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## **Is informality being disallowed by government?**

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*The South African government continues to pursue efforts to 'migrate' informal enterprises to the formal sector. This article examines the impact of regulations and law enforcement on the 'lived' economy of informal micro-entrepreneurs. Spatial analysis shows how the scope and distribution of informal economic activities are directly affected by regulation, land use planning and other controls. Such controls that effectively disallow informality are poor-friendly and harm livelihoods, self-employment and employment.*

### **Introduction**

South Africa's economic policy makers have to confront the challenge of creating jobs to absorb the unemployed. The 2011 census reveals an unemployment rate of 40%, with over 8.7 million South Africans registered as unemployed. One of the main strategies to address this challenge is focused on stimulating labour absorption by enhancing the education and skills of the unemployed (or those who are not economically active, such as students). This strategy looks to established, formalised, businesses to provide employment. The emphasis on the formal sector is understandable, given that formal businesses account for about 75% of the 13 million South Africans in employment.

Yet many economically active South Africans do not work in formal businesses. The census records that about 3 million South Africans are employed in the informal sector and private households. The informal sector not only provides work, as the census data confirms, but a range of livelihood opportunities for both those classified as employed and those classified as not economically active. For example, it provides opportunities for those in employment to earn extra income by running micro-enterprises after hours or over the weekend. The significance of the informal economy to South Africa's economic growth path has been understated in policy debates and indeed overlooked in the National Development Plan.

## **The informal economy as a 'problem'?**

Among many of the micro-entrepreneurs who are active in the informal economy, the question of what policies government should pursue to stimulate job creation and economic opportunities might seem presumptuous. These businesses are not an outcome of government intervention, but have emerged in spite of policy objectives, and operate outside legal and institutional frameworks. To many of our policy gurus, as well as the politically naive, informal enterprises are conceptualised as an economic 'problem' rather than an economic 'solution'.

As a problem, this situation is not likely to disappear, though, because the growth of the informal economy in the developing world has become a defining feature of modernisation. Its growth in South Africa is guaranteed because the poor cannot live on welfare transfers alone: the sums do not add up; and they have to supplement their livelihoods through engaging actively in informal economic activities.

## **Government regulation as a threat to informal employment and self-employment**

Their survival brings them (the poor) into contact with economic development policies, not in theoretical terms, but in the actions of the state to impose order and exert control, using a tool kit of regulation, licensing, land-use planning and the interpretation of law afforded to various authorities.

For the informal businesses that experience the sharp end of these policy objectives, the foremost question in their thinking about the state and its role in the economy is not about what government ought to do, but why government finds it necessary to disallow informality.

The apologists for clamping down on small informal businesses preach of the chaos and the harm that would befall society, were the state not to maintain order. The image of street traders encroaching on public land and illegal shebeens creating noise and nuisance is often evoked to popularise the argument. Their success in this respect has been in convincing their target audiences (principally, middle classes across the colour spectrum) that the state is in control, or – if it is not in control – could and should be in control by refining its policies.

This argument is of concern for two reasons. First, the motivation for control elevates political agendas above considerations of the economic rationality which underpins informal activities. Street traders conduct business on streets and at particular localities because that is where their market exists; shifted off the street, the market will not follow them. Secondly, the argument that better

control would discourage informality and entice the poor to fulfil their livelihoods through other, usually unspecified means, brings us back to our initial point about unemployment. Amongst the poor, informality is a function of marginalisation and poverty.

The implication is that the poor have no option other than to pursue informal activities with the skills they have and markets at their disposal, despite the risks of state interference. Our research shows that, in the case of shebeens, increased law enforcement does not influence the scale of engagement in informal liquor retail. It merely encourages shebeeners to minimize the risks of being prosecuted by changing the way they conduct business. A common response, certainly the least complex for micro-enterprises, is to pay a bribe.

### **Restrictions from all three tiers of government**

A further point about the politics of controlling informality is warranted. There appears to be political support in all three tiers of government and across parties to strengthen policies that would *restrict* the informal businesses of the poor. In local government, where policy decision making is less encumbered by economic debates, proponents have succeeded in maintaining (and even strengthening) the apartheid-era measures that made it difficult for people to operate informal businesses in townships. This certainly is the case in the City of Cape Town (and other major cities) where municipal by-laws restrict the place and times in which informal businesses may operate.

An important tool at their disposal is land-use planning. In accordance with the policy objectives defined in the city's spatial development framework, the city utilises land-use planning to determine the specific geographic localities in which businesses may operate, specifying particular enterprise restrictions on businesses operating in areas that are zoned as residential. As townships principally comprise residential land, the spatial development plan provides a neat opportunity for controlling informality. At least this is what politicians hope and their supporters are pleased to hear. In one manifestation of this aim, the Western Cape Premier has advocated the establishment of township 'high street' commercial zones (situated away from residential areas) where all particularly 'problematic' micro-enterprises such as shebeens and panel beaters can be concentrated and placed under firm control. But will such plans succeed? And what, if successful, would be the implication for informal enterprises and informal self-employment?

## Land-use planning and the informal economy: a case study

We sought to answer these questions through a detailed case investigation.\* Our research focused on the township of Philippi, which is located about 20km from the city centre in Cape Town. The research entailed a census of all economic activities within a specified geographical area, wherein we recorded basic data on each identified micro-enterprise and conducted in-depth interviews with all businesses in four predominant sectors (spaza shops, liquor traders, education services, health services). The area of study comprises a settlement of mixed typologies: informal, formal and middle class. There are 14 604 households in this area, sustaining a population of about 60 000 persons. The overwhelming majority of the residents are black South Africans.

Our research identified 1 601 micro-enterprises, providing goods and services across a range of sectors from retail trade to transport. The top five most frequent enterprise activities were, in order of magnitude, informal liquor sellers (286), house shops (213), spaza shops (135), hair salons (132) and businesses selling fast-food, operating on the street or from tuck-shops.

We then mapped the spatial distribution of these micro-enterprises. The results show that the great majority of informal businesses are evenly distributed across the site, operating within markets defined by their geographic proximity to surrounding houses. This spatial pattern reveals that Philippi residents support businesses situated close to their homes, with the spaza shop, the shebeen, the green grocer, the hairdresser, and the house shop (selling chips, sweets and cigarettes) situated within walking distance. The residential areas of Philippi also accommodate mechanics, panel beaters, appliance repair businesses, welders and micro-manufacturers, all operating from home. The high street, by contrast, has evolved to serve the needs of commuters for food and snacks (and hair care), though it also accommodates specialist businesses such as traditional healers, micro-finance services and street traders selling home ware. Spaza shops and shebeens are rarely found on the high street.

In order to comprehend the potential scale of state restrictions on informal economic activities, we examined the status of each micro-enterprise in terms of three criteria: i) the legality of the business in terms of regulatory requirements; ii) land use restrictions and iii) whether or not the business traded illegal products. Our analysis excludes a consideration of the legality of informal workers in terms of citizenship and the statutory requirements of labour legislation. We have also excluded the business contravention of signage by-laws.

In terms of the above considerations, our analysis found that 61% (or 981) of the 1 601 micro-enterprises in Philippi operate illegally and are subject to closure (or curtailment) if law enforcement

were to be applied effectively. The great majority of these businesses contravene regulatory laws and land use restrictions whilst they otherwise sell legitimate products and services. Only fifty businesses sold illegal products.

If the Philippi case is indicative of the broader landscape of the township informal economy, then *the pursuit of order and exercise of control could result in the eradication of 61% of the 1.6 million informal micro-enterprises identified in the census. This would equate to the loss of nearly 1 million jobs.*

## **Conclusion**

Seen from this perspective, we need to ask whether the political objectives of achieving cosmetically managed human settlements, and an economy of formalised and larger business, should override the entrepreneurial response of the poor to their predicament of unemployment. Accepting the informal economy as part of the solution to the problem of unemployment would enable us to take a giant step towards a more inclusive discussion about the form and function that informal micro-enterprises should constitute.

The lesson of South Africa's informal economy of the poor is that survival necessitates an entrepreneurial response. The vibrancy of this response is being tapered by the constant need to resist state control.

## **References**

\* Charman, A., Petersen, L. & Piper, L. (2012). *Informality disallowed?* Paper presented at the Towards Carnegie 3 Conference, Cape Town, September.