

**“Challenges Facing Informal Sector Micro-enterprises in Newlands West: The Case of Female Owned Home-Based Dress Making Enterprises.”**

**by  
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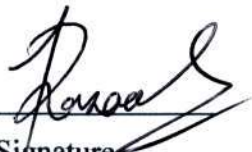
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## **Declaration**

I, Fathima Rasool, hereby declare that the contents of this short dissertation represent my own work.

Opinions expressed in this dissertation and conclusions arrived at, are those of the author.

  
Signature

07 December 2007

Date

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## **Abstract**

This study seeks to investigate the challenges facing informal sector micro-enterprises in Newlands West, using the case study of female owned home-based dress making enterprises in the South West of Durban. The investigation, which aims at establishing the historical background to these micro-enterprises, their main activities and their viability, and the challenges they are facing, will be conducted in the context of the broader debate both in South Africa (SA) and globally about the informal sector, to which micro-enterprises would arguably belong. This study also aims to contribute towards research and future policy developments in the field of home-based enterprises. Many of these workers have set-up home-based micro-enterprises as a means of creating employment in order to sustain their livelihoods. The purpose of this study is thus to highlight the potential of these micro-enterprises to create employment and alleviate poverty.

The qualitative research method is used in this study. In-depth, semi-structured interviews using purposive sampling were conducted with ten owner-managers. Data was analysed using the constant comparative method of analysis.

The conclusion drawn from this study was that these micro-enterprises received hardly any support from the local municipality or provincial government to grow their businesses. The study also found that there is potential for these owner-managers, with appropriate state support, to grow their businesses, make greater profits and create jobs. Some of the recommendations offered in this study include: a system of mentorship should be established to assist informal micro-enterprise owners improve their business acumen. They should be given enterprise support as none of the

dressmakers underwent any form of business training. There should be development of the following skills: Financial management, production management, technical training, marketing and sales and understanding the regulatory environment.

## **Table of Contents**

1. INTRODUCTION	7
1.1. Problem Statement	11
1.2. Aims of the Study	12
2. THEORETICAL PERSPECTIVES ON THE INFORMAL SECTOR	13
3. GOVERNMENT POLICY ON INFORMAL SECTOR	22
3.1. Macro-Economic Policy Environment	22
3.2. The KZN Provincial Policy Context	27
3.3. eThekweni Municipality's Informal Policy	27
4. CASE STUDY OF HOME-BASED MICRO-ENTERPRISES IN NEWLANDS WEST	29
4.1 Introduction and Background to Case Study	29
4.2 Research Method used in the study	30
4.3 Rationale for choice of methodology	32
4.4. Sampling	33
4.5. Data Collection	34
5. PROFILE OF OWNER-MANAGERS	37
6. BUSINESS ACTIVITIES AND CHALLENGES OF HOME-BASED MICRO-ENTERPRISES IN NEWLANDS WEST	39
7. DISCUSSION OF FINDINGS	45
8. CONCLUSION	51
9. RECOMMENDATIONS	52
9.1. Capacity Building	52

9.2 Enterprise Support	53
9.3 Skills Development	53
9.4 Strengthening research capacity	54
9.5 Micro-Financing	54
9.6 Mentorship	55
10. REFERENCES	56
APPENDICES	64



## **1. INTRODUCTION**

The South African (SA) clothing industry is regarded by government as one of the priority areas for economic growth and employment creation. The industry offers an opportunity to provide jobs for a large number of semi-skilled and unskilled people in a country faced with massive unemployment and critical skills shortages. Entry into the sector requires considerably less start-up capital, skills intensity and capital investment relative to other manufacturing sectors. There are also very low entry barriers for unemployed people and those wanting to start their own businesses but have limited financial resources. The KwaZulu-Natal Province and Ethekwini Municipality are home to a large number of people working in the clothing industry either in factories as machinists or garment-makers from home. Therefore the importance of this industry for regional and local economic development is well recognised (KZN Department of Economic Development, 2006 & Clothing, Textile, Footwear and Leather Sector Education and Training Authority, 2006).

The clothing industry displays characteristics of economic dualism along a formal-informal continuum. As part of the wider “two economies” discourse, enterprises in the clothing industry also exist in parallel economies with linkages in some instances and not in others. Indeed, President Mbeki (2003) in his address to the National Council of Provinces in Pretoria introduced the “two economies” discourse and encouraged a more careful probing into the nature of the second economy and its relationship with the first economy.

According to the (African National Congress, 2005), the “first” economy is formalised, advanced, sophisticated, based on skilled labour and competes in the global marketplace. The “second” is a mainly informal, marginalised, unskilled economy, populated by the unemployed and



those unemployable in the formal sector. Despite the impressive gains made in the “first” economy over the last decade, the benefits of growth have yet to reach the “second” economy (ANC National Policy Conference discussion papers, 2005).

The formal sector of the clothing industry consists of large, medium and small enterprises that manufacture predominantly for the local retail market. National government is paying considerable attention to the formal sector in its attempt to create an enabling trading environment for growth and employment creation. For instance, the Customised Sector Programme for Clothing and Textiles developed by the Department of Trade and Industry (DTI) focuses exclusively on initiating a series of programmatic interventions to revive enterprises in the formal sector (DTI, 2006). Economic and labour data are also readily available through government agencies, employer bodies, trade unions and research institutes for the formal sector of the industry.

In contrast, enterprises operating informally range from small to micro-enterprises with the latter consisting mainly of survivalist garment-makers working from home or located in confined premises in the inner city. Small enterprises are used to rework garments manufactured by other firms, or to do piecework and short job runs for firms in the formal sector. In other words, they Cut, Make and Trim (CMT) garments for wholesalers and retailers who supply them with the fabrics, trims and design specifications. Hence, they are known as CMTs.

Micro-enterprises, which constitute the central focus of this research study, typically consist of between 1 to 5 people, produce garments for small family outlets, hawkers and street-traders. They

usually buy the fabric and trims, design and stitch the entire garment. In effect, they are responsible for the entire process from the conception of the product to its distribution to sellers.

Garment-making in the informal economy constitutes a major sub-sector and is expanding through a proliferation of survivalist micro-enterprises. This development is a consequence of twin pressures in the wider socio-economic environment for work-seekers. First, formal employment in the clothing sector in KwaZulu-Natal diminished from 49 967 to 32 060 jobs between 2005 and 2007 (CTFL SETA, 2006 & Palmi, 2007). This represents an effective loss of 36% of jobs in the formal clothing sector over a 2-year period. Skinner and Valodia (2004) mention that when factories are liquidated, it is common for retrenched supervisors to buy machines and employ former factory workers to make garments in garages. Freeman (2005) adds that these entrepreneurs are proficient in technical areas of production, but lack business acumen and management skills to run enterprises. Second, unemployed women, who find it difficult to find employment in the formal economy because of poor schooling background, establish garment-making micro-enterprises. Garment-making is a common choice for them because it has a low skills entry requirement and limited capital requirements to start-up a new venture. Like in the case of retrenched supervisors, these women entrepreneurs have the technical skills, but lack the management skills to grow their businesses.

Mayrhofer and Hendriks (2003) found that although education and training support services are offered by a range of organisations to assist entrepreneurs who enter the informal economy, there is little consensus on what interventions are most appropriate for informal enterprise support. Most support programmes are supply-driven, particularly in programmes relating to finance, business

management and training. However, research conducted by the ILO has found that support programmes for informal enterprises should be demand-based (Rogerson, 1991).

At a wider level, the potential of the informal sector in supporting social and economic development in South Africa has been a subject of debate over the last three decades. This debate is characterised by conflicting views. In the 1980s, social scientists contended that the informal sector should assume a key position on the national policy agenda. They believed that it should focus on industrialisation and economic deregulation as a way to create jobs and alleviate poverty (Rogerson, 1986).

This stance has been replaced in the 1990s by more sober assessments on the possible contribution of the informal sector towards job creation and poverty alleviation. The significance of policy formulation towards the informal sector is still widely acknowledged, although it is no longer regarded as a magical cure for all of South Africa's economic ills (Rogerson, 1986). For example, analysts from the Development Bank of South Africa (DBSA) in reviewing policy options for urban employment creation set down an integrated package of measures, which go beyond economic deregulation and industrialisation. Instead, they urge the importance of enacting public works and special employment creation projects. This line of thinking has prevailed with a growing focus on public works programmes by the Department of Public Works.

The informal sector continues to play a role in the economy of South Africa in terms of its contribution to Gross Domestic Product (GDP) and employment creation. It is estimated to contribute about 10% of total GDP (Bureau of Market Research, 2004). It also absorbs



approximately 19% of the employed labour force of 11.6 million people and is the fastest growing sector of employment in South Africa (Department of Labour, 2004). The International Labour Organisation (ILO) states that the majority of new jobs in developing countries are being created in the informal economy, which, according to ILO estimates, employs about 500 million workers (International Labour Organisation: World Employment Report, 1998). The World Bank estimates that the informal economy generates 40% of the Gross National Product of low-income countries and 17% for high-income countries (Martinussen, 2004).

This sector is recognised by many people as a safety net due to shrinking formal job opportunities, lack of skills, demographic pressures, high education costs and economic restructuring (Development Bank of Southern Africa, Development Report: 2005). The informal sector also serves as an incubator for entrepreneurship, poverty alleviation and job creation.

### **1.1. Problem Statement**

This research study investigates challenges facing home-based garment-making micro-enterprises in the Newlands West area of the Ethekewini Municipality with a view to generate knowledge that can inform policy formulation and make practical solutions to address the problem under review. In order to achieve this, the following questions need to be addressed:

- How are these garment-making micro-enterprises performing?
- What are the challenges facing home-based garment-making micro-enterprises in the Newlands West area?

- What policies address the needs of the informal sector in the KwaZulu-Natal and the Ethekwini Municipality?
- How effective are these policies?
- What recommendations can be made to address the challenges facing garment-making micro-enterprises?

## **1.2. Aims Of The Study**

The principal aim of the study is to identify the challenges facing home-based garment-making micro-enterprises in the Newlands West area. In order to achieve this, the study will undertake the following:

- define the informal sector;
- provide a theoretical context to the informal sector;
- analyse provincial and local government informal sector policies;
- investigate the performance of a small sample of garment-making micro-enterprises in the Newlands West area with a view to identify challenges facing them; and
- draw conclusions and make recommendations in the context of the research investigation.

In the next section, theoretical perspectives on the informal sector will be discussed whereby definitions of the concept of informal sector is covered as well as other related issues such as the economic significance of the sector and its links, if any, with the formal sector.

## **2. THEORETICAL PERSPECTIVES ON THE INFORMAL SECTOR**

One of the key issues that emerge from the literature is the difficulty in defining the informal sector. This difficulty arises whether one attempts to define the informal sector in terms of the nature of activities, the type and level of skill requirements, the size of enterprise in terms of personnel and capital, the nature and status of employment, or the nature of organisational and operational regulation associated with the sector. Although the term is not amenable to generalisation, a broad understanding of key characteristics can be drawn from the array of definitions of the informal sector.

The International Labour Organisation (1998) defines informal activities as “a way of doing things”, characterised by: ease of entry, reliance on indigenous resources, family ownership of enterprises, small-scale operation, labour-intensive and adapted technology, skills acquired outside the formal school system and unregulated and competitive markets. A further definition of the informal sector has been offered by Kekana (2001) who contends that informal sector economic activities are characterised by small-scale labour intensive operations, dependence on indigenous resources, family ownership of business and ease of entry into the activity concerned. Castells and Portes (1989), on the other hand, state that the informal sector is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated. Clearly, looking at the above definitions, the informal sector has certain common key defining features i.e. ease of entry, reliance on indigenous resources, family ownership of enterprises, small-scale operation, and labour intensity.



The term informal sector encompasses a plurality of activities. Informal activities involve different types of economic activity (trading, collecting, providing a service and manufacturing), different employment relations (self-employed, paid and unpaid workers and disguised waged workers), and activities with varied degrees of economic potential (ranging from survivalist to successful small enterprises) (Devey, Skinner & Valodia, 2003).

There are also marked differences in the skills requirements of people working in the informal sector depending on the nature of economic activities. For instance, the skills requirements of a street hawker are different to a skilled motor mechanic who owns an enterprise and employs skilled and semi-skilled workers (Barasa & Kaabwe, 2001).

The informal sector is integrally linked through supply or customer networks to the formal sector. Eapen (2001) states that there is a tendency to define informality in terms of the absence of characteristics that belong to formal sector activities such as security, social benefits, union protection and regular employment. In a situation in which a number of activities within the formal sector are becoming more informal and private, the line distinguishing formal from informal becomes blurred. For this reason, it is more appropriate to consider formality and informality as opposite poles of a continuum with many mixed cases in between.

This analysis ties with that provided by Devey, Skinner and Valodia (2005) who identified two problems in the conceptualization of informal sector. First, they argue that the term disguises a significant degree of heterogeneity. Informal activities encompass different types of economic activity, different employment relations and activities with different economic potential. A second



and related problem is the distinction between formal and informal activities as if there was a clear line dividing the two. Closer analysis of the phenomenon demonstrates that they are integrally linked. Devey, Skinner and Valodia (2005) prefer to use the term informal “economy” rather than informal “sector” as it partially addresses such concerns. The term “economy” implies a greater range of activities than “sector”. If both formal and informal activities are seen as part of the economy we are better able to see the linkages between the two. One characteristic common to all definitions is that informal sector activities are small in scale and elude government regulatory requirements such as registration, tax and social security obligations. Workers in informal enterprises are generally not covered by social security or protected by labour legislation (Devey, Skinner & Valodia, 2005).

The above view builds on and in some way challenges the earlier dualist perspective on informal sector which asserted that the formal and informal sectors are separate. As early as the 1930s, some researchers were claiming that capitalist development was not absorbing informal economic systems but existing side by side in a dual system (Drakakis-Smith, 1987). The informal sector was seen as dependent on the formal sector, a capitalist form of production and it could not function independently of the capitalist system (Kekana, 2001). In other words, capitalism produces unemployment, thus driving the working class into informal sector activities in order to reduce unemployment.

The formal/informal dualism was reified in the International Labour Organisation (ILO) Report (1998) on the informal sector in Kenya. For the first time, the informal sector was hailed as an integral part of the urban formal sector and had an important role to play in the solution of the

problems of developing countries (May & Stavrou, 1989). This point of view, known as the reformist school, was led by the ILO and World Bank which sees the informal sector as both a nursery wherein entrepreneurial skills are fostered and an adjunct to the formal sector whereby savings may be made through import substitution. Furthermore, the informal sector plays an important welfare and redistributive role in that it provides income for otherwise unemployed and unemployable urban residents, possibly creating further income distribution within rural households receiving remittances from urban migrants. This claim projects a positive image of the informal sector. The sector is capable of vast potential of employment creation and growth not only in its own right as a sub-sector of the general economy but also giving impetus for growth to certain elements of the formal sector (May & Stavrou, 1989).

The popularity of dualist thinking in the 1970s provided a fertile battleground for a set of conflicting ideologies and interpretations in relation to developing countries. An opposing viewpoint is held by the Marxist school which, essentially, replaces the formal/informal dichotomy with a model reflecting the articulation of different forms and modes of production which are asymmetrically interwoven by relations of domination-subordination (Rogerson, 1986). It is argued that this petty commodity production sector is not independent of the capitalist production sector but is fully integrated and subordinated to it. According to the Marxist school, the vast majority of small-scale enterprises, of the type described as being in the informal sector, fit into the category of "petty commodity production". In describing the nature of its relationship to the capitalist mode of production, petty commodity production is identified as a transitional mode with linkages and dependent relationships between these forms of production (Moser, 1978).

To achieve a degree of consensus in the conceptualization of the informal sector, the International Labour Organisation: STAT Working Paper No 1 (2002) and the International Conference of Labour Statistics (ICLS) proposed a definition based on the characteristics of the worker. According to this definition, the informal economy comprises informal employment of two kinds. That is informal employment in informal enterprises and informal employment outside of informal enterprises (the unregistered and undeclared workers). The term informal sector can thus be defined as comprising of all those in informal employment without secure employment contracts, work-related benefits and social protection, both inside and outside informal enterprises.

Also of significance in the theoretical literature on informal sector are two broad economic traditions, namely: neo-liberalism and Marxist structuralism. Neo-liberalists maintain that the best strategy for all countries and in all situations is to liberalise their markets. In this approach, the only legitimate role for the state is to provide macro-economic stability, promote privatisation, lower trade tariffs, open domestic markets to competition and furnish essential public goods like basic human capital and infrastructure (Lall, 2003).

The Keynesian orientation emphasised market failures and the role of the government in job creation, was replaced by the free market mantra of the 1980s that signalled a radically different approach to economic development. This approach, which prescribed the “right” policies for developing countries, has the backing of the industrialised nations and the Bretton Woods institutions (which is why it is also referred to as the Washington Consensus). It has become enshrined in the new rules of the game being formulated and implemented by the World Trade Organisation (Stiglitz, 2002).



Economists such as David Dollar and Aart Kraay (2001) maintain that free trade as well as macro-economic policies favoured by the World Bank and International Monetary Fund tend to promote the kind of growth in which the poor share equally with everyone else, that is, poverty elasticity of the poorest quintile relative to growth is approximately equal to one. In response, there has been a flood of critique variously criticising Dollar and Kraay's methodology and dataset, questioning their interpretation of their own results and re-analysing the data using different techniques (Sumner, 2003).

A similar pattern as the above has evolved in the debate over macro-economic policy in South Africa. On the one hand, critics charge that the government's macroeconomic policies are slavishly neo-liberal with the result that fiscal conservatism has restricted necessary investment in poverty reduction, whilst unnecessary exposure to the forces of globalisation is hobbling the economy and leading to job losses and near-jobless growth. Government, on the other hand, asserts that its policies are misconstrued in that fiscal conservatism is not a choice but a reality forced on government and the country by circumstances. Moreover, government points out that too much is made of fiscal stringency as a constraint on poverty-directed spending because the amount of money channelled into social grants and social services is large and ever rising (DBSA, 2005).

The structuralists view puts less faith in free markets as a driver for development and more in the ability of governments to mount interventions effectively. It argues that greater reliance on markets does not pre-empt a proactive role for the government. Markets are powerful forces but are not perfect. Government interventions are needed to improve market outcomes (Lall, 2003).

Structuralist theories, in addition to representing an alternative body to neo-liberalism, also provided a substantial part of the macro-economic foundation for the theory fragments that appeared during the 1970s concerning the informal sector and basic needs.

Structural Marxism views problems of developing countries as a consequence of economic structural imbalances, which cannot be overcome within the existing social, economic and political framework. Hence, the redistribution of assets must be radically changed for improvements to occur. Seen from this perspective, the conditions of the masses in the developing world are not purely a matter of material want, but also of subordination, oppression, exploitation and disregard (Moser, 1978).

More recently, economists such as Hernando de Soto, have sought to explain why the informal sector, which he terms the extra-legal sector, have remained “cut off” from the whole market economy. In his book, *The Mystery of Capital: why capitalism triumphs in the West and fails everywhere else*, de Soto (2001) makes a persuasive argument that a major stumbling block that keeps the rest of the world from benefiting from capitalism is its inability to produce capital. He argues that the poor already possess assets that are needed to make a success.

For example de Soto (2001), the value of assets among the poor is immense:

*“In Egypt, the wealth of the poor is worth 55 times as much as the sum of all foreign direct investment ever recorded there, including the Suez Canal and the Aswan Dam. In Haiti, the poorest*

*nation in Latin America, the total assets of the poor are more than 150 times greater than all foreign investment received since the country's independence from France in 1804. If the United States were to hike its foreign aid budget to the level recommended by the United Nations – 0.7% of national income – it would take the richest country on earth 150 years to transfer to the world's poor resources equal to those that they already possess”.*

According to de Soto (2001), the world's poor hold their assets in defective forms: houses built on land whose ownership rights are not adequately recorded, unincorporated businesses with undefined liability, industries located where financiers and investors cannot see them. Because the rights to these possessions are not adequately documented, these assets readily turned into capital, cannot be traded outside the narrow local circles where people know and trust each other, cannot be used as collateral for a loan and cannot be used as a share against an investment. Notwithstanding, this, de Soto however notes that the poor are still able to make a contribution to the economy.

According to Skinner (2002), de Soto pays little attention to the relationship between the formal and informal economies – the implication being that they are distinct entities. Further, he sees the informal sector as a group of undifferentiated entrepreneurs. Little attention is paid to, for example, different labour relations in the informal sector. What de Soto does bring to the debate, Skinner (2002) argues, is a focus on the workings of the state, the influence of certain actors on state policies and tools to analyse how the state actions encourage or discourage informal activity.

CK Prahalad (2006) in his book, *The Fortune at the Bottom of the Pyramid*, concurs with the central thesis of Hernando de Soto that the poor (whom Prahalad refers to as people at the Bottom



of the Pyramid) are resilient and creative entrepreneurs with the potential to create wealth and thus remove themselves from conditions of poverty. Whereas de Soto focuses predominantly on the legal recognition of property rights for the poor to enable them to access capital, Prahalad's point of departure is that market development for the poor will create millions of new entrepreneurs at the grassroots level from women working as distributors and entrepreneurs to village-level micro-enterprises. These micro-enterprises will form an integral part of the mainstream market-based economy (Prahalad, 2006).

According to Prahalad (2006):

*"The poor represent a "latent market" for goods and services. Active engagement of private enterprises at the "Bottom of the Pyramid" is a creating element in creating inclusive capitalism, as private-sector competition for this market will foster attentions to the poor as consumers".*

What de Soto and Prahalad together with the ILO bring to the debate is that people in the informal sector are a key element in poverty alleviation and wealth creation. As a consequence, these people should be viewed as active, involved and informed participants in the economy.

Having briefly traced the development of the major perspectives on the informal sector, the discussion now evolves to an analysis of government policy initiatives to promote the informal sector and thereafter the discussion will focus on the case study.



### **3. GOVERNMENT POLICY ON INFORMAL SECTOR**

This section sketches the South African Government's efforts to promote the informal sector. It reviews policy initiatives critically at national, provincial and local levels. It also views the SMME's as the key to the future.

#### **3.1. Macro-Economic Policy Environment**

The South African government's policy to the informal sector should be viewed against the legacy of apartheid. The economy inherited after 1994 was characterised by faltering growth, high levels of tariff protectionism, racially segmented workforce, rising unemployment and inflation.

The economic policy response to this situation was set out in government's Growth, Employment and Redistribution (GEAR) strategy (Department of Finance, 1996). The primary goal of GEAR was macro-economic stabilization, which was characterised as the essential prerequisite for economic growth, employment and redistribution. This was to be achieved through orthodox stabilization policies employing fiscal austerity and monetary constraint, to reduce demand and thereby also the balance-of-payment deficit. Stabilization was to be complemented by trade and financial liberalization and privatization to correct market distortions and promote effective functioning of the economy (McCord, 2003).

The main weakness of GEAR, however, is that it has not significantly addressed the critical issue of economic growth and employment creation of the South African economy, nor the resulting poverty

and disparities between rich and poor. Domestic and foreign investment is low and distortions remain in the labour and capital markets, with a persistence of low human capital investment and high unemployment. These factors have combined to undermine GEAR which remains below the 6% GDP growth target set out in GEAR. The sustained and significant employment creation anticipated in GEAR has not been achieved, poverty has persisted and may even have worsened, and inequality intensified (McCord, 2003).

The government's main strategy of promoting small businesses has been to distribute support services and goods, rather than to create a freer and more supportive environment. The 1996 National Small Business Act (No 12 of 1996), which laid the foundation for SMME support, provided for bureaucratic structures to deliver support directly to targeted recipients. This approach was largely driven by the view that SMME's were to play a significant role in absorbing the unemployed as the formal sector was shedding jobs.

The initial structures were the Centre for Small Business Promotion (CSBP), the Small Business Council and the Ntsika Enterprise Promotion Agency. The CSBP and Ntsika were persuaded that access to finance was the most important constraint on black small businesses. As a result, Khula Enterprise Finance was added to the enterprise-supporting bureaucracies.

### **Ntsika Enterprise Promotion Agency**

Ntsika was established by the National Small Business Act (No 12 of 1996). It comprises a number of units responsible for facilitating the development of the SMME sector, including: a market access and business linkages division; a policy research and information unit; an institutional support unit; a targeted assistance division; a technology unit.

Whilst the organisation has taken a broad approach to service delivery, its work is most visible through the Local Business Service Centres (LBSCs) and Tender Advice Centres (TACs). LBSCs are accredited organisations, distributed throughout the country which offers business development support services to drop-in clients as well as formalized training. TACs provide a range of tender-related services, including the facilitation of networking with established contractors, training and completion in tender completion (Centre for Development and Enterprise (CDE), 2004).

Ntsika has been plagued by shortcomings. It has been suggested that Ntsika runs too many programmes. Analysts say that LBSC and TAC personnel lack experience and business skills which limit the work of the organisation.

### **Khula Enterprise Finance Agency**

The Khula Enterprise Finance Agency was established to channel funding to emerging and small enterprises. This is done in two ways: providing credit guarantees and bulk loans through so-called Retail Financial Institutions (RFI's) and, on a much smaller scale, providing direct loans to survivalist and emerging micro-entrepreneurs. Specific programmes offered by Khula include: Khula Start (small loans to new businesses); a Micro-Lending Plan; Khula Guarantee Scheme

(providing collateral to banks to lend to small businesses); Khula Equity Fund (purchasing equity in businesses); Thuso Mentorship Scheme (business support).

Khula has been sharply criticized. In 2000, at least two RFI's collapsed due to poor governance, fraud and mismanagement. By 2003, Khula had written off R11.6 million in bad debt. Evidence suggests that Khula's problems can be attributed to the following factors: inadequate and inappropriate systems, incorrectly targeted products; inadequate selection criteria for RFIs; and inadequate mentoring and after-care services (CDE, 2004).

### **Other State Funding Agencies for Small Business**

In view of the poor performance of Department of Trade and Industry agencies referred to above, other agencies were introduced (Ballim, 2007):

- ❑ National Empowerment Fund (specialises in investing in black empowerment transactions);
- ❑ Umsobomvu Youth Fund (provides black youth between 18 and 35 years with financing to start businesses); and
- ❑ Micro-Finance Apex Fund (provides loans between R10 and R10 000 to micro-entrepreneurs).

Introduced with much fanfare, these organisations have also not lived up to expectations. They have been subjected to persistent restructuring. In addition, retail banks are reluctant to lend small loans. It is not economically viable for them to grant loans between R10 000 and R250 000.



There is broad consensus on the delivery record of these enterprise-supporting bureaucracies supported by at least two extensive evaluations and reviews commissioned by the Department of Trade and Industry itself. The verdict is that there is a shortage of capacity and skills as well as a lack of co-ordination and synergy among government departments and the new institutions meant to deliver services to developing businesses has undermined the ability of the latter to meet its objectives (CDE, 2004).

While the government remains committed to providing finance to previously disadvantaged entrepreneurs, there have been welcome indications that it has come to recognise the limitations to an unwarranted emphasis on access to loans as a panacea for SMMEs and the informal sector. This is accompanied by a realization that the broader macro-economic environment and a favourable regulatory environment are more important for developing entrepreneurs (CDE, 2004). The 2006 Global Entrepreneurship Monitor (GEM) also found that regulations created huge administrative burdens and pushed up the cost of starting a business. GEM found that SA was falling behind other countries when it came to creating a positive environment for small business. SA's position in the GEM rankings has deteriorated over time. Though developing countries are generally more entrepreneurial than developed ones, SA's level of entrepreneurship is below Norway and Denmark (Financial Mail, 2007).

### **3.2. The KZN Provincial Policy Context**

The KwaZulu-Natal Provincial Growth and Development Strategy (2004) commit the provincial government to a people's contract for poverty reduction and employment creation. The aims of the Provincial Growth and Development Strategy (2004) are to:

- ❑ Develop a framework for the future direction of policy and strategy development;
- ❑ Outline strategic interventions, goals and targets to direct development and planning initiatives; and
- ❑ Ensure a common vision and co-ordinated action by government and partners in implementation.

The Provincial Growth and Development Strategy (2004) is an inclusive strategy for the entire province that addresses the needs, aspirations and goals of all key stakeholders. The policy focuses on the role of the provincial government in supporting and regulating the informal economy. The policy also serves to ensure that organs of state interact with the informal economy and promotes the growth and development of workers in the informal economy (PSA, 2003).

### **3.3. eThekweni Municipality's Informal Policy**

Durban's Informal Economy policy is an attempt to guide the management and support of workers in the informal economy. The policy serves the following purposes (Unicity Council, 2004):

- ❑ it makes local government's approach and principles clear;

- ❑ it forms the basis for appropriate and workable legislation;
- ❑ it provides the basis for common action by different government departments;
- ❑ it provides the basis for making decisions about allocating resources for management and support;
- ❑ it provides the basis for making agreements; and
- ❑ it provides the basis for monitoring and evaluation.

The policy takes as its point of departure that local government has a difficult role in supporting economic development, whilst at the same time pursuing pro-poor policies. According to Cross (2001), knowledge about the informal sector is very limited and the policy measures that have been mentioned above have not been effective at both the national and local level. Rectifying these shortfalls should be a matter of urgency. Budlender (1996) suggest that policy on the informal sector should focus on the survivalist sector where women workers are concentrated. The vast majority operate from home.

As a reaction to the above, the Government's Reconstruction and Development Programme (RDP), prioritized this sector in terms of allocation of resources. Women were to benefit immensely from the improvements offered by this programme (Cross, 2001).



## **4. CASE STUDY OF HOME-BASED MICRO-ENTERPRISES IN NEWLANDS WEST**

### **Research Methodology**

#### **4.1 Introduction and Background to Case Study**

Newlands West is a district within the eThekweni Municipality. The total population of Newlands West is in the region of 24 466. In terms of population grouping the composition is as follows: Africans 9037 (36.9%), Coloureds 1533 (6.3%), Indians 13871 (56.7%) and Whites 25 (0.1%) (see eThekweni Municipality official website, 2006).

The employment status of this population group which ranges between 15-65 years is as follows (eThekweni Municipality Website, 2006):

- Employed: 8120 (47.1%)
- Unemployed: 2611 (15.1%)
- Not economically active: 6525 (37.8%)

For the purposes of this article, a sub-district of Newlands West, namely, Westrich was studied. This sub-district was chosen because there appears to be a concentration of home-based micro-enterprises, many of which are focused on dressmaking. Westrich is a small community made up of low cost homes. Many of the residents in this community previously lived in informal settlements or in rented homes. They now own homes that are made of one, two or three bedrooms. They have

running water and electricity. This area also has well-developed roads and an efficient transport system provided by mini-bus taxis.

Many of the women started their home-based, micro-enterprise after being retrenched or unable to find employment. They started their business as a way to escape poverty. They see their enterprise as an income generator and a source of creating employment for family and friends. The operational costs are kept to a minimum, as they do not have capital. There appears to be many women and a few males who operate micro-enterprises in this area, although the Ethekewini Municipality is unable to state numbers of such enterprises.

## **4.2 Research method used in the study**

### **General Orientation**

There are two general methods in the social sciences: quantitative and qualitative research. Mouton and Marais (1990) define the differences between quantitative and qualitative research on the basis of the operational specificity of concepts, hypotheses and methods of observation. It is, however, important to bear in mind that these approaches to research do not represent mutually distinct components of a typology. It is better to conceive of them as representing relative points on a scale. While a qualitative study may conclude with tentative answers, these answers in turn can form the basis of future quantitative studies (Leedy, 1993). In this study there is a blending of both approaches with a greater leaning towards the qualitative method. Reasons for this will be cited below.

## **Qualitative Research Method**

Qualitative research is an umbrella term that covers a variety of styles of social research. What actually separates qualitative research and gives it its distinctive identity is the fact that it has its own approach to the collection and analysis of data that marks it as quite different from its quantitative counterpart.

According to Denscombe (2003), qualitative research is a method of understanding meaning and patterns of behaviour. Bryman (1990) concurs when referring to qualitative research as an approach to the study of the social world that seeks to describe and analyse the culture and behaviour of humans and their groups from the point of view of those being studied. Leedy (1993) expands on this definition by viewing qualitative research as an inquiry process of understanding a social or human problem, based on building a complex, holistic picture formed with words, reporting detailed views of a smaller number of informants, and conducted in a natural setting.

A wide variety of qualitative research genres exist. Despite this variety, however, there are common characteristics, considerations and procedures for its conduct. Marshall & Rossman (1999) offer eight characteristics of qualitative research: naturalistic; draws on multiple methods that respect the humanity of participants in the study; emerging, evolving and interpretative; views social worlds as holistic; it is based on small sample of participants; sensitive to the needs of participants; and relies on complex reasoning that moves dialectically between deduction and induction.

Qualitative research, then, is a broad approach to the study of social phenomena, its various genres are naturalistic and interpretative, and it draws on multiple methods of inquiry. A qualitative research design used in this study is the case study. In a case study a researcher is allowed to explore a single phenomenon, example a social group and collect detailed information using various



data collection techniques over a set period of time (Creswell, 1994). The purpose of this is to gather information on an issue that is of interest to the researcher.

#### **4.3 Rationale for choice of methodology**

The use of the case study is apt for this study as it allows the researcher to gather data directly from the owner-managers in their natural environment for the purpose of studying their attitudes, views and comments about their micro-enterprise (Leedy, 1993). The researcher is afforded the opportunity to view phenomena through the eyes of their subjects in appropriate social contexts through in-depth interviews. The explorative nature of the research necessitates that the participant's knowledge, views, understandings, interpretations, experiences and interactions are considered in order to construct situational knowledge of owner-managers in home-based clothing micro-enterprises in the informal economy.

Hence, within this context, the choice of qualitative research is particularly apt for this investigation as it attempts to explore a relatively unknown area of study. This rationale is confirmed by Denscombe (2003), when he states that qualitative research should be favoured when a topic of interest has been relatively ignored in the literature or has been given superficial attention.

Moreover, the generation of descriptions, generalisations, themes and relationships from the data in the study could possibly contribute towards the policy development for micro-enterprises in the informal economy.

#### **4.4 Sampling**

There are two types of sampling techniques employed by researchers – probability and non-probability sampling.

Probability sampling, as the name suggests, is based on the idea that people selected as the sample will be representative of a cross-section the population under study. Non-probability sampling is conducted without such knowledge about whether those included in the sample are representative of the population (Denscombe, 2003). The latter is relevant for this study.

##### **Purposive Sampling**

The term “purposive sampling” is applied to those situations where the researcher already knows something about the specific people and deliberately selects particular participants because they are seen as likely to produce the most valuable data (Babbie, 1992).

Owner-managers of home-based micro-enterprises in the informal clothing sector who are assumed to possess special knowledge and experience of managing such enterprises were purposefully sampled and selected for the study. The Westrich district within the Ethekwini Municipality is used for the study. The reasons for conducting research with owner-managers in this district are:

- the researcher works in this area and has knowledge of owner-managers operating here;
- participants were willing and obliging;
- participants were readily identifiable; and
- time and cost-effectiveness.

### **Sample size and representivity**

In total, 10 clothing micro-enterprises owner-managers were selected and interviewed for the study. The small sample size is in keeping with the qualitative research which emphasises depth of focus instead of quantity of information. Generally, in qualitative research, the sample size for small-scale research should be in the region of about 5 to 8 participants after which the likelihood of repeated findings is increased greatly (Henning, 2004).

The following criteria is used to select participants for the study:

- owner-managers of clothing micro-enterprises;
- number of workers in the enterprise should range from 1 to 5; and
- annual turnover of less than R200 000.

The researcher acknowledges that the study is not representative of the population from which it is drawn.

### **4.5 Data collection**

There are numerous ways of collecting data and these depend on the purpose and aims of the research. In this study data is collected by means of semi-structured interviews. In this type of interview the researcher has a clear list of issues to be addressed and questions to be answered. However, the researcher is free to deviate from the schedule so long as the material is covered by the conclusion of the interview. This method gives the researcher and participant more flexibility,

whereby the researcher is able to “follow up particularly interesting avenues that emerge in the interview, and the participant are able to give a fuller picture” (Seaman & Verhonick, 1987).

The average duration of the interviews is 75 minutes. All interviews are tape-recorded with the permission of the participants. The researcher obtained permission from participants to use information obtained from the interviews for the purpose of the study. Transcripts are then prepared for data analysis.

### **Interview schedule**

A schedule of 6 open-ended questions is constructed to guide the interview process. New questions are likely to emerge spontaneously out of the interviews. The 6 leading questions are:

- What work experience and qualifications do you have in running a clothing micro-enterprise?
- What are some of the challenges you face in your business?
- What assistance do you need to improve your business?
- What skills do you need to become a better owner-manager?
- What type of training and development do you require?
- What are the most effective ways to develop and improve your skills?

### **Data analysis**

The data obtained from the interviews are analysed using a technique called “open coding”. This technique involves a process of breaking down, examining, comparing, conceptualising and categorising data (Leedy, 1993).



Open coding enables the researcher to classify and categorise data so that patterns can be discovered and conclusions drawn. The researcher makes up codes as she progresses through the data. In this way the researcher searches for common dominant themes that appear in the transcripts of the data.

Once codes are awarded to different segments, the researcher groups and categorises related codes. The categories are named, using the codes as a guide. The categories begin to show themes that can be used in the discussion of the inquiry (Denscombe, 2003; Leedy, 1993). Once the researcher has saturated themes that have emerged from the analysis, these themes are used as a basis for discussion.

The discussion to follow will focus on the profile of the owner-managers.

## 5. PROFILE OF OWNER MANAGERS

The profile of owner managers interviewed in the study is provided in table 1 below.

**Table 1** Profile of owner-managers

Owner manager	Age	Gender	Race	Marital Status	Dependents	Education Level	Years of Work Experience
A	29	F	A	M	3	G 11	6
B	25	F	A	S	3	G 12	4
C	30	F	A	S	2	G 12	8
D	28	F	A	D	4	G 8	6
E	30	F	A	S	3	G 6	9
F	30	F	A	M	4	G 11	7
G	33	F	A	S	2	G 11	10
H	35	F	A	M	2	G 8	12
I	22	F	A	S	3	G 10	5
J	25	F	A	S	4	G 12	6

**KEY:** F- female A- African M-married S-single D-divorced G- grade

It is interesting to note from a random selection of 10 owner managers that all are aged between 22-35 years. This is a relatively young age span and highlights the dilemma faced by youth in finding formal employment in the economy. This problem is consistent with findings undertaken by the Department of Labour (2005) that the highest levels of unemployed are found in the age categories between 20 and 30 years old. All the owner managers were females. This is a common tendency for dressmakers. It is also consistent with Department of Labour findings that the most disadvantaged group in the labour market are African females.

Of the 10 owner managers, seven were single parents, two were married and one was divorced. The single parents had many family responsibilities which included taking care of dependents and managing household expenses. This increased their determination to make their business a success. The married owner managers had their spouses to help with family responsibilities. It is significant to note that 8 informants were single parents, thus placing a heavy burden on them to run a business and household from the proceeds of the enterprise. The lack of a second income means that there is very little money for capital investment in machinery and stock.

Interestingly, most of the dressmakers interviewed had obtained a grade 10 to 12 education. This is encouraging because it makes them highly trainable to run a business as they have achieved an acceptable level of literacy and numeracy. Five of the owner managers had certificates in dressmaking. They went to training schools where they had undertaken six-month certificate courses. The training was free. They claimed to have benefited tremendously from these courses. It also served as a motivation for them to start their own dress-making micro-enterprise.

Seven owner managers gained experience in cutting and stitching garments when they worked in clothing factories, the other 3 gained their work experience through working for dressmakers. Some of the owner managers had gone for sewing classes and this helped to improve their sewing skills. None of the owner managers had any formal experience in managing a micro-enterprise. Through trial and error, they progressed in their business.

These owner managers chose dressmaking because all had some form of experience in garment-making. They had either acquired their dressmaking skills through working in clothing factories, dressmaking classes or from friends and family members. Owner manager F states:

*"I chose dressmaking because I had acquired dressmaking skills when I worked in a clothing factory".*

(interview: 24\07\06 10h00)

Owner managers C and G gave the same reason as Owner manager F. Furthermore, they chose dressmaking because they found the start-up costs to be minimal in comparison to other activities such as hawking, street trading, spaza shops, and so on. Owner manager D makes exactly the same point:

*"I found it cheaper to start a dressmaking micro-enterprise".* (interview: 24\07\06 13h00)

They claimed that there was less running around to buy stock. You could buy fabrics in bulk as it is not perishable and easy to store. Finally, by having two or more employees more garments could be made quickly.

## **6. BUSINESS ACTIVITIES AND CHALLENGES OF MICRO-ENTERPRISES IN NEWLANDS WEST**

The enterprise was studied in terms of rand value of monthly sales, number of units produced, average cost per unit, profit per month, types of products manufactured, number of sewing machines number of people employed and age of business (see table below).



All the micro-enterprises studied operated on a small scale level and produced similar products such as blouses, pinafores and skirts. Many claimed that the clothing market in their area was very competitive. Many women were stitching and selling similar products. The price for stitching garments was also very competitive. Those who sold their products at the flea markets in Durban complained that the rent for the stalls were high. As a result they had to send their employees in the surrounding areas to sell their products. This, they claimed, was time-consuming and not profitable. Owner managers took bulk orders from hawkers who sold their purchases in the central Ethekewini Municipality. The business details of the owner-managers will be presented in table 2 below.

**Table 2 Business details of owner-managers**

Owner manager	Average monthly sales (Rand Value)	Average number of units produced per month	Average cost per unit	Cost of Sales (Rand Value)	Profit per Month	Types of products	Number of people employed
A	R3600	48	R75	R2520 (75%)	R1080 (30%)	Skirts, dresses, blouses, jackets, pinafores, pyjamas.	2 temporary
B	R3000	60	R50	R1950 (65%)	R1050 (35%)	Skirts, dresses, tops, jackets,	2 temp

						pinafores, pants.	
C	R2520	56	R45	R1512 (60%)	R1008 (40%)	Skirts, dresses, tops, jackets, underwear.	1 temp
D	R2640	48	R55	R1795.5 (68%)	R844.5 (32%)	Skirts, dresses, tops.	1 temp
E	R5250	75	R70	R4200 (80%)	R1050 (20%)	Skirts, dresses, tops, pinafores, shorts.	2 temp
F	R3200	80	R40	R2080 (65%)	R1120 (35%)	Skirts, dresses, aprons	2 temp
G	R4320	72	R60	R2160 (50%)	R2160 (50%)	Skirts, dresses, tops, jackets, pinafores, pyjamas	1 temp
H	R4800	80	R60	R2640 (50%)	R2640 (50%)	Skirts, dresses, tops, jackets, aprons pyjamas	1 permanent 1 temp

I	R4500	100	R45	R2970 (66%)	R1530 (34%)	Skirts, dresses, tops, jackets, pinafores, pyjamas	1 temp
J	R3080	56	R55	R2002 (65%)	R1078 (35%)	Skirts, dresses, tops, jackets, pinafores, pyjamas	2 temp

The monthly sales for the owner managers were in the region of between R5250 and R2520. The profit margin ranged between 20% and 40%. All owner managers felt that there was potential for them to increase sales if they had more machinery and customers. Some of the owner managers complained that their overheads were too high and customers did not pay their accounts timeously. Hence their profit margins dropped. Many of the owner managers complained that the customers had requested garments on credit but they did not pay their accounts. This resulted in cash flow problems. Some of the owner managers found the cost of fabrics and related dressmaking accessories to be expensive.

Most owner managers were of the view that they have the potential to improve the number of garments manufactured per month if they had a steady supply of orders, more machinery and more time to concentrate on work. According to owner manager I (2006: interview):

*“If I had modern, fast machines, then I could produce more garments in a short space of time”.* (interview:

25\07\06 14h00)

Owner manager G is by far the most successful with a profit margin of 50%:

*“I make just over R2000 per month with one person helping me. I can double my profits if I can get more machines and a loan to buy more stock. The banks don’t want to lend us money. They want guarantees. I have no guarantees to give them. No one helps us”.* (interview: 25\07\06 16h00)

All 10 micro-enterprises had been operating for an average of three years. The owner-managers hoped that they could continue their enterprises in the years to come. Three owner managers had always worked for themselves. Initially, the owner manager was the only one in the business. Gradually they hired between one and three employees. These employees were largely family members or friends. They are hired casually and seasonally.

With regard to machinery, most of the owner managers used industrial machines bought from factories that were closed. One owner manager bought her machine from a pawnshop. A certain amount of stitching was also done manually. The views of owner manager J reflect the thinking of all owner managers in the study:

*“We need more machinery and various types of machines such as lockstitch, buttonhole and over locker to increase our sales. This will enable us to make more stylish garments that could be sold for a bigger profit”.* (interview: 28\07\06 08h00)

All micro-enterprises were home-based. Their homes consisted of either two or three rooms. Although they saved on rental expenses, 8 of the owner managers complained that working from home was restrictive and inconvenient at times. Several owner managers indicated that their day was interrupted by family matters such as taking or picking up their children from school and preparing meals and seeing to the housework during working hours.



Owner manager G states

*"The problem with working from home is that you get disturbed. You have to pick up the kids from school and prepare meals during work-time. Sometimes you get visitors".* (interview: 28\07\06 12h00)

Similarly, Owner manager H states:

*"I did not have space to employ more people. The maximum I can employ is three people".* (interview: 31\07\06 11h00)

Most of the owner managers interact with one another. They exchange patterns and dressmaking techniques. Occasionally they shop for fabrics together. They shop around for bargains without compromising on quality. Virtually all of them complained about losing valuable work time when purchasing fabrics. Usually they go to Durban Central which takes up at least half day per week. Furthermore, most owner managers had no idea how to market their products except to supply hawkers who gave them weekly orders.

Owner managers generally agreed that there is room for improving productivity. Unreliability of employees and poor work methods also reduced productivity. A considerable part of the time in the case of some owner managers was spent reworking a garment as a result of poor machinery and workmanship by employees. During certain months the women stated that production progressed at a high rate. During these months they used employees on a full time basis. However, there are times when their employees do not come to work. This slows down production and is bad for their business. When their machines broke down, production of

garments was reduced. Also some owner managers complained that machine repairs were costly.

The above are some of the challenges encountered by owner-managers in their micro-enterprises. The following is a discussion of the above findings, recommendations offered and a conclusion to the article.

## **7. DISCUSSION OF FINDINGS**

It is evident that the informal sector in South Africa to a large extent, functions interdependently with the formal sector. As jobs are lost in the formal sector, unemployed people are driven into informal sector activities in order to sustain their livelihoods. The duality of the local economy is recognised in government as well as international bodies such as the International Labour Organisation and World Bank who see the informal sector as a nursery for the development of entrepreneurial skills and job creation.

Notwithstanding, the Marxist school views the informal sector as “petty commodity production” and a consequence of economic structural imbalances which cannot be overcome within the existing capitalist framework, the informal sector in South Africa can be viewed from both schools of thought as it displays contrasting tendencies discussed below.

It is evident from the study that a typical owner-manager in the informal clothing sector in Newlands West is an African female aged between 22-35 years old. This is consistent with Cross (2001)’s observation that micro-enterprises in this country are dominated by women home-based

workers. Added to this Chen (1999) mentions that self employed women are most likely to be home-based compared to those who are wage employed. Many of these women preferred working at home as it gave them increased flexibility in their daily activities. However, when a home-based worker has to stop work in order to take care of her child, cook a meal or clean her house, her productivity levels drop and this in turn impacts on her income (Chen, 1999). This point was acknowledged by eight of the women. Seven out of the 10 owner-managers are single parents with grade 10 to 12 schooling. They do not have the advantage of support a person would normally get from a spouse by way of financial and business support. In spite of the fact that they have a grade 10 and 12 qualification, they still experience difficulty in finding employment. This however contradicts Chen's argument that women going into the home-based work do so as it affords greater flexibility. Thus one notes that the risk of poverty is far greater in a female-headed household and more so if the woman is the main breadwinner (Chen, 1999).

All of them have either been retrenched or unable to find employment in the formal sector. The difficulty of African females finding employment in the formal sector is well documented. For instance, according to the 2005/2006 Global Competitiveness Report, the unemployment rate among Africans in South Africa was the highest for any of the country's population groups (29% for males and 38% for females), whilst the rate for Whites was 5%. This is symptomatic of the grave unemployment problem in the country, especially in relation to the African population group.

The findings indicate that the home-based micro-enterprises in Newlands West operate on a small scale, generate minimal income and are confronted by numerous challenges. This may be largely due to the fact that very little is known about these women and there is no appropriate support for



them. Hence, the world of women home-based workers is described as invisible economy (Cross, 2001). Their average monthly disposable income after expenses is in the region of about R1000 to R2500 with the majority earning less than R1500 per month. With such a paltry income to run their business and support the household, it can be reasonably argued that these owner-managers are leading a “hand-to-mouth existence”. Their economic activities are survivalist and this challenges the view that the informal micro-enterprises contribute significantly to employment creation.

Although they employ between 1 to 3 people, the nature of the employment relationship is one of desperation rather than job security. Workers are employed casually without any compliance to the Labour Relations Act or living wage/income. The employment relationship is highly informal in every sense of the word and seasonal. Workers earn an irregular income depending on what is made for the month. In hard times, wages take the form of providing meals and accommodation for workers.

From this perspective, it can be argued that the informal sector is nothing more than disguised unemployment. This line of reasoning is in keeping with Marxist thinking who are critical of supporting the informal sector as it simply reproduces and perpetuates inequalities. Support for this view is also prevalent in the trade union movement in South Africa.

From a different perspective, the 10 owner-managers interviewed employed in total 16 people. This effectively means that 26 people who cannot find employment in the formal sector are sustaining themselves through informal economic activities, albeit precariously so. They are prepared to take



reasonable risks in order to enhance their micro-enterprises (Cross, 2001). In addition, they are supporting the formal sector, albeit in a small way, by purchasing goods for their activities.

The challenge facing policy-makers is to find ways of supporting informal micro-enterprises to increase productivity and sales so that disposable income can be increased. This will enable them to purchase machinery and additional stock to grow their business, improve wages and employ more workers. The problem, however, is that these owner-managers are of the view that there is hardly any support from government to assist them. It appears that many of these micro-entrepreneurs are unaware of the wide range of support services available to owners of small businesses.

Five owner-managers received dressmaking certificates through Non-Governmental Organisations (NGO) and claimed that there was virtually no support available to them from the Ethekwini Municipality or Provincial Government in terms of loans, business support and skills development. Soko & Vila-Vicencio (2005), concur that businesses in the informal sector lack institutional support. This view is supported by Devey, Skinner and Valodia (2003) in that they agree that the informal economy is not being supported by the state and there are no training programmes in place to support these people. Van Biljon (2005) concurs that micro-entrepreneurs appear to lack knowledge in areas such as human resources, financial management, marketing and administration. They also lack access to skills upgrading facilities and new skills since they do not have access to technologies and training. Rabinowitz (2005) goes further to state that legislation in South Africa makes starting up and running a small business very difficult as owner managers have to comply with numerous legislative requirements.

A point shared by Moola (2006) when she argues that the regulatory burden puts a damper on starting micro-enterprises. Hence, many of them relied on church and welfare organisations to help them start a business. These organisations also provided them with training. This indicates that these NGO's can play a significant role in developing dressmaking skills in the informal sector. Through enhancing their skills, these owner- managers felt motivated to start up their own home-based micro-enterprises.

All the owner-managers chose dressmaking as they claimed that the start up requirements was minimal in comparison to other activities. This indicates that dressmaking is a cost effective business to pursue. Government organisations such as the Clothing, Textile, Footwear and Leather Sector Education and Training Authority (CTFL SETA) and Department of Labour through the National Skills Fund (NSF) can play an important role in providing training and support for prospective dressmaking owner-managers.

However, one of the major problems with the SETA is that they focus primarily on offering training grants and programmes to skills levy-paying firms in the formal sector that contribute levies to the SETA. Non-levying paying firms, including those who are exempted from paying the skills levy, cannot draw training grants from the SETA. This points to serious structural shortcomings in the skills levy grant system. It also runs against the spirit of the Skills Development Act, which is intended to assist the poorest of the poor.

It is important to note that these home-based micro-enterprises in the study were operating for at least three years. How much longer they were going to operate is not clear. Nevertheless, providing appropriate support during their operation may serve to enhance the viability of these home-based micro-enterprises and thus ensure continued employment. Thus policy-planning experts are now focusing on the informal sector as they see it as a means of reducing unemployment (Cross, 2001).

The owner-managers also emphasised that their production capacity was hampered because of the poor quality of machinery. Considering that these home-based micro-enterprises were potentially sustainable, the government, CTFL SETA and other relevant organisations should provide support in the form of helping them upgrade their existing machinery, acquire new machinery and improve their machining skills and also advice on market opportunities for their products. This would undoubtedly increase their productivity levels.

The Deputy President, Mlambo-Ngcuka (2006), mentioned that lack of finance for small businesses is a hindrance to people in the informal sector. Owner managers also stated that there was no financial support that they were aware of from the Ethekwini Municipality or provincial government to assist them. This lack of financial support was impacting on the growth of their home-based micro-enterprise. They were unable to progress beyond the level they were operating at because of the financial constraints they were facing. As a result, this hampered their chances of penetrating into the formal sector of the economy and became viable sources of employment.

The Democratic Alliance mentioned that the problem with the government's response to the need for small business development was not in the range of services it tried to provide, but in its lack of



success in implementing them. Its products and services were not accessible enough to people living outside metropolitan areas or without internet access. In view of this, (Labaschagne, 2006) suggested that small business development agencies of government should undertake the following:

- A one-stop shop for development that will provide procedural guidance, knowledge advice and assistance with administrative and legal requirements;
- Counselling and mentoring services should be available;
- A service should broker finance and facilitate surety; and
- There should be anchor branches in all CBDs in the country.

The Democratic Alliance also criticised SEDA's effort in promoting small business development. Specifically, SEDA offices are not accessible to those without private transport and did not function as a walk-in service (Labaschagne, 2006).

From the above discussion, it may be argued that one cannot conclusively state that these home-based micro-enterprises are sustainable. However, what does emerge is the desire by these owner-managers to receive support as they see their enterprises as having the potential to be successful.

## **8. Conclusion**

This study has identified various challenges encountered by the owner-managers in their home-based micro-enterprises. This outcome of the study is useful as a form of contributing to policy intervention for the home-based clothing informal sector. These women in the invisible economy should receive increased attention in terms of policy support as the study indicated the important



role they are playing in the economy. Policy makers can take note of the challenges faced by these owner-managers. This in turn may lead to the development of appropriate support programmes for the owners and perhaps their employees. This support may thus help the owner-managers to improve their business and perhaps also create employment opportunities.

This study also supports the view that the informal sector does have potential to provide employment opportunities despite serious challenges it faces as identified in the study. The development of employment in the informal sector, raising the vocational qualities of those working in the informal sector and improving the effectiveness and efficiency of the informal sector are all matters of urgency for government. It must make entrepreneurship development an integral part of its national development strategies.

Perhaps a limitation of the study was to focus on home-based micro-enterprises only in one area. Perhaps if home-based micro-enterprises in other areas were studied, then comparisons may could have been made and different set of conclusions reached.

## **9. RECOMMENDATIONS**

The following recommendations are offered to assist home-based clothing micro-enterprise owners in the informal sector:

### **9.1. Capacity Building**

It is recommended that the Ethekwini Municipality work collaboratively with Non-Governmental Organisations (NGOs) and the Department of Trade and Industry (DTI) to build capacity in

informal micro-enterprises. An incentive scheme to encourage NGOs to get more involved in micro-enterprise development would be a cost effective way of building enterprise capacity as NGOs have a history of working in this sector.

## **9.2 Enterprise Support**

None of the dressmakers underwent any form of business training. Clearly, this appears to be an area of need, as basic business skills are needed to run a small enterprise. It is recommended that support basis at a local level be established by the Ethekewini Municipality to assist micro-enterprises. The major functions of the support basis would include:

- Promoting skills development
- Offering business assistant services
- Creating platforms for networking
- Providing incentives and loans
- Establishing a business and mentoring consulting service

## **9.3 Skills Development**

One of the clearest messages coming out of the study is the lack of skills by people running micro-enterprises. Given that these owners cannot leave their business during work hours, multiple strategies should be employed to offer cost effective training. This should include on-site training as well as of-site training outside work hours.

It is further recommended that training should involve the following:

- Financial management

- Production management
- Technical training
- Marketing and sales
- Understanding the regulatory environment

#### **9.4 Strengthening research capacity**

Research, particularly at a local level is of critical importance, in setting a new agenda for informal enterprise development. From the study, it became evident that hardly any research exists at a local level in this area of study. As a result the size and shape of the informal sector, its contribution to the local economy, employer and employee numbers as well as sectoral breakdown is unknown.

It is therefore recommended that local and provincial government undertake research in this field. Tertiary institutions can also play a role in this regard.

#### **9.5 Micro-Financing**

One of the most serious problems limiting micro-enterprise growth is the inability of owners to get access to finance. As a result owners cannot invest in new machinery or upgrade existing machinery. This has an effect on productivity, profitability and employment growth.

The Ethekwini Municipality needs to play a more active role in encouraging commercial banks and governmental finance institutions such as the Development Bank of South Africa and Khula to offer micro-finance to informal micro-enterprises. Small Enterprise Development Agency (SEDA) and other agencies must assist micro-enterprises to strengthen their capacity. Informal banking

opportunities such as stockvels and saving clubs should also be encouraged through the local municipality through an awareness campaign.

## **9.6 Mentorship**

A system of mentorships should be established to assist informal micro-enterprise owners improve their business acumen. Business people willing to share their experiences can be recruited to act as mentors to potential business owners. These mentors can help to provide financial guidance, marketing advice, and preparation of a business plan, legal information and so on. Business Partners is an example of a service provider that has a pool of mentors that provides business support.

The above are brief recommendations offered in the context of this study.



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## **APPENDICES**

### **Appendix A**

The semi-structured interview schedule

- The profile of owner-managers
- Key activities of their micro-enterprise
- Challenges and opportunities they face
- Training and development they require
- Support services available to informal traders

### **Appendix B**

If an interviewee wished to remain anonymous, the following consent form was used.

### **Consent**

I, hereby grant permission to the researcher to quote certain parts of my interview and interpret such parts in the light of the research project. In reply, the researcher has undertaken to maintain the confidentiality of my identity at all times.

Date of interview: \_\_\_\_\_

Signed on: \_\_\_\_\_ at \_\_\_\_\_

Interviewee: \_\_\_\_\_

Researcher: \_\_\_\_\_

## Appendix C

### Consent

I hereby grant permission to the researcher to:

1. Quote certain parts of my interview
2. Interpret such parts in the light of the research project; and
3. Acknowledge information supplied by myself during the course of the interview.

Date of interview: \_\_\_\_\_

Signed on: \_\_\_\_\_ at \_\_\_\_\_

Interviewee: \_\_\_\_\_

Researcher: \_\_\_\_\_

## Appendix D

An aerial view of Westrich in the District of Newlands West

