Urban poverty and the informal economy in South Africa's economic heartland

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SUMMARY: The paper describes urban poverty and the informal economy in the economic hub of South Africa, the Pretoria-Witwatersrand-Vereeniging region (which includes Johannesburg). Its findings show the limited possibilities for using the informal economy as a means of resolving pressing issues of poverty in South Africa's cities. After an introduction about the post-apartheid government's Reconstruction and Development Programme, the paper describes the scale and nature of urban poverty and the causes of its growth and the growth and changing complexion of the informal economy, including the rapid growth of "survivalist" enterprises and the links between the formal and informal economy. This includes a consideration of what constrains the informal economy and the links between supporting the informal economy and addressing poverty.

I. INTRODUCTION

WITH THE HISTORIC inauguration of President Mandela at the Union Buildings, Pretoria on 10 May 1994, South Africa completed the long trek to a non-racial democracy. The new multi-party government of national unity, dominated by the African National Congress (ANC), currently faces a set of enormous challenges to transcend the inherited legacies of more than four decades of apartheid planning. At the heart of the legislative programmes of the new democratic government is the Reconstruction and Development Programme (RDP) which is designed as "...a policy framework for integrated and coherent socio-economic progress" informing South African development planning in general and with a vision towards building "...a democratic, non-racial and non-sexist future."(1) The first priority of the democratic government was identified rightly as the imperative need to attack poverty and deprivation; the RDP notes that poverty "...is the single greatest burden of South Africa's people."(2) It is estimated that nationally "...there are at least 17 million people surviving below the Minimum Living Level in South Africa."(3) Although the majority of the poor are currently located in rural areas, in particular in the former Bantustan regions, increasingly the geography of poverty is shifting as a consequence of the effects of drought, an accelerating tempo of rural-urban migration and of high natural population growth rates in cities. Consequently, South Africa's large urban centres are confronting a growing problem of absorbing and providing for increasing numbers of poor communities.

1. Republic of South Africa (1994), *White Paper on Reconstruction and Development*, WPJ/1994, Government Printer, Pretoria, page 7.

2. African National Congress (1994), *The Reconstruction and Development Programme: a policy framework*, African National Congress, Johannesburg, page 14.

3. See reference 2, page 14.

Under the RDP, development is viewed as a "people-driven process" which means active involvement and growing empowerment rather than simply "the delivery of goods to a passive citizenry".[4] The RDP seeks to address the short-term question of urgently affording some form of immediate relief to ameliorate the crippling burdens of the unemployed. A second and longer-term requirement is, however, to restructure the patterns of national growth in order to enhance the long term employment creation capacity of the economy. In terms of both these short and long-term objectives for addressing poverty, much attention is being given at present to issues surrounding the developmental potential of the small-scale and informal economy.[5] The RDP acknowledges that a "...particular weakness of the economy, aggravated by racist and sexist policies, is the inability to maintain a dynamic small-scale and micro-enterprise sector."[6] In light of its policy significance, development research into the informal economy has been a veritable "growth industry" in South Africa over the last decade. In particular, a surge of new material has been generated variously by the policy agendas of several international development agencies (most notably the World Bank and European Union), from sponsored research on reconstructionist interventions as well as a continuing high level of research concern among independent policy analysts.[7]

The objective of this paper is to present new findings on urban poverty and the informal economy in the Pretoria-Witwatersrand-Vereeniging (PWV) region, the economic hub of South Africa. More particularly, the aim is to question the role of the informal economy in managing the problems of poverty in South Africa's economic heartland. The PWV area affords an instructive case study on the potential for policy makers in the era of post-apartheid reconstruction to use the informal economy as a means of resolving pressing issues of poverty in South Africa's cities. The paper consists of three sections. First, an examination of the nature, scale and causes of growing urban poverty in South Africa's economic heartland. Against this background, the second section tracks the detailed growth and changing complexion of the informal economy in the PWV region. The concluding section raises a number of issues concerning contemporary problems and policy initiatives dealing with the informal economy.

II. POVERTY IN SOUTH AFRICA'S ECONOMIC HEARTLAND

THE PWV REGION encompasses the land mass of Gauteng, one of South Africa's nine new provinces established during 1994. The Gauteng province (Figure 1) is the economic hub of South Africa; despite the fact that it is the smallest of South Africa's new provinces in terms of area (only 1.5 per cent of the national land area), in 1991 its economy offered 27 per cent of all formal employment opportunities and generated 37 per cent of national GDP.[8] The PWV is the trading centre of southern Africa, South Africa's financial core, the locus of headquarters office decision-making and the country's most important manufacturing region. In 1993, Gauteng had an estimated total population of 6.8 million people (16.8 per cent of the national population) with an average annual growth rate of 1.3 per cent (1985-1993). In relation to the rest of South Africa, the province has the highest population density (365 persons per square kilometre), the second highest literacy levels (69 per cent) and a personal income per capita of R 4,992 (R1 = US$

4. See reference 1, page 8.

5. For a general discussion see Rogerson, C.M. (1995), "The employment challenge in a democratic South Africa" in A. Lemon (editor), *The Geography of Change in South Africa*, John Wiley, London, pages 169-194.

6. See reference 2 page 76; also Republic of South Africa (1995), *National Strategy for the Development and Promotion of Small Business in South Africa: White Paper of the Department of Trade and Industry*, Government Printer, Pretoria.

7. For an introduction to this literature see Preston-Whyte, E. and C.M. Rogerson (editors) (1991), South Africa's Informal Economy, Oxford University Press, Cape Town. A recent overview is Rogerson, C.M. (1994), "South Africa's micro-enterprise economy: a policy focused review" in R. Hirschowitz, M. Orkin, C.M. Rogerson and D. Smith (editors), Micro-enterprise Development in South Africa, European Union, Pretoria, pages 14-37.

8. Development Bank of Southern Africa (DBSA) (1994), *South Africa's Nine Provinces: a human development profile*, DBSA, Halfway House, page 39.

9. See reference 8, page 75.

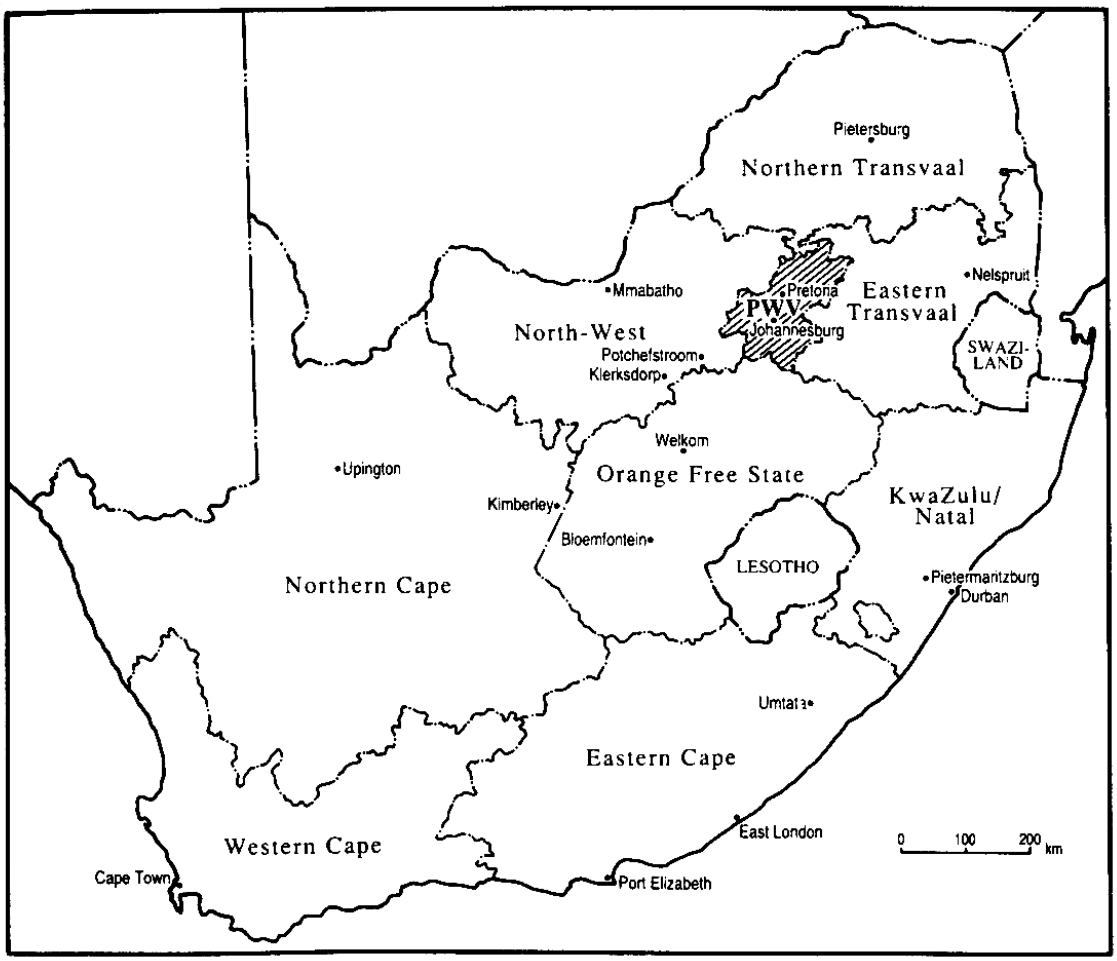
10. Mabin, A. and R. Hunter (compilers) (1993), "Report of the review of conditions and trends affecting development in the PWV" prepared for the PWV Forum, Johannesburg, page 195.

11. Gauteng Government (1995), *Economic Policy Document*, Johannesburg.

3.67 on July 1994 exchange rates) which was 117 per cent higher than the national average.[9]

South Africa's economic heartland is, however, a region of enormous economic and social contrasts. Racial income inequalities are high and spatial/racial imbalances in service provision are marked.[10] In terms of income disparities, the best estimates suggest that average white household incomes are R 6,653 per month compared to only R 1,439 per month for African households.[11] Racial inequalities are expressed visibly in the stark contrasts between, on the one hand, the high living standards and residential circumstances of the most luxurious suburbs on the African continent and, on the other hand, of often adjacent or relatively close-by "environments of urban poverty" manifest in the formal townships and especially in the informal shackland settlements that have proliferated across the PWV region over the last decade. The predominantly white towns and suburbs of the PWV are well-resourced and enjoy good infrastructure, whilst the black townships and informal settlements represent degraded living environments with poor infrastructure and social facilities. The region's populations who reside in squatter encampments

Figure 1: South Africa's New Provinces



endure the most squalid life-threatening environments of all. Significantly, the fastest population growth rates have been occurring in these shack areas of least economic opportunity which are estimated to shelter approximately 19 per cent of Gauteng's total population. Behind these inequalities and contrasts of affluence and squalor in the PWV are historical racial imbalances in income, wealth, privilege and power and the abject failure of apartheid planning to meet the basic human needs of disempowered black communities in terms of health, nutrition, education or recreation.

Since the mid-1980s, the regional economy has exhibited signs of ill-health, stagnation and even precipitate decline.(12) During the mid-1980s, its share of national output was 42 per cent but, subsequently, has fallen back to 38 per cent. The region has experienced a marked downturn in the significance of the formal economy, from an estimated 84 per cent of all jobs in 1980 to only a 62 per cent share a decade later.(13) Employment data for the period since 1989 indicate alarming declines in certain spheres of formal sector employment, particularly the manufacturing sector which has experienced a phase of major restructuring. Beyond manufacturing decline, the growth rate of the financial services sector in the PWV lagged behind that of other South African metropolitan areas (notably Cape Town and Durban) and further declines were recorded in the commercial sector. Underpinning this downturn has been a complex set of factors including a decline in mining, cutbacks in military production and the consequences of industrial decentralization programmes which encouraged the outflow of labour intensive production activities, most notably of much of the region's clothing and textiles manufacturers.(14) Against this background, the primary economic development challenges identified in 1995 by the new Gauteng provincial government relate to the expansion and diversification of sustainable job opportunities in the province.

Poverty is certainly a major problem in South Africa's economic heartland. All indicators of poverty, most importantly the numbers living below the Minimum Living Level, signal "...a consistent and singular increase in poverty in the PWV over the past twenty years."(15) A recent baseline study on poverty in the PWV region concluded that "...widespread poverty and inequality are indeed present within the region."(16) The incidence of poverty is worst amongst the black community and, geographically, "deep poverty" is concentrated in the informal shackland settlements of the region. Although unemployment data in South Africa is notoriously inaccurate, regular surveys of the levels of unemployment in the PWV underscore an alarming rise in the numbers of unemployed. It is evident that, throughout the 1980s, rates of unemployment escalated consistently. Overall, depending on method of calculation, the rate of unemployment ranges from 29 to 48 per cent, with the Gauteng government adopting a relatively narrow definition which places the rate of joblessness at 37 per cent. Significantly, the burden of unemployment is borne particularly heavily by the region's youth.(17)

Other indicators of poverty underscore the depth of the poverty problem that confronts the new regional government of Gauteng. In terms of shelter, the PWV has at least 500,000 informal structures.(18) With the coming to power of a democratic government seen as sympathetic to the homeless, a wave of organized land invasions has taken place across the region; in 1994, it was estimated that a total of some 200,000 people had recently invaded land, thus creating an "alarming upsurge" in squatter encampments.(19) Overall figures suggest that the accommodation crisis

12. For an overview see reference 10.

13. See reference 11.

14. See Rogerson, C.M. (1995), "South Africa's economic heartland: crisis, decline or restructuring?" *Africa Insight* Vol.25, pages 241-247; also Rogerson, C.M. and J.M. Rogerson (1995), "Central Witwatersrand: a metropolitan region in distress?" mimeo report for the Center for Enterprise and Development, Johannesburg.

15. Hall, P., G. Saayman, D. Molatedi, P. Kok and HSRC (1993) "A profile of poverty in the PWV", report prepared for the Project on Statistics on Poverty and Development, SALDRU, University of Cape Town, page 12.

16. See reference 15, page 219.

17. See reference 13.

18. See reference 8, page 23.

19. See *Weekly Mail and Guardian* (Johannesburg), 10 June 1994.

in the PWV region is such that at least 1 million people are in need of decent shelter and the provision of affordable services. The poverty circumstances endured by the region's poor are reflected in miserable and degraded living environments with poor access to water or sanitation facilities.

Underpinning this poverty crisis in the PWV are historical inequalities of access to resources, education, facilities and services. These are further exacerbated by apartheid distortions such as a spatial structure which imposes huge social and economic costs on the urban poor through high transport costs.[20] One of the key agencies now responsible for addressing the poverty problems of the PWV is the new Gauteng government. One of its first tasks was to develop a strategic plan for building a new province in light of the guidelines set down in the national RDP.[21] The role of the informal economy in managing the problems of poverty in the region and of contributing to rebuilding the economy is a key focus of attention.

20. World Bank (1994), *Reducing Poverty in South Africa: options for equitable and sustainable growth*, World Bank, Washington DC.

21. See reference 11.

III. THE INFORMAL ECONOMY IN THE PWV

ACCURATE ESTIMATES OF the dimensions, growth and levels of participation in PWV's informal economy are fraught with problems of definition. The best available counts suggest that, towards the end of the 1980s, at least 30 per cent of the total South African labour force was engaged in some form of informal work.[22] In 1990, an official survey showed that the PWV region was the second of two major national concentrations of informal sector employment, the most important being found in KwaZulu-Natal.[23] The most recent data suggest that, within the PWV, at least 1.7 million people are active in the informal economy. This means that the numbers engaged in the informal economy of the PWV are substantially greater than the numbers working in the region's formal manufacturing economy.

A useful conceptual distinction can be drawn between two categories of informal enterprise. First, are those *survivalist enterprises* which represent a set of activities undertaken by people unable to secure regular wage employment or access to an economic sector of their choice. Generally speaking, the incomes generated from these enterprises, the majority of which tend to be run by women, usually fall short of even a minimum standard of income, with little capital investment, virtually no skills training and only constrained opportunities for expansion into a viable business. Overall, poverty and a desperate attempt to survive are the prime defining features of these enterprises. The second category are *micro-enterprises* or *growth enterprises* which are very small businesses, often involving only the owner, some family members and at most one to four paid employees. These enterprises usually lack all the trappings of formality, in terms of business licences, formal premises, operating permits and accounting procedures, and most have only a limited capital base and their operators only rudimentary business skills. Nonetheless, many micro-enterprises have the potential to develop and flourish into larger formal small business enterprises.

22. See Kirsten, M. (1991), "A quantitative assessment of the informal sector" in E. Preston-Whyte and C. Rogerson (editors), *South Africa's Informal Economy*, Oxford University Press, Cape Town, pages 148-60.

23. Republic of South Africa (1990), *Statistically Unrecorded Economic Activities of Coloureds, Indians and Blacks*, Central Statistical Office, Statistical News Release PO 315, Pretoria.

a. Expansion and Complexion of the Informal Economy

In terms of racial composition, it is overwhelmingly Africans who work in the PWV's informal economy.[24] At present, overall involvement by whites

24. World Bank (1993), "Characteristics of and constraints facing black businesses in South Africa: survey results", mimeo paper presented at the seminar on The Development of Small and Medium Business Enterprises in Economically Disadvantaged Sections of the South African Communities, Johannesburg 1-2 June.

and coloureds in the informal economy is relatively small, although it must be noted that white participation in the informal economy has surged particularly with the proliferation of "flea markets" in the Johannesburg area. For Indians, participation is confined to a set of highly controlled and lucrative informal niches such as inner-city flower-selling. Another feature of the PWV informal economy, of rapidly growing importance and with the potential to generate future conflict, is the trend towards the internationalization of the informal economy. Over the last five years, in both informal settlements and the inner-city areas, groups of international migrants from Eastern Europe, Asia (Pakistan, China, Taiwan, India, South Korea), other countries in central and southern Africa (especially Zimbabwe, Zambia, Zaire) and, increasingly, from West Africa (Nigeria, Ghana) have emerged in significant numbers, especially in activities such as street-vending, shoe repairs and sewing. Indeed, given current trends, it has been projected that, within the next five years, West Africans may control the bulk of commerce in key central areas of Johannesburg.

A sense of the very rapid growth that has occurred recently in the PWV's informal economy can be obtained from a comparison of such activities in the central areas of Johannesburg for 1979 1980 with the situation today. Surveys undertaken at the end of the 1970s reported figures of some 200-250 hawkers regularly trading in central Johannesburg; in 1993, a city council survey estimated some 15,000 street traders.(25) Such a change means that, in the inner-cities, pavements are lined with hawkers and empty lots are rapidly transformed into informal markets. The tremendous expansion of informal retailing in Johannesburg prompted one observer to comment that "...the contrast with the stoic and regimented city centre of decades ago is dramatic."(26)

Undoubtedly, a phase of very rapid expansion is taking place in PWV's informal economy, especially in peri-urban zones and the growing informal settlement zones.(27) Although informal or shack settlement areas have been identified as the zones of greatest spatial growth for new informal enterprise, the advance of the informal economy is widespread across the different geographical zones of the PWV. Whether in the inner-cities, in former white urban space, in formal black townships or in zones of informal settlement, the advance of the informal economy is visible. As in the pattern observed in other countries, the informal economy manifests itself in different ways in different regions of the metropolitan area.(28) As regional variations reflect patterns of local opportunities for informal enterprise, the particular spatial character of the PWV's informal economy relates to local market opportunities in terms of the regional-industrial mix.

In the PWV, the rise of the informal economy is evident in a host of new street or pavement centred activities (including flea markets, hawkers, taxi drivers, street barbers, shoe shiners or prostitutes), the proliferation of home based enterprises (child-minding, *spazas* – retail shops run from the home, *shebeens* – liquor-selling outlets run from the home, backyard or garage workshops/repairs, hairdressers, the showing of videos) and a small number of increasingly formalized ventures located on fixed business premises (small-scale manufacturers, liquor taverns). In terms of a shift to "formality" one of the most remarkable developments of the past five years has been the growth of vibrant communities of black, small-scale micro-enterprises occupying vacant office space in the inner-city areas of Johannesburg.(29) The importance of home based enterprises is highlighted especially in townships and informal settlement areas; in the

25. Rogerson, C.M. (1988), "The underdevelopment of the informal sector: street hawking in Johannesburg, South Africa", *Urban Geography* Vol.9, pages 549-567; also reference 7.

26. Manning, C. (1993), "Dynamo or safety net: can the informal sector save the day? ", Work in Progress 87, pages 12-14 (quote on page 12).

27. Rogerson, C.M. (1992), "Tracking the urban informal economy" in G. Moss and I. Obery (editors), *South African Review 6: from "red Friday" to Codesa*, Ravan, Johannesburg, pages 378-387.

28. International Labour Office (1992), "Development of the urban informal sector: policies and strategies", paper prepared for the Asian Sub-regional seminar on Employment Policies for the Urban Informal Sector in East and Southeast Asia, Bangkok, 12-16 October.

29. Rogerson C.M. and J.M. Rogerson (1996), "The metropolis as incubator: small-scale enterprise development in Johannesburg", *GeoJournal* Vol.39, No.2, in press.

East Rand township of Daveyton, an estimated 85 per cent of informal enterprises are home based.[30] Most dramatically, perhaps, the rising importance of the informal economy is indicated by expanding levels of urban cultivation on peripheral vacant land in the PWV, a process of "ruralization" of the city.[31] Currently, however, urban agriculture in the PWV is relatively undeveloped due to the greater returns that can be earned from backyard shacks and alternative urban informal income opportunities. Informal cultivation is primarily a survival niche of the most marginalized and most vulnerable groups in the city.

Beyond these "socially acceptable" forms of informal enterprises, one must note also the rapid expansion of an array of illegal activities such as selling stolen household goods, drugs, home brewed liquor and what was aptly described as "motor supplies of questionable origin".[32] Available evidence from micro-level studies suggests that the prospects for developing the informal economy are geographically uneven. Quite clearly, the mix of informal enterprises varies between different spatial zones of the PWV. Nonetheless, the balance of activities between survival and growth enterprises is weighted most strongly towards growth in those areas of greatest economic potential and towards survival in those of lowest market potential. At the intra-urban scale of analysis, this means that, spatially, growth enterprises tend to cluster in the inner-city zones, that they are represented to a more limited extent in formal township areas, and are found only marginally in zones of informal settlement, where the vast majority of informal activity is of a bare survival nature.

Several studies on the informal economy of shack settlements reveal that few enterprises exhibit the characteristics of long-term growth.[33] In informal settlements of the PWV, one study disclosed that "...participation in the labour-intensive informal sector appears to constitute one of the main forms of survival...especially in Mamelodi, Katlehong, Sebokeng and Tembisa where, we estimate, roughly a quarter of the population is involved in this type of labour."[34] This broadbrush picture of the geography of survival and growth enterprises in PWV's informal economy reflects the important "incubator" function played in small enterprise development by metropolitan areas and, especially, of the inner-city zones. In this respect, the pattern of informal enterprise development in the PWV is broadly reflective of the Third World experience as a whole.[35]

It appears that the growth recently recorded in the PWV informal economy is occurring primarily through the replication of informal businesses, a pattern of involution, rather than evolution which would result in the increase in the number of employees. Indeed, Manning and Mashigo[36] write of a process of "growth through replication" or "extensive" growth rather than growth through "intensification" or "capital/skill/technology upgrading". Various studies have uncovered data on the sectoral distribution of informal enterprise activity. For example, official data suggest a split of 46 per cent retail, 31 per cent services and 23 per cent manufacturing; alternative figures obtained from other sources vary within a small range but all indicate that the dominant activity in the PWV informal economy is hawking or itinerant trading.

A consistent finding concerning the structure of the PWV informal economy relates to the underdeveloped nature of manufacturing activities and the greater importance of activities concerned with services and distribution.[37] Recent research shows that South African manufacturing micro-enterprises operate in a wide range of markets, from producing cheap goods for the poor to lowering the costs of production for formal

30. Ormet, (1992) "Land delivery task group", mimeo report 61/92, Ormet, Springs, Section 2.5.

31. On urban cultivation see Rogerson, C.M. (1993), "Urban agriculture in South Africa: scope, issues and potential", *GeoJournal* Vol.30, pages 21-28; and May, J. and C.M. Rogerson (1995), "Poverty and sustainable cities in South Africa: the role of urban cultivation", *Habitat International* Vol.19, pages 165-181.

32. Centre for Policy Studies (1988), "Urbanization and informal settlement in the PWV complex", mimeo report for the Urban Foundation, Johannesburg, page 100.

33. For a review see Rogerson, C.M. (1993), "Rebalancing racial economic power in South Africa: the development of black small-scale enterprise", *GeoJournal* Vol.30, pages 63-72.

34. See reference 32, page 99.

35. Lee, K.S. (1989), *The Location of Jobs in a Developing Metropolis: patterns of growth in Bogota and Cali, Colombia,* Oxford University Press for the World Bank, New York.

36. Manning, C. and Mashigo, P. (1993), "Manufacturing in micro-enterprises in South Africa", mimeo report submitted to the Industrial Strategy Project, University of Cape Town, page 16.

37. Rogerson, C.M. (1992), "The absorptive capacity of the informal sector in the South African city" in D.M. Smith (editor), *The Apartheid City and Beyond: urbanization and social change in South Africa,* Routledge, London, pages 161-171.

industry by functioning as sub-contractors and yet, sometimes producing high value, high quality goods for niche markets. Nonetheless, because of historical factors relating to apartheid discrimination against black manufacturers, in the PWV, as elsewhere in South Africa, "African owned micro-enterprises are typically located in the lowest value, poorest quality, least lucrative segments of the manufacturing sectors."[38] Research on the PWV region by the Centre for Policy Studies confirmed that the diversity of modes of informal economic activity that exists in Latin America does not occur in South Africa; it observed that in the PWV "...there is very little in the way of productive activity in the informal sector."[39] In a similar vein, the township research conducted in Mamelodi (Pretoria) concluded that "...the level of manufacturing activities in these townships is low by international standards."[40]

Finally, in terms of the complexion of the PWV informal economy, it is necessary to acknowledge the existence of important gender divisions. A widespread finding in micro-level studies is that the PWV informal economy exhibits a sexual division of labour with women concentrated in trade, food preparation, dressmaking and childcare activities.[41] Underpinning this pattern is women's lack of access to material resources, including credit and loan facilities, and the overall context of patriarchy.[42] In particular, micro-studies show the disproportionate number of women being relegated to the lower end of the PWV informal economy. Although not all women-run enterprises can be characterized as "survivalist" (for many studies encountered instances of successful women entrepreneurs which suggests that women do have the ability to expand their businesses), in general, local research discloses that more women than men are at the survivalist end of the spectrum.[43]

An important finding is that women earn less than men in the informal economy as the most profitable small-scale businesses are dominated by male entrepreneurs. The work of Liedholm and McPherson[44] showed that women accounted for just over half of the informal enterprise workforce and two-thirds of proprietors. Nonetheless, enterprises run by women tended to be smaller in terms of employment (1.71 employees) than those run by men (2.6 employees). Certain sectors of activity were dominated by one gender or another. More especially, "...firms in sectors involving trade and commerce tend to be run predominantly by female proprietors, as are service oriented textile manufacturing and food-processing firms."[45] By contrast, enterprises involved in metal production, wood-processing and transport tended to have male proprietors. Firms run by women tended to show slower rates of growth than those run by men, expanding on average by 20.6 per cent per annum as compared to a rate of 30 per cent for male-run enterprises. Behind this differential is the fact that the fastest growing areas of small-scale activity are all male dominated. Lastly, businesses run by women were more likely to be a source of supplementary household income than those run by men. Indeed, in the Mamelodi study only 29.3 per cent of female-run firms furnished more than 50 per cent of household income, while 44.3 per cent of male-run firms made an equivalent contribution.[46]

b. Explaining the Rise of the New Informal Economy

In seeking to explain the recent widespread surge of activity in the PWV informal economy, two major issues must be raised. The first concerns the demise of the formal economy, the mushrooming of survivalist enterprise

38. Manning, C. and P. Mashigo (1994), "Manufacturing in South African micro-enterprises",, *Institute of Development Studies Bulletin* Vol.25, No.1, pages 30-36 (quote on page 31).

39. See reference 32, page 99.

40. Horn, G.S., M. Levin and T.N. Sofisa (1993), "The informal sector in Mamelodi and Kwazakhele", *Africa Insight* 23, pages 168-175 (quote on page 170).

41. Budlender, D. (1994), "Micro-enterprises and gender" in R. Hirschowitz, M. Orkin, C. Rogerson and D. Smith (editors), *Micro-enterprise Development in South Africa*, European Union, Pretoria, pages 105-129.

42. Friedman, M. and M. Hambridge (1991), "The informal sector, gender and development" in E. Preston-Whyte and C. Rogerson (editors), *South Africa's Informal Economy*, Oxford University Press, Cape Town, pages 161-180.

43. Beavon, K.S.O. and C.M. Rogerson (1986), "The changing role of women in the urban informal sector of Johannesburg" in D.W. Drakakis-Smith (editor), *Urbanization in the Developing World*, Croom Helm, Beckenham, pages 205-220.

44. Liedholm, C. and M.A. McPherson (1991), *Small-scale Enterprises in Mamelodi and Kwazakhele Townships, South Africa: survey findings*, GEMINI Technical Report No.16, Bethesda, Maryland.

45. See reference 44, page 12.

46. See reference 44, page 13.

47. Schlemmer, L. and M. Woolley (1988), "Urbanization and informal settlement in the PWV complex: patterns and policies", unpublished mimeo for Centre for Policy Studies, University of the Witwatersrand,

and a linked decline in the profitability of certain formerly promising spheres of informal work. The second relates to a growth in the "informalization" of formal enterprise which is associated with an expansion of subcontracting and outwork in a number of industrial sectors.

The key explanatory factor for the establishment of informal economic enterprise undoubtedly is the progressive emasculation of the region's formal economy which has exhibited an alarming decrease in its capacity to absorb new entrants to the labour market. This conclusion, drawn from macro-level economic analysis, is consistently supported by micro-level studies. The most common research finding is that informal work is not a refuge for newly arrived migrants to cities, as many participants are long-term urban residents. In examining life in the informal settlements of the PWV region, where unemployment levels run conservatively at levels of 40 per cent or more, Schlemmer and Woolley[47] found that amongst the unemployed "...a good deal of informal sector activity occurs." In addition, the wave of retrenchments due to the severe economic recession forced many of the formerly employed to seek out casual work and temporary existence in the local informal economy.[48]

It is evident that the majority of growth taking place in PWV's informal economy is a direct consequence of the downturn and low absorptive capacity of the formal sector. For example, one recent study of informal enterprises in the region concluded that most entrepreneurs were functioning in the informal economy "out of necessity rather than choice".[49] Although Manning[50] notes isolated instances of people entering the informal economy out of choice rather than through a need to survive, overwhelmingly, the mass of empirical studies conclude that low labour absorption in the formal economy and dire crises of survival are the primary factors that underpin the massive expansion that has taken place over the last decade in PWV's informal economy. More especially, the conditions of recession in the formal economy is the core explanatory variable for the surge in survivalist enterprise in often already "overtraded" income niches such as *spazas* and hawker operations.[51]

Most dramatically, perhaps, the demise of the formal economy is linked to the appearance on peripheral vacant land around South Africa's major metropolitan areas of expanding levels of urban farming, a phenomenon similar to that observed in other parts of Africa.[52] The reasons for entry into such survival sub-sectors of the informal economy are evident from surveys on the characteristics of informal entrepreneurs. Micro-studies repeatedly show that in situations where there are low levels of education and often illiteracy, where there is an absence of any former business skills or training, where there is restricted or no access to credit, the rate of new business formation is highest among survivalist enterprises with low barriers to entry.[53] Furthermore, the demise of the region's formal economy accounts, in part, for the falling levels of profitability in activities such as operating taxis or shebeening, which formerly exhibited signs of expansion and seeming long-term developmental potential.[54] Recent work shows that, in both these particular spheres of informal enterprise, a rash of new business entries has been associated with a deepening crisis of declining returns for entrepreneurs and poorer working conditions for employees.[55] To cite the example of the once much-heralded taxi trade, Khosa documents the widespread expansion of exploitative labour practices including the use of children as queue marshals and car cleaners, the lengthening of working hours, the struggle to meet daily targets and an emerging trend among fleet-owners to recruit

Johannesburg, page 37.

48. Manning, C. (1993), *Informal Manufacturing in the South African Economy*, Working Paper No.11, Centre for Social and Development Studies, University of Natal, Durban.

49. Funani, L., S. Zobani and J. Ndlovu (1994), "Micro-enterprises and support services in the PWV area" in R. Hirschowitz, M. Orkin, C. Rogerson and D. Smith (editors), *Micro-enterprise Development in South Africa*, European Union, Pretoria, pages 203-230.

50. See reference 26.

51. Rogerson, C.M. (1991), "Home based enterprises of the urban poor: the case of spazas" in E. Preston-Whyte and C. Rogerson (editors), *South Africa's Informal Economy*, Oxford University Press, Cape Town, pages 336-344.

52. Rogerson, C.M., (1992), "Feeding Africa's cities: the role and potential for urban agriculture", *Africa Insight* 22, pages 229-234; also Rogerson, C.M. (1993), "Urban agriculture in South Africa: policy issues from the international experience", *Development Southern Africa* Vol.10, pages 33-44.

53. See reference 49.

54. Rogerson, C.M. and D.M. Hart (1986), "The survival of the 'informal sector': the shebeens of black Johannesburg", *GeoJournal* Vol.12, pages 153-166; also Barolsky, J. (1990), "Follow that taxi: success story of the informal sector", *Indicator South Africa* Vol.7, No.2, pages 59-63.

55. Matshego, M. (1991), "Formalizing the informal economy: the case of the liquor trade in Soweto", unpublished BA degree paper, University of the Witwatersrand, Johannesburg; also Khosa, M.M. (1993), "Transport and the 'taxi mafia' in South Africa", *The Urban Age* Vol.2, No.1, pages 8-9.

new drivers from rural areas in order to further reduce their labour costs.[56]

A second key factor in the growth of the PWV informal economy relates not to the demise of the formal economy but to the development of linkages between formal and informal enterprise. Informalization is the process by which formal factory jobs are increasingly displaced by jobs in unregistered plants and home working. The advantages of contracting out work to informal producers are the circumvention of labour regulations and the lowering of labour costs. A strengthening trend towards the so-called "informalization of formal enterprise" has been noted, which refers to situations where larger business enterprises seek to by-pass regulations covering employment protection and labour security by establishing or linking their production to small, informal ancillary enterprises on terms which make those who work within them particularly vulnerable to exploitation.[57] In the PWV, the informalization of formal enterprise particularly affects the manufacturing sector, and this often attracts a hostile reaction from the trade union movement.[58] The phenomenon of informalization is illustrated by formal enterprise sub-contracting work to "splinter" operations often located in deregulated industrial zones. Printing, silkscreening, jewellery and number plate-making are activities which recently have been extensively informalizing their work in this manner in the PWV region.[59]

In addition, there are evident signs that informalization is beginning to take-off in the local clothing sector. The changing circumstances in the clothing industry in terms of a shift towards more flexible working practices is an important factor in creating fertile conditions for informalization through sub-contracting. As Manning points out, a new wave of "...highly skilled but unemployed clothing workers are likely to set up small factories" marking the emergence of a small, black community of informal producers.[60] In the PWV region, this trend is already in evidence. The chairperson of the Emergent Industrialists' Development Association, based in Johannesburg, believes that "...there are 'thousands' of women in greater Johannesburg who are resorting to sewing and knitting as a form of livelihood because of the large-scale retrenchments."[61] Finally, as historically available options for securing greater labour flexibility, such as shifting to decentralized areas, begin to close off "...there is an extra incentive in South Africa to start looking to informal production."[62] Although some observers suggest that measures should be enacted in the form of regulatory controls to halt the spread of informalization in order to protect and upgrade secure formal employment in the South African clothing sector, alternative policies could be introduced to augment the developmental potential of informal producers through such notions as promoting local industrial clusters along the lines of the industrial district models of Western Europe.[63]

Outside of manufacturing, the construction sector represents another sphere of the formal economy where the informalization of work has been recorded. Again, a combination of the need for greater flexibility in the formal building industry and the search for cost reduction are vital factors in the growth of informal labour.[64] The detailed research by Krafchik and Leiman, however, shows little evidence of dynamic growth among this community of informal sub-contractors. They identify several reasons for the lack of efficiency among informal sub-contracting enterprises, namely, volatile interest rates, problems for sub-contractors in securing access to credit, weak management skills, problems of access to building materials

56. Khosa, M.M. (1994), "Accumulation and labour relations in the taxi industry", unpublished paper, University of Natal, Durban.

57. Rogerson, C.M. (1991), "Deregulation, sub-contracting and the '(in)formalization' of small-scale manufacturing" in E. Preston-Whyte and C. Rogerson (editors), *South Africa's Informal Economy*, Oxford University Press, Cape Town, pages 365-385; also Rogerson, C.M. (1993), "Industrial sub-contracting and home work in South Africa: policy issues from the international experience", *Africa Insight* Vol.23, No.1, pages 47-54.

58. Ncube, P. and M. Sisulu (1991), *The Informal Sector, Small-scale Industries and Redistribution in a Free South Africa*, Working Paper No.1, Economic Policy Research Project, University of Western Cape, Bellville; also Mashigo, P. (1993), "Manufacturing micro-enterprises in the Western Cape townships: the case of clothing manufacturers, wood and metal-workers", unpublished paper for the Industrial Strategy Project, University of Cape Town.

59. See reference 10, page 106.

60. Manning, C. (1993), "Sub-contracting in the South African economy: a review of evidence and an analysis of future prospects", unpublished paper prepared for the Taskgro Workshop 21-23 May, Johannesburg, page 8.

61. Cited in Sidiropoulos, E. (1994), *The Politics of Black Business*, Spotlight Paper 3/94, South African Institute of Race Relations, Johannesburg, page 34.

62. Altman, M. (1993), "Tinker, tailor, tailor's son...developing the South African clothing industry", report submitted to the Industrial Strategy Project, University of Cape Town, page 151.

and the monopolistic power of large housing developers.[65]

Important research has shed light on the range of sub-contracting relationships which are an outcome of informalization.[66] One key conclusion concerns the obstacle to the growth of many micro-enterprises which arises from the relationship between retailers and informal manufacturers, with the excessive power of retailers making manufacturers highly vulnerable to exploitation.[67] In terms of assessing the prospects for informalization and informalized production contributing towards a future dynamic pattern of growth, the most striking research finding confirms international experience and highlights the contradictory developmental nature of sub-contracting. More specifically, it shows that contingent upon policy intervention, the informalization of work, on the one hand, can produce highly promising prospects for growth of micro-enterprises and for their workers yet, on the other hand, may generate also situations of dependency, exploitation and sweatshop working conditions. As Manning notes "...the culture of sub-contracting may have either a progressive or exploitative impact on small firms."[68] In other words, potentially there can be a "low road" and a "high road" in terms of the developmental impact of informalization and sub-contracting in the PWV region.

Overall, therefore, a two-way set of relationships knit together the fortunes of the formal and informal economies in the PWV. First, the proliferation of survival enterprises is directly linked to the severe downturn in the national and regional formal economy and the corresponding erosion of its labour absorptive capacity. Second, competitive pressures in the formal economy are unleashing a wave of informalization, creating both a set of opportunities for the expansion of growing micro-enterprises (especially in the industrial sphere) and yet a danger that the most prevalent outcome of informalization may be heightened levels of exploitation and poverty-level working environments for employees.

IV. PROBLEMS AND POLICY INITIATIVES

THE CORE PROBLEMS and general constraints facing black entrepreneurs have received a considerable amount of attention.[69] One key point that emerges is that, whilst certain general "blockages" can be identified across informal enterprises as a whole, there is an urgent need to disaggregate the analysis and to focus on the specific problems that confront different types of informal enterprise. In other words, policy research must shift beyond mere discussion of characteristics of and constraints on the informal economy *per se* and, instead, must disaggregate the characteristics and different sets of problems of, for example, taxi services, subsistence urban cultivators or small-scale manufacturers.

With this important caveat in mind, the key findings from those studies which sought to identify general constraints on the formation and expansion of informal enterprise in the PWV are discussed briefly. As detailed research on Johannesburg shows, historically, the impact of repressive legislation on the underdevelopment of black micro-enterprise cannot be underestimated.[70] Certainly, for the mid-1980s, it was correct to assert that "...this is the single most important factor that has limited black entrepreneurial growth and development."[71] Nonetheless, since the advance of legislative deregulation since the mid-1980s, the emphasis has shifted in terms of major factors identified as constraints on expansion. In

63. See Manning, C. (1993), "The role of local service institutions in promoting industrial development in small, medium and micro-enterprises: a review of the recent literature", unpublished research note for the Friedrich Ebert Foundation, Johannesburg; also Rogerson, C.M. (1993), "Industrial districts: Italian experience, South African policy lessons", *Urban Forum* Vol.4, No.2, pages 37-53.

64. Krafchik, W. (1990), "Small-scale enterprises, inward industrialization and housing: a case study of sub-contractors in the Cape Peninsula low-cost housing industry", unpublished MSc Social Science dissertation, University of Cape Town; also Krafchik, W. and A. Leiman (1991), "Inward industrialization and petty entrepreneurship: recent experience in the construction industry" in E. Preston-Whyte and C. Rogerson (editors), *South Africa's Informal Economy*, Oxford University Press, Cape Town, pages 345-364.

65. See reference 64.

66. For a review see Rogerson, C.M. (1995), "Looking to the Pacific rim: production sub-contracting and small-scale industry in South Africa", *International Small Business Journal* 13, pages 65-79.

67. See reference 38.

68. See reference 60, page 6.

69. Useful overviews are references 24, 33 and Taskgro (1993), *Policy Proposals for Small, Medium and Micro-enterprise Development*, Friedrich Ebert Stiftung, Johannesburg.

70. Rogerson, C.M. (1986), "Johannesburg's informal sector: historical continuity and change", African Urban Quarterly Vol.1, pages 139-151 and Rogerson, C.M. (1986), "Feeding the common people of Johannesburg, 1930-1962", *Journal of Historical Geography* Vol.12, pages 56-73.

work conducted during the 1990s, for example, it was concluded that "...regulatory constraints, relative to other types of constraints, are not seen by South Africa's micro-entrepreneurs as important obstacles".[72] Highly significant in the context of PWV informal enterprise were "constraints related to market conditions and lack of finance".[73] Once again, the key theme of overall reduced significance of legislation as a constraint on informal enterprise expansion was reiterated in a World Bank study which stressed that "...regulations are no longer a major impediment to the creation or expansion of black (informal) businesses, and the deregulation that began in the 1980s has not eliminated the constraints that are."[74]

Empirical research conducted for the EU again turned the focus away from regulatory concerns and instead towards issues of finance, training, infrastructure provision and land use zoning for informal enterprise.[75] A recent investigation of the problems of informal enterprise in Mamelodi concluded that "...legal restrictions are no longer regarded as a major limiting feature in either area."[76] Beyond general considerations of constraints on informal enterprise *per se*, five specific sets of issues emerge from PWV research as current core policy points for strategic intervention. In particular, the focus falls upon issues and constraints relating to:

- access to finance and credit;
- inadequate business infrastructure and service provision;
- inadequacies in the content and delivery of training;
- the distortions produced by urban land markets, the fragmentation of development, and the former strict separation of land use and racial groups in terms of developing the prospects for informal enterprise;
- competition from existing formal enterprise, market access and the historical under-development of business procurement and sub-contracting linkages between formal and informal economic enterprise.

In order to increase the capacity of the informal economy to contribute to the regional economy and to the resolution of problems of urban poverty, the major focus areas for policy intervention flow logically from the above discussion and analysis. Key focus areas for policy and strategic intervention obviously concern the following issues:

- financing and credit;
- infrastructure and service provision;
- training;
- urban management; and
- expanding business linkages development through sub-contracting arrangements.

The national White Paper for promoting small business in South Africa recognized that the development of a network of local service centres or business service centres was one of "the most important instruments to spread support for small enterprises at the local level."[77] From policy statements made by the Gauteng government, it is apparent that such service centres will form a vital element of local initiatives in the PWV region designed to upgrade the informal economy.[78] The network of local service centres that are planned will all provide information and business advice services while many will also expand their services to include training, mentoring, business plan preparation, marketing and subcontracting support. Finally, drawing upon the experience and models of successful industrial clusters or industrial districts, local service centres would aim to encourage and strengthen networks of inter-firm cooperation within particular sectors, industry niches or geographic agglomerations.[79]

71. Davies, W.J. (1987), *Black Entrepreneurial Experience and Practice in Port Elizabeth*, Development Studies Working Paper No. 36, Rhodes University Institute of Social and Economic Research, Grahamstown, page 40.

72. May, J. and M. Schacter (1992), "Minding your own business: deregulation in the informal sector", *Indicator South Africa* Vol.10, No.1, pages 53-58 (quote on page 55).

73. See reference 72, page 56.

74. See reference 24, page 53.

75. See references 7 and 49.

76. See reference 40, page 173.

77. See reference 6, page 45.

78. See reference 11.

79. See reference 6, page 46.

V. FINAL COMMENTS

THE INFORMAL ECONOMY must be an essential policy focus within a reconstruction and development programme for the PWV. In assessing its capacity to contribute to economic growth, welfare and the relief of urban poverty a fundamental distinction must be drawn between an informal economy of growth and one of mere survival. The viability of survival informal enterprises in the PWV would be greatly strengthened by policy intervention in the spheres of human development such as education, health or housing. Nevertheless, with the enactment of an appropriate support framework, the survivalist segments of the informal economy clearly can contribute to furthering the satisfaction of basic needs, to goals of self-reliance, and to a greater sense of purpose in life and work for participants. Likewise, the objectives of raising living standards, of redistribution and empowerment of formerly disadvantaged communities, and of providing greater opportunities for production and employment can be helped by a coherent and sound package of policy intervention to manage the growth of dynamic segments of the micro-enterprise economy in the PWV. The chosen package of targeted interventions for making more dynamic an informal economy of growth must be grounded in a firm appreciation of the heterogeneous nature of South Africa's informal enterprise economy.[80] This points to the need for multiple and flexible approaches to policy formulation undertaken on a basis of recognizing the differing requirements of sets of survival enterprises on the one hand and of micro-enterprises on the other.

80. Rogerson, C.M. (1996), *Rethinking the Informal Economy of South Africa*, Development Paper No. 84, DBSA, Halfway House.