



Understanding South Africa's Informal Economy



Sustainable
Livelihoods
Foundation

The scope and scale of micro-enterprises in the township informal economy

Introduction

> The Sustainable Livelihoods Foundation (SLF) seeks to contribute towards the improvement of livelihoods among marginalised and vulnerable communities. The Foundation aims to achieve progressive change through actions in three areas: first, through improving policies and livelihoods programmes by undertaking rigorous evidence based research; second, through engaging and interacting with communities to understand their needs and recognise their solutions; and thirdly, through supporting appropriate and adaptable innovations (including policy led innovations) to strengthen human resilience.



Educares are important informal micro-enterprises

In support of this vision, the Foundation has initiated the Formalising Informal Micro-Enterprises (FIME) Project. The FIME objective is to develop an understanding of the obstacles that hinder the growth and formalisation of micro-enterprises situated in the informal economy in order to influence the policy environment and at the same time to encourage greater industry support for micro-enterprise. The project has enabled SLF to undertake path-breaking research into the informal economy of townships within the Western Cape, Gauteng and KwaZulu Natal.

Previous research suggests that there exists a small but important layer of informal enterprises within the South African economy – thought to reflect 10% of the scale of the formal economy. However, little is known of these businesses or the factors that foster or inhibit enterprise development within the sector. There is at best rudimentary knowledge of the scope and scale of the informal economy and its associated economic impacts.

'little is known of informal businesses or the factors that foster or inhibit their development'

This document provides a synopsis of the results of FIME endeavours to quantify the scope and scale of informal micro-enterprises. We understand informal micro-enterprises as being very small businesses, which characteristically employ fewer than five persons, have capital assets of less than R100,000,

operate informally and outside of regulatory frameworks. Many operate illegally, though the great majority sell legally manufactured products obtained from the formal economy.



Safe shops for children: house shops sell chips, sweets and icecream

Their 'informalness' can be either intended, as a result of an implicit cost-benefit analysis to avoid the various requirements for business registration, or unintended, as a result of policies and regulations that deliberately prohibit businesses from operating in certain contexts and localities.

Informal micro-enterprises are firmly established in the township and inner city environment. The goods they sell and the services these businesses provide form an integral part of the coherence of township life. The scope and scale of these micro-enterprises has been poorly understood.



Greengrocing is a prominent township business

THE RESEARCH SITES

> As part of FIME, SLF is undertaking a census of all micro-enterprises representing c300,000 people in three South African provinces.

In Cape Town (where initial research is completed), the case study sites were chosen to represent indicative dynamics of informality and marginalisation and are representative of the predominant human developmental challenges within the City. Each of these sites has different settlement, spatial and demographic characteristics as shown in Table 1.

Income and formal employment levels in these communities are low, and for the informal settlements (such as Sweet Home Farm and Overcome Heights where data is not available) would be lowest, which was plainly evident during our field research from the limited household investment in private vehicles, pay and non-pay television, and building infrastructure, where the use of scrap materials in construction is common.

'The sites were chosen to represent indicative dynamics of informality'



Houses built from scrap and illegal electricity connections, Sweet Home Farm



The researchers' bicycles outside of spaza shop, Vrygrond

Table 1 Research Site Characteristics

Site	Demography	Economics	Settlement	Spatial Influences
Delft South	Approx. 60% Coloured, South Africans and 40% Black South Africans.	61% unemployment average income per capita R732 – R1008 per month	Formal township with City built / controlled social infrastructure.	Located away from the formal commercial and industrial economy, access to shops via taxi and private vehicles.
Brown's Farm	95% Black, South Africans (Xhosa)	65% unemployment average income per capita R606 per month	Mixture of i) informal settlement ii) formal township with City built / controlled social infrastructure, iii) private residential development	Walking / short taxi access to rail terminal / taxi rank and commercial wholesalers.
Sweet Home farm	Approximately 95% Black South Africans. 5% Coloured South Africans	65% unemployment. average income per capita R606 per month	Informal settlement with minimal social infrastructure	Walking / short distances to rail terminal, taxi rank and commercial wholesalers
Capricorn	Approx. 30% Black, South Africans, 30% Coloured, South Africans, 40% Black, foreign Africans.	Data not available	Formal township, with private built social infrastructure.	Walking / short taxi access to formal shops, rail terminal and middle class neighbourhoods.
Overcome Heights	Approx. 55% Black, South Africans and 40%, Coloured South Africans, 5% foreign Africans.	Data not available	informal settlement, limited social infrastructure.	Walking / short taxi access to formal shops, rail terminal and middle class neighbourhoods.
Seawinds	98% Coloured South Africans. 2% Black South Africans	45% unemployment. average income per capita R1,019 per month	Formal suburb with State built and controlled social infrastructure	Walking / short distances to rail terminal, taxi rank and commercial wholesalers. Higher predominance of private cars.



Field Research Coordinator Rory Liedeman at an informal greengrocer, Vrygrond.

Cape Town field work was conducted between November 2010 and November 2011. The research process sought to record (by GPS) all existing micro-enterprises within the geographical site boundaries, with businesses identified through observation and discussion with residents.

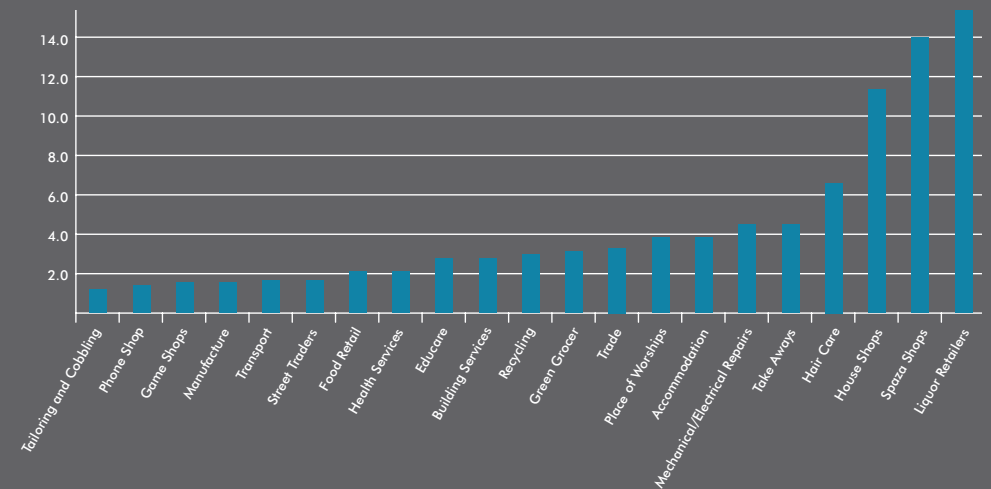
'researchers covered the entire area of each site through traversing every street, alley and pathway between shacks on foot and by bicycle'

The researchers covered the entire area of each site through traversing every street (both paved and unpaved), alley

and the pathways between shacks on foot and by bicycle. Research was undertaken during weekdays in daylight hours. Detailed interviews were carried out with identified businesses, namely spaza shops, liquor retailers and on-consumption venues, educare and crèches, and traditional healers.

The investigatory team comprised multi gender, multi lingual and locally resident members, all of whom were immersed in the day to day life and local business environment during the research. The results (summarized following) are being published in peer reviewed academic literature and are contributing to six postgraduate research higher degrees.

Chart 1. Micro-enterprises in Browns Farm, Delft, Sweet Home Farm, and Vrygrond C. 2011: Most numerous business types as a percentage of all identified businesses. Sample: 3860 Micro-enterprises



MAIN RESEARCH FINDINGS

Overall scale

The research revealed that the scope and scale of informal micro-enterprises is broader than generally recognised in existing policy analysis and academic studies. In all sites combined, we identified 3860 informal economy businesses in 30 diverse categories of business – including agriculture, taxi enterprises, food take aways, butcheries, rental accommodation and liquor retailing.

Business Types

The six most prominent businesses, in order of magnitude, were liquor retailers / shebeens, spaza (grocery) shops, house shops (selling a smaller range of items, notably chips and sweets, cool drinks,

cigarettes and frozen meat), hair salons / barber shops, and, in equal proportion, take aways and businesses undertaking mechanical and electrical repairs. These six business categories were the most numerous in all sites, with certain notable exceptions. In Vrygrond, for example, the provision of accommodation to foreign Africans is the most common business, followed by spaza shops and liquor retailers. In Sweet Home Farm, where poverty is rife and residents have few material possessions, least of all vehicles, there are few businesses providing repair services, but a considerable number engaged in trade and food retail. There are over twice the number of businesses selling liquor to spaza shops, a result which does not simply reflect the poverty situation in this particular site but also the dearth of recreational space within people's homes.

The relative proportion of the twenty most numerous business types as a proportion of all identified micro-enterprises is shown in Chart 1.

More than 90% of liquor retailers are unregulated and operate illegally. These businesses are known as shebeens. Shebeens and licenced taverns have probably the greatest multiplier effect

on job creation and other businesses. Direct beneficiaries include take aways, recycling (glass bottles), spaza shops (for cigarettes, cooldrinks and airtime) and butcheries, which sell meat for street braais. Liquor retailers also have upstream multiplier effects on formal businesses in the liquor supply chain and tavern service providers (juke boxes, pool tables).



Spaza shops (grocery retailers) are one of the most numerous and competitive businesses in the local informal economy.



Shipping containers as innovative business structures: safe, secure, movable and sellable

Spaza shops similarly contribute towards job creation, through their economic multipliers towards suppliers, wholesalers and producers. The research found that just over 50% of spaza shops are run by foreign nationals, with Somalis accounting for 80% of the 245 foreigners running businesses in this sector. Other economically important businesses include educares (and crèches), health care services (traditional doctors and

medicine) building services, and traders of such as plastic goods. We also classified places of worship as micro-enterprises because most operate independent of orthodox institutions, yet provide a livelihood for the religious leader and their extended family.

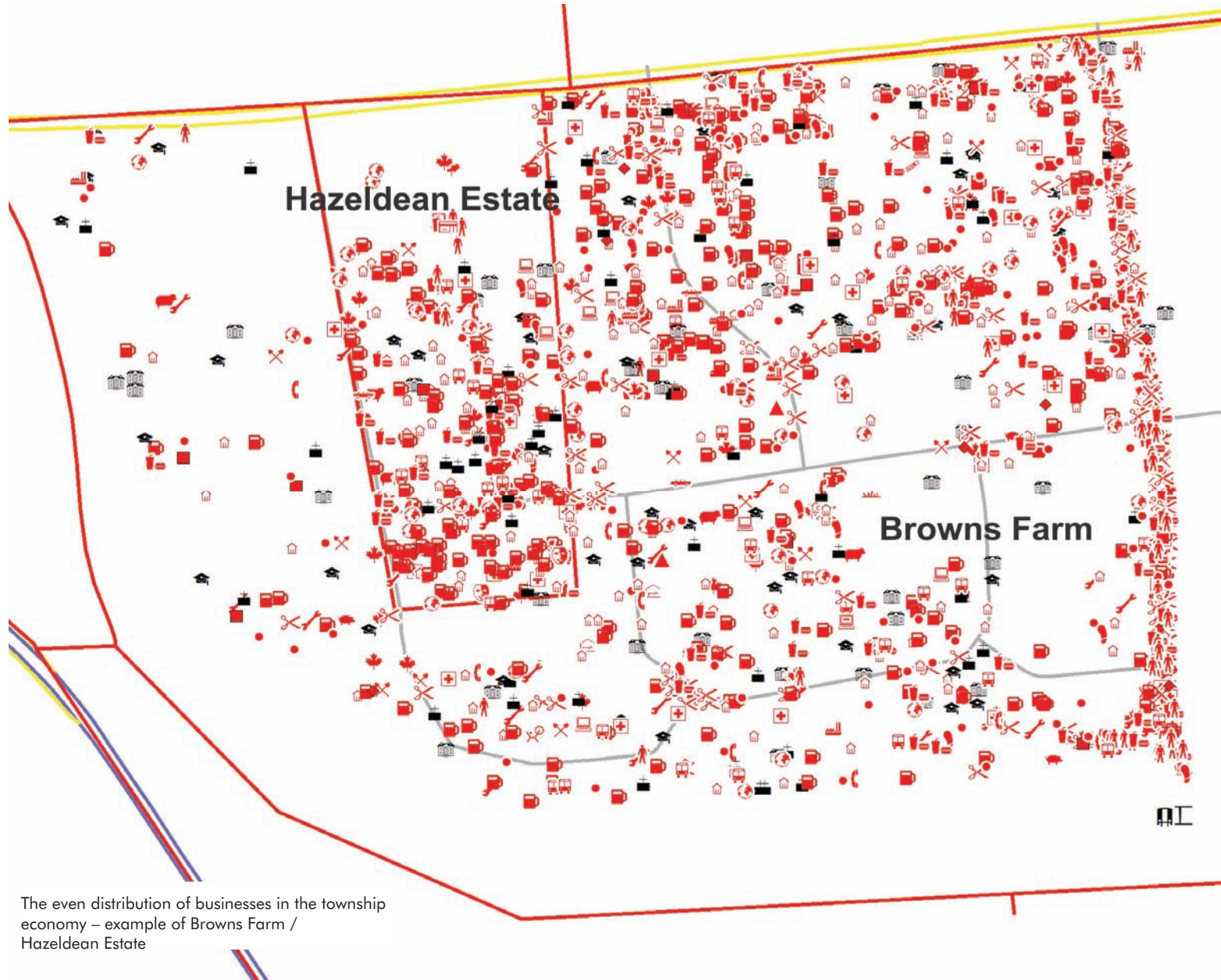
The research found that just over 50% of spaza shops are run by foreign nationals

Distribution of all identified micro-enterprises, Browns Farm and Hazeldean Estate, Philippi, November 2011

Map legend

Enterprise category and count of enterprises

	Shebeen	286
	House shop	213
	Spaza	135
	Hair care	132
	Take aways	110
	Green grocer	70
	Place of worship	60
	Mechanical/ electrical	54
	Building services	50
	Community resources	48
	Trade	48
	Recycling	46
	Transport	43
	Educare	42
	Health service	39
	Tailoring and cobbling	36
	Phone shop	33
	Car wash	22
	Business services	21
	Butcher shop	17
	House stand	14
	Manufacture	14
	Personal services	14
	Agriculture	9
	Food retail	7
	Tavern	6
	Drug dealer	5
	Restaurant	3
	Entertainment	3
	Accommodation	2
	Game shop	2
	Artist	1
	Wetland	1
	Wholesaler	1



Serving a cultural niche –
a traditional medicine retailer
in Phillipi.



Spatial distribution

The research revealed that certain retail businesses (i.e. spaza shops and shebeens) were spatially located within the heart of residential areas, and that their distribution is remarkably even (see Map 1).

Their location seems little influenced by infrastructure, high streets or major secondary streets. The positioning of the businesses reveals the existence of highly localised forces of demand, with the businesses responding through provision of services in close walking distance to people's homes.

Transport routes do influence business location, but only where they are able to attract significant pedestrian traffic. This is evident at Philippi train station and entrance road thereto, as well as along Delft main road where public infrastructure and taxi services attract pedestrians. Roads that do not sustain pedestrian movement, but serve simply as conduits for the motor vehicle, do not influence micro-enterprise development. Instead there is evidence of enterprises clustering along pedestrian routes and in specific locations where there is a long tradition of engagement in particular activities. An example is the clustering of live chicken retailers along Lansdowne Road, Sweet Home Farm.

Businesses that benefit from clustering include for example: traditional medicine, fast food take aways, car washes, and street traders (fruit and vegetable

stalls and stands selling cigarettes and sweets). Some potentially conflicting businesses operate, paradoxically, in the same spatial context, an example being churches and shebeens. These businesses can coexist because they operate in different time cycles, and also because they do not usually compete for customers. This finding highlights the importance of time in the positioning and operation of micro-enterprises. The high street in the informal economy undergoes cyclical periods of peaks and troughs, becoming most active and animated during the surge of wage earning workers to public transport in the early morning and their return home again in the late afternoon.

Settlement nature

Settlement dynamics, along with higher household income, are found to influence profoundly the diversity of businesses and their distribution. In the informal settlement context, there are no roads, so people cannot own cars (assuming they had the means) and the constraints of space impose a physical restriction on business growth.

Some entrepreneurs can overcome these challenges, such as the furniture manufacturer in Browns Farm who stores his materials and couches on the roof-tops of the neighbouring properties. In the planned settlement of Delft South, the allotted plot size was sufficient to leave aside space for a backyard and a single garage alongside the house.

Skarreling for scrap:
Cape Town, coastal landfill



The space has been utilised to construct separate accommodation, sometimes to provide extra income through the rental from a bungalow. For those with a garage, the space is ideally suited to the operation of a great variety of businesses, including spaza and game shops, micro-manufacturing (such as furniture), running a butcher shop and repairing cars. In Delft there is a hive of activity related to cars, which supports an economy of micro-enterprises, including; mechanics, panel beaters, spare dealers, car washes and transport services. A similar influence is evident in parts of other sites with the same spatial and socio-economic characteristics.

Delft South differs from the three other sites in that it is spatially the least connected to areas where formal business predominates.

In Sea Winds, a population with similar socio-economic characteristics to Eindhoven and parts of Delft South, there are few micro-enterprises, which might be explained by the close proximity of this particular site to industrial areas, shopping malls and long established high streets. Similarly in Capricorn, the close proximity of the site to a shopping mall complex with a supermarket and fast food outlets may influence the low number of micro-enterprises selling take-away food.



Shebeens: neighborhood venues of social interaction

Cultural Factors

The research found that cultural influences provide an important source of economic opportunities in the form of niche markets. The great number of liquor businesses in the township can be attributed to a segmented market, with businesses targeting different typologies of clients and offering different environments and services. This process is notable in businesses selling food products or providing take away food.

'Cultural influences provide an important source of economic opportunities'

In predominantly Coloured areas, the research identified a considerable number of micro-enterprises selling frozen food or fresh fish and take-away food businesses selling gatsbys (chip and filling rolls) or home-made ice-suckers (bompies), while in predominantly African areas, there were many businesses selling offal products or running street braais and selling sheep's heads and hooves. Cultural influences also shape micro-manufacturing opportunities as evident in the manufacture of traditional clothing and beadwork and create demand for traditional medicine and unique health care products such as false teeth.

Land Use Planning and Regulations

The majority of the identified micro-enterprises operate in conflict with municipal regulations, especially land

use planning criteria. In Delft South and Browns Farm, a number of spaza shops, notably those belonging to foreign shopkeepers, operate from used shipping containers in contravention of land use regulations. Shebeens are unable to obtain liquor licences without obtaining a land use departure towards commercial rezoning; a requirement that municipalities will not grant in what are classified as residential neighbourhoods. All businesses that display commercial signage (most spazas), operate on street pavements (green grocers, butchers and take aways), or noise pollute or present environmental risks (car mechanics and panel beaters) contravene the same regulations. Educare/ crèches require registration from Provincial authorities though most operate illegally.

Of all the micro-enterprises that contravene the myriad of laws and regulations on running home-based enterprises, the state has targeted (systematically) liquor businesses. The research encountered only one spaza shop which was forcibly shut down for contravening land use regulations, and this was a business run by a political leader of an opposition movement.

FURTHER RESEARCH

The FIME project is conducting research in sites in Gauteng and KwaZulu Natal to permit a national perspective. In Cape Town, the project will re-examine each research site to understand how the current mixture of businesses (and ownership, in the case of spaza shops) changes over time and is influenced by policies and state interventions.

Chart 1:
Proportion of informal micro-enterprises by type – Cape Town 2011



See business distribution map for key to businesses

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