



URBAN-ECON

Understanding the barriers to formality

Evidence from a small enterprise survey in eThekweni

June 2017

Celebrate Development Diversity



Intro and Overview

Our project objectives:

- Barriers to formalisation
- Perceptions around formalisation and informality
- Impact of government programmes
- Local needs and challenges



33

Conducted 33 in person interviews



1

Completed registration of 1 small business



5

New stakeholder connections, and counting...



ELLA

Evidence and lessons from Latin America

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Definitions, debates and data

- **Definitions**

Type	Dimension
Voluntary	Choice
Induced	Barriers to Formality
Subsistence	Productivity

- **Debates: Why formalise?**

- Social protection
- Rule of the law
- State revenue
- Productivity
- Service provision

2 872 745

South Africans work in
the informal sector

17.7%

Of total employment

1 601 112

non VAT registered
businesses

Findings and failures

- Non scientific survey method
- Low response rate
- Intended to gain insights from local businesses
- Numerous challenges identified:
 - Crime and theft
 - Competition
 - Skills
 - Lack of support

Key insights from survey

- Little evidence of impact of policy and strategy
 - Self financed
 - Private sector for training
 - Limited knowledge of regulatory frameworks
 - Lack of trust in local government
 - High levels of competition
 - Limited collaboration or community networks

Impact Study

- Identified a small informal business in need of assistance
- Obtained licence and registration
- Results:
 - Process simple with assistance
 - Poor service -> discouraged entrepreneurs
 - Licensing is only a small part of ‘formalisation’

Barriers to formality

Based on findings from stakeholder engagements, interviews and surveys

Access to finance for business startups and for business expansion



Lack of visibility and engagement with local government

Inadequate skills and training opportunities



Complex regulatory requirement and unresponsive institutions

Access to information and markets to improve growth opportunities



- Constraints to growth and employment
- Barriers to informality
- Barriers to entrepreneurship

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Way Forward

- Information and outreach
- Mentorship and support
- Business skills and training (coordinate and facilitate)
- Data and research repository
- Market access and support

By 2020, *eThekweni* Municipality will be Africa's most *caring* and liveable city.