



**THE ROLE OF THE INFORMAL BUSINESS SECTOR IN LOCAL ECONOMIC
DEVELOPMENT WITH REFERENCE TO BUFFALO CITY METROPOLITAN
MUNICIPALITY**

by

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I, **Lunga Hita**, hereby declare that the contents of this thesis represent my own unaided work, and that the thesis has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

Hita, L

Signed

Date

ABSTRACT

This study investigated the role of the informal business sector in local economic development with reference to Buffalo City Metropolitan Municipality (BCMM) as one of the possible solutions to deal with socio-economic challenges in the region. This study described the state of the informal business sector, the contributions thereof in local economic development, and the level of responsiveness from local authorities in Buffalo City Metropolitan Municipality.

A survey questionnaire was administered to informal business actors in BCMM and semi-structured interviews were conducted with BCMM managers in the Business Development and Local Economic Development Directorates who were purposively selected because of the positions that they hold in the municipality.

This study found that the informal business sector is underdeveloped in BCMM, and is imbued with development challenges, namely; support services such as infrastructure (designated municipal trading stalls) and access to financial support and the lack of strategy/policy dedicated to the prioritisation of the needs of the informal business sector. The informal business sector in BCMM is dominated by small and micro businesses. The municipality acknowledges the contributions of the informal business sector in local economic development from a job creation (self-employment) and poverty alleviation perspective. However, the business environment of the informal business actors requires urgent development and support to stimulate and encourage the gains of this sector and the role that it plays on local economic development.

Key words: informal sector, Buffalo City Metropolitan Municipality, local economic development, unemployment, poverty and local government.

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DEDICATION

This thesis is dedicated to the memory of my grandmother, Mrs Vuyelwa Nonasi Constance Hita (1925 – 2013), and to my mother, Ms Fikiswa Primrose Hita as well as the rest of the Hita family.

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GLOSSARY

Acronyms	Explanation
BCMM	Buffalo City Metropolitan Municipality
CIPRO	Companies and Intellectual Property Registration Office
CoCT	City of Cape Town
ECP	Eastern Cape Province
ECSECC	Eastern Cape Socio Economic Consultative Council
IBS	Informal Business Sector
GIZ	German Research Institute
GEM	Global Entrepreneurship Monitor
ILO	International Labour Organisation
LED	Local Economic Development
KWT	King William's Town
NMMM	Nelson Mandela Metropolitan Municipality
NYDA	National Youth Development Agency
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SSA	Statistics South Africa
SALGA	South African Local Government Association
STDI	Small Towns Development Initiative
SLF	Sustainable Livelihoods Foundation
VAT	Value Added Tax

CHAPTER ONE GENERAL INTRODUCTION TO THE STUDY

1.1 Introduction and background

Mr Trevor Manuel, a Minister in the Presidency who is responsible for the National Planning Commission of the Republic of South Africa, states that:

Government is cognisant of the fact that millions of South Africans are unemployed and underemployed, and therefore is aware that it has no option but to give its full attention to the task of job creation and generating sustainable and equitable growth. Hence, government identified small, medium and micro-enterprises as an important vehicle to address the challenges of job creation, economic growth and equity in our country". Government believes that, the real engine of sustainable and equitable growth in this country is the private sector. Moreover, Government is committed to doing all it can to help create an environment in which business can get on with their job (Manuel, 2011).

In many least developed and developing countries the observed and non-observed informal business sector is an important labour force which contributes to economic development (Mosiane, 2008:45). The informal business sector manifests itself in different ways in different countries, in different regions within the same country and even in different parts of the same city. It encompasses different kinds of activities, different types of enterprises, and different reasons for participating. Informal activities range from street vending, shoe shining, food-processing and manufacturing, tailoring, care repair and mechanised transport (South African LED Network, 2011:1).

Reasons for participating in the informal business sector range from pure survival strategies, which are undertaken by individuals who face a lack of jobs, unemployment or other forms of income maintenance, to the desire for independence and flexible work arrangements (South African LED Network, 2011:1). Statistics South Africa (SSA) defines the informal business sector as having two components: employees who work in establishments that employ less than five employees, and where no income tax is deducted from their salaries/wages and employers who are own-account workers; and persons who help without being paid in their household business that is not registered for either income tax or value-added tax (SSA, 2011:23).

In contrast with the current South African socio-economic context, Padayachee (2006: 89) argues that the informal business sector has a major role to play in the South African economy in terms of employment creation, income generation and output growth. The current South African socio-economic context is plagued by challenges of mass joblessness, poverty and inequality. Despite various national economic programmes and reforms since 1994, namely; the Reconstruction and Development Programme, the Growth, Employment and Redistribution programme and the Accelerated Shared Growth Initiative for South Africa, the economy has not created sufficient employment opportunities for many people over the past decades, hence high levels of unemployment and poverty persist in the country.

According to SSA Census Report (2011:25) the official definition unemployment rate was recorded at 29.8% and the expanded definition unemployment rate was recorded at 40%. Kingdom and Knight (2001:5) argue that the high level of unemployment is potentially a matter of serious concern and may have potentially negative effects on economic welfare. South Africa should urgently improve living standards and ensure a dignified existence for all South Africans (National Development Plan, 2011:90).

1.2 Setting

Buffalo City Metropolitan Municipality (BCMM) is the second largest urban centre, following the Nelson Mandela Metropolitan Municipality, in the Eastern Cape Province (ECP). It is the strategic urban centre of the eastern part of the ECP. Figure 1.1 below presents a depiction of the BCMM geographical area (highlighted in yellow).



Figure 1.1: Buffalo City Metropolitan Municipality

(Adapted from Stats SA, 2012)

The South African Cities Network Report (SACN) indicates that Buffalo City's economy is hindered by low skills and education levels and that the socio-economic plights of the city are likely to further deteriorate as population growth continues to surpass economic growth (SACN, 2005:9).

Furthermore, the SACN report shows that over the period 1995 – 2004 formal employment declined and informal employment grew rapidly. This has been attributed to the fact that a number of enterprises migrated from Buffalo City's CBD and were thus replaced by small businesses (SACN, 2005:9). The rate at which socio-economic activities in BCMM are declining calls for a refocus of debate on local government and how it responds to economic development. As part of the government sphere, Local Government is mandated by Section 152 (1) of the Constitution of the Republic of South Africa, 1996 to promote social and economic development.

1.3 Statement of the research problem

It is acknowledged that the informal business sector has become a strategic platform for employment provision and poverty alleviation (Chambwera, MacGregor and Baker, 2011; Muller, 2002; Van Rooyen and Antonites, 2007). The informal business sector has proven over time to be the “cushion” during global economic crises for the unemployed, start-up entrepreneurs and those who become retrenched from formal businesses (Sinxoto, 2007:167). The informal business sector has positioned itself as a relevant survivalist strategy for the poor where they are able to create employment for themselves and alleviate poverty. It accounts for approximately 60% of all employment in the economy (Sinxoto, 2007). Chambwera, et al (2011:89), report that, the informal business sector accounts for 8% of new jobs across the African continent and is a major contributor to new wealth.

Against this background local governments in South Africa have, however, given little credence to the strategic capabilities of the informal business sector in their regions. There is insufficient support from local government towards the informal business sector in areas such as infrastructure, finance, training, and marketing, even though the sector continues to grow and provides immediate relief to the unemployed. The potential of the informal business sector to contribute to local economic development is, therefore, disregarded. As a result, the Government’s attempt to ensure economic growth and job creation falter owing to local government’s hesitation to provide sufficient support to the informal business sector.

1.4 Research objectives

The primary objective of this study is to contribute to discussions regarding the role of the informal business sector in local economic development. The secondary objectives of this study are:

- To provide a theoretical overview of the informal business sector in general;
- To assess the state of the informal business sector in BCMM;
- To determine the level of responsiveness of the local authorities towards the informal business sector;
- To assess contributions (socio-economic) of the informal business sector in BCMM; and
- To provide and present findings of the study and recommendations to BCMM.

1.5 Research questions

In pursuing this study, the researcher seeks to provide answers to the following questions:

- To what extent is the informal business sector prioritised by BCMM?
- How and to what extent are the economic contributions of the informal business sector measured in BCMM?
- What infrastructure provisions have been established to enable the informal business sector in BCMM?
- What systems have been established to monitor and track the expansion of the informal business sector to inform the municipality of the required needs of this sector in BCMM?
- What interventions have been initiated to empower informal business actors in BCMM?

1.6 Research methodology

This research is understood to be a combination of correlational, descriptive and explanatory study (Bless, Highson-Smith and Kagee, 2006:44):

- **Correlational:** this study seeks to determine a correlation between the informal business sector in local economic development.
- **Descriptive:** the researcher seeks to describe the state of the informal business sector in BCMM.
- **Explanatory:** the researcher will explain why the informal business sector should be taken seriously by local authorities in light of the unemployment crisis in South Africa as a strategic platform towards realising regional economic development and addressing societal predicaments.

The researcher adopted a quantitative research design (positivist paradigm) with some qualitative elements. Quantitative research methodology relies on measurement and various scales, whereas qualitative research uses language and sentences to record information about the world (Bless, Highson-Smith and Kagee, 2006:44). There are advantages and disadvantages of both quantitative and qualitative research. Table 3.1 below provides a comparison of qualitative and quantitative methods.

Table 3.1 Comparison of quantitative and qualitative methods

Qualitative method	Quantitative method
The aim of qualitative analysis is a complete detailed description.	In the quantitative approach researchers classify and count features, and construct statistical models in an attempt to explain what is observed.
The researcher is the data gathering instrument.	Researcher uses questionnaires, attitude scales, tests or equipment to collect numerical data.
Data are usually words, pictures, i.e. videos or objects (artifacts).	Data are always numbers and statistics.
Qualitative data are more 'rich', time consuming and less able to be generalised.	Quantitative data are more efficient, able to test hypotheses, but may miss contextual detail.
Researcher tends to become subjectively immersed in the subject area.	Researcher tends to remain objectively separated from the subject matter.

(Adopted from Burns and Burns, 2008:23)

The decision to use both research methods was necessitated by the purpose of this study. The research design that was adopted by the researcher aims to describe and explain the correlational relationship of the informal business sector on local economic development. Furthermore, it is used to describe the state of the informal business sector and to explain why things are as they are, and to explain action that was taken and informed by the collected data and literature.

1.6.1 Data collection methods

Data were collected by using a survey questionnaire (quantitative technique) and semi-structured interviews (qualitative technique) as discussed below.

- **Survey questionnaire**

The researcher selected the survey questionnaire as a technique to collect data based on the scale of the area that was studied. This study focused on three areas, namely; Bhisho, King William's Town and Mdantsane (part of East London, which has a considerable number of informal business actors). The survey questionnaire has both advantages and disadvantages; however, the advantages are more favourable for the purpose of this study.

Table 1.1: Advantages and disadvantages of survey questionnaire

Advantages	Disadvantages
The instrument produces quick results	Poor response rate
Wide coverage	Incomplete answers
Inexpensive	Limits and shapes nature of questions
Pre-coded data	Cannot check truth of answers
Eliminates effect of personal interaction with researcher	

(Adapted from Terre-Blanche, Durrheim and Painter, 2006:49)

The survey questionnaire contains closed-ended questions with Likert scale rating, whereby respondents were requested to select one of five agreement choices. Likert scale is psychometric response scale primarily used to obtain participants preferences or degree of agreement with a statement (Terre-Blanche, et al 2006:49). Several challenges were envisaged in administering the survey questionnaire such as that the participants might not be familiar with the scope of the study. To avert this challenge, the researcher self-administered the survey questionnaire and assisted the participants to complete the survey questionnaire.

- **Semi-structured interviews**

According to Mouton and Babbie (2001:96), three primary types of personal interviews as techniques of data collection can be distinguished as structured interviews, unstructured interviews and semi-structured interviews. For the purpose of this study, the researcher adopted semi-structured interviews. Huyseman (2001:90) states that “semi-structured interviews offer a versatile way of collecting data, they may be used with all age groups and they allow the interviewer to probe with a view to clearing vague responses or to ask for incomplete answers”. These interviews were conducted with the manager of the Local Economic Development (LED) Directorate and the manager of Business Development Directorate to understand the perceptions and plans of the municipality regarding the informal business sector in BCMM. Both directorates are tasked by the municipality to enable the development of small businesses within BCMM.

1.6.2. Study population and sampling method

The essence of sampling is selection of a part (sample) from the whole (population) in order to make inferences about the whole. Sampling is undertaken to reduce the time and money that would be spent if the total population were studied and yet still realise data that are an accurate representation of the entire population. The success of any

sample lies in its accuracy to reflect the state of affairs in the population (McMillan and Schumacher, 2001:780). They further define target population “as the group of individuals who possesses specific characteristics that reflect that which is being studied”.

The target population for this study included informal business sector participants within BCMM boundaries (Bisho, King Williams Town and Mdantsane) and the managers of the LED and Business Development Directorates in BCMM. The informal business sector participants include all community members who are involved in street vending/trading, food processing and other minor activities, which require little or no capital and skills and with marginal output; and BCMM staff imply two managers who represent the municipality.

Determining a sample for the study from the target population was a challenge. According to the manager of the LED Directorate in BCMM (telephonic conversation, 18 March 2012), there is no quantified number of informal business sector participants within BCMM. The researcher therefore adopted one of the non-probability sampling techniques known as accidental or availability sampling. In using the accidental or availability sampling technique, participants were selected based on their convenient accessibility and proximity to the researcher. According to Terre Blanche, et al (2006:4) when using the accidental or availability sampling technique, “subjects are selected because they are easiest to recruit for the study”. The two BCMM managers were purposively selected because of their positions that they hold in the municipality. A total of 200 respondents was envisaged, to participate in the study, which was drawn from three areas as indicated in Table 1.2 below.

Table 1.2: Respondents geographical area

Geographical area	Number of respondents
Bisho	50
King William’s Town	70
Mdantsane	80
TOTAL	200

1.6.3 Data analysis

Data were analysed in conjunction with a statistician. Collected data were coded and captured by using the statistical software package (SPSS version 21.). In terms of the data that were collected from the semi-structured interviews, the researcher used the

thematic analysis method to pin-point common patterns and themes in the data. The data was interpreted and compared with the relevant literature.

1.7 Preliminary literature review

According to Hart (2008) in Pillay (2010:14), a literature review serves as a means of determining what other studies have been done on the particular subject and the conclusions that have been reached. The term informal business sector has several meanings. According to Hobson (2011), in South Africa, this terminology is understood within the context of its historical and political background and how it has influenced economic, legal and social development initiatives. During the Apartheid era, the terms informal, Black and illegal were often treated almost synonymously with unwanted economic activity and, hence, most informal businesses, especially in urban centres were defined as illegal, where most Black businesses were treated as completely illegal. Since the early 1990s, two of these terms (Black & illegal) were dropped, and only the term informal remained to denote a positive approach to trading (Hobson, 2011:7).

The 90th International Labour Conference (2003) notes that there is no universally accurate or accepted definition of the term “informal business sector”, but agreed that the term refers to all economic activities by workers and economic units that are in law or practice not covered or are insufficiently covered by formal arrangements. The term is also restricted to “those businesses, which are not registered by VAT and are also not subject to other formal regulation or taxation, especially in retail and hawking” (StreetNet, 2006:67). In South Africa, the term informal business sector is read within the popular broad concept of Small, Medium and Micro Enterprises (SMMEs). The National Small Business Act 102 of 1996 classifies SMMEs into five categories, namely; survivalists, micro enterprises, very small enterprises, and medium enterprises, which are each described below.

- **Survivalist enterprise** - this category is considered as pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. The income that is generated is less than the minimum income or the poverty line.
- **Micro enterprises** – these enterprises usually lack formality in terms of registration. They include, for example, spaza shops, minibus taxis and household industries. They employ no more than five people with the turnover of less than the VAT registration limit (that is R150 000 annually).

- **Very small enterprises** – these enterprises operate in the formal market and have access to technology. Very small enterprises employ fewer than ten paid employees, except the mining, electricity, manufacturing, and construction sectors, in which the figure is 20 employees.
- **Small enterprises** – small enterprises are generally more established than very small enterprises and exhibit more complex business practices. The small enterprises employ no more than 50 employees.
- **Medium enterprises** – the medium enterprises are often characterised by the decentralisation of power to an additional management layer. The minimum number of employees in medium enterprises is 100, or 200 for the mining, electricity, manufacturing and construction sectors (National Small Business Act, No. 102 of 1996).

Dawie Roodt, the chief economist at the Efficient Group, states that South Africa's economy needed to embrace the informal business sector (South African LED Network, 2012:9). A study which was conducted by StreetNet (2006:67) showed that there were 2.3 million informal economy workers during 2000, a figure, which had increased to 3.8 million in 2005. Statistics show that the number keeps growing each year, especially with the increased influx of informal traders from other African countries. Adcorp Employment Index showed that in 2011 there were 250 000 people who were actively involved in setting up their own small businesses (Adcorp, 2011:4).

Padayachee (2006:156) argues that local municipalities are gradually embracing the informal business sector as business people. However, the pace at which this is happening is not as encouraging as the traders would want it to be. This is exacerbated by the fact that local municipalities view informal business sector activities as a separate sector instead of encouraging the sector to form part of the mainstream economy. Padayachee expresses the idea that the informal business sector is crucial for income generation for those outside of formal employment but also for local economies. In this research, international and national best practices for the informal business sector are reviewed and analysed to provide a theoretical framework for the informal business sector.

1.8 Clarification of basic terms and concepts

1.8.1 Informal business sector

The term informal business sector is commonly misunderstood as the same as the 'black market', hence it is regarded as something which is illegal. There is in fact no

single definition of the informal business sector, but Schneider (2002:45) asserts that it is any economic activity or source of income that is not subjected to government regulation, taxation or observation. Further, the term is restricted to “those businesses, which are not registered by VAT and are also not subject to other formal regulation or taxation, especially in retail and hawking” (StreetNet, 2006:67). Notwithstanding the above, the term informal business sector refers to survivalist, micro and very small enterprises (as defined by the National Small Business Act 102 of 1996), which operate outside the formal sector with limited resources to conduct their day-day activities for the purpose of this study.

1.8.2 Local economic development

According to the World Bank (2007) definition, local economic development is defined as a process by which the public, business and non-governmental sector’s partners work collectively to create better conditions for economic growth and employment generation. Nel (2001:85) describes the concept of local economic development as a process in which local authorities and community-based groups manage their existing resources and enter into partnership arrangements with the private sector or with each other, to create new jobs and to stimulate economic activity in an economic era.

Drawing on both definitions, for the purposes of this study, LED is understood as an activity that seeks to improve the economic well-being and quality of life for a community by creating or retaining jobs. To achieve this, local authorities facilitate and enable business to contribute to the economy of the region.

1.8.3 Local Government/Municipality

Local Government/Municipality is defined as a local democratic governing unit within the unitary democratic system of the country, which is prescribed, with controlled government powers and sources of income, to render specific local services, and to develop, control and regulate the geographic, social and economic environment of its jurisdiction (Municipal Structures Act, 1998).

1.8.4 Economic development

Economic development refers to an increase in the standard of living of a nation’s population, which is associated with sustained growth from a simple, low income economy to a high income economy. Its scope also includes the process and policies by which a nation improves the economic, political and social well-being of its people. The economic development indicators range from halving poverty, employment

generation, human capital development and health levels in a particular region (Padayachee, 2006:89).

1.9 Delimitation of the research

The study focused on the Buffalo City Metropolitan Municipality in the Eastern Cape Province. The study was limited to BCMM and did not draw conclusions or make generalisations about other municipalities in the Eastern Cape Province or the country. The survey questionnaires were administered to informal business actors within BCMM.

1.10 Significance of the research

Given that the aim of LED is based on economic growth and employment opportunities at a local level, positive LED outcomes are unlikely to be achieved unless the potential and needs of the informal business sector are adequately considered (Hobson, 2011:14). This research seeks to address policy-makers in BCMM regarding the importance of the informal business sector in the socio-economic development of the region.

1.11 Expected outcomes, results and contributions of the research

This research will not introduce new theories, but seeks to contribute towards the national debate around the informal business sector and the growing body of knowledge. It is hoped that the results of this study will aid the municipality to strengthen and develop plans that will support and empower the informal business sector in BCMM.

1.12 Ethical considerations

Permission to conduct this study was sought from the municipal manager at the BCMM. In addition, the research proposal was submitted to the Cape Peninsula University of Technology's Ethics Committee for approval and clearance. It is acknowledged that research participants present a key ethical issue, as contemplated by Babbie and Mouton (2001:185). The dignity of all the research participants, their time and valuable inputs toward accomplishing the intent of this research, were taken into consideration. The researcher further explained that the data will be used

confidentially and that identifiable information concerning the participants will not be disclosed.

1.13 Organisation of the study

This study comprises of five chapters which are outlined below.

Chapter One: General introduction to the study

Chapter One presents a general introduction to the study and outlines the background, research objectives and research questions. It highlights the broad research methodology that was undertaken in order to achieve the objectives of this study. Furthermore, the chapter highlights the expected outcomes, results and contributions of the research.

Chapter Two: Theoretical overview of the informal business sector

In this chapter, the researcher presents a general literature review of the informal business sector. The chapter explores the theoretical grounding of the sector, and the definitional issues of the concept 'informal business sector'. The legislative framework and policies for informal business sector are also discussed in this chapter. Furthermore, it provides a discussion of the informal business sector vs. local economic development.

Chapter Three: Research design and methodology

Chapter Three discusses the research design and methodology which were used in this study. A social, economic, and political description of Buffalo City Metropolitan Municipality is provided in this chapter.

Chapter Four: Interpretation of data and findings

This chapter presents data interpretation, analysis and findings of the study. In this chapter the researcher engages with the findings of the study in comparison with the literature review's findings.

Chapter Five: Conclusions and recommendations

This chapter provides overall conclusions of the research, as well as a summary of the research findings and recommendations based on the findings of the research. Lastly, this chapter provides further research areas and concluding remarks.

1.14 Chapter summary

This chapter provided a general introduction and background to the study. It defined the problem statement, and outlined the research objectives and research questions that provided framework for this study. It further outlined the research methodology that was adopted for the purposes of this study. Moreover, this chapter provided a brief literature review, the significance of the study, clarification of basic terms and concepts that are used in this study, the delimitation of the research and the expected outcomes, results and contributions of the research. Lastly, it detailed how this study was organised. The following chapter discusses the literature in detail, which relate to the informal business sector from a South African perspective.

CHAPTER TWO OVERVIEW OF THEORETICAL FRAMEWORK OF THE INFORMAL BUSINESS SECTOR: A SOUTH AFRICAN PERSPECTIVE

2.1 Introduction

Each research study is part of an existing body of knowledge, which builds on the foundation of past research and expands that foundation for future research. This chapter presents an overview of the theoretical framework of the informal business sector, which is a subsector of the broader informal sector. The preliminary literature review revealed a rich theory on the subject of the informal business sector. In this chapter, the researcher attempts not to argue for a particular “theory” or “approach” but rather presents an analysis and interpretation, and engages with a discussion of the theoretical grounding of the informal business sector, whilst exploring the definitional issues of the informal business sector.

The chapter further provides an overview of the informal business sector in South Africa, and factors that *drive* the informal business sector. It presents a discussion of the role that national/provincial and local government should play in order to harness and stimulate the informal business sector as an alternative to job creation and local economic development. The chapter concludes by analysing the relationship of the informal business sector on LED and presents case studies in South Africa that have positioned the informal business sector to contribute to LED.

2.2 Theoretical grounding of the informal business sector

It is often said that one man’s theory can change the whole world. Karl Marx (1818 – 1883) and Friedrich Engels (1820 – 1895) inspired Marxism theory – an economic and socio-political worldview and method of socio-economic inquiry based upon a materialistic interpretation of historical development, a dialectical view of social change and an analysis of class relations within a society and their application in the analysis and critique of the development of capitalism. Marxism encompasses an economic theory, a sociological theory, a philosophical method and a revolutionary view of social change. A theory is defined as “a set of statements or principles devised to explain a group of facts or phenomena, especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena” (Creswell, 2008:35).

From this definition of a theory, the researcher argues that there is a possibility that if the informal business sector should receive the minimum support (creation of an enabling environment) that it needs, it will contribute to local economic development which will then translate to employment creation (more entrepreneurial business activities will expand), and reduce poverty and aid in redressing social and economic inequalities.

W.A Lewis (1915 – 1991) in his book (1955) entitled *“The Theory of Economic Development”* pioneered the development of economics. Lewis’s book is characterized by some as being instrumental in laying the foundation for the field of developmental economics, in particular that of the informal sector as an academic discipline. Lewis identified the presence of two sectors, namely that of a capitalist sector and the subsistence / self-employed sector. He then formed a model called the “Dual Sector Model” which is also known as the “Lewis Model”, which explains the growth of a developing economy in terms of a labour transition between the two sectors as mentioned earlier, namely the capitalist sector and the subsistence sector.

Through the “Dual Sector Model”, Lewis asserts a theory of development in which he states that surplus labour from the subsistence sector is transferred to the modern industrial sector (capitalist sector) whose growth over time absorbs the surplus labour from the subsistence sector, and thereafter promotes industrialisation and stimulates sustained development. He concludes that “traditional forms of work and production – that is there subsistence sector - will disappear as a result of economic progress in developing countries” (Lewis, 1955).

At the time (1955 – 1960s), this theory was accepted as a world view and economists who were aware of an existence of another sector assumed that it will disappear anyway, as Lewis proclaimed. The researcher asserts that Lewis’s theory on the existence of another sector, which was in “competition” with the capitalist sector did not receive much attention because there was no further evidence during the time that the book was published that analysed the significance and impact of the subsistence sector on national accounts or the economy of a nation.

Now the 1960s was an interesting period in less developed countries (Latin America and the African continent). Generally, the 1960s was a decade of political independence of African states. It is during this time of political independence that a large number of people became attracted to the rapidly expanding and glittering cities in respect of prospects of employment in the modern sector of the economy.

Inquisitive scholars took note of developments in less developed countries, in particular their economic activities. A scholar of British origin as Lewis called Keith Hart tested Lewis's theory in Africa. Hart conducted studies in Kenya in 1971 and in Ghana 1972. In 1972, a conference on Urban Unemployment in Africa was held at the Institute of Development Studies in Sussex. At that conference Hart presented an article entitled "Informal Income Opportunities and Urban Unemployment in Ghana". His article highlighted the presence of a phenomenon which operated outside the traditional form of production and called it the "informal activities sector". In essence, Hart confirmed Lewis's theory and thus further renamed this phenomenon as the informal sector.

The conference in 1971 on Urban Unemployment in Africa brought the issue of the informal sector into the academic arena. Since then the informal sector was incorporated into conceptual underpinnings of much of the urban research in the International Labour Organisation (ILO) World Employment Programme, and subsequently into the urban research programme of other international organisations (Madziakapita, 2003:36). The ILO further formulated a report in 1973 which was referred to as the Kenyan Mission Report which was subsequently debated by the Kenyan Parliament, and this debate underpinned the usage of the term "informal business sector" in the political arena.

The success of Hart's findings was further advanced by the ILO in different platforms and the concept grew in its stature. For example, more research was undertaken by Portes (1978, *The Informal Economy, Studies in Advanced and Less Developed Countries*) and De Soto (1996, *The Other Path*) whose studies further crystallised existence of an informal business sector in Latin America, Spain; Uruguay and Colombia. In the book "*The Other Path*", De Soto presented a theory that "excessive regulation in the economies forced a large part of the economy into informality". He argued that it were rigid regulations that resulted in the emergence of the informal business sector. Another theoretical view, which is aligned to De Soto's theory, is that "the presence of the non-structured sector emerged in the urban centres as a result of the modern sector's inability to absorb new entrants" (Portes, 1978).

The theory of the informal business sector attracted the attention of political economists and development economists. In developing countries, in particular, political economists have debated theories of the informal business sector in a quest to find "*The Other Path*", as stated by De Soto in resolving their socio – economic

challenges, namely; underdevelopment and employment creation. The debates and various schools of thought regarding the informal business sector thus evolved with time.

Chen (2005:4) states that over the years, debates around diversity of the informal business sector crystallised into various dominant schools of thought regarding its nature and composition, namely; the *Dualists*, the *Legalists*, and the *Voluntarists*.

The *Dualists* – believe that the informal business sector comprises marginal activities, which are distinct from and not related to the formal sector. The Dualists argue that there is interdependence between the informal business sector and the formal sector to function. Former president of South Africa, Mr Thabo Mbeki, is amongst key proponents of Dualism. He argues that South Africa's economy comprises the First Economy (industrialised formal sector) and the Second Economy (informal sector). He asserts that most South Africans are trapped in the Second Economy and that a ladder had to be formed to assist those trapped in the Second Economy to climb and make way to the First Economy (Mbeki, 2003). The Dualist's argument therefore is clear, since the informal business sector should not be confused with the formal sector as these are but two economic sectors which both require specific interventions but at the same time they are interdependent.

The *Legalists* – conversely argue that over regulation intensifies the expansion of the informal business sector. To validate this view, De Soto (1989) performed an experiment in which he and his team attempted to register a small business. He reported that in order to register a small business, it took more than 100 administrative steps and almost a year of full-time work. However, government has made it a priority to reduce the “red tape” associated with this but still “the number of unregistered businesses surpasses those that are registered” (SSA, 2011).

The *Voluntarists* – contend that owing to the over-regulated business environment that propels businesses to deliberately avoid regulations and taxation and, therefore, form the informal business sector. Government's intentions to control the business environment are in fact contributing to the formation of the informal business sector.

It is important to note the debates and views of different schools of thought that have contributed to the growing stature of the informal business sector. As much as each school argues for a certain view, all in principle agree on the presence of the informal business sector and thus the debates entrench the view that the informal business

sector is “here to stay”. Lewis’s proclamation is that the traditional subsistence (informal) sector will wither away and die with modern, industrial growth while Hart’s confirmation is that; in fact, the traditional subsistence (informal) sector is expanding and becoming an integrated part of the economy. Some old views have come and new views have emerged about the importance of the informal business sector. Table 2.1 below depicts old and new views of the informal business sector.

Table 2.1: Differences between the old and new thinking

Old Views	New Views
The Informal Business Sector Is:	
The traditional economy that will wither away and die with modern industrial growth.	It is here to stay and expanding with modern industrial growth.
Only marginally productive.	A major provider of employment, goods and services for lower-income groups. It contributes a significant share of gross domestic product.
Exists separately from the formal economy	It is linked to the formal economy, it produces for, trades with, distributes for and provides services to the formal economy.
Represents a reserve pool of surplus labour.	Much of the recent rise in informal employment is due to the decline in formal employment or to the in-formalisation of the previously formal employment relationships.
Is comprised mostly of street traders and very small scale producers.	It 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.
Most of those in the sector are entrepreneurs who operate illegal and unregistered enterprises in order to avoid taxation and regulation.	It 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 prepared to, and would welcome efforts to ease barriers to registration and related transaction costs and to increase benefits from regulation and most non-standard wage workers would welcome more stable jobs.
It comprises mostly survival activities and hence, it is not a subject for economic policy.	It includes not only survival activities but also established enterprises and dynamic growing businesses. Informal employment includes not only self-employment but it includes wage employment. All forms of informal employment are affected by most economic policies (globally and nationally).

(Adapted from SALGA, 2011)

The foundational theory provided by the early pioneers of the informal business sector was not in vain. According to Chen (2005:78), a good deal of thought and effort has gone into developing a holistic framework that takes into account all

aspects of the informal business sector. However, over the years there have been diverse views regarding the definition of the informal business sector.

2.3 Defining the term informal business sector

The term informal business sector is commonly misunderstood as the same as the 'black market', hence it is regarded as something illegal. There is in fact no single definition of informal business sector, but Schneider (2002:45) asserts that it is any economic activity or source of income that is not subjected to government regulation, taxation or observation. Furthermore, the term is restricted to "those businesses, which are not registered by VAT and are also not subject to other formal regulation or taxation, especially in retail and hawking" (StreetNet, 2006:67). Notwithstanding the above, the term informal business sector refers to survivalist, micro and very small enterprises which operate outside the formal sector with limited resources to conduct their day-day activities (National Small Business Act, 1996).

The informal business sector is formed by the coping behavior of individuals and families in economic environment where earning opportunities are scarce. Conversely, the informal business sector is a product of the rational behavior of entrepreneurs that desire to escape state regulations" (World Bank, 2007). To elaborate on this definition, there are two types of entrepreneurs within the informal business sector, namely: necessity entrepreneurs - those who create their own small businesses because they cannot find other work owing to historical reasons or because of retrenchment and the opportunity entrepreneurs – those who disrupt or change the way things are done. Under the National Small Business Act, No. 102 of 1996, necessity entrepreneurs are classified under small, micro and very small enterprises and the opportunity entrepreneurs are classified under medium and large enterprises. The greater part of this study deliberates on the informal business activities of necessity entrepreneurs.

The literature review revealed several names that are used to refer to the informal business sector, for example, Ferman (1973) called it an "*irregular economy*"; Guttman (1977) called it "*the subterranean economy*"; and Simon (1982) described it as "*underground economy, an economy that is invisible, hidden, shadow, and non-official, unrecorded, and imperfectly recorded in the national accounting systems*". Nevertheless, various scholars have attempted to define the informal business sector.

Early pioneers of the informal business sector such as Hart described it as the activities of the hard-working poor, who were not recognized, recorded, protected or regulated by the public authorities (Hart, 2008:89). According to Hart, these activities possess the characteristics of:

- Ease of entry.
- Reliance on indigenous resources.
- Family ownership of enterprises.
- Small scale of operation.
- Labour intensive and adapted technology.
- Skills required outside of the formal schools system and
- Unregulated and competitive markets (Hart, 2008:93).

On the one hand, Richardson (2009:29) describes the informal business sector as a sector that covers a wide range of labour market activities that combine two groups of different natures. On the other hand “the informal sector is formed by the coping behavior of individuals and families in economic environment where earning opportunities are scarce. Conversely, the informal business sector is a product of rational behavior of entrepreneurs that desire to escape state regulations”. Entrepreneurship is the creation of new enterprises, which include the informal business sector.

The International Labour Organisation (ILO) referred to it as “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements”. It states that these are economic activities that are generally characterized by small or undefined workplaces, unsafe and unhealthy working conditions, low levels of skills and productivity, low or irregular incomes, long working hours and a lack of access to information, finance, training and technology (ILO, 2003).

According to Chen (2005:16), the ambiguity, complexity, and lack of a distinct definition of the informal business sector presented a challenge for economic statisticians and development economics theorists. The ILO (2003) responded to this challenge by adopting an international statistical definition of the informal business sector to refer to employment and production that takes place in unincorporated small and or unregistered enterprises. The ILO also subdivided the informal business sector into certain categories which are presented below.

Informal self-employment – this category comprises employers in informal enterprises; own account workers in informal enterprises; family workers in informal and formal enterprises; and members of informal producer cooperatives.

Informal wage employment – encompasses employees who are hired without social protection contributions by formal or informal enterprises, or as paid domestic workers by households. These include:

- Casual or day labourers;
- Temporary or part-time workers;
- Paid domestic workers;
- Contract workers;
- Unregistered or undeclared workers; and
- Industrial outworkers (also called homeworkers).

Based on the above categories, the ILO community in 2003, therefore, endorsed a general definition to refer to the informal business sector as production and employment that takes place in unincorporated small or unregistered enterprises without legal and social protection both inside and outside the informal business sector.

2.4 Understanding the informal business sector in the South African context

Former President of South Africa, Mr Nelson Mandela, in The President's Conference on Small Businesses (1995), observed that:

“My government and I are aware of the many obstacles that have prevailed against small business –historical injustices which prevented the majority of South Africans from gaining access to finance and other resources restricted their access to major markets and indeed prevented millions of people from becoming entrepreneurs. These practices have resulted in what is now a much distorted economy, in which so many small business and black businesses are confined to the margins of economic activity”

The impact and direct implications of the Apartheid policy on the current structure of South Africa's economy are immeasurable. However, the dualism that Lewis published in his book *Theory of Economic Development* is one of the direct implications in South Africa's economy. The economy is dominated by large sophisticated firms in the mining, manufacturing, telecommunications, construction and manufacturing sectors. These sectors, by virtue of their area of specialisation

require highly skilled labour. The majority of the population is unskilled and, therefore, unable to access the opportunities that are offered by the sophisticated economy. Due to this predicament, the Black population (excluding Coloured African and Indian African) as the majority population in South Africa makes up 82% of the informal business sector (Altman, 2007:29).

According to Lund (1998:34), the existence of the informal business sector in South Africa is a reflection of both the legacy of Apartheid Colonialism and market failures which rendered the formal sector incapable, on its own volition, to absorb informal and formal labour that converged in the cities (Johannesburg and Cape Town). Altman (2007:2) discusses the intent of Apartheid policies, arguing that the ultimate objectives was to have separate economies with the central industrial base and urban areas relying on higher skills labour, and remote areas relying on lower skilled labour.

Altman (2007:2) further states that the Apartheid policy ensured that the majority of the population needed no more than some high school education to fulfil their intended economic role, and established legal barriers to control the entry for entrepreneurs and blocked entry to most semi-skilled and skilled occupations. During these years of Apartheid, anti-informal business measures such as the payment of excessive fines and confiscation of goods were used in cities across South Africa (Skinner, 2008:231). In the 1980s the State lost control over the movement of people into urban areas, and subsequently began to change its attitude towards the informal business activities sector (Lund, 1998:56). The state then began a broader thrust of deregulation which was aimed at promoting Black business, a key measure being the 1991 Business Act, which remained in force until 1995. The Act acknowledged informal business actors (street traders) as business people who were of consequence for the economy and were hence entitled to receive assistance (Lund, 1998: 203).

2.5 Post - 1994 legislative framework for informal business sector

The post-1994 government instituted key measures for the deregulation of small business activities and the removal of barriers to the operation of informal activities (Chen, 2005). Below is a list of policy and legislative framework, which provides for the enablement of the informal business sector.

2.5.1 Constitution of the Republic of South Africa, 1996

Section 22 of the Constitution (1996) provides for freedom of trade, occupation and profession. It states that every citizen has the right to choose their trade, occupation or profession freely. The practice of a trade, occupation or profession may be regulated by law. In essence, this fundamentally includes the informal business sector. Section 152 (1) of the Constitution provides for authorities of local government to promote social and economic development and inspire the involvement of communities and community organisations in matters of local government. Section 153 (a) provides that a municipality must structure and manage its administration and budgeting and planning processes to provide priority to the basic needs of the community, and to stimulate the social and economic development of the community.

2.5.2 National Small Business Act No 102 of 1996

Since the first enactment of the National Small Business, Act No.102 Of 1996, there have been subsequent amendments to the Act, however, its original idea thereof has remained. The Act pertains to the establishment of an Advisory Body and provides guidelines for organs of the state in order to promote small business activities in South Africa. It further deals with the categorisation of businesses that are found in the informal sector (small, medium and micro enterprises) and state that each category should be dealt with according to the environment in which it operates. The National Small Business Act (No 102 Of 1996) recognises that the small and micro enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in South Africa.

2.5.3 White Paper on Local Government, 1998

The White Paper on Local Government (1998) proposes a vision of a developmental local government, which centres on working with local communities to find sustainable ways to meet their needs and to improve the quality of their lives. It discusses the four characteristics of developmental local government, namely exercising municipal powers and functions in a manner which maximises their impact on social development and economic growth; playing an integrating and coordinating role to ensure alignment between public (including spheres of government) and private investment within the municipal area; democratising development and building social capital through providing community leadership and vision, and seeking to empower the marginalised and excluded groups within the community.

The White Paper instructs local government to focus on realising developmental outcomes such as the provision of household infrastructure and services (such as

water, sanitation refuse collection and electricity). The White Paper states that these are essential services to enable individuals to find employment and develop their skills or establish their own small businesses. It further states that, the creation of liveable, integrated cities, towns and rural areas and the promotion of local economic development and community empowerment and redistribution is the responsibility of local government.

The role of local government on job creation and economic development is clearly demarcated by the White Paper. It states that local government is not responsible for creating jobs; it is, however, responsible for taking active steps to ensure that overall economic and social conditions of the locality are conducive to the creation of employment opportunities. The White Paper further states that local government can play an important role in promoting job creation and boosting the local economy through initiatives such as the provision of special economic services - to provide support services to assist small entrepreneurs.

Lastly, with regard to the enablement of the informal business sector, the White Paper on Local Government declares that even though it is the responsibility of the Department of Trade and Industry to establish local business service centres, it encourages the municipality to support these programmes, where appropriate, as these centres assist small entrepreneurs with skills, premises, information, networking, marketing and access to credit.

2.5.4 Municipal Systems Act, No. 32 of 2000

The Municipal Systems Act, No 32 of 2000 provides for core principles, mechanisms and processes that are necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities. The Act further instructs municipalities to undertake developmental-oriented planning in order to strive to achieve the objects of local government as set out in Section 152 of the Constitution. The Act refers to development-oriented planning as Integrated Development Planning, which must be aligned with and complement the development plans and strategies of other affected municipalities and other organs of state. The Act states that an Integrated Development Plan must reflect an assessment of the existing level of development in the municipality, which must include an identification of communities which do not have access to basic municipal services, including municipal local economic development aims. Informal business actors form part of the community and the informal business sector is an element of local economic development, which should be prioritised in the Integrated Development Plan.

2.5.5 National Framework for Local Economic Development, 2006 - 2011

The framework for LED state that, for LED to be achievable local authorities should, improve community access to economic initiatives, support economic orientated programmes and encourage information dissemination. They should improve the coordination of economic development planning and implementation across government and between business and non-governmental actors, and build greater awareness about the importance and role of small business in contributing towards LED.

2.5.6 The New Growth Path Framework, 2010

The New Growth Path Framework provides a renewed government commitment towards revitalisation of the South African economy. The framework builds on policies which were promulgated since the advent of democracy such as the Reconstruction and Development Programme, Growth, Employment and Redistribution and Accelerated and Shared Growth Initiative for South Africa. The objectives of the New Growth Path should create about 5 million jobs in 2020.

The framework advises the government to accelerate employment creation primarily through direct employment schemes, targeted subsidies and/or a more expansionary macro-economic package; support labour-absorbing activities, especially in the agricultural value chain, light manufacturing and services to generate large-scale employment; and provide effective incentives to private investment in targeted sectors, principally by prioritising labour-absorbing activities for the provision of appropriate and cost-effective infrastructure, regulatory interventions that effectively address market and state failures, measures to improve skills systems, and, in some cases subsidies for production and innovation.

2.5.7 Broad – Based Black Economic Empowerment Act, No. 53 of 2003

The BBBEE Act is defined in the 2001 Commission Report as an integrated and coherent political process, which is located within the context of the country's Reconstruction and Development Programme. Through the BBBEE Act, government intends to substantially transfer and confer ownership, management and control of South African's financial and economic resources to the majority of its citizens. This is to ensure broader and more meaningful participation of Black people in the economy to achieve sustainable development and prosperity. The Act is biased towards the empowerment of Black-owned enterprises, and many of the black owned enterprises are survivalist - small businesses. The Act advocates that government should

facilitate ownership and management of enterprises and productive assets by communities, workers, cooperatives and through preferential procurement investment in enterprises that are owned or managed by Black people.

2.5.8 National Development Plan (NDP), Vision 2030

The National Development Plan proposes to invigorate and expand economic opportunity through investment in infrastructure, more innovation, private investment and entrepreneurialism. It states that broadening these opportunities requires faster, more inclusive economic growth and higher levels of investment. The pioneers of the NDP Vision 2030 plan, is to mitigate South Africa's triple challenges namely poverty, unemployment and inequality through the following strategic approaches, as shown in Figure 2.1 below.



Figure 2.1: Quandary of growth and job creation

(Adapted from National Development Plan, Vision for 2030)

With reference to Figure 2.1 above, Quandary 4, categorically states that public employment schemes, home-based care, and retail sector growth are good for jobs, but not great for growth. These outlooks of the NDP Vision 2030 on informal business sector highlights government's reluctance towards investment and prioritization of this sector as a strategic platform for regional economies to absorb employment seekers and to position it as a sector with growth potential. It further clarifies the point that the

informal business sector is not yet understood as an independent economic sector which is capable of job creation and poverty reduction.

2.5.9 Licensing of Businesses Bill, 2013

The objectives of the Licencing of Businesses Bill are to provide a simple and enabling framework for procedures for application of business licenses by setting national norms and standards. It also aims to provide a framework for co-operative governance and harmonization of standard procedures and minimum requirements for application of business licenses, and to provide a framework for support monitoring and standard setting by national government in order to build local government into an efficient frontline agency that is capable of integrating the activities of all spheres of government for the overall socio-economic upliftment of communities.

The Bill outlines a vast inspectorate namely police officers, metro officers, customs officials, health inspectors and peace officers who according to the Bill will have power to confiscate and search goods of the business (Licensing of Businesses Bill, 2013). The intentions of the government are understandable in terms of registering more businesses so it can collect more taxes but the implications can herald the past memories of the apartheid colonialism.

The above discussion on the post 1994 legislation that contains aspects that are designed for the enablement of the informal business sector in South Africa should be appraised. However, implementation thereof is lagging behind. Government has a responsibility to ensure effective implementation of the above legislation to better the conditions of the informal business sector. The circumstances of the informal business sector have not transformed (Sinxoto, 2007:89). Nonetheless, the informal business sector has made considerable contributions from a socio-economic perspective.

2.5 Contributions and size of the informal business sector

Since the discovery of the informal business sector, the economic contributions of this sector are undisputed. According to the ILO's labour market statistical reports, the informal business sector accounts for half of global employment, involving an estimated 1.8 billion people compared to the 1.2 billion of the formal sector. The reports indicate that total expenditure in the informal business sector in 2002 amounted to R51.7 billion (ILO, 2003). The informal business sector is further seen

as a key role player in Sub-Saharan Africa's economic growth. Schneider (2002:102) reports that the informal business sector accounts for 41% of the Gross National Income (GNI) in Africa compared to 38% in transition countries (Asia), and 18% in the Organisation for Economic Cooperation and Development (OECD). In countries such as Ghana (where the exodus of the informal business sector unfolded as per Hart's study in 1972), the informal business sector accounts for 85% of the work force, and 400 million people in India work in this sector (Guliwe, 2011:2).

Economic agencies and researchers have reported high contributions of the informal business sector in South Africa. Statistics South Africa reported that in 2011 there were 2.1 million people who were active in the informal business sector. Of the 2.1 million people, 1.2 million are men, and just over 857 000 are women (SSA, Census 2011). In terms of employment creation, Casale, Muller and Posel (2004:124) estimate that employment or self – employment in the informal business sector grow by more than 100 000 people each year or 8% per annum from 1997 to 2003 SSA Census 2011 reported that 46 000 of the 2.1 million people entered the sector in the first quarter of 2011.

Furthermore, a study which was conducted by FinScope Trust (2010) on Small Businesses in South Africa's found that:

- There are, 5 979, 510 informal businesses in South Africa;
- 5 579, 767 informal businesses are owned by 16 years and older South Africans (one in six individuals aged 16 years and older, generate an income through informal business activity);
- 17% of informal businesses are registered;
- 79% of small business owners are informal traders (sell products); and
- Of the population, 16 years and older informal business owners comprise 31% in the North West province, 23% in the Free State province and 20% in the Northern Cape Province (FinScope, 2010).

Below are statistics that were adapted from the FinScope Study on Small Businesses in South Africa. These statistics reflect the type of enterprises and the number of employees (Table 2.2), the geographical areas of the businesses per province (Figure 2.1), age distribution (Figure 2.2), gender distribution (Figure 2.3), race distribution (Figure 2.4) and the education levels of informal business actors (Figure 2.5).

Table 2.2: Type of enterprise and number of employees

TYPE	NUMBER OF ENTERPRISES (thousands)	%	NUMBER OF EMPLOYEES (thousands)	%
Micro-Survivalist	184, 400	20	184, 400	3
Micro-Non-Survivalist	466, 100	51	848, 549	11
Very Small	180, 00	20	1, 068, 431	14
Small	58, 851	7	1, 225, 972	17
Medium	11, 322	1	909, 880	12
Large	6, 017	1	3, 159, 931	43
Total	906, 690	100	7, 397, 163	100

(Adapted from FinScope, 2010)

Table 2.2 shows that there are 184, 400 (thousand) micro survivalist businesses with 184, 400 employees. The 184, 400 employees are in fact owners of the micro survivalist businesses. Micro-non-survivalist businesses (micro and small businesses) comprise 466, 100 and employ 848.549 people. Very small businesses 180.00 employ 1.068.431 people. These are followed by small (58.851 with 1.225.972 employees), medium (11.322 with 909,880 employees) and large (6, 017 with 3, 159.931 employees) businesses. Table 2.2 reflects the number of enterprises across South Africa and the number of people who are employed in these businesses.

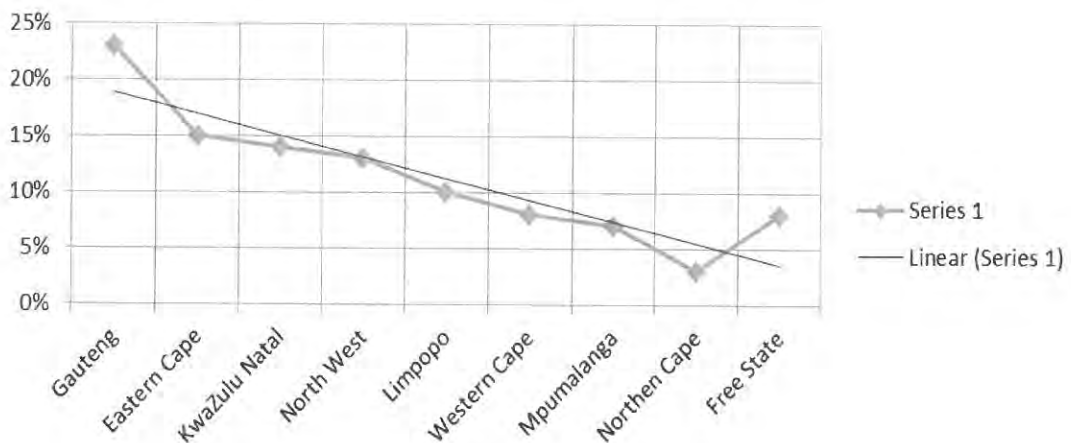


Figure 2.2: Geographical distribution (Adapted from FinScope, 2010)

A provincial breakdown shows that Gauteng, followed by the Eastern Cape, has the largest relative informal business sector. The relative share of the informal business sector by province indicates some correlation with the overall unemployment rate, which supports the notion that for many the informal business sector is an alternative owing to a lack of jobs (South African LED Network, 2011:1).

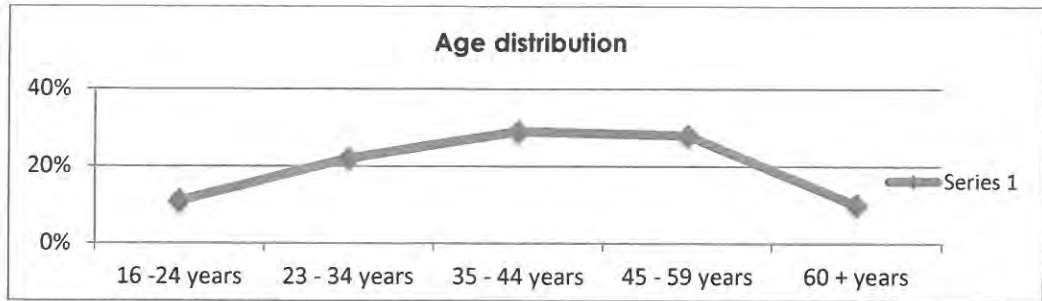


Figure 2.3: Age distribution (Adapted from FinScope, 2010)

The youth (16 – 35 years) make up 68% of the informal business sector.

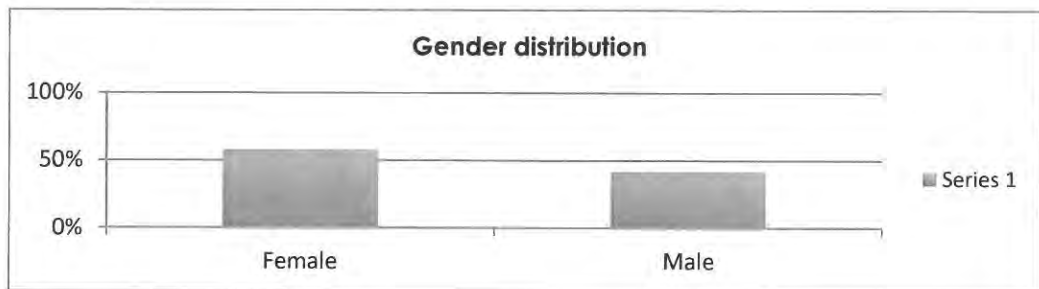


Figure 2.4: Gender distribution (Adapted from FinScope, 2010)

Females are more likely to be informal business owners, according to the FinScope Study.

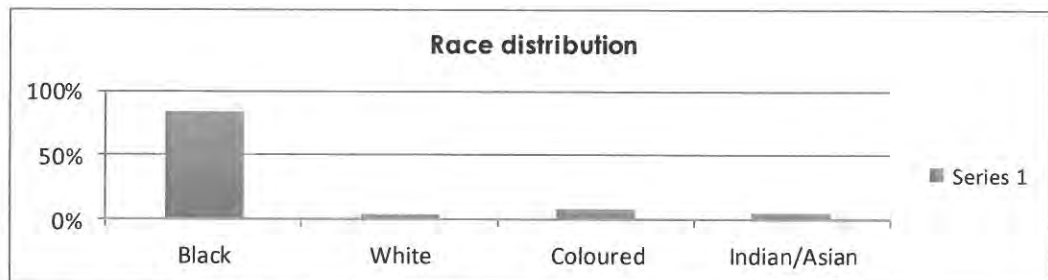


Figure 2.5: Race distribution (Adapted from FinScope, 2010)

For historical reasons, Black still make up the majority of the informal business sector.

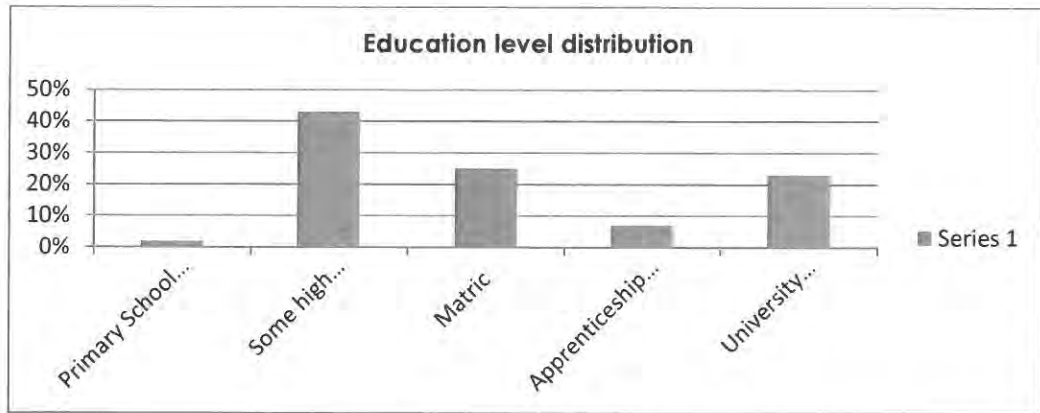


Figure 2.6: Education level distribution (Adapted from FinScope, 2010)

Almost 50% of informal business sector actors have a relatively low standard of education. Although this is not indicated in Figure 2.6, 50% comprises of the Black population (Africans, Indians and Coloureds), the majority being Black Africans (FinScope, 2010).

The ILO (2003:78) suggests that the growth in the contribution and size of the informal business sector is subject to a number of factors which include (1) stricter regulation of business environment in combination with an ailing formal sector, forcing more people to find income generating alternatives; (2) an improved survey questionnaire which catches much more economic activity, even if respondents do not consider street trading as a job and (3) heightened awareness among survey coders of street trading as a job.

However, notwithstanding the above, there are concerns that the contribution and size of South Africa's informal sector is underestimated in the collection of employment data (Muller, 2002:85). The ILO agrees with Muller, asserting even in the rare example where the informal business sector employment is included in national accounts, "the official estimates do not include the full range of economic activities" owing to the complexity of informal businesses (ILO, 2003:78).

2.5.1 Characteristics of the informal business sector

According to the National Small Business Act, 1996 the informal business sector is highly diverse, with structure problems, growth potential and access to support differing widely between segments in this sector. Table 2.3 below provides characteristics of the small business in South Africa per category, as provided by the National Small Business Act (1996).

Table 2.3: Characteristics of the small business within the informal business sector

CATEGORY	FEATURES OF THE CATEGORY
Survivalist enterprises	The main characteristic of these enterprises is poverty and the attempt to survive. Income generated from these activities usually falls far short of even minimum income standards, with little capital invested and virtually no skills training in the particular field. There are limited opportunities for growth into a viable business. The National Small Business Act (No. 102 Of 1996) states that support strategies should primarily help these people – a large percentage of whom are women to get out of this sector. Given the large number of people involved in survivalist activities, this constitutes a vast challenge.
Micro enterprises	The micro enterprises usually lack “formality in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, these are very small businesses often involving only the owner, some family members and at the most one or two paid employees. Many micro-enterprises advance into viable small businesses. Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and accesses to relevant support.
3. Small enterprises	These enterprises constitute the bulk of the established businesses, with employment ranging between five and about 50. The enterprises are usually owner-managed or directly controlled by the owner-community. They operate from business or industrial premises, are tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.
Medium enterprises	These constitute a category difficult to demarcate vis-à-vis the “small” and “large” business categories. It is viewed as owner/manager-controlled, though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R5 million are often seen as the upper limit.

(Adapted from the National Small Business Act No.102 of 1996)

In South Africa, informal business actors are found in survivalist, small and micro enterprises. In most cases these enterprises are occupied by people who trade in consumable goods, for example vegetable stands, clothing material purchased from formal businesses or factories, and at times employ one or two unemployed individuals or family members (Muller, 2002:84). As mentioned under Section 2.3, the greater part of this study deliberates on the informal business activities of necessity

entrepreneurs (survivalist and micro enterprises) given the large number of individuals involved in survivalist activities as indicated in Table 2.2 above.

According to Muller (2002:89), the most glaring characteristics of the informal business sector is the non-registration of the enterprises, and that they are small in size. He contends that the following are distinguishing characteristics of the informal business sector:

- The absence of official protection and recognition;
- Non coverage by minimum wage legislation and a social security system;
- Predominance of own-account and self – employment work;
- Absence of a trade union organisation;
- Low income and wages;
- Little job security;
- No fringe benefits from institutional sources;
- Ease of entry;
- Reliance on locally available resources; and
- Absence of access to institutional credit or other supports and protections (Muller, 2002:89).

2.5.2 Drivers of the informal business sector

The speedy urbanisation (rural-urban migration) of the population, the slow pace of economic growth, and the weakening capability of the formal sector to create employment are amongst the factors that drive the growth of South Africa's informal business sector (Guliwe, 2011:2). To understand the forces behind the rapid growth and drivers of the informal business sector, the Latin American Division of the World Bank published a study in 2007 called *Informality: Exit or Exclusion*. The study presented a holistic model of the triggers of informality, as shown in the table below.

Table 2.4: World Bank Model of Informality: Composition and Causes

Three Pairs of Economic Agents
<p>Labour</p> <ul style="list-style-type: none"> - With insufficient human capital to get to formal job. - Who quits formal job in order to be their own boss, make more money, avoid taxes, or enjoy flexibility. <p>Micro-firms</p> <ul style="list-style-type: none"> - With no intention or potential for growth, hence no intention. - Who are stymied by high barriers of entry. <p>Firms</p> <ul style="list-style-type: none"> - Who are avoiding taxation and other regulations. - Who are partially registering their workers and sales.
Casual Theory # 1: Different Forms of Exit
<p>Opportunistic evasion:</p> <ul style="list-style-type: none"> - Tax evasion. - Illegal activities. - Avoidance of labour codes: unprotected workforce and subcontracted production <p>Defensive evasion in response to</p> <ul style="list-style-type: none"> - Burdensome state. - Captured state. - Weak state. <p>Passive evasion and state irrelevance</p> <ul style="list-style-type: none"> - Pre-modern or bazaar economy - Informal or non-state institutions
Casual Theory #2 Different Forms of Exclusion
<p>Labour market segmentation – prevents workers from getting formal jobs</p> <p>Burdensome entry regulations - prevents enterprise from formalizing</p> <p>Hiring practices of firms – in response to excessive tax and regulatory burdens</p>

(Adapted from World Bank, 2007)

The World Bank Model of Informality suggests that owing to the fact that the labour market does not have sufficient skills to compete for formal jobs, they opt for starting their businesses and thus expanding the informal business sector. This includes the micro-firms that avoid taxation and registering workers. However, the issue of burdensome regulations taxation evasion are the leading drivers of the informal business sector. Nonetheless, from a South African perspective taking cognisance of the fact that the country has endured years of Apartheid and colonialism, the researcher concurs with the World Bank Model by stating that insufficient human capital of the labour market is the key driver of the informal business sector.

The literature review reveals that a majority of scholars (Chambwera, et al 2011; Muller, 2002; Chen, 2005) unanimously agree, to a large extent, that one of the foremost drivers of development and tenacity of the informal business sector is recession. The recent global economic crisis (2009) proves to be a true legend of what gives rise to the informal business sector. In a paper which was delivered on *Policy Responses to the Crisis: Effects of the Global Financial Crisis on Developing Countries and Emerging Markets*, it estimates that globally, in 2009 there were 200 million and more formal business sector workers who were displaced from formal work owing to the global recession (Willem te Velde, 2008:22).

To summarise the above, the following four factors can be identified as the main drivers of the informal business sector:

- **Decline in economic performance/non-pro-poor economic growth**

Expansion of the informal business sector and the deteriorating employment situation in many developing countries is associated with low gross domestic product growth rates (ILO, 2003). A case in point is the South African gross domestic product which has not been stable. From 1994 to 2012 South Africa's gross domestic product averaged 3.23% and unemployment was registered at 25% year on year since 2002 (SSA, Census 2011). Guliwe (2011:2) argues that during the decline in the global finances between 2008 and 2009 South Africa experienced a loss of over 1 million jobs.

- **Rural–urban migration**

Due to rural-urban migration, job–seekers from within South Africa and from other parts of the African continent augment the oversupply of un-skilled labour in the cities, resulting in the expansion of the informal business sector. A study which was conducted by the Sustainable Livelihoods Foundation (2008) found that over 50% of spaza shops in Cape Town are operated by foreign nationals with Somalis accounting for 80% of the 245 foreign informal businesses. Furthermore, the recent statistical data indicate that South Africa's three main economic cities, namely the Western Cape, Gauteng and KwaZulu Natal receive the highest number of migration which relates to the Census report which indicates that the Western Cape Province population grew by 30% between 2001 and 2011, with the population increasing by 1, 3 million people (SSA, Census 2011). Failing to access formal jobs, these job-seekers opt for the informal business sector.

- **Structural adjustment programmes (SAPs)**

The implementation of SAPs in countries such as Zimbabwe, through the Indigenisation and Economic Empowerment Act No. 14 of 2007 and South Africa's transformation programmes such the Broad Based Black Empowerment Act No.53 of 2003, stimulate the expansion of the informal business sector, for example, the decrease of real wages in the formal sector, industrialisation and mechanisation, raised standards of costs of living for the poorer, and privatisation of state-owned enterprises result in retrenchment and, therefore, influence household members to engage in the informal sector and supplement household incomes (Willem te Velde, 2008:24).

- **Disintegration of production and integration of trade (globalization)**

Literature reveals that globalization and its major driving forces, namely liberalised trade paradigms and foreign direct investment are cited as major reasons for the proliferation of the informal business sector. Globalisation has necessitated industries to adopt technological advanced systems that are less labour intensive. This results in loss of employment for millions of people and widens the gap between the haves and the have nots. The consequences result in the growth of informal businesses as the population seeks for alternatives to generate income.

2.5.3 Advantages and disadvantages of the informal business sector

As mentioned earlier, the informal business sector works as a safety net during economic distresses, and is "home" to unskilled labour that is not competitive, since the advent of globalisation and technological advancements. According to Gerxhani (2006:67), the advantages and disadvantages of the informal business sector could be grouped into economic, social and political factors.

Advantages of the informal business sector

a. Economic

- Informal business sector activities may help to maintain the competitiveness and flexibility of production.
- Informal business sector activities may bring growth if supported and encouraged.
- This sector puts downward pressure on wages in the formal labor market.
- It offers lower process for goods and services.
- It generates substantial personal income.
- The informal business sector is characterized by low costs of labour.
- The labour costs, combined with the advantage of not bearing any bureaucratic cost are thought to contribute to a higher productivity of capital in this sector.

- The rapid growth of the informal business sector, in some transition countries alleviates declining gross domestic product, especially, in Africa.

b. Social

- Informal business sector activities provide families with employment and enable them to meet their basic needs and their well-being.
- It offers freedom and opportunities for initiative and creativity.
- It is a better alternative, even though poorly paid and unprotected, than being dependent on state benefits or starving.

c. Political

- The existence of the informal business sector can be used as a safety net valve for public dissatisfaction and social tensions.
- Informal business sector activities are often tolerated or even encouraged as a way to promote political patronage.

Disadvantages of the informal business sector

a. Economic

- There is no development strategy and growth expected from the informal business sector.
- The informal business sector causes distortions in some main economic indicators such as the unemployment rate (unemployment rate can be overstated because the individuals involved in informal business sector activities might be part of the labour force, but be unemployed) and growth rate.
- Operation of informal business sector activities causes financial losses in the State revenues and *ceteris paribus*, generates budget deficits.
- Its existence induces an unfair competition for those involved in the national and international formal sector.
- If the informal business sector is quite widespread in a country it may increase the technological gap between this country and other industrialised ones.
- Work in the informal business sector is often characterized by low productivity and low incomes.
- The informal business sector is negatively related to the provision of public goods owing to the falling State revenues.

b. Social

- Participants of the informal business sector are worse off than those of the formal sector regarding their working conditions and because of exclusion from any social benefit and security.
- Citizens will be provided with false information owing to the incorrect measurement of growth domestic product.
- Participants in the informal sector have an unfair advantage (no taxes or social security contributions) compared to participants in the formal sector.

c. Political

- Due to the fact that informal economic activities are often not included when measuring the GDP, the available statistics will provide a misleading view of the state of the economy to policy makers,
- Their operation will increase corruption and political lobbying with negative consequences.

From the researcher's perspective, it can be generally deduced that the advantages outweighs the disadvantages of the informal business sector. The presence of the informal business sector is no longer a phenomenon, but a reality that will exist considering that its activities are often a leading source of employment opportunities for people who have limited access to formal sector wage employment.

2.5.4 Constraints that face the informal business sector

Based on a study conducted by GIZ (a German research institute) as part of its Small Towns Development Initiative (STDI, 2011), it was found that the following are amongst the key constraints which face the informal business sector:

- There is often strong mistrust between the public and private sectors in small towns and this has cascaded down to varied perceptions on the importance of the non-formal sector.
- Many informal business actors feel that they are not sufficiently informed on municipal developments and are often excluded from key decision making processes, which affect them.
- There is a sense that they are not sufficiently recognized for their role and contribution to the rich tapestry of economic life in small towns.
- Maintained infrastructure, increasing local trading and marketing and the need for continuous information sharing and communication.

- The role of the informal business sector in bridging the resource gap that often exists in small towns and townships is not recognised.
- Closed business communities, foreign traders, access to finance, secure trading spaces and the need for more robust entrepreneurial skills training support.
- There is a need for a more coordinated approach to the management of the informal business sector within the municipality with regard to financial incentive promotion, amongst others (SALGA, 2011).

In addition to the above, Willemse (2006:8) argues that the informal business sector is constrained by economic pressure, sociocultural challenges, adverse political conditions and a lack of policies and operational constraints to support informal business activities. Moreover, the FinScope study reports that 39% of small business owners cite money-related matters as the main obstacles that they face when starting up their businesses and 34% cite business strategy issues as their main obstacle (FinScope, 2010:89).

2.6 Role of government in institutionalising the informal business sector

The African National Congress, as the governing party in South Africa, recognised in the Polokwane National Conference (2007) that since 1994 government has made substantial progress to transform the economy to benefit the majority, but serious challenges of unemployment, poverty and inequality remain. The 2007 Conference further acknowledged that South Africa is still at the beginning of historic transformation of its economy. Furthermore, it declared that the required economic changes will not emerge spontaneously from the “invisible hand” of the market; collectively people should act to shape the patterns of economic development (ANC Polokwane Conference, 2007). The ANC Polokwane Conference proposed national prosperity through rising productivity, labour absorbing industrial growth, a thriving small business and cooperative sector amongst its strategic focus areas to achieve economic development.

Hence the government’s leading role to play in institutionalising the informal business sector is of utmost importance. Through various legislations, this role has been delegated to local government, the third tier of government, which includes national government and provincial government. This legislation includes the White Paper on Local Government (1998) and the Municipal Systems Act, No. 32 of 2000. Both legislations describe the role of local government as primarily that of a “facilitator” and “enabler”.

The Municipal Systems Act states that local government should be an efficient, frontline development agency, which is capable of integrating the activities of all spheres of government for the overall social and economic upliftment of communities in harmony with the local environment. The White Paper on Local Government introduces the concept of developmental local government which is a local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs, and to improve the quality of their lives. Furthermore, the White Paper states that local government's role is not to create jobs but it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities.

Conversely, the White Paper provides developmental outcomes of local government, namely:

- Development of appropriate infrastructure;
- Development of appropriate by-laws and regulation;
- Provision of technical information;
- Acting as a "catalyst", starting up local economic development projects (alone or preferably in co-operation with other stakeholders); and
- Community empowerment and redistribution (White Paper on Local Government, 1998).

According to Dewar (2012:89), "the role of local government is not to do actual economic development; rather it is to encourage the workforce of local civil society and business to do it themselves. In other words, the role of local government is to establish the environment of logistical opportunities to enable and capacitate the whole of community to self-develop and grow new business practices which are required to achieve integrated, equitable, and sustainable socio-economic progress.

Literature reveals that there is an inherent restrictive view by local governments – that of seeing the informal business sector as a problem. This view has contributed to the marginalization of this part of the economy within the official economic development policy. According to Muller (2002:46), this is illustrated in the absence of reference to the informal business sector in many official Integrated Development Plans and Local Economic Development strategic documents. Local government authorities often consider informal business sector activities as a spatial problem (where to locate informal trading zones) rather than an integral part of the local economy.

Data obtained from previous studies indicate that only a handful (Western Cape, Gauteng and KwaZulu Natal) of local governments in South Africa have designed and implemented specific policies, which are aimed at creating an enabling environment for the informal business sector. Other provinces still rely on by-laws that deal with licensing and regulating areas where informal business sector activities will be conducted rather than developing policies that focus on integrating informal sector activities within the mainstream economy.

The literature review also revealed that South Africa has one of the lowest informal businesses survivals in the world (Mahambe, 2011). Evidence from the Global Entrepreneurship Monitor (GEM) suggests that failure of informal business “is due to poor delivery, specifically the incompetence of the people delivering the support” (GEM report, 2012). Furthermore the GEM report states that failure of the state to effectively institutionalise the informal businesses is owing to:

- Lack of awareness (outreach) by informal business actors;
- Uneven distribution (concentration in metropolitan areas);
- The high cost of searching for support services, which have not been mitigated by effective information sharing strategies on how and where to access support; and
- Cumbersome administrative requirements of state programmes resulting in user fatigue and high levels of disappointment (GEM report, 2012:48).

Because local government is a sphere closest to the people, Van Rooyen and Antonites (2007:89) provide measures that local government should implement in order to institutionalise the informal business sector, and these are presented below.

- Institute transparent, inclusive decision-making procedures, providing regular opportunities for informal business actors to comment on existing and proposed laws and regulations that are intended for the informal business sector by holding public hearings on proposed legislation and regulations, appointing independent ombudsmen to represent informal business sector interests and empower informal business actors to initiate legislation and referendums, and to challenge existing laws and policies.
- Simplify procedures to access business permits and licenses and make them accessible and affordable for entrepreneurs which were previously disadvantaged

for historical reasons. Requirements to obtain a permit should be simple, straightforward, well-publicised and accessible to entrepreneurs of modest means. A one-step process that can be followed in different cities throughout a country would greatly reduce start-up costs. Moreover, it should be legally mandated that, once these requirements are fulfilled, permits and licences are granted immediately and are automatically registered in a centralised business registry for public record.

- Policies that govern businesses should be prioritised as key to improve the business environment. Evictions of informal business actors from their chosen area of business should be mitigated and any evictions should be planned and new sites proposed post evictions. The right to associate freely should be vigorously protected for informal business sector participants.
- Essential business information and training concerning how to obtain permits and licenses; how to access funding or sponsorships; how to access municipal business support; how to invest; and how to understand and comply with business-related laws and regulations be readily available to prospective entrepreneurs.
- Provision of high quality, efficient, and cost-effective infrastructure: improved public services and infrastructure provide an incentive for entrepreneurs to remain in, or to join, the informal business sector. Such measures help to make both the public and private sectors more responsive to citizen's needs, increase efficiency, transparency, accountability and growth.
- Improve the efficiency and effectiveness of government agencies that are mandated to provide support to informal business such as the small enterprise development agencies. The operations of these agencies should be monitored and determined whether they do achieve and reach informal businesses where people are of modest means.

Van Rooyen and Antonites (2007:49) measures as explained above are amongst the approaches that local government should adopt as first level interventions towards institutionalising the informal business sector. The successful implementation of these approaches will provide the required conducive environment and stimulate economic development.

2.7 Local economic development and the informal business sector

Local Economic Development (LED) both internationally and nationally has become one of the key post 1994 development interventions. Nel (2001:62), states that LED is a process by which local governments, business and nongovernmental organisations work collectively to create better conditions for economic growth and employment creation. The World Bank asserts that this process is about local people who work together to achieve sustainable economic growth that brings economic benefits and quality of life to all in the community, which is defined as a city, town, metropolitan area or sub-national region" (World Bank, 2007).

Both these definitions combined suggest a strong role of community, business and local authorities working together to achieve sustainable economic growth that brings economic benefit not only to the community, but to the city or metropolitan area. It is in this context that the researcher positions the informal business sector as a key towards LED.

Helmsing (2001:89) states that the goals of LED tend to revolve around issues of job creation, empowerment, the pursuit of economic growth, restoration of economic vitality and diversification in areas subject to recession, and establish the locality as a vibrant sustainable economic entity. To achieve LED, the Municipal Systems Act (2000) mandates municipalities to conduct Integrated Development Planning (IDP) of which LED is regarded as a core aspect. Furthermore, Section 154 of the Constitution instructs municipalities to encourage the involvement of communities and community organisations in matters of local government with the aim to promote social and economic development (RSA Constitution, 1996).

The IDP is conceptualized as a tool to assist municipalities to achieve their developmental mandates (Municipal Systems Act, No 32 of 2000). The Act describes the IDP process as a participatory approach to integrate economic development, sectoral, spatial, social, institutional, environmental and fiscal strategies in order to support the optimal allocation of scarce resources between sectors and geographical areas and across the population in a manner that provides sustainable growth, equity, and the empowerment of the poor and the marginalized.

Given that the aim of LED is to increase economic growth and creation of employment opportunities at a local level and nationally positive LED outcomes or

developmental local government is unlikely to be achieved unless civic organisations, private sector and small businesses are included in the developmental plans of the local governments (Hobson, 2011:13). The researcher, therefore, positions the informal business sector (which is generally viewed as a private sector) as key to achieving LED.

According to Hobson (2011:3), LED processes and strategies must harness the potential of the informal business sector, even if they are often invisible in official statistics, if revenue generation and employment and employment creation objectives are to be achieved at a local level. There is "no turning a blind eye" to the significance of the informal business sector on LED. The informal business sector is the cornerstone of LED (Hobson, 2011). The informal business sector is particularly important to LED in poor regions owing to the employment and income opportunities it offers to the poor and unemployed.

It is reported that self-employment in the informal business sector is increasingly the only alternative solution to growing unemployment, particularly among youth (Chambwera, et al 2011:90). The contribution of the informal business sector to the South African economy is significant, because it is estimated that were approximately 2.1 million people actively in the informal business sector in 2011 (SSA, 2011). Furthermore, the FinScope study (2010) found that there are 5 979 50 small businesses in South Africa, for 67% of small business owners, the small business that they own are their sole source of income. Charmes (2004:3) observes that in terms of employment, the informal business sector is even more significant to African economies, with a staggering 77.4% of non-agricultural workers in Sub-Saharan African being employed in informal activities.

Dewar (2012:8) provides three strategies that should be adopted by local governments to expand and exploit the informal business sector as a catalyst for LED:

- Creating conditions to encourage the establishment of numerous new middle-income business ventures. These ventures would add numerous products or services to the taxable product base of the local economy, create significant work opportunities, and raise the level of the local skills pool.
- Creating conditions to establish numerous cooperative business ventures in the below-income tax sector of the informal economy. Adding the logistical capability of the formal economy to the creative potential of the informal economy would

greatly raise its productivity and earnings, as well as its ability to innovate new products and services.

- Ensuring community – based ownership of all LED infrastructure and services. In this way a parity shareholding in the means of local production could be established. As Public Benefit Organisations, the use of cooperative business units to build, own, and run the enabling infrastructure and services would generate several significant benefits (Dewar, 2012:8).

In addition, further measures are suggested by Hobson (2011:12) to improve relations between the informal business sector and local government, and to improve the local performance of the informal business sector to better contribute to local economies, and these are explained below.

- **Organizing the effort**

Informal business actors should form part of local LED taskforce or forums. Informal business actors will be invaluable members of such forums in terms of inputting their knowledge on the needs of the informal business sector into LED strategy formulation and investment prioritization.

- **Local economy assessment**

When conducting local economy assessments, the informal business sector must not be ignored owing to a lack of official data. The assessment stage is a major opportunity to collect quantitative and qualitative information on the contribution and needs of the local informal business sector, including information on the number of people who are employed in informal activities and the trade that they are involved in, as well as information on constraints which affect them.

- **Developing LED policies with bias on informal business sector**

The local authorities must develop pro-informal business sector LED strategies with an aim to improve the regulatory environment for business, including taxation, business registration and trading across borders processes and provide incentives such as financial services to informal business sector operators on flexible terms, provide training and capacity building initiatives for informal sector workers, particularly in areas of business and financial management, literacy, business regulations and increasing their access to market information, improvement of local infrastructure including market structures and telecoms infrastructure and provide social protection to informal workers, given that the majority are women.

Below is an example where the local authorities, through their partnerships with the community, business and civic organisations, have worked together by using the available resources within the locality to achieve local economic development.

2.7.1 LED case study of the City of Cape Town, Western Cape Province: Organising the informal business sector to stimulate LED

The South African Local Government Association (SALGA) in the Western Cape conducted a LED case study (2013) in Mitchell's Plain Town Centre: Planning Informal Trade Transformation in an Urban Renewal Project. The Mitchell's Plain area is home to over 300 000 (SSA, 2011). The area was developed in the 1970s to house many of Western Cape Province's coloured residents who were displaced due the Land Act of 1913. Mitchell's Plan is distanced from amenities and opportunities of the economic centres of the City of Cape Town.

According to Census 2011, Mitchells Plain has been in steady decline since its development, as the population faced challenges of high crime rates, unemployment levels of 40% and poor educational opportunities and community facilities, resulting in 75% of adults not having a matric and an average monthly income of just R1600. The community of Mitchell's Plain is serviced by a Town Centre, which is accessed by a large number of people. According to the SALGA study, the Mitchells Plain Town Centre (MPTC) is the third busiest rail, bus and taxi transport interchange in the City, and the busiest taxi terminus in the Western Cape, with 75 000 people moving through the interchange during the morning and afternoon.

According to the study, MPTC is a "hub" of informal business actors with approximately 1500 informal businesses. However, informal business actors lacked the necessary minimum resources. The Mitchell's Plain Council recognised the role of the effect of informal businesses as far as job creation and poverty alleviation for the unemployed is concerned. However, the MPTC was poorly designed to leverage the gains provided by the informal business sector. According to the study, almost all aspects of the infrastructure were inadequate to deal with the volume and type of activities occurring in the area, including tax, bus ranks, trader facilities, sanitation lighting, pedestrian and emergency vehicle mobility.

In response, the Mitchell Plain Community and the Concerned Hawkers and Traders Association (CHATA) which represent the informal traders in the MPTC in consultation with the CoCT:

- Developed an informal business sector plan which would specify, which are formal and informal activities and determined allocation of trading bays;
- Established informal trader database to further communication between the Council of CoCT and the traders;
- Established an MPTC steering committee as an oversight body regarding informal traders; and
- Ensured a safe and pleasant environment for informal traders as far as possible.

The lesson in Mitchell's Plain case study is the cooperation and partnership that was forged by all stakeholders who recognise the effect of the informal businesses contribution on job creation and poverty alleviation. From the researcher's point of view, this case study presents best practice in terms of the approaches that local governments can pursue in order to leverage the informal business sector with an aim to encourage the economic activities through "creation of a conducive environment", leading to economic development.

2.8 Chapter summary

This chapter focused on providing an overview of the informal business sector. It established the origins and the concept of the informal business sector, discussed the definitional issues of the term and provided a more detailed holistic overview of the informal business sector in South Africa. It considered the policy and legislative provision enacted by the post 1994 South African government which seeks to give impetus to the informal business sector and identifies local government as the 'custodian' to stimulate and harness the growth of the informal business sector.

Furthermore, to understand the South African informal business sector, this chapter provided an overview of the size and contribution of this sector, discussed the advantages and disadvantages of the informal business sector, and specifically considered the role that of the state on institutionalising the informal business sector. As alluded to in this chapter, local government should play a more visible role, as far as servicing the survivalist and micro businesses within the informal business sector. This is the most visible segment of the sector and one that embraces about 70% of all informal business in the country. In the following chapter the researcher discusses the research methodology which was undertaken for the research study.

CHAPTER THREE RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

The preceding chapter presented a discussion on literature, which relates to the concept of the informal business sector. This chapter presents a detailed research design and methodology which was undertaken to collect information to provide answers to the research problem and questions, as defined in Chapter One (Section 1.3 and 1.4). It describes the area that was used for this study, for example, the economic and social profile of BCMM. The final part of the chapter discusses the procedure that was used to collect data, the sampling methods, data analysis, while the ethical considerations are also discussed.

3.2 Research context: Buffalo City Metropolitan Municipality

3.2.1 Social profile of Buffalo City Metropolitan Municipality

Buffalo City geographical context

BCMM has undergone a transition from a category B to a category A municipality (as per Section 155 of the Constitution of the Republic of South Africa, Act 108 of 1996). It acquired the status of a metropolitan municipality immediately after the 2011 local government elections. BCMM is the second largest urban centre following the Nelson Mandela Metropolitan Municipality in the ECP.

According to the Census Report (2011), the ECP is the second largest province in land area in South Africa and covers 169, 966, which is 13.8% of South Africa's total land area. The Census Report estimates that the province has the third largest population of South Africa, accounting for 6, 2 million compared to the 6.4 million estimated in Census 2001 (SSA, 2011). This latest population estimation compared to preceding estimation presents two theories: either the number of the population decreased owing to natural causes or it is owing to migration of the population to other provinces to seek a better life. There is an underlying myth that the ECP is generally one of the poorest provinces in South Africa. This is largely owing to poverty found in the former homelands (Transkei and Ciskei), where subsistence agriculture predominates and the legacy of the past regime looms large. If one looks closer, however, a prosperous ECP is revealed, amongst others, including a potential of fertile land, agriculture (aqua-farming, game farming and eco-tourism); three

import/export harbours; and an excellent road and rail infrastructure (national roads/rail). Because of these potentials, it is no wonder that the province has been earmarked as a key area for growth and economic development in modern South Africa. It is with great hope that the potential of ECP can be translated to tangible indicators such as the creation of employment opportunities to serve the population of the province, in particular, the youth, that is losing hope and faith in the future of this lucrative region in the country.

BCMM is situated relatively centrally in the ECP as indicated in Figure 3.1 below. BCMM consists of a corridor of urban areas, stretching from the port city of East London to the east through to Zwelitsha. East London is the primary node, whilst the KWT area is the secondary node.



Figure 3.1: BCMM Boundary

(Adapted from BCMM IDP 2011-2016)

According to BCMM IDP (2011 – 2016), BCMM is broadly characterized by three main identifiable land use patterns:

- Firstly, it has the dominant urban axis of East London Mdantsane KWT-Dimbaza, which dominates the industrial and service sector centres and attracts people from throughout the greater Buffalo City region in search of work and better access to urban service and facilities.

- Secondly, the area comprises of the fringe per-urban and rural settlement areas, which, whilst remaining under the influence of the urban axis, is distinct in character and land use patterns. These include those settlements that previously fell within the former Ciskei and Transkei areas.
- Lastly, commercial farming forms a distinct feature of the area. The municipality is characterized by extensive land uses with certain areas, which makes use of intense farming (irrigation-based).

Buffalo City population

The Census 2011 report revealed that BCMM population grew relatively slow from 2001-2011. Figure 3.2 below depicts the population by race group.

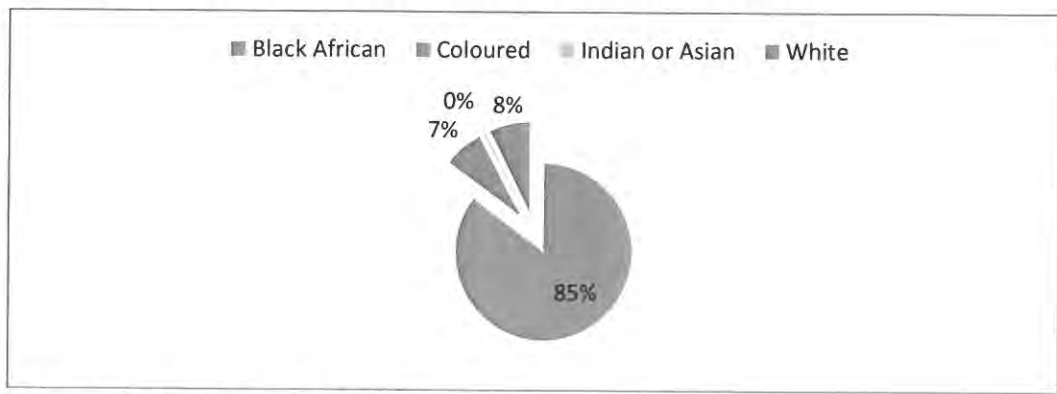


Figure 3.2: BCMM Population

(Adapted from SSA: Census 2011)

The functional age group distributions for BCMM are illustrated in Figure 3.3 below. Within the age group of 15 – 64 youth represents 70% of this group which translates to the need for the municipality to provide enabling services, namely job opportunities, and human settlements for the youth group (SSA, Census 2011).

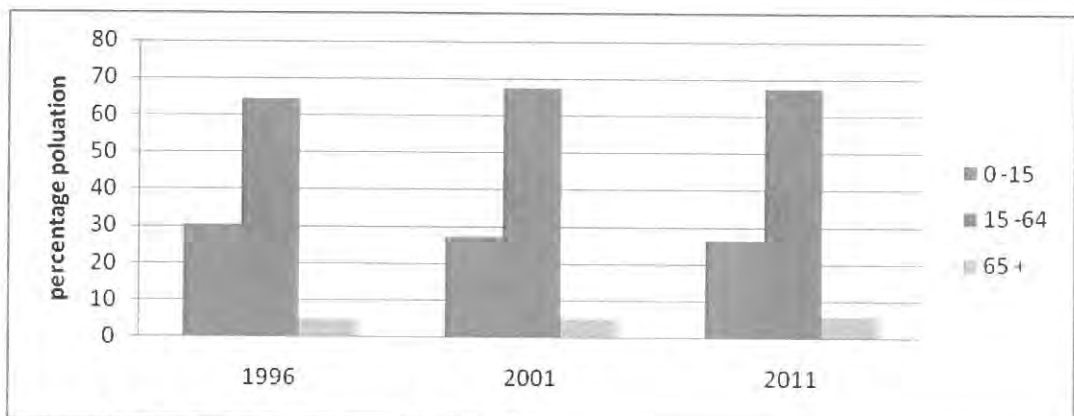


Figure 3.3: Functional age group distribution

(Adapted from SSA: Census 2011)

The population's level of education in BCMM is of a great concern because levels of education are related to employment and employability. This becomes crucial as South Africa is moving increasingly to a service-based economy which is highly integrated with the rest of the world (BCMM IDP, 2011 – 2016). Figure 3.4 below summarises the highest levels of education for BCMM for 1996, 2001 and 2011, as per the Census 2011 report.

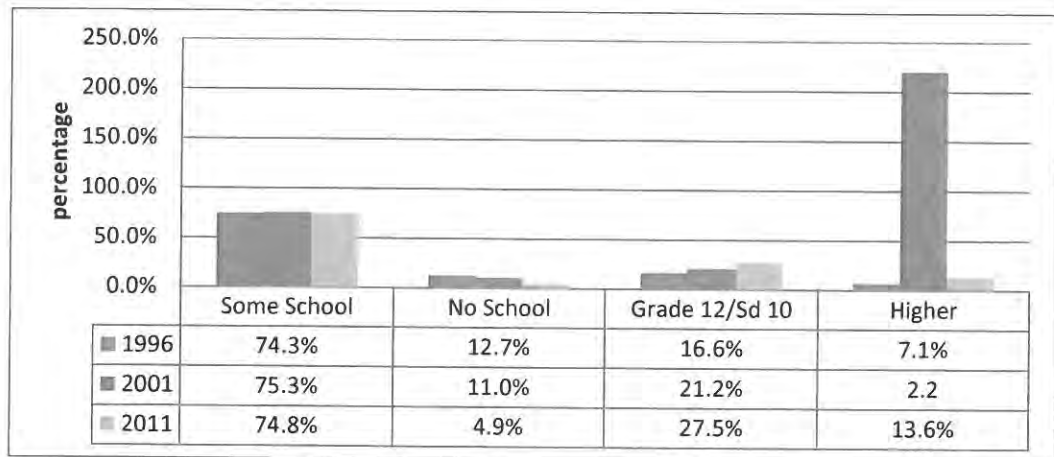


Figure 3.4: Distribution of highest education levels

(Adapted from SSA: Census 2011)

3.2.2 Economic profile of Buffalo City Metropolitan Municipality

Buffalo City's economic context

Buffalo City is classified nationally as having "medium potential". This means that it is not seen as a national development priority, with Coega and Nelson Mandela Metro rated as a priority in terms of the allocation of national infrastructure funding. According to BCMM IDP (2011 – 2016), this perception exists partly because of a lack of national understanding regarding the critical importance of Buffalo City in servicing a broader regional and rural economy, which contains 1, 510, 400 people.

Historically, levels of development in the Buffalo City area have been negatively affected both by its comparatively distant location in relation to the major centres of economic activity in South Africa (Cape Town, Durban and Johannesburg), and further exacerbated by the socio-political and economic impact of past administrations policies.

This legacy of underdevelopment and relatively low economic growth in Buffalo City has resulted in a land use and settlement pattern that is characteristically fragmented and predominantly of a low density. This translates into scarcity of disposable income for the population, and accelerates the already high rate of unemployment and relatively high levels of poverty which is wide spread within the City (BCMM IDP, 2011 – 2016).

Buffalo City's current economic trends

Regardless of this gloomy local economic synopsis of Buffalo City as indicated above, the City has the second largest economy in the ECP following that of the NMMM. BCMM has an estimated Gross Value Add of R29.7 Billion compared to NMMM's Gross Value Add of R40 Billion. The local economy is driven by finance, government, manufacturing and trade. Figure 3.5 below provides a clear description of the key economic sectors that contribute to BCMM's economy.

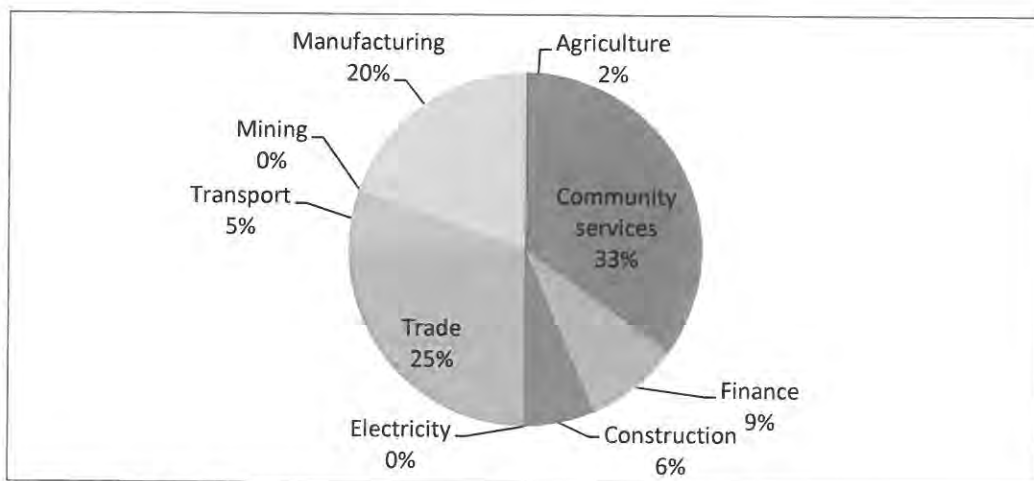


Figure 3.5: BCMM economy by sector

(Adapted from Ecsecc, 2010 in BCMM IDP 2011 – 2016)

Figure 3.5 shows that, the financial sector (29%) is the largest contributor to BCMM's economy. According to ECSECC, this is attributed to the presence of regional head offices of the financial institutions which are located in East London (ECSECC, 2010). The community services sector (28%) is attributed to the Provincial Government's Head Offices, which are located in KWT as well the regional offices of the government departments that are based in East London and, lastly, the manufacturing sector (17%) plays a significant role as far as the automobile, pharmaceutical and textile industries is concerned (however in areas such Dimbaza and Zwelitsha, various textile industries have been closed, representing a loss of 54 000 job opportunities).

The unemployment rate in Buffalo City began to trend upwards, especially during the recession period of 2001 and 2011. In BCMM, the unemployment rate is estimated at 35.1%, which is lower than the ECP average of 37.4% and NMMM's average of 36.6% (Stats SA: Census 2011). Figure 3.6 below represents the rate of unemployment in BCMM between 1996, 2001 and 2011.

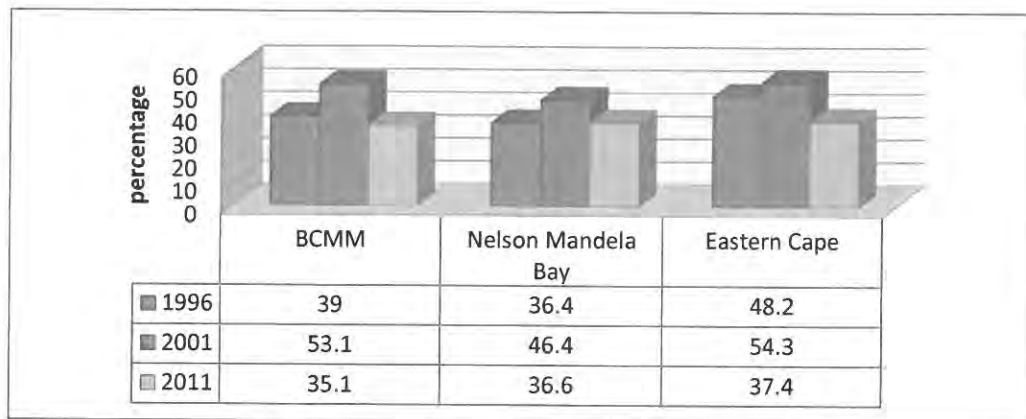


Figure 3.6: BCMM's unemployment rate

(Adapted from SSA: Census 2011)

Employment is generated by government (community services), trade and manufacturing sectors (BCMM IDP, 2011–2016). As stated above, the unemployment rate is at 35.1%, which reflects on the income levels per household. According to the ECSECC reports, the relative affluence of the majority of Buffalo City's residents remains low, with only 36% of the households in the area earning more than R1, 500 per month. It is within the above context that BCMM was selected as the study area.

3.3 Research design

According to Bless, Higson-Smith and Kagee (2006:59) research design is at times confused with the research management/action plan. The authors state that, the two have different meanings. For example, research design is a specification of the most adequate operations that should be performed in order to test specific hypothesis under given conditions. It is focused on the logic that links data that should be collected with the conclusions drawn to the initial questions of a study in order to ensure coherence. Whereas research management is an action plan to guide the researcher through the research process (Bless et al, 2006:71). In pursuing this study, the researcher aimed to achieve the following objectives.

- To assess the state of the informal business sector in BCMM.
- To determine the level of responsiveness of the local authorities towards the informal business sector.
- To assess the contribution (socio-economic) of the informal business sector in BCMM.
- To provide a theoretical overview of the informal business sector, in general.
- To provide and present findings of the study and recommendations for BCMM.

The following are research questions for this study:

- To what extent is the informal business sector prioritised by BCMM?
- How and to what extent are the economic contributions of the informal business sector measured in BCMM?
- What infrastructure provisions have been established to enable the informal business sector in BCMM?
- What systems have been established to monitor and track the expansion of the informal business sector to inform the municipality of the required needs of this sector in BCMM?
- What interventions have been initiated to empower informal business actors in BCMM?

In line with the research questions and objectives of the study, the nature of this research is understood as the combination of correlational, descriptive and explanatory studies. The researcher therefore, adopted quantitative research design (positivist paradigm) with some qualitative elements. Quantitative research methodology relies on measurement and various scales, whereas qualitative research uses language and sentences to record information about the world (Burns and Burns, 2008:23). There are advantages and disadvantages to both quantitative and qualitative research. Table 3.1 provides a comparison of qualitative and quantitative methods.

Table 3.1 Comparison of quantitative and qualitative methods

Qualitative method	Quantitative method
The aim of qualitative analysis is a complete detailed description.	In the qualitative approach researchers classify and count features, and construct statistical models in an attempt to explain what is observed.
The researcher is the data gathering instrument.	The researcher uses questionnaires, attitudes scales, tests or equipment to collect numerical data.
Data is usually words, pictures i.e. videos or objects (artefacts)	Data is always numbers and statistics
Qualitative data is more 'rich', time consuming and less able to be generalised.	Quantitative data is more efficient, able to test hypotheses, but may miss contextual detail.
The researcher tends to become subjectively immersed in the subject area.	The researcher tends to remain objectively separated from the subject matter.

(Adopted from Burns and Burns, 2008:23)

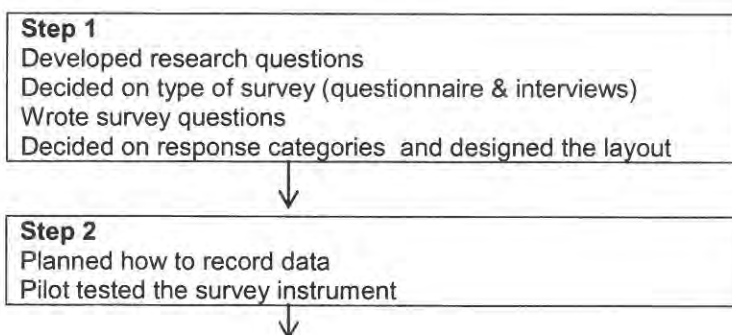
The research design that was adopted by the researcher aimed to describe and explain the correlational relationship between the informal business sector in local economic development.

3.4 Data collection methods

Data collection methods mainly included the survey questionnaire and semi-structured interviews. These are both qualitative and quantitative instruments, as indicated in Table 3.1 above.

3.4.1 Survey Questionnaire

The following basic steps were undertaken to design the questionnaire and subsequently the interview questions.



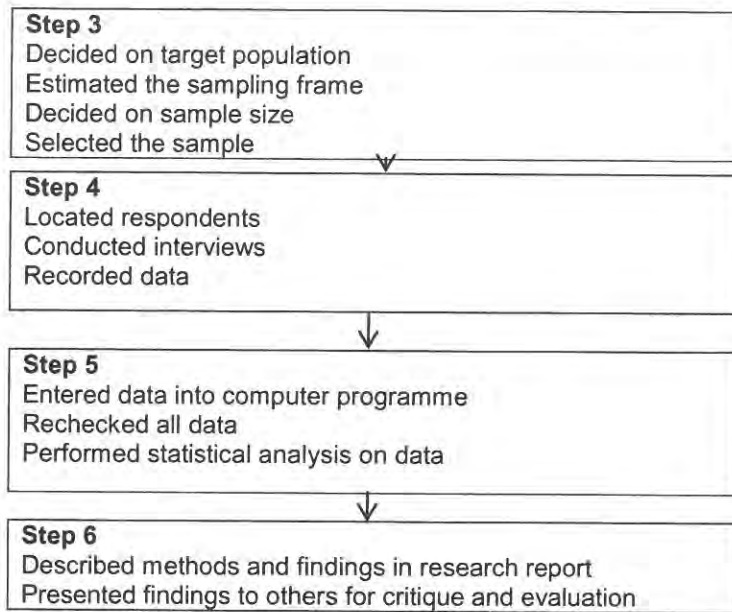


Figure 3.7: Steps in the process of survey method

The survey questionnaire was a combination of closed-ended questions with Likert-Scale questions, whereby respondents were asked to respond statements by choosing one of the five provided questions.

3.4.2 Semi-structured interviews

Apart from the survey questionnaire, semi-structured interviews were conducted with two BCMM managers of Business Development Directorate and Local Economic Development Directorate. The semi-structured interviews were planned to ascertain the BCMM position on the informal business sector, and how it plans to strategically position the sector as a platform to build its regional economy, considering that "a large part of the unemployed and graduates use the informal business sector to create employment and ignite their entrepreneurial spirit employment (Hobson, 2011:89).

3.4.3 Administering the survey questionnaire

The survey questionnaire was constructed with the assistance of the Cape Peninsula University of Technology's research statistician, and was subsequently approved by the research supervisor. The survey questionnaire was personally administered by the researcher with research assistants. Although the survey questionnaire was designed in English to accommodate respondents of other nationalities, the researcher translated the content to those who were unable to complete the survey questionnaire because of the language.

3.5 Study population and sampling method

McMillan and Schumacher (2001:780) define target population “as being the group of individuals who possess specific characteristics that reflect that which is being studied”. This means that, the target population must be consistent with the purposes of the study. Within BCMM, informal business actors (informal traders in Bisho, KWT and Mdantsane) were the primary target population for this study. Informal business actors refer to all community members who are involved in street vending/trading, food processing and other minor activities which require little or no capital and skills and with marginal output. In addition, the researcher included the BCMM managers namely, the manager of the Local Economic Development (LED) and Business Development Directorate as the secondary unit of analysis.

Determining a sample for the study from the target population was a challenge in this study. McMillan and Schumacher (2001:780) contend that the essence of sampling is the selection of a part (sample) from the whole (population) in order to make inferences about the whole. Sampling is undertaken to reduce the time and money that would be spent if the total population was studied and yet still realize data that comprises accurate representations of the entire population. The success of any sample lies in its accuracy to reflect the state of affairs in the population.

Owing to the unavailability of quantified number of informal business actors in BCMM, the researcher adopted one of the non-probability sampling techniques called accidental or availability sampling for the purpose of this study. In using the accidental or availability sampling technique, participants were selected based on their convenient accessibility and proximity to the researcher. According to Terre Blanche, Durrheim and Painter (2006:4) in using accidental or availability sampling technique, “subjects are selected because they are easiest to recruit for the study”.

To ensure that the sample that was drawn would be representative of the entire target population in BCMM, the researcher grouped the population in terms of BCMM geographical areas, namely Bisho, KWT and Mdantsane. These areas amongst others are the key economic areas of BCMM and therefore represent a vast amount of informal business actors. In each of the areas the researcher planned to have the following response level:

Geographical Area	Number of Respondents
Bisho	50
King Williams Town	70
Mdantsane	80
TOTAL	200

From the envisaged planned 200 respondents, a total of 155 survey questionnaires were completed, indicating a success rate of 78.1%. In addition, semi-structured interviews were held with BCMM managers from the LED and Business Development Directorate who were purposively selected because of the positions that they hold in the municipality. A schedule of qualitative semi-structured interview questions was compiled and approved by the research supervisor.

3.6 Data analysis

With the assistance from the CPUT statistician, the researcher coded and entered the survey questionnaire data into the SPSS Version 21. In terms of the data that was collected by the semi-structured interviews, the researcher used thematic content analysis to pin-point common patterns and themes in the data. A descriptive statistical technique was used to present the results in tables and graphical charts.

3.7 Chapter summary

In this chapter a social and economic profile of BCMM was provided as the study area. The research and methodology was also discussed in detail, which encompassed the using quantitative research method with some elements of qualitative research. The target population and how the sampling method was used to determine the sample for this study were discussed including how the data was analysed. The following chapter deals with data interpretation and discussion of research findings.

CHAPTER FOUR INTERPRETATION OF DATA AND FINDINGS

4.1 Introduction

This chapter presents the results of this study. Descriptive statistics were used to organise, summarise and simplify the results that were obtained. These are presented by using various descriptive statistical techniques such as bar charts, pie charts, tables and themes, according to the key objectives of the study. The findings are subsequently interpreted in an attempt to qualify that, which was found in literature review regarding the informal business sector. Other elements that are covered in this chapter include analysis methods, data format, sample, reliability testing, and concluding remarks.

4.2 Analysis methods

The researcher analysed data by using both qualitative and quantitative data analysis methods as discussed below.

4.2.1 Analysing quantitative data

Quantitative data were collected by using a survey questionnaire, which contained closed-ended questions and Likert scale statements. The researcher adopted the descriptive statistical method to analyse quantitative data by using the SPSS version 21. (see Section 1.6.3). Terre Blanche, Durrheim and Painter (2006:188) assert that statistical analysis is rooted in the positivist measurement techniques, allowing the researcher to describe populations accurately, and encourage “squeezing” significance out of ambiguous data.

4.2.2 Analysing qualitative data

Semi-structured interviews were used to collect qualitative data for the purposes of this study (see Section 3.4.2). The literature review revealed that there are many possible approaches to qualitative data analysis which amongst others include thematic analysis, grounded theory and discourse analysis. The data were therefore analysed by using the thematic analysis approach, which is revered by epistemological researchers (Bless et al, 2006:163). Thematic analysis consists of identifying, coding and categorizing patterns or themes found in the data. In analysing the data, the researcher adopted a systematic process, as indicated below in Table 4.1.

Table 4.1: Phases of thematic analysis

Phase	Description of the process
Familiarising with the data	Transcribing data, reading and re-reading the data, noting down initial ideas.
Generalising initial codes	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
Searching for themes	Collating codes into potential themes, gathering all data relevant to each potential theme.
Reviewing themes	Checking if themes work in relation to the coded extracts, generating a thematic map of the analysis.
Defining and naming themes	On-going analysis to refine the specifics of each theme and the overall story the analysis tells, generating clear definitions and names for each theme.

(Adapted from Bless, et al 2006:163)

4.2.3 Data format

As indicated above, a survey questionnaire and semi-structured interviews were used to collect quantitative and qualitative data, which were subsequently coded according to a predetermined coding scheme, captured on a SPSS program and thematic analysis.

4.2.4 Sample

The target population in which a sample was drawn by using non-probability (accidental or availability and purposive) sampling method was made up of informal business actors in Bisho, KWT and Mdantsane and BCMM managers in the LED and Business Development Directorate who were purposively selected because of the positions that they hold in the municipality (see Section 1.6.2). The accidental or availability sample of 200 respondents was envisaged. However, 155 respondents completed the survey questionnaire. Semi-structured interviews were held successfully with the BCMM managers.

4.2.5 Research limitations

Research limitations are inevitable. This research's limitations are identified below.

- The target population (informal business actors) of this study was dispersed in three different locations, namely; Bisho, KWT and Mdantsane. In an initial attempt by the researcher to acquire a database of informal business actors from the municipality, it was indicated that the municipality faces challenges to assemble a database. Due to the disparities of the location and the complexity of the nature of informal business activities, the researcher adopted an accidental or availability sampling method to draw a sample.
- The fact that most of the respondents were semi-literate and did not understand the scope of this study, presented a limitation to complete the survey questionnaire. To avert this limitation, the researcher used other methods such as interpreting the survey questionnaire to ensure that respondents understood the questions that were posed.
- Considering the significance of this study, the study focused mainly on BCMM and thus could not assess other areas within the Eastern Cape Province, for example, Nelson Mandela Metropolitan Municipality for comparison purposes. Thus, this research mainly deals with the informal business sector in BCMM.

4.3 Descriptive analysis and interpretation

The data was coded, cleaned and transformed into useful information. The results thereof are presented below.

4.3.1 Reliability testing

A reliability test was performed on all the statements which represented, amongst others, the measuring instrument of this survey. Hence, the researcher used Cronbach's Alpha test to measure internal consistency or reliability. The Cronbach's alpha value for the reliability is equal to 0.783, which is above the threshold of 0.7. See Table 4.2 below.

Table 4.2 Reliability statistics

Reliability statistics	
Cronbach's Alpha	N of Items
.783	17

4.3.2 Findings regarding demographic profiles of respondents

In this section the researcher describes the demographic profiles of the respondents. These include their area of business, race, gender, nationality (South African or Other), age and education level.



Figure 4.1: Respondent's area of business

Description and interpretation

Figure 4.1 shows the number of respondents per geographical area where the survey questionnaires were administered. In KWT, 70 respondents were envisaged to complete the survey questionnaire, however, there was a 34.19% return. In Bisho a total of 50 respondents were envisaged, but there was a 32.26% return. In Mdantsane, a total of 80 respondents were envisaged, but Figure 4.1 shows a return of 33.55%. There was a total of 155 completed survey questionnaires from the envisaged 200 respondents.

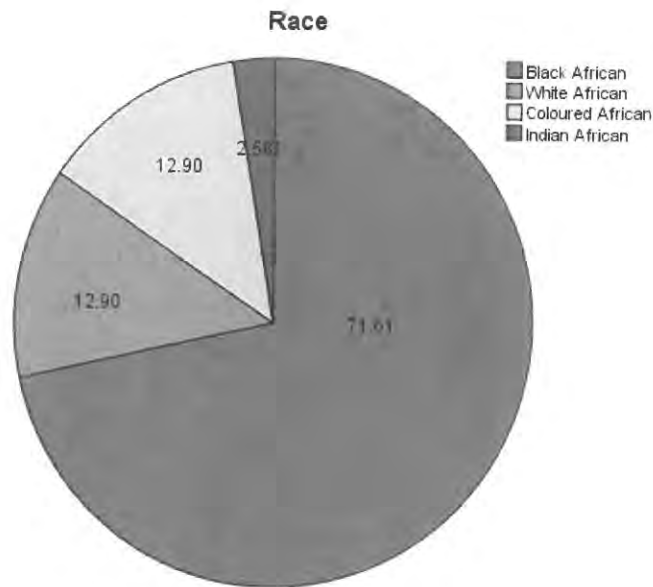


Figure 4.2: Respondent's race

Description and interpretation

Figure 4.2 indicates that Black Africans comprise 71.61% of informal business actors in BCMM, followed by White Africans who comprise a total of 12.90%. 12.90% indicated that they are Coloured African, followed by Indian Africans comprising 2.84%.

The literature review revealed that the Black population comprises 82% of the informal business sector in South Africa (Altman, 2007:29). The results of respondents' race to some extent confirm Altman's statement. Nonetheless, this finding suggests that the informal business sector is not the Black African terrain, but White Africans as well are informal business actors including Coloured Africans. This can be interpreted as "democracy" in action or that White Africans and Coloureds see the gains that are offered by the informal business sector compared to being formally employed.

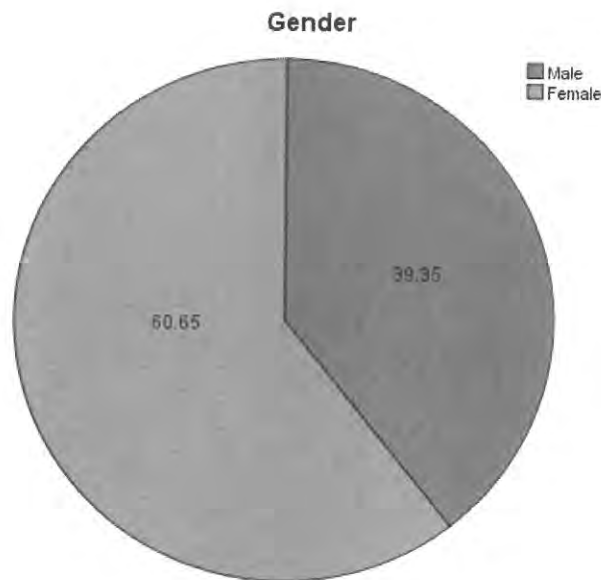


Figure 4.3: Respondents gender

Description and interpretation

Figure 4.3 shows that, 60.65% of informal business actors in BCMM are predominantly females, while 39.35% are males.

Females continue to dominate in the informal business sector, as revealed by the literature review in a survey study by FinScope (2010) which reported that females are more likely to be informal business owners for historical reasons. Females or women form part of the Millennium Development Goals (MDGs) – to promote gender equality and to empower women – MDGs 3.

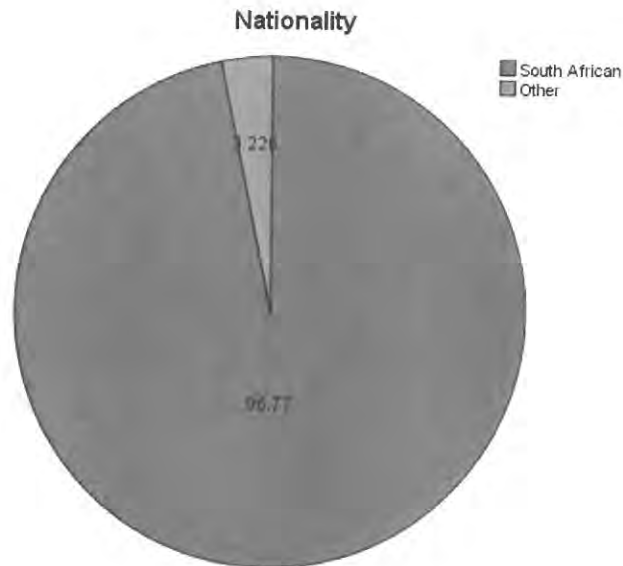


Figure 4.4: Respondent's nationality

Description and interpretation

Figure 4.4 highlights that 96.77% of informal business actors in BCMM are South Africans, while, 3.22% are other nationalities such as Zimbabwe.

The literature review revealed that migration is one of the factors that contribute to the growth of the informal business sector (Viljoen & Wentzel, 2000:10). Figure 4.4 shows that 4% of the informal business actors in BCMM come from other countries (for example, Zimbabwe). Viljoen & Wentzel (2000:10) study found that there were 5% of foreign informal business owners in Pretoria. The White Paper on International Migration (1999) protects foreign investors or self-employed foreigners that invest or self-employ given that the sum that they earn is part of the business book's value. Given the instability of the Southern African Democratic Community, in particular Zimbabwe, the scale and growth of other nationalities in the informal business sector and the subsequent conflicts with South Africans is yet to be determined.

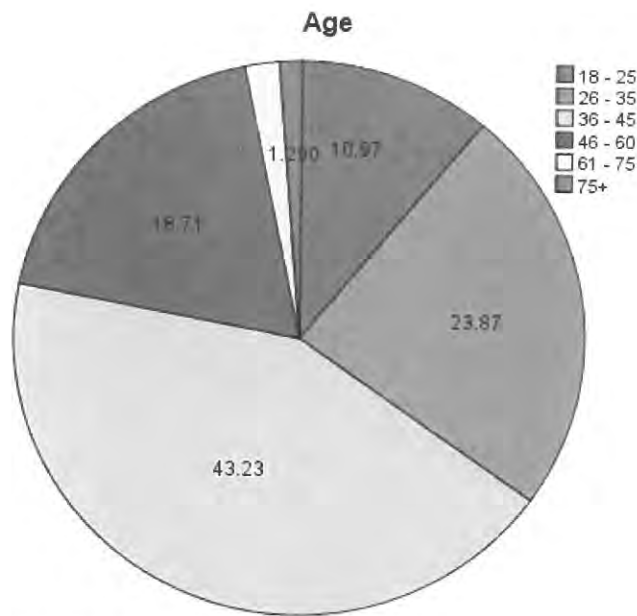


Figure 4.5: Respondent's age

Description and interpretation

Figure 4.5 shows that, 10.97% of the age group 18 – 25 are informal business owners; 43.23% of informal business actors in BCMM fall in the age group of 36 – 45; and 23.87% in the age group of 26 – 35. 18.71% of the respondents fall in age group of 46 – 60. This finding suggests that more young people are starting informal businesses a critical element for BCMM's economic development. A combination of the percentages of the age group 18 – 25 with 26 – 35 and 36 - 45, totals 78.07%. This finding correlates with the FinScope study (2010) which found that the youth comprises 68% of the informal business sector in South Africa.

Moreover, the FinScope study demonstrated that one in six individuals aged 16 years and older generate an income through informal business activity. This finding presents both negative and positive aspects. The negative aspects relate to the fact that these findings suggests that formal businesses in BCMM do not create sufficient jobs, or the youth do not qualify (they are not skilled) for the type of jobs that are created by formal businesses.

Conversely, the positive aspect of this finding relates to the presence of the “entrepreneurial spirit” (Hobson, 2011:89) amongst the youth in BCMM.

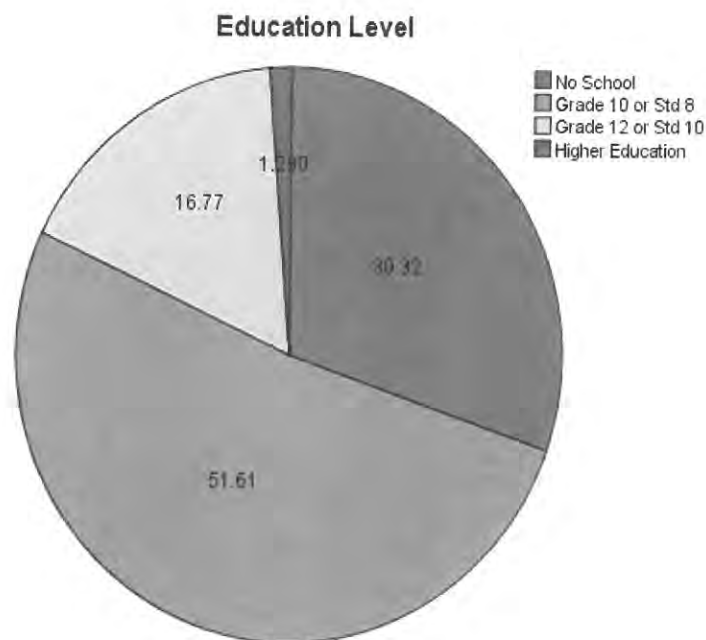


Figure 4.6: Respondent’s education level

Description and interpretation

Figure 4.6 above depicts the education level of informal business actors in BCMM. It shows that 51.61% of the informal business actors have Grade 10/Standard 8 (Some School); 31% have no school; and 2% have Higher Education. In addition, Figure 4.6 shows that 16.77% of the respondents have Grade 12/Standard 10.

According to the SSA Census 2011 report on BCMM Education Levels, 74.8% are reported to have Some School (the Census Statistics do not disaggregate or explain what Some School means). In this study, Some School means that the respondents with Some School have at least Grade 10/Standard 8. The report continues and indicates that 27.5% of the population had Grade12/Standard 10; 4.9% had No School and 13.6% had Higher Education.

Given the SSA Census 2011 report on BCMM education levels in contrast with the findings of this study on respondent’s education level, it is a fact that education levels in BCMM are weakening as revealed by the literature (BCMM IDP, 2011). The South African Cities Network Report (SACN) indicated that Buffalo City’s economy is hindered by low skills and education levels, and that the socio-economic plights of the

city are likely to further deteriorate as population growth continues to surpass economic growth (SACN, 2005:9). The findings as shown in Figure 4.6, further suggest that many (51.61% with Grade 10 or Standard 8) amongst informal business actors in BCMM did not complete the high school levels.

Moreover, this finding suggests that the general population of prospective informal business actors are less educated and a few who operate in the informal business sector have higher education.

4.3.3 Profile of the informal business sector in BCMM

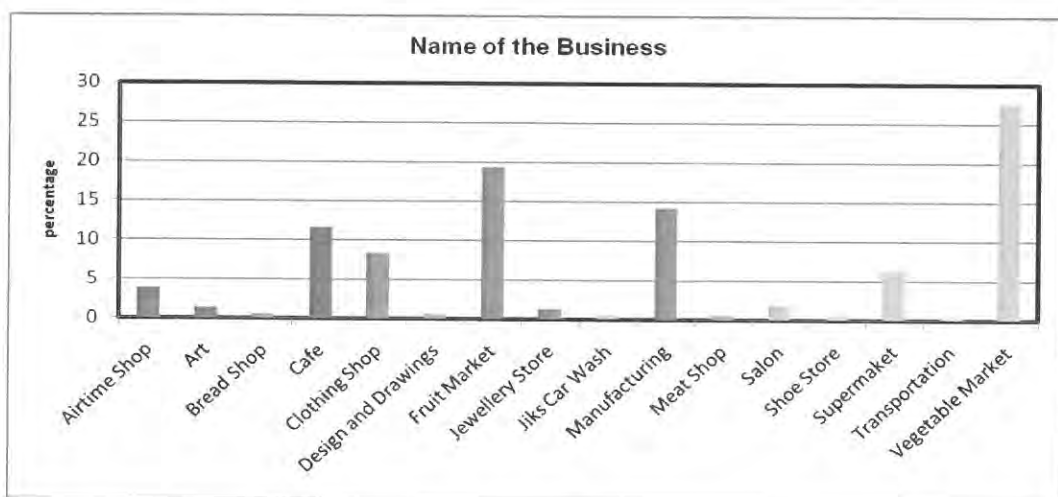


Figure 4.7: Indicate the name of the business

Description and interpretation

Figure 4.7 shows that the type of informal businesses in BCMM. These vary from airtime shops, art (pottery and sculptures), clothing shops, supermarkets, jewellery stores, salons, design and drawings, meat shops and transportation (cabs). However, the most prominent of these businesses are vegetable markets (30%), followed by fruit markets (20%), manufacturing (14%), clothing shops (8%) and cafés (12%).

The findings, as shown in Figure 4.7, indicate that most informal businesses in BCMM fall within survivalist and micro enterprises, as per the categories provided by the National Small Business Act No.102 of 1996. Businesses that fall within this category are spaza shops, hawkers, vendors and subsistence farmers as shown in Figure 4.7.

Respondents were requested to declare whether the businesses are registered (yes/no) and where was it registered. All respondents indicated that their businesses were not registered either with the municipality or with Companies and Intellectual Property Registration Office (CIPRO). As stated in the National Small Business Act No.102 of 1996, survivalist and micro businesses are usually lack formality in terms of registration and the turnover of these businesses is less than the Value Added Tax (VAT) registration limit of R150 000. Nonetheless, there seems to be a change in policy considering the newly promulgated Licencing of Businesses Bill (Notice 231 of 2013), which will require all businesses to register with the licencing authorities (local municipality or metropolitan), regardless of the size (small, micro and medium).

Table 4.3: Role in the business

What is your role in this business?	Frequency	Percent
Owner	143	91.6
Employed	12	8.4
Total	155	100.0

Description and interpretation

Table 4.3 shows that 91.6% of the respondents are business owners and 8.4% of the respondents were, at the time of the study, employed as managers of the businesses. The findings suggest that some of the businesses, depending on the size and nature of the business, employ people to head their business in the absence of the business owner. However, the overall respondents were business owners. According to the National Small Business Act No.102 Of 1996, small and micro businesses employ no more than 5 people.

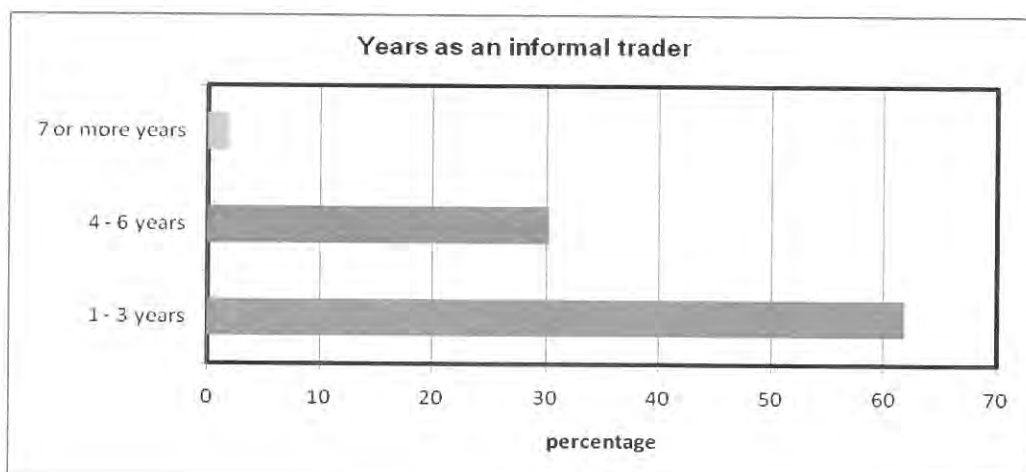


Figure 4.8: Indicate the number of years as an informal business actor

Description and interpretation

Figure 4.8 illustrates that 60% of respondents have been operating in the informal business sector for 1-3 years, while 30% indicated that they have been operating for 4-6 years.

The findings shown in Figure 4.8 demonstrate that from an unemployment perspective, 60% of the respondents entered the informal business sector in 2009. This was a year of the global financial crisis when formal businesses were forced to close. It is estimated that globally, in 2009 there were 200 million and more formal business sector workers displaced from formal work owing to the global recession (Willem te Velde, 2008:22). The results further suggest that most of the respondents who indicated 1-3 years (60%) fall in the age group of 18 – 25; 26 - 35 and 36 – 45 years.

Table 4.4: Indicate the number of people employed in the business

Number of people employed in the business					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	103	66.5	66.5	66.5
	1	16	10.3	10.3	76.8
	2	12	7.7	7.7	84.5
	3	17	11	11	95.5
	4	2	1.3	1.3	96.8
	5	2	1.3	1.3	98.1
	6	3	1.9	1.9	100
	Total	155	100	100	

Description and interpretation

The findings in Table 4.4 suggest that these businesses are for the purpose of self-employment, but they in turn employ 2 – 3 people given the size and nature of the business. Table 4.4 shows that 103 respondents (68%) do not have employees. However, 17 respondents (10%) declared that they employ 3 people, followed by 16 respondents (10%) who each employ 1 person in their businesses. The findings in Table 4.4 and Table 4.3 respond to the question of capability of the informal business sector to generate employment opportunities.

Table 4.5: Wage per week or per month

Descriptive statistics							
	N	Range	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Wage per week	22	R1,950.00	R50.00	R2,000.00	R613.6364	R157.55099	R522.53751
Wage per month	33	R1,300.00	R200.00	R1,500.00	R833.3333	R375.64759	R650.64071

Description and interpretation

Table 4.5 shows that employees in the informal business sector are paid R613.64 per week and R833.33 per month, on average. Muller (2002:84) contends that the distinguishing characteristic of the informal business sector is the absence of a legislation that determines minimum wages. In comparison with other areas, for example, the Basic Conditions of Employment Act No. 75 of 1997 prescribes national minimum wages for farm workers at R524.70 per week and R2.273.52 per month, while domestic workers are paid R344.30 per week and R1.746.00 per month. The National Small Business Act, No. 102 of 1996 states that, earning levels of small and micro businesses differ widely. The findings in Table 4.5 however, show a statistical estimate of wages earned by people employed by informal businesses.

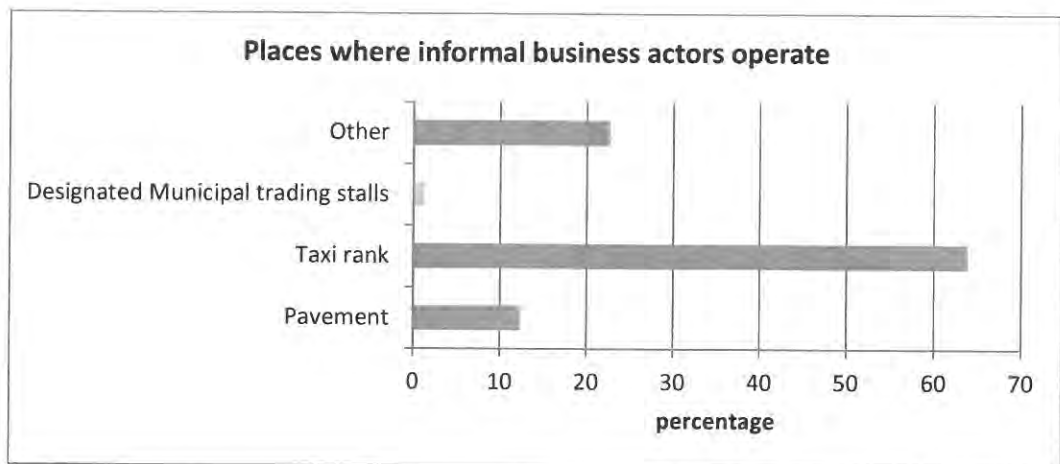


Figure 4.9: Indicate where you operate the business

Description and interpretation

Figure 4.9 illustrates that 65% of informal businesses actors operate their business in taxi ranks. A total of 12% of the respondents use pavements. None of the respondents indicated use of designated municipal trading stalls.

These findings suggest that in the absence of designated municipal trading stalls informal business actors operate their businesses in taxi ranks and on pavements. According to the SLF study (2008), transport routes do influence the development of small-micro enterprises because this is where informal businesses are able to attract significant pedestrian traffic. In the Mitchell's Plain Case Study, as discussed in the literature review, the Mitchells Plain Town Centre is the "hub" of informal business actors owing to fact that it is the third busiest rail, bus and taxi transport interchange and the busiest taxi terminus in the Western Cape with 75 000 people moving through the interchange during the morning and afternoon. This is similar to the respondent's business areas. Mdantsane boasts the busiest taxi interchange as it transports people between KWT, Bisho, East London, Berlin and other areas.

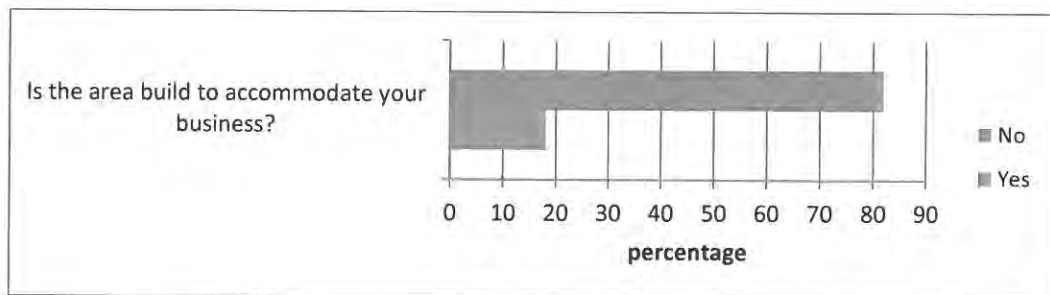


Figure 4.10: Is the area built to accommodate your business?

Description and interpretation

Figure 4.10 shows that 84% of the respondents indicated that the area where they operate is not built to accommodate their business. These findings suggest that the informal business actors have no trading stalls, water, electricity, urinals basic necessities to conduct a business especially as they provide consumable goods. The GIZ study of Small Towns Business Development Initiative (2011) found that accommodation and maintained infrastructure are amongst the constraints which the informal business sector faces.

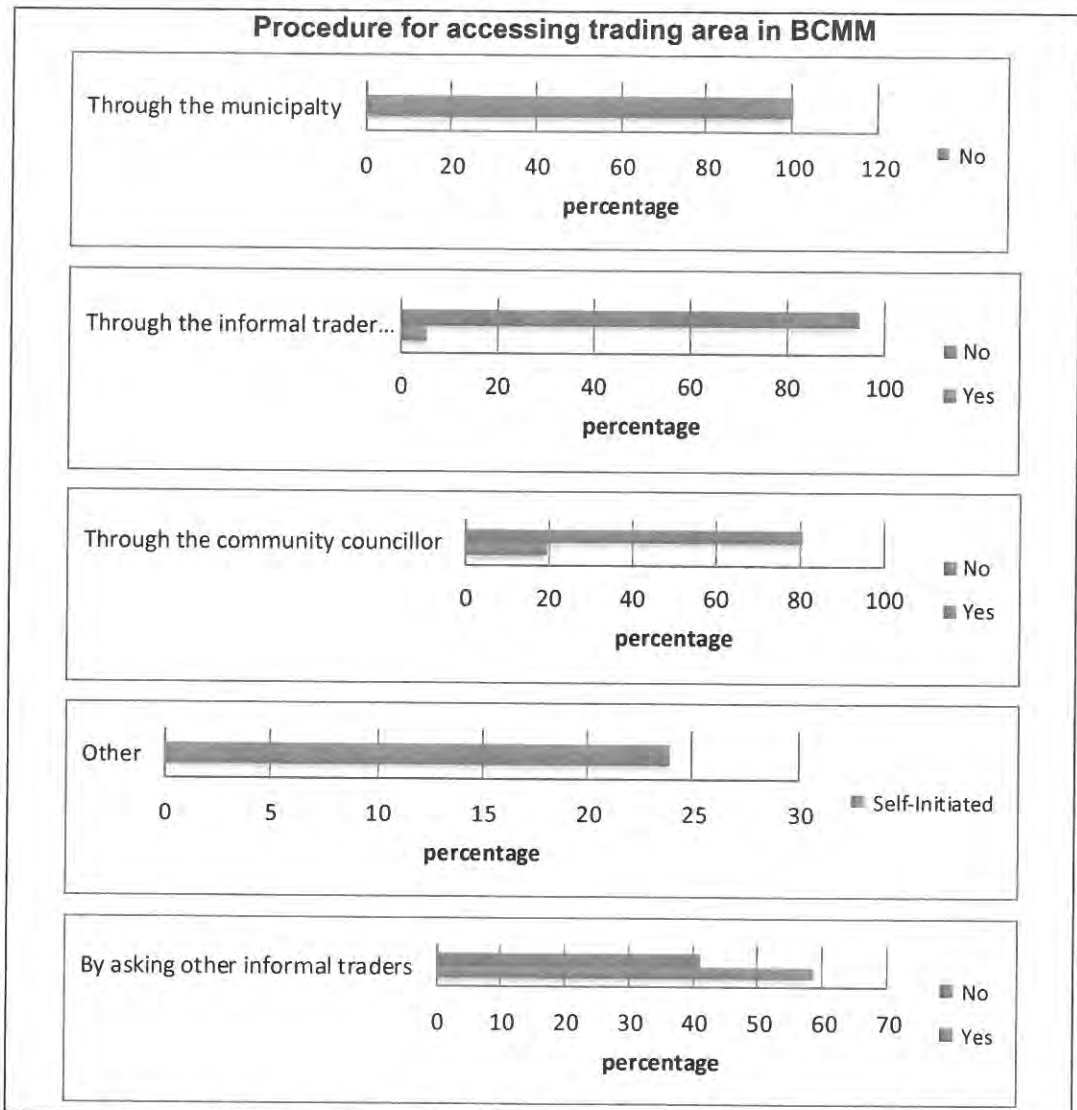


Figure 4.11: How did you find the place where you operate your business?

Description and interpretation

Figure 4.11 shows that all the respondents (n=155) indicated that they did not access the place through the municipality, 60% accessed the place through other informal traders; and 23% indicated self-initiated (meaning that they accessed the place without consulting anyone).

This finding substantiates Willemse’s (2006:8) statement with regard to the fact that the informal business sector is constrained by a lack of policies and operational constraints to support informal business activities. This finding further suggests that in BCMM there are no formal procedures for accessing business areas to those who intend to start informal businesses. Moreover, the lack of dedicated accommodation places or designated municipal trading stalls further exacerbates the issue of prospective informal business actors accessing trading space without the

municipality's approval. It is, therefore, not surprising that local government considers the informal business sector activities as a spatial problem (Muller, 2002:46).

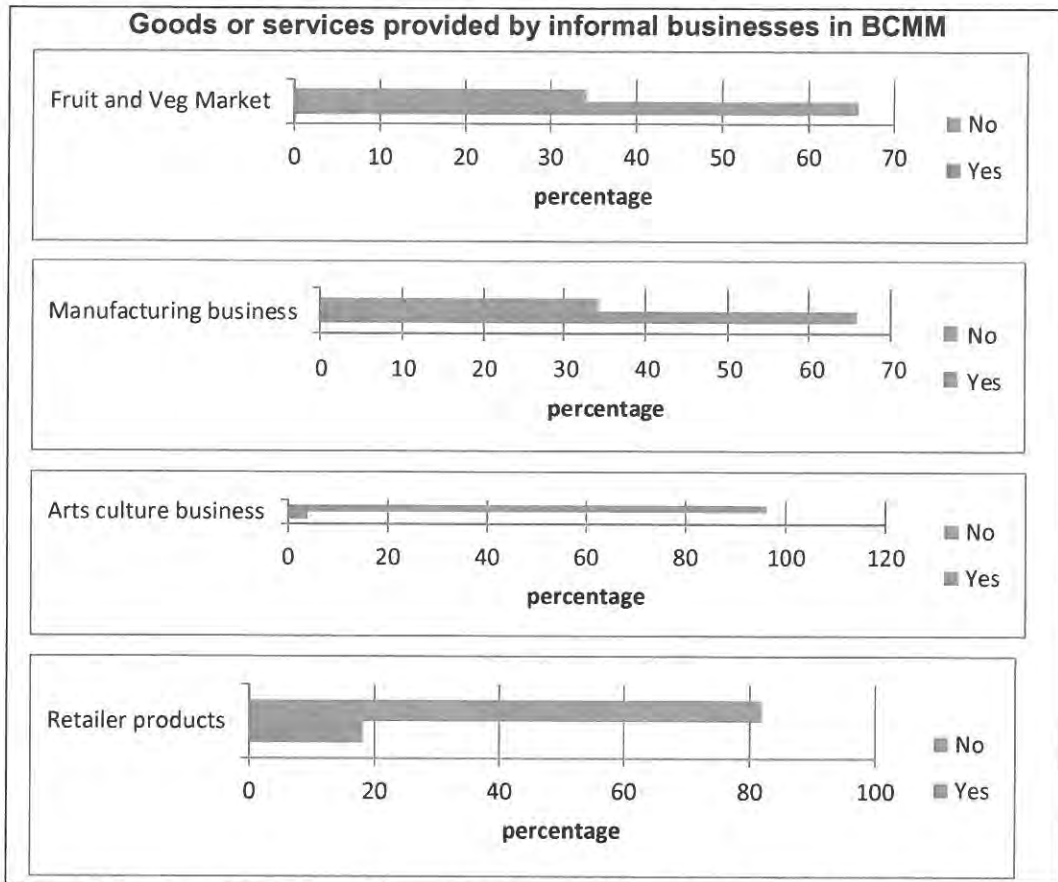


Figure 4.12: Indicate the type of goods or services provided by your business

Description and interpretation

Figure 4.12 shows that a lot of the informal businesses in BCMM provide fruit and vegetables products followed by manufacturing (clothing and repairing manufactured material). This finding substantiates what was discovered in the literature review. For example, Muller (2002:84) argues that small and micro businesses are occupied by people who trade in consumable goods, for example, vegetable stands, clothing material purchased from formal businesses or factories and which at times employ one or two unemployed individuals or family members. The SLF study (2008) demonstrated that these services form an integral part of township life.

Table 4.6: Please declare how much you earn in the business?

Descriptive Statistics							
	N	Range	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Earn Per Day	69	R3,930.00	R70.00	R4,000.00	R661.4493	R80.94215	R672.35599
Earn Per Week	56	R9,300.00	R200.00	R9,500.00	R1,986.6071	R285.21037	R2,134.31895
Earn Per Month	27	R9,800.00	R200.00	R10,000.00	R3,392.5926	R506.19878	R2,630.28602

Description and interpretation

Table 4.6 shows that an informal business actor in BCMM earns R661.93 per day, R1 986.71 per week and R3 392.26 per month. These findings substantiate the National Small Business Act No.102 of 1996, which states that small and micro businesses turnover is less than the Value Added Tax (VAT) registration limit, which is R150 000 per annum. Nevertheless, this finding indicates that informal business actors make substantial income from their informal business activities to meet their living expenses and to be able to pay their employees.

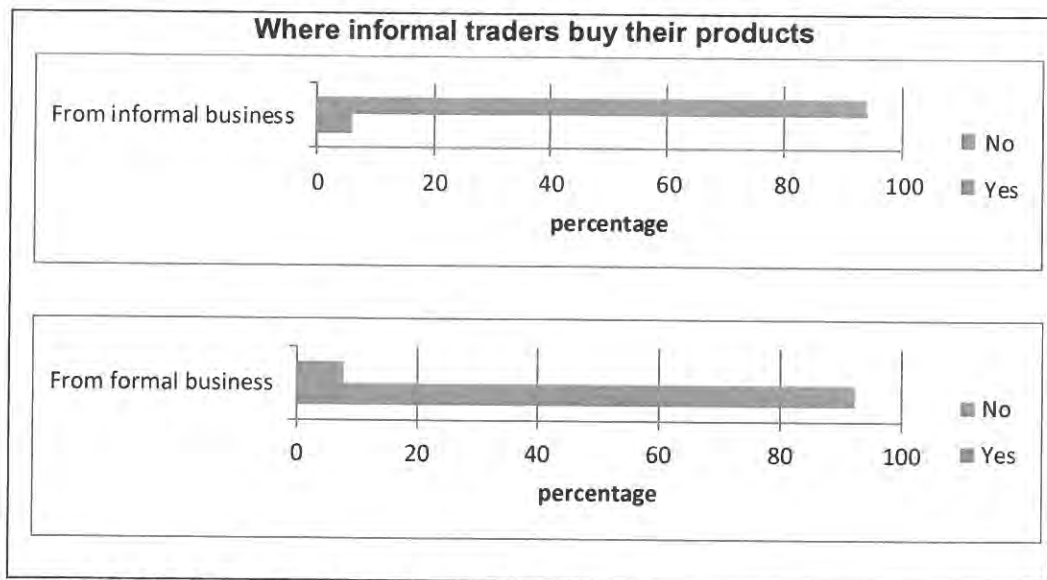


Figure 4.13: Indicate where you buy your products

Description and interpretation

Figure 4.13 shows that 84% of the respondents buy their products from established formal businesses compared to 16% that buy from informal businesses. This finding suggests that informal businesses are supplied by the formal businesses in terms of the goods that they provide to their consumers. The literature review revealed arguments (Dewar, 2012; SLF, 2008; Chen, 2005; Muller 2002; Guliwe, 2011 and

Hobson 2011) regarding the interdependency of the formal and informal business sector. Guliwe (2011:2) contends that small – micro businesses mostly provide retail services – buy and resell. In other words, most of the small and micro businesses do not produce (other than those who sell clothing products, and hand crafted material), as they buy their products from formal businesses and resell to pedestrians.

This finding suggests that these businesses have an upstream multiplier effect in the formal business supply chain, and subsequently the more informal businesses buy from formal businesses the better the economic gains of the formal businesses in terms of revenue. Therefore, the business environment becomes supplier – demand driven as the one needs the other to survive. This means that the informal business sector does not only offer self-employment and employment opportunities (regardless of the scale or number of people employed), as they are also supplier and feeder branches of formal businesses.

Table 4.7: Indicate how much you spend on buying the goods

Descriptive Statistics							
	N	Range	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Buying Goods Per Week	108	R4,998.00	R2.00	R5,000.00	R1,062.7037	R95.24334	R989.79784
Buying Goods Per Month	42	R9,998.00	R2.00	R10,000.00	R1,920.2857	R327.16058	R2,120.24286

Description and interpretation

Table 4.6 indicates that informal business actors spend on average R1 000.00 per week and R2 000.00 per month on buying goods. This finding shows the amount of revenue that goes into the formal businesses. With reference to the interpretation provided under Figure 4.14, these same arguments and literature is applicable to the findings as shown in Table 4.7. The findings in Figure 4.14 and Table 4.6 further affirm Chambwera, et al (2011:10) arguments that there is a continuum linkage between formal and informal businesses involving the flow of revenue and consumer goods. Moreover, the findings in Figure 4.14 and Table 4.7 respond to the question of the contributions of the informal business sector on local economic development.

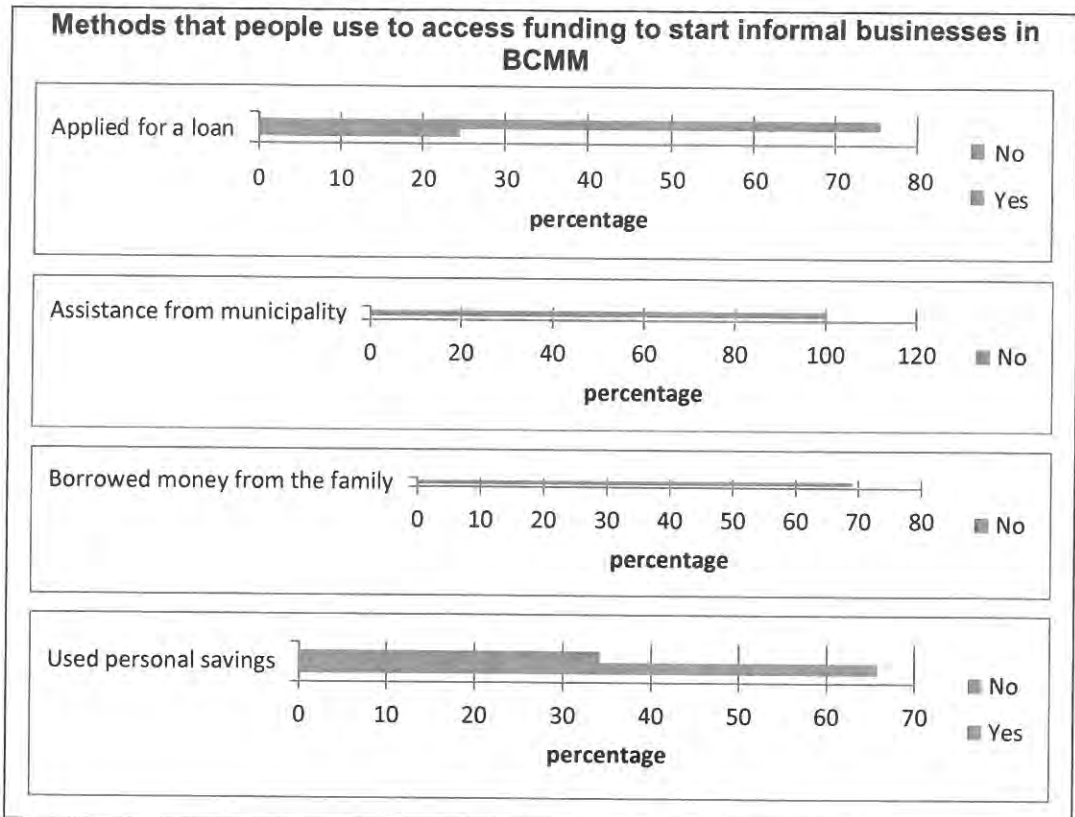


Figure 4.14: Indicate where you received funding to start the business

Description and interpretation

Figure 4.14 illustrates that 69% used their personal savings to start their businesses; and 28% of the respondents stated that they applied for a personal loan in order to start their businesses. None of the respondents indicated that they accessed funding from the municipality. This finding suggests that informal business actors have limited channels to access funding to start their businesses. The literature review revealed that informal business actors spend high costs searching for support services (GEM report, 2012). Furthermore, Muller (2002:84) argues that one of the distinguishing characteristics of the informal business sector is the absence of access to institutional credit or other support and protection services.

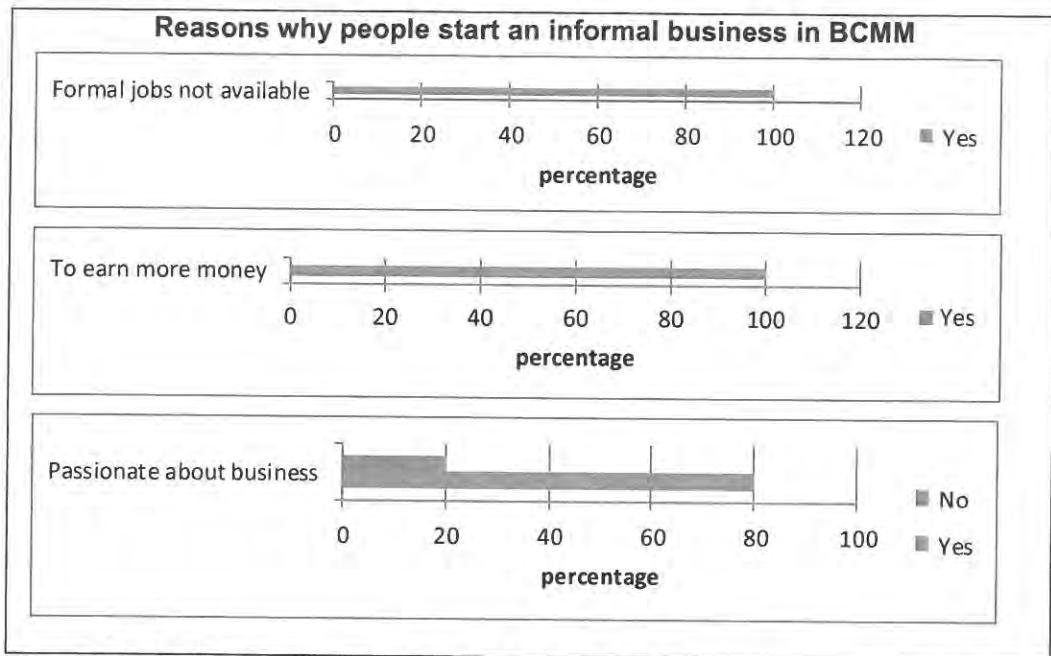


Figure 4.15: Indicate reasons for starting the business

Description and interpretation

Figure 4.15 indicates that 80% of the respondents start informal businesses because they are passionate about business. The other reason is that formal jobs are not available, and they start informal businesses to earn more money. According to the South African LED Network (2011:1), reasons for participating in the informal business sector range from pure survival strategies undertaken by individuals who face unemployment or other forms of income maintenance to the desire for independence, and flexible work arrangements (South African LED Network, 2011:1). The findings in Figure 4.15 further suggest that a lack of formal jobs is not the only reason that influences people to start informal businesses, but they are also passionate about business. In fact, according to the World Bank Model of Formality, many people quit formal jobs in order to be their own boss, make more money or enjoy flexibility (World Bank, 2007). Moreover, this finding substantiates Guliwe’s (2011:2) statement that the decrease in formal employment contributes to the growth of South Africa’s informal economy.

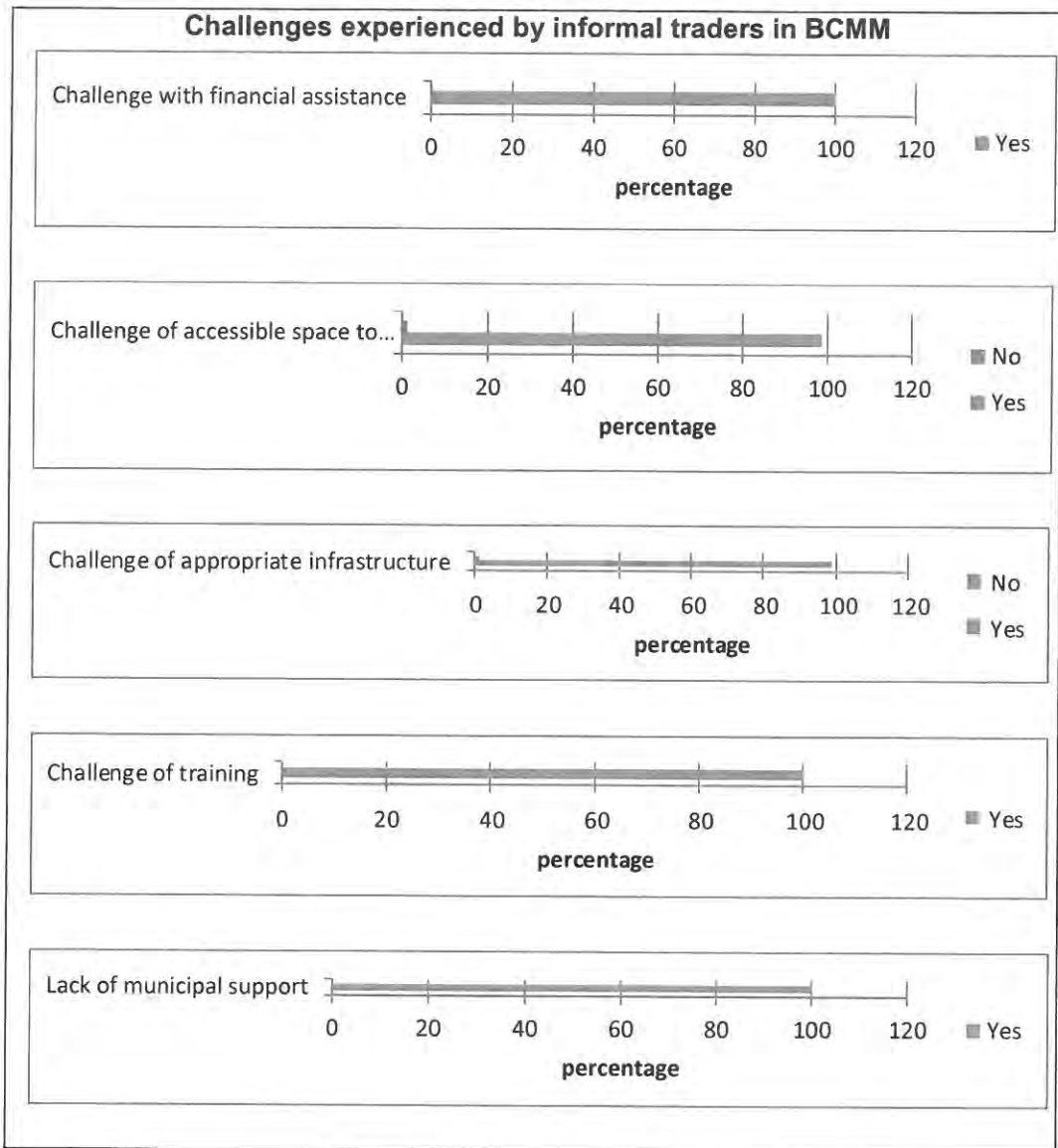


Figure 4.16: Indicate the challenges that you experience as an informal trader

Description and interpretation

Figure 4.16 shows that financial assistance, appropriate infrastructure, municipal support, and training and development are critical challenges, which are experienced by the respondents in BCMM. As revealed by the literature (SALGA, 2011) access to finance, secure trading spaces and the need for more entrepreneurial skills training support are amongst the challenges that are experienced by informal business actors. Some of these, which are not indicated in Figure 4.16, include maintained infrastructure, increasing local trading and marketing, and the need for continuous information sharing and communication. The FinScope study reports that 39% of small business owners cite money-related matters as the main obstacles that they

face when starting up their businesses, while 34% cite business strategy issues as their main obstacle (FinScope, 2010:89).

4.3.4 Findings concerning municipal support towards the informal business sector

According to the White Paper on Local Government (1998), local government is not responsible for job creation, however, it is responsible for taking active steps to ensure that overall economic and social conditions of the locality are conducive to the creation of employment opportunities. Support services such as infrastructure, training for small businesses or community development organisations are the central contribution that is made by local government to social and economic development, according to the White Paper on Local Government.

Respondents were requested to respond to statements, which dealt with municipal support towards the informal business sector.

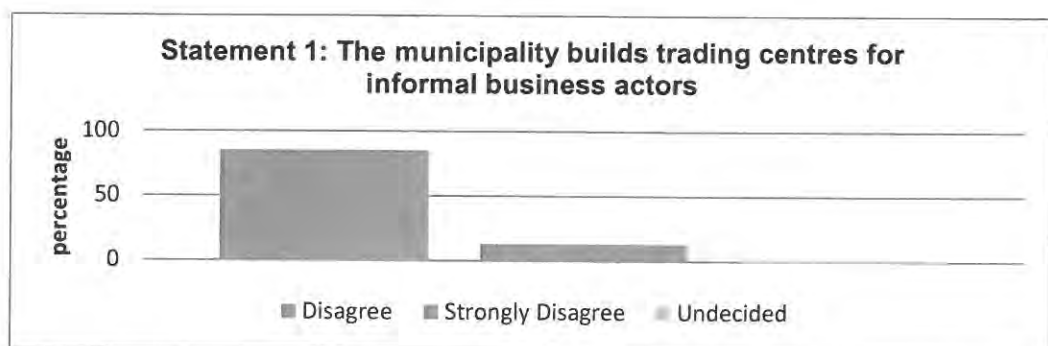


Figure 4.17: Statement regarding provision of infrastructure by the municipality for informal business

Description and interpretation

The responses to this statement indicate that the municipality is yet to build trading centres for informal business actors. Figure 4.17 illustrates that a total of 75% disagreed with the statement, 20% strongly disagreed while 5% of the respondents were undecided. The finding suggests a general view amongst the respondents that there is a need for the municipality to build trading centres that are designated for informal business actors. The findings further show that, the municipality is far from achieving its mandate of providing a support service, such as, infrastructure as a contribution towards economic development.

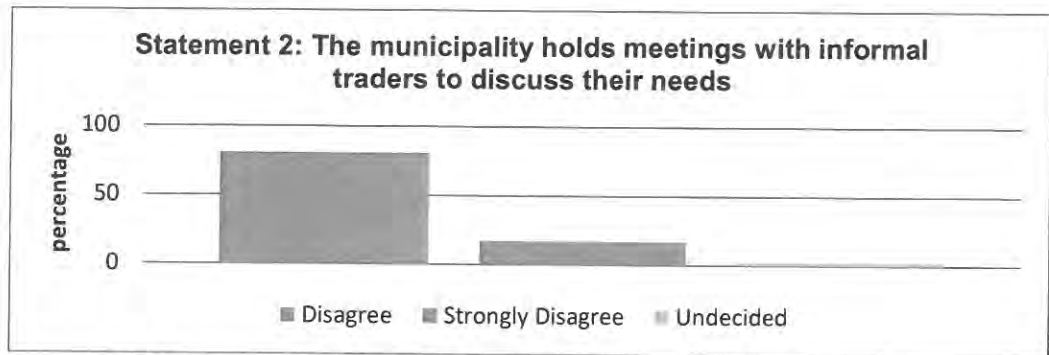


Figure 4.18: Statement regarding consultation

Description and interpretation

Figure 4.18 shows that 80% of the respondents disagree that the municipality holds meetings with informal business actors, 15% strongly disagree while 5% chose to remain neutral (undecided). This finding suggests that there is poor communication between the municipality and informal business actors. For example, the study on Small Towns Business Development Initiatives found that many informal business actors in South Africa believe that they are not sufficiently informed on municipal developments and are often excluded from key decision making processes, which affect them (SALGA, 2011).

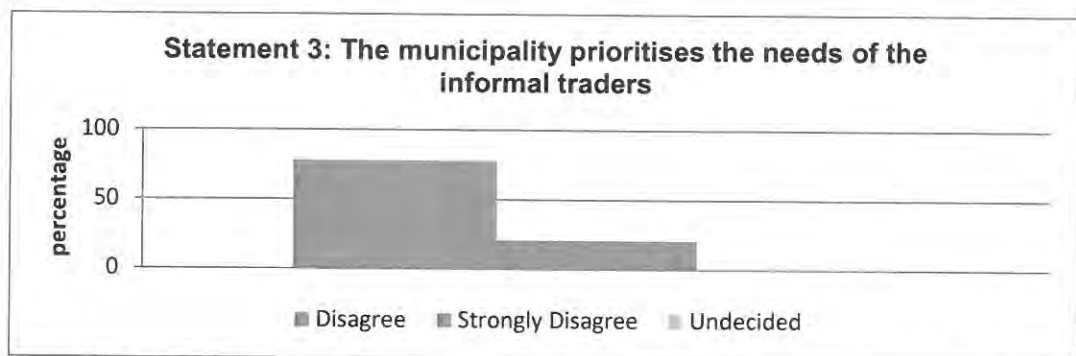


Figure 4.19: Statement regarding prioritisation of the informal business sector

Description and interpretation

Figure 4.19 shows that a total of 80% of the respondents disagree with the statement, 18% strongly disagree and 5% were undecided. This finding affirms the reaction of the African National Congress resolution in Polokwane (2007) which called for the prioritisation of the informal economy. In fact, Guliwe (2011:2) argues that the informal business sector continues to be disregarded from the mainstream economy. Chambwera, et al (2011:13) contends that the informal business sector tends to have a weak voice in policy or government.

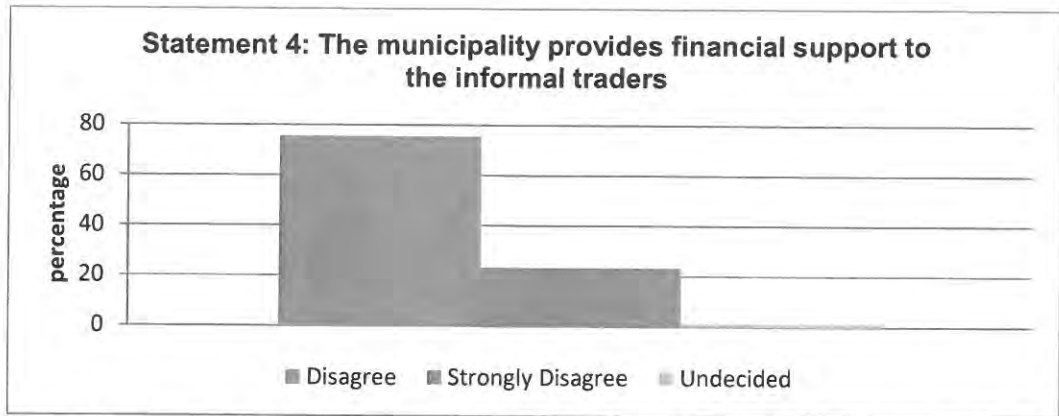
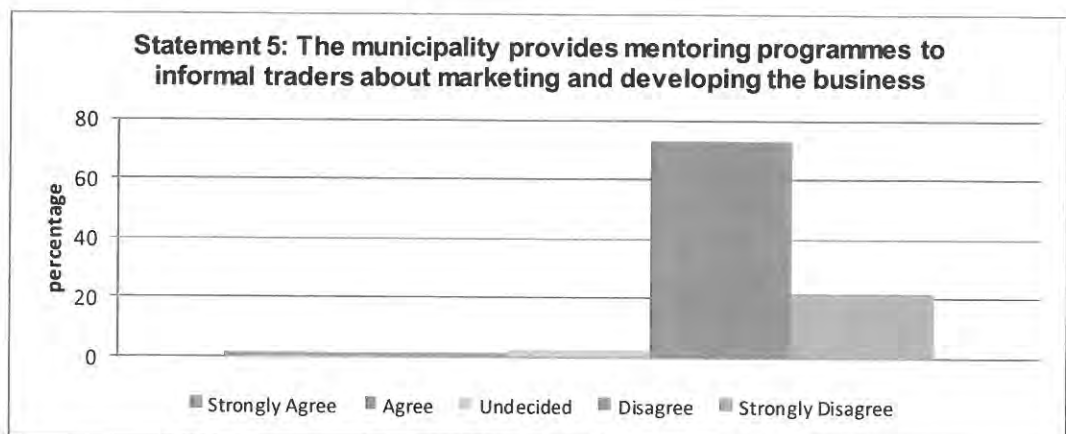


Figure 4.20: Statement regarding financial support for the informal business sector

Description and interpretation

Figure 4.20 shows that 78% of the respondents disagreed with the above statement, 18% strongly disagreed and 4% were undecided. The responses on the above statement show that the municipality is far from reaching the ideals of the White Paper on Local Government (1998). Chambwera, et al (2011:14) state that many informal businesses suffer from a lack of access to formal credit, as well as inadequate market information, infrastructure, government support and a weak legal system. The FinScope study (2010:89) reported that 39% of small business owners cite money-related matters as the main obstacles that they faced when starting up their businesses. The researcher agrees with Chambwera, et al (2011) who state that the removal of the financial barrier signifies the most important development challenge in the informal business sector.



Description and interpretation

Figure 4.21 shows that very few of the respondents strongly agree or agree with the statement that the municipality provides mentorship programmes, which assist informal business actors with marketing and developing their businesses. A total of 78% of the respondents disagreed with this statement, while 20% strongly disagreed. The findings of the Small Towns Business Development Initiatives (SALGA, 2011) reported that the informal business actors indicated a need for more entrepreneurial skills training support.

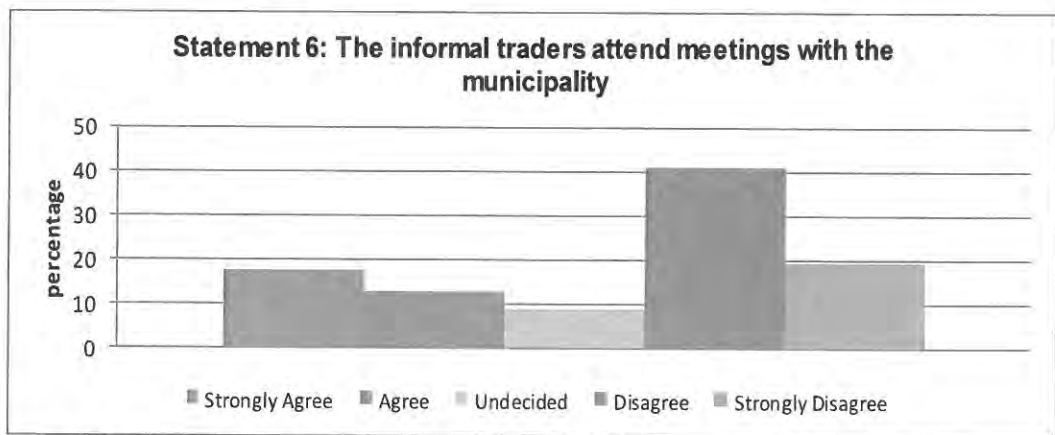


Figure 4.22: Statement regarding consultation

Description and Interpretation

Statement 6 above is directly mirrored by statement 2. The researcher deliberately sought to test both sides in order to ascertain the level of consultation between the informal business actors and the municipality. Figure 4.22 shows diverse views by the respondents. Although 40% and 17% of the respondents disagreed and strongly disagreed with the statement, 18% and 13% strongly agreed and agreed that informal business actors do attend meetings with the municipality. This finding suggests that informal business actors do communicate with the municipality to discuss their needs. However, the issue of exclusion of the informal business actors from key decision making processes, which affect them and the lack of prioritisation of their needs, as demonstrated by the study on Small Business Development Initiatives (SALGA, 2011), is amongst development challenges of this sector, which should be addressed.

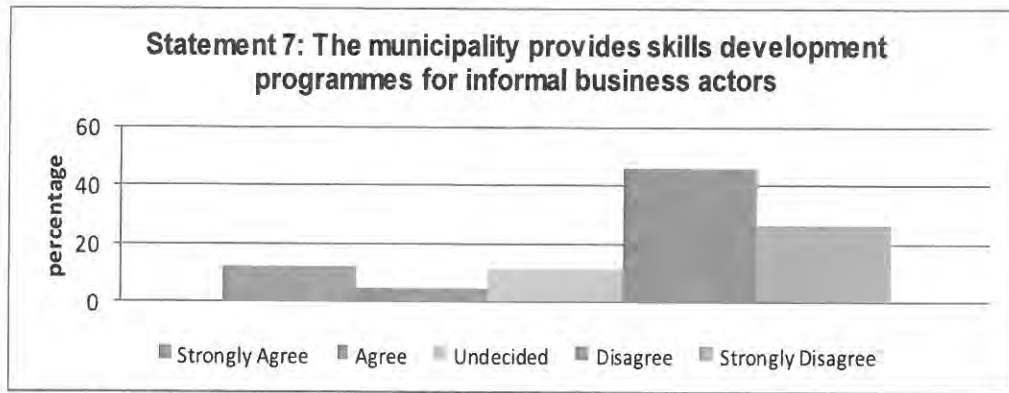


Figure 4.23: Statement regarding skills development

Description and Interpretation

Figure 4.23 shows that 15% of the respondents strongly agree that the municipality does provide skills development programmes. However, 48% disagree with the statement, followed by 25% that strongly disagreed, while 11% could not state whether they agree or disagree with the statement.

This finding suggests that in some areas in BCMM the informal business actors are provided with skills development programmes, but compared with the 48% of the respondents that disagree, it means some informal business actors are yet to receive these programmes. This finding further substantiates Guliwe's (2011:2) argument that a majority of informal business actors lack business skills, and that there is a need for robust entrepreneurial training skills in areas such as marketing and financial management (Chambwera, et al, 2011:14).

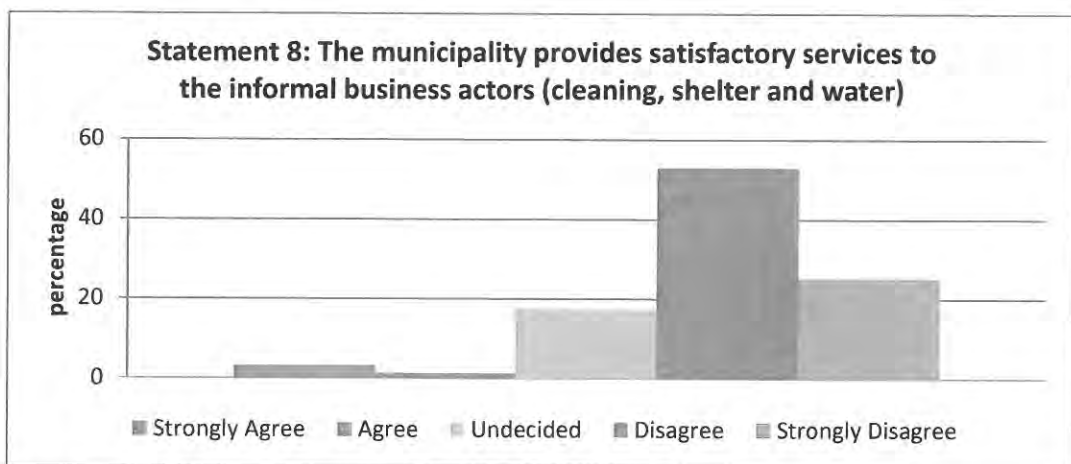


Figure 4.24: Statement regarding services

Description and Interpretation

Chen (2005:45) states that the informal business sector is plagued with development challenges which include amongst others the absence of infrastructure such as market stalls, water and sanitation and storage of products. In contrast with the responses on the statement regarding provision of satisfactory services such as water, cleaning and shelter, Figure 4.24 shows that 55% of the respondents disagree that the municipality provides these services. Furthermore, 25% strongly disagree with the statement, while a few of the respondents strongly agree, and 18% were undecided. This finding suggests that the informal business sector in BCMM is not serviced.

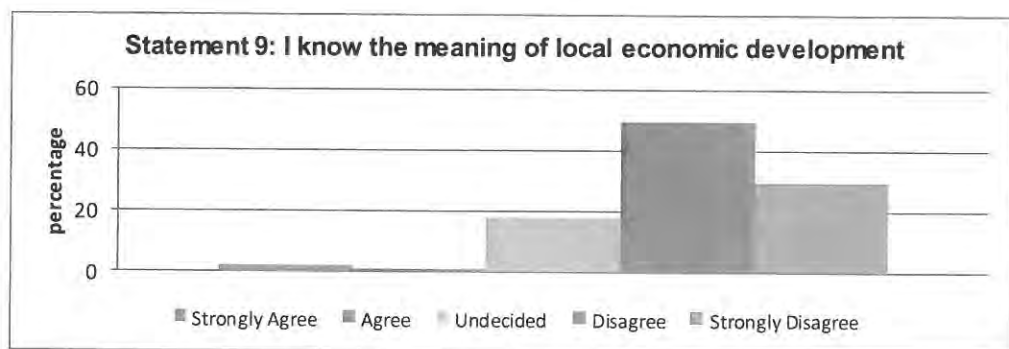


Figure 4.25: Statement to assess informal trader's understanding of LED

Description and Interpretation

The White Paper on Local Government (1998) declares that local government should work with business and community organisations in order to achieve social and economic development for the locality and improve the population's quality of life. Figure 4.25 provides the respondents views on their understanding of local economic development, as 55% of the respondents disagree with the statement, while 35% strongly disagree and 19% were undecided. This finding suggests that information sharing or dissemination of information amongst informal business actors is one of the shortcomings in BCMM, as demonstrated by Chambwera, et al (2011:16).

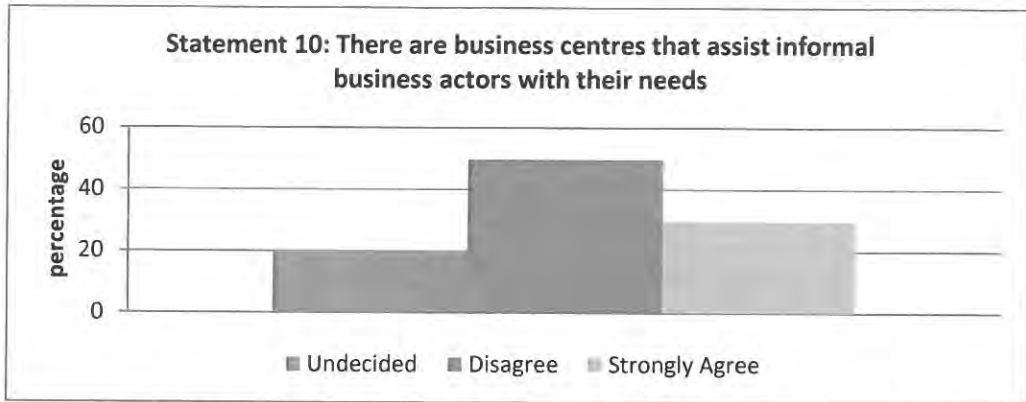


Figure 4.26: Statement regarding availability of business centres focused on informal businesses

Description and Interpretation

Figure 4.26 shows that 55% of the respondents disagree with this statement, 25% strongly disagree and 20% were undecided. The finding shown in Figure 4.26 suggests that “there is absence of access to institutional credit or other supports and protections” (Muller, 2002:84).

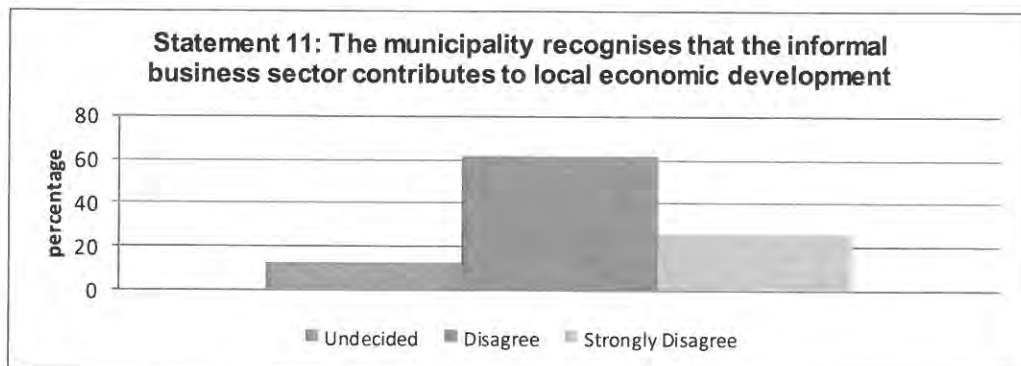


Figure 4.27: Statement regarding recognition of the informal businesses as contributors to LED

Description and Interpretation

Figure 4.27 shows that 60% of the respondents disagree with the statement that the municipality recognises the contributions of the informal business sector towards LED in BCMM. A further 25% strongly disagree while 15% were undecided. This finding suggests that a general view amongst the respondents is that the municipality does not recognise their contributions to LED in BCMM. This finding further substantiates the findings of the Small Towns Business Development Initiative, which demonstrated that “there is a sense among the informal business actors that they are not sufficiently

recognised for their role and contribution to the rich tapestry of economic life in small towns” (SALGA, 2011).

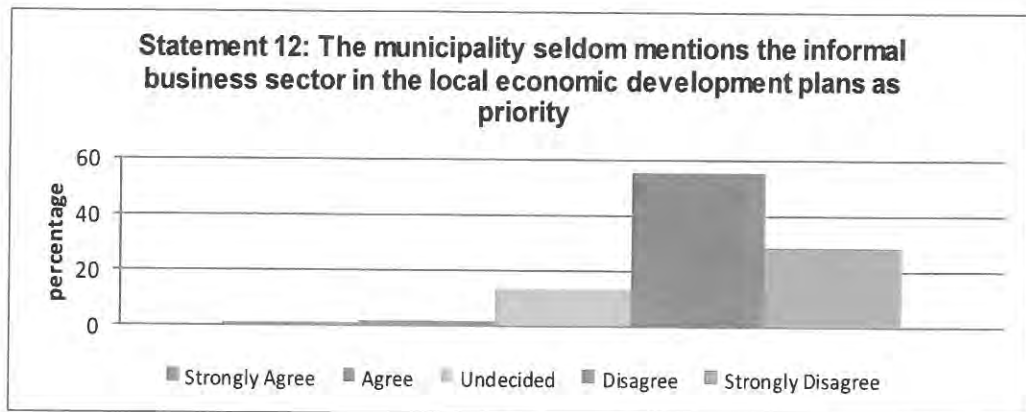


Figure 4.28: Statement about prioritization of the informal business sector in LED’s plans

Description and Interpretation

Figure 4.28 shows that 58% disagree with the statement that the sector is indicated in LED’s plans as a priority. Furthermore, 25% of the respondents strongly disagreed with the statement, while 15% were undecided. Although small business is mentioned in the BCMM LED strategy (2008) and the IDP (2011) the focus is, however, on medium and large businesses.

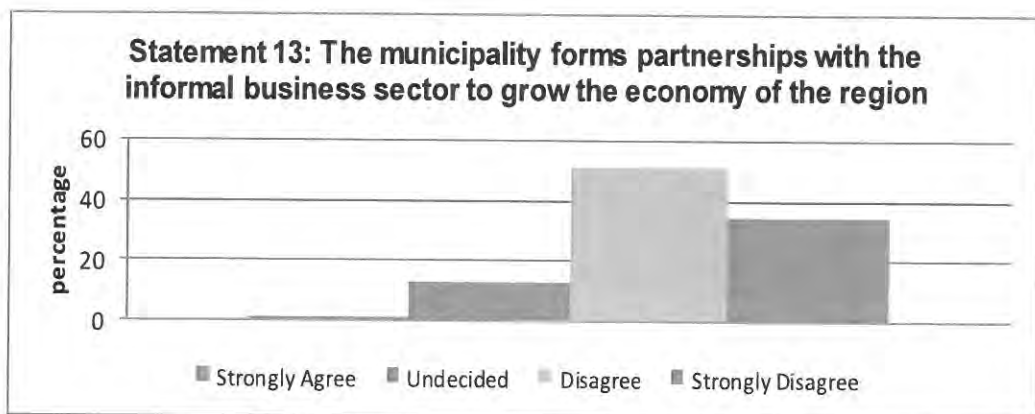


Figure 4.29: Statement regarding partnerships between the municipality and the informal business sector

Description and Interpretation

One of the approaches to LED is for local government and businesses to work collectively in order to create better conditions for economic growth and employment creation (White Paper on Local Government, 1998). Based on the responses to the

above statement, Figure 4.29 shows that 55% of the respondents disagree with the statement and 38% strongly disagree with the statement. The response to this statement shows that partnerships between the municipality and the informal business sector do not exist. The South African Local Government Association through the Small Towns Business Development Initiative report (2011) declares that there is a need for a more coordinated approach for the management of the informal business sector within the municipality.

4.3.5 Themes that emerged from the semi-structured interviews with BCMM managers

This section provides an overview of the interview sessions with BCMM managers. The interviews were reduced into 5 themes which reflect the purpose of this study.

Theme 1: Municipal initiatives towards a conducive environment

The managers indicated that the municipality provides training and workshops on business skills development. The municipality also organises the informal business actors and advises informal business actors to register with cooperatives. It was indicated that the municipality also provides information, formulates by-laws and provides a platform for the informal business to discuss the sector's needs. The managers indicated that there is continuing dialogue with the informal business actors to address their immediate needs.

The literature review revealed that many informal business actors believe that they are not sufficiently informed about municipal developments and are often excluded from key decision making processes which affect them and that there is a need for continuous information sharing and communication (SALGA, 2011).

Theme 2: Contribution towards economic development

The municipal managers indicated that the informal business sector does contribute to BCMM's economic development in terms of job creation and poverty alleviation. The municipality agrees that through the informal business sector people employ themselves, thus creating opportunities for other individuals. However, the managers indicated that there is room for improvement with regard to skills programmes and the fact that the informal business actor's business skills should be nurtured.

Theme 3: Formalisation

The managers indicated that most of the informal businesses in BCMM include spaza shops and street hawkers. The managers stated that these types of businesses do not have to adhere to any legal requirements or register their businesses. The managers indicated that the informal business actors do want to change and focus on the future, for example, to be formal. However, they encourage the informal business actors to form and register cooperatives.

Theme 4: Prioritisation

The managers indicated that even though through their business development endeavours such as business skills programmes and encouraging informal business actors to form cooperates, the municipality does not have a strategy to assist and direct the sector to realize its potential. However, the managers mentioned that plans and funds have been earmarked to develop the strategy during the 2014/15 fiscal year. The managers see the informal business actors as entrepreneurs whose ambitions and should be realised.

Theme 5: Systems to measure and monitor the informal business sector

The managers expressed the challenge that the municipality experiences with regard to collecting data to determine the movement and new people that enter the informal business sector in BCMM. It was expressed that through the established organisations that represent the informal traders in BCMM they are able to have a list or number of informal business in a particular area but these are not updated and do not include the economic statistical data that is required to perform a trends analysis. The managers mentioned that this is one of the major challenges in the municipality, namely; the availability of economic data of the informal business actors in BCMM.

To summarise the themes which emerged from the semi-structured interviews with BCMM managers, the researcher asserts that there is acknowledgement of informal businesses, namely; the small and micro enterprises have a role in contributing to local economic development in BCMM. The Business Development Directorates have initiatives which are focused on business skills and information sharing. Nevertheless, there seems to be little attention given to the survivalist and small businesses because of their size and the fact that they do not have to adhere to any legal requirements. This revelation correlates with the finding that none of the informal business actors who participated in this study had their business registered with the municipality or with CIPRO because they fall below the VAT turnover requirement of

R150 000 per annum (National Small Business Act No. 102 of 1996). There are other aspects that did not emerge in the interviews such as the matter of infrastructure provisions, financial support (mandated by the White Paper on Local Government, 1998) and the presence of business centres for the purpose of supporting the informal businesses.

4.4 Chapter summary

This chapter analysed and interpreted data based on the views and opinions of the informal business actors and BCMM managers who participated in this study. In the following chapter the key findings of this researcher are deliberated upon while conclusions and recommendations are also presented.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The preceding chapter presented the analysis and interpretation of the findings of this study. This chapter provides conclusions and recommendations which are pertinent to address the research problem. The conclusion section of this chapter provides a summary of the critical points that were discussed in preceding chapters. The recommendation section presents the recommendations that are drawn based on the literature review and empirical findings of this study, and outlines the key objective of each recommendation in addressing the research problem. To conclude this chapter, the researcher presents further areas for research which were identified during the course of this study, but did not fall within the ambit of the research problem and concluding remarks.

This research investigated the role of the informal business sector on local economic development. The objectives of this study were to assess the contributions (socio-economic) of the informal business sector; to assess the state of the informal business sector; and to determine the level of responsiveness of local authorities to the informal business sector in BCMM. This study was organised into five separate chapters which are outlined below.

5.1.1 Chapter One

Chapter One of this study provides a general introduction and background to this study. The researcher briefly discussed the problem and its setting, clarified the problem statement and discussed the preliminary literature review that informed the research problem. Chapter One further outlined the research objectives, research questions that were pursued in this study and the adopted research methodology for the purpose of this study. The researcher discussed the significance and expected outcomes and results of this study. The main objective of this chapter was to provide an overview of the intentions of the researcher to pursue this study, how the study will be conducted, and the objectives, which the study endeavours to achieve.

5.1.2 Chapter Two

This chapter presents the theoretical framework for the informal business sector from a South African perspective. Legislative framework and policies that inform the informal business sector in South Africa were discussed in an attempt to draw specific areas that encourage the growth and development of the informal business sector

contrary to the current state of this sector in South Africa. The researcher further elaborated on social, economic and political advantages of the informal business sector. Chapter Two also explored other elements such as the role of the government in support of the informal business sector.

5.1.3 Chapter Three

In this chapter, research design and methodology that was used in this study was explained. The techniques of data collection included the survey questionnaire and semi-structured interviews, as well as the sampling method.

5.1.4 Chapter Four

Chapter Four analyses and interprets the findings of the study. Furthermore, the findings or themes that emerged from the interviews were also presented in this chapter.

5.1.5 Chapter Five

The last chapter in this study provides the research conclusions, a summary of the research findings and the research recommendations. The chapter suggests further areas for research which were identified in this study.

5.2 Summary of findings

The following findings were drawn based on the responses of the informal business sector and the BCMM managers as subject experts through the administered survey questionnaires and interviews:

5.2.1 State of the informal business sector in BCMM

This study revealed that the informal business sector in BCMM is underdeveloped. The experiences which confront informal business actors vary from inability to access financial support, basic infrastructure such as designated municipal stalls, training and unavailability of business centers that are focused on providing support to informal business actors in BCMM. This study further demonstrated that there is a lack of consultation, communication and partnership between the municipality and the informal business actors. This finding suggests that the local government has not adhered to the articulations of the White Paper on Local Government (1998) which states that local government must work with the citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve their quality of life.

This study found that the municipality does not have consolidated data of informal business activities within the municipality. The municipality, therefore, is unable to monitor the expansion and economic performance of the informal business sector in BCMM. This study further found that young people (age group 18 – 25; 26 – 35 and 36 – 45) form 67% of informal business actors in BCMM. The respondents indicated that two of the reasons for starting informal businesses are a lack of formal jobs and that they are passionate about business.

This study has demonstrated a weak relationship between the municipality and the informal business sector in BCMM. The informal business sector is underdeveloped. It can also be concluded that the sector provides the required employment opportunities to the young people owing to the lack of formal jobs in BCMM.

5.2.2 Contribution of the informal business sector from a socio-economic development (LED) perspective

This study demonstrates that from a socio-economic development perspective, the informal business sector in BCMM provides various advantages. For example, informal business actors, through their endeavours, are able to assert themselves as entrepreneurs; they become their own “masters”, thereby creating income for their families to transform their lives. This study shows that informal business owners earn on average R2.000.00 per week and R3.400.00 per month. Furthermore the informal businesses that were sampled in this study indicated that they employ 2 -3 employees, depending on the size and nature of the business. These employees earn between R 600.00 per week and R2500.00 per month (on average). This study further demonstrates that informal business actors buy their goods or products from formal businesses within the established economy, spending R1.000.00 per week and R2.000.00 per month. The researcher argues that, if economic development is measured by job creation and poverty alleviation (Greechie, 2003:89), it may be concluded that the informal business sector does contribute to local economic development in terms of job creation and flow of revenue to formal businesses which are taxed by government and poverty alleviation.

5.2.3 Level of responsiveness of local authorities on the informal business sector

With regard to municipal support towards the informal business sector, the findings of this study demonstrate a lack of leadership and vision from the municipality to develop the informal business sector. This study shows that the municipality does not

have a strategy for the informal business sector and informal business actors do not have access to the services which are provided by the municipality. There is a shortcoming in terms of the municipality providing skills development programmes in areas such as mentorship programmes, marketing strategies and financial management.

It is clear from the above findings that there is a wide gap between these two partners (the municipality and the informal business sector), which will require vision and leadership on the part of the municipality to ensure that it fulfills its constitutional mandate, and to work with the informal business sector for the purposes of social and economic development.

5.3 Recommendations

Based on the findings of this study, the researcher proposes the following recommendations for the municipality and the informal business actors:

5.3.1 Recommendation one

The Business Development Directorate in conjunction with the Local Economic Development Directorate in BCMM should develop a concrete strategy or policy for the informal business sector. The BCMM LED (2008) strategy embraces all sectors of the economy, however, a specific strategy is required that will address the informal business sector in BCMM. In consultation with the informal business actors, the strategy should focus on skills development to build the business capability of the informal business actors and address the issue of partnerships amongst all stakeholders in the informal business sector.

This recommendation will assist the municipality to provide a framework to manage and develop the informal business sector in BCMM. The municipality will further have measurable targets that can be monitored and amended accordingly.

5.3.2 Recommendation two

The Development Planning Directorate in conjunction with the Local Economic Development Directorate in BCMM should by means of the Land Use Planning Ordinances prioritise certain areas within the CBDs in Bisho, KWT and Mdantsane, where consumers will be closer to the informal business actors and build municipal designated trading areas with the required services such as water, electricity and sanitation.

The objective of this recommendation is to address the infrastructural problems faced by the informal business sector in BCMM. The appropriate designation of trading areas for informal business actors will have a spill-over effect on the environment of the CBD areas in Bisho, KWT and Mdantsane. The formal businesses that rely on window advertising might benefit from this initiative, as it may improve their rate of consumers with an ability to view their products. It may further benefit and improve tourism in BCMM, as the taxi ranks might be more attractive and pavements allow pedestrians to move freely without obstruction. This might further contribute towards the creation of an enabling environment. Lastly, more people can start more small businesses and others might graduate from small to medium enterprises, as the infrastructural provisions will boast some technological advantages and more people will be employed.

5.3.3 Recommendation three

The Business Development Directorate should develop procedures to access municipal designated trading areas. These procedures must be published and road shows should be held to inform all informal business actors in BCMM and prospective informal business actors regarding the new procedures. This study showed that informal business actors are challenged to access trading areas in BCMM.

Development of the procedure will enable the municipality to have control over prospective informal business actors in BCMM. It will further be able to collect sufficient information about the prospectors and the type of planned business activity.

5.3.4 Recommendation four

The Local Economic Development Directorate should further provide for the establishment of a governance structure whereby the municipality will consult the informal business actors frequently to discuss their needs for prioritisation. This governance structure will serve as a "Lekgotla" to facilitate partnerships between the municipality and the informal business sector. BCMM should leverage the contributions of this sector through well-structured partnerships.

This recommendation activity will improve and strengthen relations between the municipality and the informal business sector. It will further benefit the municipality to better understand the operations of the informal business sector. This will further optimise information sharing, consultation and also expand the horizon of the informal business sector in contributing towards LED.

5.3.5 Recommendation five

In addressing the challenge of the unavailability of economic data to highlight the general performance of economic trends in the region, the Business Development Directorate, in conjunction with the Local Economic Development Directorate, should develop an Informal Business Sector Database whereby it can be positioned to capture the business activities of the sector and the needs thereof.

This move will enable the municipality to monitor the number of prospective informal business entrants. It will also give an indication of the size of the informal business sector in BCMM. The municipality can then conduct surveys to “gauge” the performance and the needs of this sector.

5.3.6 Recommendation six

The Business Development Directorate, in conjunction with the Department of Trade and Industry or the Provincial Department of Economic Development, should develop business support model for the informal business sector. BCMM should ensure that the services, which are provided by these agencies, reach informal business actors. The business centres or agencies should be accessible and they should provide reasonable services considering the background and needs of the informal business actors.

The objective here is to ensure that financial support services are accessible to informal business actors, whilst improving the efficiency and effectiveness of business centers in BCMM.

5.3.7 Recommendation seven

The informal business actors should take proactive steps regarding the development of their businesses. Informal business actors should take responsibility and consult the municipality to address their needs. They should also invest in their businesses capability by approaching Sector Education Training Authorities to access developmental programmes and financial support, rather than anticipate municipal assistance in cases where they are able to facilitate solutions themselves.

The objective is to instill self-reliance on informal business actors as they have already demonstrated their capability to add value by starting businesses and creating employment opportunities. Furthermore, it will instill the already cultivated value of “being proactive” amongst the informal business actors to become the “masters of their own destiny” by building upon their God-given entrepreneurial talent.

This will further prompt the municipality to take active steps towards addressing their challenges.

5.4 Areas for future research

There are several areas for further research that are identified in this study. The following are identified as crucial areas for further studies:

- This study focused on the effect of the informal sector on local economic development in BCMM. It is not possible, therefore, to generalize the findings of this study to the entire province because of the research limitation that was identified in Chapter 4, section 4.2.5. Therefore, an opportunity is created for further studies to investigate the effect of the informal business sector on LED in the Province of the Eastern Cape, in general.
- Another area of interest for further research might be to investigate the municipalities or provinces model for supporting informal businesses. This may include an entire spectrum of small, micro and medium enterprises within the informal sector.
- Another study may focus on the efficiency and effectiveness of government agencies, namely SEDA, SEFA and NYDA that are tasked to provide support to small businesses.

5.5 Conclusion

This research investigated the role of the informal business sector on local economic development with reference to the Buffalo City Metropolitan Municipality. The findings of this study have responded to the researcher's questions and addressed the research objectives. The findings and recommendations will be forwarded to the Buffalo City Metropolitan Municipality to contribute in the development of plans for the informal business sector.

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APPENDICES

Appendix A: Certificate from Language Practitioner

26 September 2013

Dear Sir/Madam

This serves to confirm that I have proof read and edited the research study entitled: "The role of the informal business sector in local economic development with reference to Buffalo City Metropolitan Municipality", and that the candidate has been advised to make the required changes.

Thank you

Yours faithfully

SHAMILA SULAYMAN

Professional Editors Group
0798216221
Shamilasulayman@gmail.com

Appendix B: Certificate from Statistician



Cape Peninsula
University of Technology

To whom it may concern:

Lunga Hita (Student Number 205060285) – MTech dissertation

This is to certify that the statistics of the data in this research project required by the student was done by me, using SPSS version 21.

My function was not to be involved in the interpretation thereof – that should be the student's own work.

C Uys.

Corrie Uys, M.Sc (Statistics)

Appendix C: Letter of approval from Buffalo City Metropolitan Municipality

BUFFALO CITY MUNICIPALITY



MEMORANDUM

From: **MANAGER: KNOWLEDGE AND RESEARCH** To: **MR LUNGA HITA** Date: **23 April 2010**

Our ref:	Please ask for DR T NORUSHE (043) 705 9706	Your ref:
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**RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH IN BCM:
MR LUNGA HITA**

It is hereby acknowledged that Mr Lunga Hita, a student at Cape Peninsula University of Technology doing a Masters of Technology (Public Management) has met the prerequisites for conducting research at Buffalo City Municipality (BCM) as fulfillment requirement for the degree. He has provided us with all the necessary documentation as per the BCM Policy on External Students conducting research at the institution.

With reference to the letter to the acting Municipal Manager received on 19 April, permission was requested to conduct research at BCM for the Research Project, focusing Local Economic Development with particular reference to Buffalo City Municipality. This request was acknowledged by the Office of the Acting Municipal Manager and forwarded to the Knowledge Management and Research Unit for further assistance. Mr Hita was asked to provide the Unit with the necessary documentation, which he subsequently did.

The relevant official to assist in the research was identified and duly informed about the research, and the fact that Mr Hita has met the prerequisites. Their contact details have also been provided to Mr Hita and he was informed to contact him directly for assistance.

Wishing you good luck in your studies.


DR T F NORUSHE
MANAGER: KNOWLEDGE MANAGEMENT AND RESEARCH

Appendix D: Survey questionnaire for informal business actors in BCMM

SURVEY QUESTIONNAIRE FOR INFORMAL BUSINESS ACTORS

This research is conducted for academic purposes as part of the requirements for the completion of a Master's degree in Public Management. The researcher undertook this study to ascertain the state of the informal business sector in BCMM and to determine the level of support the sector receives from the local authorities including its contribution to local economic development within the region.

You have been selected to participate in this research project owing to the fact that you are operating as an informal business actor. Your contribution will assist to determine the challenges which you face as an informal business actor and what support should the municipality provide to make your business successful. Be advised that if you agree to participate in this research, all response will be treated with confidentiality and the findings of the survey will be available on your request. If you do not understand the questions, please ask the assistant to guide you.

How to complete this questionnaire

- The questionnaire must be completed by all informal traders regardless of nationality.
- Please use an **X** in the block where it is required.
- All enquiries regarding this research and questionnaire may be addressed to the following:

Lunga Hita (Researcher)
CPUT: Business Faculty
Tel: 078 9799 382

Dr R Hendrickse (Supervisor)
Senior Lecturer: Public Management
CPUT: Business Faculty
Tel: 021 460 3929

SECTION A: DEMOGRAPHIC INFORMATION						
1. Please indicate your area of business.		King William's Town		Bisho	Mdantsane	
2. Race.	Black African	White African	Coloured African		Indian African	
3. Gender.	Male		Female			
4. Nationality.	South African	Other (please indicate):				
5. Age.	18-25	26-35	36-45	46-60	61-75	75+
6. Education level.	No school	Grade10 or Std 8		Grade 12/Std10	Higher education	

SECTION B: BUSINESS INFORMATION			
7. Please indicate the name of your business.			
8. Is the business registered/ licensed?		Yes	No
9. If yes, where was it registered/ licensed?		Municipality	CIPRO
10. What is your role in this business?		Owner	Employed
11. If you are the owner, please indicate the number of years as an informal trader.		1 – 3yrs	4 – 6yrs 7 – 10yrs+
12. Please indicate the number of people that are employed in the business?			
13. Please indicate their wage per week or per month.		Per Week: R	Per Month: R
14. Please indicate the area in which you operate the business.			
Pavement	Taxi Rank	Designated Municipal Trading Stalls/centres	Other:
15. How did you find this area?			
15.1 Through the municipality.		Yes	No
15.2 Through the informal trader's organisation.		Yes	No
15.3 Through the community councillor.		Yes	No
15.4 By speaking with other informal traders.		Yes	No
16. Is the area built to accommodate your business?		Yes	No
17. Please indicate the type of goods or services provided by your business:			
Food & Agriculture	Manufacturing	Arts and culture	Retailer

(Vegetable Market)	(making clothes and repairing manufactured material)	(hand-crafted goods)	(Selling clothes & skin products)
Other (please indicate)			
18. How much do you earn in the business per day OR per week OR per month:			
Per day	R	Per week	R
19. Please indicate where you buy your goods that you sell to your customers.			
From formal businesses	From informal business supplier	Other:	
20. How much do you spend on buying the goods per week OR per month:			
	Per week	R	Per month
			R
21. Please indicate where you received funding to start the business:			
21.1 Applied for a loan at a private bank	Yes	No	
21.2 Received assistance from the Municipality	Yes	No	
21.3 Borrowed money from family	Yes	No	
21.4 Used personal savings	Yes	No	
21.5 Other (please specify).			
22. Please indicate the reasons for starting the business:			
22.1 Formal jobs not available	Yes	No	
22.2 To earn more money in this business	Yes	No	
22.3 I am passionate about business	Yes	No	
22.4 Because I studied to become an entrepreneur	Yes	No	
22.5 Other (please indicate)			
23. Please indicate challenges that you experience as an informal business actor.			
a. Challenge of financial assistance		b. Lack of business facilities	
c. Lack of training		d. Lack of Municipal support	

SECTION C: MUNICIPAL SUPPORT TOWARDS THE INFORMAL BUSINESS SECTOR

Using the scale below, kindly indicate with a cross (X) what your opinion is regarding the statements/sentences listed in the tables as indicated.

Agree	Strongly Agree	Disagree	Strongly Disagree	Undecided				
1	2	3	4	5				
24. The municipality builds trading centres for informal traders (infrastructure).				1	2	3	4	5
25. The municipality holds meetings with informal traders to discuss their needs.				1	2	3	4	5
26. The municipality prioritises the needs of informal business sector.				1	2	3	4	5
27. The municipality provides financial support to the informal businesses.				1	2	3	4	5
28. The municipality provides mentoring programmes to informal traders about marketing and developing the business.				1	2	3	4	5
29. The informal traders attend meetings with the municipality.				1	2	3	4	5
30. The municipality provides skills development programmes for informal traders.				1	2	3	4	5
31. The municipality provides satisfactory services to the informal business sector, namely cleaning, shelter and finances.				1	2	3	4	5
32. I know the meaning of local economic development.				1	2	3	4	5
33. There are business centres that assist informal traders with their needs.				1	2	3	4	5
34. The municipality recognises that informal traders contribute to local economic development in BCMM.				1	2	3	4	5
35. The municipality seldom mentions the informal business sector in their local economic development plans as a priority.				1	2	3	4	5
36. The municipality forms partnerships with the informal business sector to grow the economy of the region.				1	2	3	4	5

Thank you for your willingness and assistance to complete this questionnaire.

Appendix E: Interview questions for BCMM Managers



**INTERVIEW QUESTIONS WITH BUFFALO CITY METROPOLITAN MUNICIPALITY
(BCMM) MANAGERS**

Position of the respondent: _____

Number of years in the position: _____

Date of the interview: _____

1. As Directorates that deal with Business Development and LED, what does the informal business sector mean for BCMM?
2. What initiatives have been undertaken by the municipality to development and grow the informal business sector?
3. What strategic or policy documents have been formulated by the municipality to guide the informal business sector in BCMM, and what is the level of implementation?
4. What types of incentives are there to encourage and promote the informal business sector?
5. What type of relationship exists between the municipality and the informal business sector?
6. What are the measurements which the municipality uses to monitor the performance of the informal business sector?
7. To what extent is the informal business sector prioritized in the municipal integrated development plans and LED strategies?
8. Is there anything else that you would like to raise concerning this topic?

Thank you for your cooperation and willingness to participate in this study.

**The White Paper on Local Government
9 March 1998**

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4. Concluding comment

SECTION B: DEVELOPMENTAL LOCAL GOVERNMENT

This section explores developmental local government - the central responsibility of municipalities to work together with local communities to find *sustainable** ways to meet their needs and improve the quality of their lives. It discusses the characteristics of developmental local government, sets out a series of developmental outcomes, and proposes several tools to assist municipalities to become more developmental.

It is in the interest of the nation that local government is capacitated and transformed to play a developmental role. National government is committed to providing support to enable municipalities to utilise the options and tools put forward in this White Paper to make themselves more developmental. The approaches put forward here create a framework in which municipalities can develop their own strategies for meeting local needs and promoting the social and economic development of communities.

Developmental local government is intended to have a major impact on the daily lives of South Africans. Where municipalities do not develop their own strategies to meet community needs and improve citizens' quality of life, national government may have to adopt a more prescriptive approach towards municipal transformation.

1. Characteristics of developmental local government

Developmental local government is local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives.

The Constitution enshrines the rights of all people in our country to dignity, equality before the law, freedom and security. It affirms our rights to freedom of religion, expression, culture, association and movement, as well as our political, labour and property rights. The Constitution commits government to take reasonable measures, within its available resources, to ensure that all South Africans have access to adequate housing, health care, education, food, water and social security.

The reality in our cities, towns and rural areas is far from this ideal. Many of our communities are still divided. Millions of our people live in dire poverty, isolated from services and opportunities. The previous local government system did very little to help those with the greatest needs. The current transitional system has not yet been able to do much to reverse these long-standing patterns of inequity and unmet human needs.

In the future developmental local government must play a central role in representing our communities, protecting our human rights and meeting our basic needs. It must focus its efforts and resources on improving the quality of life of our communities, especially those members and groups within communities that are most often marginalised or excluded, such as women, disabled people and very poor people.

Developmental local government has four interrelated characteristics:

- Maximising social development and economic growth.
- Integrating and coordinating.
- Democratising development.
- Leading and learning.

These four characteristics of developmental local government are further explained below.

1.1. Maximising social development and economic growth

The powers and functions of local government should be exercised in a way that has a maximum impact on the social development of communities - in particular meeting the basic needs of the poor - and on the growth of the local economy. Through its traditional responsibilities (service delivery and regulation), local government exerts a great influence over the social and economic well-being of local communities. Each year municipalities collect a large sum in rates, user charges and fees. They employ thousands of people throughout the country. In many cases they are responsible for the price and quality of water, electricity and roads, and they control the use and development of land. In parts of the country they own substantial amounts of land. They purchase goods and services and pay salaries, and therefore contribute to the flow of money in the local economy. They set the agenda for local politics, and the way they operate gives strong signals to their own residents and to prospective migrants or investors. These functions give local government a great influence over local economies. Municipalities therefore need to have a clear vision for the local economy, and work in partnership with local business to maximise job creation and investment.

Local government is not directly responsible for creating jobs. Rather, it is responsible for taking active steps to ensure that the overall economic and social conditions of the locality are conducive to the creation of employment opportunities.

Provision of *basic household infrastructure** is the central contribution made by local government to social and economic development. However, simple changes to existing procedures such as *affirmative procurement policies**, linking municipal contracts to social responsibility, speeding up approval procedures or proactively identifying and releasing land for development could have a significant impact with little or no additional cost. In addition, new policies and programmes can be initiated, aimed specifically at alleviating poverty and enhancing job creation. For example, local government could assist with the provision of support services, such as training to small businesses or community development organisations.

Local government can also promote social development through functions such as arts and culture, the provision of recreational and community facilities, and the delivery of aspects of social welfare services. Municipalities have the constitutional power to provide child care facilities, and may provide grants to associations for this purpose in terms of the Child Care Act, 1983. The empowerment of marginalised and disadvantaged groups is a critical contribution to social development. Municipalities should also seek to provide an accessible environment for disabled people, so as to facilitate their independence.

1.2. Integrating and coordinating

Within any local area many different agencies contribute to development, including national and provincial departments, parastatals, trade unions, community groups and private sector institutions. Developmental local government must provide a vision and leadership for all those who have a role to play in achieving local prosperity. Poor coordination between service providers could severely undermine the development effort. Municipalities should actively develop ways to leverage resources and investment from both the public and private sectors to meet development targets.

One of the most important methods for achieving greater coordination and integration is integrated development planning. Integrated development plans provide powerful tools for municipalities to facilitate integrated and coordinated delivery within their locality. The principles set out in the Development Facilitation Act should guide municipalities in their approach to building integrated, liveable settlements. There is a summary of these principles in Annexure D at the back of the White Paper. (See also point 3.1 for more detail on integrated development plans.)

While strategies for building human settlements may differ between localities, it is clear that the establishment of sustainable and liveable settlements depends on the coordination of a range of services and regulations, including land-use planning, household infrastructure, environmental management, transport, health and education, safety and security and housing. Municipalities will need to work closely with other spheres of government and service providers and play an active integrating and coordinating role here. (More is said about the departmental programmes and initiatives which municipalities should engage with in Section C: Cooperative Government, Point 2.1.)

1.3. Democratising development, empowering and redistributing

Municipal Councils play a central role in promoting local democracy. In addition to representing community interests within the Council, municipal councillors should promote the involvement of citizens and community groups in the design and delivery of municipal programmes.

In the past, local government has tended to make its presence felt in communities by controlling or regulating citizens' actions. While regulation remains an important municipal function, it must be supplemented with leadership, encouragement, practical support and resources for community action. Municipalities can do a lot to support individual and community initiative, and to direct community energies into projects and programmes which benefit the area as a whole. The involvement of youth organisations in this regard is particularly important.

Municipalities need to be aware of the divisions within local communities, and seek to promote the participation of marginalised and excluded groups in community processes. For example, there are many obstacles to the equal and effective participation of women, such as social values and norms, as well as practical issues such as the lack of transport, household responsibilities, personal safety, etc. Municipalities must adopt inclusive approaches to fostering community participation, including strategies aimed at removing obstacles to, and actively encouraging, the participation of marginalised groups in the local community.

At the same time, the participatory processes must not become an obstacle to development, and narrow interest groups must not be allowed to 'capture' the development process. It is important for municipalities to find ways of structuring participation which enhance, rather than impede, the delivery process.

A central principle of the Reconstruction and Development Programme (RDP) is the empowerment of poor and marginalised communities. This is repeated in the Growth, Employment and Redistribution (Gear) strategy which calls for "a redistribution of income and opportunities in favour of the poor". Developmental local government is uniquely placed to combine empowerment and redistribution in a number of concrete programmes. For example:

- Service subsidies are a focused mechanism for providing services to the poor at below cost, and thereby provide an opportunity for low-income households to improve their circumstances. The 'equitable share' will provide the basis for a standardised subsidy mechanism for all poor households. Municipalities need to plan the level and amount of additional subsidies in a way which is affordable within the overall municipal budget.
- Support to community organisations in the form of finances, technical skills or training can enhance the ability of the poor to make their needs known and to take control of their own development process.
- Linkage policies aim to directly link profitable growth or investment with redistribution and community development. An example is a development levy imposed in fast-growing areas and used to subsidise housing or other services for the poor. An alternative is a condition which requires developers to make social responsibility

investments in return for planning permission. Another example is the use of conditions imposed on companies which supply goods and services to a municipality (such as banks) to invest in training, affirmative action or community development.

- Socio-economic development and community empowerment is mainly directed at poverty eradication. The majority of the poor are women, and empowerment strategies which focus on women are likely to prove the most effective and inclusive. Municipalities need to develop their capacity to understand the diverse needs of women in the community, and address these needs in planning and delivery processes to enhance their impact on poverty eradication.

1.4. Leading and learning

Extremely rapid changes at the global, regional, national and local levels are forcing local communities to rethink the way they are organised and governed. All over the world communities must find new ways to sustain their economies, build their societies, protect their environments, improve personal safety (in particular for women) and eliminate poverty. There is no single correct way to achieve these goals. National frameworks and support from other levels of government are critical, but cities, towns and rural communities are increasingly having to find within themselves ways to make their settlements more sustainable. This requires trust between individuals and open and accommodating relationships between stakeholders. Local government has a key role to play in building this kind of social capital - this sense of common purpose - to find local solutions for increased sustainability.

In practical terms, municipalities can build social conditions favourable to development through:

- Building the kind of political leadership that is able to bring together coalitions and networks of local interests that cooperate to realise a shared vision.
- Responsive problem-solving and a commitment to working in open partnerships with business, trade unions and community-based organisations.
- Ensuring that knowledge and information are acquired and managed in a way that promotes continuous learning, and which anyone can access easily and quickly.
- Enhancing local democracy through raising awareness of human rights issues and promoting constitutional values and principles.
- Building an awareness of environmental issues and how the behaviour of residents impacts on the local environment, and encouraging citizens to utilise scarce natural resources in a prudent, careful manner.
- Investing in youth development as a key resource for the future, and building on their creativity and motivation through involvement in civic and development programmes.

- Actively seeking to empower the most marginalised groups in the community and encouraging their participation.
 - Empowering ward councillors as community leaders who should play a pivotal role in building a shared vision and mobilising community resources for development.
- Developmental local government requires that municipalities become more strategic, visionary and ultimately influential in the way they operate. Municipalities have a crucial role as policymakers, as thinkers and innovators, and as institutions of local democracy. A developmental municipality should play a strategic policy-making and visionary role, and seek to mobilise a range of resources to meet basic needs and achieve developmental goals.

2. Developmental outcomes of local government

Citizens and communities are concerned about the areas where they live: they are concerned about access to services and economic opportunities, mobility, safety, absence of pollution and congestion, proximity to social and recreational facilities and so on. Local government can impact on all of these facets of our lives.

The outcomes which developmental local government seeks to achieve may differ over time.

However, in our current circumstances the key outcomes are as follows:

- Provision of household infrastructure and services.
- Creation of liveable, *integrated cities, towns and rural areas**
- Local economic development.
- Community empowerment and redistribution.

Each of these outcomes needs to be seen within the context of national development and the principles and values of social justice, gender and racial equity, nation-building and the protection and regeneration of the environment.

2.1. Provision of household infrastructure and services

Local government is responsible for the provision of household infrastructure and services, an essential component of social and economic development. This includes services such as water, sanitation, local roads, stormwater drainage, refuse collection and electricity. Good basic services, apart from being a constitutional right, are essential to enable people to support family life, find employment, develop their skills or establish their own small businesses. The provision of household infrastructure can particularly make a difference to the lives of women, who usually play the major role in reproductive (domestic) work which sustains the family and the local society. The starting point must be to prioritise the delivery of at least a basic level of services to those who currently enjoy little or no access to services. This can be achieved with the assistance of capital grants from the Consolidated Municipal Infrastructure Programme, or through local *cross-subsidisation**, or by mobilising

private investment in municipal infrastructure. It can also be facilitated by assisting groups within the community to establish their own delivery institutions. An example is the establishment of networks of small businesses to collect refuse in a number of townships. These networks receive payments from citizens and municipalities as well as private loans from banks. Such proactive initiatives by local residents should be encouraged and supported.

As outlined in the Municipal Infrastructure Investment Framework, the levels of services which are sustainable and affordable will vary from one type of settlement to another. The Consolidated Municipal Infrastructure Programme provides grants for bulk and connector infrastructure, to enable municipalities to cover the capital costs of household infrastructure up to a basic level for low-income households. The *equitable share of national revenue** to which local government is entitled will enable municipalities to subsidise the operating costs of providing basic services to poor households. Municipalities must ensure that higher levels of services to residents and businesses are provided on a sustainable basis. This requires long-term infrastructure investment planning and a careful assessment of the levels of services which communities can afford. The provision of household infrastructure is also integral to the provision of housing, and municipalities must ensure that strategies and programmes for the provision of housing and infrastructure are appropriately integrated. Approaches and mechanisms to transforming municipal service delivery systems and *leveraging private sector investment** in municipal infrastructure are discussed in more detail in this White Paper in Section F: Administrative Systems.

2.2. Creation of liveable, integrated cities, towns and rural areas

Apartheid planning has left deep scars on the spatial structure of our cities, towns and rural areas, and the lives of millions of individuals and households. The spatial integration of our settlements is critical. It will enhance economic efficiency, facilitate the provision of affordable services, reduce the costs households incur through commuting, and enable social development. Spatial integration is also central to nation building, to addressing the locational disadvantages which apartheid imposed on the black population, and to building an integrated society and nation.

Municipal strategies for the establishment of liveable cities, towns and rural areas will differ from area to area.

Urban areas face the challenges of integrating towns and townships. Integration must ensure affordable mobility between work, home and recreation; combat crime, pollution and congestion; and structure the built environment to facilitate the participation of disadvantaged groups in the social and economic life of the city. Urban municipalities should promote *mixed-use and mixed-income development**. They should plan and invest to meet current and

future land-use and infrastructural needs for residential, commercial and industrial development.

Metropolitan areas in particular need to anticipate and provide for the needs of rapidly growing populations.

In rural areas, the challenges of building liveable environments range from securing access to land and services for the rural poor, to addressing the distortions in ownership and opportunity that apartheid created between white and black rural dwellers. Many settlements face particularly acute challenges as a result of the apartheid practice of forcibly relocating communities to 'decentralisation points' in the former homelands. This practice resulted in dense settlements with no sustainable economic base. In many of these settlements the majority of residents commute up to 70 kilometres to work in towns and cities. The distance between home and work not only imposes high transport costs, but also imposes harsh social and personal costs. The creation of sustainable and quality living environments for communities in these settlements requires innovative strategies and programmes.

*Environmental sustainability** is a key challenge in both urban and rural settlements.

Municipalities can enhance environmental sustainability by including environmental issues in their planning processes. Many municipalities are participating in Local Agenda 21, to reach towards sustainable development in their local areas. Local Agenda 21 requires municipalities to develop long-term strategic action plans that address priority sustainable development concerns. Planning for environmental sustainability is not a separate planning process, but is an integral part of the process of developing municipal integrated development plans.

2.3. Local economic development

Local government can play an important role in promoting job creation and boosting the local economy. Investing in the basics - by providing good quality cost-effective services and by making the local area a pleasant place to live and work - is the key starting point. However, two other types of initiative are important:

- Reviewing existing policies and procedures to promote local economic development.
- Provision of special economic services.

These approaches are further explained below.

2.3.1. Reviewing existing policies and procedures to enhance employment and investment

Small and large businesses rely on the actions of local government in a number of ways.

They are also subject to a number of municipal regulations. A review and simplification of municipal procedures and regulations can have a significant impact on the local economy. For example:

*Procurement procedures** can be revised to maximise the impact of municipal purchasing on job creation and the local economy. In particular, preference can be given to local suppliers and small enterprises, particularly those in the informal sector. Principles such as *labour intensity** and affirmative action can be introduced. It is essential to ensure that selection criteria and procedures are clear and transparent to avoid abuse. Cost and quality must still be central criteria; however, support can be given to emerging contractors by breaking tenders down into smaller parts, providing targeted information and training, or allowing exemption from large *securities**.

Rezoning requests and applications for building permits by developers are frequently held up in cumbersome bureaucratic approval processes. In many cases these can be simplified. The establishment of a spatial framework which identifies land for residential, commercial and mixed development can help to speed up rezoning by establishing clear guidelines up-front.

Customer management and billing are often handled by several different municipal departments with offices in different locations. The establishment of user-friendly one-stop shops which can advise residents and deal with single accounts for all municipal services can increase the quality and efficiency of local services.

2.3.2. Provision of special economic services

The Constitution states that local government is responsible for promoting the social and economic development of communities. This provides municipalities with a mandate to provide special economic services, or to assist other agencies with the provision of such services, where appropriate.

Marketing and investment support can be provided in order to attract and secure potential investors. It is important that such services are cost-effective. For example, international evidence suggests that financial incentives, which are quite costly, have a very limited impact on investment decisions and should be avoided.

Small business support services can be provided to assist small entrepreneurs. The Department of Trade and Industry has launched a programme to establish local business service centres, and municipalities are encouraged to support this programme where appropriate. Such centres aim to assist with skills, premises, information, networking, marketing and access to credit.

Research and technology are important ingredients for innovation in an increasingly competitive international economy. Municipalities might provide targeted assistance to a particular sector in the economy which has the potential to expand.

Training and placement services can be provided to help people to acquire the skills they need to find work, or to find jobs once they have the skills. The Department of Labour provides such services through its regional offices. Municipalities can play a role in tailoring these services to local circumstances, in order to match supply and demand in a practical way. The relevance of these services will depend on local circumstances. It is important to establish the value of a particular service in the local area before it is initiated.

In many cases, limited resources and expertise will make it difficult for municipalities to get involved in these specialised areas; however, it may be possible for municipalities to support or contribute to the activities of other agencies, such as national departments and nongovernmental organisations, in these areas.

A review of existing legislation which impedes local economic development, such as planning and rating ordinances, needs to be undertaken by both national and provincial government.

3. Tools and approaches for developmental local government

To achieve developmental outcomes will require significant changes in the way local government works. This section of the paper puts forward three interrelated approaches which can assist municipalities to become more developmental:

- Integrated development planning and budgeting.
- Performance management.
- Working together with local citizens and partners.

3.1. Integrated development planning, budgeting and performance monitoring

3.1.1. Why do integrated development planning?

Municipalities face immense challenges in developing sustainable settlements which meet the needs and improve the quality of life of local communities. To meet these challenges, municipalities will need to understand the various dynamics operating within their area, develop a concrete vision for the area, and strategies for realising and financing that vision in partnership with other stakeholders.

Integrated development planning is a process through which a municipality can establish a development plan for the short, medium and long-term. The main steps in producing an integrated development plan are:

- An assessment of the current social, economic and environmental reality in the municipal area - the current reality.
- A determination of community needs through close consultation.
- Developing a vision for development in the area.
- An audit of available resources, skills and capacities.
- A prioritisation of these needs in order of urgency and long-term importance.
- The development of integrated frameworks and goals to meet these needs.

- The formulation of strategies to achieve the goals within specific time frames.
- The implementation of projects and programmes to achieve key goals.
- The use of monitoring tools to measure impact and performance.

In effect integrated development plans are planning and strategic frameworks to help municipalities fulfil their developmental mandate:

- They enable municipalities to align their financial and institutional resources behind agreed policy objectives and programmes.
- They are a vital tool to ensure the integration of local government activities with other spheres of development planning at provincial, national and international levels, by serving as a basis for communication and interaction.
- They serve as a basis for engagement between local government and the citizenry at the local level, and with various stakeholders and interest groups. Participatory and accountable government only has meaning if it is related to concrete issues, plans and resource allocations.
- They enable municipalities to weigh up their obligations and systematically prioritise programmes and resource allocations. In a context of great inequalities, integrated development plans serve as a framework for municipalities to prioritise their actions around meeting urgent needs, while maintaining the overall economic, municipal and social infrastructure already in place.
- They assist municipalities to focus on the environmental sustainability of their delivery and development strategies. Sustainable development is development that delivers basic social and economic services to all, without threatening the viability of the ecological and community systems upon which these services depend.
- They help municipalities to develop a holistic strategy for poverty alleviation. Poverty is not just about low household income. It includes other aspects of deprivation such as a lack of assets to help households cope with shocks and stresses, a lack of the resources or contacts necessary to secure political advantage, a lack of access to education, health care and emergency services, and the lack of safe, secure, and adequately sized housing with basic services.

While the idea behind integrated development plans is to build up a comprehensive integrated plan, municipalities cannot plan everything in detail in the first year. Rather, integrated development plans should empower municipalities to prioritise and strategically focus their activities and resources. An attempt to plan too comprehensively may result in unrealistic plans that lack the human and financial resources for implementation.

Integrated development plans should be viewed as *incremental plans**. In the annual process of review, new or changed priorities can be incorporated.

Integrated development planning is a normal and required municipal function – integrated development plans are not "add-ons" and should not be "farmed out" to consultants. The development of integrated development plans should be managed within municipalities, and provide a way of enhancing the strategic planning capacity of the administration, building organisational partnerships between management and labour, and enhancing *synergy** between *line functions**.

3.1.2. The legislative framework

At the moment municipalities are required by the Development Facilitation Act to produce land development objectives (with the exception of municipalities in the Western Cape and KwaZulu-Natal). The Local Government Transition Act (Second Amendment Act) requires municipalities to produce integrated development plans. Municipalities should see the development of land development objectives as part of their integrated development plans, and not as a separate planning process. Municipalities are required to be multi-sectoral in their approach to integrated development planning. They are therefore also required to prepare plans that meet the requirements of different departments such as the Department of Water Affairs and Forestry, the Department of Transport, the Department of Housing and the Department of Environmental Affairs and Tourism. These requirements will nevertheless be linked to a single planning cycle and process within municipalities as envisaged by integrated development plans.

Future legislation will endeavor to reduce the legislative complexity of the various planning requirements placed on municipalities. In particular, it will ensure that integrated development plans incorporate other planning requirements into a single planning cycle. As part of this process, it may be necessary to revisit parts of the Development Facilitation Act. As the local government environment stabilises, the role of the Development Tribunals established by the Development Facilitation Act needs to be reassessed to ensure that local government's executive authority over development procedures and approvals is not undermined.

3.1.3. What is required of municipalities?

The key elements which are required to make integrated development plans useful and practical instruments for municipalities to work with are:

Developing a strategy and clear objectives:

The land development objective components or the planning requirements as put forward in the Development Facilitation Act provide a means of developing a strategic framework for development in the area. The land development objective components are critical because they are submitted to the provincial government for approval. Once approved, they have

legal status and become powerful instruments for guiding and managing development in the area.

The Development Facilitation Act requires municipalities to develop objectives for service delivery (the services which a municipality will provide, the standards of service and the level at which they will be provided); the 'form' of the settlement (these objectives deal with issues normally associated with 'town and regional planning' or the spatial planning of an area, such as land-use control, environmental planning, integrating low-income areas into the broader settlement, etc.); and development strategies. These objectives will provide a broad strategic framework for development.

Developing action plans and budgets:

Two key and inter-linked action plans are required to move from objectives to delivery. The first is an institutional plan of action, the second a financial plan of action.

Institutional plans: Institutional plans, including *human resource development** strategies, are particularly important tools for municipalities during the transformation period. Institutional action plans are intended to assist municipalities in reorganising their administrations for improved delivery to communities. Section F: Administrative Systems discusses institutional planning and transformation in more detail.

Financial plans: Integrated development planning should be linked to financial planning. A financial plan involves producing a medium-term (five-year) projection of capital and recurrent expenditure. This means incorporating municipal land development objectives and other strategies into the normal medium-term planning for capital and recurrent expenditure. Municipalities should also develop a plan for raising the revenue to support these strategies. The financial plan should show how the priorities in the budget change over the five-year period in order to achieve the goals set out in the integrated development plan.

On the capital side municipalities need to develop a coherent infrastructure investment plan, which sets out how they will achieve infrastructure targets, and mobilise public and private funding sources for this purpose. The development of integrated development plans and financial plans provides an opportunity for municipalities and other spheres of government to discuss and prioritise public investment in the area. Such governmental alignment could result in the production of a negotiated 'public investment plan' for an area which brings together the resource commitments of all spheres of government in relation to the integrated development plan.

Municipalities should seek private investment to supplement the public funds available for capital expenditure. They can obtain assistance and advice on how to leverage private investment from the municipal infrastructure investment unit, which has been established for that purpose.

Provincial governments should monitor the extent to which municipal budget priorities reflect the integrated development plan, and use existing conditional grant mechanisms as incentives in this regard.

The medium-term financial plan forms a basis on which annual budgets can be drawn up. The following diagram shows the relationship between planning and budgeting.

3.2. Performance management

Performance management is critical to ensure that plans are being implemented, that they are having the desired development impact, and that resources are being used efficiently. Municipalities currently set their own measures of performance, or key performance indicators. Key performance indicators vary greatly from municipality to municipality, and cover both efficiency measures and *human development indices**.

Key performance indicators can provide valuable information for two purposes:

- Firstly, development indices (such as the Household Development Index) can help municipalities to know their areas better and plan more effectively. Development indices also assist municipalities to assess the impact and effectiveness of the development strategies which they adopt, and make adjustments to their plans as required. The Central Statistical Service already provides useful indicators to assist municipalities in planning for their areas. Following the demarcation of new municipal boundaries, it will be possible to disaggregate (lift out) information according to municipal jurisdictions, which will be of particular value in the planning process. Development indicators should also be disaggregated according to gender to allow municipalities to assess the impact of their strategies on women, and ensure that the needs and interests of women are incorporated into municipal planning processes.
- Secondly, indicators which measure value-for-money in service provision can provide valuable guidance for municipal organisational transformation. Efficiency and quality indicators enable municipalities to set targets for continued improvement in their operations, to prioritise areas where organisational change is required, and assess the success of their transformation programmes.

Involving communities in developing some municipal key performance indicators increases the accountability of the municipality. Some communities may prioritise the amount of time it takes a municipality to answer a query, others will prioritise the cleanliness of an area or the provision of water to a certain number of households. Whatever the priorities, by involving communities in setting key performance indicators and reporting back to communities on performance, accountability is increased, and public trust in the local government system enhanced.

Municipal Councils will also find that developing some key performance indicators in consultation with internal municipal stakeholders (i.e., management and organised labour)

can assist in developing a shared organisational vision and common goals for improved performance and delivery.

Performance monitoring indicators need to be carefully designed in order to accurately reflect the efficiency, quality and value-for-money of municipal services. International experience shows that poorly designed performance indicators can have a negative effect on delivery, and that it is critical that indicators focus on outcomes and not only inputs and outputs. For example, a municipality has a programme for cutting the grass verges. The aim is to maintain an orderly appearance in the streets and to discourage the dumping of rubbish in public spaces. However, if the municipality fails to collect the cut grass, it will build up and lead to the dumping of garden refuse by residents. This defeats the municipality's original objective. A performance management system which only measures the frequency of cutting the grass (the output) - and not the effect that this has on the maintenance of the public spaces (the outcome) - will give a misleading report on the effectiveness of the municipality's actions. In the medium-term, a national performance management system is required to assess the overall state of local government, monitor the effectiveness of development and delivery strategies adopted by different municipalities and ensure that scarce resources are utilized efficiently. It would provide 'early warning' where municipalities are experiencing difficulties, and enable other spheres of government to provide appropriate support before a crisis develops. It would also enable municipalities to compare their own performance with that of similar municipalities across the country, identify successful approaches or 'best practice', and learn from one another.

National government will work closely with municipalities, provincial governments and other agencies that can contribute to the development of a national performance management system (such as the Central Statistical Service and the Auditor-General's Office) to develop a set of indicators which can be piloted by different municipalities and ultimately lead to the establishment of a national system.

While it is envisaged that the national system will apply in all municipalities, it will not replace the need for municipalities to set their own key performance indicators as part of the integrated development plan process. A national system can only incorporate indicators which are relevant to all municipalities. Municipalities will need to continue to develop key performance indicators which are specific to their local circumstances and goals, and to the priorities of local communities.

In summary

Integrated development planning, budgeting and performance management are powerful tools which can assist municipalities to develop an integrated perspective on development in their area. It will enable them to focus on priorities within an increasingly complex and

diverse set of demands. It will enable them to direct resource allocations and institutional systems to a new set of development objectives.

3.3. Working together with local citizens and partners

One of the strengths of integrated development planning is that it recognises the linkages between development, delivery and democracy. Building local democracy is a central role of local government, and municipalities should develop strategies and mechanisms (including, but not limited to, participative planning) to continuously engage with citizens, business and community groups.

Municipalities require active participation by citizens at four levels:

- As voters - to ensure maximum democratic accountability of the elected political leadership for the policies they are empowered to promote.
- As citizens who express, via different stakeholder associations, their views before, during and after the policy development process in order to ensure that policies reflect community preferences as far as possible.
- As consumers and end-users, who expect value-for-money, affordable services and courteous and responsive service.
- As organised partners involved in the mobilisation of resources for development via for-profit businesses, non-governmental organisations and community-based institutions.

As voters:

As in the rest of the world, municipalities will need to ensure that voters are constantly made aware of the need to vote and that they are able to vote easily and safely. When voter participation declines, democratic accountability is diluted. The following approaches will enhance voter participation:

- Civic education programmes about the importance of voting.
- Ward-level activities to continuously connect elected leaders and their constituencies.
- Creative electoral campaigning around clear policy choices that affect the lives of citizens.
- Electoral systems that ensure that registration and voting procedures are structured in a way that enhances access and legitimacy.

As participants in the policy process:

Municipalities should develop mechanisms to ensure citizen participation in policy initiation and formulation, and the monitoring and evaluation of decision-making and implementation.

The following approaches can assist to achieve this:

- Forums initiated from within or outside local government allow organised formations to initiate policies and/or influence policy formulation, as well as participate in monitoring and evaluation activities. Forums tend to work better when it comes to formulating either general community-wide development visions or issue-specific policies, rather than for formulating multiple policies that affect a multiplicity of interests.
- Structured stakeholder involvement in certain Council committees, in particular if these are issue-oriented committees with a limited lifespan rather than permanent structures.
- Participatory budgeting initiatives aimed at linking community priorities to capital investment programmes.
- Focus group participatory action research conducted in partnership with nongovernmental organisations and community-based organisations can generate detailed information about a wide range of specific needs and values.
- Support for the organisational development of associations, in particular in poor marginalised areas where the skills and resources for participation may be less developed than in better-off areas. This is important because citizens tend to participate via associations rather than as individuals.

As consumers and service-users:

For many local citizens, their main contact with local government is through the consumption of municipal services, and it is here that municipalities need to begin to build relationships with citizens and communities. Municipalities need to be responsive to the needs of both citizens and business as consumers and end-users of municipal services. Improved customer management and service provision are critical to building an environment conducive to economic and social development.

The Batho Pele ('People First') White Paper, issued by the Minister for Public Service and Administration, provides a useful approach to building a culture and practice of customer service. Batho Pele is based on eight key principles:

- **Consultation:** Citizens should be consulted about the level and quality of public service they receive, and, where possible, should be given a choice about the services which are provided.
- **Service standards:** Citizens should know what standard of service to expect.
- **Access:** All citizens should have equal access to the services to which they are entitled.
- **Courtesy:** Citizens should be treated with courtesy and consideration
- **Information:** citizens should be given full and accurate information about the public services they are entitled to receive.

- **Openness and transparency:** Citizens should know how departments are run, how resources are spent, and who is in charge of particular services.
- **Redress:** If the promised standard of service is not delivered, citizens should be offered an apology, a full explanation and a speedy and effective remedy; and when complaints are made citizens should receive a sympathetic, positive response.
- **Value-for-money:** Public services should be provided economically and efficiently in order to give citizens the best possible value-for-money.

Importantly, the Batho Pele White Paper notes that the development of a service-oriented culture requires the active participation of the wider community. Municipalities need constant feedback from service-users if they are to improve their operations. Local partners can be mobilised to assist in building a service culture. For example, local businesses or non-governmental organisations may assist with funding a helpline; providing information about specific services, identifying service gaps or conducting a customer survey.

As partners in resource mobilisation:

Municipalities will be expected to enhance delivery within the constraints of available resources. Although becoming more efficient will be one way of achieving this, another is to mobilise off-budget resources (resources additional to those budgeted for) via partnerships with businesses and non-profit organisations. Municipalities can utilise partnerships to promote emerging businesses, support non-governmental organisations and community-based organisations, mobilise private sector investment, and promote developmental projects which are initiated but not necessarily financed by local government. Examples of the range of options for this approach include various combinations of the following:

- Community development corporations.
- Public-private and public-public partnerships around service delivery (see Section F: Administrative Systems, Points 2.2.3 - 2.2.4).
- Community contracting for services such as refuse collection.
- Development partnerships around issues such as local economic development, ecotourism or farming.
- Community banking and various forms of community finance control (e.g., stokvels).
- Community information and learning centres as central points for using the new information technologies (e.g., the Internet, e-mail) for development purposes.
- Emerging business development centres.
- Training and capacity-building initiatives aimed at building up the skills base for development projects.
- Social housing mechanisms.

- Value-adding initiatives aimed at transforming wastes into products, e.g., linking recycling to job creation for the unemployed.

Service delivery partnerships are discussed in more detail in Section F: Administrative Systems. The critical point here is that there are a range of creative methods through which municipalities can mobilise energy, capacity and resources outside the municipality for the development of the area.

4. Concluding comment

Municipalities face great challenges in promoting human rights and meeting human needs, addressing past backlogs and spatial distortions, and planning for a sustainable future. Local government can only meet these challenges by working together with local citizens, communities and businesses, and adopting a developmental approach which:

- Enhances their capacity as policy and planning centres, able to mobilise and manage a range of development initiatives, resources and processes through a coherent vision and integrated planning framework for their local area.
- Focuses their own institutional and financial capacity on the delivery of affordable and sustainable services relevant to the needs of local communities.

A developmental role for local government offers substantive benefits to local residents, communities, provincial and national spheres of government, and the nation as a whole.

Appendix G: National Small Business Act 102 of 1996

NO. 102 OF 1996: NATIONAL SMALL BUSINESS ACT, 1996.

PRESIDENT'S OFFICE

No. 1901.
27 November 1996

NO. 102 OF 1996: NATIONAL SMALL BUSINESS ACT, 1996.

It is hereby notified that the President has assented to the following Act which is hereby published for general information:-

ACT

To provide for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency; and to provide guidelines for organs of state in order to promote small business in the Republic; and to provide for matters incidental thereto.

(Afrikaans text signed by the President.)

(Assented to 12 November 1996.)

BE IT ENACTED by the Parliament of the Republic of South Africa, as follows:-

CHAPTER I

Definitions

1. In this Act, unless the context otherwise indicates-

- (i) "Agency" means the Ntsika Enterprise Promotion Agency established by section 9; (i)
- (ii) "Board" means the Board of Directors of the Agency contemplated in section 11; (iii)
- (iii) "Chief Executive Officer" means the Chief Executive Officer of the Agency appointed as contemplated in section II (1)(b); (vi)
- (iv) "constitution of the Agency" means the constitution of the Agency contemplated in section 13 and adopted in terms of section 16(1); (ix)
- (v) "constitution of the Council" means the constitution of the Council contemplated in section 4 and adopted as contemplated in section 8(3); (x)
- (vi) "Council" means the National Small Business Council established by section 2; (xv)
- (vii) "Director-General" means the Director-General of the Department of Trade and Industry, or an officer of that Department designated by that Director-General; (iv)
- (viii) "Minister" means the Minister of Trade and Industry; (xi)
- (ix) "National Co-ordinator" means the National Co-ordinator of the Council appointed as contemplated in section 6(1); (xiii)

- (x) "National Small Business Support Strategy" means the national policy in respect of small business support as published by the Minister in the Gazette, and includes the policy as stated in the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (Notice No. 213 of 1995, published in Gazette No. 16317 of 28 March 1995); (xii)
- (xi) "prescribed" means prescribed by regulation; (xvii)
- (xii) "provincial council" means a provincial small business council for small business established under the constitution of the Council; (xiv)
- (xiii) "regulation" means any regulation made under this Act; (xvi)
- (xiv) "service provider" means any public or private entity providing support services to small business; (ii)
- (xv) "small business" means a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule; (vii)
- (xvi) "small business organisation" means any entity, whether or not incorporated or registered under any law, which consists mainly of persons carrying on small business concerns in any economic sector, or which has been established for the purpose of promoting the interests of or representing small business concerns, and includes any federation consisting wholly or partly of such association, and also any branch of such organisation; (viii)
- (xvii) "this Act" includes the regulations. (v)

CHAPTER 2

National Small Business Council

Establishment of National Small Business Council

2. The National Small Business Council is hereby established as a juristic person.

Functions of Council

3. (1) The functions of the Council are to-

- (a) represent and promote the interests of small business, with emphasis on those entities contemplated in the National Small Business Support Strategy; and
- (b) advise the national, provincial and local spheres of government on social and economic policy that promotes the development of small business;

(2) The Council may exercise such powers and must perform such duties as are reasonably necessary for or incidental to the performance of the functions mentioned in subsection (1).

(3) The Council must perform its functions in accordance with this Act and its constitution.

Constitution of Council

4. Subject to this Act and the National Small Business Support Strategy, the constitution of the Council must, among others, provide for-

- (a) the composition of the Council consisting of-
 - (i) 18 members of which each provincial council elects two members from their number; and
 - (ii) if the members referred to in subparagraph (i) so elect, five members appointed in an expert or representative capacity;
- (b) a provincial council for each province consisting of members elected by small business organisations that meet the criteria set out in the constitution;
- in (c) subject to this Act, and in order to achieve the objects contemplated section 3, the powers and duties of the Council and the provincial councils;
- (d) criteria for the appointment and procedures for the election of the members referred to in paragraphs (a) and (b);
- (e) the appointment of any alternate member to act during the absence or incapacity of a member of the Council or a provincial council;
- (f) the election of office bearers of the Council and provincial councils, their functions, and the circumstances and manner in which they may be removed from office;
- (g) a two year tenure for members of the Council and provincial councils;
- (h) the circumstances and manner in which membership of the Council and provincial councils may be terminated and procedures for the filling of vacancies;
- (i) the establishment and functioning of committees, including a management committee for the Council and provincial councils;
- (j) the co-opting as a member of any person to assist the Council, a provincial council or any committee in the consideration of any particular matter;
- (k) the rules for the convening and conducting of meetings of the Council and provincial councils, including the quorum required for and the minutes to be kept of those meetings;
- (l) the voting rights of the different members and the manner in which decisions are to be taken by the Council and provincial councils;
- (m) the provision of administrative personnel employed by the Council to assist provincial councils in the performance of their functions;
- (n) subject to section 7(2), the banking and investment of funds by the Council and provincial councils;
- (o) the determination through arbitration of any dispute concerning the

interpretation or application of the constitution of the Council;

(p) the delegation of powers and assignment of duties to members, committees and employees, provided that-

(i) the Council or a provincial council may not be divested of any power or duty by virtue of the delegation or assignment; and

(ii) the Council or a provincial council, as the case may be, may vary or set aside any decision made under any delegation or in terms of any assignment;

(q) a procedure for amending the constitution of the Council.

Remuneration of members, alternate members and co-opted members of Council and provincial councils

5. (1) The Minister, with the concurrence of the Minister of Finance, determines the salaries, allowances and conditions of service of members, alternate members and co-opted members of the Council and provincial councils who are not in the full-time service of the State.

(2) The salaries, allowances and conditions of service of the persons referred to in subsection (1) may differ according to the different offices held by them, the different functions performed by them, or whether they serve in a full-time or part-time capacity.

(3) Persons referred to in subsection (1) who are in the service of the State may not receive additional remuneration for serving on the Council or any provincial council, but may be reimbursed for expenses incurred in the performance of their functions in such last-mentioned service.

Staff of Council

6. (1) Work incidental to the performance of the functions of the Council is performed by a National Co-ordinator, who must be appointed by the Minister, after consultation with the Council.

(2) The National Co-ordinator may be assisted by-

(a) persons appointed by the Council;

(b) officers in the public service seconded to the service of the Council in terms of any law regulating such secondment.

(3) The conditions of service, remuneration and service benefits of the National Co-ordinator and the personnel appointed by the Council must be determined by the Council, with the concurrence of the Minister and the Minister of Finance.

(4) If the National Co-ordinator is for any reason unable to perform his or her functions, the Council may designate a person in its service to act as national coordinator until the National Co-ordinator is able to resume office.

Finances of Council

7. (1) The funds of the Council consist of-

- (a) money appropriated by Parliament;
- (b) grants, donations and bequests made to the Council;
- (c) money lawfully obtained by the Council from any other source, but loans raised by the Council are subject to approval of both the Minister and the Minister of Finance.

(2) All money received by the Council must be deposited in a banking account in the name of the Council with a bank established under the Banks Act, 1990 (Act No. 94 of 1990), or a mutual bank established under the Mutual Banks Act, 1993 (Act No. 124 of 1993).

(3) The financial year of the Council begins on 1 April and ends on 31 March of the following year.

(4) The National Co-ordinator is the accounting officer of the Council and must ensure that-

- (a) proper record of all the financial transactions, assets and liabilities of the Council are kept; and
- (b) as soon as possible, but not later than three months after the end of a financial year, accounts reflecting the income and expenditure of the Council and a balance sheet of the assets and liabilities of the

Council

as at the end of that financial year are prepared.

(5) The accounts and balance sheet referred to in subsection (4)(b) must be audited by the Auditor-General.

Transitional provisions in respect of Council

8. (1) For the purposes of this section, but subject to this Act, the council of the "National Small Business Council", an association incorporated under section 21 of the Companies Act, 1973 (Act No. 61 of 1973), and with the registration number of 96/08177/08, is deemed to constitute the Council.

(2) The Director-General must-

- (a) as soon as practicable convene a meeting of the Council;
- (b) determine the procedures for the meeting; and
- (c) chair that meeting.

(3) The purpose of the meeting and any subsequent meeting which may be necessary is to define a procedure for the adoption of the constitution by a representative body as contemplated in section 4(a)(i).

(4) On the adoption of the constitution of the Council-

- (a) all assets, liabilities, rights and obligations of the association referred to in subsection (1) pass to the Council; and
- (b) anything done by or on behalf of the said association is deemed to have been done by the Council, subject to this Act.

(5) The Director-General must as soon as practicable after the adoption of the constitution of the Council in writing notify the Registrar of Companies

and the Registrar of Deeds thereof and of the relevant provisions of this section.

(6) On receipt of the notification contemplated in subsection (5)-

(a) the Registrar of Companies must deregister the association referred to in subsection (1); and

(b) the Registrar of Deeds must make the necessary entries and endorsements in respect of any register and document in the registration office, or document submitted to that Registrar.

(7) No transfer duties, stamp duties, fees or taxes have to be paid for the purposes of this section.

(8) The Council constituted as contemplated in subsection (1) dissolves immediately before the first meeting of the Council constituted as contemplated in section 4(a)(i).

(9) The first meeting referred to in subsection (8) must be held within one year after the commencement of this Act.

CHAPTER 3

Ntsika Enterprise Promotion Agency

Establishment of Ntsika Enterprise Promotion Agency

9. The Ntsika Enterprise Promotion Agency is hereby established as a juristic person.

Functions of Agency

10. (1) The main functions of the Agency are-

(a) to expand, co-ordinate and monitor the provision of training, advice, counselling and any other non-financial services to small business in accordance with the National Small Business Support Strategy;

(b) to provide financial support to service providers that provide the services contemplated in paragraph (a);

(c) to consult with any organ of government, the Council or a service provider in order to-

services (i) facilitate the provision of business advice and counselling to small business;

(ii) facilitate access by small business to raw material and other products;

and (iii) facilitate international and national market access for products services of small business; and

(iv) generally, strengthen the capacity of-

(aa) service providers to support small business; and

(bb) small business to compete successfully in the economy; and

(d) to formulate and co-ordinate a national programme of policy research,

collection and dissemination of information concerning small business.

(2) Other functions of the Agency are-

- (a) to investigate, at the request of the Director-General, the effect of existing and proposed legislation on small business, and to report to the Director-General thereon;
- (b) to provide information and analysis on the implementation of the National Small Business Support Strategy to organs of government-
- (c) to make recommendations to organs of government on existing and proposed policy affecting small business; and
- (d) to improve the general understanding of the public regarding small business' contribution to the South African economic growth, job creation and welfare.

(3) The Agency must perform its functions in accordance with this Act and its constitution.

Board of Directors of Agency

11. (1) The Agency is managed and controlled by a Board of Directors consisting of-

- (a) no fewer than seven, and no more than 15 persons, appointed by the Minister;
- (b) the Chief Executive Officer appointed by the Minister on the recommendation of the Board; and
- (c) if the Board so elects, no more than five persons, appointed by the Board in an expert or representative capacity.

(2) The directors of the Board must be persons who-

- (a) have experience in business or administration; or
- (b) on account of their training or experience-
 - (i) are knowledgeable about trade, industry, finance or the economy; or
 - (ii) have legal knowledge of matters pertaining to small business; or
- (c) have experience of matters connected with, and of problems experienced by, small business or any small business enterprise; and
- (d) comply with other criteria which the Minister may prescribe.

(3) (a) The Minister must, by notice in the Gazette and in two newspapers which have general circulation throughout the national territory, invite nominations for directors to the Board referred to in subsection (1)(a) and (b).

(b) The directors referred to in subsection (1)(a) and (b) must be appointed by the Minister from nominations received from small business organisations, service providers and any other person involved in small business promotion and support.

(c) The Minister may, in terms of the criteria referred to in subsection

(2), appoint persons-

- (i) other than those nominated, if sufficient persons who meet the criteria are not nominated; or
- (ii) if there are insufficient nominations lodged within the period specified in the notice.

(4) For each director of the Board, other than the Chairperson and the Chief Executive Officer, the Minister may appoint an alternate director, who may attend and vote at meetings of the Board on behalf of a director if that director is unable to attend.

(5) All members of the Board, except the Chief Executive Officer, must serve in a part-time capacity.

(6) (a) The Minister, with the concurrence of the Minister of Finance, determines the remuneration and allowances of directors, alternate directors and co-opted directors of the Board who are not in the full-time service of the State.

(b) Persons referred to in paragraph (a) who are in the service of the State may not receive additional remuneration or allowances for serving on the Board, but may be reimbursed for expenses incurred in the performance of their functions in such last-mentioned service.

Rights and responsibilities of Board

12. The Board will have all of the rights and responsibilities consistent with those which are normally accorded to a board of directors in terms of the Companies Act, 1973 (Act No. 61 of 1973), and that are consistent with this Act.

Constitution of Agency

13. Subject to this Act and the National Small Business Support Strategy, the constitution of the Agency must, among others, provide for-

- (a) the appointment of the additional directors of the Board referred to in section 11 (1)(c);
- (b) the tenure of directors of the Board;
- (c) the circumstances and manner in which directorship is terminated and the procedures for replacing directors.
- (d) the election of office-bearers, their functions, and the circumstances and manner in which they may be removed from office;
- (e) the rules for the convening and conducting of meetings of the Board, including the quorum required for and the minutes to be kept of those meetings;
- (f) the voting rights of the different directors and the manner in which decisions are to be made;
- (g) the establishment of any division of the Agency to perform specialised functions;

- (h) the establishment and functioning of committees, including a management committee;
- (i) the co-opting as a member of any person to assist the Agency or any committee in the consideration of any particular matter;
- (j) the preparation by the Board, for approval by the Minister, of an annual business plan in terms of which the activities of the Agency is annually planned;
- (k) subject to section 15(2), the banking and investment of funds by the Board;
- (l) provisions to regulate the manner in which, and procedures whereby, expertise from any person is obtained in order to further the objects of the Agency;
- (m) the determination through arbitration of any dispute concerning the interpretation of the constitution of the Agency;
- (n) the delegation of powers and assignment of duties to directors, committees and employees, provided that the Board may-
 - (i) not be divested of any power or duty by virtue of the delegation or assignment; and
 - (ii) vary or set aside any decision made under any delegation or in terms of any assignment;
- (o) a procedure for amending the constitution.

Staff of Agency

14. (1) Work incidental to the performance of the functions of the Agency is performed by a Chief Executive Officer appointed as contemplated in section 11(1)(b).

(2) The Chief Executive Officer may be assisted by-

(a) persons appointed by the Board;

(b) officers in the public service seconded to the service of the Agency in terms of any law regulating such secondment.

(3) The conditions of service, remuneration and service benefits of the Chief Executive Officer and the personnel appointed by the Board must be determined by the Board, with the concurrence of the Minister and the Minister of Finance.

(4) If the Chief Executive Officer is for any reason unable to perform his or her functions, the Board may designate a person in the service of the Agency to act as chief executive officer until the Chief Executive Officer is able to resume office.

Finances of Agency

15. (1) The funds of the Agency consist of-

- (a) money appropriated by Parliament;
- (b) grants, donations and bequests made to the Agency;
- (c) money lawfully obtained by the Agency from any other source, but loans raised by the Agency are subject to approval of both the Minister and the Minister of Finance.

(2) All money received by the Agency must be deposited in a banking account in the name of the Agency with a bank established under the Banks Act, 1990 (Act No. 94 of 1990), or a mutual bank established under the Mutual Banks Act, 1993 (Act No. 124 of 1993).

(3) The financial year of the Agency begins on 1 April and ends on 31 March of the following year.

(4) The Chief Executive Officer is the accounting officer of the Agency and must ensure that-

- (a) proper record of all the financial transactions, assets and liabilities of the Agency are kept; and
- (b) as soon as possible, but not later than three months after the end of a financial year, accounts reflecting the income and expenditure of the Agency and a balance sheet of the assets and liabilities of the Agency as at the end of that financial year are prepared.

(5) The accounts and balance sheet referred to in subsection (4)(b) must be audited by the Auditor-General.

Drafting and adoption of constitution of Agency

16. (1) The Director-General must as soon as practicable after the appointment of the directors of the Agency contemplated in section 11 (1)(a) and (b), and thereafter as often as may be necessary, convene a meeting of those directors in order to draft and adopt the constitution of the Agency.

(2) The Director-General must determine the procedures for the meeting contemplated in subsection (1) and must chair that meeting.

Transitional provisions in respect of Agency

17. (1) On the adoption of the constitution of the Agency in terms of section 16(1)-

- (a) all assets, liabilities, rights and obligations of "Ntsika Enterprise Promotion Agency", an association incorporated under section 21 of the Companies Act, 1973 (Act No. 61 of 1973), and with the registration number of 95/02675/08, pass to the Agency; and
- (b) anything done by or on behalf of the said association is deemed to have been done by the Agency, subject to this Act.

(2) The Director-General must as soon as practicable after the adoption of the constitution of the Agency in writing notify the Registrar of Companies and the Registrar of Deeds thereof and of the provisions of this section.

(3) On receipt of the notification contemplated in subsection (2)-

- (a) the Registrar of Companies must deregister the association referred to in subsection (1); and

- (b) the Registrar of Deeds must make the necessary entries and endorsements in respect of any register and document in the registration office, or document submitted to that Registrar.

(4) No transfer duties, stamp duties, fees or taxes have to be paid for the purposes of this section.

CHAPTER 4

General Provisions

Determination of guidelines

18. (1) The Minister may, by notice in the Gazette, publish guidelines for organs of state in national, provincial and local spheres of government to promote small business and the National Small Business Support Strategy.

(2) The guidelines referred to in subsection (1) may include guidelines on-

(a) procedures for consultation with the Department of Trade and Industry on all proposed legislation identified by the Minister under subsection (3);

(b) the assessment of the effect and application of legislation on small business;

(c) co-ordination between organs of state in order to promote the consistent application of the National Small Business Support Strategy;

(d) procedures for consultation with small business organisations, trade unions and other representative organisations;

(e) the review of the effect of existing legislation on small business and the National Small Business Support Strategy.

(3) The Minister may, by notice in the Gazette, identify the type of legislation that may have an effect on small business and the National Small Business Support Strategy and in respect of which the consultations contemplated in subsection (2) (a) and (d) may be conducted.

Reports

19. (1) (a) As soon as practicable after the end of every financial year the Council and the Agency must each compile a report on their respective activities during that year.

(b) These reports, the respective constitutions, as well as the respective audited annual financial statements, must be submitted to the Minister, who must table them in Parliament.

(2) The Council and the Agency must furnish the Minister with any such other reports as the Minister may request.

(3) Entities designated by the Director-General, must in co-operation with the Director-General annually compile a review, called the Annual Review of Small Business, which must cover areas defined by the Minister or the Director-General, and areas including-

(a) particulars of the work performed by the Agency and Council and of progress achieved in furtherance of the objects of the National Small Business Support Strategy;

- (b) summaries of any findings or recommendations of the Director-General in respect of legislation, proposed legislation and administrative practices which restrict the small business sector;
- (c) an outline of new developments and trends in regard to the small business sector in South Africa;
- (d) reports on the growth and decline of small business according to sector, size and region;
- (e) a statistical analysis of the contribution of the small business sector to the economy, to export promotion, to rural development and to the level of incorporation of marginalised groups into the economy.

(3) The Director-General must submit the Annual Review of Small Business to the Minister before the end of February of each year and the Minister must table it in Parliament.

Regulations and amendment of Schedule

20. (1) The Minister may make regulations regarding-

- (a) any matter which in terms of this Act is required or permitted to be prescribed; and
- (b) generally, any other matter which may be necessary or expedient to prescribe in order to achieve the objects of this Act.

(2) The Minister may, in order to achieve the objects of this Act, by notice in the Gazette amend the Schedule to account for inflation, macro-economic shifts in the economy, any legislation affecting small business, and any other matter which could have an effect on the functionality of the Schedule.

Repeal of laws

21. (1) Subject to subsection (2), the Small Business Development Act, 1981 (Act No. 112 of 1981), the Small Business Development Amendment Act, 1984 (Act No. 54 of 1984), and the Small Business Development Amendment Act, 1990 (Act No. 16 of 1990), are hereby repealed.

(2) Section 2A of the Small Business Development Act, 1981, remains in force until a date determined by the Minister by notice in the Gazette, which date shall not be earlier than 12 months after the date of commencement of this Act.

Short title and commencement

22. This Act is called the National Small Business Act, 1996, and comes into operation on a date fixed by the President by proclamation in the Gazette.

SCHEDULE

(See definition of "small business" in section 1)

Column 1	Column 2	Column 3	Column 4	Column 5

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees	Total annual turnover	Total gross asset value (fixed assets excluded)
		Less than	Less than	Less than
Agriculture	Medium	100	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	100	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport, Storage and Communications	Medium	100	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Finance and	Medium	100	R20.00 m	R 4.00 m

Business Services	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
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Community, Social and Personal Services	Medium	100	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
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Photos showing survivalist, micro and small businesses in BCMM

