places as amenities and places of dignity and has the potential to be a catalyst for generating positive public spaces through:

- a. Developing those areas that will have most significant impact on the largest number of people, that is, areas with large flows of pedestrian traffic and other natural markets.
- b. Allocating space for informal trading areas in accordance with the broad Spatial Development Framework of the Municipalities and in line with the Provincial Spatial Economic Development Strategy.
- c. Trading does not harm or degrade the environment in any way.

## 1.6. Rationale, Goal and Objectives of the Policy Framework

### 1.6.1. Rationale

- a. The Province of KwaZulu-Natal does not have any policy that aims at supporting the informal economy. The regulation and development of the informal economy in the province lacks overall co-ordination and is sometimes absent, or outdated. In instances where efforts are being made to support operators in the informal economy, these are uncoordinated and uneven. The Province through its Department of Economic Development and Tourism has embarked on the development of this policy with the intention to move towards an integrated support and regulation of the informal economy.
  
- b. KwaZulu-Natal strongly holds the view<sup>3</sup> that:
  - (i) The informal economy is 'here to stay' and expanding with modern, industrial growth;
  - (ii) Informal economy is a major provider of employment, goods and services for lower-income groups;
  - (iii) Informal economy contributes a significant share of GDP;
  - (iv) Informal economy is linked to the formal economy – it produces for, trades with, distributes for and provides services to the formal economy;
  - (v) Much of the recent rise in informal employment is due to the decline in formal employment or to the informalization of previously formal employment relationships;

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<sup>3</sup> Chen, Martha, Joann Vanek and Marilyn Carr, 2004



- (vi) Informal economy is made up of a wide range of informal occupations – both ‘resilient old forms’ such as casual day labour in construction and agriculture as well as ‘emerging new ones’ such as temporary and part-time jobs plus homework for high tech industries.
- (vii) Informal economy is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation; and most non-standard wage workers would welcome more stable jobs and workers’ rights.
- (viii) Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses, and informal employment includes not only self-employment but also wage employment. All forms of informal employment are affected by most (if not all) economic policies.

### *1.6.2. Goal*

The desired goal of this policy is the creation of an environment that supports sustainable economic growth in the informal economy wherein all laws that are not in line with this vision have been repealed or amended. The KwaZulu-Natal Province through this policy framework hopes to bring informal economy into the economic and social mainstream, thereby reducing their vulnerability and exclusion of those working in this sector.

### *1.6.3. Objectives*

The objectives of this policy framework are to:

- a. Promote co-operation between all spheres of government; between departments within provincial government; between private sector and

public sector and between informal economy actors and government officials;

- b. Develop guiding principles that can be applied in supporting and developing the informal economy and
- c. Creating support mechanisms or an enabling environment for the informal economy since the existing legislative framework is mainly geared towards policing, regulation and taxation. There is limited scope for an enabling environment.

# *Part 2*

## Introduction and Definitions

## 2.1. Introduction

“The creation of decent work will be at the centre of our economic policies and will influence our investment attraction and job creation initiatives. In line with our undertakings, we have to forge ahead to promote a more inclusive economy.”

President JG Zuma, State of the Nation Address, 3 June 2009.

### 2.1.1. The informal economy can no longer be considered as a temporary phenomenon.

Over the last decades, it has become clear that the informal economy has a significant job and income generation potential. Therefore, appropriate policy framework aimed at the informal economy must be developed, without hampering the potential of the informal economy for job creation and economic growth, and without compromising the role of government to regulate the informal economy. The main challenge is thus to balance between developing innovative and supportive policy framework that recognises the contributions of the informal economy and its workforce with regulations.

### 2.1.2. In 2007, KwaZulu-Natal Province continued to be ranked second contributor to the national economy. Gauteng contributed 33.5 percent whilst KZN contributed 16.2 percent to the economy of South Africa<sup>4</sup>. National indicators show that the real GDP at market prices for the fourth quarter of 2008 decreased by an annualised rate of 1.8 percent compared with the third quarter of 2008<sup>5</sup>. These contributions however, do not take into account the role played by the informal economy in the entire national economic landscape. This is the current reality South Africa is faced with, a reality wherein economic performance is measured through the formal sector only.

### 2.1.3. The informal economy contributes to the Gross Geographical Product (GGP) of KZN. While exact figures for this are not known, estimates of the contribution of the national informal economy range from 8% to 12% of the GDP<sup>6</sup>. The informal

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<sup>4</sup> Statistic South Africa, 2009

<sup>5</sup> *ibid*

<sup>6</sup> Estimates from the Development Bank of SA, the World Bank and the International Labour Organisation

economy, therefore, has a role to play in the overall economic development of the province.

**2.1.4.** As the Province that believes in holistic economic growth and development, we have therefore decided to formulate the policy framework for the informal economy which we believe is going to create an enabling environment for traders in the informal economy.

## **2.2. Definition<sup>7</sup> of Informal Economy**

**2.2.1.** The term “informal economy” is preferable to “informal sector” because the workers and enterprises in question do not fall within any one sector of economic activity, but cut across many sectors. However, the term “informal economy” tends to downplay the linkages, grey areas and interdependencies between formal and informal activities.

**2.2.2.** The term “informal economy” refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs.

**2.2.3.** Workers in the informal economy include both wage workers and own-account workers. Most own-account workers are as insecure and vulnerable as wage workers and move from one situation to the other. Because they lack protection, rights and representation, these workers often remain trapped in poverty.

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<sup>7</sup> The definition is based on the ILO’s Resolution on Decent Work and the Informal Economy adopted by the 90<sup>th</sup> session of the International Labour Congress in June 2002 in Geneva

**2.2.4.** South African Economic Development Department defines the second economy as a phenomenon that refers to the range of activities that are often marginal, outside the regulatory net and survivalist in character. Large numbers of South Africans are employed in the second economy, which overlaps with what is referred to as the informal economy. The structural features of the economy create a symbiotic relationship between the first and second economies, yet without the transfer of incomes and sustainable dynamism that is required<sup>8</sup>.

### **2.3. Informal economy Contribution to the Economy**

**2.3.1.** Sixty nine percent of people involved in informal economic activities are doing it because it is necessary for them to do it<sup>9</sup>. This validates the view that this category may be referred to as survivalist or necessity entrepreneurs. Our approach therefore takes this into cognisance as we formulate the policy affecting this sector.

**2.3.2.** The narrow unemployment rate in South Africa has declined from 23.5 percent in the first quarter of 2008 to 23.1 percent in the second quarter of 2008<sup>10</sup>. Even though this decline in unemployment is heartening, the fact remains that South Africa still has approximately 4.1 million (26 to 42 percent) unemployed working-age individuals. In contrast, South African informal economy is one of the smallest<sup>11</sup>.

**2.3.3.** Traditionally, the informal economy in a developing country is seen as a possible alternative when employment in the formal labour market is hard to come<sup>12</sup>, and given the large number of unemployed, it is typically expected that South Africa should have a relatively large informal economy<sup>13</sup>. Consequently, the size and characteristics of the informal economy becomes important to policy makers and researchers alike.

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<sup>8</sup> Economic Development Medium Term Strategic Plan, 2010

<sup>9</sup> Makho Communications, 2009

<sup>10</sup> LFS, 2008

<sup>11</sup> The size of the informal economy employment is currently estimated to be around 17 percent

<sup>12</sup> Fields, 1975 and Mazumdar, 1976

<sup>13</sup> Kingdon & Knight, 2004 & 2007

**2.3.4.** KwaZulu-Natal has 19% of the workforce which operates in the informal economy<sup>14</sup>. Women are highly represented in the informal economy. 48% of informal operators are women. The vast majority of those in the informal economy are African (98%)<sup>15</sup>. 86% of informal economy operators are South Africans whilst 14% are foreigners. In terms of age distribution, the youth is dominating informal economy environment. 60% of operators are between ages of 14 to 35<sup>16</sup>. The monthly turnover less than R500 goes up to 48% followed by those earning more than R3500; R1000-R1500 and R500-R1000 with percentages of 17.5; 11 and 6 respectively.

## **2.4. Activities Falling Within Informal economy**

There is a variety of different types of informal economy operations taking place in the KwaZulu-Natal. These include but not limited to operations listed in *Schedule A* of this policy. Activities listed on *schedule A* and any other fitting the definition provided in this policy can be characterised by the following:

- 2.4.1.** They are legal but unregulated. These are enterprises, employers and self employed individuals who do not comply with standard business practices, taxation regulations and other business reporting requirements, but they are otherwise not engaged in overtly criminal activities.
- 2.4.2.** They include both employed (in the informal economy) and self-employed workers.
- 2.4.3.** Cash is the most common medium of exchange.

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<sup>14</sup> Green Paper on Informal Economy for KwaZulu Natal, 2003

<sup>15</sup> Makho Communications, 2009

<sup>16</sup> *ibid*

**2.4.4.** Work conditions for those who labour are inferior to those found in the formal economy. Earnings, security and environmental protections are less. Equipment may be out of code or unsafe, and there is no protection from exploitation.

## **2.5. Scope of the Policy**

This policy targets smaller, survivalist unregistered enterprises and individuals including home-based workers.

The policy does not cover issues underground economy, which may include trade in drugs, prostitution and other illicit commodities. The policy also exclude issues pertaining to the protection and regulation of workers falling into the paid employment category. These issues should be referred to national government for consideration as it has already been done with respect to domestic workers.



## *Part 3*

### Case Studies on Informal Economy

### 3.1. International case studies

#### 3.1.1. Definition of Informal Economy in other countries<sup>17</sup>

- a. **China.** The informal economy in China should refer to small-scale units outside the legally established enterprises. According to organisational forms, three types of such enterprises are distinguished as: micro-enterprises, family enterprises and independent service persons.
- b. **India.** According to the Central Statistical Organisation, all unincorporated enterprises and household industries (other than organised ones) which are not regulated by laws and which do not maintain annual accounts or balance sheets constitute the unorganised sector. The Directorate General of Employment and Training (DGET) define the organised sector as comprising all establishments in the private sector, which employ 10 or more persons. By implication, the informal economy is comprised of enterprises with less than 10 employees. These are not (a) organised systematically, (b) made formal through mandatory registration or licenses, (c) covered by legislation to protect minimum labour standards in employment and development.
- c. **Sri Lanka.** The informal economy is defined to include enterprises and activities, which employ less than five persons, mainly from family sources. Investment in buildings and equipment is quite low, the technology is labour-intensive, management systems are simple with minimum documented controls, and the technical know-how and skills are acquired from the informal educational system.

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<sup>17</sup> Fact finding study on the Informal Economy, Sida, 2004

### 3.1.2. *The informal economy in developing countries: regional differences*

- a. Mapping the informal economy so as to comprehend its size, composition and evolution is a difficult and inevitably imprecise exercise<sup>18</sup>. It is also difficult to make international comparisons as different definitions are used. Furthermore, within different countries, the informal economy is highly segmented by location of work, sector of the economy and status of employment and, across these segments, by social group and gender<sup>19</sup>. Despite these facts, some generalisations can be made on a regional basis.
  
- b. In all developing countries, self-employment comprises a greater share of informal employment than wage employment. Specifically, self-employment represents 70% of informal employment in Sub-Saharan Africa (if South Africa is excluded, the share is 81%<sup>20</sup>), 62% in North Africa, 60% in Latin America and 59% in Asia. Consequently, informal wage employment in the developing world constitutes 30 to 40% of the informal employment outside of agriculture.
  
- c. Home-based workers and street vendors are two of the largest subgroups of the informal workforce. Taken together, they represent 10–25% of the total workforce in developing countries. Within these two groups, women in the developing world constitute 30–90% of all street vendors, 35–80% of all home-based workers and over 80% of homeworkers (industrial outworkers who work at home)

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<sup>18</sup> ILO, Decent work and the informal economy, International Labour Conference 90<sup>th</sup> session, 2002

<sup>19</sup> ILO, Women and Men in the Informal Economy, A Statistical Picture, 2002

<sup>20</sup> ILO, Women and Men in the Informal Economy, A Statistical Picture, 2002

### 3.1.3. *The Role of Governments*

- a. There are different views on whether governments should intervene or not in relation to the informal economy<sup>21</sup>:
  - 1. Markets operate efficiently. Government interventions lead to inefficiencies and distortions and the informal economy will in any case decline with economic growth.
  - 2. The informal economy is beyond the reach of governments, in part because those who operate in it want to avoid regulation and taxation.
  - 3. The informal economy is here to stay and requires appropriate regulations, laws and policies.
  
- b. The current position taken by many international stakeholders is that, as the informal economy is here to stay, governments have a responsibility to intervene and correct policy biases that have favoured the formal parts of the economy to the detriment of the informal economy.
  
- c. Given the economic contributions of the informal economy, it is widely believed that governments therefore should be developing policies that recognise the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to increase the productivity and improve the working conditions of those who work in it. The state is generally perceived as the architect of a positive enabling environment.

Some of the main responsibilities of governments are to:

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<sup>21</sup> The Informal economy, Firm Dynamics and Institutional Participation, 1998

- d. Focus policies and programmes on bringing informal workers and economic units into the economic and social mainstream, thereby reducing their vulnerability and exclusion. Programmes designed to address the informal economy, such as provision of education, training, micro-finance, should be designed and implemented with the main objective of bringing informal workers or economic units into the mainstream, so that they are covered by the legal and institutional framework.
- e. Provide A conducive policy and legal environment that a) lowers the cost to establish and operate a business, including simplified registration and licensing procedures, appropriate rules and regulations, reasonable and fair taxation, b) increases the benefits of legal registration, facilitating access to commercial buyers, more favourable credit terms, legal protection, contract enforcement, access to technology, etc. Such an environment helps new businesses to start and helps smaller businesses to enter the formal economy and create new jobs.
- f. Provide an enabling framework at national and local levels to support representational rights. National legislation must guarantee and defend the freedom of all workers and employers, irrespective of where and how they work and of sex and age. Obstacles to the recognition of organisations of employers and workers in the informal economy must be removed so that they are able to participate in social dialogue, structures and processes.

### 3.1.4. Examples of Government Policies and Programmes<sup>22</sup>

#### a. **India**

- i. The National Commission on Labour in India, set up in 1999, has been working on developing, implementing and enforcing national labour legislation for the unorganised sector, as India calls the informal economy.
- ii. The Commission decided to recognise informal workers and to formulate an umbrella legislation for the sector. The Commission was also charged with improving the effectiveness of social security, occupational health and safety measures, as well as minimum wages, with attention to safeguarding women and handicapped workers.
- iii. A study group on Women Workers and Child Labour recommended a broadening of the definition of worker to accommodate more categories of informal workers. Some of the recommendations of this group include concrete and comprehensive ideas on how to extend national labour legislation to cover for instance informal women workers.

#### b. **Brazil<sup>23</sup>**

- i. Brazil is relatively advanced in terms of both organisation and recognition by the authorities.
- ii. Waste picker organisation in Belo Horizonte started in the late 1980s, with support from the Belo Horizonte Archdiocese. The Waste Picker's Association, ASMARE, was established in 1990, with an organisational form resembling that of a cooperative. Up to 1993 the relationship of ASMARE and

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<sup>22</sup> Fact finding study on Informal Economy, Sida, 2004

<sup>23</sup> Source: Inclusive Cities, 2009 Informal Economy Budget Analysis in Brazil, Pakistan, Peru and Philippines

the municipality was characterised by conflict and mistrust. After 1993, when the Workers Party was elected, the city's sanitation agency, the Superintendency of Public Cleaning (SLU) began implementation of an integrated solid waste management system which promoted waste selection at source.

- iii. A formal agreement was signed with ASMARE and the first recycling containers were introduced in the same year. Further development followed in subsequent years, with a further 12 waste pickers' cooperatives being formed and receiving different types of support from the municipality.
- iv. In addition to the direct financial assistance provided to some of the cooperatives, the types of assistance provided by the SLU and other parts of the municipality include renting of warehouses, subsidisation of security services, water and electricity, and collaboration in collecting recyclables and rejected waste.
- v. In terms of street vendors, the Brazil report distinguishes between vendors in popular malls, vendors at fairs, and food vendors. In 2007, 2,415 workers worked as registered vendors across six popular malls established by the municipality in central Belo Horizonte. A sample survey found that about 30% of workers were women. A further 2,444 workers exhibited at the five weekly fairs organised by the municipality in the central city, with 69% of the workers being women.
- vi. In 2005 a municipal department was created to coordinate and administer the popular malls. The management of the malls is done by a council which includes a representative of the popular entrepreneurs. The department wants to encourage formalisation and in 2007 ran a series of workshops called *Legalize Já* (legalise now) in which they brought together the revenue authorities, a bank and organizations that give support to micro- and small entrepreneurs.

vii. In 2009 the department was planning to promote discussions about cooperatives among the vendors. Craft exhibitors in Belo Horizonte have also formed at least five organisations, but these are divided and there is conflict between them. There are at least two organisations of food vendors that negotiate with the Municipal Secretary for Food Supply. There are also municipal-level vendor associations in many market places.

c. **Kenya**

i. Kenya has played a role in policy development for the informal economy. The informal economy in Kenya became known as Jua Kali (hot sun) referring to the micro-enterprises that worked without shelter under the hot sun.

ii. In 1986, the Kenyan Government began to incorporate the informal economy into national economic policy. Policy-makers elaborated direct assistance to individuals and small businesses, including among others flexible credit schemes, encouragement of the informal economy to produce cheap alternatives to expensive imported items, promotion of cooperatives to access credit, group purchasing and marketing, information and assistance on new technologies. Government would also be able to subcontract the Jua Kali for various assignments.

iii. This work led to a policy on the informal economy in 1992, identifying the economy as having the greatest potential for employment creation in Kenya. However, there was no coordinating body in government responsible for the implementation of the policy. The Jua Kali policy needed to be seen as an integral part of overall technology and industry policy.

iv. Moreover, the voice of its principal actors was absent: the Jua Kali themselves did not seem to have had the opportunity to make recommendations for themselves.



v. A recent example from Kenya is that the Nairobi City Council (NCC) has started to register all street hawkers in Nairobi and whether they have paid their fees to the NCC. The major achievement of this registration is that these traders have somewhere to turn if they are harassed by the NCC or other civil servants. They can now prove that they have actually paid their dues. The number of harassments of street hawkers has allegedly decreased since this system of registration was introduced.

d. **China**

i. The concept of informal economy is fairly new in China. Until 1978 the ideological emphasis upon state and collective ownership sharply limited the scope for the private and informal economy.

ii. In the wake of the reforms in 1978, the role of the private economy expanded rapidly, particularly in the 1990s. With the intensification of state enterprise reform from the mid-1990s onwards, and subsequent mass redundancies, the Chinese Government has taken increasing interest in the informal economy as a means to address the issue of unemployment.

iii. Shanghai Municipal Government has proceeded furthest in creating a favourable policy and regulatory environment for promoting the informal economy, and is considered to be a pioneering model for the development of the informal economy in China.

iv. In 1996, in order to assist laid-off and unemployed workers, the Shanghai Municipal Government initiated a scheme of “informal labour organisations” comprised by individual ventures or small firms. These organisations did not have a legal status as economic entities, were too small in scale or had too

little capital to meet the requirements for registration. These informal labour organisations became a sub-category of the informal economy.

- v. As special policies and regulations were formulated to facilitate the growth of the organisations, they became an intermediary or bridge category between the formal and the informal economy.
- vi. Subsequently, the Municipal Government established employment service organisations at the levels of city, district and county, street committee and town. For example, the Street Committee Employment Service Organ would provide the seal to approve the formation of venture, registers employees, assists with setting up bank accounts, issues receipts and organises collection of data for reporting to higher authorities.
- vii. In addition, the Municipal Government has issued special protective measures and policies such as social insurance, training opportunities for employers and employees of the informal economy, preferential tax policies, risk insurance and credit support with the City Employment Promotion Fund as guarantor as well as a provider of voluntary support from experts.

## **3.2. Local case studies**

### *3.2.1. eThekwini Municipality*

- a. eThekwini Municipality was the first in the country to have the policy on informal trading. The Municipality commenced working towards its policy in 1999.

- b. During the restructuring process in 2002, a new unit was established. This unit is called Business Support. This unit is located within Sustainable Development and City Enterprise Cluster.
- c. The purpose statement for the Business Support Unit is to provide integrated business support services to existing and potential business in the eThekweni Municipality Area to enable them to undertake income generating activities resulting in economic growth and job creation.
- d. The key performance areas for the section that deals with informal trading include:
- Providing a management service in accordance with Council policy and within National and other legislation to trading in the street and public areas;
  - Identifying new and existing areas for management, upgrading and development for recommendation to Council and other funding sources;
  - Providing a community consultation service with relevant stakeholders on behalf of Council;
  - Providing related public enquiries service;
  - Identifying, implementing and monitoring support programmes and opportunities;
  - Initiating and providing policy document related to all street trading issues to the Council;

- e. eThekwini policy recommends a system of differentiated rentals, so that formal and informal businesses alike are charged different rents and rates for different levels of service.
- f. Rentals are linked to site size, desirability of location, and the level of services provided. For street traders, a basic site rental is set, and then differentiated rentals for different levels of service provision. Components of a package of services are basic shelter, solid waste removal, water, toilets, lighting, and storage facilities.
- g. Formal business interests are represented in municipal governance through associations such as chambers of commerce. Informal workers and their enterprises don't have this entitlement for them to express their interests.
- h. In eThekwini, street traders are represented as stakeholders in pilot initiatives in area-based management. The study<sup>24</sup> indicated that a remarkably successful municipal-owned building in Warwick Junction, the primary commuter node and trading site for thousands of people in the inner city, daily meetings take place in which the use of city space is contested and negotiated, and organizations of street traders (such as Traders Against Crime, below) meet.
- i. The infrastructural needs of both formal and informal enterprises are essentially similar. They both need secure space, with transparent contracts for access to it, and which comes with a known and reliably delivered set of services such as lighting, water, toilets, garbage removal, security and storage.
- j. Some aspects of the eThekwini policy and its implementation include:

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<sup>24</sup> by Lund and Skinner, 2005

- Simplification of registration costs for vendors and home-based workers, with incentives for registration;
- Representation of informal trader organisations on planning and policy committees;
- Provision of support to trader organisations (meeting places, legal advice, and secretarial help), using existing municipal assets;
- City officials and traders working together to improve the image of the informal economy.

### **3.2.2. The City of Johannesburg**

- a. The City of Johannesburg has put in place some interventions to deal with informal economy. All these interventions are aimed at developing the informal economy to be more commercially viable, resulting in the formation of a new mercantile class. The City wants to nurture the informal economy, not to alienate them. They also believe that law enforcement is secondary. Traders must first feel that they are not outcasts. Their primary focus is to develop the sector.
- b. The city of Johannesburg has embarked on a plan to establish markets for informal traders to remove them from the streets. These markets are described as one tool of ensuring that informal traders have access to environments that are well established and better equipped. Even when these markets are in place, legal and controlled street trading will be allowed in the city.

- c. The Metropolitan Trading Company (MTC) was established to develop and maintain markets and provide infrastructure for informal traders and taxi operators. To date, the company has overseen the development of three markets, Yeoville, Hillbrow and the Metro Mall. The three markets have the combined capacity to accommodate almost 1 000 traders.
- d. The rationale behind providing these facilities is to move traders into markets with improved conditions for traders and service for clients. On the streets traders have no security of tenure and the infrastructure is either poor or non-existent. In the long term, the city anticipates that most traders will operate from relatively well-equipped markets and only a few will remain on the streets.
- e. The hawkers have welcomed these markets but added that markets are not a total alternative to street trading. Other traders in some areas of the City have been up in arms, decrying the state of the markets and protesting that since moving into the markets, where, they claim, they have to pay exorbitant rent, they have lost their clientele.
- f. The City of Johannesburg also adopted a new, long-term strategy to regulate hawking, shifting emphasis away from punitive law enforcement towards creating a supportive environment for the sector to thrive.
- g. Measures in the informal trading development programme range from business courses for hawkers to improvements in the supply chain.
- h. A key part of the programme is the grading of hawkers in a sliding scale of A, B, C and D, with A representing hawkers operating lucrative enterprises and D those making just enough money to survive.

- i. These categories are not absolute, and informal traders can go up the grade as their fortunes improve. Category A are enterprising dealers, who run thriving businesses from the comfort of the most well equipped markets, such as the new Metro Mall near Park Station. Category B include traders whose businesses, whilst not exactly lucrative, are still reasonably viable and run from markets which are covered but may not have brick structures.
- j. Under category C falls linear markets which have no structure but operate from designated business nodes, mostly along streets. The final class covers hawkers who operate haphazardly as individuals from undesignated spaces.
- k. The negative aspects of informal trading in the city programme include obstruction of pavements, large volumes of litter, dirt and often unsanitary waste products, traffic congestion, unfair competition for formal sector businesses, crime, an unhygienic environment and a general deterioration and dilapidation of key areas and nodes. It is these negative factors that the city now seeks to remove.
- l. Two council departments, corporate planning and development planning, have been charged with the responsibility of identifying appropriate sites for informal trading throughout the city. As part of the city's spatial planning, this process will be underpinned by the concept of nodes advocated in the 2030 strategy. The location of markets will be determined by natural movements of potential customers, transport hubs, points of embarkation and debarkation and transport interchanges.

### **3.2.3. The City of Cape Town**

The Informal economy Plan for the City of Cape Town makes it very clear that the City recognizes the importance of the informal economy and that regulation is

essential. The plan addresses a number of issues related to the management of the informal economy. The following is a number of issues quoted directly from the Plan.

- a. Central to equitable allocation of trading bays, is the compilation by the municipality of a database of all street traders in a particular area, which will include for each trader: ID number or any recognised form of identification, address, goods being sold, trading location and any other relevant information.
- b. The allocation criteria state that only bona fide informal traders will be eligible, not businesses that operates from a brick and mortar premises. Once bays are allocated informal traders will be encouraged to join an Association in the area, in order to facilitate the provision of sector specific support and business services. Traders operating four days per week for at least 45 weeks of the year will get preference over occasional / casual traders. Only one bay is allocated per trader. Unemployed people get first preference.
- c. The Council reserves the right to withdraw summarily the allocation of a bay in the event of evidence proving that (i) a trader has willfully supplied incorrect information related to permit conditions; (ii) a trader has failed to update the information annually; (iii) a trader, who is allocated a bay, has sublet or sold such a bay to a third party without the approval of Council; (iv) a trader does not comply with the Informal Trading by-law<sup>25</sup>.
- d. In terms of the City's permit process, applicants are considered against the criteria by the Area Informal Trading Management Committee, members of which to be determined by Council. New applicants are required to fill in a prescribed application form if they wish to be considered for a trading

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<sup>25</sup> City of Cape Town, 2003



permit. Permits are issued on a “first come, first served” basis from the waiting list, but the number of permits may not exceed the maximum number of sites allowed in any trading area. The issuing of permits is centralised. The City Police maintains the list<sup>26</sup>.

- e. In order to enhance the City’s image in the eyes of both its residents and visitors, the conduct of traders is strictly monitored. Anti-social and other unruly behaviour is viewed as misconduct.
- f. No trader is permitted to carry on such business in a manner, which creates a nuisance, is a danger or threat to public health and safety, or damages or defaces any Council property.
- g. Where a trader violates the permit conditions, he/she is informed in writing of the violation and course of action. Permit fees are not refundable if the permit is revoked or suspended.
- h. Punitive measures include a warning, a suspension for a specified period, or the total withdrawal of such trading permit.
- i. Each trader is assessed every three years to monitor the trader’s position and movement along the developmental continuum.

### **3.3. Implications of the case studies for KwaZulu-Natal**

The above case studies present the Province of KwaZulu-Natal with various approaches that have been applied in responding to issues pertaining to the informal economy. KwaZulu-Natal has to therefore take what has worked well in other parts of the world and adapt such interventions to suit the context of the province.

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<sup>26</sup> City of Cape Town, 2003

# *Part 4*

Legal and Strategic Framework

## **4.1. The Constitution**

- 4.1.1.** The regulation of informal economic activity, including the delineation of roles of the various stakeholders and players, must be viewed against the backdrop of the Constitution.
- 4.1.2.** Any legislation must seek to give effect to the constitutional provisions, and the framework of such legislation must operate within the Constitutional framework. The conception of a regulatory framework for the informal economy has two aspects namely, the regulation of the conduct of the activity in itself on the one hand, and the regulation of interaction of the various bodies responsible for that activity on the other.
- 4.1.3.** The Constitution provides for three spheres of government namely, National, Provincial and Local. It also provides the basic legislative framework and the vesting of legislative authority in each of the spheres of government. The powers in relation to each sphere are dealt with below.
- 4.1.4.** National government has authority to pass legislation on any matter, and also on those matters referred to in Schedule 4 Part A of the Constitution, in respect of which it has concurrent legislative competence with provincial government. Relevant to the informal economy would be matters, which include consumer protection, environment, health services, industrial promotion, pollution control, population development, regional planning and development, road traffic regulation, trade, urban and rural development.
- 4.1.5.** Legislation of general application that deals with all citizens and businesses are not referred to in this section. Only those laws that are enabling or give an indication of the policy framework for the specific development the informal economy are highlighted.
- 4.1.6.** Provincial government has concurrent jurisdiction with national government over those matters referred to in Schedule 4 Part A. Over and above those, it has

exclusive powers over matters listed in Schedule 5 Part A. Relevant to the informal economy would be matters which include, liquor licenses, provincial roads and traffic, provincial planning. Each provincial government should provide monitoring and support of local government in the province, and should promote the development of local government capacity to enable municipalities to perform their functions and manage their own affairs.

**4.1.7.** The legislative mandate of the KZN Department of Economic Development and Tourism (KZN DEDT) is derived from the Constitution of South Africa. This mandate includes contributing to the formulation of economic policy development and articulating the economic development strategy for KZN and to promote and facilitate economic empowerment programmes.

**4.1.8.** The Constitution allocates legislative and executive powers to municipalities, who have the right to administer matters in Part B of the Schedules, as well as other matters assigned by national and provincial legislation. The legislative powers of the municipalities are also recognized in so far as municipalities may make by-laws for the effective administration of matters over which they have these rights<sup>27</sup>.

**4.1.9.** The Constitution has determined the objectives of local government, and these include the promotion of social and economic development.

**4.1.10.** The Constitution further provides that national and provincial governments must support and strengthen the capacity of municipalities to manage their own affairs by legislative and other measures, and must enable them to exercise their powers and to perform their functions.

**4.1.11.** The Constitution also provides for mechanisms for conflict resolution between national and provincial spheres of government, in the event that there is conflict between national and provincial laws.

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<sup>27</sup> Parts B of Schedules 4 and 5

4.1.12. In contrast, no similar conflict resolution mechanism exists to resolve conflicts between municipal by-laws and national and provincial legislation. This is subject to Section 156(3) of the Constitution, which provides that any by-laws that conflict with national or provincial legislation will be invalid.

4.1.13. Apart from the above, there appears to be no clear scheme through which one can determine with certainty that area of exclusivity reserved for municipal legislative and executive powers.

4.1.14. The consequences may result in an inability to develop a well-coordinated and aligned institutional framework because of the ambiguity and lack of clarity of each sphere of Government's area of jurisdiction.

#### **4.2. The National Small Business Act**

4.2.1. The National Small Business Act seeks to differentiate small business in terms of sector categories referred to in the Act, namely: medium, small, very small, and micro. These categories are defined in terms of the number of employees, turnover and asset value of the business.

4.2.2. The Act is designed to promote the interest of small business. However, schedules to the definitions provided for in the Act effectively exclude a substantial portion of the informal economy.

4.2.3. Currently there are only two pieces of legislation that impact and seek to regulate the informal economy, namely the (national) Businesses Act of 1991 as amended and the KwaZulu License and Business Hours Act of 1984.

#### **4.3. The Business Act and KwaZulu Licensing and Business Hours Act**

4.3.1. The Businesses Act of 1991 (since amended by Act No. 186 of 1993) prevents the conduct of a business without possession of a requisite license. Categories covered by the Act include mainly those engaged in food and perishable food trade, entertainment and health facilities. The rationale for the requirement of regulation

of these trade activities is in order to maintain norms and standards on health and safety. The Act provides for the designation of municipalities as Licensing Authorities by the then Provincial Administrator. It further stipulates conditions for the issuance and refusal of licenses.

**4.3.2.** Prior to the Businesses Act, street trading in KwaZulu-Natal was controlled in terms of the Licensing and Business Hours Ordinance, 1973 (Ordinance 11 of 1973), and in KwaZulu by the Licensing and Business Hours Act, 1984 (Act 11 of 1984). At one time it was regarded necessary to require a person to hold a license before he or she was permitted to conduct any of a wide range of business activities. This form of licensing, as it involves taxation, often restricts economic activity by preventing people from entering the economy.

**4.3.3.** Both Acts are out of step with the new constitutional dispensation and terminology and they regulate in some instances only a small portion of those who may fall into the category of the informal economy, for example street traders. They also fail to take into account the rapid development of the informal economy. Furthermore instead of creating support mechanisms or an enabling trade environment for the informal economy, the Acts are mainly geared towards revenue collection, policing and restrictive administration.

**4.3.4.** Both pieces of legislation cannot co-exist within one province in their current form, as there are areas of overlap creating jurisdictional confusion. Apart from this, the administrative changes that have taken place since the implementation of the final phase of the local government transformation process, call for the coordination of role players involved with the informal economy and proper delineation of functions even at Municipal level.

#### **4.4. Accelerated and Shared Growth Initiative for South Africa**

**4.4.1.** The South African Government has the intention to halve poverty and unemployment by 2014. Growth averaged about 3% during the first decade since 1994. From 1994 – 2004, a considerable improvement on the decade before 1994

when growth averaged 1% per year. Since 2004, growth has exceeded 4% per year, reaching about 5% in 2005.

- 4.4.2. Expectations for the current strong performance to continue are high – forecasts by banks and ratings agencies generally indicate expectations of growth continuing at around 4.5% in the medium term.
- 4.4.3. Business confidence is very high. The Rand Merchant Bank/Bureau for Economic Research business confidence index, with 86% of firms expecting the continuation of improving business conditions, has remained at high levels for an extended period. Yet, the goal of reducing unemployment to below 15% and halving the poverty rate to less than one-sixth of households will not be achieved without sustained and strategic economic leadership from all spheres of government, and effective partnerships between government and stakeholders such as business.
- 4.4.4. With regard to the Department of Trade and Industry (2006) government's investigations, supported by some independent research, indicate that the growth rate needed for South Africa to achieve our social objectives is around 5% on average between 2004 and 2014.
- 4.4.5. Realistically assessing the capabilities of the economy and the international environment, a two-phase target was set. In the first phase, between 2005 and 2009, South Africa will seek an annual growth rate that averages 4, 5% or higher. In the second phase, between 2010 and 2014, we seek an average growth rate of at least 6% of gross domestic product (GDP).
- 4.4.6. To achieve AsgiSA's goal of halving unemployment and poverty by 2014, Government will have to pay particular attention to the concerns of informal economy actors in general and women and youth in particular<sup>28</sup>. With regard to

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<sup>28</sup> The rationale behind these group is the fact that the informal economy is mainly dominated by them

women, the focus has to be on expanding and accelerating access to economic opportunities including skills development and finance. The second form of leverage will be that all of the sector strategies, such as the strategies for the informal economy, will have elements addressing development goals in the Second Economy.

#### **4.5. The National Economic Development Medium Term Strategic Plan 2010/11-2012/13**

**4.5.1.** The newly established national Economic Development Department has issued its strategic plan in March 2010. Words of welcome by the Deputy Minister take note of inequality as something becoming the new face of our economy. When 10% of the population enjoys 61% share of the total national income, when our economy imports too many goods and services, when our citizens are less productive, when most shops in townships and villages stand empty, when some of our citizens eat from landfill sites, when government spends billions of rands to reduce the inequality gap while the gap continues to widen, it is clear that we need a new way of thinking going forward. It is indeed time to do things differently<sup>29</sup>.

**4.5.2.** The new Department is part of a new configuration of government that centres on the four inter-connected areas of policy-development, planning, effective implementation and continuous monitoring and evaluation. The Department is responsible to develop economic policy with a broad, cross-cutting focus so that macro and micro-economic policy reinforce each other and are both aligned to the electoral mandate. The Department is also responsible for economic development planning and works collegially with other departments to ensure coordination around a programme that places decent work at the centre of government's economic policies in order to secure better employment outcomes.

**4.5.3.** The decent work agenda is central to economic development and it seeks to draw the unemployed into jobs, transform the precarious survivalist activities in the

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<sup>29</sup> National Strategic Plan, 2010, Words of welcome by Deputy Minister of Economic Development



informal, second economy into sustainable and viable activities in the economic mainstream and progressively expand the quality of employment.

- 4.5.4. Unemployment is among the highest in the world, with a high proportion of working poor. The recession is exacerbating an already intolerable condition. By the fourth quarter of 2009, the Labour Force Survey recorded a loss of 870 000 jobs from a year earlier and noted that 518 000 more people had joined the ranks of discouraged work-seekers.
- 4.5.5. Economic development plays an important role in achieving the five government priorities and is central to the attainment of decent work. The dynamic relationship between education and economic performance draws attention to one linkage. Quality health-care is vital to sustained economic development and brings a significant economic return. Rural development must of necessity embrace an economic dimension, although it goes beyond only this dimension. The combating of crime requires both more effective policing but also an economy that absorbs young people in large numbers. In short, economic development has a two-way link with each of the five priorities: it strengthens the attainment of those goals and at the same time, the success that government achieves in each of the priority areas will enhance the attainment of economic development goals.
- 4.5.6. The political mandate from electorate includes among others the engagement of the private financial sector in order to facilitate its transformation and diversification including the development of the co-operative financial institutions as well as ensuring that the sector contributes to investment and developmental priorities of the country.

#### 4.6. Generic Informal/ Street Trading Policy Framework for Metropolitan and Local Municipalities

The South African National Informal Economy Forum (SANIEF) has been debating the issue of lack of common denominator in the development of policy on the informal trading sector. This led to the production of the Generic Informal / Street Trading Policy Framework. This framework applies at a national level and it is limited to street trading not informal economy in its entirety. Some of the key points in the framework are covered below.

4.6.1. Local municipalities are gradually embracing informal/street traders as business people, the pace at which this is happening is not as encouraging as the traders would want to be. The cities of Durban, Tshwane, Cape Town and Johannesburg have since developed draft and/or approved informal trading policy frameworks which are currently being operationalized. The rest of the metros and municipalities are still relying on the local government by-laws for guidance. Therefore the main challenge for local municipalities is still the lack of policy guidance in creating an enabling environment for informal/street traders.

4.6.2. Dynamics between Municipalities and Informal Traders deal with inter and intra relationships between and among people and the organizations they represent. Some of the common ones are:

- a. Relationships with police are always strained, especially law enforcement agents who are viewed as antagonistic to informal trading per se;
- b. Perception by informal traders that foreigners are taking over their business and mainly their trading space (xenophobia)<sup>30</sup> This is now taken as a fact of life;

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<sup>30</sup> In actual fact this perception has led to numerous verbal and physical fights between foreigners and South African informal traders. "National Street Vendors' workshop and policy dialogue on the regulation of street vending, Workshop organized by the International Labour Organization (ILO) and StreeNet International, Johannesburg, November 2003

- c. Tense and frustrating relationships with local municipalities, especially where informal traders' goods are constantly being confiscated and impounded (whether correctly or otherwise);
  - d. Intermittent suspicious and frustrations by informal traders due to site allocations and the function of processing permits by municipalities ; hence unhealthy cooperation between authorities and informal traders;
  - e. Increased inter-organizational rivalries and intra-organizational conflicts between and among informal/street traders' associations;
  - f. Most of these organizations are institutionally and financially weak and therefore are not able to represent and manage their members properly;
- The element of "crosstitude" is very common among members – where informal traders are able to move from one association to another without any formalities;

**4.6.3.** The Policy Statement is the Pillar on which all plans and operations of managing informal/street trading should be based on. The policy statement itself should be derived from the municipality's Growth and Development Strategy, which in turn informs the municipality's Strategic Direction. In the same vein, each municipality should have developed a 5 year Strategy Plan, from which macro and micro programme and projects are planned. The Local Economic Development (LED) department should therefore use the Strategy Plan as a basis for defining its policy statement and, in turn, for developing policy guidelines on informal/street traders.

**4.6.4.** The policy statement should spell-out what the overall policy intends to achieve. This could include factors such as the following:

- a. Acknowledging the relevance of and the role played by informal/street trading in the municipality;

- b. Creating an enabling environment where informal/street traders are able to operate optimally;
- c. Promoting viability of informal/street trading so that it grows and the businesses graduate into formalized enterprises;
- d. Advocating for and facilitating an integrated approach to managing informal/street trading (thus incorporating all critical departments and stakeholders into managing the sector);
- e. Establishing, managing and maintaining strong linkages between and among formal businesses;
- f. Instituting appropriate systems and procedures of allocating utilizing and controlling resources for the benefit of informal/street traders;
- g. Introducing and adopting efficient monitoring and evaluation tools and procedures;

The inclusion and implementation of all these policy articles would greatly enhance an enabling environment. The policy statement should therefore be defined explicitly by expanding on the above articles.

#### **4.7. The Provincial Growth and Development Strategy**

- 4.7.1.** The 1996 Provincial Growth and Development Strategy (PGDS) made particular reference to micro and survivalist enterprises in the context of provincial growth and development and set out clear goals and strategies to support the informal economy. These have as yet not been implemented.

4.7.2. The implementation of anti-poverty strategy and second economy interventions was declared to be one of the key elements in the Provincial Programme<sup>31</sup>. This policy is therefore sees the interventions on informal economy as appropriate ones in the implementation of the Provincial Growth and Development Strategy.

#### 4.8. The Draft Provincial SMME Development Strategy

The KwaZulu-Natal Department of Economic Development and Tourism has undergone a process of putting the SMME Development Strategy in place<sup>32</sup>. There is a strategic relevance of the SMME Development Strategy to the Policy on Informal Economy. Specific points have been selected to show synergy and linkage between the two initiatives (SMME Strategy and Policy on Informal Economy).

4.8.1. Challenges identified to hinder the expeditious provision of services to SMME's in the province can be summarised as follows:

- a. Disintegrated business support services;
- b. Limited range of support products offered;
- c. Poor quality of service provision and
- d. Poor access to these services by the intended clients.

4.8.2. The vision of the strategy envisages to be recognised for consistent development of SMME's to achieve global competitiveness thereby ensuring improved quality of life for our citizens. Whilst the mission purports that the strategy exists to develop and implement policies and programmes aimed at promoting, developing and supporting KZN small businesses with emphasis to enterprises owned by the previously disadvantaged individuals and groups in order to bring them into the mainstream economy.

4.8.3. This strategy is a six pronged strategy with its basis on the following pillars also referred to as strategic thrusts:

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<sup>31</sup> State of the Province Address, 2007

<sup>32</sup> The Draft Strategy was compiled by Super Size Investments in 2009

- a. Alignment and strengthening of institutional arrangements for the attainment of an integrated support services;
- b. Facilitation of research and development;
- c. Provision of infrastructure and technology;
- d. Human Resource development and capacity building;
- e. Improved access to markets and
- f. Improved access to finance.

**4.8.4.** District Forums for SMME Development are suggested as local governance structures charged with the mandate to:

- a. Assess and analyse municipality's bylaws, regulations and programmes that may hinder the growth and prosperity of SMME's at a local level in order to influence developmental objectives and policy direction of local and district municipality structures;
- b. Make their inputs on the development of provincial policies and strategies aimed at the development of SMME's and
- c. Monitor and evaluate the policy and strategy implementation at a local level.

All the above legislations, policies and strategies have direct implications to this policy. The harmonisation of initiatives is highly recommended for the purpose of integration and co-ordination.

## *Part 5*

Challenges facing the informal economy

### **5.1. Institutional Challenges<sup>33</sup>**

The following represent most critical challenges facing actors in the informal economy:

- No access to training
- Limited access to finance and banking institutions
- Limited to land and property
- Excessive government regulations

### **5.2. Infrastructural Challenges**

The following represent most critical challenges facing actors in the informal economy:

- Lack of working premises
- Water
- Storage facilities
- Toilets

### **5.3. Economic Challenges**

The following represent most critical challenges facing actors in the informal economy:

- Insufficient funds do not allow for further investments;
- Low income or lack of regular income as household consumption competes for the use of business earnings;
- Lack of opportunities for bulk purchase of inputs and lack of working capital and
- Limited access to technology.

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<sup>33</sup> Makho Communications, 2009



The above issues will be addressed in the section dealing with policy recommendations.

# *Part 6*

## Policy Recommendations

## 6.1. Introduction

This section of the policy framework suggests recommendations to change the undesirable effects to desirable ones. The section covers challenges that cut across three broad categories discovered during the research. The structural approach followed by this section is the one that looks at different role players and outline their role in relation to different challenges faced by the informal economy. However, issues around regulations; enforcement and monitoring and development and support are deliberately addressed as stand-alone issues.

The section to follow has comments written in *italics*. These are not policy statements per se, but they are points that augment and clarify recommended policy positions.

## 6.2. Addressing Challenges Faced by the Informal economy

The three spheres of government have not been giving the informal economy sufficient recognition as an important economic player. There is no sphere that is immune of the said deficiency. Given this context, it therefore recommended that:

- 6.2.1. In order to have meaningful and significant impact, planning; execution and monitoring of the informal economy interventions have to be conducted in an integrated manner. In this case, it is recommended that all different institutional role players ranging from National and Provincial departments, agencies, other spheres of government and the private sector should be collectively involved in addressing challenging paused by institutional arrangements.

*The above policy recommendation emanates from the fact that currently a prevalent mindset in most institutions tend to focus and favour line functions only.*

- 6.2.2. One of the contributing factors that sustain silo approach (mentioned in 6.2.1. above) is the lack of clear delineation and definition of different roles and responsibilities to be played by different departments, partners and spheres. In

implementing the policy on informal economy, the following institutional issues have to be considered.

### **At National Level**

- 6.2.3.** The National Government should come up with clear policy positions regarding the informal economy so as to constitute a cohesive legislative framework within which to operate. Some of the key actions that need national intervention are to repeal clauses that hinder the supportive role to be played by government and to amend the national criteria for SMME support to encompass micro-survivalist enterprises. Either the Department and Trade and Industry or the newly established Department of Economic Develop or its mandated agency should put in place guidelines to guide provincial interventions on informal economy.

*This recommendation views the issue of informal economy intervention as something that has to be led and implemented strategically. After all, any intervention taking place in KwaZulu-Natal only would not add more value to the entire country's economic profile. As the Province that has taken an initiative, KZN has to lobby this idea at the National level. The Department of Economic Development and Tourism has to lead the lobbying process.*

*Over and above, this proposal will initiate engagements between DTI, DED and Statistics South Africa for the purpose of having a standard definition of the informal economy.*

### **The Provincial Level**

- 6.2.4.** The Province must develop a new developmental provincial law for the informal economy. This law will have to acknowledge that local government is responsible for economic development within their areas of jurisdiction, and will therefore need to be framework legislation that allows local government to decide for themselves the best way of promoting the informal economy within their areas.

*However, the legislation should set criteria and guidelines that allow local government to measure performance in this respect.*

- 6.2.5. Following the acceptance of the recommendation presented above (6.2.4.) infrastructure and service support standards should be developed and promoted for all municipalities to adhere to.

*These should be flexible so as to be adaptable to local circumstances.*

- 6.2.6. The Provincial Government has to ensure that support for the informal economy has a clear vision and objectives. The Department of Economic Development and Tourism cannot realise this task without dealing with institutional reconfiguration. In this case, organisational diagnosis has to take place in order to institutionalise informal economy within the province.

- 6.2.7. It is within Provincial Government's competence to give support and guidance to Local Government. It is recommended that the identified institutional unit (identified as a result of 6.2.6, above) within the DEDT establishes relevant support mechanisms that will ensure that all municipalities within the Province has policies and implementation plans dealing with the informal economy.

*The above recommendation takes note of the fact that some municipalities have already put sound policies without the guidance of the Provincial Government. It has been observed though that there are challenges when it comes to implementation because of a lack of focus and prioritisation as well as personnel shortages.*

- 6.2.8. The principle of active participation of actors in the informal economy can only be realised by the establishment of a Provincial umbrella body that can serve interests and be the voice for informal economy actors.

*The existence of the umbrella body representing the informal economy will enhance the implementation of the recommendation made in 6.2.6, above. Besides, it has been noted that there are a number of informal traders' organisations that need attention from government. As they approach governmental institutions individually,*

*they have expectations that government would respond to their requests. It becomes a challenge for any governmental institution to deal with a number of voices with common interests. Thus, this initiative will not only serve the interests of informal economy actors, but it would ease and enhance communication and service delivery.*

The provincial government should establish appropriate guidelines, which will enhance such dialogue and consultation at local level.

**6.2.9.** The Provincial government should help to establish a market culture where shopping at local markets becomes the norm<sup>34</sup>. In executing this task, the KwaZulu-Natal shall be bias towards the rural communities since people have been moving from rural areas to urban areas in search for better trading opportunities.

**6.2.11.** Both provincial and local government officials (administrative and political) should advocate for more markets in cities, townships and rural areas since this would help to open up more economic opportunities by producing more trading space for both own-account workers and street traders. This may include opening or identifying other opportunities within the formal sector which may benefit those in the informal economy.

### **The Local Level**

**6.2.12.** Municipalities should ensure that the informal economy is fully integrated into their IDP planning process and that there is adequate representation from informal economy organisations in the IDP process. Municipalities through their actionable Local Economic Strategies are in the most better conditions to make evidenced contributions to the informal economy.

**6.2.13.** Municipalities are required to:

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<sup>34</sup> This is done in many West African countries where every neighbourhood has a market, even if it is only open on one day of the week.

- a. Facilitate the establishment of the informal economy actors' chambers. This is the structure that will enhance participation and involvement of people working in the informal economy.
- b. Target and develop informal economy officials who can communicate in the vernacular language, who have basic business and people skills, are sensitive to issues such as gender;
- c. Make provision for structured and regular contact with informal economy operators and their organisations to discuss relevant issues;
- d. Ensure that there is a dedicated office to deal with informal operators to simplify and improve communication.
- e. Ensure that there is transparency in the ways that decisions are taken. For example, municipalities should make public how decisions are taken regarding site allocation. It is also expected that municipalities should ensure that traders are informed either directly by the municipal officials, or by their trader organisation representatives or by some other form of communication media, of the criteria to be used for the registration and allocation of sites as well as the procedures to be followed for application of sites.

**6.2.14.** Municipal policies on the allocation of sites should guard against unfair practices. Allocations should not be linked to or based on affiliation to any particular organisation. Criteria for site allocation should be worked out locally with all stakeholders. Criteria should address race, gender or age imbalances and should work towards establishing a balance between existing traders and new entrants.

- 6.2.15. General terms and conditions relating to the duties of traders and local governments should be set out as well as the duties of home-based workers in relation to issues such as noise and environmental health.
- 6.2.16. The national legislative framework regarding the rights of foreigners should be adhered to. It would be unconstitutional to deny refugees and foreigners who have official documentation, the right to work. The foreign component in the informal economy should be accepted as part of the economic life of the province and trade links with informal traders in other countries should be encouraged.
- 6.2.17. The ultimate goal should be for all local authorities to register informal traders on an ongoing basis. Only registered informal traders and businesses would then be entitled to certain basic services (e.g. shelters, ablution facilities, storage space and a clean working environment).
- 6.2.18. In order to address basic infrastructure challenges, this policy reaffirms the duty of local government to provide basic infrastructure for people participating in informal economy, provided that the areas of operation are developable.
- 6.2.19. Following the above recommendation, the Provincial Government shall from time to time conduct audit on the access and the state of the infrastructure.
- 6.2.20. All by-laws and policy directives should be written accessibly and in gender sensitive language and be made available to all stakeholders through both popular radio and print media. All application or registration forms should be available in isiZulu and English.
- 6.2.21. New developments (that cater for formal sector in most cases) must be considerate of informal trading when they are introduced to areas because in most cases they put informal operators like spaza shop owners to difficult conditions. Different ways of sustaining informal business must be explored by both developers and government institution concerned.



**6.2.22.** Municipalities should find innovative ways to engage informal economy actors in other economic activities are in line with the aims and objectives of this policy. Some examples of these innovations may include facilitation of targeted and reserved procurement to benefit actors in the informal economy like procurement of cleaning services of markets or providing security services in markets. Another example is ensuring that training is linked with franchise opportunities, for instance a group of women who are frying chicken are linked with Kentucky Fried Chicken or Chicken Licken to ensure their growth and economic progression.

### **The Private Sector**

**6.2.23.** *More emphasis has been placed on the important role that formal businesses are expected to play in the training and development of SMMEs. This is despite the history of fraught and sometimes hostile relations between the formal and informal business sectors. However micro survivalist enterprises, which have no history of support from the private sector, have tended to be neglected.*

Some businesses in the formal economy are integrally linked to the informal economy. Examples are the textile companies that supply fabric to informal garment producers, clothing manufacturers that supply clothing to street retailers and waste recyclers who rely on informal operators for the collection of cardboard and other waste.

It is recommended that these companies should pursue potential opportunities by growing and strengthening their relationships with these informal operators.

### **6.3. Regulations, Enforcement and Monitoring**

The level of regulation and control is the most striking aspect of the existing bylaws, and is often the most contentious. Historically this was considered the purpose of developing bylaws for informal trading. This policy document however moves

towards a balance between the need for management rather than control and development.

### 6.3.1. Zoning and Rentals

This affects own-account workers, home-based workers as well as street traders.

- a. The zoning of trading or business areas is the responsibility of municipalities. In executing this responsibility, municipalities are encouraged to consult those affected. Municipalities should allocate informal economy actors to areas more suitable for trade. Officially designated zones must in no way contravene with health and safety regulations.
- b. Municipalities should make markets more accessible to home-based workers. In areas where markets have been set up, municipalities should ensure that renting fees are affordable.

### 6.3.2 Registration, Permits and Licensing

- a. There needs to be some form of recording of informal businesses. This will benefit municipal officials, traders and provincial monitoring and information gathering systems. Municipalities must investigate and put a registration system in place.

*The current situation of licensing and permits lacks transparency, is complicated, time-consuming for both traders and officials, and is out of step with the concept of “one-stop shops” being considered by local and provincial government. Traders registered with certain local municipalities complain that permits are not checked, which allows unregistered traders to compete unfairly. This also allows seasonal operators, as well as foreigners, who tend to be very mobile, to escape paying the relevant registration fees. Municipalities should*

*investigate and implement innovative and efficient system to issue licensing and permits.*

- c. It is recommended that municipalities create means during registration to make allowance for permit holders to nominate at least two people to be stand in for them in case they are not on trading sites.
- d. It is accepted that informal economy actors will need to be registered under a specific municipality. This will form the basis for the information management system and allows for a range of support interventions. The basis for registration is non-discriminatory and provides the platform for regulation and support.
- e. This policy recommends conditions for registration as follows:
  - (i) The registration process does not mean that the operator may trade in any area.
    - Where local area trading plans have demarcated sites, the trader will have to apply to access a designated site and roving traders may also be limited.
    - The registration process does not imply that other legal requirements are waived (such as requiring a license to sell prepared food).
  - (ii) The operators must indicate a commitment to pay for costs that may be part of the local area agreement – such as stall rentals.
  - (iii) Operators must be South Africans in possession of an identity document or legal foreigners with work permits will be allowed to register.
  - (iv) Registration shall include the following minimum information:

- Name and Surname
- Nominees – at least two
- Contact details
- What sector or product line they are in
- If they have a fixed site and where it is
- Any conditions attached to their trading
- Current status (demerits, warnings, rent payment etc).

(v) The Municipalities shall use the above information to establish a database for registering informal economy actors and shall issue identity cards.

### *6.3.3. Enforcement*

- a. The passing of bylaws, policies and procedures requires enforcement if the overall system is to function. It is not effective to develop bylaws and procedure requirements that cannot be met by the Municipality and the informal economy actors as this discredits the entire process and will probably lead to increased non-cooperation and non-compliance.

The following points outline the enforcement system that each municipality may put in place:

- (i) Municipal enforcement will primarily be through a designated directorate or service unit.
- (ii) There should be an element of self regulation through local structures and the informal economy chambers and organizations.
- (iii) There should be a wide range of options including warnings and demerits, fines, confiscation of goods, suspension of trading and finally withdrawal of registration.

- (iv) A form of 'demerit or points system' where operators can be effectively warned where necessary.
  - (v) Specific conditions can be attached to trading registration and licenses.
  - (vi) There needs to be clear mechanisms for determining punishment (linking to punitive measures to transgressions).
  - (vii) Linking punitive measures to non-payment where this is due (for example rentals).
  - (viii) There must be an appeals procedure.
  - (ix) There needs to be rules for specific areas – for example taxi ranks.
  - (x) There needs to be rules for specific activities – for example food preparation.
- b. Law enforcement must be executed in a human manner and justifiable manner. In this case, this policy discourages the confiscation of goods as the first resort in law enforcement. This puts the disadvantaged people in a more disadvantaged condition and increases their vulnerability which is against the developmental objectives of government and this policy.

#### *6.3.4 Allocation of Sites*

- a. Site allocation is at the heart of informal trading. Although allocation is done by municipal officials, the province could establish a framework which would guide the criteria for allocation. The details thereof could be negotiated at local level by all stakeholders.
- b. In dealing with informal economy actors, the issue of municipalities putting in place the policy of allocating trading sites is critical to a positive trading environment.
- c. In order to deal with the problem of informal economy actors being taken from pillar to post, municipalities must publish site allocation process and ensure that people concerned are familiar with such process.

- d. An application for site allocation is said to be a long and cumbersome process. The lack of clear policy can result in corruption and unfair practices on the part of officials, such as discrimination, favouritism and bribery.
- e. *General animosity exists between foreigners and local traders. The issue is that foreigners are able to source goods at much lower prices from their own countries and sell them cheaper in South Africa. There is a widespread view amongst local traders that foreigners should not be allocated sites.* This view is against the South African Constitution since it is discriminatory by nature.
- f. *There is a growing trend of fronting whereby sites allocated to informal traders are actually controlled by formal or established businesses. In addition, some formal businesses trade as informal businesses by selling goods in front of their business premises.* Such practices is discouraged because it puts real informal traders in unfair competition. Anyone found doing this malpractice shall be fined.
- g. Those found to be abusing the system by having more than one sites shall be penalised by having all sites allocated to them relocated to other traders.

*There is no way one person could have more than one trading sites since there is high demand. It will therefore become the responsibility of each trader that he or she acts with honesty and integrity at all times. This clause intends to make people share in scarce resources and guide against greed.*

#### 6.3.5 Safety

Municipalities, working with security agencies should put in place security measure like surveillances in areas regarded as hot spots. Also, people who are actors in the informal economy must take it upon themselves that criminals are apprehended. They may do this by formalising themselves are block committees of sectional committees.

*The general public and some government officials associate crime with the presence of informal traders. But crime is also a problem for traders. High crime levels discourage customers from buying in the streets and negatively affect informal trading operations. Many traders have so little confidence in the ability of the police to deal with criminals in their areas that they are more inclined to rely on each other to watch their goods and for protection against criminals.*

#### **6.4. Support and Development**

- 6.4.1.** A system should be designed and implemented that will govern the current and new entrepreneurs in terms of their business processes, management ability and growth potential. This can be better executed by local government officials who can identify entrepreneurs within informal economy who are in business as waiting point looking for something better. The Province should however, provide a guide in this regard.

*The starting point to supporting and developing actors in the informal economy is to first have a baseline. Municipalities should establish a database for actors in the informal economy. Such database should indicate training and development needs for each person. This can be well managed through the establishment of a Management Information System (MIS).*

- 6.4.2.** In order to help survivalist entrepreneurs increase incomes and lead to improved survival skills, which can further help them cope in times of crisis, training programme informed by the needs shall be designed, implemented and monitored. Both Provincial and Local Government should play roles in this instance. Local government is expected to deal with the implementation whilst the Provincial government provides support needed.

- 6.4.3.** Municipalities should work hand in hand with SETAs, other departments and organisations to implement training programmes aimed at building the capacity for informal economy actors. Interventions such as Masifundisane Literacy Campaign could be a useful breakthrough initiative in this regard.

*This is a group that requires specific training methods and appropriately designed materials. In the province the majority of informal economy operators have had little formal education. There is a need for basic literacy and numeracy training as well as courses in areas such as managing a business, financial management, pertinent legislation and general life skills.*

- 6.4.4. The Provincial government shall conduct a comprehensive survey to establish training service providers who are currently working in the informal economy. By doing this survey, the KwaZulu-Natal government seeks to ensure that actors in the informal economy receive specialised training.
- 6.4.5. In order to be effective, parties will in many instances, require support to develop the skills necessary to engage effectively and in a manner which results in clear agreements that are acted upon by all concerned. Provincial government shall play a role in facilitating and supporting skills development in these areas, for all concerned.
- 6.4.6. Government through municipality has to facilitate career pathing so that informal traders can progress from being informal to formal sector. The other recommendation for progression is that government must provide training workshops to bring literacy about benefits of being a co-operative so that those who want to register may do so.
- 6.4.7. Government officials must ensure that informal economy actors are well trained on policies and pieces of legislations that affect their operations.
- 6.4.8. *Training sessions alone would not make major difference since in most cases training programmes seem to be repetitive.* There is a need for mentors to help after training sessions to see if there any changes in the manner in which training beneficiaries are doing business.



## 6.5. Funding for the Informal Economy

The Department of Economic Development and Tourism has investigated the funding model appropriate for the informal economy. This has been done through collaborative effort with the private sector – especially banking institutions and agencies that render support to the informal economy<sup>35</sup>.

**6.5.1.** Various funding models are available for informal economy actors to access. The models that is used by the South African Micro-finance Apex Fund (SAMAF)<sup>36</sup> and all banking institutions<sup>37</sup>.

**6.5.2.** The initiatives taken by funding agencies and banking institutions need full backing and support from the government institutions. Local government in particular has more role to play in this regard. It is recommended that local municipalities assist actors in the informal economy to access finance by acting as a guarantor where possible. This assistance can be more practical in cases where informal traders who are registered in the municipal database approach banking institutions or funding agencies for finance. It should be the responsibility of each municipality to put necessary safeguards so that the system cannot be subjected to abuse.

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<sup>35</sup> As part of the research, an interactive session in a form of a workshop was held with institutions that could make inputs on financial support for informal economy. This clause – 6.5. is as a result of this session.

<sup>36</sup> SAMAF is tasked to facilitate the provision of affordable access to finance by micro small and survivalist business for the purpose of growing their own income and asset base. The primary purpose of **SAMAF** is to reduce poverty and unemployment and also to extend financial services to reach deeper and broader into the rural and peri-urban areas. Currently SAMAF is facilitating the establishment of financial services co-operative to fund informal traders. Also initiatives like community banks and grant funding for systems are available. For more information and success stories log on to [www.samaf.org.za](http://www.samaf.org.za)

<sup>37</sup> ABSA has micro lending and micro enterprise finance which is reaching out to those who are trading in their communities. The bank puts infrastructure and people are encouraged to borrow as a group. Other initiatives of the bank include working with Msunduzi Municipality in providing training for informal traders in Market Square. More details can be found on [www.absa.co.za](http://www.absa.co.za)

Nebank has provided enterprise development training partnering with Mandeni Municipality and Imfolozi Training Centre. Beneficiaries in this training programme are informal economy actors.

Other banks not listed above also have good initiatives and benefits to be accessed by the informal economy.

## 6.6. Incentive Scheme

The Department of Economic Development and Tourism shall design a positively related system in accordance with the performance of informal traders.

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

## *Part 7*

Conclusion and Implications of this policy

- 7.1. What has been presented in this document are policy recommendations that the Province of KwaZulu Natal need to take into account if serious interventions have to be made for the informal economy.
  - 7.2. The overarching notion of this is the creation of the enabling environment for those involved in informal economy to access opportunities and progress in their economic endeavours.
  - 7.3. Any effective policy for the vulnerable should essentially strengthen their rights, their rights as citizens, not to be excluded from the larger growth process and their rights as labour vis-à-vis capital, in whichever flexible form it may appear.
  - 7.4. Effective policy implementation relies on efficient system and operational processes. No matter how wonderful and exciting can policy statements be, BUT without any clear operational approach towards implementation, such statements would remain rhetoric jargon.
  - 7.5. The implementation framework for this policy is outlined below.
    - 7.5.1. Each municipality must adapt, adopt and implement this policy framework taking into account local context, dynamics and challenges.
    - 7.5.2. Each municipality must clearly articulate on the adaptation, adoption and implementation of the localised policy on informal economy under legislated key performance area called Local Economic Development.
    - 7.5.3. When articulating, municipalities must put measurable targets for each financial year and four quarter in each year. This shall then be part of the Service Delivery Budget Implementation Plan.
    - 7.5.4. There must be one senior official who own the process outlined from 7.5.1. above. The performance plan signed by the municipal official who owns this process shall serve as the key tool in ensuring that each municipality delivers.
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7.5.5. The Department of Economic Development and Tourism must provide clear guidelines relating to the implementation of this policy once approved by the legislature. These guidelines shall also include the process outlined from 7.5.1. to 7.5.4.

7.5.6. The Department of Economic Development and Tourism must devise policy implementation mechanism which includes paying visits to all municipality to audit the extent to which each municipality has implemented this policy.

**SCHEDULE A OF THE KWAZULU-NATAL POLICY ON INFORMAL ECONOMY**  
**LIST OF OPERATIONS IN THE INFORMAL ECONOMY**

- Street or kerbside traders
- Hairdressing and hair cut
- Traditional medicine
- Restaurants/ Food outlets
- Traditional wear, décor & beadwork
- Payphones
- Shoes and shoe repairs
- Trader in pedestrian malls
- Taxi drivers
- Markets (flea & craft markets as well as special markets)
- Traders at transport interchanges
- Photographers
- Cardboard collectors
- Traders found in public open spaces
- Mobile Traders (roving, caravans, bakkies)
- Beach Traders
- Panel beaters
- Sewers
- Tuck shop operators
- Car wash
- Car guides
- Grass cutters
- Livestock traders/ small scale farmers
- Home renovators / painters
- Woodwork
- Etc.

THE END