

Title: Growing the (in)formal economy: regulations and other obstacles to the spatial integration of informal enterprises

Presenter: Dr Andreas Scheba

Institution: Human Sciences Research Council, Economic Performance and Development

TRANSFORMATION IN A NUTSHELL

The informal economy offers tremendous potential for inclusive economic growth and the reduction of urban poverty, inequality and unemployment. Over 17% of eThekweni's workforce operates in the informal economy. Official city policy declares government support to the informal sector, but national regulations and local by-laws constrain spatial integration of informal enterprises in the city. A more progressive, flexible regulatory approach with more realistic norms and standards is needed to enable growth and transformation of informal businesses and the township economy.

KEY COMPONENTS

- The significance of the informal economy to reducing poverty, unemployment and inequality has increasingly been acknowledged in policy and practice
- There is a need for better spatial integration of the informal economy in order to improve overall economic growth and urban development
- The eThekweni Municipality has developed progressive policies and implemented projects to date, but national and municipal laws and practices constrain growth
- Regulatory and other obstacles need to be tackled to create better formal-informal synergies and boost the city economy

BENEFITS TO ETHEKWINI MUNICIPALITY

- Reduction of urban poverty
- Reduction of urban inequality
- Growth of city economy
- Employment creation
- Micro enterprise development

SUMMARY

The informal sector is a vital source of employment and livelihoods to millions of people living in South Africa, offering tremendous potential for the reduction of poverty, inequality and unemployment. It is estimated that over 2.5 million people work in the informal sector in South Africa (over 3 million including agriculture), comprising 17 per cent of the total workforce in 2014. Although Johannesburg has the largest number of informal sector workers – estimated to be about 250,000 individuals – eThekweni records the highest share with informal workers constituting over 17 per cent of its workforce. Because of the great variety of industries and activities of the informal sector, different actors are involved ranging from survivalist traders to growth-oriented manufacturing businesses that attract more technically skilled entrepreneurs and relatively higher capital investments.

Formal and informal sectors are not two separate economies – often misleadingly referred to as first and second economy – but in reality make up two sides of the

same coin, which are deeply interlinked and dependent upon each other. In times of sluggish economic growth and persistent poverty, unemployment and inequality, South Africa's development path could be considerably enhanced by spatially integrating informal businesses into the city economy more effectively. The spatial integration of informal businesses would provide entrepreneurs with better access to financial services such as start-up capital and credit, markets and customers, physical infrastructure (transport, storage, basic services), security, government services and business and technical development programmes. A concerted effort is required that can foster spatial integration and stronger interactions between formal and informal businesses. While this is undoubtedly a complex task that requires multiple actors working together on various fronts, local government has a unique responsibility to create an enabling regulatory environment and implement strategic investments.

The importance of location to informal enterprises calls for targeted government initiatives that can 1) improve their access to city centres and more affluent suburbs with more profitable markets and high-income customers and 2) integrate township economies better into the urban fabric to improve the flow of people, capital, goods and services into poorer areas. Ethekewini Municipality has implemented exemplary projects that balance competing land use interests and integrate informal traders into the urban form, e.g. Warwick junction and shopping mall in Umlazi, but more appropriate government policy, regulations and practices are required to achieve broad-based and long-term economic transformation. This will include reform of some of the conditions, norms and standards of national legislation including the Business Act, Foodstuffs, Cosmetics and Disinfectants Act, National Building Regulations and Building Standards Act, National Road Traffic Act as well as municipal by-laws and practices.

To grow the township economy and integrate informal micro enterprises into the formal space economy, numerous obstacles including crime, competition from big formal retail chains, the absence of good transport connections, availability of land, physical infrastructure, land use management regulations and the residential-focussed spatial design of the township must be addressed. The lack of formal tenure, too rigid legislative standards and unfavourable land use management systems represent considerable challenges to the growth of informal businesses in township areas.

Without addressing regulatory and other structural hurdles, investments and initiatives by eThekewini Municipality into the township economy may be severely limited in its pursuit of inclusive economic growth. More evidence-based research is required to understand 1) the impacts of recent municipal policies, practices and strategic infrastructure investments on informal businesses in the city (both in more affluent suburbs and township areas) and 2) how to create an integrated regulatory/policy framework that can maximise formal-informal economic synergies.