

INEQUALITY AND ECONOMIC MARGINALISATION

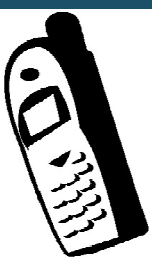


Clothing traders in Gauteng: Motivations, barriers and macroeconomic linkages

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ABOUT THIS RESEARCH

The 2007 Annual Report of the Accelerated Shared Growth Initiative of South Africa (AsgiSA) identified a need to focus on what was then called ‘the second economy’, and on mechanisms to ensure shared growth reaches the margins of the economy. The Second Economy Strategy Project was initiated in this context. It reported to the AsgiSA High Level Task Team in the Presidency, but was located outside government in TIPS.

A review of the performance of government programmes targeting the second economy was completed in early 2008. The project then commissioned research and engaged with practitioners and policymakers inside and outside government. A strategic framework and headline strategies arising from this process were approved by Cabinet in January 2009, and form part of the AsgiSA Annual Report tabled on 16 April 2009.

In South Africa, people with access to wealth experience the country as a developed modern economy, while the poorest still struggle to access even the most basic services. In this context of high inequality, the idea that South Africa has ‘two economies’ can seem intuitively correct, and has informed approaches that assume there is a structural disconnection between the two economies. The research and analysis conducted as part of the Second Economy Strategy Project highlighted instead the extent to which this high inequality is an outcome of common processes, with wealth and poverty in South Africa connected and interdependent in a range of complex ways. The different emphasis in this analysis leads to different strategic outcomes.

Instead of using the analytical prism of two economies, the strategy process placed the emphasis on the role of structural inequality in the South African economy, focused on three crucial legacies of history:

- The structure of the economy: its impacts on unemployment and local economic development, including competition issues, small enterprise, the informal sector, value chains and labour markets.
- Spatial inequality: the legacy of the 1913 Land Act, bantustans and apartheid cities, and the impacts of recent policies, looking at rural development, skewed agriculture patterns, and the scope for payment for environmental services to create rural employment.
- Inequality in the development of human capital: including education and health.

TIPS’s work around inequality and economic marginalisation is built on the outcomes of this strategy process.

The research undertaken under the auspices of the Second Economy Strategy Project continues to be relevant today as government explores policy options to reduce inequality and bring people out of the margins of the economy. This report forms part of that research.

A list of the research completed is available at the end of this report. Copies are available on the TIPS website: www.tips.org.za.

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INTRODUCTION

Street trading is the most common type of informal self-employment activity in South Africa.¹ Traders sell a range of products such as fruits and vegetables, cooked food, new and used clothing, cosmetics, footwear, dvds, “public” telephone services and mobile phone accessories. Most traders operate from stalls or tables in market areas or on sidewalks. Some of these traders are licensed and rent their business space from the municipality.²

The aim of this project is to understand whether the macroeconomic environment and other barriers to entry into the informal street trading sector offer insight into the relatively small size of the South African informal economy.³ The paper explores macroeconomic linkages and other barriers that traders encounter when entering street trading and while sustaining their businesses. The motivation for this research question is the paradox of South Africa's very high rate of open unemployment, estimated to be at least 40 percent using a broad measure (Cichello et al. 2006), but low level of participation in the informal economy. Because street trading is thought to be among the sectors in the informal economy with the lowest barriers to entry, identifying the barriers that traders do confront may offer some clues to the reasons so many of the unemployed do not enter trading.⁴

The paper is divided into seven sections. The first provides an overview of the South African informal economy and unemployment. The second section contains an assessment of statistics on street trading in South Africa and the role of trading in the South African economy. Section three describes the fieldwork that was conducted to gather information about the barriers that traders confront. Section four explores linkages between the formal and informal economies and suggests that rather than operating as distinct “sectors,” there are concrete ways that they are tied together and mutually reliant. Section five offers a comprehensive analysis of trader-identified barriers to starting and maintaining their business. The sixth section connects macroeconomic policies to traders' experiences. The report concludes with a brief summary of the report and policy implications.

1 See FinScope (2006). According to a FinScope (2006) survey of 2,001 small businesses in Gauteng 64% were informal street vendors/hawkers, 18% were “unregistered individuals,” and 17% were formal businesses (p20). Unregistered individuals had not registered their business but were not classified as “Informal/street/market/stall trader (small).” “Formal businesses include those businesses that have registered their business with the Companies and Intellectual Property Office (CIPRO) as a sole proprietor, a partnership, a co-operative, a close corporation, or a (Pty)Ltd.”

2 The field research took place in two municipalities: The City of Johannesburg Metropolitan Municipality, which has a process for licensing traders and the Ekurhuleni Metropolitan Municipality which does not have a licensing process in place.

3 There is debate over using the terminology “second economy,” “informal economies” or informal economy and informal sector. The second economy is the broadest among these and most informal activity lies within this conceptualization of marginalized people and spaces. Some theorists argue that the term “informal sector” conceals significant heterogeneity among informal income earning activities and obscures linkages between the formal and informal economies (Skinner 2005). The use of the term “informal economy” is understood to encompass a greater number of informal income generating activities and to highlight the interactive nature of the formal and informal elements of one economy. Therefore I will use the “informal economy” terminology to refer to a wide range of informal income earning activities which comprise different sectors within the informal economy.

4 This is not to suggest that everyone who is unemployed can or should enter trading. Rather, the focus is on the challenges to entry and sustainability that traders face in this sector – a sector in which relatively few challenges are anticipated.

THE INFORMAL ECONOMY

Recent research shows that informal employment is increasing in most countries worldwide and in some countries informal sector employment growth is occurring more rapidly than formal sector growth, which may be stagnant or declining.⁵ This project examines what induces street traders to enter the informal economy as traders, how they experience deterrent barriers to entry and successful operation and ways they are impacted by the South African macroeconomic environment. Understanding the informal economy and its linkages to macroeconomic conditions is key to understanding employment and poverty in developing countries.⁶ South Africa provides a unique context for this research: the low level of participation in the informal economy in the face of very high unemployment suggests that micro-level and macro-level barriers exist to entering what is commonly thought of as a “free entry sector.”

Hart (1976) coined the term “informal economy” to describe his observations about urban employment in Ghana. The informal economy includes a diverse set of economic activities ranging from insecure, sub-contracted piecework done at home and domestic labour to self-employment, which may be entrepreneurial (Chen et al 1999; Tabak 2000; Peterson 2003; Schneider 2000). Skinner (2005) notes that although different criteria are emphasized by different authors, the commonality shared by informal economic activity is it tends to be relatively small scale and “elude[s] certain government requirements such as registration, tax and social security obligations and health and safety regulations for workers.”

This paper focuses on self-employed street traders but questions the conceptualization of self-employment as a choice; a decision made by people who see themselves as entrepreneurs and view street trading primarily as a profitable opportunity. By examining motivations and barriers and linkages between the macroeconomy and traders we can gain insight into why some people “choose” to enter the informal economy and others do not.

Informal employment exists mainly, albeit not solely, because opportunities to work in the formal sector are small relative to the number of people who would prefer formal employment (Cichello et al. 2005). In other words, there is insufficient growth in formal employment and, as a result, some people enter informal employment, including street trading. Much of the informal work done in underdeveloped countries is for day-to-day survival due to the lack of alternative methods of generating income. Likewise, much informal self-employment is a response to limited formal opportunities and barriers to entering formal markets. Informal workers are making 'rational' decisions about the use of their labour given the limited formal opportunities available to them.

The South African labour force

The unemployed

According to the 16th Labour Force Survey (LFS)⁷, conducted in September 2007, South Africa's official unemployment rate is 23%.⁸ An expanded definition of unemployment that includes discouraged work-seekers puts the unemployment statistic at 35.8%.⁹

5 For example, formal sector employment fell every year between 1994 and 2001 in South Africa (Heintz 2003, SARB Quarterly Bulletins). See Avirgan et al. (2005) for case studies of Egypt, El Salvador, India, Russia, and South Africa.

6 See International Labour Organization (2002), Pollin et al. (2006), and Lund and Skinner (2004) for an explanation of the correlation between poverty and informal labor.

7 There are some known problems with the LFS data which may result in under-counting informal activity. See Devey, Skinner and Valodia (2003). However, these data are the best available at a country-wide level.

There are a number of arguments for using the “expanded” definition of the labour force and unemployment.¹⁰ The primary reason is that discouraged work-seekers are actually unemployed even if they have given up looking for work. For example, unemployment fell from September 2005 to September 2007, but the number of discouraged work-seekers rose simultaneously. This implies that much of the drop in unemployment was caused by previously “unemployed” persons giving up on looking for work, possibly because they believe they will not be able to find employment.

The employed

The official employment rate – regardless of classification as formal or informal - is 77% of the labour force or 64% of the expanded-definition labour force. Persons who are considered employed can be disaggregated into those engaged in employment in the formal economy (excluding agriculture and domestic workers) – 42.6% of the labour force - and those in employment in the informal economy (also excluding agriculture and domestic workers) – 10.3% of the labour force.¹¹

Summary

- Using the expanded definition of the labour force
- Formal employment accounts for 42.6% of the labour force¹²
- Informal employment accounts for 10.3% of the labour force¹³
- Unemployed and discouraged work-seekers account for 35.8% of the expanded labour force^{14 15}

The point of interest for this research project is why this 35.8% of the expanded labour force remains unemployed rather than entering informal self-employment – in other words, why so few people “choose” self-employment in the informal economy.

South Africa's unemployment statistics indicate two related phenomena. The first is that the formal economy is incapable of absorbing the quantity of labour available. The second is that people are not choosing to join the “free entry” sector or informal economy. Instead they

8 The official unemployment rate includes “[p]ersons aged 15-65 who did not have a job or business in the seven days prior to the survey interview but had looked for work or taken steps to start a business in the four weeks prior to the interview and were available to take up work within two weeks of the interview.” This includes 3,945,000 persons. (Stats SA 2007 - P0210)

9 The expanded definition here includes those classified as “officially unemployed” and discouraged work-seekers. Discouraged work-seekers are “[p]ersons who want to work and are available to work but who say that they are not actively looking for work.” This comprises 3,425,000 persons. (Stats SA 2007 - P0210)

10 Using the expanded definition of unemployment requires using an expanded definition of the labour force to include employed, unemployed (official definition), and discouraged workers.

11 Survey respondents self-identify whether they are employed in the formal or informal sector. “Respondents are told that formal sector employment occurs where the employer (institution, business, or private individual) is registered to perform the activity, whereas informal sector employment does not require the employer to be registered.” (Stats SA 2007 - P0210)

12 Formal sector workers/(employed+unemployed (official definition)+discouraged work-seekers) = $8\,785 / (13\,234 + 3\,945 + 3\,425) = 8\,785 / 20\,604 = 42.6\%$ (All numbers in thousands) (Stats SA 2007 – P0210)

13 Informal economy workers/(employed+unemployed (official definition)+discouraged work-seekers) = $2\,122 / (13\,234 + 3\,945 + 3\,425) = 2\,122 / 20\,604 = 10.3\%$ (All numbers in thousands) (Stats SA 2007 – P0210)

14 Unemployed+Discouraged work-seekers/(employed+unemployed (official definition)+discouraged work-seekers) = $(3\,945 + 3\,425) / (13\,234 + 3\,945 + 3\,425) = 7\,370 / 20\,604 = 35.8\%$ (All numbers in thousands) (Stats SA 2007 – P0210)

15 The remaining portion of the expanded labor force is employed in agriculture or as domestic workers. These workers are excluded from the LFS question in which formal/informal employment status is assessed and therefore excluded here as well.

are “choosing” not to join the informal sector. These linked phenomena suggest two connected research questions:

- What is restricting labour supply to the informal economy?
- What is restricting labour demand by the South African economy – formal and informal?¹⁶

This report attempts to address these questions by looking at barriers to starting and sustaining trading businesses in the South African economy.

The South African informal retail sector: Employment and economic value

Quantity of employment

Wholesale and retail trade constitutes nearly half of the informal employment and self-employment in South Africa. Street trading constitutes most informal self-employment in Gauteng. FinScope (2006) estimates “informal/street/market/stall traders” at 64% of Gauteng's informal economy – 673,576 traders – using the qualification of Companies and Intellectual Property Registration Office (CIPRO) registration status to operationalise “formality.” Other surveys offer more conservative estimates based on differing scope and criteria. For example, Stats SA finds 45.1% of informal work nationally is wholesale and retail trade using self-identification (Stats SA LFS 2007). Table 1 offers a sectoral breakdown of informal employment.

Table 1: The Informal economy by sector

Industry	Number of informally employed	Percent of informally employed
Trade (incl. wholesale and retail sectors)	957,000	45.1
Construction	368,000	17.3
Manufacturing	220,000	10.4
Services (incl. community, social, personal)	202,000	9.5
Private households (excl. domestic work)	176,000	8.3
Transport	114,000	5.4
Finance	74,000	3.5
Utilities	6,000	0.3
Mining	3,000	0.1
Other	3,000	0.1
Total (excl. agriculture)	2,123,000	100%

Source: Author's calculations using Stats SA data (2007)

According to the Labour Force Survey about 40% of informal workers are working in “elementary sales and services occupations” including street vending, street services and

16 Many of the macroeconomic policies affecting the formal sector also impact labor demand in the informal sector. For example, if inflation targeting decreases formal employment and thus restricts consumption spending then reduced demand for consumption goods is likely to be felt both in the formal and informal economies (which are, of course, linked), particularly among the sectors selling non-necessities.

domestic work. Among these, a majority do domestic work followed by vending of food and other items. These items account for 4.5% of all informal sector workers.

Trading is an important form of self-employment in South Africa but the number of traders, although growing, remains very low relative to the number of unemployed.

VALUE: CONSUMPTION SPENDING, REVENUE, PERSONS SUPPORTED

Contribution to Gross Domestic Product

A 2003 UNISA study of households in Gauteng indicates that 9.4% of spending on retail sector goods and services¹⁷ takes place in the informal economy. Households buy goods and services from hawkers/street traders, spaza shops, shebeens, and other informal outlets. This includes 9.2% of all spending on food (R4.1 billion) and 4.4% of all spending on clothing, footwear, and accessories – or R495,325,000.¹⁸ A more recent nation-wide study estimates that expenditure in the informal economy was over R50 billion in 2004 (Ligthelm 2006).

In terms of economic value, it is estimated that the South African informal economy contributes up to 12% of GDP; estimates have put the figure between 7% and 12% of GDP (Devey, Skinner and Valodia 2006). Skinner (2008) notes, “Although individual incomes are often low, cumulatively these activities contribute significantly to gross geographic product.”

Households and individuals supported

Another way to conceptualize the value of the informal economy is to consider the number of people whose well-being depends upon the income it generates. One study based in Limpopo estimates that 100,000 businesses support 500,000 individuals (Research Support to the Limpopo Centre for LED 2008).

On average, the traders interviewed for this Gauteng-based project indicated that there were four members in their households. Although the sample was small, the level of dependency on income generated by the business is about the same as is found in other studies. About half of the households were supported solely by income from the traders' business. The traders reporting total household reliance on income from their business were more likely to be female. The other half had a second income earner who was employed in a formal job (50%) or in another informal business (50%).

FIELDWORK

Research methodology

The fieldwork collected data about the business of trading in new clothing in and around Johannesburg using a semi-structured survey. Past fieldwork was conducted in Johannesburg by Vandana Chandra for the World Bank in 1999. The research took the form of a 500 firm survey followed by a similar survey by Caroline Skinner in Durban in 2003. The Johannesburg survey data is not publicly available and, for most questions, is not disaggregated by sector.

¹⁷ The retail sector includes: food; clothing, footwear, and accessories; fuel and light; medical and dental medicine; stationary and books for educational purposes; recreation/equipment; furniture and household equipment; alcoholic beverages; cigarettes and tobacco; washing and cleaning materials; personal care; reading matter and stationary; holiday/weekend/refreshments. See UNISA (2003) Table 3.3 – Total Annual Cash Expenditure by Main Expenditure Group and Type of Outlet, 2003.

¹⁸ By sector, the informal economy claimed the largest portion of spending on alcoholic beverages with 31.1% or R1.8 million. Other sectors with substantial spending included 27.4% of spending on reading matter and stationary (R488,681), 17.1% of spending on cigarettes and tobacco (R421,061), and 16.7% of spending on fuel and light (R65,606).

The FinScope survey, which is specific to Gauteng, segments small businesses based on a “Business Sophistication Measure” that includes multiple variables through a principle component analysis. This results in seven segments with the first and least sophisticated segment consisting solely of vendors and hawkers.¹⁹ The FinScope survey covers all kinds of small businesses in Gauteng with street trading concentrated in the less sophisticated segments.

This study differs in scale as well as in its narrowed focus on traders selling new clothing. A description of the methodology and the traders that were interviewed follows. In sections four and five the data are used to evaluate the types and strengths of barriers that clothing vendors face and examine macroeconomic linkages between the “first” economy and people working in the “second” economy.

Following the lead of Skinner (2005) and Velia, Valodia, and Amisi (2006) a questionnaire was constructed that allowed for semi-structured, conversational interviews with traders. An initial set of trial interviews highlighted the need for a flexible process rather than a more rigid questionnaire. The interview-based approach was appropriate for capturing the range of responses to the questions of interest. A further reason for this approach is that many of the interviews were done in Zulu, Xhosa, and Sotho and were translated into English during the interview. Thus it was preferable to follow the flow of the concepts as they arose rather than to focus on a series of discrete questions.

The questionnaire was designed to allow the aggregation of responses by individual street traders to some of the questions. The design was refined after a pilot study carried out at the nearby taxi ranks in Randburg, Gauteng Province. All of the interviews were with the owner of the business and took place at the traders’ business location; generally close to transportation hubs.

I interviewed 32 street traders in and around Johannesburg. Thirteen of the interviews were completed in the central business district (CBD), 13 were done in Soweto, a township south of the city, and six were done in Thokoza. All of the interviews were conducted on a Monday, Tuesday, or Wednesday between 10am and 4pm in an attempt to leave traders free at busier times. Unfortunately, given time constraints it was not possible to interview traders in informal settlements or other areas in Gauteng. The number of interviews was also limited by scope. I spoke only to traders selling new clothing in order to gather sector-specific information. The sampling was non-random. In some areas, such as Baragwanath, Soweto, I interviewed almost every trader selling clothing. Another area, Thokoza, had a larger supply of potential interviewees but became a fieldwork locale late in the study.

Limitations

The project was unable to use a sampling frame due to the unregistered nature of informal self-employment and therefore the findings cannot be generalized to cover all of Gauteng, much less the nation.

Among other problems was hesitancy among South African traders, significantly more so than immigrants²⁰, to participate. It was not clear why South Africans were less willing to be interviewed. This is discussed in more detail below. Ultimately this may have skewed the sample and immigrant traders may be slightly over-represented.

¹⁹ Vendors and hawkers are found in each segment but their share declines from 100 percent in the least sophisticated segment to 1 percent in the most sophisticated segment.

²⁰ The use of the word immigrants here refers to individuals who were born in a country other than South Africa. They may currently be citizens of South Africa and some have lived in South Africa for many years. I've chosen to use this terminology rather than the seemingly more politically sensitive term “foreigner.”

As is typical in most surveys, but is particularly the case in surveys related to untaxed activities, household income measures and earnings estimates must be treated with caution. A further problem with the earnings estimates is the variability of sales over the course of a week, a month, and seasons; traders were often uncertain about how much the business earns “on average” because an average day/week/month does not exist. Attempts to improve this estimate were made by asking about a busy day/week/month and a slow day/week/month to get an average range. Another problem was that gross income and business income were not always distinguishable to the trader being interviewed.

Other difficulties are related to the scale and aims of the project. For example, to examine perceived barriers to entering street trading a researcher should ideally interview persons who are unemployed. This was not possible given the decentralized nature of the unemployed, the amount of time available, and general concerns of practicality. Likewise, to acquire more in-depth information about the supply chain a researcher needs to discuss supply with the shops that supply the traders. Again, this was not feasible for the project as this requires building a relationship of trust that, as noted in Velia, Valodia and Amisi (2006) can be time-consuming and very challenging.

This project was restricted to street traders currently operating businesses to understand the barriers they encountered at entry and currently experience. The respondents were selected according to the basic criteria of owning the business, the business being un-registered for VAT, and selling new clothing. In some cases snowballing was used but it was de facto rather than intentional as some traders referred me to friends or colleagues.

Fieldwork summary and demographics

The research focuses on street traders and hawkers selling primarily new clothing, footwear, and accessories. The reasons for selecting this set of traders are diverse. There is a need for sector-specific analyses within the informal economy to identify the challenges unique to a sector and follow the sector's value chain. The fact that clothing tends to be imported links traders in this sector to a value chain that is international in scope and directly serviced by the formal economy. Lastly, although a sampling frame is not available and there is no register of informal firms, trade in new clothing, footwear, and accessories makes up a large portion of informal retail trade.²¹

The kind of products that the traders sold included: clothing (t-shirts, jeans, skirts, underwear etc.), hats, socks, scarves and footwear (sandals, sneakers). Many of the traders sold cosmetics, jewellery, sunglasses, belts, and accessories to complement their other stock. A few also sold sweets and cigarettes. Most of the traders that were interviewed sold a mix of different products; only a few sold just one kind of good such as socks or scarves.

Nearly all of the traders said that they change their stock based on the season. Most said this was easy since they see their supplier often; it is simply a matter of purchasing different stock. One noted that the transition can be costly when some inventory goes unsold and has to be held until the following cold or warm season.

The ways traders chose the things that they sell often seem arbitrary. When presented with a list of options, most would say they thought the clothing sector was growing at the time that they started the business. Others said they liked the items themselves. There was not

²¹ Other substantial sectors within informal retail trade in Johannesburg include produce, DVDs, candy and cigarettes, and newspapers. Many traders sell products that cut across these categorizations, for example selling sandals, cigarettes, and operating a public pay phone. The main sectoral divide is between traders who sell produce and those who sell a variety of non-food products. It may be possible to further disaggregate traders selling non-food goods by the value of the products they stock or sell the most of.

much interest in finding a niche product that no one else was selling. Indeed the strategy was sometimes the opposite and was rooted in the desire to minimize risk of business failure. One respondent in Soweto said that he saw that there were a lot of people selling caps so he thought he would try his luck selling caps as well. Only two of the 32 traders changed the products in a way that added value to them and made the goods unique.²²

It seems that there are two main reasons for this lack of interest in pursuing a product that differs from those already available from other traders. The first is that it is risky to invest in stock that a trader cannot be sure will sell. One trader from Ghana with a stall in the CBD said that he used formal shops to gather information about what customers were purchasing. That way he could reduce his risk if he tried out a new product. For many traders, however, there is an understandable risk aversion that induces a state of inertia which results in little product differentiation.

A second reason is that the introduction of a new product that sells well may inspire jealousy and copying. The traders tend to watch each other closely to gather information. If something is selling well then other traders will buy the same product and add to their stock. As explained below, traders do not generally compete on price because the products are homogenous. But competition may take other forms including the introduction of new products and temporary monopoly pricing. One example of this was a woman who was selling elasticized pieces of material to be used as a hair wrap. She had a supplier who would bring these to her and she originally bought them for R10 and sold them for R20. Other traders saw that there was a market for the hair wraps and began buying them from the supplier. Rather than setting the price at R20 the traders bid the selling price down to R15, dropping the profit from R10 to R5. This trader expressed frustration that she had little reason to try to introduce new goods when other traders would be selling them within a short time.

Trader profile

Gender

According to the March 2007 LFS women are over-represented (61.6%) in non-food street vending at a national level. The World Bank's 1999 survey of informal firms in Johannesburg found that although women owned 38% of the 500 firms interviewed, 50% of food hawkers, non-food hawkers, and retail traders are women. In the Durban studies at least 60% of the interviewees were female (Velia, Valodia and Amisi 2006, Skinner 2005). While these studies are not strictly comparable due to differing operationalisations of sectors and timing, taken together they suggest that more women than men may be engaged in informal retail sales. However, the other studies do not disaggregate traders by the products that they sell. Of the interviews conducted for this project, 59% of the traders were men and 41% were women. It is possible that men are more likely than women to sell clothing than other goods, such as cosmetics. Likewise, immigrants may be more likely to sell clothing and are also more likely to be male, as noted below.

Age

The LFS shows a correlation between traders' gender and age with 61% of men between 20 and 39 years of age. Women tend to be slightly older with 56% between 30 and 50 years old. Likewise, nearly 80% of the men interviewed in Gauteng were between 20 and 39 and over 80% of the women were between 30 and 50 years of age. Trading in Gauteng tends to be the

²² The first was a man in Soweto making sandals from raw materials. The second was a woman in Thokoza who made and sold Zulu beaded clothing.

domain of people over the age of 30. A quarter of the traders were under the age of 30, half were between 30 and 40, and another quarter was between 40 and 50 years old. This may be because many of the unemployed under the age of 30 are looking for a first formal job before attempting to open a business.

One of the traders told me that young people are faced with the decision to either open a business or to become a criminal and that he himself had weighed the options, taking into consideration the risk of suffering consequences and the immediacy of the payout. The other traders I spoke to who were between 20 and 30 and South African said that either they could not find a first formal job and were unemployed for at least a year or lost a job they had and were unemployed for less than 6 months. Those between 20 and 30 and who were immigrants said they had no hope of finding a formal job without ID.

Race

The vast majority – about 94% – of non-food street vendors are African/black according to the LFS data. There is a significant gender differential at the national level with 97% of female vendors and 89% of male vendors African/black.²³ The 1999 World Bank survey found that 97% of firm owners are black. Although this was not a stated goal in the sampling, all of the traders interviewed for this project were black. This is appropriate given the racial constitution of street trading in Gauteng. The 2006 FinScope data from Gauteng suggests that 87% of firms in their full sample – and over 98% of firms in the less sophisticated business segments – are black-owned.

Birthplace/Immigration status

The 1999 World Bank survey found that 87% of business owners and up to 95% of female business owners were born in South Africa. The more recent FinScope survey found that 8% of small business owners overall in Gauteng are foreign-born. However, in the least sophisticated segment this figure is 38%. It drops in the second segment and reaches its second peak in the third segment with 18%. This may indicate that the proportion of informal businesses owned by immigrants has risen over the past decade and that immigrant business ownership is concentrated at the lower end of the “business sophistication” scale.

In total, 17 of the 32 traders that were interviewed were immigrants. Of these, eight were from Mozambique, two were from Nigeria and there was one trader from each of the following countries: Cameroon, Democratic Republic of the Congo, Eritrea, Ethiopia, Ghana, Swaziland, and Zimbabwe.

Of the 13 female traders, three were immigrants and 10 were South African. In contrast, 14 of the male traders were immigrants and five were South African. A likely reason for the gender imbalance in the immigrant group is simply that men are more likely to immigrate than women (Velia, Valodia and Amisi 2006). The overlap between gender and migrant status suggests the possibility of significant variation across these groups; however, I did not find this to be the case in most of the characteristics of the businesses and traders.

Of the 17 traders who were immigrants only three had been in the country for fewer than five years and 11 had been in South Africa for more than 10 years. The average length of time that an immigrant trader had been in South Africa was 12 years.²⁴ A further indication of permanency is that two-thirds of the immigrants interviewed were married to South Africans.

²³ The use of the term “black” includes people who identify themselves as African/black (as distinct from the apartheid-era usage of the term to mean “non-white”).

²⁴ Median: 12.5 years; Standard deviation: 6 years; Range: 1 to 20 years.

Nearly three-quarters of the immigrants that were interviewed were located outside of Baragwanath Market or in Thokoza; areas that do not require a permit to operate. The two main motivations given for moving to South Africa were the prospect of better job opportunities (62%) and war or other political reasons (31%).

It was somewhat surprising that immigrants constituted such a large portion of the traders I interviewed. It was expected that as a relatively easy-to-enter sector, immigrants may be concentrated in street-trading and in trading clothing in particular. As noted above, I encountered greater hesitance about participating in the interviews from South African traders than from immigrants.²⁵ It is possible that the South African traders who were unsure about being interviewed were receiving government income-based aid and were afraid they might lose the grant if they disclosed their income. Other possibilities were raised including the suspicion that I was a tax agent and scepticism that the government is going to help. Another problem is over-surveying. The traders, particularly those in stalls in Baragwanath, have been surveyed multiple times before and after a new taxi rank structure was built. There was a survey conducted in Thokoza relatively recently and some traders on Bree Street in the CBD have been interviewed and recruited for the Basic Business Skills training programme based at the University of the Witwatersrand.

Income

Income data are always subject to additional scrutiny as misreporting is frequent. These figures should be taken with caution, particularly as the traders do not earn a consistent amount each month. The income data from the 1999 Johannesburg survey suggests that the average monthly income from the business was about R1500 and the median was R1000. In the case of the LFS data significant geographic variation is also highly likely. The LFS indicates that about half of non-food street traders, male and female, make less than R1500 per month with one-quarter earning R500 or less. The average monthly turnover for informal traders, irrespective of which segment of business sophistication the traders' business falls under is R1552 according to FinScope (2006).

The average monthly household income for traders I interviewed who were able and willing to report it was R2329. The median was R1500. The figure is to be taken with caution because the sample is small and a few traders said they were uncertain what the other income-earners; usually husbands or wives but in one case a trader's mother, in the household earned.

Because of the small sample size (as it is broken into sub-groups by gender and immigrant status) the means for those groups are cannot be reported. There were only three female immigrants and five male South Africans in the sample. Table 2 shows that immigrants and South Africans have the same median household income, R1500.

South Africans report that their businesses earn more on average but earn less in a good month and in a bad month. Men report a higher monthly household income but lower earnings from the business than women report. This is because men are more likely to live in households with a second income earner.

25 An interview was actually refused in only one of these instances.

Table 2: Median monthly household income, Income from business – Good month/bad month

	Immigrant (%)	South African (%)	All (row %) [column %]
Male			
Number of traders	14 (73.68)	5 (26.32)	19 [61.29] (100)
Median monthly household income	1350	2250	1750
Median monthly business income	1000	1200	1000
Median business income in a good month	1200	2000	1600
Median business income in a bad month	800	800	800
Female			
Number of traders	3 (25.00)	9 (75.00)	12 [38.71] (100.00)
Average monthly household income	2400	1200	1350
Average monthly business income	2250	1200	1200
Business income in a good month	4000	1600	2000
Business income in a bad month	1500	800	800
All			
Number of traders	17 (54.84)	14 (45.16)	31* [100.00] (100.00)
Average monthly household income	1500	1500	1500
Average monthly business income	1000	1200	1200
Business income in a good month	2000	1800	2000
Business income in a bad month	900	800	800

**One of the 32 traders refused to give any income estimates*

Summary

The demographics are difficult to generalize because of the heterogeneity of informal workers both between and within sectors, the lack of large scale surveys and methodological limitations imposed by the nature of the economy. A profile of traders selling clothing, footwear and accessories based on previous surveys is not available because the data is not usually disaggregated by sub-sector. This gap, which exists for most sectors, reinforces the need for sector-specific analyses in the informal economy. Based on this fieldwork, the vast majority of traders selling new clothing in Gauteng are black, many are immigrants and business incomes can be quite low.

Motivation for starting the business

What induces people to start informal business – do self-employed street traders choose to start trading because they see a profit-making opportunity or because they have no other choice? A key aim of this project is to examine why traders started their businesses. This question is primarily important because it provides information on the state of trading and the formal economy. If traders started the business because they were unemployed and could not find formal employment then they are not “choosing” to exploit what they see as a profitable opportunity. Instead, the lack of demand for labour by the formal economy has created a pool of unemployed people who see themselves as having no choice but to start a business in order to generate the income required to survive.

A second reason that motivations are important is a distinction made in the FinScope literature. FinScope divides small businesses into necessity-based start-ups – those that were started because the owner could not find another job – and opportunity-based start-ups – those that were started because the owner wanted to start a business. According to FinScope, the sustainability of the business is linked to whether it was a necessity-based start-up or an opportunity-based start-up concluding that opportunity-based start-ups are more sustainable. FinScope uses the longevity of the business to indicate its sustainability.

Based on prior research it appears that about half of informal businesses are started primarily because of unemployment although a range of motivations are identified. Sector-specific analyses are needed to better assess which motivations dominate within different sectors. It is possible that a larger proportion of street traders start their businesses due to unemployment while other business owners, such as those who start shebeens, see a profitable opportunity and wish to avoid regulation.

In the 1999 World Bank survey over four times as many firms cited long-term unemployment as their most important motivation for starting their business as cited “to seize a business opportunity for profit.”²⁶ Similarly, research undertaken on used clothing traders in Durban suggests that half of the respondents were motivated by the need to survive while one-third chose to start the business (Velia, Valodia and Amisi 2006). Velia, Valodia and Amisi note that few of the traders had held a job prior to trading. In another study of informal traders in Durban, Skinner finds that over 45% identify long-term unemployment as the most important motivation for starting the business while less than 10% indicate seizing a business opportunity.

This runs counter to the more recent, Gauteng-based FinScope survey. According to FinScope (2006), 52% of all small businesses in Johannesburg started their business because they wanted to have their own business and 34% started their business because they couldn't find another job.²⁷ Among the less sophisticated segments, about 45% wanted their own business and another 45% couldn't find another job. Reasons that the FinScope survey has such a high proportion of respondents stating that they wanted their own business include the sample being all small businesses rather than strictly traders as well as the format of the question. Most of the survey work, including FinScope (2006) work on less sophisticated segments, suggests that about half of the respondents started the business primarily because of short-term or long-term unemployment. The other half are distributed among other response options such as “profitable business opportunity,” “to increase income” and “family business.” In contrast, the FinScope survey has only three response categories - “couldn't find another job,” “wanted my own business” and “other.” This may concentrate traders with more diverse motivations into a category they may not have selected if more options were available to choose from.

Of the traders that interviewed in Gauteng, over 60% started the business primarily because they were unemployed and 38% started primarily because they saw trading as a profitable opportunity. It is important to note that all of the traders who identified unemployment as the primary reason for starting the business also saw it as a profitable opportunity. However, many of them qualified this with statements like, “it is more profitable than being unemployed.” When asked the question “What were your reasons for starting this business?” over half of the traders said they were unemployed and concluded their

26 World Bank question 1.5 (Circle all that apply and rank the top three by importance): Why did you start this business? To increase income, Unemployed for more than 6 months, Recently laid off, Family business, To seize opportunity for profit, Other (specify).

27 FinScope question C1: Why did you start this business? I was retrenched, I couldn't find another job, I wanted to have my own business, Other (specify)

responses with statements like, “it’s better than nothing,” “I had no other choice,” “I couldn’t find another job,” “Poverty,” or “There was no choice, my family was suffering in poverty.” Thus rather than choosing to start a business, about half of the traders see the business as a result of a lack of other options and opportunities.

Businesses started because the owner saw a profitable opportunity were more likely to be between 3.01 and seven years or over seven years old than to have been started in the past three years. Therefore there is a correlation between the motivation for starting the business and its longevity (sustainability, according to some literature) but it is not statistically significant perhaps due to the small size of the sample.

Businesses started because of unemployment were evenly distributed across three age categories: 0-3 years, 3.01-7 years, and 7+ years in operation. Of the businesses started because of unemployment, 31.8% started due to the owner having gotten tired of searching for his or her first formal job, 27.3% were started due to unemployment of less than six months and 40.9% were started due to unemployment lasting over six months.

Immigrants and South Africans differ regarding their motivations for starting their businesses. Among South Africans, one-third started the business because they saw it as a profitable opportunity. Immigrants are slightly more likely – 41.2% – to have started the business primarily because they saw it as a profitable opportunity.

Likewise, and linked to the correlation between gender and immigrant status, 47.4% of men versus only 23.1% of women, started the business primarily because they saw it as a profitable opportunity.

Research sites

Access to customers (31%) was the most commonly cited reason for choosing to locate the business where it is. However it is closely followed by those traders who were allocated their spot by authorities (28%). Allocation by authorities applied only to the traders on Bree Street in the CBD and in Baragwanath, not in Thokoza. The other reason cited by multiple traders was that their spot was empty (19%).

Over 80% thought that their location was good for getting customers.

Jeppe and Diagonal Streets (CBD)

There is a small market between Jeppe Street and Diagonal Street that is open to foot traffic. There were approximately 20 businesses located here. Three interviews were conducted in this market. Each of the traders was South African and none had a hawkers permit. All of the traders interviewed had a table and a structure that they put together themselves to create shade.

The traders had different reasons for choosing this location: a friend got the space for one trader and another chose to stay because it is shaded and she is comfortable there. The last had been set up in front of the Pie City fast food restaurant on Jeppe Street since 1990 but Pie City asked the traders to move further down to her current location closer to Kerk Street. She says that Pie City “created space” by removing Indian traders who had been located by Kerk Street.

Bree Street (CBD)

Bree Street is a long, congested road in the Johannesburg CBD. There are metal stalls that have been constructed by the municipality which line the edge of the pavement. They are bolted to the sidewalks. When the stalls were built the traders who already had tables in those spots were given the option to become licensed and rent the stall for R100 per month

from the municipality. The traders were registered for the hawkers permit at their place of business by metropolitan authorities. The stalls are tall metal stands with a shelf for displaying stock. They have a small cover at the top which provides some shade depending on the time of day and which side of the street a trader is located.

Four of the 10 traders were immigrants and all but one has a permit. Seven of the 10 traders on Bree Street have been in business for over three years. Most pay R100 to the municipality with one exception. The woman without a permit rents her stall from the trader who rents it from the municipality and she pays R250 for it. The rent includes trash collection but not storage.

The traders are concerned about rumours that the municipality may be removing the stalls to “clean the streets” for the World Cup in 2010. One trader told me that traders on Jeppe Street were given notice of removal in 2007 and were told that all of the stalls, including those on Bree Street, would be removed in 2008. He says that the Jeppe Street traders were invited to a meeting to talk about the removal but the traders on Bree Street have not received any notice. Another trader tells me that some traders from Jeppe Street were “relocated to the corner of Joubert Street and Bree Street which is not very busy” and others were not relocated at all. She fears that the municipality will remove the stalls on Bree Street and either not relocate them or will move them to a spot that is not busy.²⁸

Baragwanath, Soweto

Like Bree Street, the cement stalls built into Baragwanath Public Transport Facility and Traders Market also require the trader to have a hawkers permit and traders were registered for the permit when they applied for a stall inside. Unlike the Bree Street area, Baragwanath still has a large number of traders operating outside who do not pay rent. The stalls were built in 2006 and traders applied prior to the actual construction.

Eight of the 13 businesses interviewed in Baragwanath are over 7 years old. The majority of clothing trade businesses based here are run by immigrants. The traders who are located outside had business sites ranging from tables on the pavement to a tarp laid over the dirt to some stock set up on a large rock.

The traders with stalls inside pay the Metropolitan Trading Company PTY LTD R60 per month which includes storage. It also includes trash collection and is supposed to include toilets although I was told that these have been locked. Many of the stalls were empty when the survey was conducted. Other traders reported that this is because business inside is slow since the taxis were moved from the side of the market where the stalls were built to an area further down which limits foot traffic. I spoke to one trader who had been allocated a stall and moved inside but found that business was so poor that he was better off outside.

The problem with locating outside is that traders are then subject to the Metro Authority confiscating their stock. A major concern for traders located outside was the Metro Authority. Ironically, the vast majority of the traders who were outside wanted stalls inside. But the traders I spoke to who had stalls wanted to move back out unless the taxis were shifted back to their side of the market. It seemed that the best part of having a stall was security from the threat of the Metro Authority confiscating a trader's stock while the worst part of being located outside: fear and insecurity that one's stock will be taken. Likewise, the worst part of having a stall was the best part of locating outside: access to customers. Based

²⁸ Relocation is a problem in any case. It changes where the stock should be stored and disrupts relationships between traders and nearby shop owners and with repeat customers.

on observations of the market, there is work to be done to balance these problems in a way that traders are not swapping one set of problems for another.

In terms of design, there are several different types of stalls that were built in Baragwanath. All are covered and protected from the sun. However, some of the stalls that are otherwise fully enclosed, have an open strip just over where the traders set up which allows rain to come in and wet their stock. Others have a large opening at the back; these are more affected by weather, both good and bad. The traders I spoke to said that they submitted applications for particular blocks of stalls that shared one of the designs.

The market in Thokoza is very large and has traders selling practically everything: produce, cooked food, clothing, footwear, accessories, DVDs, toiletries etc. Five of the six businesses had been in Thokoza for at least three years and all of these were run by immigrants. There was one business run by a South African woman and she had started it one year ago. None of the traders had a permit, which is not available from the municipality in which Thokoza is located, but four of the six traders identified this as a major problem for the business.

There is a wide range of business set-ups in Thokoza's market. Some traders had tarps on the pavement, two had fairly large marquis-type tents, and others used fencing to hang their items. Further down there was an area where stalls had been built for the traders but these did not appear to be in active use for trading.

The traders here tended to be more optimistic and experiencing better business conditions than those in the CBD and Baragwanath. Four of the six said their business had expanded and that this year was better than last year for the business.

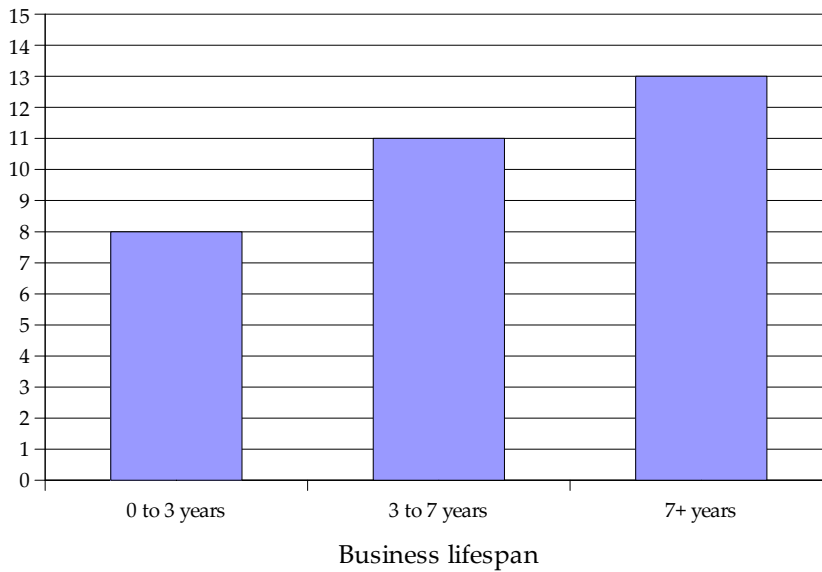
From the traders I spoke to it did not appear that the Metro Authority was perceived to be a threat in terms of harassment and confiscating stock. A larger sample might have given a different impression. All my interviews took place between the Nelspruit Hospital and Vereeniging Road. Some of the traders had moved to this area from a location further up Kumalo Road and had been moved here by the authorities. However, they said that once they moved the authorities were generally not a problem. Although there may be few run-ins there is still a general feeling of insecurity that traders may be removed any time. One noted that he anticipates problems because the Authority has been saying that traders are blocking the pavements and forcing people to walk in the street.

The traders in Thokoza were more likely than traders elsewhere to indicate that crime against them is a problem and several expressed a willingness to pay for security. One trader said his neighbour in the market had been shot while working last week. Four traders also mentioned "thugs" who come and demand money from the traders. One said that this happens at least once per month and, at one point, took R5000 and his stock.

Lifespan of the business and sustainability

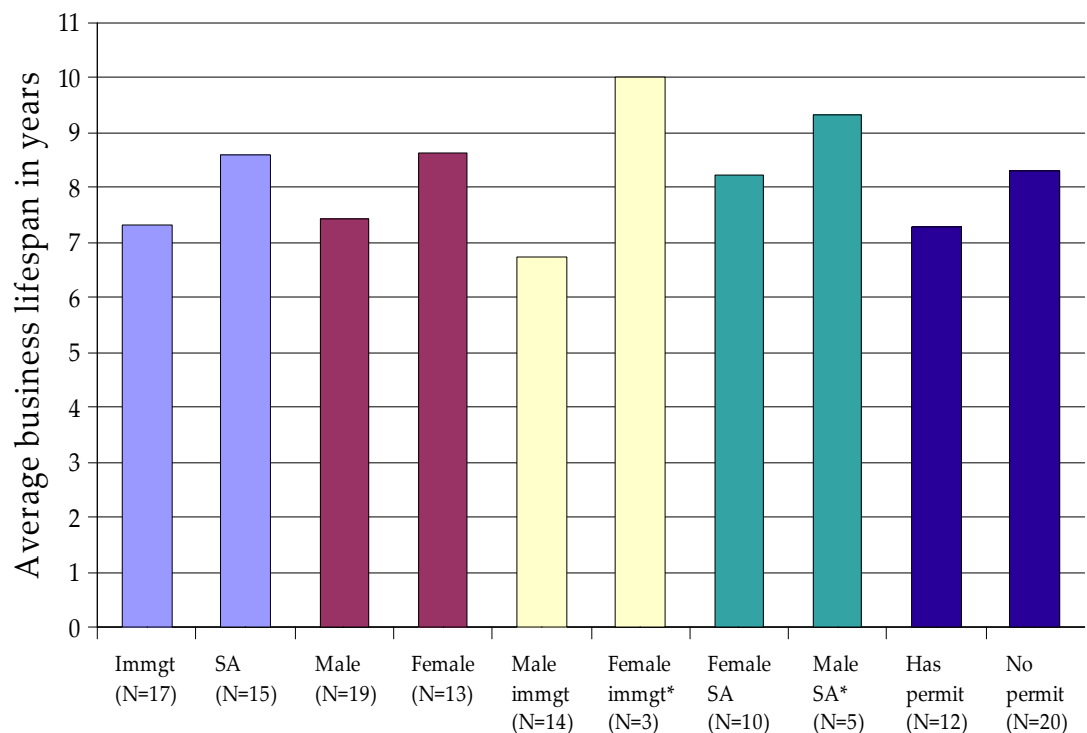
As shown in Figure 1, one-quarter of the traders had started the business within the past three years. Over 40% started their business at least seven years ago and six of the 32 businesses were over 15 years old.

Figure 1: Age of Businesses



The average lifespan of the business was just under eight years. This is in accord with the Durban studies (Velia, Valodia and Amisi 2006, Skinner 2005). The length of time in operation does not vary significantly by immigrant status or by the business owner's gender. Figure 2 shows business lifespan broken down by immigrant status, gender and whether the trader has a permit.

Figure 2: Age of business by immigrant status, gender and permit



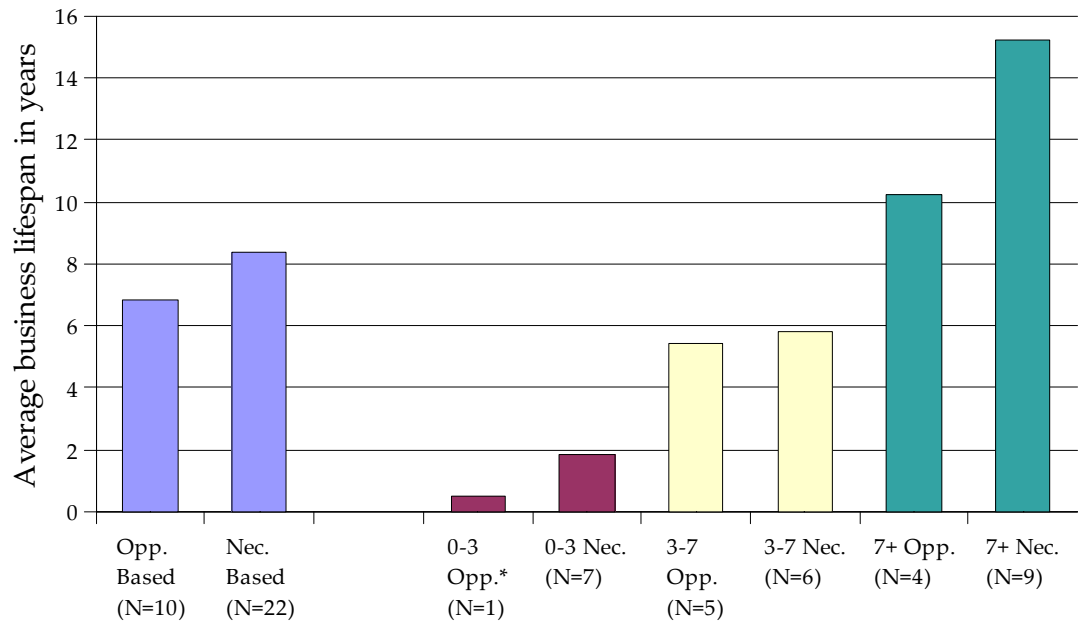
* Note that the sample size of female immigrants and male South Africans is very small.

One potential reason the businesses are relatively well-established could be that some of the interviews were conducted in spaces where a hawkers' license was required in order to

operate.²⁹ However, as seen in Figure 2, average business age does not vary significantly by whether the trader has a permit or not. The set of traders located outside of the Baragwanath taxi ranks who did not have permits had been in business longer than those in the municipal stalls on Bree Street in the CBD where a permit is required.

As noted above, FinScope and others link longevity-as-sustainability with necessity-based start ups and opportunity-based start ups. Bearing in mind that the sample was small, the interviews conducted in Gauteng suggest that there is not a significant relationship between longevity and a trader having started the business primarily because it is a profitable business or primarily because of unemployment. Figure 3 shows this relationship.

Figure 3: Age of business by motivation for start-up



* Note that the sample size of “young” businesses that were opportunity based start-ups is very small.

Only one trader of the eight who has been in business for less than three years had started a business because she thought it was a profitable opportunity. Thus street trading businesses that are “young” are far more likely to have been started due to unemployment. This suggests that recent potential entrepreneurs do not see profitable opportunities in trading and are choosing not to start a business or they have started and failed quickly.

Businesses that have existed for more than seven years are not statistically significantly more likely to have been started on the basis of unemployment than profitability. This project does not lend support to a relationship between opportunity based start-ups and business longevity. Most traders start the business because of unemployment and these “necessity-based start ups” range in age from less than one year to 25 years.

However, given the much larger sample size and methodology that FinScope uses, the study is likely to capture more young businesses and in a much wider variety of sectors than those interviewed for this project. Another possibility is that such a relationship between start-up motivation and longevity may not exist in street trading but may exist in other sectors.

²⁹ Of the 14 interviews done in the CBD 11 of the traders were required to have a permit in order to have a stall that they rent from the municipality, in Soweto this was true for 3 of the 13. None of the East Rand traders operated in a space that required licensing.

At a conceptual level understanding longevity as sustainability is problematic. While there may not be a better proxy for sustainability available, using the lifespan of the business does not take into account changing economic conditions beyond a short period (average seven to eight years) during which the South African economy was growing relatively rapidly. A shock to the economy, such as a currency devaluation or rapid inflation, could have a strong impact that is not accounted for by this measure of sustainability. It is demand conditions in the macroeconomy that determine the sustainability of businesses – sustainable demand is the key to sustainable business. An indicator that does not predict demand cannot truly predict sustainability.

Job creation

According to the 1999 World Bank Johannesburg survey, about two-thirds of firm owners employed other people; however employment creation was relatively low in the retail sector with a median of two jobs per firm (World Bank 2002). A key finding of the 1999 survey was, “...that in 1999, Johannesburg's informal sector created the same number of jobs per firm as formal micro-enterprises in Johannesburg's SMME sector” (World Bank 2002).

According to the LFS, self-employment accounts for three-quarters of informal non-food vending firms and the majority of the other one-quarter of firms employ between two and four people including the owner (LFS March 2007). FinScope finds that the average number of jobs created by small businesses is 1.3 per firm – but 70% of firms do not generate any employment beyond self-employment for the business owner. The Durban-based surveys found that few businesses employ others, between 20 and 40% (Velia et al. 2006, Skinner 2006).

Seven of the 32 traders (22%) that I interviewed report hiring someone else to work for them. This figure is probably an underestimate because the respondents often said that they did not hire anyone but then, when asked who the person was who appeared to be helping, the reply was that this was their assistant. In one case I asked if the assistant was a volunteer and the trader laughed and said no, it was his younger brother and he was paid R600 month. The two traders I interviewed who had assistants hesitated over saying how much they were paying them, possibly because the amount fluctuates with how busy the business is in a given week or month. However, those who did give figures gave the exact same amount: R600 month or R150 week.

The employment ranged from three traders employing one assistant and a business owner making Zulu beaded jewellery and clothing who had two women working for her - “full time employment;” to two traders who hired people to help them pack and unpack their stock and push their trolley to and from storage for R5 and R10 trip.³⁰ There were undoubtedly others whom I spoke to who had assistants but I was late in realizing the question was not phrased in a way that captured this kind employment, which the traders conceptualized as something different from “hiring” someone. None of the traders reported that the business was a partnership.

There were two traders that I spoke to who were adding value to the goods they were selling. The first was a 36 year old South African man from Soweto who was making sandals by hand from a pre-fabricated foot bed, sole and various other materials. He was operating in the stalls in Baragwanath Market. The second was a 29 year old South African woman who was making and selling Zulu beaded jewellery and clothing in Thokoza. The first trader said he needed help in the summer and wanted to hire assistants. He had hired two last summer

30 It is not clear from past literature whether or not this would be considered “part-time employment.” This may fall into a different category of employment creation.

but they had stolen from him and the business suffered. He linked this to the need for business management training.

However, he said that his primary issue with the business was not his own training or a lack of already skilled labour but rather a lack of people who wanted to learn the craft. When I asked if this would be problematic since he would potentially be training competition he said not at all; there was more business than he could handle on his own. He was dismayed and waved his hand toward the street saying, "...they could be busy working and not becoming criminals. Learning this would make them better off and I want to train them." He identified the short supply of people wanting training as the biggest problem that his business faces.

The trader who hired women to make the beaded jewellery and clothing had a different understanding of her business's employment problems. She said that she has trained several people in the past who have now started their own businesses selling the same products in the same market in Thokoza. Her business has expanded and she believes there are enough customers and space for new businesses to enter the market but was frustrated with training people and then having to compete with them. When she started the business in August 2007 there was no one else selling similar stock. Now she says there are at least three other traders with the same goods on offer.

LINKAGES BETWEEN INFORMAL AND FORMAL ECONOMIES

The nature of the linkages in the South African economy is, of course, complex and cannot be understood to take one hegemonic form. As each sector in the informal economy confronts particular barriers to entry and has particular needs, each sector is also connected to the formal economy in a variety of different ways. The vast majority of the street traders interviewed identified the formal economy as important to their businesses. Traders cited several points of interaction with the formal economy: providing supplies and storage space, as competition and as providing income for their customers.

Access to supplies

In the case of traders selling clothing, they almost all identified formal firms as important conduits of imported goods.

Accessing stock is relatively simple for most traders. All but four of the traders that I spoke to took taxis to buy stock in the Johannesburg CBD. Most went once or twice per week although several traders bought stock far more frequently and nearly all said that this depends on demand. Some traders who work outside of the CBD, in Soweto and Thokoza, bought stock between four and seven times per week. They report going frequently because the cost of transportation to buy stock can be a problem. Not only does the trader pay for his/her own seat but s/he also pays for extra seats if the stock is taking up space. Therefore it can actually be more cost-effective to make multiple trips per week if it means being able to hold the purchase in one's lap. Another reason is that having a lot of stock means a trader is that much more vulnerable in the event of theft or, more often among the traders who lacked permits, confiscation by the Metro Authority. Lastly, nearly all of the traders purchase stock with cash, which limits the amount a trader is able to buy at one time.

In most cases traders go to a formal shop that sells "wholesale" or at small-bulk prices to traders and buy a few things. Most street traders are effectively self-employed retailers, some of whom have people who buy from them to resell, usually in other locales. The shops they buy from tend to be in the CBD; specifically around China City, Jeppe and Delters Streets.

The stores are owned by Chinese (12 mentions), Ethiopians (10 mentions), Indians (seven mentions), Nigerians (seven mentions), Somalians (seven mentions), South Africans (two mentions), Pakistani (one mention), and Eritrean (one mention). Five traders did not know where their supplier was from. The research uncovered a low level “supply web” in which linkages are, at least in part, built through nationality and immigrant status.

I tried to learn about where the traders thought the stock they bought was manufactured or where their supplier got it. Most of the traders said they did not know. China was mentioned eight times and Korea, Japan, and Thailand were each mentioned once. One trader said they were imports and were not made in South Africa but her supplier would not say where they are from and they do not have labels. Another trader insisted that the materials are imported from China and Thailand but the goods are assembled in South Africa.

Access to supply was identified as a problem for less than 15% of traders when they started their business. This remains a mostly minor problem now with about 20% reporting this is a major (6.9%) or minor (13.8%) problem. Several pointed out that they see the wholesalers as helpful because they make getting stock easy. The traders who said that accessing supply was a problem pointed out that it was usually because the supplier did not have a particular item or size that they were looking for.

Access to storage facilities

A second connection to the formal economy that traders identified is through the provision of storage spaces. Half of the traders rented storage space near the market in which they work with some sharing the space with approximately 100 other traders. In most instances the traders believed that storage facility was a formal business. However, some of the smaller storage areas were formal shops, not facilities designed for storage.

Competition

A third linkage to the formal economy is through competition. Virtually none of the traders thought that competition with formal stores was a barrier to them starting their business – eight years ago on average. Currently, although almost 60% of traders noted that their primary competition is other traders 30% also recognized that they compete with formal businesses that sell similar products. Traders act as the distribution end of a global value chain, selling imported goods that they purchase from stores that cater to traders. Traders' customers do not seem to shop at the stores where traders buy stock even though the suppliers are often close by and the cost of the products is lower when purchased in small bulk. One reason is that the traders' niche is that s/he breaks up the small bulk and sells individual items such as single cigarettes. Small bulk purchases may be prohibitively expensive for traders' customers.

Customer income

The last linkage identified by traders is through their customers, some of whom have or had formal jobs. The traders rely on business from people who earn income in the formal economy. All of the traders noted that they are busier at the end of the month when employees receive wages.

BARRIERS TO ENTRY AND MAINTAINING THE BUSINESS

Labour supply and Infrastructural constraints

Valodia et al. (2006) note that lack of access to markets, which tend to be dominated by large firms, might be a severe barrier, acting to keep “smaller economic agents” from

entering the informal economy. The authors note that some markets, like street trading, are easier to enter but experience “overtrading.” The focus of this project is to examine barriers to street trading, including overtrading. However, rather than understanding overtrading as a phenomenon of too many traders, I understand it instead as a problem of too little demand.

The series of barriers to entry and barriers to maintaining the business are split into two sets. The first set consists of barriers related to labour supply and institutional and infrastructural barriers pertaining to the business space and regulatory environment. These include things like access to training and credit, the market itself and crime.

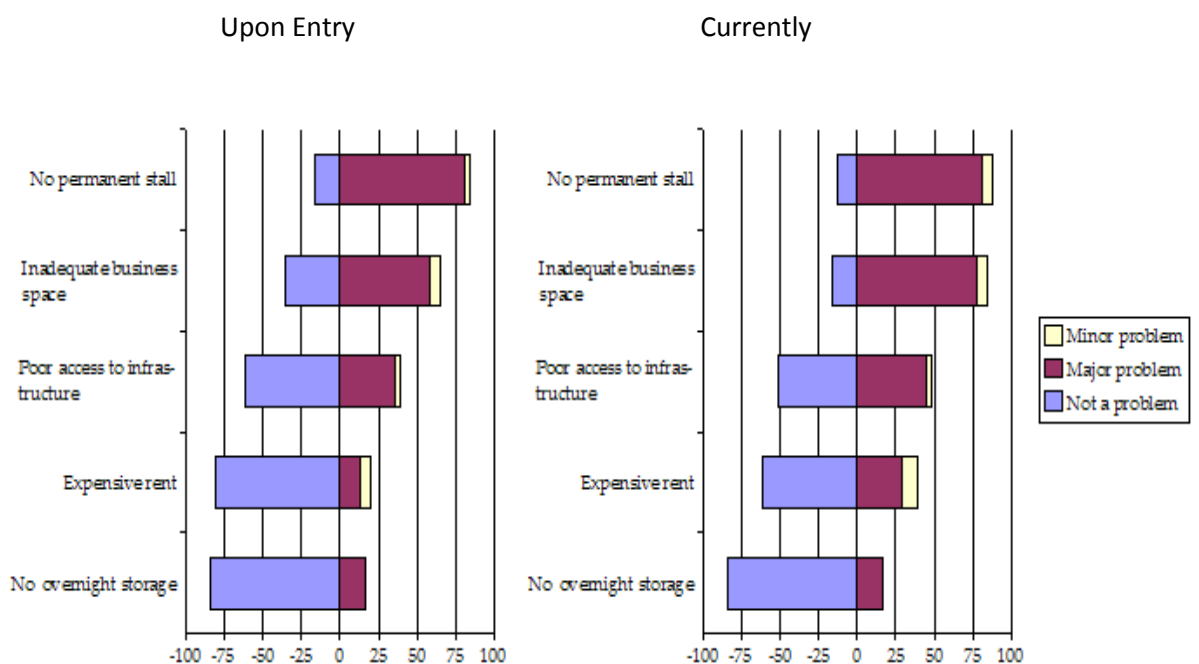
The second set is conceptualized as demand-based barriers which reflect the demand for the consumption goods traders are selling and the demand for labour in the informal economy. These indicate the ways that changes in macro-level demand play out at the micro-level in the informal market.

The most prominent issues that traders believe they face are the lack of a permanent stall and inadequate business space. This differs from other small business surveys in which access to capital is the most substantial barrier (FinScope 2006, World Bank 2002). One reason for this difference may be the narrowed focus on street traders selling clothing taken in this study. What defines a permanent stall and the adequacy of the space will also differ among traders selling different goods.³¹ For traders selling clothing a concern is the stock getting wet from rain and fading in the sun. Likewise, the most important policy intervention identified by clothing traders is permanent market stores with overnight storage. Although storage itself was not reported to be a substantial problem, permanent and adequate business space is a priority.

Other key barriers include the cost of public transport, the lack of own transportation or supplies delivered on-site, access to credit and training and the set of demand-based barriers explored below.

Location, business space and Infrastructure

Figure 4: Location, Business Space, and Infrastructure Barriers



31 For a trader selling produce an adequate business space may include cold storage for preservation of stock, for one selling dvds the business space would ideally have access to electricity for exhibition of stock etc.

No permanent stall

In terms of barriers to entry when starting the business, over 80% identified not having a permanent stall as the biggest barrier. This remained the most substantial barrier to maintaining the business, still with 80% identifying it as a major problem. The “permanent stall” question was understood by the traders to carry some implication of ownership-based security as well as a physical structure. Six of the eight traders on Bree Street in the CBD who rented metal stalls bolted to the ground and two of the three who rented concrete stalls in Baragwanath identified no permanent stall as an initial barrier and each of these traders continues to see this as a problem.

This challenge may be more suggestive of the sense of insecurity experienced by traders who feel that their stall, as permanent as it may appear, may be removed or they may be removed from it. For these traders, permanence implies something more than the stall being bolted to the ground; it implies ownership or at least a contract with legal recourse.

Inadequate business space

The next major barrier is inadequate business space. Inadequate business space was a major (58.1%) or minor (6.5%) problem for two-thirds of the traders I interviewed when they started the business. The business space remains a problem and is the most commonly cited with about 85% reporting this is a major (77.4%) or minor (6.5%) problem currently.

Some of the traders in the CBD said they had been promised improved areas for trading with built-in stalls but that these had not materialized. Others said that space limitations keep them from selling a larger variety of products.

This question was interpreted as meaning both literal space – amount of area they and their business can occupy – as well as conceptually – as the adequacy of a safe space to pursue a livelihood. Unsurprisingly, the traders with permits who had stalls on Bree Street and in Baragwanath were more likely to feel that their space was adequate. However even a majority of these traders believed this was a major problem because they were exposed to inclement weather and the sun and rain damaged their stock. The rumoured removal of the stalls on Bree Street also tended to contribute to a perception of inadequate space.

The traders who lack permits in the CBD, Baragwanath, and Thokoza also mentioned weather and fading of merchandise. But these traders combined several issues into a sense of exposure and insecurity: safety from weather, from the Metro Authority, and from thugs who demand money in the case of Thokoza. Nearly every trader responded that the business space was inadequate because there was something about it that made them insecure. The vast majority said they are willing to pay for security either through paying rent in the CBD, paying for spaces inside Baragwanath, and/or paying for security guards (Thokoza only).

Based on the responses of the traders on Bree Street it appears that building at least semi-enclosed spaces, such as those in Baragwanath, is the preference of the traders. However these spaces raise questions regarding sufficient space, access to customers, permits and enforcement. This is explored below.

Infrastructure

The primary issue in terms of infrastructure was access to toilets. All of the traders have access to a toilet but many felt that they were too far away. The 1999 World Bank Survey shows that over 70% of informal businesses have access to toilets but it does not define what “access” means.

Most traders pay between R0.50 and R2 to use the toilet. It was unclear whether they pay a private individual or a municipal agent.

The traders in the CBD use the toilets in the taxi rank which usually means leaving their stock under the watch of another trader while they are gone. As a result of having to physically leave their products many traders felt that the toilets were too far away. Some also said that the toilets were dirty.

In Baragwanath, the traders said that there is a free toilet but the one nearby, which costs R0.50, is cleaner. Nearly all of the traders in Baragwanath said they pay R0.50 to use the toilet, including those located in the municipal-run stalls where there are bathrooms which one trader told us are locked.

Some of the traders in Thokoza are located near the Nelspruit Hospital and they use the hospital toilets for free for most of the day and pay R1 for a public toilet at other times. One of the traders told us, "Even the cost of the toilet has gone up from R0.50 to R1!" when he was explaining how prices have increased for everything. Another offered a graphic description of what happens when drunken customers are combined with long-distance toilets.

Access to potable water was a problem for a few traders, particularly women with young children. I expect this is more likely to be cited as a problem in the warmer months.

Rent

Seventeen of the 32 traders pay rent. Of these, 10 are located on Bree Street, six are in Baragwanath, and one is in Thokoza. About 40% of those paying rent said the cost of rent was a major (25%) or minor (12.5%) problem when they started the business. Expensive rent is currently a major (56.3%) or minor (18.8%) problem for 75% of the traders who pay rent.

Traders on Bree Street pay R100 per month for their stall. Those in Baragwanath's municipal stalls pay R60. Three traders pay between R5 and R20 per month to a council.

Three traders had other arrangements. The first was located on Bree Street and rented the stall from someone else. She paid this person R250 per month and had considered buying the spot from this person but they asked for R6000 for her to buy the stall. She said that she had applied for her own stall twice but has not been able to get one in her own name.³² The other two were in Baragwanath and paid rent to the homeowners of the homes they were set up in front of. One paid the going rate of R60/month and the other paid R100.

As noted, most of the traders who do not have municipal stalls in Baragwanath and Thokoza would be willing to pay rent in return for a greater sense of security.

Storage

Storage space is not seen as a problem by many of the clothing traders. Most that identify storage as a problem keep their stock at home and carry the goods to their stall every day. Although this is free, it means packing and some distance of carrying. The majority of traders have spaces that they rent. However, in looking through the responses regarding preferred policy interventions, there is a clear desire to have closer, more secure storage areas. Several traders told me that they have had stock stolen from shared storage before.

Half of the traders on Bree Street share a storage area with about 100 other traders. The other half store their stock in nearby shops or at home. In Baragwanath, the stalls have built-in locked storage. The other traders use a store room that is shared with at least 10 and up

³² This trader was from Cameroon and did not have a permit although she has had the business since 2004. She moved to this spot from another one in the CBD.

to 100 other traders. Traders in Thokoza either keep their stock at home or share storage space with 20 or fewer traders.

Table 3: Cost of storage per month

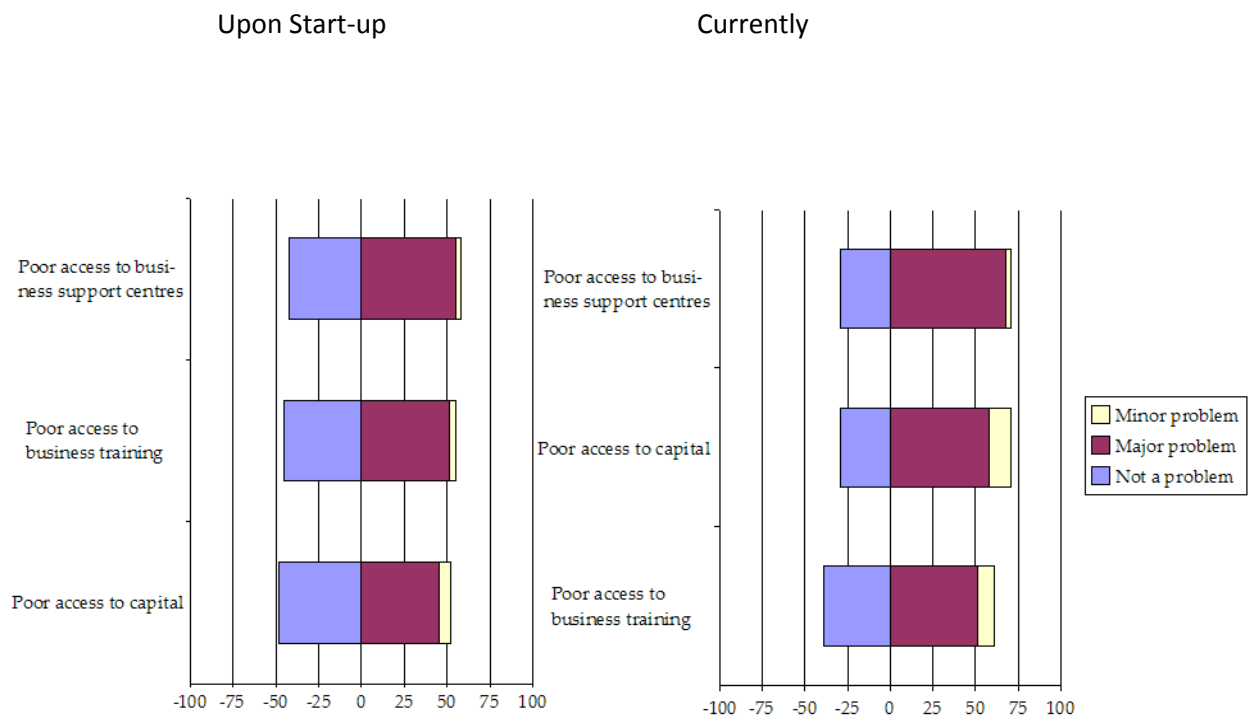
Location	Mean Storage Cost (rand)	Median Storage Cost (rand)	N
CBD	91	80	9
Baragwanath	116	100	8
Thokoza	183	130	3
Total	115	100	20

* This table includes only those traders who pay for storage with the exception of the traders who have locking storage in their stall which is included in their rent.

Nearly 70% of the traders push their stock back and forth from storage on a trolley themselves while 7% pay someone to push the trolley and help with packing and unpacking stock. Another 24% carry their stock in a bag.

Business support

Figure 5: Business support barriers



Business support centres

There is a strong desire for assistance to help overcome the challenges that the businesses face however it is not clear that the traders know how business support centres might help them.

Skinner's (2005) work in Durban also suggests that more informal firms identify access to business support centres as a major (36%) or minor problem (25%) than view access to training as a major (14%) or minor (22%) problem.

Access to capital

Lack of funds/credit was a major (45.2%) or minor (6.5%) problem for about half of the traders I interviewed when they started the business. This is a larger issue now with about 70% reporting this is a major (58.1%) or minor (12.9%) problem currently.

Of the 15 traders who said that access to funds/credit was not a problem when they started, 10 of them now cite it as a major problem.

The start-up cost for a trader selling new clothing ranged between R70 for a business started in 1991 and R6000 for a business started in 2007. Many people started their businesses with just a few things or sold cigarettes and sweets before moving into higher profit items such as shoes and clothing. One trader in Thokoza told me that he started his business with two packs of cigarettes in 2000 and built it up from there.

Table 4: Median start-up cost by business age

Business Age	Median Start-Up Cost (rand)	N
0 to 3 years	1250	8
3.01 to 7 years	500	11
7+ years	625	12
Median	R750	31

Twelve of the traders that were interviewed started their business using only their own savings. Another nine used a loan from a brother, friend, cousin, or relatives. Eight used money received as a gift from a brother, sister, grandmother, husband, mother, or boyfriend. One used money she received from the Unemployment Insurance Fund when she lost her job sewing clothing in New Castle. Another trader, who is Eritrean, was able to secure credit from an Eritrean shopkeeper. The last started his business from nothing.

All of the traders who said they had a loan used the money to buy stock and all have since repaid the loan. None of the traders paid interest on the money they borrowed.

A key point regarding access to credit as a barrier is the continuous nature of the problem. It is an issue for starting a business and remains a problem for traders even when the business becomes more well-established. At least half of the traders in each business age category identified access to credit as a problem that they are currently facing.

Improving access to credit ranks second after improved business spaces in the policy areas that traders believe can help their businesses grow. Some of the traders who identified access to credit as a potential policy intervention area called for small loans so that traders do not get caught with large debts and “long-term loans” that allowed sufficient time to pay the principal and interest. This is because the variability of sales over time makes it difficult to make large payments. When asked how long a “long-term” period is the traders said six months to one year.

However, in spite of the identification of access to credit – the supply of credit – as a substantial problem, it does not seem that there is a great demand for credit, at least from banks. Twelve of the traders said that they considered taking a loan from friends or family and five considered applying for a loan from a bank. Only one actually applied and she was turned down because, although she is South African, she did not have all the identification documentation required. Of the traders who considered loans from friends and family or

from a bank but did not apply, reasons given included perceived risk, lack of ID for refugees and high interest rates. Several made statements to the effect of: "In order to get a loan you need a bank account with money in it. If I had that already then I wouldn't need the loan, would I."

Risk was cited as the main reason that the traders often did not even consider a loan. Some said that they needed to make sure that the business would be successful before they would take on debt for it because they have children at home.

In one case, 12 years after starting the business, a trader visibly pulled back when asked if he would consider taking a loan now since the business seems to be successful. He had not thought of taking a loan at any point in the 12 years after the business was started. He demurred and said that he would still not want to take a loan because the business was unreliable.

There is a perceived lack of credit available and certainly the financial system does not function well to serve the economically marginalized, which most traders are. But there is also very weak demand due to risk aversion which is rooted in the variability of business and insecurity about the business itself.

Business training

Access to training in business skills for the owner of the business was a major (51.6%) or minor (3.2%) problem for over half of the traders I interviewed when they started the business. This remains an issue now with about 60% reporting this is a major (51.6%) or minor (9.7%) problem currently.

There is a desire for business training. Almost all of the traders who saw their lack of business skills and training as a major problem during their start up period continue to see this as a major problem. Men are more likely than women to see a lack of business training as a major problem.

Some of the traders had heard of or applied for – and one had graduated from – the University of the Witwatersrand program for training traders. The two places which required a permit to operate – Bree Street and the Baragwanath stalls – had been recruitment areas for traders for the course.

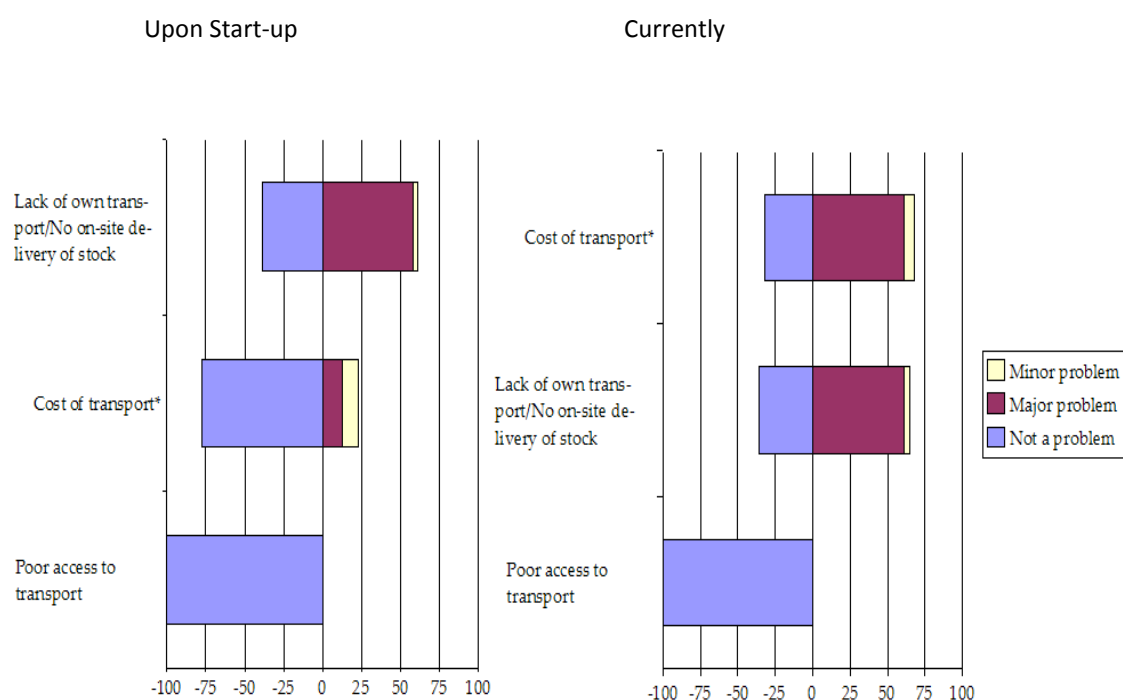
I interviewed one trader on Bree Street who had attended the course and all three of the traders I spoke to who had stalls inside Baragwanath had heard about the programme. Two had applied and were waiting for notification and one had had a family emergency during the application period and not applied. All were enthusiastic about the prospect of training.

One person in particular noted the need for management training so that he could hire people and manage them effectively.

Training ranks third, after improved stalls and better access to credit, in terms of the policy areas that traders think are likely to help their business grow.

Transportation

Figure 6: Transportation barriers



Cost of transportation

The cost of public transport was a major (12.9%) or minor (9.7%) problem for under one-quarter of the traders I interviewed when they started the business. Rising transit costs have become a more substantial problem recently with about 70% reporting this is a major (61.3%) or minor (6.5%) problem currently.

This appears to be a more significant problem for owners of older businesses.

There were a few traders who reported that they did not commute for either trips to buy supplies or daily for work. These were all located on Bree Street and lived in the CBD. Of those who do pay and were able to provide me with an estimate of the cost per day or per week the average cost was R56 per week and the median was R40.

Table 5: Cost of transport per week

Location	Mean Transport Cost (rand)	Median Transport Cost (rand)	N
CBD	77	66	6
Baragwanath	44	20	7
Thokoza	47	32	6
Total	56	40	19

Using the median of R40 week and given average monthly income from the business as approximately R1200 this means that transport costs account for over 10% of the business income.

Transport costs – for those who are paying for transportation – average R224 per month. This is more expensive than rent or storage.

Lack of own/on-site delivery of supplies

Over half of the traders I interviewed said lack of transport and no delivery to their site was a problem when they started their businesses.

Lack of own transport/no delivery of supplies at site was a problem for over half of the traders I interviewed when they started their firms. This continues to be a problem in part because most traders do not have locking storage to which only they have access. This exposes their stock to the risk of theft. A second problem is that traders are unwilling to invest in stock that is subject to confiscation by the Metro Authority.

Lastly, and connected to the cost of transport and storage space, some traders are buying stock very frequently – up to seven times per week. One reason for the frequent trips is that they carry the stock on their lap in the taxi to avoid paying for an extra seat and this limits the amount that they are able to buy per trip.

Access to transport

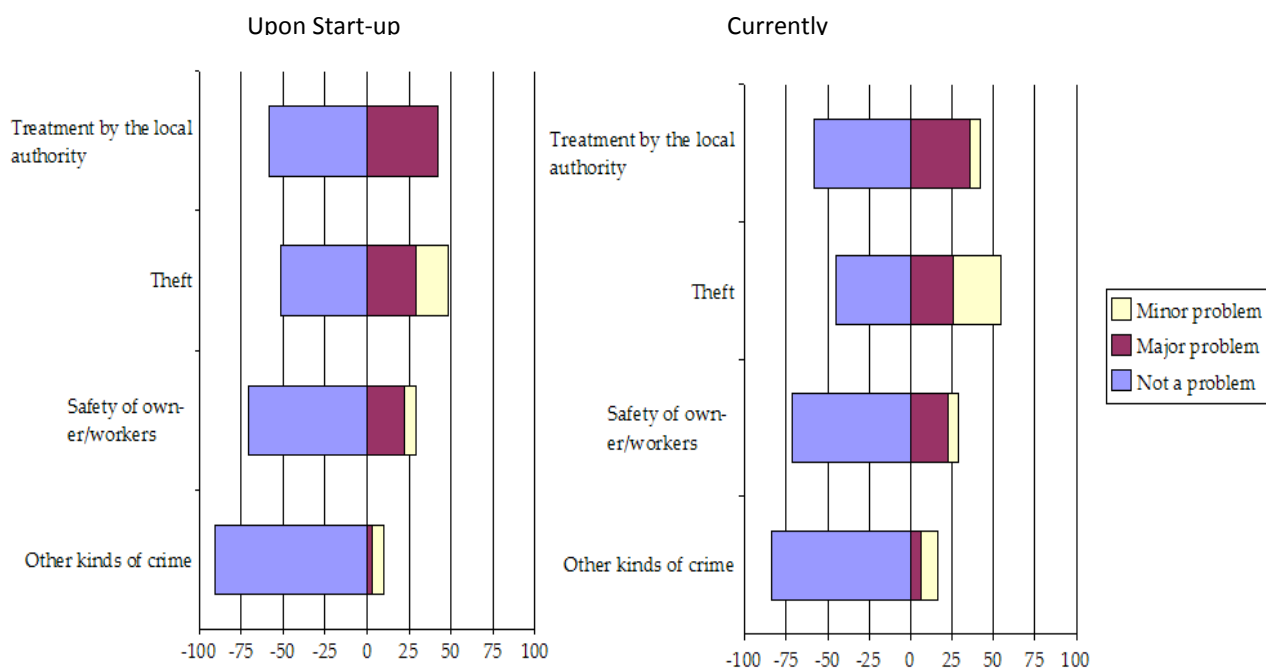
Access to transport was not identified by any of the traders as a problem. Most traders are located near taxi ranks and therefore have near-immediate access to transportation.

Treatment by local authorities and safety

Treatment by the local authority was identified as a major problem by 41.9% of clothing traders when they started their business and by the same proportion as either a major or minor problem currently. The primary issue with the Metro Authority was the confiscation of stock from unlicensed traders in Baragwanath. When this occurs the police enter the market in plainclothes and confront one trader while word spreads to the others. The other traders then quickly pack up their stock and leave the market. The unlicensed Baragwanath traders reported that they had their stock taken between one and four times per year and they are required to pay a fine of R600 to R1000 to get their stock back.

The other location with unlicensed traders, Thokoza, did not have many who identified run-ins with the authorities as a major problem. The traders in Thokoza did express insecurity about the possibility of their businesses being removed at any time but did not cite incidences of confiscation. As noted above, this may be a function of the small sample size.

Figure 7: Control and crime barriers



Theft, other kinds of crime and safety of trader

Theft was identified as a major problem during the start-up period by 29% of traders and as a major problem currently by 26% of traders. A further 19% at start-up and 29% currently report that theft is a minor problem. Most traders say that they experience theft of stock once or twice per year. Theft tends to happen in the storage room and, in Baragwanath, when the Metro Authority comes to confiscate stock.³³

Other kinds of crime are not a problem for traders in the CBD or Baragwanath. Three of the six traders in Thokoza said that other crimes are a major or minor problem.

About 25% of the traders said that the safety of owners/workers was a problem. This indicated safety from threat of violence in only one instance; the other respondents said they felt unsafe or insecure being exposed to the elements.

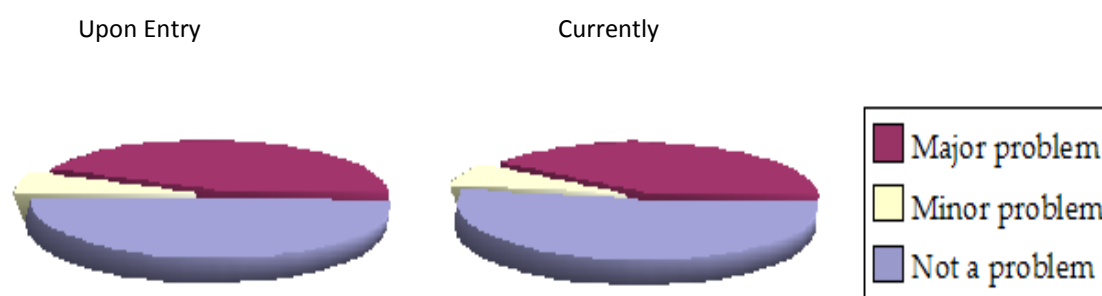
A few traders mentioned that the safety of their customers was sometimes an issue.

According to FinScope, crime and theft is a major problem for 25% of small businesses. The 1999 World Bank study found that 30% of informal firms had been the victims of crime, the vast majority of which is theft. Interestingly, crime is one area of mismatch between perception of risk being very high and actual incidence being relatively low (World Bank 2002, Cichello et al 2006).

Household time constraints

Lack of time or mobility due to household work and caring for family members

Figure 8: Lack of time or mobility due to household work



Lack of time or mobility due to housework at home has remained a problem for about 50% of the traders I interviewed. Women were twice as likely as men to say this was a problem when they were starting the business. This gap narrowed some as this became less of a problem for women as children got older.

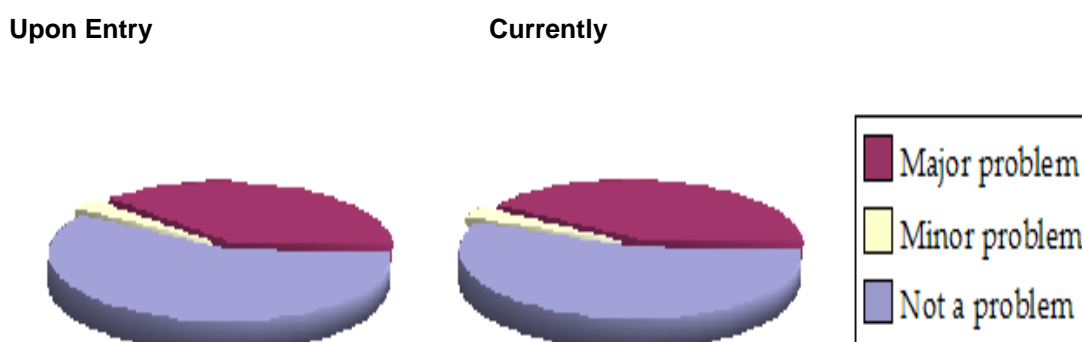
Some of the traders, usually male, identified a lack of time as a problem in its own right. All of them work at least six days per week and some have long commutes.

Having to take care of family members was a major or minor problem for over 40% of the traders when starting the business and a problem for just under 40% currently. This was much more frequently cited as a problem by women, many of whom had young children with them at the place of business.

³³ The traders are not viewing the confiscation as theft. Rather it is that the trader is away from the business and there is general turmoil in the market that allows opportunities for theft.

Difficulty in obtaining a Licence

Figure 9: Problems obtaining a business licence



Less than half of the traders thought that not having a permit was a problem when they started their business. Twelve of the 32 traders had a hawker's license and only one of these traders reports that not having a permit was a problem when they started the business. In contrast, 11 of the 20 traders who do not have a permit indicated that this was a problem when they started their business and 13 of the 20 say this is a major problem now.

Reasoning for not having a permit varied from those who felt they did not need one and did not see this as a problem, to traders who could not get one because they lacked necessary identification documents. Two traders, one in Baragwanath and another in Thokoza, said they had applied and were waiting for a response.³⁴ Another had a permit but did not have identification documents, essentially rendering the permit null and void. Interestingly, four of the six traders interviewed in Thokoza reported that not having a license was a major problem but were unaware that it is not possible to obtain a permit in the municipality.

Several of the clothing traders who did not have a permit said that this was because they did not know where to go or who to contact to get one. Most of these traders asked me where to go to apply for the permit.

We were told that the traders in Baragwanath were registered because someone came and registered them at the time that they were applying for the spaces being built. This is the way that most of the traders on Bree Street became registered as well. This suggests that if licensing is a goal, then sending someone to register traders is an effective means of licensing them. However, several of the traders laughed when I asked if not being able to get a permit was a problem.

It seems that the sole benefit of having a permit is becoming eligible to apply for a stall and, if allocated one, eliminating the risk of having one's stock confiscated. In some spots, Baragwanath for example, that is probably enough of an incentive to make traders desire a permit. In other places, like on Bree Street, gaining a license and a stall may not appear to be worthwhile given the rumours of the stalls being removed.

Licensing and enforcement may be an effective measure for closing markets to new entrants if policymakers want to increase incomes for traders who already have businesses.

³⁴ It is not possible for the trader to have applied for a permit in Thokoza because the municipality lacks a procedure to do so. This person may have applied for a permit in Johannesburg or may have been uncomfortable admitting s/he lacked a permit.

Market-based time constraints

Barriers to entry and maintaining a sustainable profit-earning business ranging from a lack of access to credit, limited business skills, access to infrastructure to fear of crime. The strength of these barriers in part explains why South African unemployment is high but the informal sector is relatively small. There is yet another set of constraints related to market demand. Questions of profitability, instability of earnings, rising competition and demand for consumption goods may function to limit labour demand by the informal economy.

Demand conditions may also contribute to restricting labour supply to the informal economy. In some sectors returns may be too low to draw people out of unemployment and into the informal economy. Perhaps they see that they would be better off working informally than if they are remain unemployed (Kingdon and Knight 2001), but the fact that they would likely remain in poverty – combined with other labour supply barriers including business skills and taking care of family members – compounded by the stigma associated with selling on the street in an insecure space and the “employment mentality” may contribute to the decision to remain out of the informal economy.

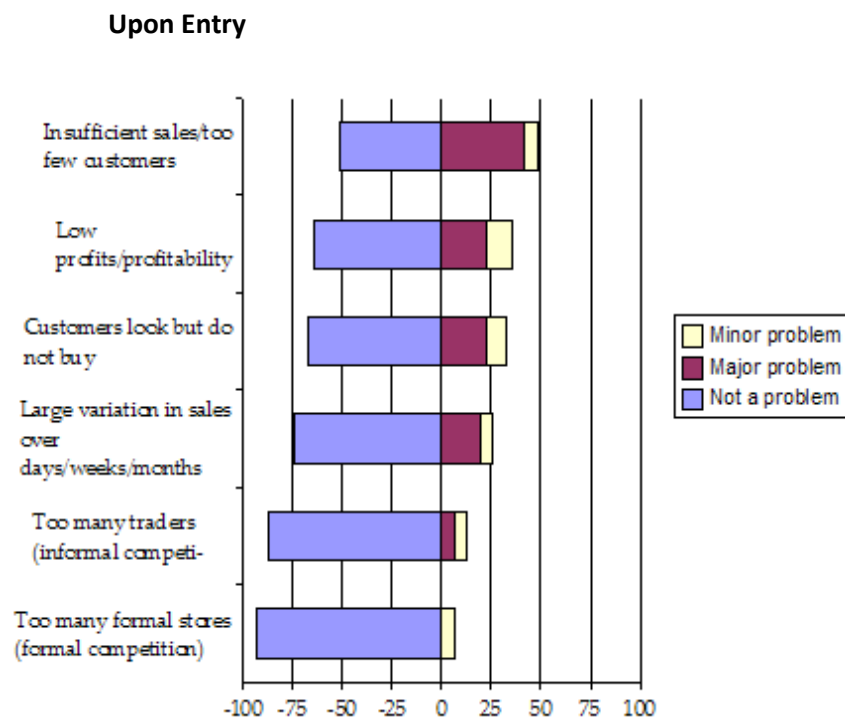
There is at least one barrier that that the informal economy as a whole runs up against: low demand for products due to intensifying competition and macroeconomic conditions. This can be understood as a “binding constraint.” One goal of this project is to observe how this binding constraint is manifested on the ground and how it impacts traders.

Very few traders identified market-based demand constraints as problems when they were starting their businesses. Demand constraints have become more important barriers and most businesses cite them as major barriers to sustaining their businesses.

One reason that demand constraints were not as commonly indicated as barriers at start up may be the age of the businesses – those that were started many years ago may have faced a different set of demand conditions than businesses that have been started more recently. However, in the 1999 World Bank survey 60% of the firms surveyed in Johannesburg reported that low demand was a constraint to growth.

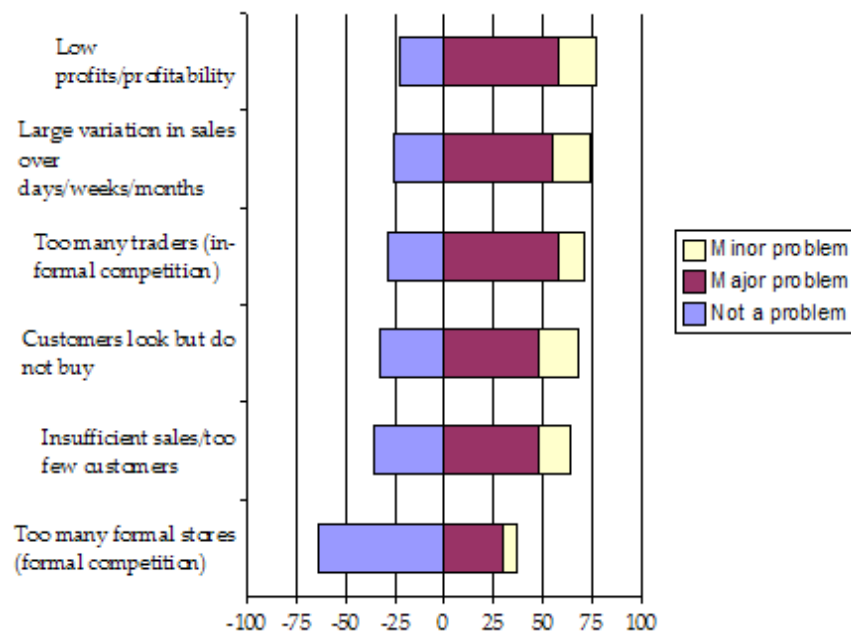
In the Durban survey over 75% of traders reported that insufficient sales were a major or moderate problem for their businesses and nearly 85% said low profits were a problem (Skinner 2005). Without the data from these studies it is impossible to draw conclusions about when the traders who identify demand issues started their businesses. Further, these surveys did not ask about barriers upon entry in addition to current barriers.

Figure 10: Demand indicators: Barriers to entry and maintaining the business



Demand Indicators: Barriers to Entry and Maintaining the Business

Currently



Low profits/profitability

Almost 60% of the clothing traders identified low profits as a major problem and another 20% as a minor problem that their business is currently facing compared with 35% that reported low profits as a major or minor problem at start-up.

Of the 23 businesses over three years old, 18 report that low profits were not a problem when they started the business. Currently, 16 of the 23 cite low profits as a major problem and another three say this is now a minor problem.

This may reflect slower growth in the South African economy at large. About 70% of the traders that I interviewed said that last year was better than this year in terms of the number of customers and sales. Reasons given for this included too few customers, higher prices causing business to be down everywhere, and stock having been confiscated by authorities.

The responses also suggest that the market itself may be saturated. Low profits are linked with 'too many informal competitors' and these are two of the most frequently cited major challenges to existing businesses.

Large variation in sales

Similarly, 55% of the clothing traders identified instability in business earnings as a major problem and another 20% as a minor problem that their business is currently facing compared with 26% that reported variability as a major or minor problem at start-up.

Of the 23 businesses over three years old, 21 report that variability was not a problem when they started the business. Currently, 14 of the 23 cite unstable earnings as a major problem and another three say this is now a minor problem.

Five of the eight younger business said variability had been a major problem and three still consider it a major problem.

It is expected that, in the short-term, variability becomes less problematic as traders learn how business flows change over time and attempt to adjust accordingly. Nearly all of the traders reported being busier on Fridays, at the end of the month when salaried workers get paid, and in December around the Christmas holidays.

The fact that variability remains a major problem for many of the traders may reflect the challenge of sustaining household income because, even when business is good, income can still be very low. During lulls, including those that are expected, hardship may result because saving income to smooth consumption is difficult or impossible when the business earnings tend to be low even when the business is busy.

Insufficient sales/not enough customers buying

About 50% of the clothing traders identified insufficient sales as well as customers looking but not buying as major problems and another 20% and 16% respectively cite these as minor problems that their business is currently facing. Insufficient sales were reported as a major or minor problem by nearly half of the traders when they started their business. One-third said that customers looking but not buying was a problem early on.

All but one of the eight businesses below three years old reported that insufficient sales were a major problem upon starting. Of the 23 businesses over three years old, 15 report that insufficient sales were not a problem when they started the business. Currently, 12 of the 23 cite insufficient sales as a major problem and another three say this is now a minor problem.

During the interviews some of the traders indicated that the increase in the number of traders had reduced the number of customers per trader. Several also suggested that there are fewer customers because people are unemployed and are spending money only on necessities such as food and transportation.

In spite of insufficient sales having been such a large problem for young firms at start-up, three report that insufficient sales are now a minor problem and three report that this is no longer a problem. Likewise, none of the younger businesses report that customers looking but not buying is a major problem now. Half say that it is a minor problem and half say it is not a problem at all.

It is possible that the younger firms are more dynamic and sensitive to what customers are looking for. They may have managed to adapt to the market more quickly whereas older firms experience more inertia. However, it was not my impression that they were selling a very different set of goods than the more established businesses. Another possibility is that the older firms experience nostalgia for better days of fewer competitors and more customers to go around.

Competition

Too many informal competitors was a major (6.5%) or minor (6.5%) problem for less than 15% of the traders I interviewed when they started the business. The problem was practically nonexistent for firms of all ages. This is larger issue now with about 70% reporting this is a major (58.1%) or minor (12.9%) problem currently and is more often cited by owners of older businesses.

This can generally be attributed to a perceived increase in the number of street traders while the amount of demand is unlikely to have increased rapidly. Over 90% of the traders I interviewed said that there were more traders now than there had been a year ago.

All 10 of the traders located on Bree Street believe there are more traders now than there were a year ago. Bree Street has stalls which require traders to have a permit and it seems that, at least on the street itself, traders without stalls are not allowed to set up tables. There are other areas in the CBD and around Gauteng without this barrier, where the number of traders is likely to have increased but Bree Street itself is effectively a closed market according to legislation. However, the market between Jeppe and Diagonal Streets is only a few blocks away and does not require licensing.³⁵

In contrast, less than 20% of the small business owners that FinScope interviewed reported that there is too much competition.³⁶ The FinScope report suggests that the figure is this high because “70% of small businesses are involved in the sale of goods. Only 7% add value to a product before selling it on. Very little innovation is evident in the differentiation of products and services; this limits the business' ability to compete” (FinScope 2006, p. 78). Insofar as product differentiation and adding value is able to “create demand” it is true that homogeneous goods means greater competition. However there are also demand constraints. Another important issue is what it means to “compete” in a market of street traders. This, in combination with sectoral variation, may go some distance in explaining why 70% of the traders I interviewed indicate that too much competition is a problem while only 20% of the FinScope interviewees report the same.

For example, several traders said there is no competition. They said this was because of price setting; no one competes on the basis of prices.³⁷ When asked specifically about how the

35 This does not necessarily mean that it is not also a closed market. Barring new entrants may be equally enforced or enforced more effectively, if violently, by traders currently operating in what appears to be an open market.

36 The 1999 World Bank report notes that over 50% of informal firms say they compete with other informal firms but does not collect information regarding whether traders believe there is too much competition.

37 The two traders who were making the goods they sell, the first making sandals in Soweto and the second making Zulu beaded clothing in Thokoza, said there was little or no competition because they were making unique items.

trader decides on a retail price for an item, over 70% of traders readily admit to price setting with neighbours who are selling similar goods. This is not uncommon in such “thin” markets in which prices are established through collusion in part because the profit margin is so slim.

When asked how traders compete or how they experience competition the common response was that they compete for customers – but they would not try to convince someone to buy from them rather than a neighbour.

As with the problem encountered when asking about hiring employees traders concept of competition is specific to them. The meaning of some categories in a capitalist mode of production and their meaning in what, for now, I will call a trading mode of production for the lack of a better term, differ. Some may argue that this kind of market is “hyper-capitalist” due to its unregulated nature. Others may understand it as a non-capitalist relation of production and distribution due to the subsistence aspect of many of the businesses, the lack of capital accumulation and variable forms of relations of production/distribution. There may be a continuum here under which some businesses, the seller of Zulu beaded clothing for example, fit into the categories traditionally used to understand a capitalist mode of production. There are other businesses, however, that confound these categories and require a substantively different analysis.

Given the perception of intense competition one might expect traders to lower their prices in order to lure more customers to their stall. However, many traders say that they do not negotiate prices. All of the traders that I interviewed use mark-up pricing, for example saying they buy an item of stock for R10 and sell it for R15 or R20. They would agree on this price with others working nearby. When asked what would happen if they lowered their own price responses were split between “we wouldn't make any money/others would lower their prices too” and “sometimes I do but it's a secret.” One of the traders who said that they do sometimes lower prices gave this example: “I can buy a pair of jeans for R40 and I would plan on selling them for R65 (set price with others selling jeans on the block). Sometimes I'll lower the price but never more than R5-R7 below the set price. The lowest for selling jeans that cost R40 would be R55.”

The perception of a highly competitive street trading environment seems to be due to the relatively small number of customers and low demand. It is difficult to see how this kind of competition manifests itself other than in a sense of insecurity shared by most of the traders.

Formal competition was not seen as a major problem during start-up by any of the traders. This has changed recently with more firms of all ages citing competition with formal stores as an issue. The traders' main interaction with formal stores was to purchase supplies (see Section 4 on the linkages between formal and informal economies). However, a few traders also said that they compete with formal stores including the stores that they buy supplies from when they do not get bulk prices.

Summary and policy recommendations

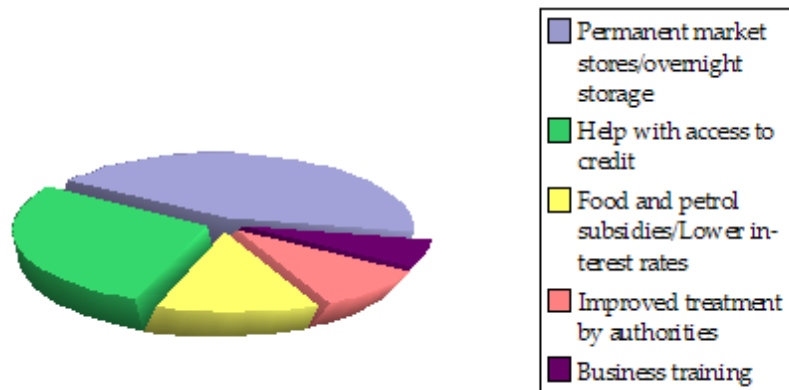
Access to markets for street trading is generally sufficient although there are problems with built spaces for trading. There is a demand for training but even more desire for access to small business support centres. There is relatively little demand for credit.

Low consumer demand and/or overtrading is a serious challenge for traders.³⁸ The marketplaces where traders work are generally “thin.” There are not enough customers buying products thus there are insufficient sales and low profitability and the trading

environment is perceived to be highly competitive. The profit margin is so low that even variability that is anticipated is problematic for household incomes.

Permanent market stores are the priority among the policy interventions that traders think would be good for their businesses.

Figure 11: Most important policy intervention identified by clothing traders in Gauteng



The desire for permanent market stores reflects a desire for security and protection from the elements. When policymakers opt to pursue building structures for traders they must consult with the traders themselves. If they are to be used the structures cannot cut traders off from foot-traffic.

Although “lack of funds/credit” was not identified as one of the highest barriers the business is currently facing, it is the second most cited desired policy intervention. There is a mismatch between the limited willingness to take a loan – even from friends and family – and this policy recommendation. This may be indicative of a desire to be integrated into financial structures as several traders noted feeling excluded. Others said that they themselves would never take out a loan but thought loans should be more widely available to traders. Recommendations for improving access to credit included a “long-term” repayment period of at least six months to help counter repayment problems related to the variability of business income over time and very small loans of as little as R500.

The recommendation of food and petrol subsidies and lower interest rates show the degree to which traders recognize the effects of price increases in the formal economy and the influence of macroeconomic conditions on their profitability.³⁹ This is explored in the next section of this paper.

MACROECONOMIC LINKAGES

Most studies of the informal economy highlight supply-side barriers to entry and sustainability such as lack of skills and access to capital. However, the International Labour Organization has argued that the focus on individual or group capabilities is misguided and researchers should instead be concerned about the lack of formal market opportunities (ILO 2002). A better understanding of structural constraints on the macroeconomy will help focus the debate not solely on rational workers but onto the limited capacity of markets to provide sufficient opportunities for decent, formal work.

Skinner (2008) writes that “urbanization, migration, and economic development processes” are associated with a rising number of street traders. As the population of cities rises

39 This response was volunteered; it was not a coded option on the questionnaire.

through internal migration, international migration, and population growth many people are unable to find formal sector employment. This means increased unemployment and more potential entrants to the informal economy. Within the informal economy street trading is an appealing sub-sector because it has lower barriers to entry than, for example, the informal construction sector.

“Economic development processes” in the form of policies shaping the experiences of developing and underdeveloped countries are a driving force behind urbanization and migration. They also act on their own to degrade working conditions in the formal economy and limit job creation. Structural adjustment policies historically advocated and enforced by the International Monetary Fund (IMF) and the World Bank call for liberalising trade and finance, privatisation and reducing government spending.

Policies designed to implement structural changes in the country's macroeconomy may have unintended outcomes. Trade, investment and financial liberalization, the reduction of tariffs, inflation targeting and decreased government spending are all policies that can limit employment growth, formal and informal, and restrict spending on the consumption goods sold by traders.

With trade liberalization and tariff reduction the number of clothing firms in and around Durban fell from 450 with between 45,000 and 49,000 people employed in 1990 to 65 firms employing 12,000 people in 2001 (Skinner and Valodia 2002). In response to liberalization and tariff reduction South African clothing manufacturing firms have laid-off or casualised many workers. Some workers undoubtedly found other paid work in the formal sector or, as in the case of one informant in this project who was retrenched from her job sewing jeans in New Castle, in the informal economy. But other workers joined the ranks of the unemployed. As incomes decline or are eliminated, consumption spending decreases.

Likewise, the policy of decreased state spending includes not only cuts in direct employment but also cuts in social welfare programs, health care, and education. Reducing the size of the government means eliminating some of the best jobs in terms of wages, security, and benefits.

Another channel through which traders are affected includes flows of financial capital and asset bubbles. In the South African case, asset prices rose due to increased global liquidity which sought profits in emerging markets. The rise in short-term capital inflows, or increased domestic liquidity, allowed easier access to credit by high income earners. Credit has been spent on consumption goods, mainly imports, and services, driving retail sales to their peak in August 2007 (Stats SA data). As consumption demand grew, it created demand for labour by formal retailers and service providers.⁴⁰ Many of these workers commute into Johannesburg from nearby townships and earn relatively low incomes. They are customers for street traders. When economic instability strikes and consumers decrease demand, these jobs are lost and traders may also experience reduced demand for their products. Further, the newly unemployed may enter trading and become competition for existing traders, driving profits lower.

The majority of street traders' customers are members of lower income groups that do not generally have access to credit in the form of loans or credit cards. Household consumption that has increased in lower income groups, (households with members who constitute

⁴⁰ Their demand for services such as domestic workers is manifested in the informal economy. These informal workers are also customers for street traders.

traders' customer base) has generally been financed through credit offered by formal retail stores for things like appliances and furniture.⁴¹

Although there has been some employment growth it has been slow and labour market participation has fallen from 61% in 2000 to 56% in 2007. Broadly speaking, insignificant employment and income growth means the demand for consumption goods purchased from traders remains relatively low. Many of the new jobs that have been created are the outcome of credit-driven consumption and growth. The jobs are precarious in the face of economic instability.

Thus although consumption has risen overall it does not imply that the demand for the goods that traders are selling has increased or that demand, if it has increased, has kept pace with the increasing number of competitors such that sales have not declined. It appears that the demand traders are subject may be pro-cyclical with formal retail sales, peaking in or around August 2007 and declining over the following year. Traders report that sales have been stagnant or decreasing particularly recently as the prices of food and fuel rose rapidly. Further, the impact of the US-based financial crisis has been the withdrawal of short-term capital, weakening of the rand, lower demand for exports globally and job losses. Official measures for 2008 show a decline of 318,000 unemployed persons between the first and fourth quarters; however the number of people who are not economically active rose by 382,000 in the same period (Stats SA data).⁴²

One argument links low demand to the location of the business: businesses not in the CBD face lower demand than they would if they were in the CBD (World Bank 2002). Where traders were able to locate prior to the 1990s was determined by apartheid-era legislation and low demand may indicate that the location of firms that are not in the CBD is one issue among many.⁴³ But to conclude that low demand is primarily a function of traffic suggests that there are assumptions being made about consumers' ability to demand products and services. We must also consider the possibility that the demand for the consumption goods that traders are selling is low regardless of traders' location.

Whether low demand is understood as a barrier to entry and sustained business success or as a macroeconomic problem depends on the level of analysis. Demand is a point of intersection between the micro-level perceived barriers and the macro-level policy-based barriers. Informal firm operators are able to recognize low demand as a barrier but it can also be understood as a product of the macroeconomic policy environment. In a country with such high unemployment demand will only change significantly when the unemployed begin earning income; therefore macroeconomic policies designed to improve employment prospects will improve demand conditions.

Low demand is a barrier that the informal economy as a whole runs up against although the impact varies by sector: low consumption demand from the segments of the population that purchase the most goods and services from informal sellers due to macroeconomic conditions including limited economic growth and poor employment growth. Low demand

41 In theory this could free up money to be used in cash transactions including those with street traders. This only holds if the money to purchase the items bought on credit had been saved in advance.

42 The Stats SA Quarterly Labour Force Survey data used here has a broad definition of employment. It includes persons who are clearly "underemployed." For example, someone who worked for a single hour in the reference week "helping unpaid in a business run by another household member" is classified as "employed" (Stats SA 2008).

43 In this study, traders located outside of the CBD were actually less likely to indicate that low demand was a major challenge. This may be due to the small sample size but another consideration is that the CBD is not necessarily the place where demand is likely to be the highest for consumption goods since relatively few people live in the CBD.

for the consumption goods sold by traders is, in part, a consequence of the policies put into place in the 1990s designed to change the macroeconomic structure and which have failed to promote employment-creating economic growth.

Macroeconomic policy

The way that the economic policies implemented after 1994 were supposed to work is simple: Adjust the economy in order to attract foreign direct investment. This investment, in turn, will create jobs. New employment will raise incomes and lift South Africans out of poverty. However, reality is more complex and the outcomes have not matched the predictions (Heintz 2003).

Liberal macroeconomic policies were adopted after the African National Congress (ANC) government was elected in 1994. These were embodied in the Reconstruction and Development Programme (RDP) and Growth, Employment, and Redistribution (GEAR) strategies. Although the RDP and GEAR were intended to increase employment the macroeconomic policies invoked by the strategies had the unintended result of slow and even negative employment growth attributable to conflicting aims and faulty assumptions.

Initially the Reconstruction and Development Programme (RDP) laid out a set of economic policy goals. The relative exclusion of South Africa from international investment between the mid-1980s and the early 1990s combined with domestic business pressure and the possibility of capital flight prompted the ANC's Department of Economic Policy (DEP) to shift from an original focus on growth, redistribution, and a trade union agenda to "fiscal discipline" and attempts to attract foreign investment (Nattrass 1994). The final version of the RDP contained the ANC's proposed solutions and targets for socio-economic problems but explicitly stated a commitment to "fiscal discipline" (Hirsch 2005).

By the mid-1990s gross domestic product (GDP) growth, which was about 4% in 1970 and had fallen to negative growth by the early 1990s, rose to about 3.5% (Mokate 2000). During the same period, private sector employment growth also fell from about 4% to negative growth – job losses – by 1990, where it remained for nearly 13 years (Mokate 2000, Heintz 2003, South African Reserve Bank (SARB) Various). The RDP is insightful in noting that "Speculative investment has replaced productive investment, with a consequent decline in job creation and overall employment levels" (RDP 1994).

Regarding demand, the RDP specifically notes that the import-substitution based manufacturing sector, encouraged by "successive minority governments and business" is not producing goods that most consumers are able to afford. "...the disparity between the low income levels of the majority of consumers and factors leading to rising price levels ensured that the manufacturing sector served the wealthy and excluded the poor" (RDP 1994). Trade liberalization and tariff reduction has allowed an inflow of cheaper imported goods at the cost of jobs in domestic manufacturing.

The Growth, Employment, and Redistribution (GEAR) strategy was implemented between 1996 to 2000 and continues to guide policy today. The stated goals of GEAR included increased employment, fiscal and monetary "discipline" with the aim of reducing the fiscal deficit, pushing inflation lower, trade liberalisation and stabilising the real exchange rate. The intent, in part, was to attract more foreign direct investment which would theoretically create jobs and allow for expanded access to social services (Heintz 2003). Instead of creating jobs, these policies seem to have created the conditions for jobless growth.

GEAR'S goals

Investment

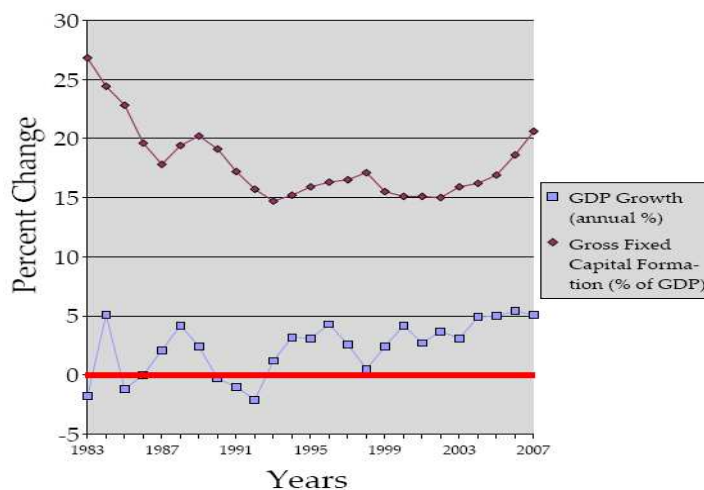
The GEAR strategy relied heavily on the expectation that a reduction of deficit spending would push interest rates down and, in turn, increase private investment and create jobs. The government did successfully reduce deficit spending, as discussed below, however the real interest rate jumped from 3% in 1994 to 14% in 1998 (Heintz 2003, Hirsch 2005).⁴⁴

The expectation that reduced deficit spending would result in a lower interest rate did not take into account the likelihood that the external current account would decline, weakening the rand and potentially prompting the central bank to raise interest rates (Weeks 1999). Rather than increasing private investment and creating jobs, higher interest rates likely discouraged real investment that might generate employment and attracted more volatile speculative investment.

At the time the ANC was elected, the central banker at the SARB, Chris Stals, saw the purpose of the SARB as “preserving monetary stability” and was primarily concerned with inflation and the balance of payments (Hirsch 2005). His strategy was to use a high interest rate to strengthen the rand and slow economic growth in order to reduce inflation. Stals engaged tight monetary policy, raising the required reserve ratio, suggesting limits on the extension of credit, and raising the interest rate. As the inflation rate dropped or remained relatively steady from 1994 to 2000⁴⁵ the real interest rate reached 14% in 1998 likely stifling the rapid investment growth required to create jobs and increase consumption demand (Heintz 2003, Hirsch 2005).

Like the reduction of the budget deficit, this can be viewed as a success in terms of achieving what the SARB saw as its purpose. But the “success” has critics because tight monetary policy constrained private investment that might have created jobs and instead attracted short-term capital inflows. Figure 12 shows fixed investment as a percentage of GDP and GDP growth.

Figure 12: GDP Growth and Gross Fixed Capital Formation from 1983 to 2007



Source: SARB Quarterly Bulletins

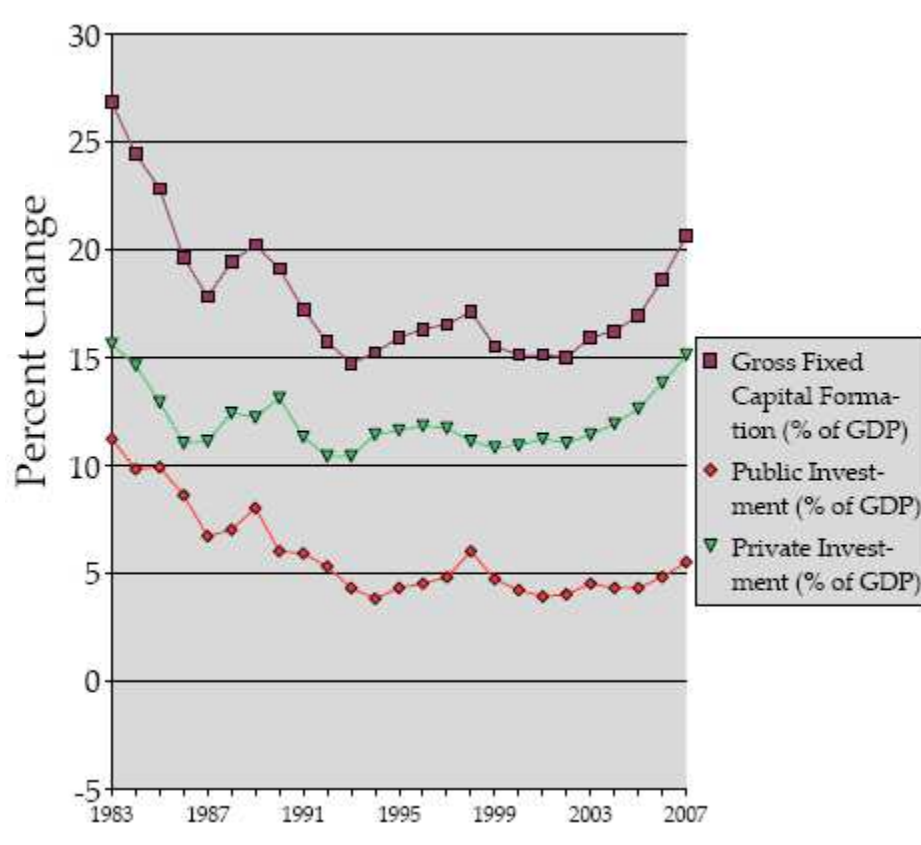
44 Hirsch (2005) calculates this as the bank rate minus the CPI and notes that it is 3-4% lower than the prime interest rate at the time.

45 The CPI dropped fairly steadily; core inflation remained relatively constant.

The GEAR strategy was unable to come close to meeting the goal of investment growth, which slowed in 1999 and 2000 and did not rise until 2004 (Hirsch 2005, SARB Quarterly Bulletins).

Figure 13 shows the change in fixed investment disaggregated by public and private investment. Net public investment growth was stagnant for most of the period between 1996 and 2003. Net private investment growth fell. GEAR was designed to create jobs by promoting rapid investment growth but investment was constrained by a high real interest rate and private sector employment growth was negative during this time.

Figure 13: Gross fixed capital formation, public investment and private investment from 1983 to 2007



Source: SARB Quarterly Bulletins

At the same time moves were being made toward liberalizing exchange controls but maintaining the strength of the rand (Hirsch 2005). This further encouraged short-term capital inflows as investors saw that rapid depreciation was unlikely. Institutions such as the International Monetary Fund expressed concern about the rapid rise of capital inflows in South Africa and suggested that South Africa “proceed cautiously along the road to free international capital markets” (Hirsch 2005).

Ultimately, GEAR did attract capital, but it attracted short-term, speculative investment due to the response of the SARB. It was unsuccessful at attracting real investment that would generate employment.

Economic growth

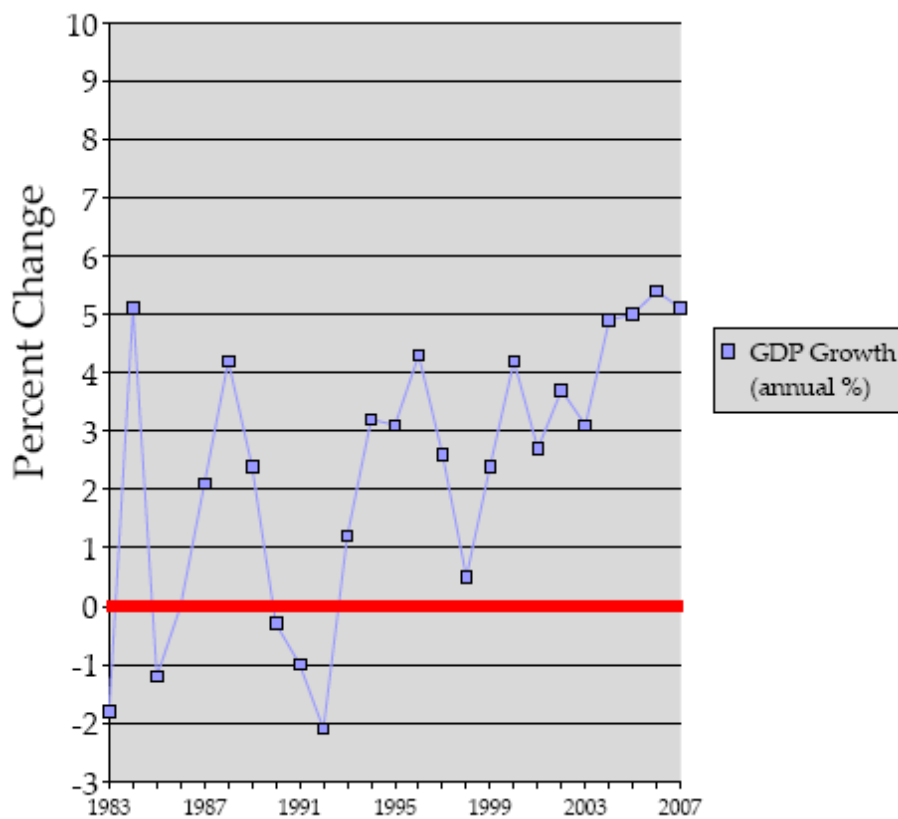
The South African Ministry of Finance expected GEAR to increase the annual growth rate from 2.3% in 1994/1995 to 4.2% for 1996/2000, with 6% growth targeted by 2000 (Weeks 1999). The GEAR program argued that “growth is mainly the result of steady increases in fixed investment and manufactured exports” (Weeks 1999), an apparent departure from the

RDP's relatively pessimistic assessment of South Africa's manufacturing sector in its import-substitution capacity.⁴⁶

Since the implementation of GEAR, growth was projected to average 4.2% but the outcome was average growth of 2.6%. Figure 14 shows GDP growth in South Africa from 1983 to 2007; over all growth has been positive since 1994.

GDP growth has been between 2.74 percent and 5.5 percent from 2000 to 2007 according to the South African Reserve Bank (SARB Quarterly Bulletins). Further, the IMF predicts slower upcoming real GDP growth at 3.8 percent in 2008, 3.7 percent in 2009, and 5 percent in 2013 (IMF 2008).

Figure 14: GDP growth from 1983 to 2007



Source: SARB Quarterly Bulletins

Recent growth has not been the result primarily of increased investment; it has been the result of a rapid rise in debt-driven consumption. Unsurprisingly then, increased private sector employment has not been a significant outcome of growth (Stats SA data, Heintz 2003).

Employment growth

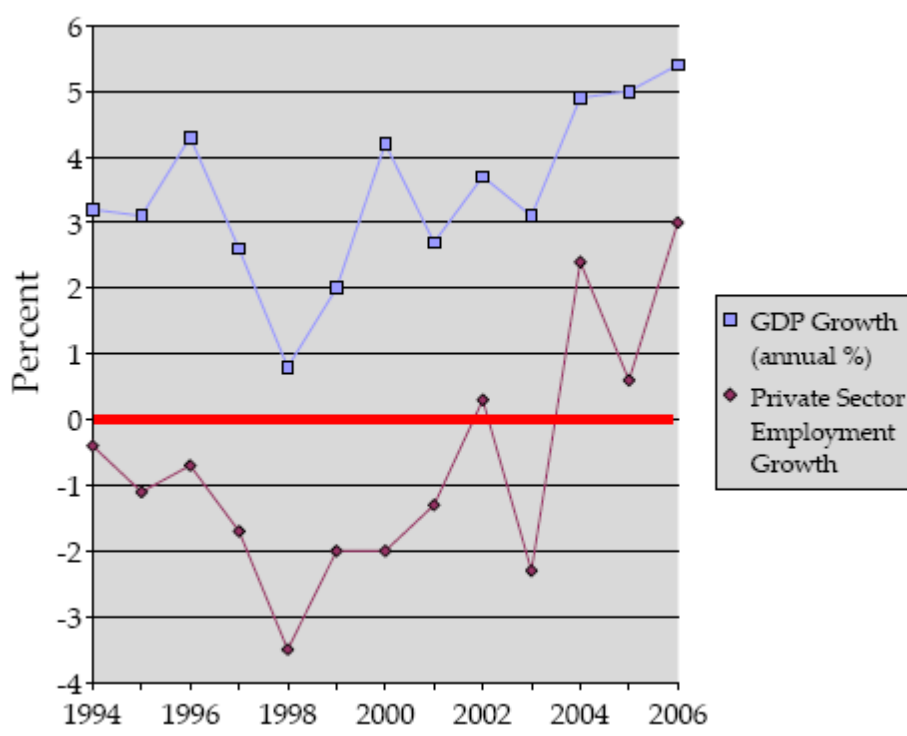
Unemployment was, and remains, recognized as one of, if not the, most pressing problem that South Africa faces (Hirsch 2005, Kingdon and Knight 2004). By the narrow definition of unemployment, the rate had risen from 17% in 1995 to 26% by 2004 (StatsSA). By the expanded definition unemployment increased from 27% to 40% (StatsSA).

⁴⁶ See Weeks (1999) for an explanation of manufacturing and a disaggregation of the demand stimulus in terms of public and private investment

The stated GEAR target for formal, non-agricultural employment growth was 2.9% per year (Hirsch 2005). Although there was some employment growth between 1995 and 2003, it occurred primarily in the informal economy (Hirsch 2005). GEAR failed to create formal sector jobs; in most years formal employment growth was negative due to job losses in the private sector, downsizing of government as part of the effort to reduce spending, the high interest rate which constrained long-term private investment and trade liberalization (although this effect varies across sectors) (Heintz 2003).

Although formal employment growth is positive, it is not clear that the “short-term pain” of structural changes in the macroeconomy will not become long-term pain without a new course of policy prescriptions that can attract investment in labour intensive industries and generate employment.

Figure 15: GDP growth and private sector employment growth from 1994 to 2006



Source: Heintz 2003 for the years 1994 to 1999 and SARB Quarterly Bulletins for the years 2000 to 2006

In sum, the policies implemented as part of GEAR and the goals of SARB appear to have stifled rapid employment creation. Although there have been some formal jobs created, the number is far lower than what is needed to confront the unemployment problem.

Reduced budget deficit

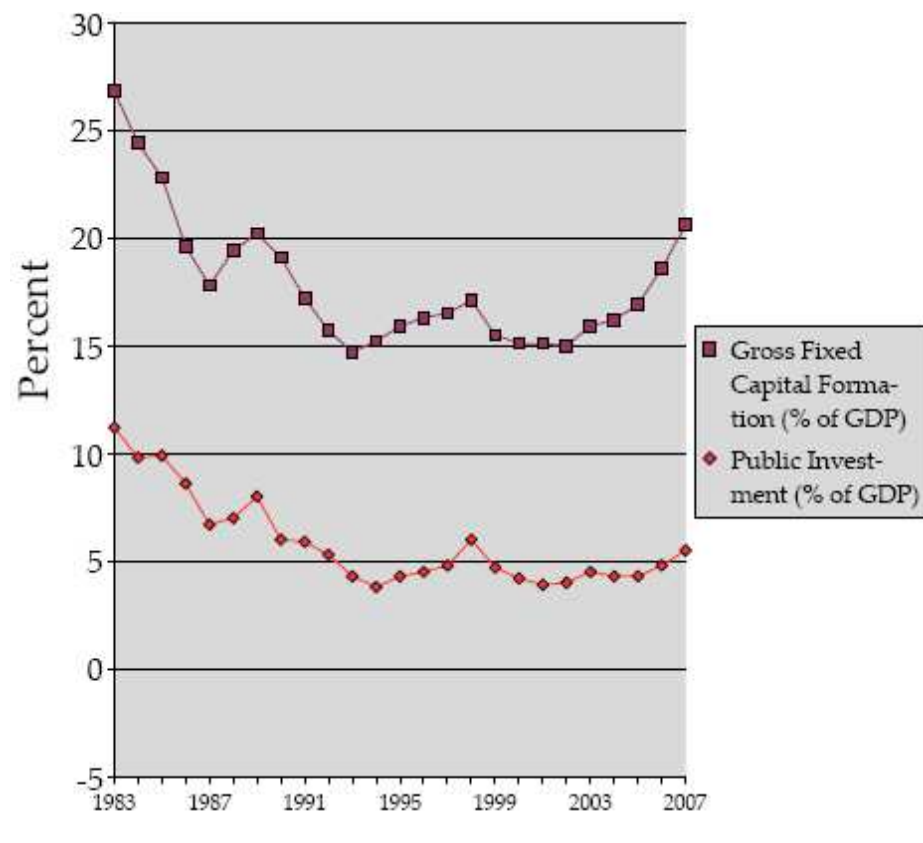
In 1994 the ANC was confronted by a high debt-to-GDP ratio – about 64% – that the party was concerned may indicate economic instability and crowd out private investment (Hirsch 2005). Since private investment was the linchpin to generating growth and employment, reducing the budget deficit and ultimately lowering the debt-to-GDP ratio was a policy priority. This ran counter to the advice of many economists including some at the World Bank who thought foreign borrowing was necessary for investing in social infrastructure (Hirsch 2005).

In spite of lingering questions about the appropriateness of the goal, this was an aim of the GEAR strategy that was successfully reached. Public investment fell from an apartheid high of over 16% of GDP in the 1970s to less than 5% by the mid-1990s (Hirsch 2005, SARB Quarterly Bulletins). The deficit was further reduced from 6.8% in 1994 to 2.2% of GDP by the end of 2000 surpassing the 3% target (Hirsch 2005, SARB Quarterly Bulletins).

The debt-to-GDP ratio fell to about 50% by 2004 (Hirsch 2005).

Public investment has begun to rise in 2006 as a result of increased government spending on infrastructure through programs like the Provincial Infrastructure Grant (PIG), Municipal Infrastructure Grant (MIG) and on major infrastructure investment projects such as the Gautrain and stadium construction and upgrading for the 2010 FIFA World Cup. Figure 16 shows the change in public investment since the early 1980s. Increased public investment should generate jobs and increase consumption demand although the number of jobs it creates tends to be relatively few due to the capital intensity of many of the projects the government is funding.

Figure 16: Gross Fixed Capital Formation and Public Investment from 1983 to 2007



Source: SARB Quarterly Bulletins

Connecting macroeconomic policy and demand with street traders in Gauteng

Connecting macro-level data with micro-level experiences is essential for understanding how macroeconomic policies affect people and, in this case, their businesses. Some academics may argue that traders are not well-positioned to assess demand conditions. However, traders are directly linked in to the consumption economy and constantly assess the conditions that their livelihoods depend upon. While formal and informal demand for new

clothing appears to be pro-cyclical, traders' observations about demand suggest that increased credit-based consumption demand does not imply that demand increases evenly across the formal and informal retail. Macroeconomic indicators offer some explanation of why traders are impacted differently than formal retailers. Traders' livelihoods and their customers' livelihoods are directly affected by the failures of macroeconomic policies that attract short-term foreign capital and do not generate significant quantities of new employment.

Many of the traders interviewed noted that economic conditions, such as rising food and petrol prices and unemployment, affect the amount they are able to sell in a given period. The demand for clothing changes when expectations are adjusted as well as when prices of other necessities like food and transportation change. These determinants of demand for consumption goods are influenced by macroeconomic policies that impact employment, prices and the strength of the rand. Trade liberalization, tariff reduction and reduced public investment decrease the number of formal job opportunities. Further, increased short-term foreign capital inflows created asset bubbles and raised credit-based consumption to an unsustainable level. Thus although GDP growth has been positive and jobs have been created by rising consumption, neither growth nor job creation rates can be maintained in perpetuity. As the economy slows and short-term capital is withdrawn due to the financial crisis, traders, already a vulnerable group, are subject to weakened demand and lower incomes.

Policy implications

The low aggregate demand barrier is a binding constraint with important policy implications. The first is that, assuming demand in a sector remains constant, new entrants into the sector in an informal market selling the same goods at the same prices mean lower business earnings for all traders in this sector. In other words, there may be a trade-off between increasing employment and increasing business income. If demand is rising, although it is still relatively low given the size of the population, business earnings will only be maintained if demand rises at the pace that new traders enter.

If policy-makers want to use self-employment in trading in sectors selling homogeneous goods to pull people out of poverty then they will need to consider a series of problems. These include designing policies around excluding some people from informal trading sites, questions of enforcement, distributional outcomes and allocation of space. Confronting these questions is a challenge, particularly when considered in the context of whether everyone has a right to pursue a livelihood. However, innovative micro-policy may be phased in over time which may increase consumption demand. If implemented in conjunction with employment-generating macroeconomic policies the informal economy may have the capacity to absorb new entrants while improving incomes for existing traders.

For example, if "closed markets" are enforced, meaning new entrants are not allowed in, then incomes can be increased. Therefore rather than the policy target being to encourage as many people as possible to enter informal markets, a better goal might be to establish meaningful licensing in the sectors where income is low. Once those closed markets are potentially capable of pulling traders out of poverty then the next step may be to generate demand through training business owners to seek out a niche and add value to the things they sell. As traders become more sophisticated and demand conditions improve on a micro-

level policy-makers should design a strategy for integrating and training new traders as increased incomes will make entry into trading more attractive.⁴⁷

A second related implication is that the demand barrier restricts the efficacy of policies like microfinance for start-up capital, which are designed to ease more concrete barriers to entering the informal economy. No matter how much money is available and how cheaply and easily it is accessible, the level of demand for the products being sold remains a binding constraint.

Policymakers considering interventions in street trading must be cognizant of both micro-level requirements, such as the desire of traders for particular kinds of shelters, and the macro-level connections like the implications that demand conditions have for using trading to create jobs.

CONCLUSIONS

Employment growth is key to raising consumption demand. Without waged employment consumers lack the income required to buy staples like food much less non-necessities such as new clothing.

Street traders are part of the economy and are impacted by macroeconomic policies. The macroeconomic aims of fiscal restraint and tight monetary policy, adopted in South Africa have stifled demand, have not supported long-term investment and have not produced the conditions needed for employment creation and poverty reduction.

Traders are motivated to start businesses by the macroeconomic climate, either because they could not find employment or because they thought starting a business was a profitable opportunity. Traders are then subject to macroeconomic conditions through consumption demand by the poor. South Africa's macroeconomic policies have not benefitted the poor, the majority of the population, and therefore have constrained consumption demand in the informal economy.

47 This policy recommendation does not imply that all traders are or can be – or even want to be – entrepreneurs. Nor does it imply that all of the unemployed can make the transition to self-employment. For a strategy like this to be successful it would require targeting for training the traders who see themselves as entrepreneurs and who desire training.

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APPENDIX

Barriers to Entry	% Citing as a Major Problem
No permanent stall	80.7
Inadequate business space	58.1
Lack of own transport/no delivery of supplies to site	58.0
Poor access to small business support centres	54.8
Poor access to training in business skills for the owner of the business	51.6
Lack of funds/credit	45.2
Lack of time or mobility due to unpaid household work	44.8
Insufficient sales/too few customers	41.9
Treatment by the local authority	41.9
Can't obtain a business license	38.7
Poor access to infrastructure (toilet, water, trash collection)	35.5
Having to take care of family members	32.1
Theft	29.0
Low profits/profitability	22.6
Customers look but do not buy products	22.6
Safety of workers/owners	22.6
Large variation in sales over time	19.4
No place to store products overnight in market	16.1
Cost of public transport	12.9
Expensive rent	12.9
Too many competitors (traders)	6.5
Poor access to supply/suppliers	3.5
Other kinds of crime	3.2
Proximity to markets/customers	0.0
Too many formal stores (formal competition)	0.0
Poor access to public transport	0.0
Barriers to Maintaining the Business	% Citing as a Major Problem
No permanent stall	80.7
Inadequate business space	77.4
Poor access to small business support centres	67.7
Cost of public transport	61.3
Lack of own transport/no delivery of supplies to site	61.3
Low profits/profitability	58.1
Too many informal competitors (traders)	58.1

Lack of funds/credit	58.1
Large variation in sales over time	54.8
Poor access to training in business skills for the owner of the business	51.6
Customers look but do not buy products	48.4
Insufficient sales/too few customers	48.4
Poor access to infrastructure (toilet, water, trash collection)	45.2
Can't obtain a business license	41.9
Lack of time or mobility due to unpaid household work	41.4
Treatment by the local authority	35.5
Having to take care of family members	31.0
Too many formal stores (formal competition)	30.0
Expensive rent	29.0
Theft	25.8
Proximity to markets/customers	22.6
Safety of workers/owners	22.6
No place to store products overnight in market	16.1
Poor access to supply/suppliers	6.9
Other kinds of crime	6.5
Poor access to public transport	0.0

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